



# BlueBay Financial Capital Bond Fund

March 2024

## Fund Performance (%) Gross of Fees (USD)<sup>1</sup>

For Professional Investors Only

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	0.87	0.23	2.45										3.58
2023	4.46	-0.06	-10.58	1.01	1.46	0.18	3.23	-0.59	0.74	0.97	4.24	4.01	8.49
2022	-2.35	-4.16	-0.04	-2.83	-0.32	-7.86	4.87	-2.35	-7.60	4.99	5.02	1.37	-11.70
2021	0.13	0.76	1.32	1.52	0.78	0.65	0.41	1.30	0.37	-0.68	-1.93	1.95	6.72
2020	2.96	-0.56	-17.18	8.01	4.22	2.94	2.21	2.68	0.25	0.72	6.69	1.87	13.17
2019	3.01	1.80	0.29	3.65	-2.57	4.49	1.94	0.49	1.80	2.55	1.61	1.80	22.76
2018	4.91	-0.87	-1.06	0.93	-2.58	-0.95	1.79	-0.29	-0.04	-2.22	-1.94	-1.04	-3.54
2017	1.99	1.26	0.98	2.37	1.96	2.46	1.98	-0.19	1.64	4.18	0.98	0.58	22.08
2016	-1.57	-5.64	2.72	1.15	1.03	-0.08	3.64	2.35	-1.09	1.92	-1.13	4.15	7.27
2015	1.78	2.52	1.16	0.65	0.15	-1.48	1.66	-0.03	-1.77	2.58	0.91	0.10	8.45

## Review

### Contributors

- Deutsche Bank additional tier 1 (AT1), Barclays AT1 and Intesa Sanpaolo AT1

### Detractors

- No significant detractors over March

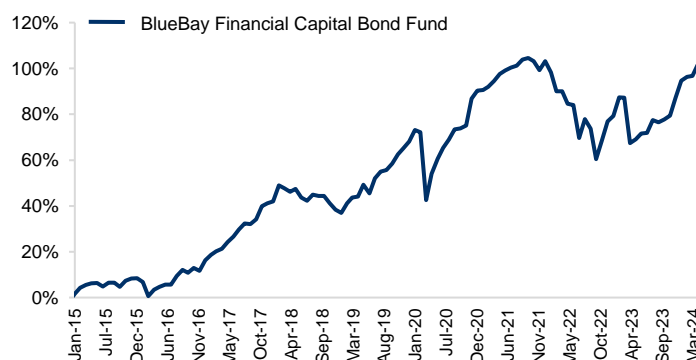
### Outlook

- Looking ahead, we continue to be encouraged by the banking sector's underlying fundamental strength, particularly as European banks remain well provisioned and should continue to benefit from the high-rate environment, even as central banks reach terminal rates. Fourth-quarter results were a clear signal to markets that banks remain somewhat mispriced, particularly compared to some other risk assets, and the first quarter of 2024 is shaping up to be another positive one. The spreads reflected within banks seem contrary to the fundamentals, and investors should be careful not to assume a global financial crisis-type template on any upcoming turbulence in the global economy and financial markets. For the less-regulated smaller US banks, and some smaller German real estate lenders, it is clear that some of their business models were nowhere near as diversified or robust as their larger, more regulated counterparts. However, the situation in Europe is markedly different, and we have been encouraged by the response of the regulators to first distance themselves from the decision in Switzerland and, second, to look beyond short-term volatility and allow banks to continue with their share buyback programmes, which we think is important to underline both the strength in the sector and the regulators' confidence in their view of that strength.
- The fundamental resilience of banks is not being fully reflected in valuations, but we are confident this should correct itself over time. Even in light of a future recession risk, the sector will be coming into the economic downturn from a position of strength, and perhaps the best position it has ever been in at this point in the cycle. Bank profitability has increased by +70% over the last three years, and it is this revenue tailwind that should go some way in shielding from any deterioration in asset quality that might occur in the months and quarters ahead. Capital levels remain close to all-time highs, while the stock of non-performing loans is close to the lows. Although we are conscious that these factors are often overlooked in times of stress, fundamentals always reassert themselves eventually, and we believe European bank AT1 is likely to offer investors upside as the macroeconomic environment continues to prove challenging. While the Credit Suisse haircut means risk premiums should be higher, this seems to already be factored into valuations. The yield of the fund is around 8.1% as we move into April. This 8.1% yield comes from an average issuer rating of A- within the fund, so there is no need for investors to give up liquidity or look for yield in lower-rated credit. If rates remain high because the underlying economy is solid and inflation is above target, then banks are likely to be the sector best positioned to outperform, given fundamentals and valuations.

## Risk Statistics<sup>3</sup>

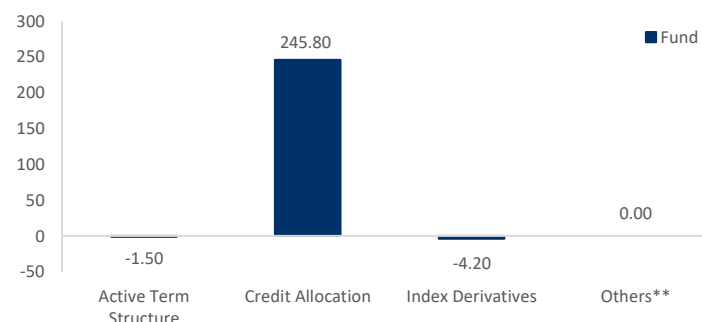
	Fund
Annualised return since inception (%) <sup>2</sup>	7.90
Annualised volatility (%) <sup>2</sup>	10.56
Sharpe ratio <sup>2</sup>	0.54

## Cumulative Performance Gross of Fees (USD)<sup>1,2</sup>



**Past performance does not predict future returns.** The return of your investment may increase or decrease as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation. Fees and other expenses will have a negative effect on investment returns.

## Summary of Attribution Effects (bps)



## Investment Objective

- To achieve a total return from a portfolio of subordinated debt securities issued by financial institutions

## Investment Strategy

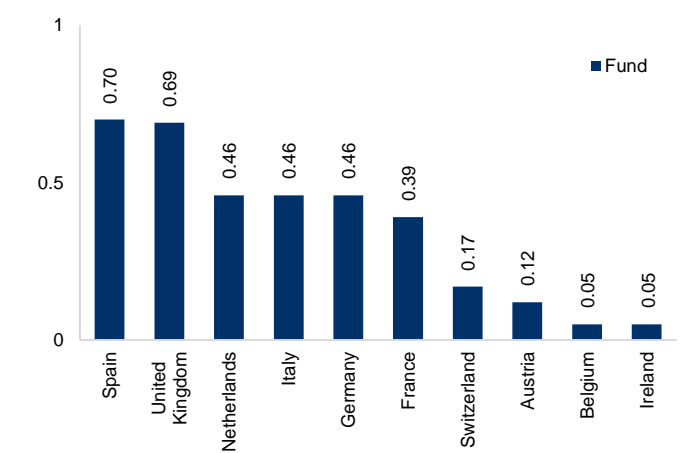
- The Fund invests at least 50% of its net assets in subordinated debt securities issued by financial institutions. Subordinated debt securities include, but are not limited to, Tier 1 and Tier 2 contingent capital securities (CoCos) and US perpetual preferred stock.
- The fund may not invest more than 10% of its assets in securities of the same financial institution and up to 25% of the fund's assets may be invested in equities.
- The Fund meets the conditions set out in Article 8 of the Sustainable Finance Disclosure Regulation as it promotes environmental/social characteristics through binding requirements as a key feature. Full details available online; <https://www.rbcbluebay.com/en-gb/institutional/what-we-do/funds/sustainability-related-disclosures/>

Fund Characteristics<sup>4</sup>

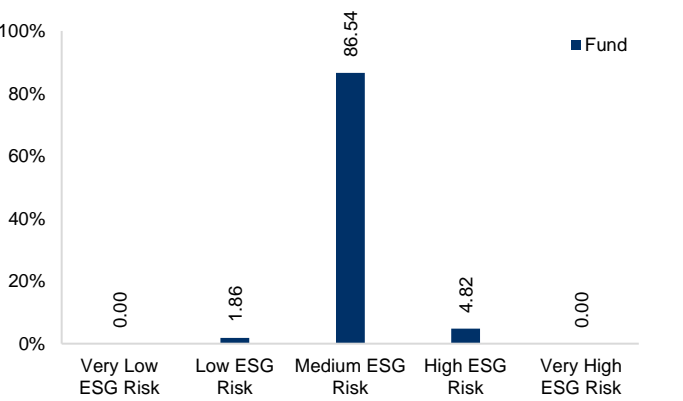
	Fund
Weighted interest rate duration (yrs)	2.86
Weighted spread duration (yrs)	3.55
Weighted yield to worst (%)	8.03
Weighted yield to worst without hedges (%)	8.10
Yield to maturity (%)	9.13
Weighted running yield (%)	8.05
Total no. of issues	43
Total no. of issuers	24
Weighted average rating – by issue	BB
Weighted average rating – by issuer	A-
Average position (%)	2.20

We have updated our yield calculations for derivatives to reflect the higher rate environment better.

Country Spread Duration Contribution (yrs)



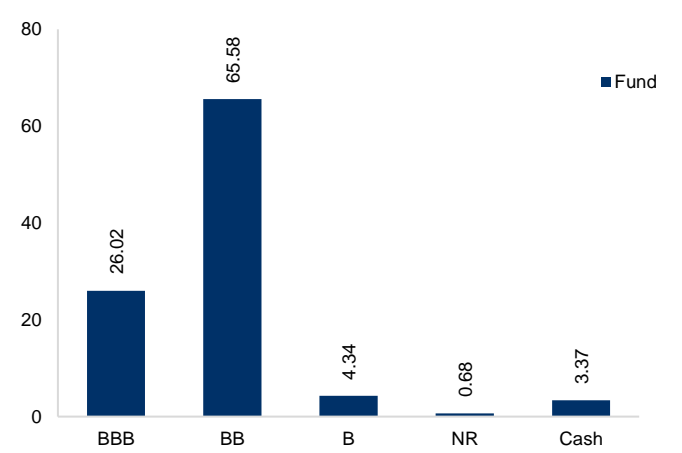
BlueBay: Issuer Fundamental ESG (Risk) Ratings (% , NAV)



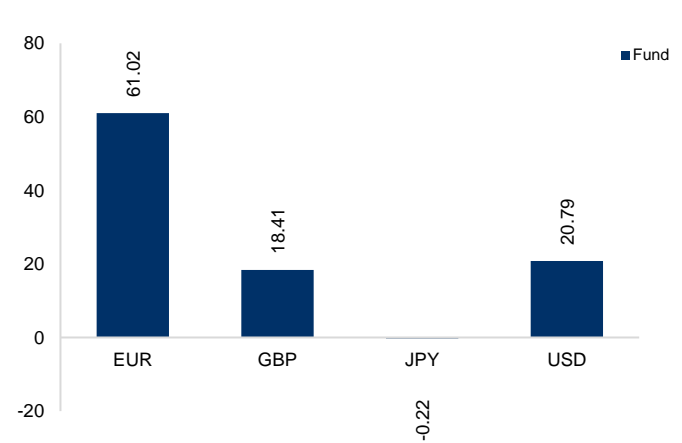
Top 5 Issuers by Spread Duration Contribution (yrs)

	Years (absolute)	BlueBay ESG Fundamental (Risk) Rating <sup>6</sup>	BlueBay Investment ESG Score <sup>7</sup>
Intesa Sanpaolo SpA	0.33	Medium	1.00
Barclays PLC	0.33	Medium	1.00
Deutsche Bank AG	0.32	Medium	0.00
Banco Santander SA	0.25	Medium	0.00
CaixaBank SA	0.23	Medium	0.00

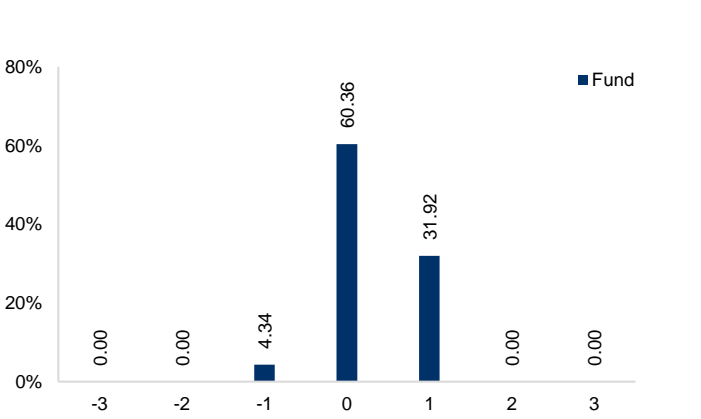
Credit Quality Breakdown (% , NAV)



Currency Breakdown (Before Hedging % , NAV)



BlueBay: Security Investment ESG Scores (% , NAV)



Sector Subordination (% , NAV)

	Fund
Corp Hybrid	0.00
Tier 1	92.29
Upper tier 2	0.00
Lower tier 2	4.34
Subordinated insurance	0.00
Preferred Stock	0.00
Cash	3.37
Unclassified <sup>5</sup>	0.00
Total	100.00

## Fund Facts

Total fund size <sup>4</sup>	USD 1,736m
Total strategy size <sup>6</sup>	USD 2,807m
Inception date	14 January 2015
Base currency	USD
Fund legal name	BlueBlueBay Funds – BlueBay Financial Capital Bond Fund
Share classes	Information on available Share Classes and eligibility for this Fund are detailed in the BlueBay Funds Prospectus and Application Form
Fund type	UCITS
Domicile	Luxembourg
Investment manager	RBC Global Asset Management (UK) Limited

## Risk Considerations

- At times, the market for investment grade bonds or high yield 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 subordinated bank debt, including CoCos, offers you the chance to gain higher returns through growing your capital and generating income. Nevertheless, there is a risk that CoCos may 1) be converted to equities or permanently written down 2) not be redeemed by the issuer when expected 3) defer or cancel interest payments indefinitely, which would result in a loss of income to the fund and possible loss of its initial investment. Additionally, CoCo investors may suffer losses prior to investors in the same financial institution holding equities or bonds
- RBC BlueBay's ESG analysis can rely on input from external providers. Such data may be inaccurate or incomplete or unavailable and BlueBay could assess the ESG risks of securities held incorrectly
- RBC 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

Due to the complexity of the loss absorbing mechanisms and the absence of harmonized terms from issuer to issuer and from issue to issue of Contingent Convertibles, the BlueBay Financial Capital Bond Fund is only suitable for Financially Sophisticated Investors who can bear the economic risk of the loss of their investment in the fund. Financially Sophisticated Investor for this purpose means an investor who:

- (a) has knowledge of, and investment experience in, financial markets generally and financial products which invest in securities and/or derivatives with complex features; and
- (b) understands and can evaluate the strategy, characteristics and risks of the strategy in order to make an informed investment decision

### Notes

- 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. For example, if there was an annualised return of 10% over a 5-year period then the compounding effect of a 0.60% management fee and a 0.20% performance fee would reduce the annualised return to 9.32% (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 strategy will offset the strategy's trading profits. A description of the specific fee structure for each BlueBay strategy is contained in the strategy's prospectus.
- Since Inception
- Risk statistics are annualized and calculated using weekly data points since inception. Risk statistics will be produced once there are 3 complete months of data available; for meaningful results a minimum sample of 36 data points is recommended and where history is less than 3 years caution should be taken with the interpretation and representation of this data. Returns for periods of less than 1 year have not been annualised in accordance with current industry standard reporting practices.
- The Fund AUM is stated on a T+1 basis and includes non-fee earning assets.
- Unclassified includes derivatives and hedging instruments.
- Fundamental ESG (Risk) Rating is assigned at an issuer level by BlueBay. Categories range from 'very high' to 'very low' ESG (Risk) Rating and is a function of the ESG risk profile of an issuer and how well it manages these risks.
- Investment ESG Score is assigned at an issuer level by BlueBay unless otherwise stated (i.e. assigned at the security level). Scores ranges from '+3' through to '-3' and indicates the extent to which ESG is considered investment material, as well as the nature and scale of the materiality impact (i.e. positive credit impact, negative credit impact, no impact).

Note: All data unless otherwise specified is sourced from RBC Global Asset Management, as at 28<sup>th</sup> March 2024.

## Team

	Joined BlueBay	Investment industry experience
Marc Stacey	September 2004	22 years
James Macdonald	September 2007	19 years

## Contact information

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