For Professional Investors Only

Global Asset Management

Cocos in 2022

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Investment proposition

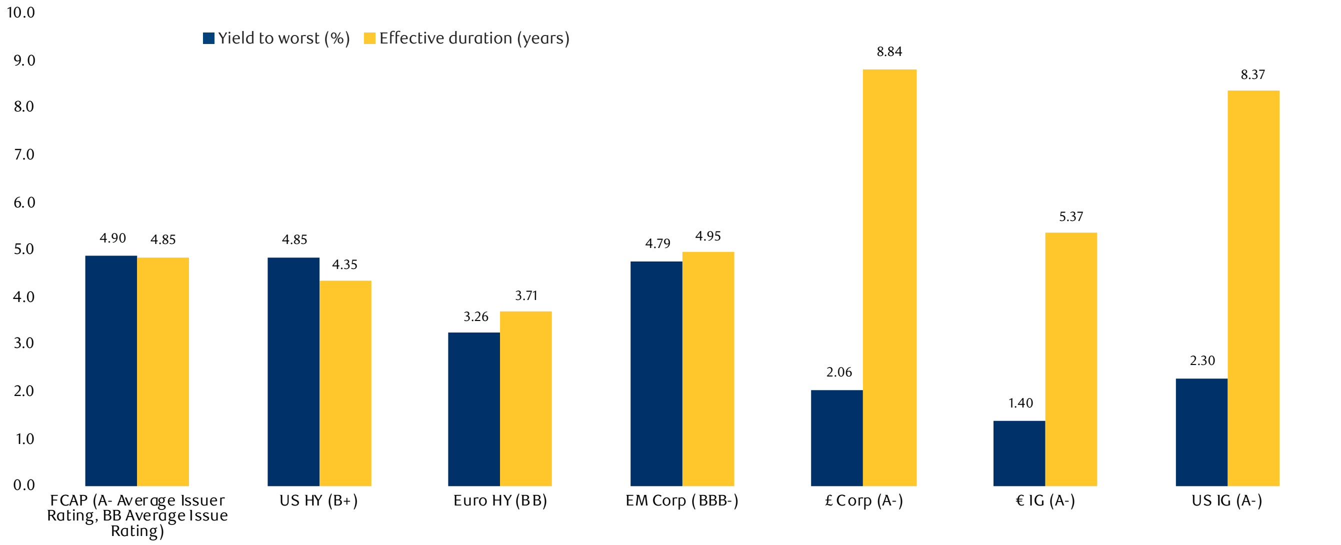
- Banks have emerged from the pandemic 'stress test' even more robust from a credit perspective than when they entered it. Regulators have spent 10+ years rebuilding bank balance sheets, making them significantly more resilient.
- Bank common equity tier 1 ratios started on a strong footing in 2020 and increased over 2021 to reach all-time highs, providing a significant margin of safety for bondholders within the capital structure.
- Unlike during the global financial crisis of 2007/08, banks have acted as the primary transmission mechanism for central bank and government stimulus in reaching the real economy. Banks play a pivotal role in supporting economies and have proven to be an important tool for governments and central banks.
- European bank AT1 bonds represent the 'sweet spot' within the capital structure and trade meaningfully back of European high yield BB-rated bonds (+102bps). This seems counter-intuitive to us given the fundamental pressures likely to impact parts of the levered corporate sector.
- There is also +290bps of pick-up versus bank LT2 spreads, representing a significant potential premium given the respective risks.
- There remains scope for significant compression, especially since AT1 represents one of the few asset classes yielding more than inflation expectations.
- The cocos universe demonstrates large issuer dispersion and BlueBay has an extensive toolkit for capital preservation, providing a potential opportunity set ripe for active management.
- Cocos are not included in traditional fixed income indices, creating potential opportunities for those investors who are not constrained by benchmarks.

Macro environment

Higher inflation expectations imply lower real returns, which forces investors to search for yield in less traditional asset classes. AT1 provides yield without compromising on credit quality, duration or liquidity.

Chart 1: Attractive yields from investment grade issuers

Yields and durations of various sub asset classes in USD



Source: BoA/Bloomberg, as at 30 November 2021

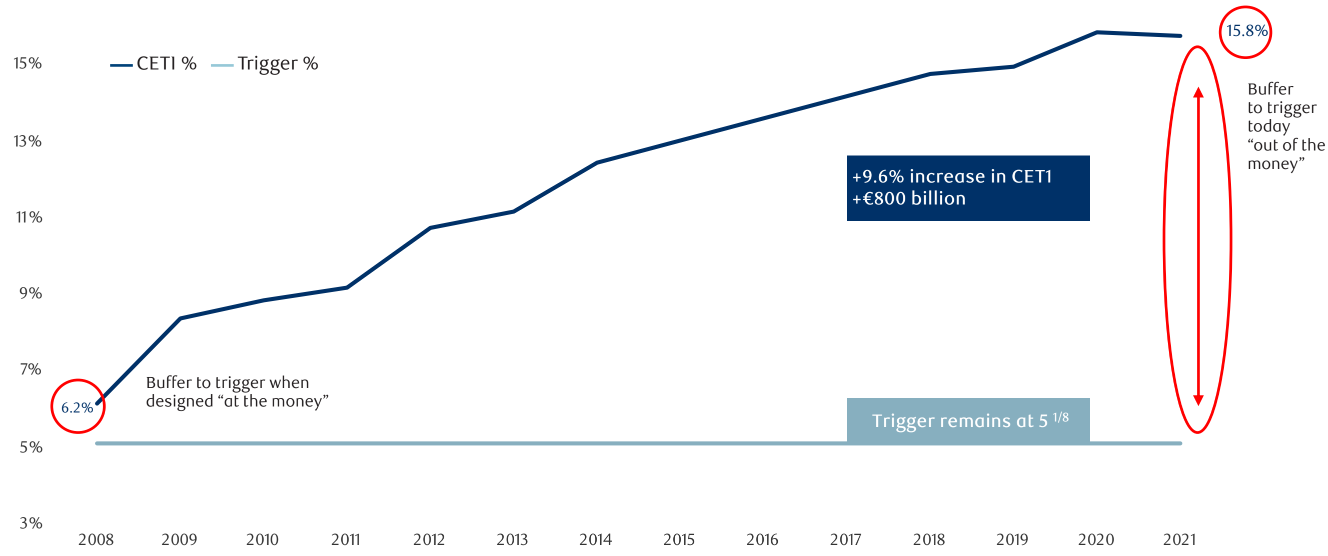
As economic activity continues to normalise, we are struck that the landscape will expose some clear success and failure stories – especially as central bank accommodation starts to unwind. This will be true on a corporate and sectoral basis, and also seems likely on a country basis.

We believe the banking sector is likely to be a clear success story, as it is poised to benefit from both the economic recovery and somewhat higher yields which follow the improvement in data.

Conversely, there will be issuers, sectors and countries that will increasingly come under pressure from rising inflation, rising interest rates and the unwinding of extraordinary policy accommodation. This leads us to have a bias towards European Tier 1 banks, which should benefit from the rising rate environment, as bank profitability improves with higher interest rates.

Taking a global view, a rate-hiking environment (led by the US) is expected to generate a degree of volatility for fixed income markets, leading to the potential for capital loss in traditional benchmarked portfolios as assets reprice. With cocos, this is less of a concern due to the lower interest rate sensitivity of AT1 instruments and the higher carry (yield/coupon) component of the underlying bank bonds. Provided rate hikes are well communicated to the market, we don't envisage higher interest rates detracting from AT1 performance in the medium term.

Chart 2: 10+ years of capital build-up means equity ratios and buffers for bond investors are at all-time highs



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

2022 performance drivers

Fundamentals

Banks have built up resilient capital bases, which further improved through the pandemic. Ongoing balance sheet support remains in place, with loan losses likely to be more muted than a normal cycle given the various furlough, moratorium and government guarantee schemes, coupled with capital relief from regulators. When these programmes fully roll-off, we expect the credit cycle to play out, but this will be in a context of improving economic growth and over a longer time horizon than previous cycles. As such, banks capital levels should prove resilient.

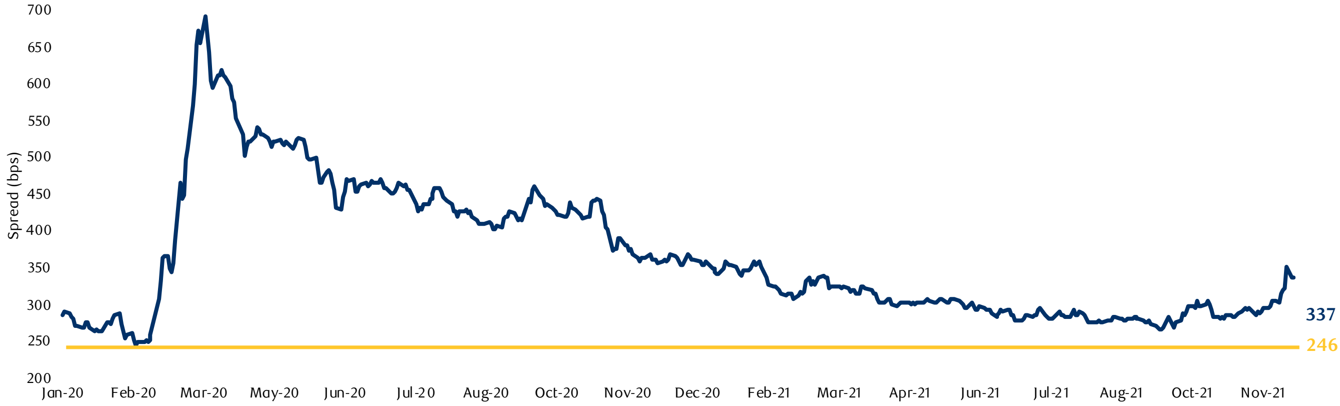
Valuations

The rebound in almost all risk assets from the lows of 2020 has been extreme. G7 equity indices are at, or close to, all-time highs and many fixed income asset classes are through their cycle tights in spread. AT1 valuations have also come a long way but are interestingly still trading materially back of their pre-pandemic tights despite fundamentals being better than at the start of 2020.

We believe European bank AT1 remains the sweet spot within the bank capital structure as the coupon risk remains fundamentally mispriced. It trades meaningfully back of European high yield BB-rated bonds (some +102 bps). This seems counter-intuitive given the fundamental pressure likely to impact parts of the levered corporate sector. AT1s also enjoy around 290bps of pick-up versus bank LT2 spreads, representing a significant premium given the respective risks.

Chart 3: BoA COCO Index still c.91bps wide of pre-pandemic spreads

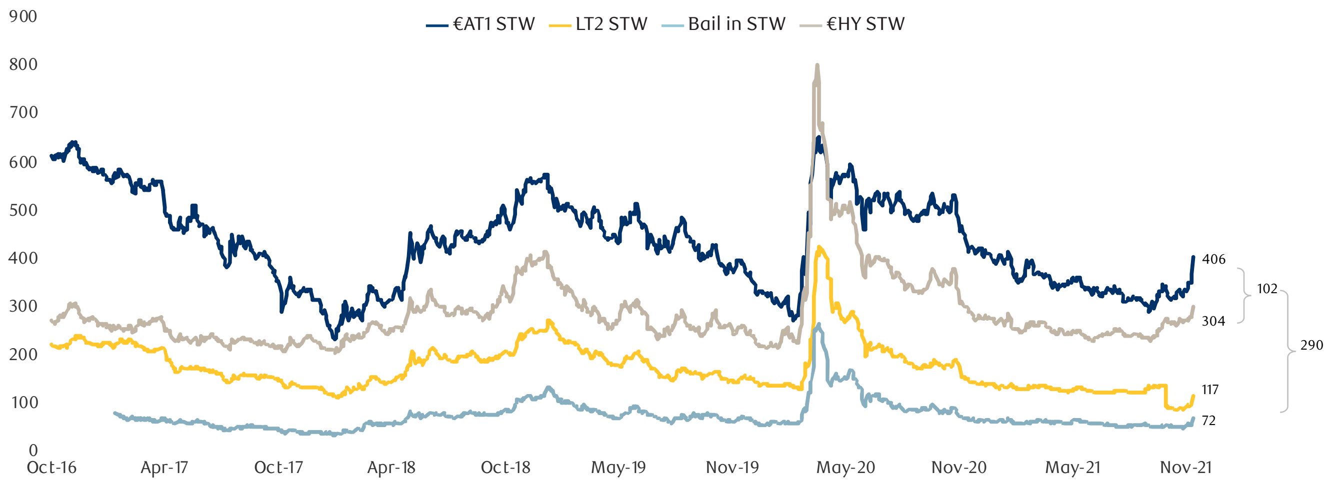
Government OAS



Source: Bloomberg, BlueBay Asset Management, 30 November 2021

Chart 4: Spread pick-up in AT1 vs BB corporates is counter intuitive given balance sheet strength

EUR AT1 vs LT2 vs SNR Bail-In vs EUR HY BB (spreads)



Source: JP Morgan, as at 26 November 2021. For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue.

Technical factors

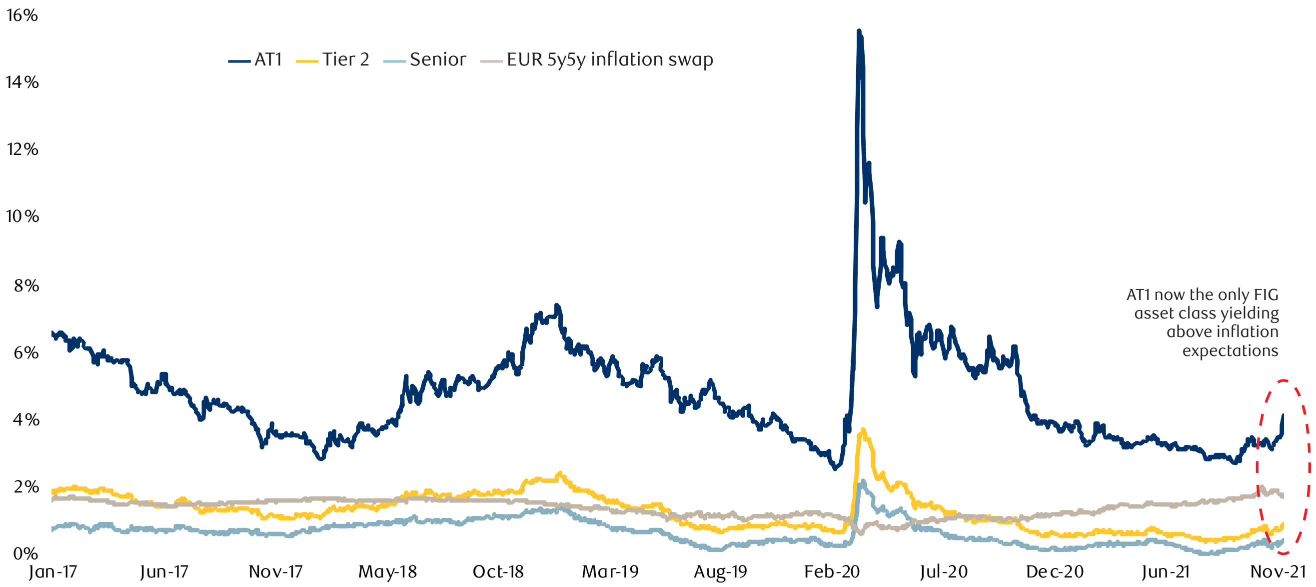
A trend we have observed over the past few months is growing investor confidence around banks' resilience in light of the economic shock experienced as a result of the pandemic. Over the past 18 months, not only have banks weathered the 'Covid storm', they have also increased both the amount of capital and liquidity they hold – in stark contrast to many other sectors.

As a consequence of this fundamental improvement, as well as rising inflation expectations, many investors have looked to AT1 in order to deliver positive real returns, which have become increasingly difficult to find.

As shown in chart 5, investors who are slow to switch into AT1 are increasingly likely to be locking in negative real returns. This dynamic, together with significantly lower net issuance into 2022, should allow for a positive technical environment for AT1.

Chart 5: Yield dynamics since 2016

AT1 the only asset class offering a positive real return



Source: Goldman Sachs, BlueBay Asset Management, 26 November 2021

ESG

Parts of the ESG universe have always influenced the regulation of banks. But as ESG considerations from asset owners and policymakers grow, their impact on bank regulation is growing in tandem and is going to be a key theme for the sector. In our view, this is a natural consequence of banks being the main conduits of credit into the economy and a key lever that policymakers can use to influence sustainability policies.

Significant strides have already been made by the sector in response to market pressure, with the majority of banks already having developed ESG strategies and almost all leading banks having now signed up to 2050 net zero. Indeed, we would be very surprised if any major bank had not signed up to this pledge on entering 2022. The depth and sophistication of these strategies is only going to exponentially increase from here.

Banks are only too aware that policymakers will be leveraging their power to use banks as the tool to influence their ESG policies and strategies. We are already observing this – climate stress testing exercises are starting next year, with qualitative incorporation of the results into banks' capital requirements. We are in no doubt that this pressure will build and we expect to see the development of a system of capital relief for 'green' assets and charges for 'brown' ones, with banks being forced to provide more context around their sustainability plans or face regulatory consequences.

Market pressures are also increasing exponentially and are probably increasing at a faster rate than the demands of the regulator. In our view, historic criticism regarding banks' lack of commitment to ESG policies is outdated. Developing robust policies while continuing to serve clients is a hugely complex task. In some cases, criticism is warranted – grand pledges have been made and it is not entirely clear how these will be achieved. However, in the vast majority of cases we see clear management commitment to be on the front foot in developing and implementing robust ESG strategies. Not only are investors demanding it, but it's a huge revenue opportunity for the sector that cannot be ignored.

Evolving market and regulatory demands are going to create a very differentiated sector, which in turn should create significant investment opportunities. A blunt approach is to simply avoid those banks exposed to certain 'non-ESG' sectors. But this is somewhat backward looking in our view.

We are firm believers in focusing on the trajectory of travel and the final destination, rather than driving with our eyes on the rear-view mirror. A bank fortunate enough not to be exposed to legacy industries and practices can have much less of an impact than one with large exposures, but which is fully committed to helping its customers transition and begin a new journey. We believe that the successful banks are those that develop thoughtful strategies with transparent and communicable KPIs and that execute on these plans, rather than those with the best starting point.

We have implemented rigorous ESG analysis as part of our fundamental analysis of banks for several years. We are of the view that given the strides the sector has taken, it is well placed to benefit from the continuous inflows into ESG mandates. Not only are banks poised to benefit from revenue generation by helping their customers transition and from developing ESG products for their clients, they are increasingly, in our view, leading in terms of their own strategies and commitments.

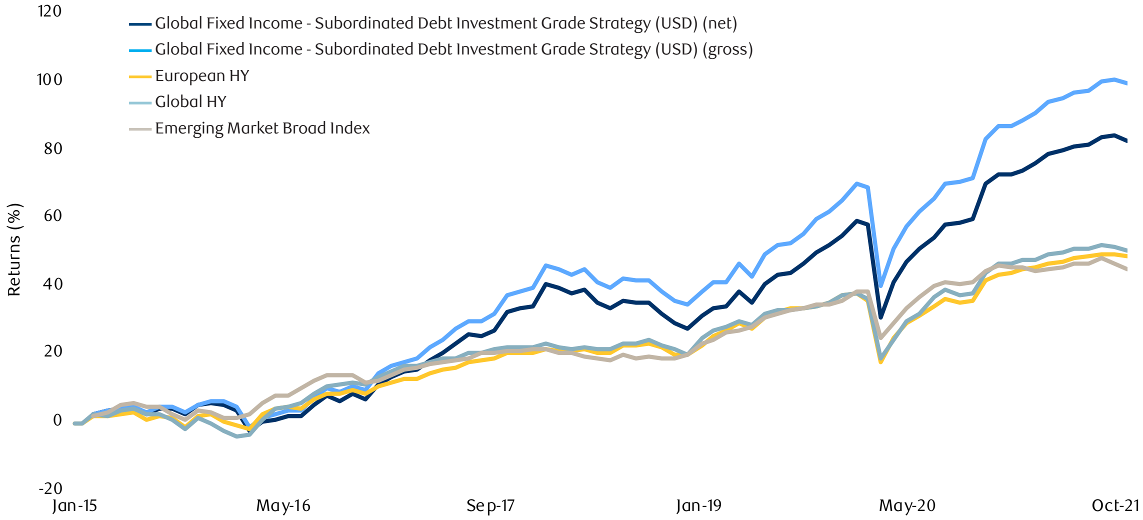
While we expect the sector to broadly benefit from this rising tide, we have long viewed ESG analysis as adding a valuable layer to our active management approach and our ability to generate alpha. Given the changes we have observed both internally from management and externally from the regulator over the past year, we have no doubt that this will continue to pay dividends and create valuable opportunities in 2022.

Outlook

As we move into 2022, uncertainties remain on the horizon and valuations are less compelling than they were at the start of 2021 across most risk assets. However, when we consider the macro environment of robust growth and gradually rising interest rates, combined with fundamentals represented by capital levels at all-time highs for European banks and valuations still meaningfully back of European BBs and LT2, we think the coming year will continue to be one where the best risk-adjusted returns should come from European bank AT1.

Chart 6: Outperformance versus traditional fixed income in excess of 450bps

Strategy performance versus EU and global high yield indices



Performance comparison Total Return (%) USD Hedged	Global Fixed Income – Subordinated Debt Investment Grade Strategy (USD) (gross)	Global Fixed Income – Subordinated Debt Investment Grade Strategy (USD) (net)	Euro High Yield	Global High Yield	Emerging Market Broad
YTD 29 Oct 2021	**6.74**	5.59	3.71	2.65	-0.73
Since inception[1] to 29 Oct 2021	**10.78**	9.35	6.00	6.03	5.49
Strategy annual excess performance since inception (gross)			**4.54**	**4.51**	**5.05**
Strategy annual excess performance since inception (net)			**3.35**	**3.32**	**3.86**

Source: BlueBay Asset Management; BofA, as at 29 October 2021. European HY index is the BofA European High-Yield Bond Index (HE00). Global HY index is the BofA Global High Yield Index (HW00). Emerging Market index is JPEC CEMBI Broad Index (CEMBIB). 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.

Index descriptions

The JP Morgan Corporate Emerging Market Bond Diversified Index USD unhedged

The JP Morgan Corporate Emerging Market Bond Diversified Index USD unhedged is a market capitalization weighted, liquid global benchmark for US-dollar corporate emerging market bonds representing Asia, Latin America, Europe and the Middle East/Africa. The index defines emerging market countries with a combination of World-Bank-defined per capita income brackets and relevant OECD status. These two criteria allow it to include a broader list of countries that international investors may consider as part of the emerging markets universe. The CEMBI Diversified is geared toward managers who face limitations on the amount of portfolio exposure they can take to individual issuers/countries. The CEMBI Diversified results in well-distributed, more balanced weightings for countries included in the index. The benchmark data is sourced from the index provider.

The JP Morgan EMBI Global Diversified Index

This index currently includes USD denominated Brady bonds, Eurobonds and traded loans issued by sovereign and quasi-sovereign entities. It is a market-capitalization-weighted index and provides a more evenly distributed weighting among the countries. It defines emerging markets countries with a combination of World-Bank-defined per capita income brackets and each country's debt-restructuring history. This allows the index to include a number of higher rated countries that international investors have nevertheless considered part of the emerging markets universe.

The JP Morgan GBI-EM Broad Diversified USD unhedged Index

The index is a comprehensive emerging market debt index that tracks local currency bonds issued by emerging market governments; all eligible countries containing eligible instruments will be included regardless of capital controls, taxes, or access issues. The maximum weight to a country is capped at 10%. The benchmark data is sourced from the index provider.

The JP Morgan Corporate Emerging Market Diversified High Grade Index

The index is a market capitalization weighted, liquid global benchmark for US-dollar corporate emerging market bonds representing Asia, Latin America, Europe and the Middle East/Africa. The corporate bonds within the index must be rated investment grade by either rating agencies S&P or Moody's. The index defines emerging market countries with a combination of World-Bank-defined per capita income brackets and relevant OECD status. These two criteria allow it to include a broader list of countries that international investors may consider as part of the emerging markets universe. The CEMBI Diversified is geared toward managers who face limitations on the amount of portfolio exposure they can take to individual issuers/countries. The CEMBI Diversified results in well-distributed, more balanced weightings for countries included in the index. The benchmark data is sourced from the index provider.

The JP Morgan Corporate Emerging Market Diversified High Yield Index, USD unhedged

The index is a market capitalization weighted, liquid global benchmark for US-dollar corporate emerging market bonds representing Asia, Latin America, Europe and the Middle East/Africa. The corporate bonds within the index are restricted to those that have a maximum rating of BB+ by S&P or Ba1 by Moody's (based on the higher of the two). The index defines emerging market countries with a combination of World-Bank-defined per capita income brackets and relevant OECD status. These two criteria allow it to include a broader list of countries that international investors may consider as part of the emerging markets universe. The CEMBI Diversified is geared toward managers who face limitations on the amount of portfolio exposure they can take to individual issuers/countries. The CEMBI Diversified results in well-distributed, more balanced weightings for countries included in the index. The benchmark data is sourced from the index provider.

The Barclays Capital Emerging Markets Government Inflation-Linked Bond Constrained Index, USD unhedged

The index only constitutes government debt and does not include quasi-government or corporate debt. It includes bonds from Mexico, Brazil, Argentina, Turkey, South Africa, South Korea, Chile, Poland and Colombia and is calculated daily. It is a market capitalisation weighted index and markets are included based on qualitative and quantitative criteria. If a country in the index defaults on all of its inflation-linked debt, the market will be removed from the index at the earliest opportunity. The benchmark data is sourced from the index provider.

JP Morgan US HY

The JP Morgan US High Yield Index (JPDO) is designed to mirror the investable universe of the US high yield corporate debt market, including issues of US and Canadian domiciled issuers.

JP Morgan US Liquid Index

The JULI provides a comprehensive, accurate representation of the investment grade market and its components. Corporate bonds rated Baa3/BBB- or higher by Moody's and Standard & Poor's, respectively, with issue sizes of at least $300 million will qualify for inclusion in the index. A further requirement is that each bond be issued by a corporate entity that has at least $1 billion of fixed rate bonds outstanding to ensure overall "issuer" liquidity. Each issue must have a maturity longer than 13 months from the index-beginning date but no longer than 31 years. Further, each issue must have a bullet maturity that pays a non-zero coupon semi-annually. The JULI is currently comprised of 1,727 fixed coupon bonds issued by 315 issuers spread across the financial institutions, industrials and utilities sectors. The JULI's aggregate market capitalization is approximately $1.4 trillion.

BAML Europe Corporate Index (ER00)

The BofA Merrill Lynch Euro Corporate Index tracks the performance of EUR denominated investment grade corporate debt publicly issued in the Eurobond or Euro member domestic markets. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and at least 18 months to final maturity at the time of issuance.

BAML Euro HY Index (HE00)

The BofA Merrill Lynch Euro High Yield Index tracks the performance of EUR denominated below investment grade corporate debt publicly issued in the euro domestic or Eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch) and at least 18 months to final maturity at the time of issuance. In addition, qualifying securities must have at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of EUR 100 million.

JP Morgan Corporate EMBI Diversified HY

The index is a market capitalization weighted, liquid global benchmark for US-dollar corporate emerging market bonds representing Asia, Latin America, Europe and the Middle East/Africa. The corporate bonds within the index must be rated high yield by either rating agencies S&P or Moody's. The index defines emerging market countries with a combination of World-Bank-defined per capita income brackets and relevant OECD status. These two criteria allow it to include a broader list of countries that international investors may consider as part of the emerging markets universe. The CEMBI Diversified is geared toward managers who face limitations on the amount of portfolio exposure they can take to individual issuers/countries. The CEMBI Diversified results in well distributed, more balanced weightings for countries included in the index. The benchmark data is sourced from the index provider.

JP Morgan EMBI Global Diversified IG Index

This index currently includes USD denominated investment grade Brady bonds, Eurobonds and traded loans issued by sovereign and quasi-sovereign entities. It is a market-capitalization-weighted index and provides a more evenly distributed weighting among the countries. It defines emerging markets countries with a combination of World Bank-defined per capita income brackets and each country's debt restructuring history. This allows the index to include a number of higher rated countries that international investors have nevertheless considered part of the emerging markets universe.

JP Morgan EMBI Global Diversified HY Index

This index currently includes USD denominated high yield Brady bonds, Eurobonds and traded loans issued by sovereign and quasi-sovereign entities. It is a market-capitalization-weighted index and provides a more evenly distributed weighting among the countries. It defines emerging markets countries with a combination of World Bank-defined per capita income brackets and each country's debt-restructuring history. This allows the index to include a number of higher rated countries that international investors have nevertheless considered part of the emerging markets universe.

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Net performance includes the effect of the allocation of fees and expenses and has been included for the identified vehicles because that is the primary way such vehicles present performance. No chart, graph, or other figure provided should be used to determine which strategies to implement or which securities to buy or sell.

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- An Alternative Investment and its managers/advisors may be subject to various conflicts of interest.
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- The fund's performance can be volatile.
- A substantial portion of the trades executed for the fund takes place on foreign exchanges

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