RBC Global Asset Management

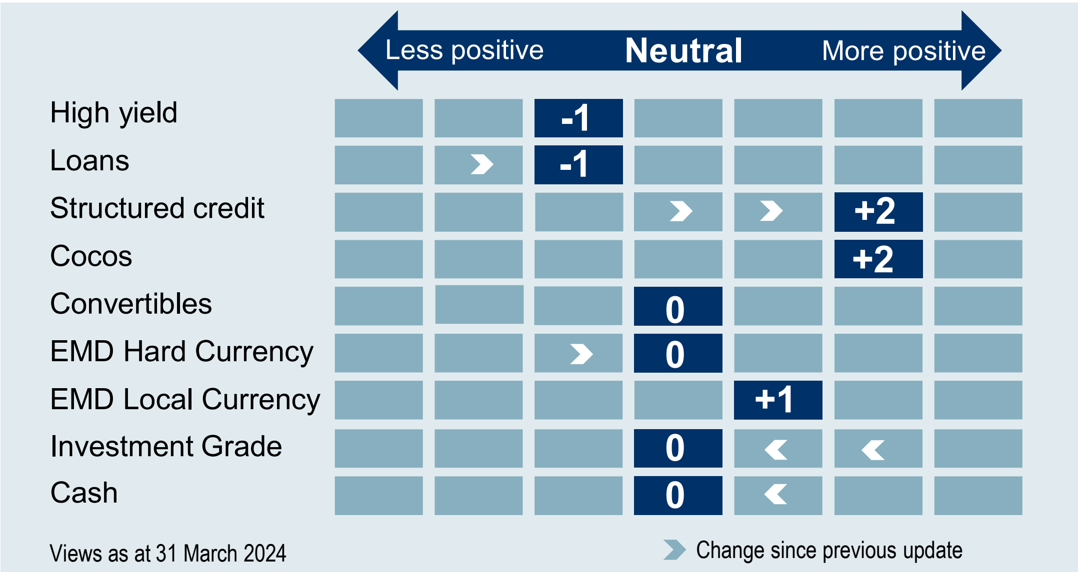
# BlueBay's Multi-Asset Decision Group

## Views as at 31 March 2024

**Background:** BlueBay's Multi-Asset Decision Group (MADG) determines the allocation between the underlying asset classes as well as capital preservation hedging for the multi-asset credit funds. MADG is headed by Raphael Robelin, Head of Multi-Asset Credit, and takes input from a wide variety of sources to determine market direction and drivers

### Active asset allocation views versus the Neutral Asset Allocation

All of BlueBay's multi-asset funds have a 'Neutral Asset Allocation', which represents a long-term mix of asset class weights that we believe will meet performance and risk targets over a credit cycle. BlueBay calibrates asset class views on a -3 to +3 scale and we would expect to be overweight, versus the Neutral Asset Allocation, asset classes with positive scores, and vice versa.




### Meeting summary

The US economy has continued to record strong results, and although globally results have been more muted, they are still positive. MADG have gradually downgraded the probability of a meaningful global slowdown in the shorter term and have been adding risk to the Strategy (currently targeting a beta of 1.2 – 1.3 versus our Neutral Asset Allocation). One key decision has been to liquidate the developed market investment grade sleeve which had been a key part of the 'portfolio hedge' should the global economy have underperformed. Given spread compression, we are in the process of taking profits on the entire sleeve.

We have been incrementally adding to risk over the quarter with increased exposures to structured credit and emerging market hard currency debt in particular. Within some asset classes we have also taken slightly more credit risk, noting in high yield we have moderated our bias for higher credit quality.

In the short run, we do not see an obvious catalyst to alter the positive market dynamic. At this point we do not see any of the major central banks being in a position to deliver rate cuts in the short term and anticipate further clarity on timeline and magnitude in the lead up to the second half of the year. The US election will also play a key role in the second half of the year.

Our base expectation is for a 'coupon-like' year for credit, albeit the spread around that central view is wider given there are still some meaningful risks, noting geopolitical risk is elevated.

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| **High Yield** | MADG maintained its underweight position in high yield.<br>Over the past 12 months we have had an ‘up in credit quality’ bias in the sleeve with minimal exposure to lower rated high yield. Given MADG’s appetite to increase risk, we have moderated the quality bias and added selectively to lower rated high yield. The sleeve overall remains relatively high quality relative to index levels. Our preferred sectors are energy, telecoms and basic industry (46% of the sleeve). |
| **Bank Loans** | MADG hold no exposure to direct bank loans (the Strategy does have exposure to loans via CLOs in the Structured Credit sleeve).<br>Currently we prefer high yield and structured credit over bank loans as the bank loan market has experienced a lot more supply from highly leveraged companies in cyclical sectors. However, there are some interesting opportunities and whilst we have not added to exposure as yet, a small allocation to select opportunities is something MADG is considering. |
| **Structured Credit** | MADG has increased its exposure to Securitized credit and is overweight.<br>The asset class plays a key role in harvesting yield, indeed, higher base rates (for longer) and high credit spreads have led to attractive carry opportunities that also offer total return potential.<br>The investment team has gradually reduced exposure to AAA exposure since the beginning of year and increased exposure at wider spreads lower in the capital stack without taking sub-investment grade risk (i.e. we are focused on BBB). This has been primarily done via new issuances. |
| **Convertible Bonds** | MADG have maintained a neutral asset allocation to global convertible bonds.<br>Technology exposure has done very well, and we expect a broadening of the rally beyond tech and the magnificent 7 mega cap names. Volatility has remained at historically low levels, but MADG believe this an unsustainable equilibrium and expect this trend to reverse as the year progresses: a positive for convertibles and active stock pickers. Year-to-date, Japan’s equity market resurgence has presented ample new opportunities. |
| **Financial Capital Bonds/Cocos** | Cocos remain one of MADG’s preferred asset classes.<br>The banking sector continues to exhibit fundamental strength and European banks remain well provisioned and have benefited from the higher rate environment. Over the quarter cocos were one of the best performing credit asset classes as a (potentially) brighter future was priced in. The spreads reflected within banks are, in our view, at odds with the underlying fundamentals. We remain focused on the best credit structures from the best national champion banks. |
| **Emerging Market Debt (EMD)** | **EMD Hard Currency**: MADG has increased exposure to EMD Hard currency bonds, although remain slightly underweight.<br>Hard currency sovereign spreads fell from around 380 basis points to 340 basis points over the quarter, reflecting a more positive global mood.<br>Despite this spread appearing optically tight at the index level, performance of the allocation has been amongst the best in the Strategy year-to-date, primarily driven by strong bottom-up stock picking in more idiosyncratic, special situations (Argentina, Egypt, Sri Lanka). This continues to be a key area of focus for us, although via the recent increase in exposure, we focused our efforts of adding lower beta, higher carry short duration exposure. We believe this “barbell” approach should offer the best volatility-adjusted return over the near-term.<br>**EMD Local Currency**: MADG continued to hold an overweight in EM local assets.<br>We continue to see long term value in local currency bonds as EM central banks are well advanced in their own cutting cycles, and markets are expecting more to come in most of the countries where nominal rates look particularly high versus inflation projections (e.g. Colombia and Brazil). |

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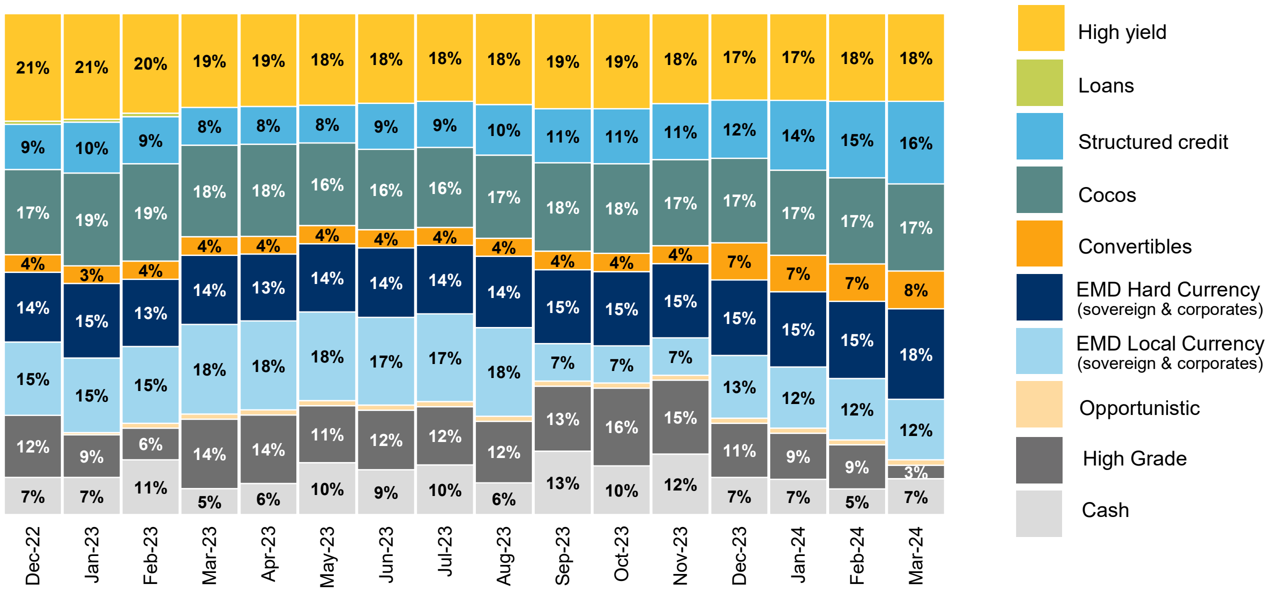
| | We however remain cautious with regards to EM FX as the US dollar could continue to strengthen with Donald Trump looking likely combined with some central banks having started cutting rates at a faster pace than the fall in inflation might justify. MADG's view is the dispersion in performance between countries is likely to be large and thus the alpha generation opportunities in this sector are attractive.<br>Currently our favoured countries are Brazil, Mexico and South Africa. |
| **High Grade** | MADG began the process of taking profits on the sleeve given spreads have contracted meaningfully. The sleeve was designed to protect the Strategy in a downturn, an outcome we believe has a lower probability in the short term. |
| **Hedges** | MADG see active hedging as an important component of effective portfolio management. We continue to hold a short position in Japanese government bond futures. Given our more cautious view regarding EM FX against the US dollar, we also hold a GBP/USD FX overlay position to effectively move a portion of our EM FX book to be against the pound. This is founded on the view the UK economy looks more challenged short term. |

## BlueBay Total Return Credit Strategy – evolution of asset allocation




Source: RBC Global Asset Management, as at. For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue.

The Neutral Asset Allocation weights are:

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| High yield | 27.5% |
| Bank loans | 7.5% |
| Structured Credit | 10.0% |
| Cocos | 12.5% |
| Convertible bonds | 7.5% |
| EMD hard currency | 22.5% |
| EMD local currency | 7.5% |
| Cash | 5.0% |

Fund risks At times, the market for emerging market bonds, high yield bonds or convertible bonds may dry up, which could make it difficult to sell these bonds, or the fund may only be able to sell them at a discount

- There may be cases where an organisation with which we trade assets or derivatives (usually a financial institution such as a bank) may be unable to fulfil its obligations, which could cause losses to the fund
- Investing in high yield bonds offer you the chance to gain higher returns through growing your capital and generating income. Nevertheless, there is a greater risk that the organisation which issued the bond will fail, which would result in a loss of income to the fund along with its initial investment

- BlueBay could suffer from a failure of its processes, systems and controls – or from such a failure at an organisation on which we rely in order to deliver our services – which could lead to losses for the fund

A summary of investor rights can be obtained in English on www.bluebay.com/investorrights. It is important to note that the Fund Management Company may terminate arrangements for marketing under new Cross-border Distribution Directive denotification process. Recipients are strongly advised to make an independent review with their own advisors and reach their own conclusions regarding the investment merits and risks, legal, credit, tax and accounting aspects of all transactions. Please refer to the prospectus of the UCITS/ AIF and to the KIID, if applicable, before making any final investment decisions.