RBC BlueBay
Asset Management

Investment Grade: How, and Why Now?

Peter Goldsworthy, Institutional Portfolio Manager

13 March 2024

The BlueBay fixed income investment platform supports a global client base, delivering tailored investment solutions

The BlueBay fixed income investment platform is part of RBC Global Asset Management (represented by RBC BlueBay Asset Management outside North America) and supports a global client base.

The team is structured to deliver outcomes tailored to meet clients' needs, offering a unique blend of traditional and alternative investment strategies.

BlueBay Fixed Income AuM (US$m) **114,476** [1]

By strategy

43,733	Investment Grade	7,840	Multi-Asset Credit
10,441	Leveraged Finance	3,463	Securitized Credit
10,724	Emerging Market	37,502	US Fixed Income
505	Convertibles	267	Special Situations

A global perspective with local presence in our key markets

- UK
- Australia
- Canada
- China
- Germany
- Italy
- Japan
- Luxembourg
- Netherlands
- Spain
- Sweden
- Switzerland
- USA

133 [2]
Investment professionals

49
Specialist strategies

Over
US$114bn
in AuM

Source: RBC Global Asset Management, as at 31 December 2023
Notes: [1] AuM shown incorporates funds managed by BlueBay Asset Management and RBC GAM US which are managed within the BlueBay investment platform. A small proportion of the AuM are provisional figures and may have a non-material difference with the finalised AuM; [2] The number of investment professionals includes BlueBay and RBC GAM US FI investment professionals. Leveraged Finance consists of High Yield, Leveraged Loans and Distressed Credit; Multi-asset Credit AuM includes US$2.01 billion of Leveraged Finance assets and US$679 million of Securitized Credit assets. Securitized Credit AuM reflects fee earning BlueBay managed CLOs including those in warehouse stage in the US

RBC BlueBay Asset Management

BlueBay fixed income's investment edge is in our approach and our talent

Our investment philosophy is based on our belief that financial markets are inefficient and can be exploited through active management based on high quality proprietary research

- One investment team, built around a single investment process
- Investment process structured to deliver solutions for clients
- Heritage in managing absolute and benchmark relative strategies
- Focus on long/short investing with underlying capital preservation mindset
- Proprietary technology supports high touch investment process
- Proprietary risk management is central to our approach and is essential to delivering successful outcomes

Deeply resourced team of investment specialists with a forensic approach to proprietary research

Macro

Regular meetings with global policy makers in developed and emerging markets

Credit

Regular meetings with company management teams and regulators

Responsible Investment (RI)

ESG is integrated [1] into research, decision-making and portfolio construction

Note: [1] Certain investment strategies, asset classes, exposure and security types do not integrate ESG factors, including but not limited to money market, buy-and maintain, passive, and certain third-party sub-advised strategies or certain currency or derivative instruments. Different strategies that integrate ESG factors will be at varying stages of implementation.

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Why now for Investment Grade Bonds?
Why active NOT passive?

Attractive returns outlook with reduced risk!

- All-in-yields on bonds are near decade plus highs
- Higher yields also cushion your returns when we do see any volatility – Higher “breakeven” (yield/duration)
- Central Banks are telling us rate hikes finished? - Next move likely to be rate cuts?
- History tells us this is usually the time to buy duration
- Risks in 2023 held investors back somewhat, but have subsided – Bank turmoil, rates volatility
- Uncertainties remain but = volatility = Need to protect capital at times and = alpha opportunities!

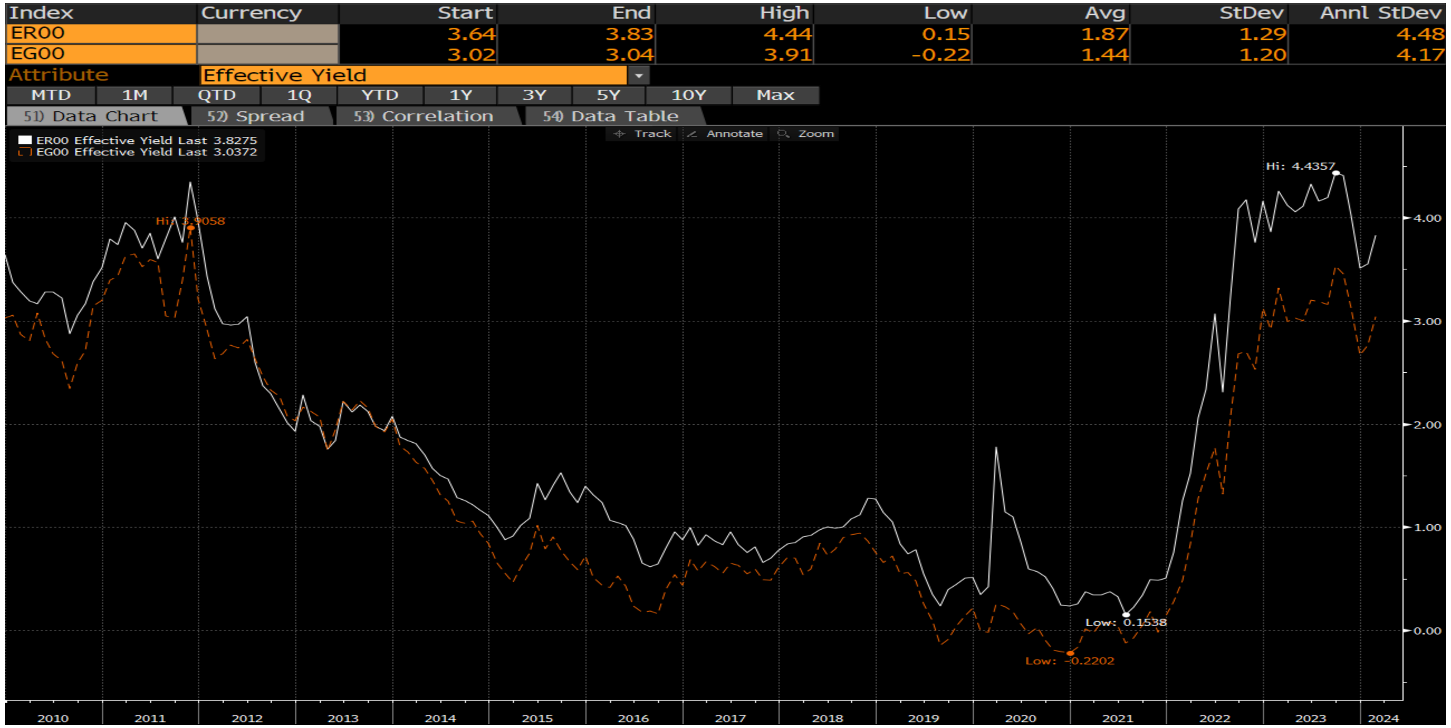
So, buy IG Fixed income BUT do it via active management

Source: RBC Global Asset Management. Views are as at 12 February 2024 and subject to change without notice

All-in-yields remain close to post crisis highs

ER00 = Euro Corporates (White); EG00 = Euro Governments (Orange)

Back to the future…



- Bond 101! - Yields are a strong predictor of future returns!
- Higher yields also give “breakeven” protection (Yield/duration) – Euro corporate 12m Breakeven c.85bps
- This means yields can rise and bonds can still post a positive return as income offsets capital losses

Source: Bloomberg as at 6 March 2024. For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

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Central Banks have told us next move in rates is down!

Europe

Region: Eurozone » Instrument: Overnight Index Swaps »
Target Rate 4.0000 Pricing Date 03/06/2024
Effective Rate 3.9110 Cur. Imp. O/N Rate 3.906

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/07/2024	-0.041	-4.1%	-0.010	3.896	0.250
04/11/2024	-0.203	-16.2%	-0.051	3.855	0.250
06/06/2024	-0.911	-70.9%	-0.228	3.678	0.250
07/18/2024	-1.523	-61.1%	-0.381	3.525	0.250
09/12/2024	-2.349	-82.6%	-0.587	3.319	0.250
10/17/2024	-2.988	-63.9%	-0.747	3.159	0.250
12/12/2024	-3.678	-69.1%	-0.920	2.986	0.250

US

Region: United States » Instrument: Fed Funds Futures »
Target Rate 5.50 Pricing Date 03/06/2024
Effective Rate 5.33 Cur. Imp. O/N Rate 5.328

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/20/2024	-0.023	-2.3%	-0.006	5.323	0.250
05/01/2024	-0.230	-20.7%	-0.057	5.271	0.250
06/12/2024	-0.848	-61.8%	-0.212	5.116	0.250
07/31/2024	-1.403	-55.6%	-0.351	4.977	0.250
09/18/2024	-2.193	-79.0%	-0.548	4.780	0.250
11/07/2024	-2.757	-56.4%	-0.689	4.639	0.250
12/18/2024	-3.477	-71.9%	-0.869	4.459	0.250
01/29/2025	-4.043	-56.7%	-1.011	4.318	0.250

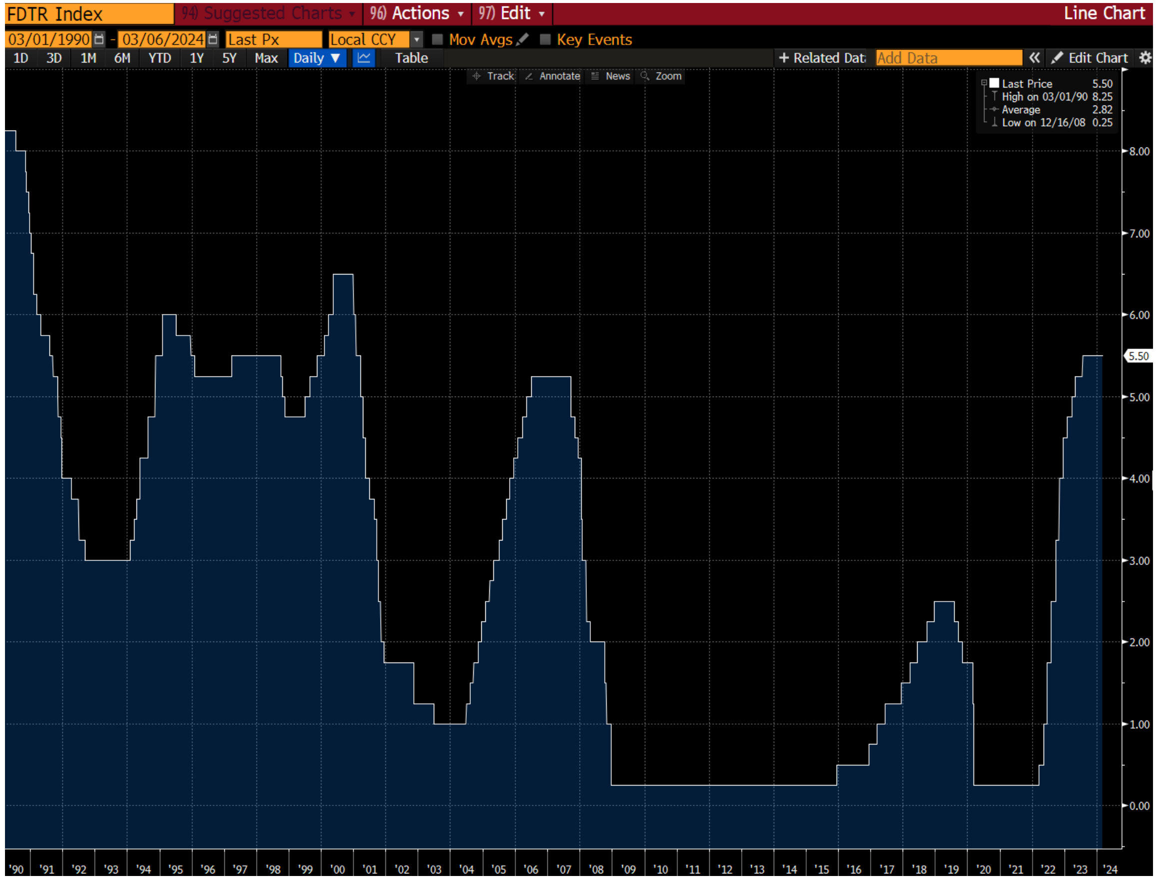
- Central Banks signalling no more rate hikes has increased demand for Fixed Income in recent months
- Q4 rally in yields "borrowed" some returns from 2024 BUT yields remain near decade+ highs
- Fear seems to be still holding investors back somewhat - but you are being rewarded via "Beta"
- Investing via active management allows for capital preservation and "Alpha"

Source: Bloomberg (WIRP <GO> screen) as at 6 March 2024. For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

Up the stairs, down the elevator

Back to the future…

- The Fed (and others) tend to climb up the stairs, but descend in the elevator
- Sharp/drastic response to a collapse in growth (.com; GFC; Covid-19)
- Contrast with the more traditional central bank policy of the 90's (and before)
- So what's next….?
  - Hard landing, soft landing or no landing?



Source: Bloomberg (FDTR screen) as at 6 March 2024. For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

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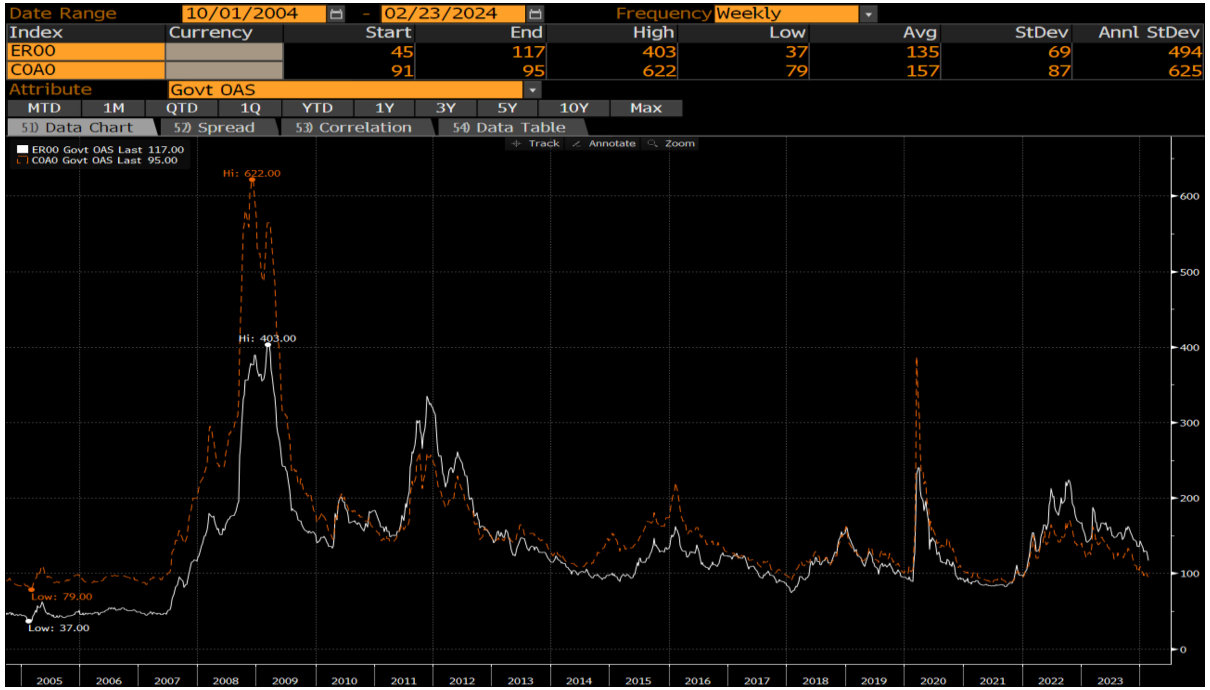
Euro Corporate spreads around the long-term average

ER00 = Euro Corporates (White); C0A0 = US Corporates (Orange)

Back to the future…



- IG Corporate spreads in Europe around the long-term average and cheap vs US spreads
- Higher core government yields mean spread widening on growth fears would likely be offset by lower core yields
- Low HY migration risk: Bottom-up corporate fundamentals stronger than going into previous slowdowns
- Multiple pockets of value: Recent volatility has created bottom-up mis-pricings

Source: Bloomberg as at 12 February 2024. For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

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Risks = volatility = opportunities for active managers

- Rates cut less than expected
- Inflation failing to moderate further
- Renewed crisis of confidence in the banking system
- CRE landmine?
- Hard landing
- Japanese exit from Overseas assets
- Geopolitics, escalation of wars in Ukraine/ Middle East
- **Unknown unknowns!**

Source: RBC Global Asset Management

IG investment themes – Alpha requires opportunities!

- Inflation falling but remains too high; Growth path is key here as will drive likely Central Banks policy response to the ‘sticky’ inflation
- Our base case is Fed, ECB and BoE rates have peaked and on pause for now – but no cuts until H2 2024 at the earliest
- Uncertainty to create ongoing volatility and so tactical opportunity but means more limited directional risk for now in rates and credit

Potential Alpha opportunities for our IG strategies:

- Bias to be short duration but more focussed on UK and Japan. Europe and US more about tactical range trades and curves
  - UK: Inflation more problematic and 2024 election makes fiscal loosening a risk to gilts again
  - Japan: Strategic short JGBs expecting 10yr yields to push towards 1% as policy normalisation continues
- Higher US bond yields and a stronger USD has put pressure on EM local rates but we sense some value is returning
- Sovereigns: No real opportunity in Periphery for now apart from Greece positive technicals; Stable BBB EM sovereigns look decent value
- Corporates: Modestly constructive top down supported by strong technical given demand for yield but lower supply
- But growth concerns keep bottom-up positioning defensive for now favouring Tech, Communications, Healthcare, Utilities, Banks
- Opportunities ahead include timing rotation towards cyclicals, Banks cheap Vs Non-Banks; Euro cheap Vs US; CDS tight Vs Cash

Source: RBC Global Asset Management. Views are as at 12 February 2024 and subject to change without notice

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How?

Why BlueBay for Investment Grade

Universe
Corporate/Sovereign/Aggregate

Responsible Investing
SFDR Article 6/8/9

Currency/Region
Euro/Global

Style
Benchmarked/Total Return/Absolute Return

Style
Active/Passive

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Generating Alpha in fixed income requires volatility

- Generating Alpha requires 2 things to be present: volatility in the opportunity set and positive manager skill
- Alpha requires movement in yields and spreads, divergence between markets and dispersion in issuer performance
- Looking forward, volatility and so opportunity may be more likely to rise than fall

Alpha comes from the manager harvesting volatility in yields and spreads!

Opportunity + Manager skill = Alpha

Manager skill can be seen by long term track records, backed by a strong investment process operated by a stable team

Source: RBC Global Asset Management

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Why BlueBay for Investment Grade?

Managing Investment Grade bond funds for over 20 years

PM/analyst team has successfully navigated multiple cycles running a blend of traditional benchmarked and alternative strategies since 2003

Proven track record of strong IG investment performance

Most strategies at or above alpha targets since inception with expected levels of volatility. Most Funds top quartile performers on 5yr/SI basis

Stable, experienced investment team with strong culture

Average investment experience c.20 years;
Average years at BlueBay c.12 years

Structured and transparent investment process

Single process, continuously enhanced, supported by proprietary cutting-edge technology like our Alpha Decision Tool (ADT)

Forensic approach to proprietary research by highly skilled dedicated investment specialists

Combining macro, policy, regulatory and ESG research with more traditional credit analysis to generate investment ideas (alpha sources)

Risk Management central to our approach

Disciplined risk management at each stage of the investment process, supported by proprietary technology tools

Thoughtful approach to Responsible Investing

ESG fully integrated into research, decision making and portfolio construction; BlueBay awarded highest possible UN PRI rating

Size geared for alpha generation

Able to be more forceful and nimble than peers with much higher AuM

Source: RBC Global Asset Management, MorningStar Direct as at 31 December 2023. Past performance is not indicative of future results. BlueBay custom peer group includes peers deemed to apply a similar investment strategy

BlueBay Fixed Income Investment Grade Strategies

	Benchmark Relative					
	Euro Government	Euro Aggregate	Euro Corporate	Global Government	Global Aggregate	Global Corporate
Liquidity [1]	Daily	Daily	Daily	Daily	Daily	Daily
Investment target return Gross [2]	Benchmark +1.5%	Benchmark +1.5%	Benchmark +1.5%	Benchmark +1.5%	Benchmark +1.5%	Benchmark +1.5%
Available in UCITS	✓	✓	✓	✓	✓	✓
Strategy inception	Dec-10	Nov-10	Nov-03	July-22	Feb-15	Oct-12
AuM Fund USD	$4,048m	$2,656m	$2,403m	$236m	$1,117m	$2,157m
AuM Strategy USD	$5,467m	$5,424m	$9,581m	$2,122m	$5,648m	$9,466m
Annualised alpha since inception	2.28%	2.79%	1.47%	2.43%	1.79%	1.49%
Annualised tracking error since inception	1.72%	2.08%	1.36%	2.26%	2.48%	1.58%
Fund Base Currency	EUR	EUR	EUR	USD	USD	USD
Portfolio Managers	Mark Dowding Kaspar Hense	Mark Dowding Kaspar Hense Neil Mehta	Tom Moulds Marc Stacey Andrzej Skiba	Kaspar Hense Malin Rosengren Mark Dowding	Kaspar Hense Mark Dowding	Andrzej Skiba Tom Moulds Marc Stacey
Fund objective	The Sub-Fund is actively managed and targets better returns than its benchmark, the Bloomberg Euro Aggregate Treasury Index.	The Sub-Fund is actively managed and targets better returns than its benchmark, the Bloomberg Euro Aggregate Index.	The Sub-Fund is actively managed and targets better returns than its benchmark, the iBoxx Euro Corporates Index, by investing in a portfolio of investment grade-rated fixed income securities.	The Sub-Fund is actively managed and targets better returns than its benchmark, the Bloomberg Global Treasury Total Return Index, USD hedged.	The Sub-Fund is actively managed and targets better returns than its benchmark, the Bloomberg Global Aggregate Bond Index USD unhedged.	The Sub-Fund is actively managed and targets better returns than its benchmark, the Bloomberg Global Aggregate Corporates Bond Index USD Hedged.

Past performance is not indicative of future performance, derivatives trading involves a substantial risk of loss

Source: RBC Global Asset Management, as at 31 December 2023. Notes: [1] Notice period for redemptions of 30 calendar days prior to month end; [2] Gross return targets annualised over the cycle for all strategies, except for Global Sovereign and IG Credit Alpha where target return is net of fees. Performance targets should not be relied upon as an indication of actual or projected performance. No representation is made any targets or objectives will be achieved, in whole or in part. There are significant risks associated with investment in the products and services provided by BlueBay Fixed Income. Fluctuations in exchange rates may have a positive or an adverse effect on the value of foreign-currency denominated financial instruments; [3] Annualised volatility. **Please refer to the Disclaimer located at the end of this document for important information**

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BlueBay Fixed Income Investment Grade Strategies

	Total Return			Absolute Return		
	Financial Capital	Impact	Financials Plus	Global Sovereign	IG Absolute Return	IG Credit Alpha [4]
Liquidity [1]	Daily	Daily	Daily	Daily	Daily	Monthly [1]
Investment target return Gross [2]	6–9%	Cash +2–4%	4–8%	10% (net)	Cash +3%	8% (net)
Available in UCITS	✓	✓	✓	✓	✓	
Strategy inception	Jan-15	May-21	Jun-23	Dec-15	May-11	Nov-11
AuM Fund USD	$1,675m	$164m	$44m	$482m	$909m	$487m
AuM Strategy USD	$2,956m	$164m	$44m	$587m	$4,530m	$487m
Annualised alpha since inception	7.71% (Absolute)	-1.39% (Absolute)	-	4.98% (Absolute)	2.91%	8.47% (Absolute)
Annualised tracking error since inception	10.68% [3]	5.78% [3]	-	7.04% [3]	3.31%	4.90% [3]
Fund Base Currency	USD	USD	USD	USD	EUR	EUR
Portfolio Managers	Marc Stacey James Macdonald	Tom Moulds Harrison Hill Robert Lambert	Marc Stacey James Macdonald	Russel Matthews Mark Dowding	Mark Dowding Andrzej Skiba Tom Moulds Marc Stacey	Geraud Charpin Tom Moulds James Petitt
Fund objective	The Sub-Fund is actively managed, does not reference any benchmark and aims to achieve a total return from a portfolio of subordinated debt securities issued by financial institutions.	The Sub-Fund is actively managed, does not reference any benchmark and aims to achieve a total return from a portfolio of investment grade-rated fixed income securities.	The Sub-Fund is actively managed, does not reference any benchmark and aims to achieve a total return from a portfolio of debt securities issued by financial institutions.	The Sub-Fund is actively managed, does not reference any benchmark and aims to achieve a total return from a portfolio of global sovereign debt through active interest rate, credit and currency management.	The Sub-Fund is actively managed and targets better returns than its benchmark, the ICE BofA Euro Currency 3-Month Deposit Offered Rate Constant Maturity Index.	The Fund's investment objective is to generate positive risk-adjusted returns by exploiting dispersion, asymmetry and volatility in corporate and sovereign credit and interest rates.

Past performance is not indicative of future performance, derivatives trading involves a substantial risk of loss

Source: RBC Global Asset Management, as at 31 December 2023. Notes: [1] Notice period for redemptions of 30 calendar days prior to month end; [2] Gross return targets annualised over the cycle for all strategies, except for Global Sovereign and IG Credit Alpha where target return is net of fees. Performance targets should not be relied upon as an indication of actual or projected performance. No representation is made any targets or objectives will be achieved, in whole or in part. There are significant risks associated with investment in the products and services provided by BlueBay Fixed Income. Fluctuations in exchange rates may have a positive or an adverse effect on the value of foreign-currency denominated financial instruments; [3] Annualised volatility; [4] This Cayman fund is only available in Finland, Germany, Netherlands, Norway, Sweden, Switzerland and the UK. Please refer to the Disclaimer located at the end of this document for important information

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Appendix

BlueBay Investment Grade Absolute Return Bond Fund: Portfolio responsibilities example

PORTFOLIO CONSTRUCTION

Mark Dowding
Andrzej Skiba
Tom Moulds
Marc Stacey

MACRO SPECIALISTS

Mark Dowding	Kaspar Hense	Russel Matthews	Sheraz Hussain	Neil Mehta	Malin Rosengren	James Bailey
Core Rates, Euro Periphery Rates, FX	Swap Spreads, MBS, Rates, FX	Emerging Markets Rates, FX	EU Sovereign Credit	UK, Europe & Break Evens	$ Block & CEE Rates & FX	Inflation

CREDIT SECTOR SPECIALISTS

Andrzej Skiba	Tom Moulds	Marc Stacey
US Credit	European Corporates	EU Financials CoCos

ESG INVESTMENT

My-Linh Ngo
Lucy Byrne
Ian Clarke
Younes Hassar
Emir Beganovic
Vibha Lad

CREDIT ANALYSTS

James Macdonald	John Guarnera	Nesche Yazgan	Kelly Brand	Rob Lambert	Alexey Baskakov	Russell Vincett	Jim Weinand	Jon Rau
Europe	US	Europe	US	Europe	US	Europe	US	US
Financials	Financials	Mining	Mining	Utility	Utility	Healthcare	Retail	Industrials
CoCos	Real Estate	Industrials	Industrials	Energy	Energy	Retail		
		Real Estate		TMT				

Source: RBC Global Asset Management, As at 31 January 2024

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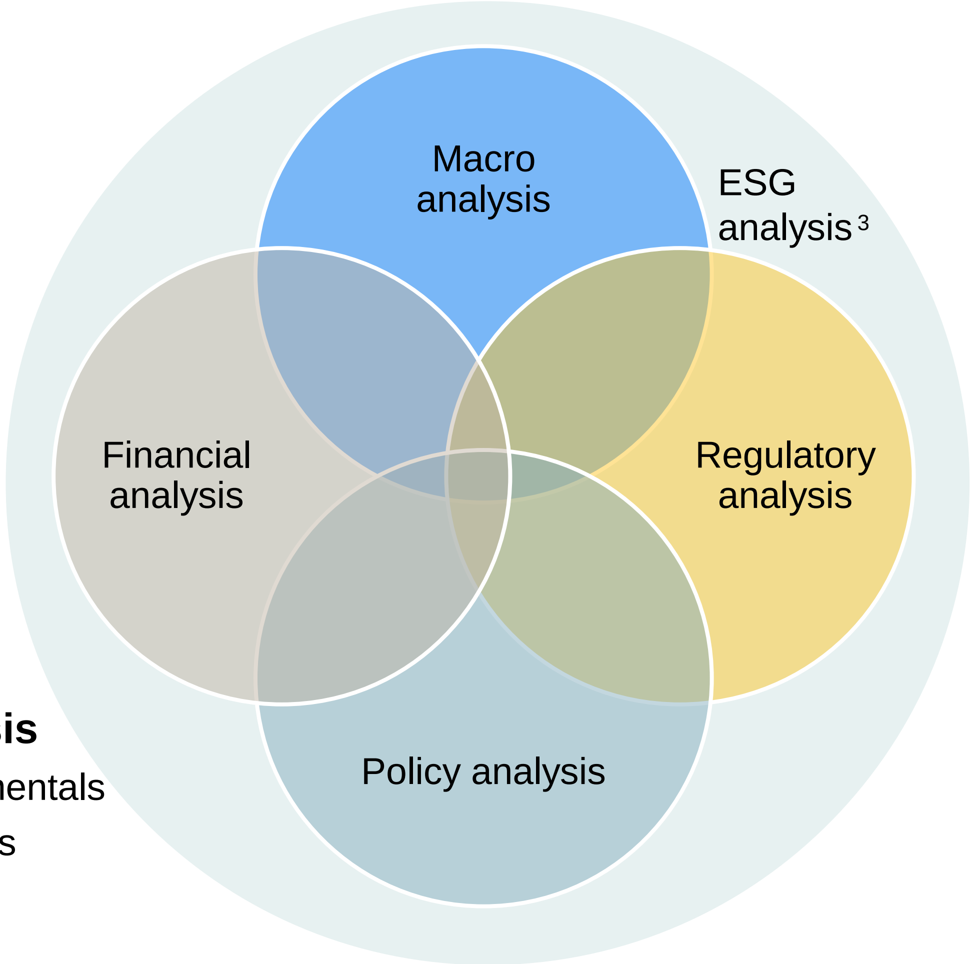
Integrating traditional balance sheet financial analysis with Macro, Regulatory and Policy analysis – **a competitive advantage**

Macro analysis
- Political risk
- EM/China
- Oil
- Rates

Regulatory analysis
- Capital requirements
- Leverage
- Liquidity requirements
- MDA [1]
- RWA's [2]



Financial analysis
- Company fundamentals
- Structural features
- Technicals

Policy analysis
- Monetary policy
- TLTRO/FLS
- Bond purchase programs/QE

Notes: [1] Maximum Distributable Amount; [2] Risk Weighted Assets. As at 31 January 2024; [3] Certain investment strategies, asset classes, exposure and security types do not integrate ESG factors, including but not limited to money market, buy-and maintain, passive, and certain third-party sub-advised strategies or certain currency or derivative instruments. Different strategies that integrate ESG factors will be at varying stages of implementation.

Our views on key underlying investment themes – Macro

- November and December 2023, saw the Global Aggregate Bond Index post a return of 9.2%, making this the best two month gain since data back to 1990
- The catalyst: Slowing economic data, inflation trending lower and Central bank signalling prospective rate cuts during 2024
- However, we've seen a significant easing of financial condition at a time when core inflation remains well above levels compatible with central bank targets and labour markets remain at full employment
- The market currently prices 140bps of rate cuts by the end 2024 to the Fed's expected 75bps. Expectations are similar in Europe
- We saw several false dawns in 2023, with the market trying to front-run the pivotal point of central-bank tightening, only to be disappointed, we expect this to be another example and for markets to correct somewhat from here
- Maintain a cautious stance to duration as we enter 2024, lower core rates should support sovereign spreads as debt sustainability concerns ease, we still favour those with low Debt to GDP: Romania, Mexico & Greece
- Continue to expect JGB 10yr yields to push towards 1% in the coming months with core inflation higher than expected and expect the BoJ to increase the base rate to 0.5% at the end of 2024
- Softening of rate expectations should favour EM local rates
- Challenges for 2024:
  - If 3m rolling core inflation is rising above 3.5% again CB's might actually be inclined to hike again
  - Big year for politics and elections with 40% of the planet's population eligible to vote across 74 nations at a time of rising right-wing pro-national parties
  - Concerns over the volume of government debt issuance and fiscal slippage with slowing economies

Source: RBC Global Asset Management. Views are as at 10 January 2024 and subject to change without notice

US and European IG credit markets – BlueBay conviction scores

	US$ credit	€/£ credit	
Conviction score	+1	+1	Moderately positive view despite growth uncertainty. Elevated yield levels combined with rates seemingly having peaked make for attractive risk adjusted returns and should drive constructive flows into credit
Fundamentals	0	0	Growth holding up well for now and balance sheets are generally in good shape. However rising input costs and squeezed consumers could mean earnings pressure for multiple sectors ahead
Technicals (supply and demand)	+1	+2	Historically attractive yields, rates have likely peaked, light risk positioning all support demand side at a time when net supply should be moderate overall
Valuations: Spreads/Yields	+1	+1	Valuations remain somewhat attractive across both US and European IG markets, especially when considering multiple pockets of value and diminished likelihood of severe downside scenarios

Source: RBC Global Asset Management, as at 15 January 2024. Conviction score scale is +3 to -3
Conviction scores are the expectations of the investment teams, which are held in the Alpha Decision Tool (ADT), and are subject to change without notice

Our views on key underlying investment themes – Corporates (Global)

With Fed rate cuts on the horizon, we believe 2024 is likely to deliver strong total returns for Global IG corporate credit investors. Helped by significant carry support, we see double-digit returns as a distinct possibility. Corporates are in a strong shape to weather any economic slowdown and we expect US issuers to show particular resiliency given underlying earnings trends. While generic IG spreads do not leave a lot of room to run, we see multiple pockets of value across our investment universe, highlighting the importance of active credit selection ahead.

USD IG: Growing comfort over Fed policy will bring more cash back into IG credit, careful name selection key

- Key exposure to non-cyclical sectors: utilities, telecom and technology in large, liquid capital structures
- Positive bias towards senior bank debt (especially US), following significant underperformance vs. non-financials
- Avoiding deep cyclicals, equities & CRE-exposed insurers and expensive defensives like consumer staples

EUR IG: Market re-pricing offers fresh investment opportunities

- Generic spreads look attractive, however name selection is key given weaker economic backdrop & loss of ECB buying
- Primary market offers selective opportunities, especially in periods of spread volatility
- Favourable view regarding select corporate hybrids and subordinated financial bonds of top tier banks

Source: RBC Global Asset Management. Views are as at 15 January 2024 and subject to change without notice

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