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BlueBay Asset Management

# BlueBay Emerging Markets Illiquid Credit Strategy

May 2022 | Managed by BlueBay Asset Management LLP

Marketing Communication

**Mihai Florian** – Senior Portfolio Manager

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# Important information

## **INFORMATION BELOW IS TAKEN DIRECTLY FROM KEY INVESTOR INFORMATION DOCUMENT**

**For further terms related to the objective, investment policy and overall risk and reward profile please refer to the key investor information document**

### **Nature of Investments:**

The Fund may invest both on the long and short side in fixed income securities of Emerging Market Corporate Issuers denominated in both Hard Currencies and Local Currencies, as well as other investments across global markets.

### **Short Selling**

Short selling allows the investor to profit from a decline in the price of a particular security. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. There can be no assurance that the security necessary to cover the short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

**Fixed Income Securities Risk:** The Master Fund may invest in bonds or other fixed income securities, including without limitation, commercial paper and “higher yielding”(including non-Investment Grade and, therefore, higher risk) debt securities. The Master Fund will, therefore, be subject to credit, liquidity and interest rate risks. Higher-yielding debt securities are generally unsecured and may be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured on substantially all of the issuer’s assets.

### **Convertible Securities Risk:**

Investments in convertible bonds may, in addition to normal risks associated with bonds, be subject to fluctuations in response to numerous factors, including but not limited to: variations in the periodic operating results of the issuer; changes in investor perceptions of the issuer; the depth and liquidity of the market for convertible bonds; and changes in actual or forecasted global or regional economic conditions. In addition, the global bond markets have from time to time experienced extreme price and volume fluctuations.

### **Unlisted Securities:**

The Fund may invest in unlisted securities. Because of the absence of any trading market for these investments, it may take longer, or may not be possible, to liquidate these positions.

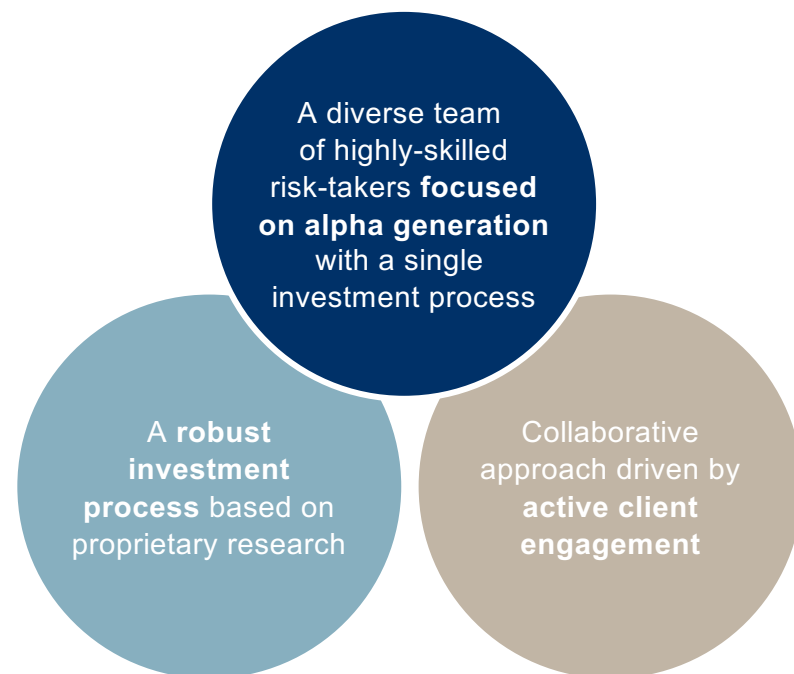
Source: BlueBay Asset Management, as at 28 February 2022



# Fixed income specialist delivering tailored investment solutions

Part of RBC GAM, BlueBay is an **active fixed income specialist** structured to deliver outcomes tailored for our clients' needs

We embody the highest quality of alternative and traditional asset management



AuM by Strategy **US\$114,951m<sup>1</sup>** in total

43,679 Investment Grade

9,116 Emerging Market

10,363 Leveraged Finance

40,141 US Fixed Income

1,332 Convertibles

3,234 Securitized Credit

7,086 Multi-Asset Credit



Global presence



UK



US<sup>3</sup>



Luxembourg



Japan



Germany



Netherlands



Italy



Spain



Switzerland



Australia



134<sup>2</sup>

Investment professionals



50

Specialist strategies

Over

**US\$114bn**

in AuM

Source: BlueBay Asset Management, as at 30 April 2022

Notes: <sup>1</sup> AuM shown incorporates funds managed by BlueBay Asset Management and RBC GAM US which are managed within the BlueBay investment platform; <sup>2</sup> The number of investment professionals includes BlueBay and RBC GAM US FI investment professionals; <sup>3</sup> US includes Minneapolis. Leveraged Finance consists of High Yield, Leveraged Loans and Distressed Credit; Multi-asset Credit AuM includes US\$2.94 billion of Leveraged Finance assets and US\$638 million of Securitized Credit assets. Securitized Credit AuM reflects fee earning BlueBay managed CLOs including those in warehouse stage in the US



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# Large, experienced team of sovereign and corporate specialists

## Sovereign specialists

<i>Portfolio Managers</i>	<i>Sovereign strategists</i>
Russel Matthews	Graham Stock
Jana Velebova	Timothy Ash
Gautam Kalani <sup>1</sup>	Jo Morris
Gary Sedgewick	Zhenbo Hou <sup>5</sup>
Anami Patel <sup>4</sup>	Malin Rosengren <sup>2</sup>
Som Bhattacharya <sup>4</sup>	Christian Libralato <sup>1</sup>

## EMIC

Mihai Florian
Polina Kurdyavko
Illya Zyskind
<b>Business operation &amp; strategy</b>
Ameneh Ziai
<b>Institutional portfolio management</b>
1 dedicated IPM
<b>ESG</b>
4 dedicated ESG specialists

## Corporate specialists

<i>Portfolio Managers</i>	<i>Corporate strategists</i>
Anthony Kettle	Alex Collins
Brent David	Mark Agaiby
Andrius Isciukas <sup>1</sup>	Matias Vammalle
Malcolm Kane <sup>4</sup>	Sven Scholze
John Shaw <sup>4</sup>	Vanessa Stevenson <sup>3</sup>
	Vishal Iyer

19

Years of track  
record in EM debt

32<sup>6</sup>

Investment  
Professionals

17

Average years  
of experience

12

Sectors

300+

Issuers

98

Countries

Source: BlueBay Asset Management, as at 30 April 2022. Notes: <sup>1</sup> Christian Libralato, Gautam Kalani and Andrius Isciukas have the title Portfolio Manager but also have research responsibilities in the team; <sup>2</sup> Malin Rosengren is a sovereign strategist but has additional portfolio manager responsibilities; <sup>3</sup> Vanessa Stevenson is a shared resource with the Convertibles team; <sup>4</sup> Anami Patel, Malcolm Kane and John Shaw have the titles of Portfolio Managers but also have Assistant Portfolio Manager responsibilities; <sup>5</sup> Please note that Zhenbo Hou transitioned from being an employee of the firm to being a consultant in February 2022





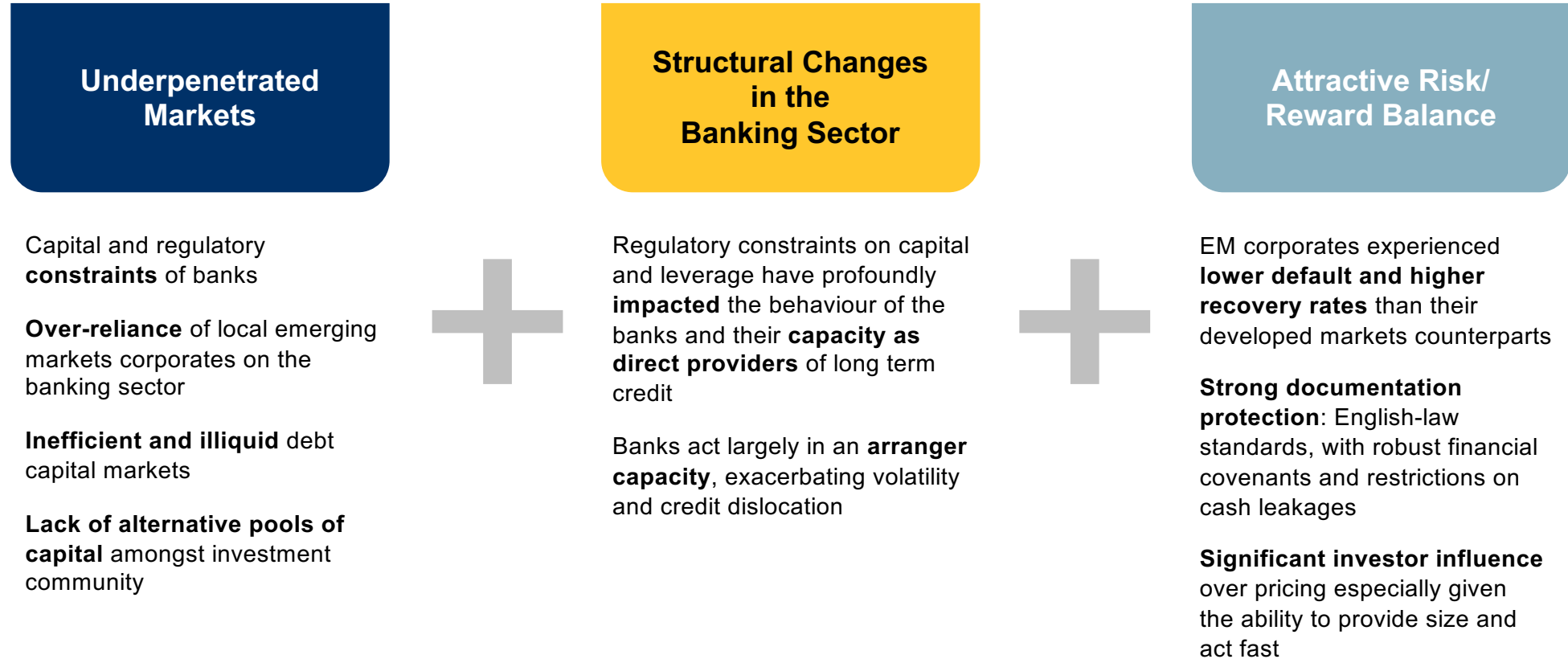
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# Market opportunity



# Compelling investment opportunities by identifying and exploiting temporary mispricing

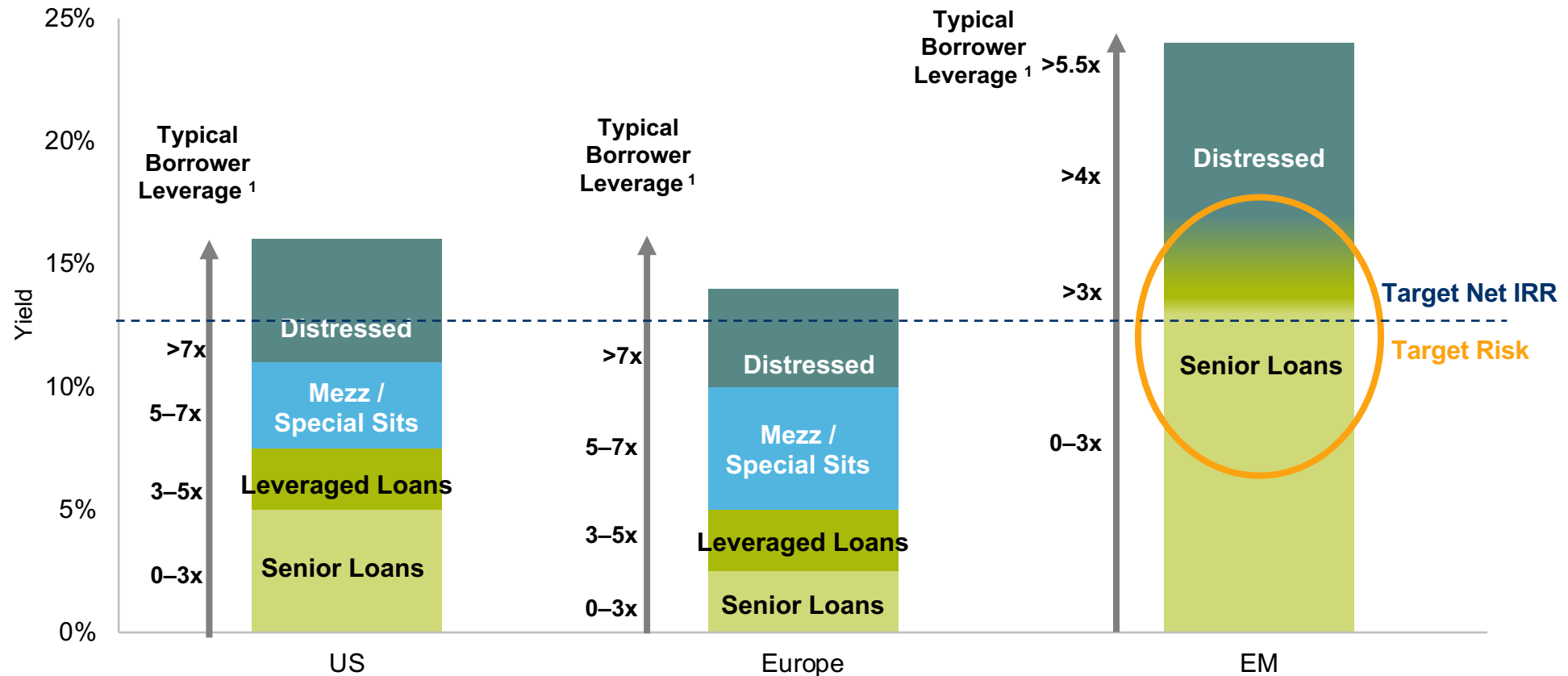
Market dislocations in EM economies drive temporary mispricings and forced selling by the local/regional banks



Source: BlueBay Asset Management

# Attractive positioning in the global illiquid risk/reward balance

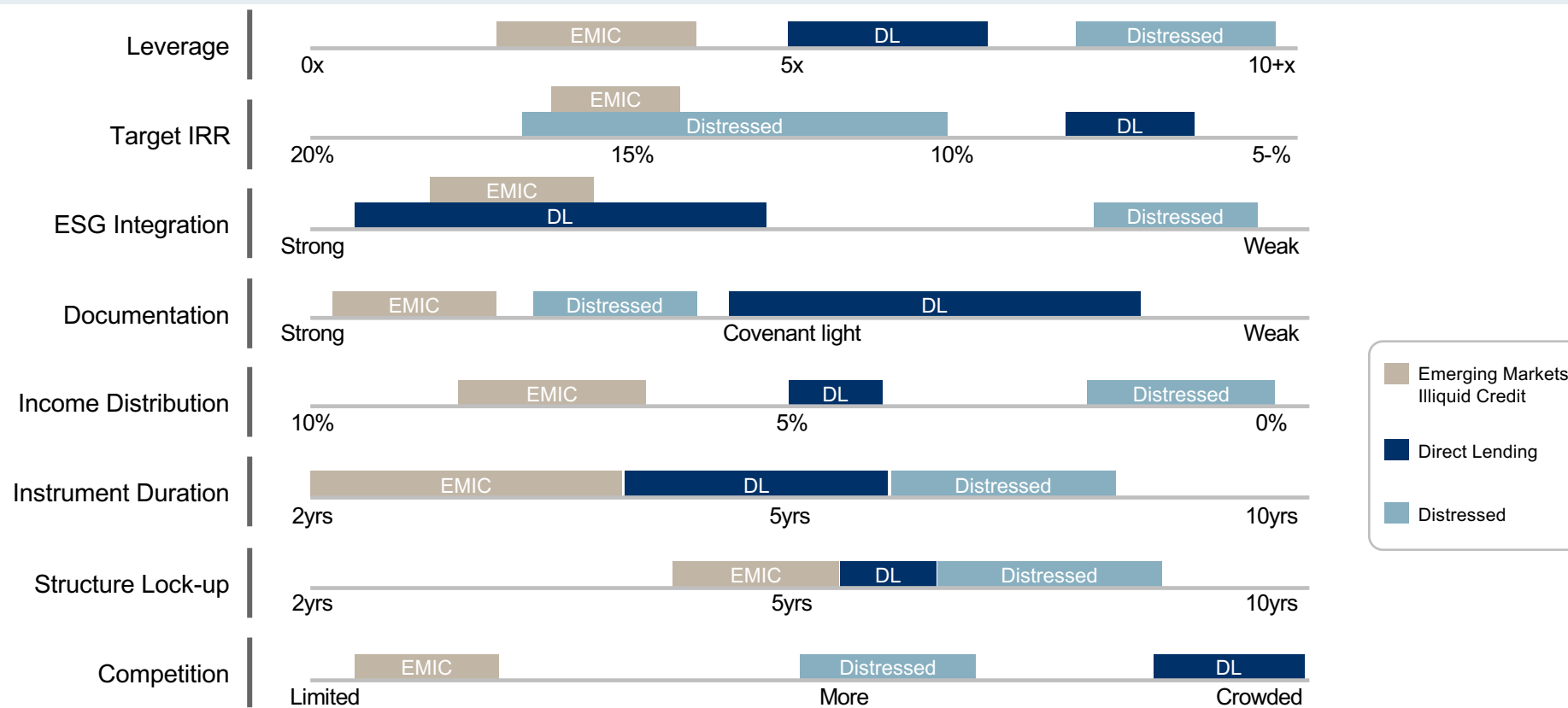
- Targeting mid-teens gross return by focusing on mostly senior instruments with substantial lower credit risks (leverage) when comparing with the DM opportunities



Source: US Senior Loans and High Yield: S&P Global; GEM Blended Sovereign: GBI-EM JPMorgan Index. Note: <sup>1</sup> Estimates based on market information and historical investment experience. Distressed and Mezzanine returns are global; data and estimates as of March 2022. Target return should not be relied upon as an indication of actual or projected performance. Actual volatility and returns depend upon a variety of factors. No representation is made that any targets or objectives will be achieved, in whole or in part. Derivatives trading involves a substantial risk of loss.



# Emerging Markets Illiquid Credit compared to private credit strategies in Developed Markets



The securities markets of most emerging countries are less liquid, are especially subject to greater price volatility, have smaller market capitalizations, have less government regulation and are not subject to as extensive and frequent accounting, financial and other reporting requirements as the securities markets of more developed countries. These risks are not normally associated with investments in more developed countries. These risks must be considered in relation to all dealings and investments in emerging markets. Foreign securities may be subject to risk of loss because of less foreign government regulation, less public information and less economic, political and social stability in these countries. Loss may also result from the imposition of exchange controls, confiscations and other government restrictions, or from problems in registration, settlement or custody. Foreign risk also involves the risk of negative foreign currency rate fluctuations, which may cause the value of securities denominated in such foreign currency (or other instruments through which we have exposure to foreign currencies) to decline in value. Currency exchange rates may fluctuate significantly over short periods of time.

Source: Preqin. Note: Estimates based on market information and historical investment experience. Data and estimates as of March 2022.

Target return should not be relied upon as an indication of actual or projected performance. Actual volatility and returns depend upon a variety of factors.

No representation is made that any targets or objectives will be achieved, in whole or in part.



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# Risks & Misperceptions vs. Mitigants & Reality

	Risks & Misperceptions	Mitigants & Reality
FX	<ul style="list-style-type: none"> <li>Borrowers' cash-flows are subject to FX fluctuations</li> </ul>	<ul style="list-style-type: none"> <li>Focus on situation where the underlying borrower generates <b>hard currency revenues</b>, the financing is <b>hedged</b> into local currency or has <b>low levels of leverage</b></li> </ul>
Legal	<ul style="list-style-type: none"> <li>Relatively new legal environment</li> <li>Lack of long term track-record on enforcing contracts / underlying security</li> </ul>	<ul style="list-style-type: none"> <li><b>English law documentation</b>; comprehensive security package</li> <li><b>Creditors' rights are recognised</b>; lack of debtor rights protection (i.e. Chapter 11-like)</li> <li>Legal rights weaker than US / UK but we believe stronger than some Southern European countries</li> </ul>
Risk-Return Balance	<ul style="list-style-type: none"> <li>Relative to developed markets, investors are not compensated for the incremental risks</li> </ul>	<ul style="list-style-type: none"> <li>Focus on <b>healthy and growing companies</b> with substantially lower levels of leverage</li> <li>In <b>developed markets</b>, loans achieve similar returns but with meaningfully greater risks (i.e. distressed) and weaker documentation</li> </ul>
Reputation	<ul style="list-style-type: none"> <li>Know-your-customer process</li> <li>Shareholders and management</li> <li>High ESG risks</li> </ul>	<ul style="list-style-type: none"> <li>Target larger companies with <b>long history and public markets-level of disclosure</b></li> <li>Consider only corporates with strong ESG credentials</li> <li>In-depth due diligence using a <b>multitude of local sources</b></li> </ul>

Source: BlueBay Asset Management, March 2022



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# Investment opportunity



# Diversified and uncorrelated sources of return

- Most investments to be held to maturity with some traded if pricing improves substantially
- Most of return is sought through asset price appreciation, current income (interest) and some through realisation events
- Under the Solvency II standard formula capital charges are expected to be 10%

Themes	Strategies	Target risk adjusted return
Market dislocation and temporary mispricings	Performing secondary	<ul style="list-style-type: none"> <li>• High quality credits, trading at discount to par due to temporary market dislocation</li> <li>• <b>IRR (gross)<sup>2</sup>: 11–14%</b></li> </ul>
Idiosyncratic risk	New Money Opportunities	<ul style="list-style-type: none"> <li>• Specific idiosyncratic situations that cannot fit the public markets and the local banks are unsophisticated</li> <li>• Structural or timing complexity</li> <li>• <b>IRR (gross)<sup>2</sup>: 12–15%</b></li> </ul>
Specific credit events	Stressed	<ul style="list-style-type: none"> <li>• Depressed trading levels where price appreciation is expected</li> <li>• <b>IRR (gross)<sup>2</sup>: 15+%</b></li> </ul>

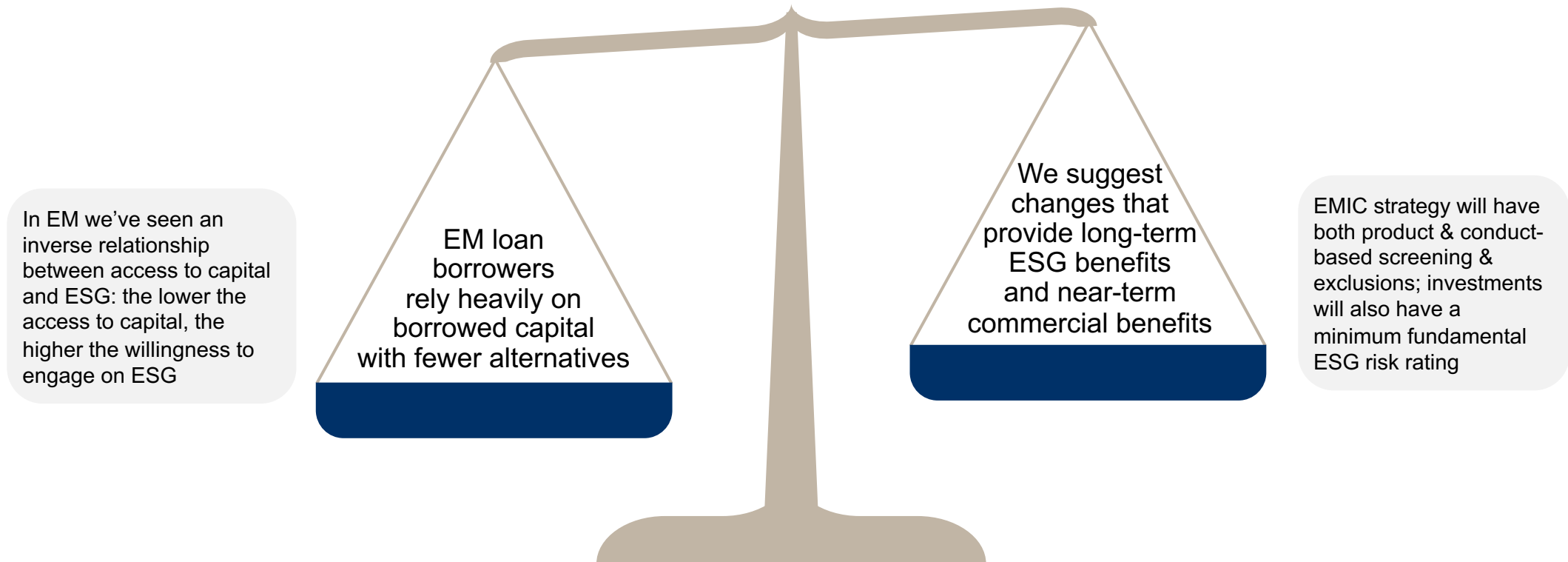
While gross of fee figures would reflect the reinvestment of all dividends and earnings, it would not reflect the deduction of investment management and performance fees. An investor's return will be reduced by the deduction of applicable fees which will vary with the rate of return on the fund. For example, if there was an annualised return of 15% over a 5-year period then the compounding effect of a 1.50% management fee and a 17.5% performance fee would reduce the annualised return to 12% (figures used are only to demonstrate the effect of charges and are not an indicator of future performance). In addition, the typical fees and expenses charged to a fund will offset the fund's trading profits. Net performance figures reflect the reinvestment of all dividends and earnings, and the deduction of investment management and performance fees. In addition, the typical fees and expenses charged to a fund will offset the fund's trading profits.

Notes: <sup>1</sup> The portfolio construction is for illustrative purposes only and do not reflect actual holdings; <sup>2</sup> IRR values are targets only and based on certain facts and assumptions. No representation is being made that the fund will or is likely to achieve profits or losses similar to those shown.



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# In EM illiquid space we see substantial potential for meaningful ESG engagement



- **We have seen first-hand how ESG analysis and integration can translate into improved risk / reward balance**
- **Engagement and stewardship leads to better risk management across all ESG aspects**
- **Private credit documentation customarily provides better disclosure and tighter ESG-related covenants**
- **Illiquid instruments permit enhanced access and closer dialogue with the underlying corporate**

Source: BlueBay Asset Management, as at March 2021

# EM Illiquid Credit offers important advantages:

## Attractive Risk Return profile

- Potential for superior return when compared with public markets
- Higher quality credit exposure for similar yield compared to DM investments
- Income potential with current income distribution
- Strong documentation protection (covenants, restrictions) compared to DM (cov-lite)

## Sustainable opportunity with less volatility

- Deep opportunity set which we expect to last well into the next year
- ESG screening, exclusions and integration
- Longer window of opportunity when comparing with DM
- Smoother volatility profile given the “buy and hold” strategy

## Advantageous supply demand balance

- Reduced balance sheet amongst banks means supply of quality paper will remain solid
- Limited number of dedicated buyers reduces competition for attractive investments
- Teams with strong resources can move quickly to capitalise on opportunities

Foreign securities may be subject to risk of loss because of less foreign government regulation, less public information and less economic, political and social stability in these countries. Loss may also result from the imposition of exchange controls, confiscations and other government restrictions, or from problems in registration, settlement or custody. Foreign risk also involves the risk of negative foreign currency rate fluctuations, which may cause the value of securities denominated in such foreign currency (or other instruments through which we have exposure to foreign currencies) to decline in value. Currency exchange rates may fluctuate significantly over short periods of time

Source: BlueBay Asset Management, May 2022. This document has been prepared solely for informational purposes and does not constitute an offer or recommendation to buy or sell any security or investment product or adopt any specific investment strategy in any jurisdiction.



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# Contacts: BlueBay's regional sales team

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