Opportunities for Insurers in EM Hard currency asset class

22 July 2021

Anthony Kettle

Partner, Senior Portfolio Manager

Fixed income specialist delivering tailored investment solutions

BlueBay is an **active fixed income specialist** structured to deliver outcomes tailored for our clients' needs

We embody the best of alternative and traditional asset management

A diverse team of highly-skilled risk-takers **focused on alpha generation** with a single investment process

A **robust investment process** based on proprietary research

Collaborative approach driven by **active client engagement**

BlueBay is a subsidiary of Royal Bank of Canada.

AuM by Strategy **US$78,115m** in total

43,638 Investment Grade	2,151 Convertibles
10,414 Emerging Market	1,886 Structured Credit
12,427 Leveraged Finance	7,599 Multi-Asset Credit

Over US$78bn in AuM

445 employees and partners

8 offices globally
- UK
- US
- Luxembourg
- Japan
- Germany
- Italy
- Switzerland
- Australia

111 investment professionals

43 Specialist strategies

Source: BlueBay Asset Management, as at 30 June 2021. Notes: Leveraged Finance consists of High Yield, Leveraged Loans and Distressed Credit; Multi-asset Credit AuM includes US$3.02 billion of Leveraged Finance assets and US$691 million of Structured Credit assets

BlueBay Asset Management: business update

BlueBay Asset Management

Firm-wide: assets under management (US$m)

	June 2021
Investment Grade	43,638
Emerging Markets	**10,414**
Leveraged Finance [1]	12,427
Convertibles	2,151
Multi-Asset Credit	7,599
Structured Credit	1,886
Total Company AuM	**78,115**

EM debt at BlueBay: assets under management (US$m)

	June 2021
EM Sovereign	**2,771**
EM Hard Currency Sovereign	867
EM Local Currency Sovereign	502
EM Select/Blend [2]	1,402
EM Corporate	**5,448**
EM Broad Corporate	1,768
EM HY Corporate	3,089
EM IG Corporate	338
EM LC Corporate	253
EM Aggregate	**1,033**
EM Alternatives	**1,020**
EM Unconstrained	866
EM Credit – Long/Short	154
EM Buy and Maintain Strategy	**122**
EM Illiquid Credit Strategy	**20**
Total EM AuM	**10,414**

Source: BlueBay Asset Management, as at 30 June 2021. Notes: **1** AuM is exclusive of non-fee earning assets. Leveraged Finance consists of High Yield, Leveraged Loans, and Distressed Credit; **2** Includes over US$922 million in mandates managed to blended sovereign and corporate benchmark indices

Large, experienced team of EM sovereign and corporate specialists

BlueBay Asset Management

Sovereign specialists

Portfolio Managers	*Sovereign strategists*
Russel Matthews	Graham Stock
Jana Velebova	Timothy Ash
Gautam Kalani [1]	Jo Morris
Gary Sedgewick	Zhenbo Hou
Christian Libralato [1]	Malin Rosengren [2]
Som Bhattacharya [4]	

Head of Emerging Markets

Polina Kurdyavko

Traders	APMs
Ben Thompson	Adrian Hall-Marcos [5]
David Watling	Anami Patel [5]
Deepe Raja	John Shaw
Mark Harrison	Malcolm Kane [5]

Business operation & strategy

Ameneh Ziai

Institutional portfolio management

Bashir Farukh

Corporate specialists

Portfolio Managers	*Corporate strategists*
Anthony Kettle	Alex Collins
Brent David	Mark Agaiby
Andrius Isciukas [1]	Matias Vammalle
Mihai Florian	Sven Scholze
Illya Zyskind	Vanessa Stevenson [3]
	Vishal Iyer

18	33	16	12	300+	98
Years of track record in EM debt	Investment Professionals	Average years of experience	Sectors	Issuers	Countries

Source: BlueBay Asset Management, as at 30 June 2021. Notes: **1** Christian Libralato, Gautam Kalani and Andrius Isciukas have the title Portfolio Manager but also have research responsibilities in the team; **2** Malin Rosengren is a sovereign strategist but has additional assistant portfolio manager responsibilities; **3** Vanessa Stevenson is a shared resource with the Convertibles team. **4** Som Bhattacharya has the title Portfolio Manager for the EM Buy & Maintain strategy but also is an institutional portfolio manager for other strategies; **5** Adrian Hall-Marcos, Anami Patel and Malcolm Kane have the titles of Portfolio Managers but also have Assistant Portfolio Manager responsibilities

Market outlook

Key themes for EM in Q2 2021

BlueBay
Asset Management

Growth

- Recovery in growth likely to remain key focus for investors in 2021
- Growth differential is likely to play a larger role in selecting contributors vs detractors due to the dispersion in vaccine rollout
- Reinfection rates from delta variant in both DM and EM remain a concern, especially those economies which are opening up their economies

Inflation

- We think inflation, both in EM and DM, remains one of the key areas to watch for investors in coming days
- Higher energy prices in 2021 relative to 2020 also likely to play a role
- Fed has signalled its comfort with a robust US recovery coupled with slightly higher inflation; but many market participants view the inflationary dynamics as transitory

Bottom up differentiation

- Bottom up differentiation would be crucial in generating alpha
- Several sovereign and corporate issuers have repriced materially thereby offering interesting pockets of opportunity
- Opportunities could also be found in assets that have sold off such as in Turkey and Brazilian Oil and Gas

Stressed issuers

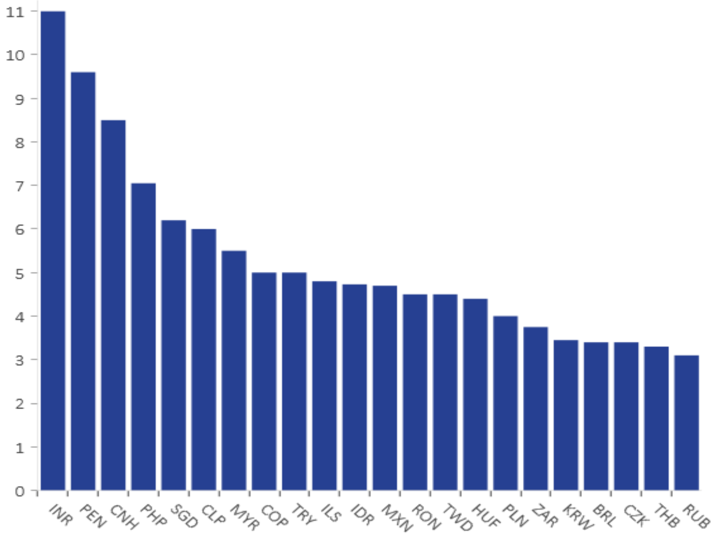
- Stressed issuers who are looking to possibly restructure their debt stock could be a source of strong return
- In the first quarter, names such as Petra diamond and Samarco have brought in strong returns
- We are watching developments in other sub-Saharan countries as well as in Sri Lanka

Source: BlueBay Asset Management as at 6 July 2021

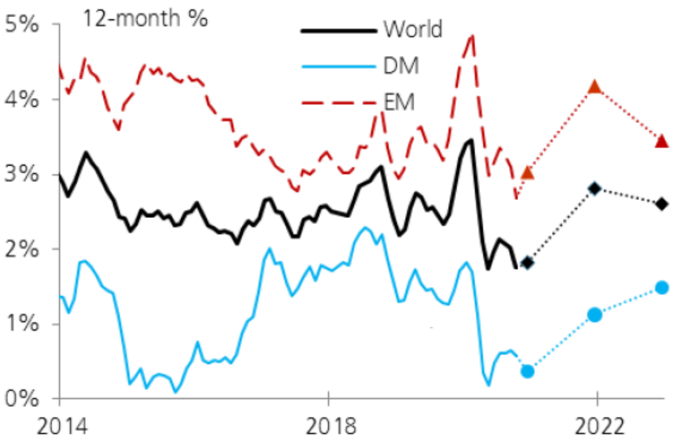
Forecasted growth recovery in EM should outpace recovery in DM

- Growth down-turn in EM was less severe than DM with several countries including China, Indonesia, Vietnam and Egypt posting positive growth rates in 2020
- We predict the benign inflationary environment for global economies to continue into 2021 and possibly into 2022

BBG consensus GDP forecast 2021



Global Inflation



Source: Bloomberg, BlueBay Asset Management, UBS Global Economic Outlook. LHS: Bloomberg consensus forecast as at 31 March 2021, RHS inflation forecast as at 31 December 2021. For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

BlueBay
Asset Management

EM sub-asset class returns over time

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 YTD
Local Rates 10.8%	EM Corporate 38.6%	EM Corporate 13.5%	Local Rates 13.7%	EM Sovereign 17.4%	Local Rates -0.3%	Local Rates 8.2%	Local Rates 3.3%	EM Corporate 10.4%	EM Sovereign 10.3%	Local Rates 3.1%	EM Sovereign 15.0%	Local Rates 8.4%	EM Corporate 1.1%
EM Sovereign -12.0%	EM Sovereign 29.8%	EM Sovereign 12.2%	EM Sovereign 7.3%	EM Corporate 17.0%	EM Corporate -1.7%	EM Sovereign 7.4%	EM Corporate 1.3%	EM Sovereign 10.2%	Local Rates 8.9%	EM Corporate -1.7%	EM Corporate 13.6%	EM Corporate 7.3%%	EM Sovereign -0.7%
EM Corporate -15.4%	EMFX 11.7%	Local Rates 11.4%	EM Corporate 3.2%	Local Rates 13.7%	EM Sovereign -5.3%	EM Corporate 5.7%	EM Sovereign 1.2%	Local Rates 9.4%	EM Corporate 7.9%	EM Sovereign -4.2%	Local Rates 12.3%	EM Sovereign 5.3%	EMFX -1.6%
EMFX -16.0%	Local Rates 10.3%	EMFX 4.3%	EMFX -15.5%	EMFX 3.1%	EMFX -8.7%	EMFX -13.9%	EMFX -18.2%	EMFX -0.6%	EMFX 5.8%	EMFX -9.2%	EMFX 1.1%	EMFX -5.2%	Local Rates -1.8%

Difference between the best and worst performing EM sub-asset classes

26.8%	28.3%	9.2%	29.2%	14.3%	8.4%	22.1%	21.5%	11.0%	4.5%	12.3%	13.9%	13.6%	2.9%

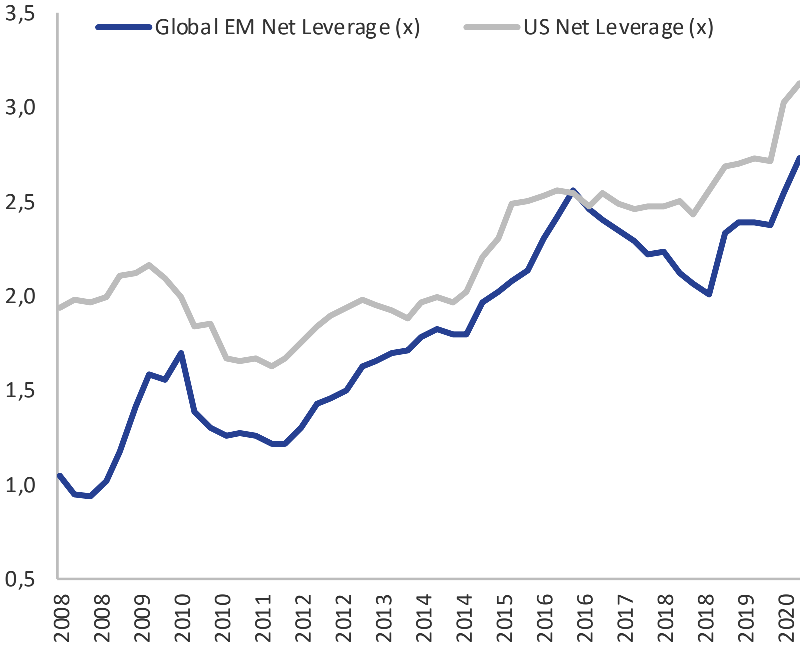
EM Sovereign   EM Corporate   Local Rates   EMFX

Source: BlueBay Asset Management, JP Morgan, as at 30 June 2021

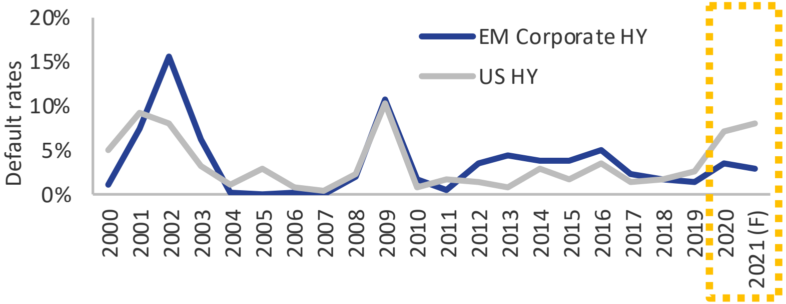
EM corporates in comparatively strong position relative to DM corporates

BlueBay Asset Management

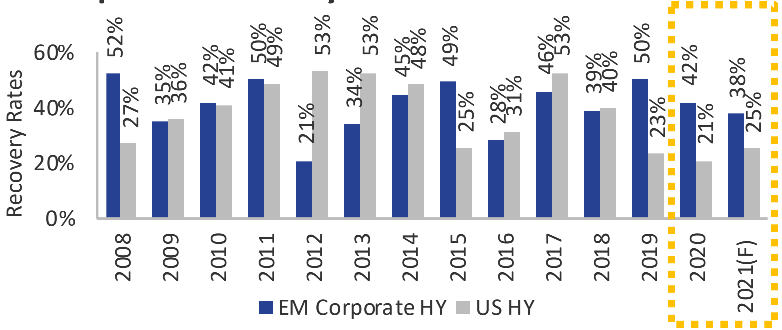
Net EM leverage lower than US corporates [1]



Historical default rates: EM HY corporates relative to US peers [2]



EM corporate recovery rates versus US HY [3]



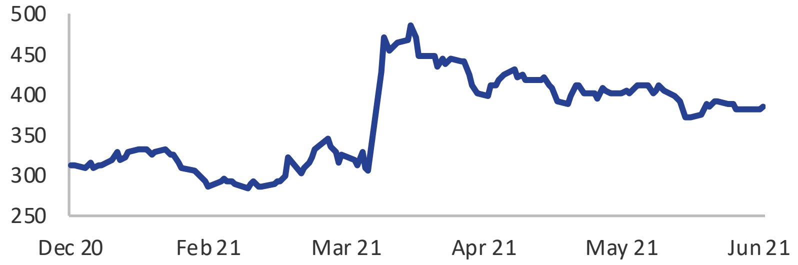
Source: BAML. Notes: **1** Latest data as at 30 June 2020; **2** Source: JP Morgan. Latest data at 31 December 2020; **3** Source: JP Morgan. Recovery rates are issuer-weighted and based on price 30 days after default date. 2021(F) EM corporate recovery rate expectation is 35–40%. Latest data at 31 December 2020. For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

Key areas of focus and differentiation (1)

Turkey

- After a period of strong volatility, Turkish spreads have started to stabilise
- We are focussed on Turkish sovereign, as well as the banking sectors and other defensive credits such as MERSIN
- Inflation remains a key concern though, and recent inflation prints have been very high coupled with an apparent reluctance of the central bank to raise rates

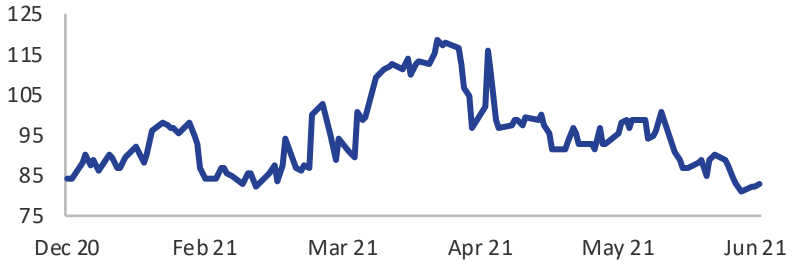
Turkey 5YR CDS



Russia/Belarus and Ukraine

- Sanctions risk in Russia has been heightened under Biden administration, with the most recent wave of sanctions announced in Q2
- Belarus's involvement in detention of a blogger using the re-routing of an aircraft has led to significant sanctions being imposed on Belarus
- There is still a risk of violence picking up in the easter province of Ukraine

Russia 5YR CDS



Source: Bloomberg, BlueBay Asset Management, as at 30 June 2021

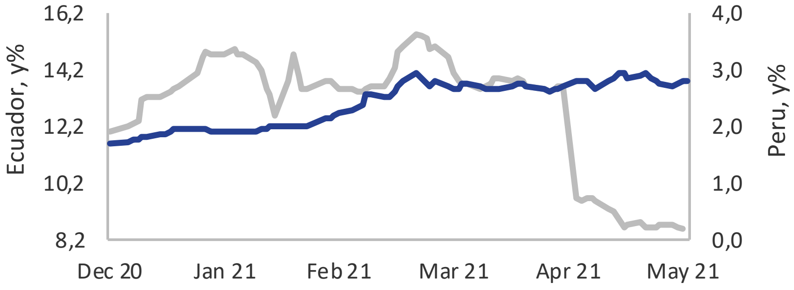
For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

Key areas of focus and differentiation (2)

Elections in Latin America

- Ecuador – positive initial outcome with Lasso winning run-off (2030 bonds up nearly +20pts)
- Peru – Leftist Castillo is ahead of centrist Fujimori, USD bonds have struggled in March

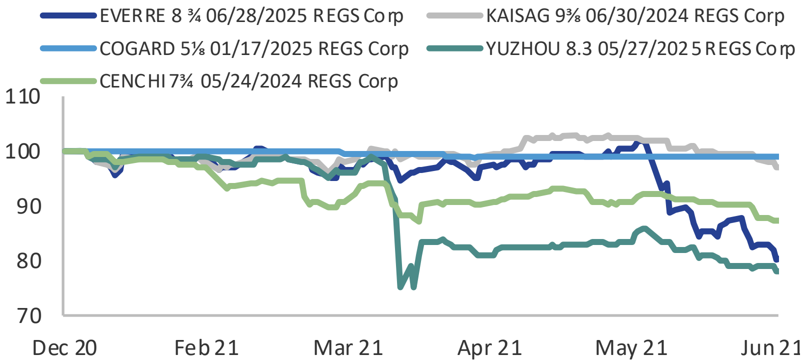
Peru 2.78 01/23/2031 (blue) vs Ecuador 0.5 07/31/2030 (grey) Mid Yield To Maturity



Differentiation in Chinese real estate sector

- Material differentiation in earnings and overall progress towards “3 red lines”
- Selective HY names and BBB complex (such as Country Garden and Shimao) have held up better but Evergrande continues to remain in the eye of the storm, making it difficult for names such as YUZHOU and CENCHI to recover

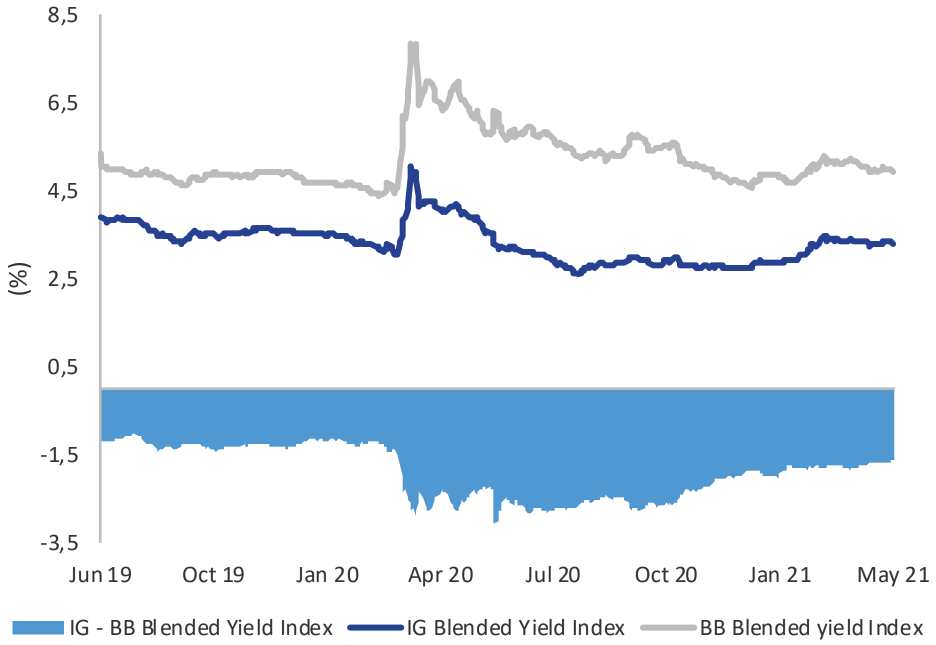
Chinese real estate sector YTD return



Source: Bloomberg, BlueBay Asset Management, as at 30 June 2021
For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

While EM HY (BB) sovereign yields still offer potential upside, we think bottom up differentiation will be key in 2021

EM sovereign BB-rated yields are still higher than pre-Covid levels, unlike IG



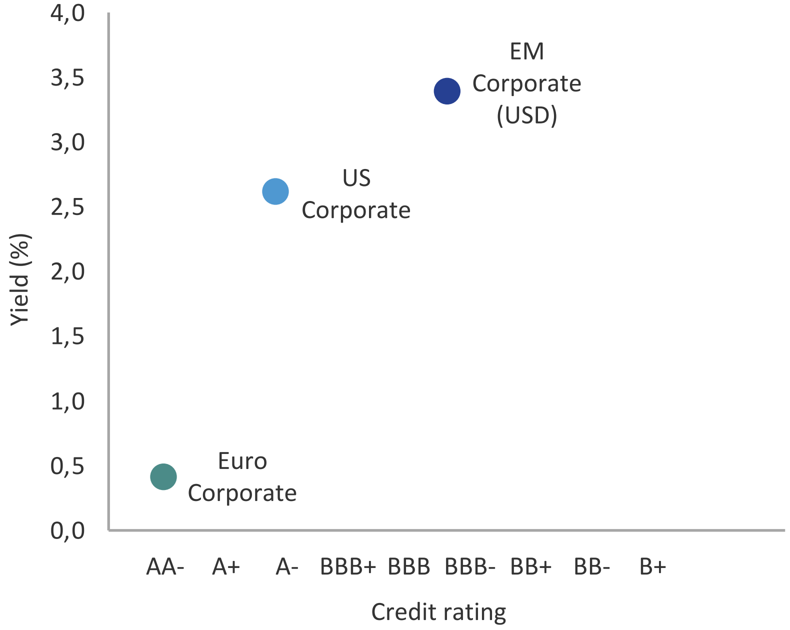
Top and bottom performers in CY 2020

EM HC Sovereign	% return	EM HC Corporate	% return
Uruguay	17.2	Paraguay	15.0
Tajikistan	14.9	Azerbaijan	14.1
Dominican Rep	13.8	Egypt	13.8
Guatemala	13.7	Ukraine	13.3
Nigeria	13.6	Mexico	12.7
Ivory Coast	13.5	Zambia	12.2
Senegal	12.8	Israel	11.2
Chile	12.8	Colombia	9.7
Paraguay	12.5	Brazil	9.6
Jordan	12.4	Turkey	9.0
Costa Rica	-1.5	Philippines	5.4
El Salvador	-8.3	South Africa	5.4
Suriname	-9.3	Poland	5.1
Zambia	-17.6	Bahrain	5.0
Belize	-17.9	Argentina	3.6
Argentina	-23.8	Chile	0.3
Sri Lanka	-31.3	Ghana	-2.7
Venezuela	-31.6	Jamaica	-3.0
Ecuador	-50.0	Kazakhstan	-15.3
Lebanon	-74.6	Tanzania	-19

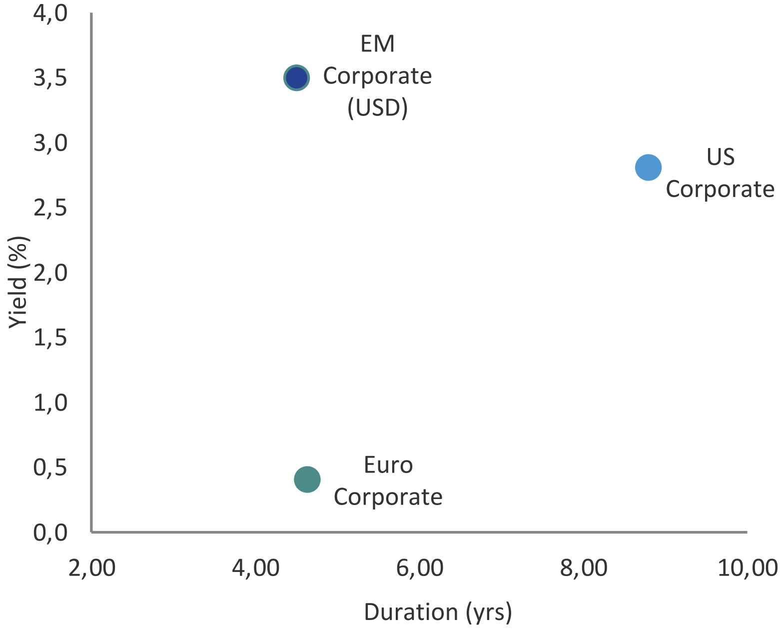
Source: Bloomberg, BlueBay Asset Management, as at 07 May 2021
For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

Valuation of EM relative to other asset classes

EM vs. other asset classes: Credit rating relative to yield



EM vs. other asset classes: Duration relative to yield



Source: JP Morgan, BAML, Bloomberg, as at 28 May 2021.
Note: EM Corporate (USD): JPM CEMBI Diversified; US Corporate: BAML US Corporate Master; Euro Corporate: BAML Euro Corporate Index

The attractiveness of EM corporate asset class

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A resilient, less volatile asset class

- EM corporate has consistently demonstrated less volatility compared to EM hard currency sovereign asset class
- This is partly due to shorter duration, but also due to slightly higher quality, as well as higher exposure to more “developed” Asian corporate sectors

Significant diversification

- EM corporate asset class offers perhaps one of the best diversifications available, with 43 countries and nearly 500 issuers
- Investors can source bonds from a variety of different sectors from traditional oil and gas to renewables to Chinese internet companies

Comparatively lower leverage and higher liquidity

- EM corporates consistently demonstrate slightly lower leverage and higher balance sheet liquidity compared to DM counterparts

Comparable default rates and slightly better recover rates

- EM HY corporate asset class has demonstrated slightly lower than average default rates of DM corporates.
- At the same time, over the last 3 years, the recovery rates for EM corporates have been better

Source: BlueBay Asset Management, as at 9 July 2021

The benefits of an aggregate approach to Emerging Market Debt

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Attractive duration-adjusted yield with superior liquidity profile	~$3trn opportunity set with No local currency exposure	More diversified and higher quality opportunity set	Better reflection of future trends and growth of EM credit
• All-in yield of ~4.6% • Index spread over Treasuries of ~246bps • Duration ~6.2yrs	• Opportunity set spanning ~81 countries and ~14 industry sectors	• Limited country overlap • Combining higher yield frontier sovereign issuers with higher quality rated corporates from more “developed” emerging markets	• Mainstream EM countries increasingly shifting away from hard currency sovereign issuance towards local • Corporates from these countries remain active in the external currency new issue market

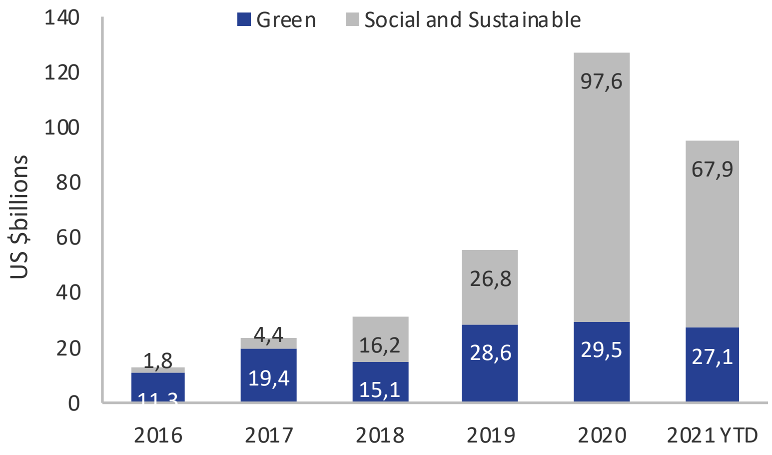
EM Aggregate provides diversified exposure across the entire spectrum of EM hard currency credit

Source: BlueBay Asset Management, as at 28 May 2021

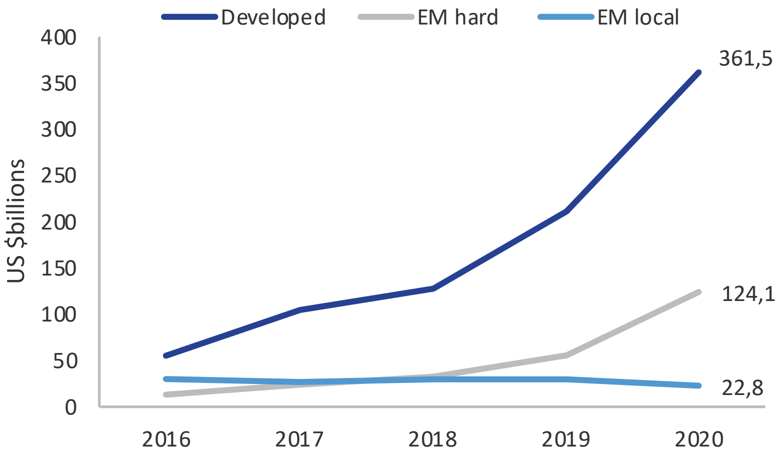
ESG linked EM bond market continues to grow

- The Global ESG linked debt market has reached USD1.7 trillion of which EM hard currency constitutes USD330bn issued under GSS (Green, Social, Sustainability) labels
- While Green remains a dominant theme, the Covid-19 pandemic has led to an increase in the Social and Sustainability linked bond issuances

EM hard currency ESG linked bond issuance (US $bn)



Global ESG linked bond issuance (US $bn)

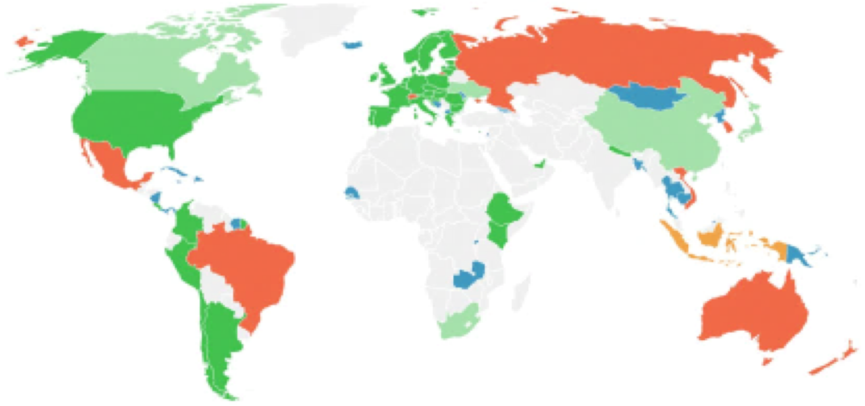


Source: HSBC, Bloomberg as at 02 June 2021
For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue

Highly differentiated universe but most EM Sovereigns & Corporates are committed to positive change

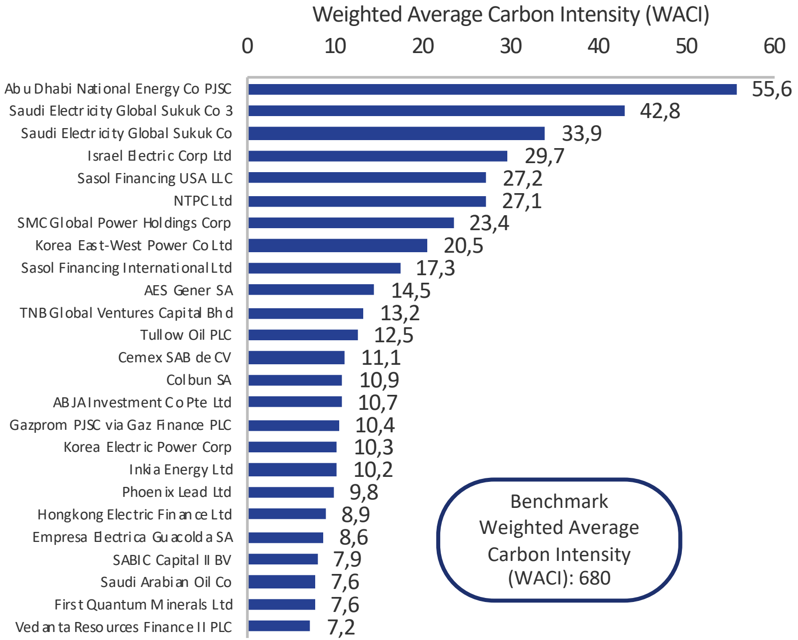
EM Nationally Determined Contributions (NDCs) – Progress is being made but still a long way to go

- Starting from an insufficient level, most EM economies are now improving their NDC commitments
- Although this is positive, targets have yet to be supported by ambitious policies



SUBMITTED A STRONGER NDC TARGET	PROPOSED A STRONGER NDC TARGET	DID NOT INCREASE AMBITION*	WILL NOT PROPOSE A MORE AMBITIOUS TARGET
ARGENTINA CHILE COLOMBIA COSTA RICA ETHIOPIA EU KENYA NEPAL NORWAY PERU UAE UNITED KINGDOM USA	CANADA CHINA JAPAN SOUTH AFRICA UKRAINE	AUSTRALIA BRAZIL MEXICO NEW ZEALAND RUSSIAN FEDERATION SINGAPORE SOUTH KOREA SWITZERLAND VIET NAM	INDONESIA

Uneven distribution of CO2 emitters in CEMBI benchmark



Top 25 WACI issuers	(%) Benchmark Weight ~10%	(%) Benchmark WACI contribution ~65%

Source: BlueBay Asset Management, Climate Action Tracker: Warming Projections Global Update. LHS chart – Status of NDC updates as of 29 April 2021, map is for reference only

ESG analysis in EM requires digging deeper than the headlines

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	ESG Rating	Main ESG concerns	ESG positives/BlueBay Engagement Efforts
PEMEX	Very High	• Carbon intensity • Social (pipeline explosion and refinery fires)	• We are leading an investor engagement (along with Federated Hermes) with Pemex Senior management (under the Climate Action 100+ umbrella) • While process was slowed due to the onset of COVID, we continue to have meetings with the company and are making progress on each of the sub engagements
ARAMCO	Very High	• Carbon intensity • Punished for poor ESG of sovereign	• Aramco carbon intensity per barrel of production is one of the lowest globally, due to large and highly productive fields. In most cases, Aramco displacing other producers is a net positive for global carbon levels. • Aramco is a signatory to the World Bank's 'Zero Routine Flaring by 2030' • Member of the Oil & Gas Climate Initiative (OCGI, members: BP, Chevron, CNPC, Eni, Equinor, ExxonMobil, Occidental, Petrobras, Repsol, Saudi Aramco, Shell and Total), which supports Paris agreement and the reduction in carbon intensity (including via investment in carbon capture)
SASOL	High	• Carbon intensity (in particular coal -> oil process)	• Exploring addition of green hydrogen into coal -> oil process • Exploring spin off of carbon intensive assets, leaving US chemicals business. Have already aligned segment reporting to support this initiative
SAMMIN	High	• Previous failure of tailings dams structure	• Tailings management process now uses pits and dry stack, with no tailings dams • Significant remediation and environmental clean up for last 5 years, still ongoing
PETBRA	High	• Carbon intensity, some sovereign ESG	• Member of the Oil & Gas Climate Initiative (OCGI, members: BP, Chevron, CNPC, Eni, Equinor, ExxonMobil, Occidental, Petrobras, Repsol, Saudi Aramco, Shell and Total), which supports Paris agreement and the reduction in carbon intensity (including via investment in carbon capture)

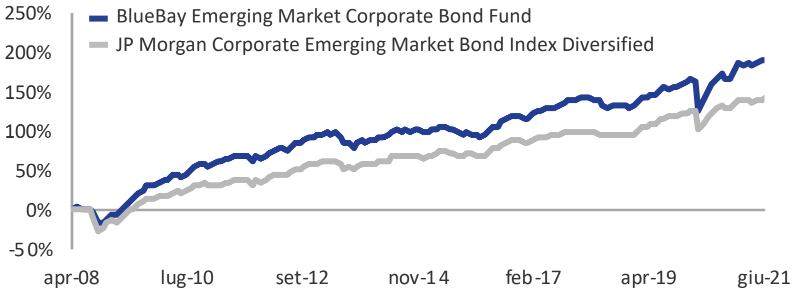
Source: BlueBay Asset Management
For illustrative purposes only

Appendix: our track-record in EM

Performance of the BlueBay Emerging Market Corporate Bond Fund

BlueBay Asset Management

Cumulative gross relative performance (USD)



Risk/return characteristics

	1yr	3yr	5yr	10yr	Since inception [1]
Standard deviation	3.88%	8.67%	7.11%	6.32%	6.91%
Tracking error	1.97%	2.45%	2.10%	1.73%	2.95%
Information ratio	1.79	0.09	0.34	-0.11	0.49

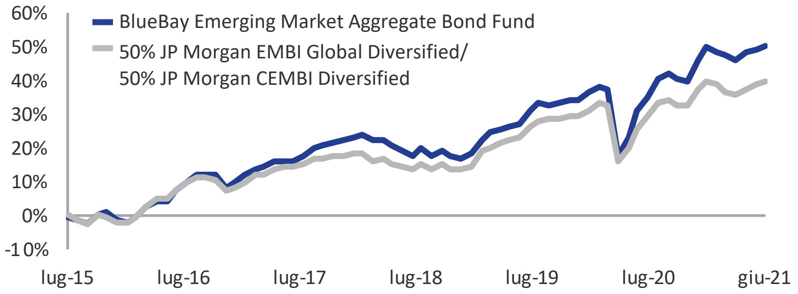
Performance (USD gross of fees)

	BlueBay Emerging Market Corporate Bond Fund	JP Morgan Corporate Emerging Market Bond Index (CEMBI) Diversified	Alpha
Trailing			
1YR	11.76%	8.22%	3.54%
3YR [1]	7.93%	7.71%	0.23%
5YR [1]	6.58%	5.85%	0.72%
10YR [1]	5.68%	5.88%	-0.20%
Ann. SI	8.37%	6.91%	1.46%
Historical calendar years			
2021 YTD	1.41%	1.11%	0.30%
2020	9.23%	7.35%	1.89%
2019	13.21%	13.55%	-0.34%
2018	-4.03%	-1.72%	-2.31%
2017	11.57%	7.89%	3.68%
2016	11.09%	10.43%	0.66%
2015	-1.85%	1.18%	-3.03%
2014	5.40%	5.70%	-0.30%
2013	-3.95%	-1.73%	-2.22%
2012	16.93%	16.95%	-0.02%
2011	5.53%	3.24%	2.29%
2010	17.82%	13.50%	4.32%
2009	54.53%	38.61%	15.92%
2008	-12.87%	-15.89%	3.02%

Source: BlueBay Asset Management, as at 30 June 2021. Fund type: UCITS . Note: **1** Annualised returns. Fund inception date: 31 March 2008. Past performance is not indicative of future results. **Please refer to the Disclaimer located at the back of this presentation for important information regarding the past, gross performance shown above**

Performance of the BlueBay Emerging Market Aggregate Bond Fund

Cumulative gross relative performance (USD)



Risk/return characteristics

	1yr	3yr	5yr	Since inception[1]
Standard deviation	4.68%	9.19%	7.62%	7.29%
Tracking error	1.57%	1.68%	1.53%	1.50%
Information ratio	2.23	0.78	1.05	0.87

Performance (USD gross of fees)

	BlueBay Emerging Market Aggregate Bond Fund	50% JP Morgan EMBI Global Diversified/ 50% JP Morgan CEMBI Diversified	Alpha
Trailing			
1M	0.47%	0.75%	-0.29%
3M	3.04%	3.09%	-0.05%
YTD	0.44%	0.23%	0.21%
1YR	11.41%	7.89%	3.52%
3YR[1]	8.51%	7.23%	1.29%
5YR[1]	6.96%	5.37%	1.59%
Ann. SI[1]	7.04%	5.75%	1.29%
Historical calendar years			
2021 YTD	0.44%	0.23%	0.21%
2020	9.73%	6.33%	3.40%
2019	15.44%	14.30%	1.14%
2018	-3.83%	-2.99%	-0.84%
2017	12.01%	9.07%	2.94%
2016	10.63%	10.30%	0.32%
2015	-0.91%	-1.73%	0.82%

Source: BlueBay Asset Management, as at 30 June 2021. Fund type: UCITS. Note: **1** Annualised return. Fund inception date: 6 July 2015. Past performance is not indicative of future results. **Please refer to the Disclaimer located at the back of this presentation for important information regarding the past, gross performance shown above**

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