

Celebrating 10 years of the RBC Emerging Markets Value Equity Strategy



September 2023

Emerging Markets Equity team

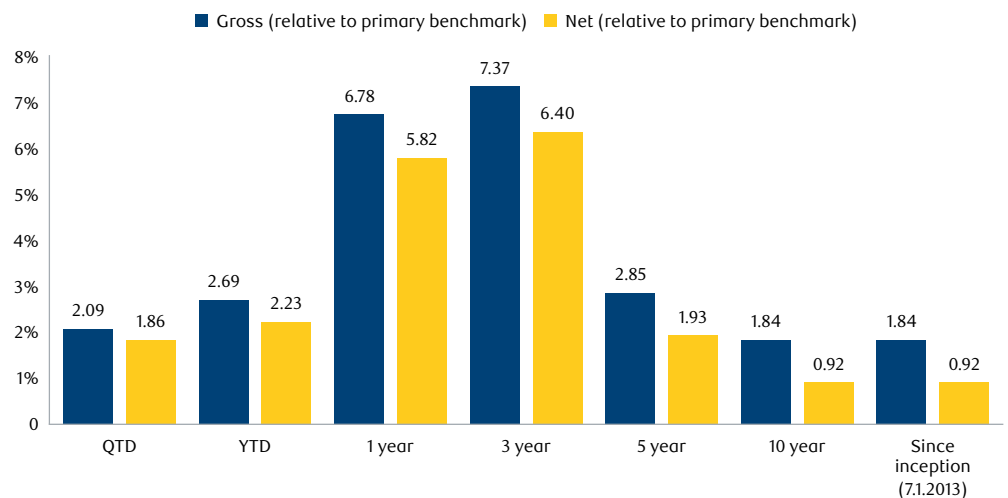
RBC Global Asset Management (UK) Ltd.

“When reflecting on the past 10 years, we believe there are a number of aspects that have enabled the team to build a differentiated portfolio and deliver a strong performance track record.”

The RBC Emerging Markets Value Equity Strategy has reached 10 years since its inception in July 2013, with a total AUM of USD1.286 billion¹.

Over this time, the strategy has outperformed both its primary benchmark, the MSCI EM Index, and the Value index, the MSCI EM Value Index, despite the Value style being out of favour for the majority of this period (Exhibit 1). When reflecting on the past 10 years, we believe there are a number of aspects that have enabled the team to build a differentiated portfolio and deliver a strong performance track record.

Exhibit 1: Strong track record of outperformance against the MSCI EM benchmark



Source: RBC GAM, MSCI, as at June 30, 2023. Figures are in USD. Returns for periods greater than one year are shown on an annualised basis. Returns include the reinvestment of all income. Performance presented is supplemental to the GIPS Composite Report.

¹ As at June 30, 2023.

A differentiated approach to Value investing

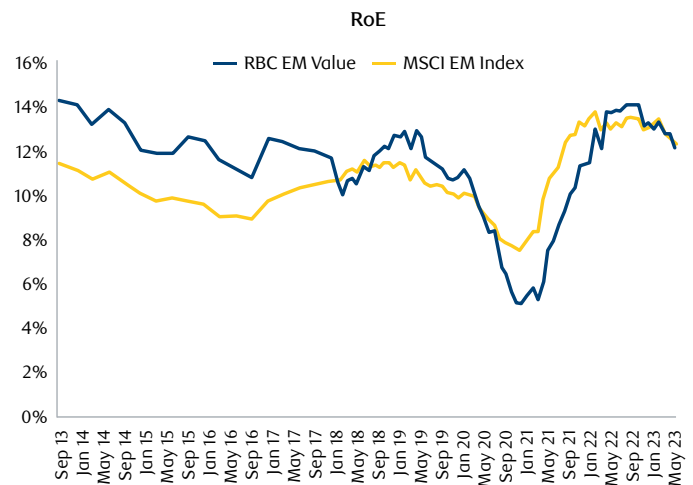
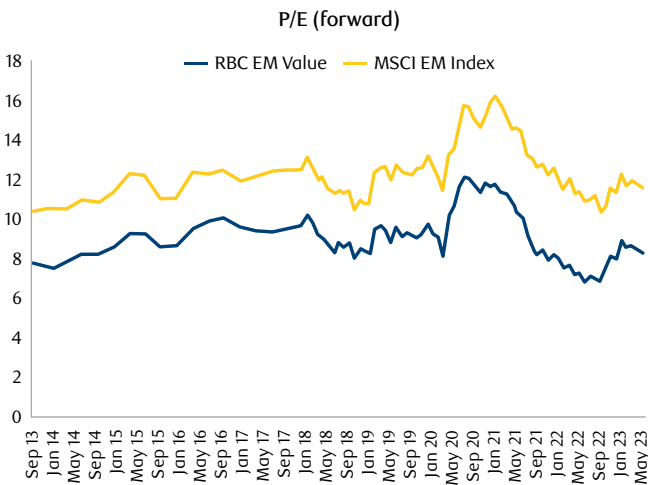
Quality value approach

The strategy seeks to invest in temporarily mispriced securities with strong fundamentals and catalysts for re-rating. The team looks at traditional valuation measures, such as P/E and P/BV, as well as metrics of value creation over time, such as growth, cash-flow returns on investment and dividends, as well as the quality of a company.

The strategy has consistently traded at a significantly cheaper valuation than its core benchmark, the MSCI EM Index, without sacrificing quality (Exhibits 2 and 3).



Exhibits 2 and 3: Cheaper valuation with superior fundamentals to the MSCI EM Index



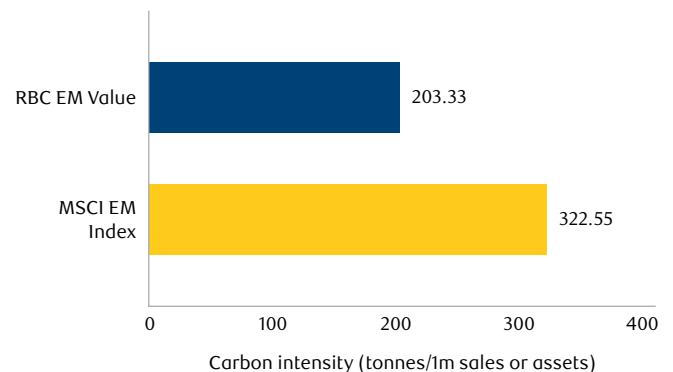
Source: RBC GAM, MSCI, as at June 30, 2023. The MSCI EM Net Index is the benchmark for the strategy.

Durability and ESG

ESG forms a critical part of the investment process. This helps us to mitigate ESG related risks and focus on those companies with durable business practices that are able to achieve sustainable, long-term returns. One outcome of our focus on ESG is the carbon intensity of the strategy, which is significantly lower than that of the benchmark (Exhibit 4).

In our bottom-up research process, one of the first steps taken is a corporate governance red flag screen whereby companies with poor corporate governance are immediately eliminated. This helps us to avoid value traps. Additionally, a proprietary investment checklist forms the final step of the process and considers areas such as a company's impact on society and the environment.

Exhibit 4: Carbon intensity of the portfolio is significantly lower than the MSCI EM Index



Source: MSCI ESG, as at March 31, 2023. Carbon intensity is calculated in tonnes/1 million USD in sales. Sales figures used to calculate carbon intensity are sourced from MSCI ESG.

Thematic top-down research

Another factor that we feel has been an important source of competitive advantage is our strong focus on independent research. Within our Emerging Markets Equity team, we produce a vast amount of research from both a top-down and bottom-up perspective, and everybody in the team gets involved in research, as well as discussion and debate.

Importantly, our research is geared towards long-term factors. When it comes to the top-down aspect, we focus on structural themes. We invest in five themes across the portfolio, all of which have been in place for several years and some since inception. The themes are: Domestic Consumption, Financialisation, Health and Wellness, Green Infrastructure and Digitalisation (Exhibit 5). While these are multi-decade themes, we recognise that the drivers and ways to play each theme may evolve over time. We therefore continuously review and refresh our thematic research. For example, within Digitalisation, we have done a lot of work on tech infrastructure and AI, and within our Value strategy we have maintained consistent exposure to technology, which is unusual for a Value approach.

A diverse team focused on continuous improvement

When asked about our strengths, one key differentiator is the team itself. We feel we have the optimum team in terms of size, structure and skill set. We have built a diverse team in terms of gender, culture, education and experience, while also creating a collaborative environment where everybody feels a strong sense of ownership and responsibility. Our structure, whereby team members contribute to both portfolio management and research duties, with responsibilities clearly defined, has been an important factor in this endeavour.

Learning from our mistakes has been a defining factor in our team 'DNA'. We have been holding an annual team offsite for the past eight years, where we formally review areas that have been successful for us and areas where we can improve.

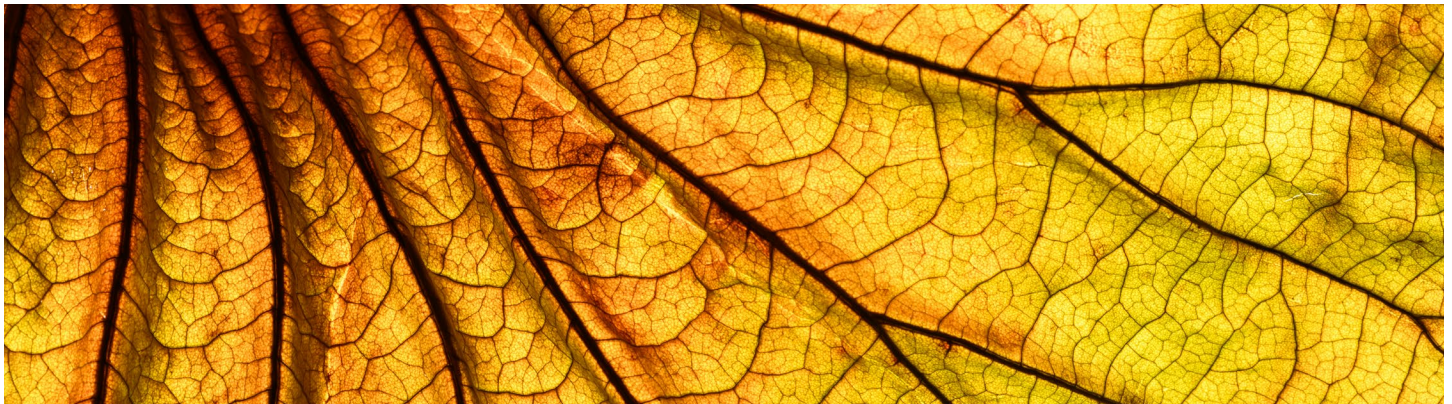
Exhibit 5: Long-term themes position the portfolio in areas of structural growth and avoid those in decline

Investment themes	Ways to play
Domestic consumption	<ul style="list-style-type: none"> Value conscious Local brands Aspiration
Financialisation	<ul style="list-style-type: none"> Deposit franchises Behavioural insurance Capital markets
Digitalisation	<ul style="list-style-type: none"> Cloud AI Smart manufacturing
Health & Wellness	<ul style="list-style-type: none"> Healthy living Healthcare Beauty & cosmetics
Green infrastructure	<ul style="list-style-type: none"> Electric vehicles Renewables Transition materials

Source: RBC GAM, as at June 30, 2023.

One area we have analysed for several years has been the impact of our trading decisions. What we have found is that we tend to be better buyers than sellers, and that we have been more successful when selling on valuation than for other reasons. As a result, we agreed to implement a number of enhancements such as a sell watchlist and regular presentation of sell ideas.

We also introduced an independent stock review whereby two team members are assigned to take the positive and negative viewpoint on a stock and present their findings to the team. We have found this to be helpful in bringing fresh perspectives to the table and mitigating the risk of behavioural biases. We have also found it to be the source of some very lively team debates!



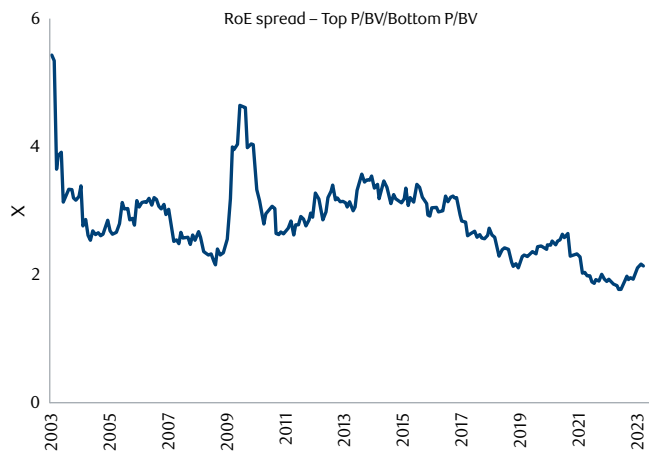
The case for Value investing

The new economic regime, characterised by higher interest rates, higher inflation, and higher raw material prices, has made quality Value investing more attractive as there is greater emphasis on profitability, strong balance sheets and dividends. On the other hand, growth will be harder to come by as money is no longer free and the economic environment is more challenging. We have also seen the profitability of Value names improve, evidenced by the spread of RoE between expensive and cheap companies narrowing, while the spread of performance between Growth and Value is still very wide, despite the better performance of Value in recent times (Exhibits 6 and 7).

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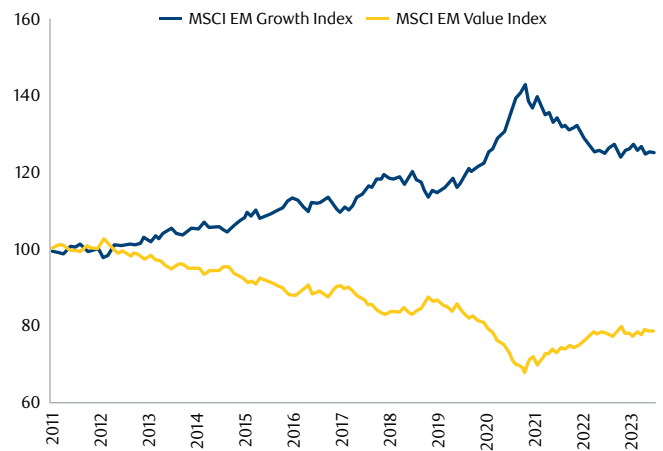
What we have found is that the elevated valuations of the most expensive Growth stocks aren’t justified by their fundamentals, and we expect to see further weakness in this segment, given the pressured economic backdrop, higher rate environment and rising competition.

Exhibit 6: RoE spread between cheapest and most expensive names has been narrowing



Source: Factset, RBC GAM, as at June 30, 2023.

Exhibit 7: Performance gap between Growth and Value has further room to close



Source: MSCI, Bloomberg, RBC GAM, as at June 30, 2023.



Authors

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Portfolio Manager & Deputy Head of Emerging Markets Equities



Laurence is Portfolio Manager & Deputy Head of Emerging Markets Equities at RBC Global Asset Management (UK) Limited. Prior to joining the firm in 2013, she headed the emerging markets team of a leading U.K. asset manager. In this role, Laurence was responsible for managing Asian and global emerging market income strategies, and developing quantitative stock selection and environmental analysis models. She began her investment career in 1998 as a quantitative analyst at a major financial services company, where she supported European and global equity portfolio management by developing quantitative models to assist in the portfolio construction and security selection process.

Dijana Jelic

Product Specialist, Emerging Markets Equity



Dijana is a product specialist on the Emerging Markets Equity team at RBC Global Asset Management (UK) Limited. Prior to joining the firm in 2018, she had worked as a vice president at an international bank, where she spent six years in the managed investments and investment marketing businesses, focusing on the positioning of investment capabilities for private clients. She also worked in an investment advisory role at a global accountancy firm. Dijana began her career in the investment industry in 2011.

GIPS® Composite Report, as at June 30, 2023

RBC GAM Emerging Markets Equity - Value (USD)

Inception Date: July 1, 2013

Benchmark: MSCI Emerging Markets Total Return Net Index

Secondary benchmark: MSCI Emerging Markets Value Total Return Net Index

Currency: USD

Annual returns

Year end	Composite gross return (%)	Composite net return (%)	Benchmark return (%)	Benchmark 2 return (%)	Composite 3 yr std dev (%)	Benchmark 3 yr std dev (%)	Benchmark 2 3 yr std dev (%)	Number of portfolios	Internal dispersion (%)	Composite assets (millions)	Firm assets (millions)
YTD 2023	7.71	7.23	4.89	6.53	19.46	17.65	16.78	3	0.29	1,286.0	414,047.3
2022	-16.29	-17.04	-20.09	-15.83	22.31	20.26	20.37	3	0.06	1,222.6	385,022.7
2021	4.27	3.33	-2.54	4.00	20.28	18.33	19.06	3	0.57	1,377.6	481,049.3
2020	20.88	19.80	18.31	5.48	21.76	19.60	20.41	3	0.26	1,242.5	424,813.8
2019	16.97	15.93	18.42	11.94	14.89	14.17	13.70	3	0.07	946.6	361,400.0
2018	-16.88	-17.62	-14.57	-10.72	14.90	14.60	15.07	3	0.17	826.5	305,983.2
2017	38.61	37.37	37.28	28.07	15.11	15.35	16.59	2	0.16	740.0	331,885.2
2016	17.05	16.00	11.19	14.90	15.80	16.07	17.55	2	0.20	411.5	289,538.6
2015	-17.23	-17.97	-14.92	-18.57	n/a	n/a	n/a	2	-	334.2	276,979.3
2014	1.34	0.44	-2.19	-4.08	n/a	n/a	n/a	1	-	252.2	302,064.4
2013/7 - 2013/12	6.68	6.20	7.70	7.79	n/a	n/a	n/a	1	-	93.4	296,003.0

Annualized returns (%)

Composite or benchmark	QTD	YTD	1 year	3 year	5 year	7 year	10 year
Composite – Gross of fees	3.01	7.71	8.65	9.86	3.81	7.38	4.84
Composite – Net of fees	2.78	7.23	7.68	8.87	2.88	6.42	3.90
Benchmark	0.90	4.89	1.75	2.32	0.93	4.95	2.95
Secondary benchmark	2.53	6.53	4.13	6.27	1.22	4.34	1.99

The GIPS® Composite Report is incomplete without the full disclosures. n/a = not applicable, std dev = standard deviation

Description of the Firm: For the purposes of Global Investment Performance Standards (GIPS®), RBC Global Asset Management is the asset management division of Royal Bank of Canada (RBC) operating under the following brands: RBC Global Asset Management (RBC GAM) in Canada, the U.S. (institutional), the U.K. and Hong Kong; PH&N Institutional; and BlueBay Asset Management (institutional). With offices around the world, RBC GAM offers a full range of global investment solutions in cash management and fixed income, equity, balanced, alternative, and specialty investment strategies through mutual funds, hedge funds, pooled funds and separately managed accounts. The RBC GAM group of companies has more than C\$521 billion (US\$385 billion) in assets under management as of December 31, 2022. RBC purchased Phillips, Hager & North Investment Management, including the assets of BonaVista Asset Management, on May 1, 2008, and BlueBay Asset Management on December 17, 2010. RBC GAM's lists of composite descriptions, limited distribution pooled fund descriptions and broad distribution pooled funds are available upon request.

Compliance Statement: RBC GAM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. RBC GAM has been independently verified for the periods January 1, 2002 through December 31, 2021. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The Emerging Markets Equity - Value (USD) composite has been examined for the periods July 1, 2013 - December 31, 2021. The verification and performance examination reports are available upon request.

Composite Description: The Emerging Markets Equity - Value (USD) Composite includes all portfolios that invest in emerging market equities that provide regular dividend income through securities with above average dividend yield managed by RBC GAM directly.

Benchmark: The benchmark is the MSCI Emerging Market Net Index. The Index is designed to measure the equity market performance of emerging markets. Index returns are provided for comparison purposes to represent the investment environment existing during the time periods shown. An index is fully invested, includes the reinvestment of dividends and capital gains, but does not include any transaction costs, management fees, or other costs. Holdings of each separately managed account in a composite will differ from the index. An investor may not invest directly in an index. As of 03/31/2021, the secondary benchmark is the MSCI Emerging Market Value Net Index.

Gross of Fees: Gross of fees performance is presented gross of all fees, but after all trading expenses. Returns are presented net of withholding taxes on dividends, interest income and capital gains where applicable.

Net of Fees: Net of fee performance is calculated using the maximum stated annual fee of 0.90% calculated and applied monthly.

Performance Calculations: Results are based on all fully discretionary accounts meeting the composite definition, including those accounts no longer with the firm. Returns are shown in U.S. Dollars, and include the reinvestment of all income. Performance shown for the Emerging Markets Equity - Value (USD) Composite is based on information generated by RBC Global Asset Management's internal performance systems, which may differ from the performance shown in official books and records of certain investment funds which form a part of the composite. Official books and records for certain investment funds which form a part of the composite include the impact of a fair value for market timing that is applied to certain securities as of the close of trading for the fund. For the purposes of calculating the Emerging Markets Equity - Value (USD) Composite, we prepare a separate performance stream for such funds that eliminates the impact of this fair value adjustment. This second performance stream is used to calculate performance of the composite in an effort to better align the methodology for calculating composite performance with the methodology applied to calculate the benchmark. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS® Report is available upon request. Past performance is not indicative of future results.

Composite Dispersion: The composite dispersion of annual returns is indicated by the performance of individual accounts representing the equal weighted standard deviation of returns. Dispersion of returns is calculated for portfolios included in the composite for the full year. Calculations are based on gross portfolio returns if gross composite returns are presented. If only net composite returns are presented, then net portfolio returns are used in the composite dispersion calculation. 3-Year Standard Deviation: Periods with less than 3 years of data will show "n/a". Calculations are based on gross composite returns, if gross composite returns are presented, then net composite returns are used in the calculation.

Derivatives, Leverage and Short Positions: The portfolios may use derivatives for hedging purposes, and may also use derivatives such as options, futures, forwards and swaps for non-hedging purposes as a substitute for direct investment, as long as the portfolio's use of derivatives is consistent with its investment objectives. Currency hedging is used primarily as a risk management tool to limit the volatility of portfolio returns and may be used tactically to enhance returns. Currency hedge ratios can range between 0-100%, depending on asset class and mandate. No leverage has been used in any of the portfolios contained in the composite.

Fee Schedule: The standard management fee schedule for the portfolios in this composite: 0.90% per annum on the first \$25 million, 0.80% per annum on the next \$25 million, 0.75% per annum on the next \$50 million and 0.70% per annum on amounts over \$100 million. This may not represent the actual fee charged to the client. The fee schedule is subject to change.

Minimum Account Size: Currently there is no minimum account size in order to be included in this composite.

Creation Date: This composite was created on July 1, 2013 and has an inception date of July 1, 2013.

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