The Emerging Market Unconstrained Bond Fund

March 2024

For Professional Investors Only

Fund Performance (%) Gross of Fees (USD) [2]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	-0.01	1.67	3.02										4.73
2023	5.13	-1.76	0.68	-0.18	2.08	5.18	2.12	-1.95	-2.79	-0.07	5.77	4.37	19.68
2022	-0.67	0.34	2.53	-1.42	-0.15	-8.86	-0.79	0.41	-3.91	-0.90	5.11	1.35	-7.36
2021	-0.15	-1.34	-3.73	3.28	1.54	-0.69	-1.36	1.47	-3.24	-2.01	-5.75	2.68	-9.29
2020	1.53	-1.91	-10.68	6.00	8.53	2.40	2.37	1.14	-1.80	-1.23	6.81	5.89	19.01
2019	5.86	-0.29	-0.68	-0.29	0.10	3.58	2.27	-4.86	4.41	2.55	-0.67	3.30	15.88
2018	2.04	0.91	0.84	0.08	-3.05	-1.98	1.91	-1.97	0.62	-0.67	-0.22	0.58	-1.06
2017	-0.09	1.37	0.77	1.21	0.11	0.96	1.01	2.41	0.43	1.08	0.59	0.38	10.69
2016	-1.21	1.08	0.85	3.41	-0.75	3.55	2.01	1.48	0.70	0.47	-1.67	0.29	10.52
2015	-0.62	1.23	-0.43	1.76	-0.83	-2.60	-0.89	-0.06	-3.86	4.45	0.90	-3.46	-4.62
2014	-1.32	2.61	0.28	0.99	1.01	0.87	0.08	0.90	-2.13	0.66	-1.79	-2.12	-0.09
2013	-0.95	-0.70	-1.22	3.16	-0.96	-1.11	-0.44	-0.86	1.49	0.77	-1.09	0.60	-1.38
2012	1.99	2.36	-0.72	0.50	-0.66	2.61	1.59	0.88	1.36	0.15	1.38	1.01	13.11
2011	-0.39	0.29	2.34	2.04	0.99	0.85	1.43	-1.03	-3.47	2.99	-0.90	0.55	5.66
2010	–	–	–	–	–	–	1.26*	1.88	1.83	1.39	-1.35	1.29	6.43

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.
* Partial performance since inception 20 July 2010

Performance Analysis[2,3] (Gross of fees)

Annualised return (%)	5.57
Annualised standard deviation (%)	7.67
Sharpe ratio	0.52
Positive months (%)	59.76
Worst drawdown (%)	-21.12
Recovery time (months)	14

Portfolio Characteristics

Weighted interest rate duration (yrs)	5.78
Weighted spread duration (yrs)	3.03
Local interest rate duration (yrs)	2.74
Weighted yield to maturity (%) [6]	11.98
FX Delta (+1%)	19.70

	Long	Short	Net	Gross
Leverage [4]	1.22x	-0.58x	0.64x	1.80x
No of positions	77	27	104	

Investment Strategy

- To achieve a total return from a portfolio of fixed income securities predominantly issued by Emerging Market Issuers and denominated in any currency, as well as making investments linked directly or indirectly to currencies and/or interest rates of Emerging Market Countries.
- 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/

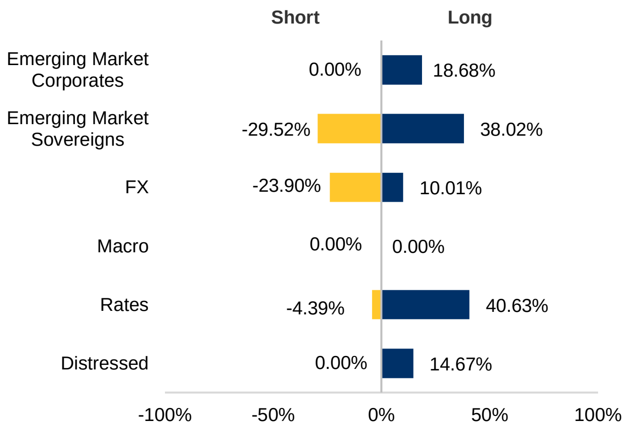
Fund Facts

Total Fund size [5]	USD 514m
Inception date	20 July 2010
Base currency	USD
Subscription/redemption	Daily
Fund legal name	BlueBay Emerging Market Unconstrained Bond Fund
Share classes	Information on available Share Classes and eligibility for this Fund are detailed in the BlueBay Funds Prospectus and Application Form
ISIN	LU1278659575
Class	Class M – EUR Shares
Bloomberg	BBEMAME LX
Structure	UCITS
Domicile	Luxembourg

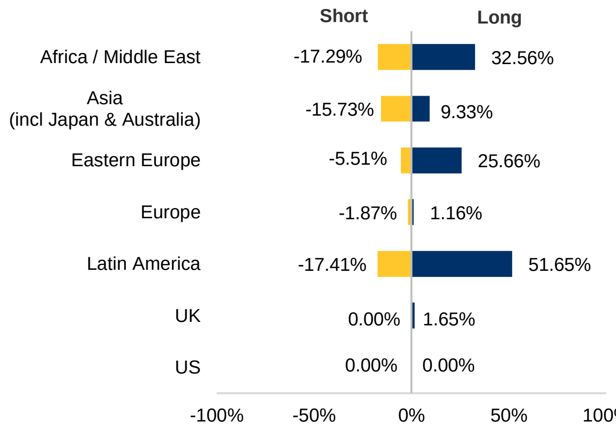
Risk Considerations

- At times, the market for emerging market 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 emerging market bonds offers 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
- Emerging markets may be more volatile and it could be harder to sell or trade these bonds. There is also a greater risk of less government supervision, legal regulation and less well-defined tax laws and procedures than in countries with more developed trading markets. Emerging markets can be particularly sensitive to political instability, which can result in greater volatility and uncertainty, subjecting the fund to the risk of losses
- 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

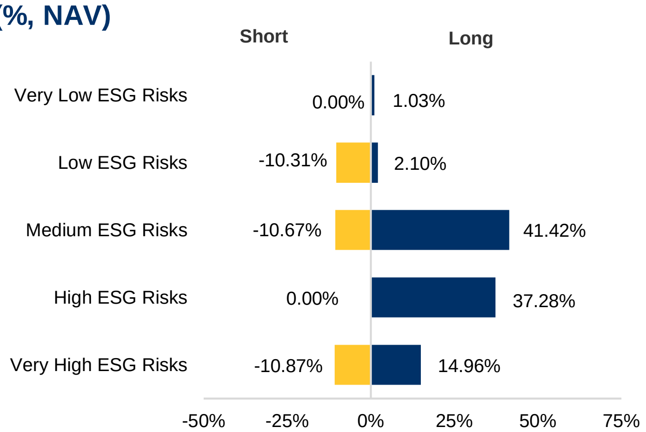
Strategy Breakdown (Exposure, % of NAV)[4]



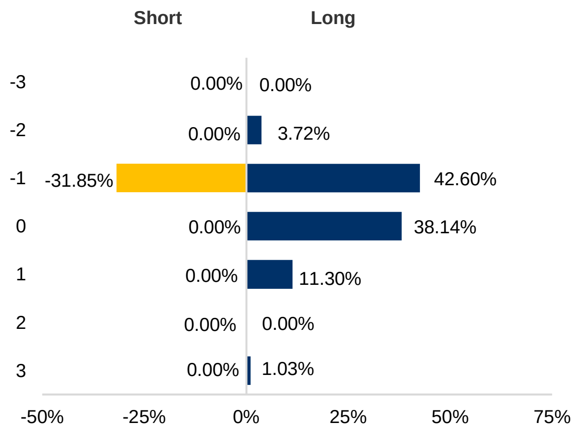
Regional Breakdown (Exposure, % of NAV)[4]



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



BlueBay: Security Investment ESG Scores (%, NAV)



Top 3 Long Holdings (%, NAV)

Holding	Weight (absolute)	Weight (relative)	BlueBay ESG Fundamental (Risk) Rating[7]	BlueBay Investment ESG Score[8]
UKRAIN Float 08/41 REGS	6.05%	6.05%	High ESG Risk	1
ROMANI 6 5/8 09/29 REGS	5.91%	5.91%	Medium ESG Risk	-1
EGYPT 7.903 02/48 REGS	4.44%	4.44%	Very High ESG Risk	-1

Sovereign Debt (External) (%, NAV)

Ukraine Government International Bond '41	6.05 %
Romanian Government International Bond '29	5.91 %
Egypt Government International Bond '48	4.44 %
Provincia de Buenos Aires Government Bond '37	3.80 %
Tunisian Republic Bond '25	3.06 %

Corporate / Quasi-Sovereign (External) (%, NAV)

Ecopetrol SA '36	3.22 %
Petroleos de Venezuela SA '20	2.69 %
YPF SA '31	1.50 %
Istanbul Metropolitan Municipality '28	1.10 %
WE Soda Investments Holding PLC '28	1.09 %

Local Markets (%, NAV)

Indonesia Treasury Bond '38	3.71 %
Colombian TES '32	3.11 %
Romanian Government Bond '36	2.53 %
Peruvian Government International Bond '33	2.45 %
America Movil SAB de CV '29	2.26 %

Top and Bottom 3 FX Positions (%, NAV)

Long	
Brazilian real	6.47 %
Egyptian pound	4.28 %
Indonesian rupiah	3.87 %
Shorts	
Chinese renminbi	-4.96 %
Euro	-0.31 %
South African rand	-0.26 %

Portfolio Managers Comments

Review

March was a positive month for risk assets with most equity and fixed income indices registering strong gains. Lower US Treasury yields helped to boost overall returns after a dovish US Federal Reserve (Fed) meeting, reconfirming the central bank's determination to cut interest rates in the second half of this year despite resilient growth data and continuously elevated inflation readings. The month also marked a turning point in policy for many central banks, including the Bank of Japan, where the era of negative interest rates finally came to an end, while the Swiss National Bank became the first developed central bank to begin its policy easing cycle.

In emerging markets (EM) fixed income, the sovereign credit rose +2.09% as spreads compressed significantly by 27 basis points (bps), while the corporate index also saw marginally tighter spreads (6bps), delivering +0.93% over the month. The high-yield (HY) component of the sovereign index was a strong outperformer, delivering close to +3% in total return and was 47bps tighter in spread. Ukraine, Argentina, Ghana, Pakistan, Ecuador, and Lebanon all delivered double-digit returns during the period. In local currency, the sovereign index ended close to flat on the month (-0.03%). Positive performance came from certain Latin American foreign exchange (FX) markets such as Colombia and Peru, as well as Mexican and Turkish local rates. Although more generally, both FX and rates remained under pressure throughout the month as markets readjusted to the higher-for-longer narrative in the US.

On the data front, inflation in the US remains sticky and marginally above expectations, up 3.2% in comparison to a year ago, keeping the Fed on course to wait at least until the summer before its able to start lowering interest rates. The US labour market also remained strong, with the non-farm payroll figures exceeding economists' predictions.

It was a busy month in EM with positive developments in several higher-yielding sovereign names in the asset class:

- In Zambia, a revised deal was agreed to restructure nearly USD4 billion in US dollar bonds, moving the nation closer to exiting a years-long default following months of tensions between China and other creditors. Under the terms of the new deal, the bondholders will take cut in the face value of their claim worth USD840 million, compared to USD700 million in the previous proposal.

- In Egypt, the Central Bank of Egypt hiked rates by 600bps and devalued the currency in a move that should pave the way towards a more flexible exchange rate. The International Monetary Fund (IMF) also confirmed an increase in program size from USD3 billion to USD8 billion.

- In Ukraine, the IMF released an updated Debt Sustainability Analysis (DSA) with 2023 debt/GDP at 82.9%, in contrast to the 87.1% the fund estimated in December. The fund also marked real GDP growth in 2023 higher at 5%, versus 4.5% previously, with the actual number still pending and likely with upside risks. The updated DSA sets the scene for debt restructuring negotiations with creditors and offers avenues for investors to realise some upside versus current market pricing of Ukrainian debt.

- In Pakistan, a staff-level agreement was reached with the IMF for the release of USD1.1 billion from a USD3 billion bailout package. This could result in further financing to flow into the country from friendly countries, providing bondholders with more comfort around the policy framework.

On the election front, President Erdogan's ruling Justice and Development Party (AKP) suffered a defeat in municipal elections with the Republican People's Party (CHP) emerging as the clear winner. The shock defeat came against the backdrop of rampant inflation and the highest borrowing costs seen in the President's tenure, with voters appearing to have punished his party for their economic hardships. This leaves Erdogan with a difficult choice whether to continue down the policy normalisation route, or backtrack and revert to the unorthodox policies of the past which were the genesis of the current economic troubles. For now, markets are betting that he remains committed to an orthodox approach.

Finally, state-backed Chinese real estate developer Vanke's bonds were downgraded by Moody's. Moody's justified the downgrade by stating that they expect the company's credit metrics, financial flexibility, and liquidity buffer to weaken over the next 12 to 18 months. Vanke pushed back against this rhetoric and claimed that the company's operations and refinancing are normal, and their financing channels are stable.

Performance [Fund performance is gross of fees. Past performance is not indicative of future results]

The fund returned +3.02% in March, taking year-to-date returns to +4.73%.

In the credit space, high-yielding sovereigns were the main performers. A long position in Ukrainian warrants was the top performing trade, while longs in Angola, Pakistan, Egypt, and Ghana also contributed, along with shorts in US Treasuries. In local markets, the top performing trade was a long in Egyptian treasury bills (T-bills) that we initiated after the recent FX devaluation. In the rates books, the fund experienced small losses with the main detractors being rates exposure in Mexico, Colombia, and Brazil.

Outlook

Despite the volatile rates and geopolitical environment, markets have ended the first quarter on a positive note. We are now at an interesting juncture where economic data in the US remains far more resilient than the broader global economy, pointing to a risk that the Fed will be unable to meet the market's projections for interest rate cuts this year. Stickier inflation in the US also points to a higher-for-longer narrative, and in the first two days of April we have already seen a significant move higher in US yields which is acting as a headwind to the performance of risk assets.

As ever, the focus will be on the upcoming data with a key indicator being Friday's payrolls report where markets will be hoping to see a further cooling trend in the labour markets.

Despite these risks, we think the case for EM debt in 2024 remains strong. At the sovereign index level, the fiscal budget deficit is likely to narrow by a small amount for all EM countries as a whole, although there are major dispersions within that. EM credit markets remain supported by a falling default rate and generally improved conditions which are allowing for a healthier refinancing market. Overall levels of yield still remain at attractive levels compared to history, despite spreads being at the tighter end of the range.

Local markets remain more nuanced as the higher-for-longer theme in the US means that some EM central banks are slowing or delaying their own easing cycles, which is calling into the question the market's pricing of both FX and rates. Despite this, the general trend of falling inflation and high nominal yields should still provide a supportive backdrop for total returns, but we do expect some volatility as the dynamics described above play out.

Team Info

Anthony Kettle, Senior Portfolio Manager
Joined BlueBay in March 2006 and has 23 years of investment experience

Polina Kurdyavko, Head of Emerging Markets
Joined BlueBay in July 2005 and has 23 years of investment experience

Brent David, Senior Portfolio Manager
Joined BlueBay in March 2014 and has 21 years of investment experience

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Notes:
1 Fund name changed from BlueBay Emerging Market Absolute Return Bond Fund on 17/09/2018.
2 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 strategy. 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
3 Risk statistics are annualized and calculated using weekly data points since inception. Risk statistics will be produced once there are 12 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 annualized in accordance with current industry standard reporting practices
4 Exposure is calculated by dividing positions (gross long, gross short, net) by NAV, with exposure measured by market value for cash products, ten year bond equivalents for interest rate derivatives and delta adjusted notionals for other derivatives
5 The Fund AuM is stated on a T+1 basis and includes non-fee earning assets
6 Weighted Yield to Maturity (%) excludes distressed names.
7 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.
8 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).

Source: All data unless otherwise specified is sourced from RBC Global Asset Management, as at 28th March 2024.