The case for broadening the investment universe in EM debt

Pieter Krom

29-5-2024

Introduction RBC BlueBay

Chicago
U.S. Equities

Minneapolis
BlueBay Fixed Income
- U.S. Fixed Income
- Impact Investing
- Liquidity

Toronto
Canadian Equities
Global Resources/Precious Metals
Quantitative investments
Real estate
Mortgages
Alternatives
High Yield Bonds
Global Fixed Income and Currencies
Infrastructure

Boston
U.S. Equities

Vancouver PH&N [2]
Canadian Equities
Canadian Fixed Income
High Yield Bonds
Mortgages
Quantitative investments
Alternatives

Stamford
BlueBay Fixed Income
- U.S. Fixed Income
- Liquidity

London
Emerging Markets Equities
Global Equities
European Equities
BlueBay Fixed Income
- Investment Grade
- Convertibles
- Special Situations
- Leveraged Finance
- Emerging Market
- Multi-Asset Credit
- Securitized Credit

Alternatives

Hong Kong
Asia Equities

Global investment teams with localised expertise

- US$432 billion AuM globally [1]
- 48% institutional assets
- Over 1,600 employees worldwide
- Over 380 investment professionals
- 18 specialist investment teams

Notes: As at 31 December 2023. [1] AuM includes advisory and unidentified managed account models. Figures updated quarterly. [2] Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc.
Not all strategies are available in the U.S.

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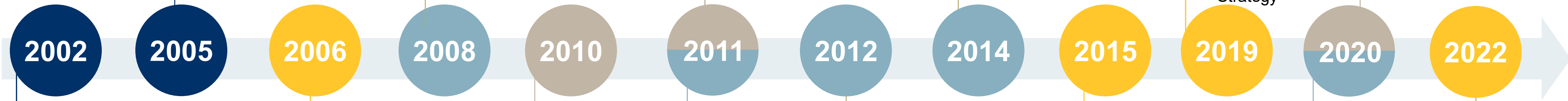
BlueBay Fixed Income EMD history of innovation

EM strategy launches



September 2002
Launch of EM Hard Currency Strategy

December 2005
Launch of EM Local Currency Strategy

November 2006
Launch of EM Select Strategy

March 2008
Launch of EM Corporate Strategy

July 2010
Launch of EM Unconstrained Strategy

March 2011
Launch of EM Investment Grade Corporate Strategy

November 2011
Launch of EM Credit Alpha Strategy

January 2012
Launch of EM High Yield Corporate Strategy

July 2014
Launch of EM Local Currency Corporate Strategy

July 2015
Launch of EM Aggregate Strategy

July 2019
Launch of EM Short Duration Aggregate Strategy

August 2020
EM Buy and Maintain strategy launched

October 2020
Launch of EM Illiquid Credit Strategy

April 2022
EM funds transition to SFDR Article 8

LONG ONLY			NO BENCHMARK
EM Sovereign Debt	**EM “Blended” Debt**	**EM Corporate Debt**	**EM Alternatives**
Allocation to hard currency and/or local currency sovereign beta	Allocation to broad emerging market beta	Allocation to corporate beta	Concentrated portfolio that consists of long and short positions from the full opportunity set within the EMD universe

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The definition of an Emerging Market

- An **emerging market** (or an **emerging country** or an **emerging economy**) is a market that has some characteristics of a developed market, but does not fully meet its standards.

- The ten largest emerging economies by nominal GDP are 4 of the 9 BRICS countries (Brazil, Russia, India, and China) along with Mexico, South Korea, Indonesia, Turkey, Saudi Arabia, and Poland.

- The inclusion of South Korea, Poland, and sometimes Taiwan are questionable given they are no longer considered emerging markets by the IMF and World Bank (for Korea and Taiwan.)

- If we ignore those three, the top ten would include Argentina and Thailand.

Emerging markets by each group of analysts

Country	IMF[23]	BRICS+ Next Eleven	FTSE[24]	MSCI[25]	S&P[26]	JPM EM bond index[27]	Dow Jones[26]	Russell[28]	Columbia University EMGP[29]	Cornell University EMI E20+1 (2023)[30]
Argentina	✓					✓			✓	✓
Bangladesh	✓	✓				✓				✓
Brazil	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Bulgaria	✓									
Chile	✓		✓	✓	✓	✓	✓	✓	✓	✓
China	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Colombia	✓		✓	✓	✓	✓	✓	✓	✓	✓
Czech Republic			✓	✓	✓	✓	✓	✓		
Egypt		✓	✓	✓	✓	✓	✓		✓	✓
Greece			✓	✓	✓		✓	✓		
Hungary	✓		✓	✓	✓	✓	✓	✓	✓	
India	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Indonesia	✓	✓	✓	✓	✓	✓	✓	✓		✓
Iran		✓								✓
Israel						✓			✓	
South Korea		✓		✓					✓	
Kuwait			✓	✓	✓					
Malaysia	✓		✓	✓	✓	✓	✓	✓		✓
Mauritius									✓	
Mexico	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Morocco	✓		✓		✓	✓	✓	✓	✓	
Nigeria		✓				✓				✓
Oman						✓				
Pakistan	✓	✓	✓		✓	✓				✓
Peru	✓		✓	✓	✓	✓	✓	✓		
Philippines	✓	✓	✓	✓	✓	✓	✓	✓		✓
Poland	✓			✓	✓	✓	✓		✓	
Qatar			✓	✓	✓	✓	✓			
Romania	✓		✓			✓				✓
Russia	✓	✓	✓		✓	✓	✓	✓	✓	✓
Saudi Arabia			✓	✓						
South Africa	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Taiwan			✓	✓	✓	✓	✓	✓	✓	
Thailand	✓		✓	✓	✓	✓	✓	✓	✓	✓
Turkey	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ukraine	✓					✓				
United Arab Emirates			✓	✓	✓	✓	✓	✓	✓	
Venezuela	✓					✓				
Vietnam		✓								✓

Source: WikipediA 20-5-2024

Key characteristics of the main sub asset classes of EMD

Hard Currency Sovereign Debt

- Longest serving sub asset class in EMD
- Significant diversification with 70+ countries
- Total debt stock at c. US$1.5 trillion
- Reasonably liquid bonds universe
- No currency risk
- Possible default or restructuring risk
- High duration risk – index duration c. 6.76yrs
- Index includes quasi sovereign issuers
- Increasing issuance of sustainability linked bonds

Hard Currency Corporate Debt

- At c. US$2.5 trillion the emerging market (EM) corporate universe is one of the fastest growing asset classes, with a disproportionately low dedicated AuM.
- The resulting inefficiencies provide scope for alpha generation across sectors, regions and portfolio strategies
- Highly diverse universe, with c. 500 issuers from 44 countries
- No outright currency risk
- Corporate default risk
- Opportunity to participate in improving ESG trends, such as Indian renewables sector

Local Currency Sovereign Debt

- At close to US$12 trillion, this is the largest EMD sub sector
- Currency and Rates risk present
- Growing asset class
- Virtually no default risk
- Good liquidity
- Concentrated index – 20 countries represented

Local Currency Corporate Debt

- Asset class is relatively new and growing fast
- Large sub asset class at c. US$10.7 trillion
- Very attractive yield with low duration risk. 3,3yrs
- Currency risk
- Corporate default risk
- Lack of dedicated funds mean technical support is limited

Source: RBC Global Asset Management as at 31 December 2022

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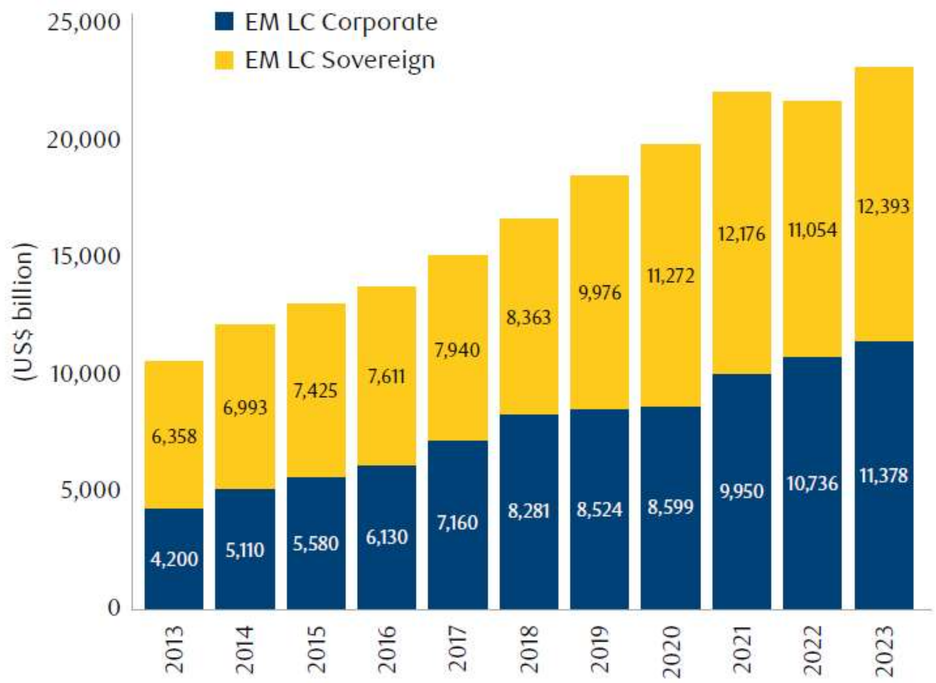
Traditional indices only capture a fraction of the local currency universe

Significant growth of total debt stock over the past few years



Source: JPMorgan, RBC BlueBay Asset Management as at December 2023

- EM local currency universe is close to US$24 trillion in size
- The JPM GBI index captures approximately 10% of this universe – with only 6 currencies making up 50% of the index risk, driving a significant component of the market beta

GBI-EM Global/Diversified	
Market cap. GBI-EM Global	US$3.7 trillion
Number of Issuers	20
Number of Instruments	308
Number of Countries	20

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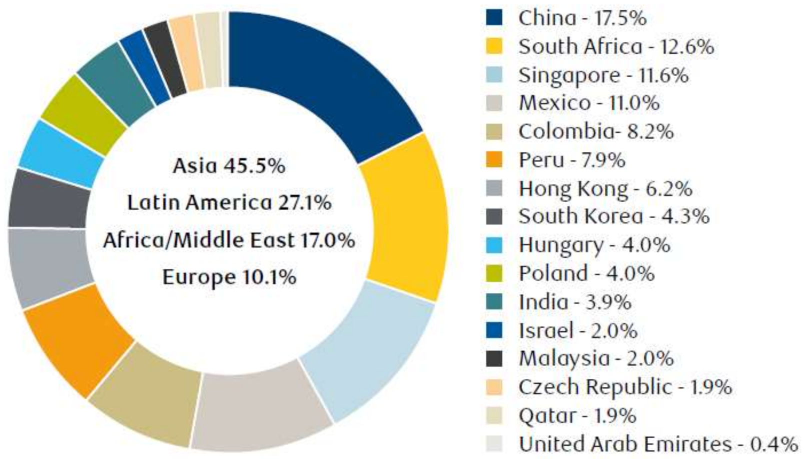
EM local corporates offer high yield and short duration in the investment grade space

Index/asset class characteristics

US$600bn+ opportunity set	**138** companies
8.55% average yield	**3.11yrs** duration
19 sectors	**16** countries
BBB2 rating	**~60%** [1] Investment grade

Regional split



Source: BofA, as at December 2023
Note: [1] Based on internal estimates

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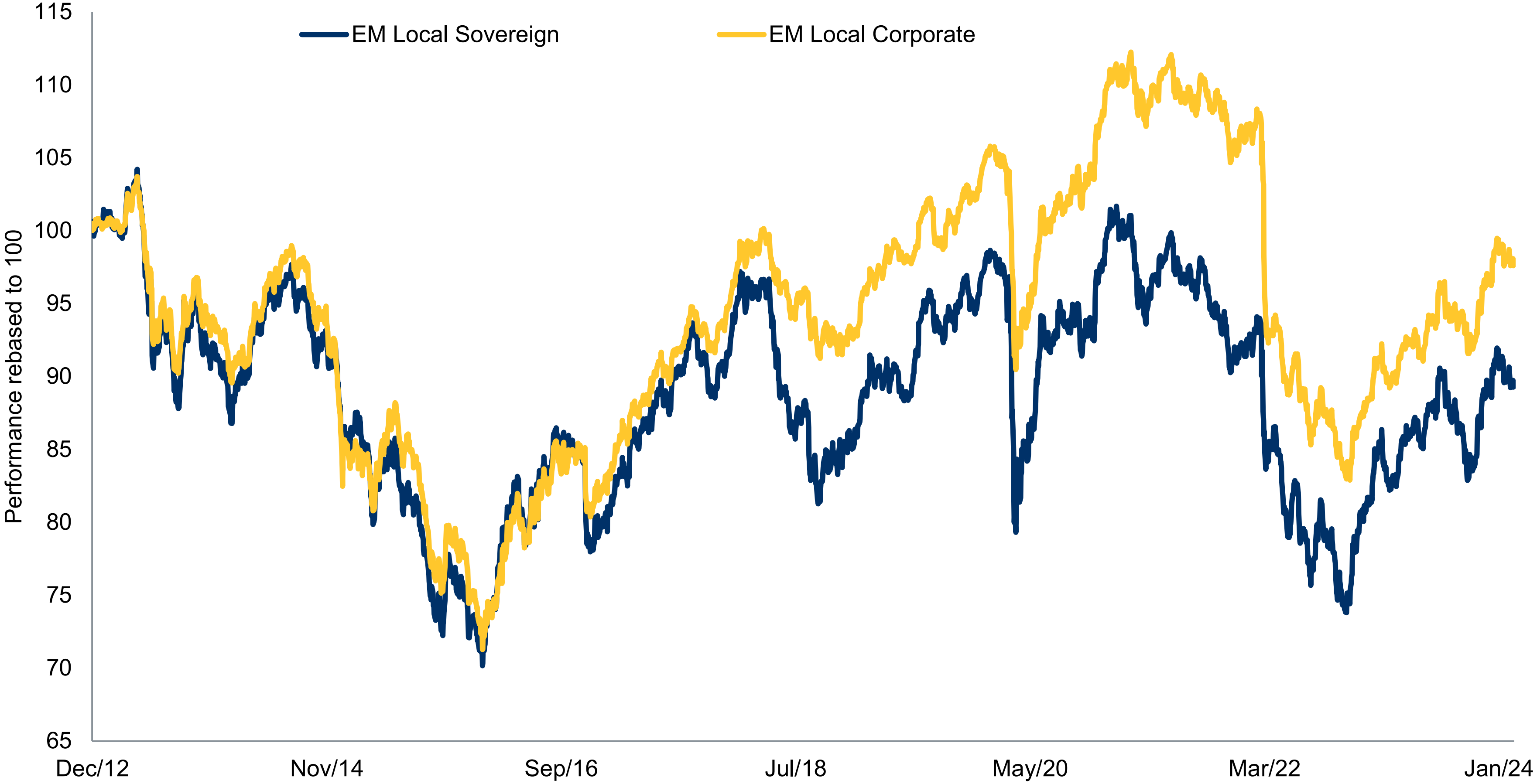
Local Corporate spread offers buffers to total returns

EM local corporate has outperformed EM local sovereign



Source: BofA, JPM as at December 2023. Notes: EM Local Sovereign is JPM GBI – EM Global Div USD unhedged. EM Local Corporate is BofA Diversified Local Emerging Markets Non-Sovereign Index

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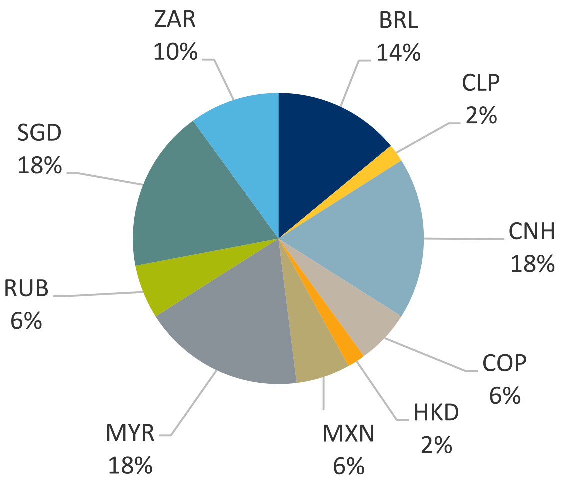
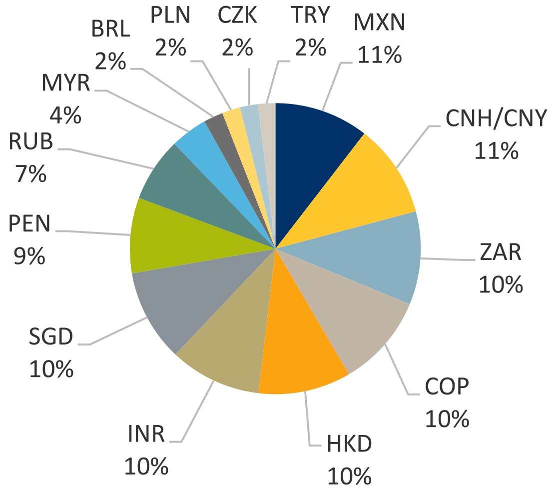
The EM local corporate market has grown in the last 10 years, but diversity remains low

December 2012



Number of companies	145
Number of bonds	281
Currencies	11
Yield	5.41%
Spread	126bps
Duration	4.28
% NR	44%

January 2024



Number of companies	146
Number of bonds	342
Currencies	15
Yield	8.65%
Spread	210bps
Duration	3.32
% NR	29%

Source: BofA, as at January 2024

Inflation linked universe – a well established, deep market – particularly across Latin America

Index characteristics

US$150bn+
opportunity set

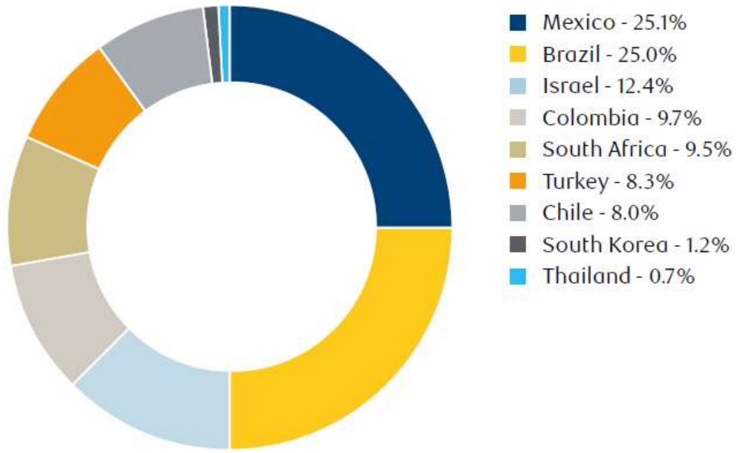
9
index-based markets

3.65%
average real yield

8.12yrs
duration

~13.25%
tracking nominal yield

Market weight



Source: Bloomberg, as at Decemer 2023
Note: [1] Based on internal estimates

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Frontier local markets a growing opportunity set, offering an increasingly diverse investment universe

Index characteristics

Figure 6: Index characteristics and market weight

USD250bn+
opportunity set

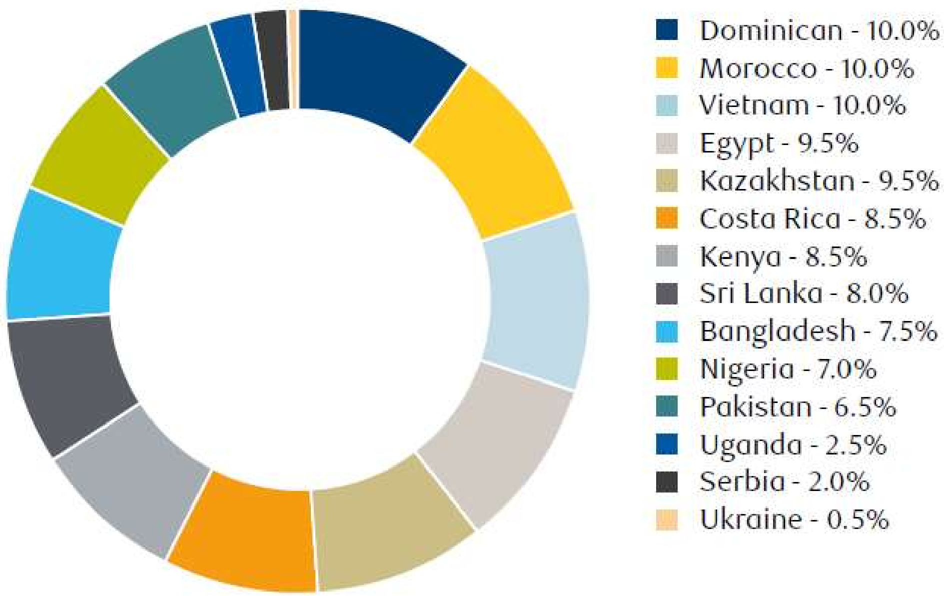
14+
additional markets

12.20%
average yield

4.45yrs
duration

BB-
rating

Market weight



Source: FTSE, as at October 2023
Note: [1] Based on internal estimates

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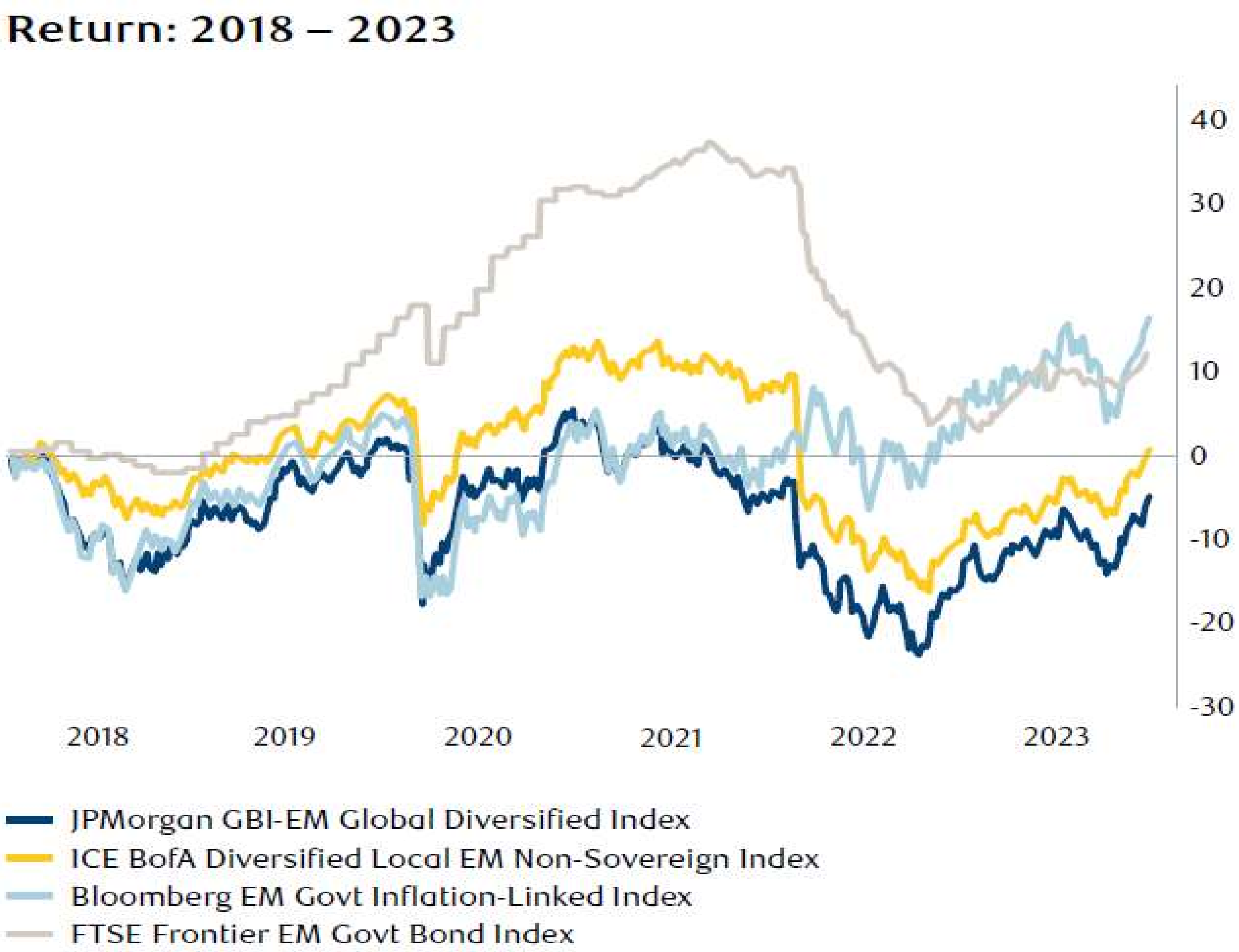
GBI-EM has underperformed, while the recently launched Frontier index provided superior absolute and risk adjusted returns



Source: Bloomberg, RBC BlueBay Asset Management as at December 2023

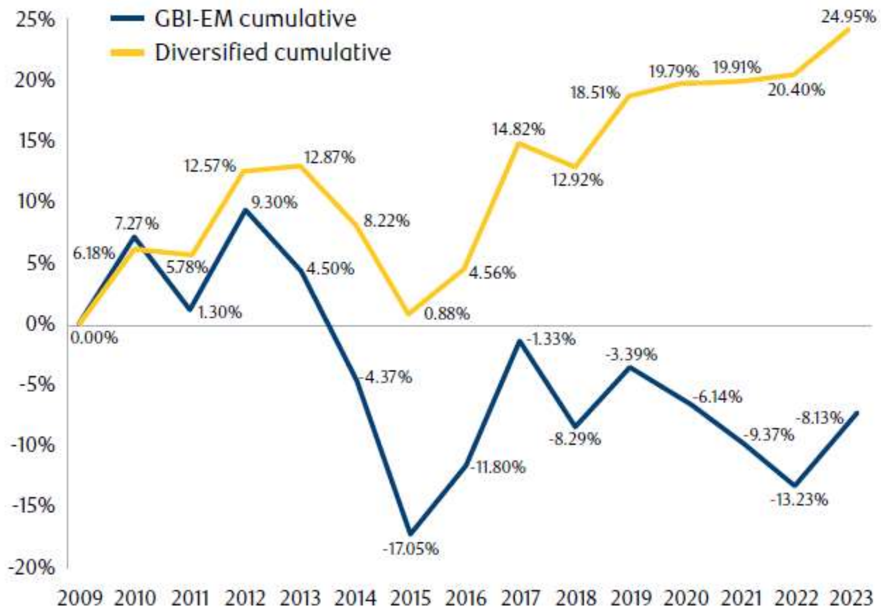
RBC BlueBay Asset Management

A diversified FX portfolio shows significant outperformance in FX beta with positive returns, despite a decade long USD bull run

	GBI-EM	GBI-EM cumulative	Diversified	Diversified cumulative
2009	0.00%	0.00%	0.00%	0.00%
2010	7.27%	7.27%	6.18%	6.18%
2011	-5.97%	1.30%	-0.40%	5.78%
2012	8.00%	9.30%	6.79%	12.57%
2013	-4.80%	4.50%	0.30%	12.87%
2014	-8.87%	-4.37%	-4.65%	8.22%
2015	-12.68%	-17.05%	-7.34%	0.88%
2016	5.25%	-11.80%	3.68%	4.56%
2017	10.47%	-1.33%	10.26%	14.82%
2018	-6.96%	-8.29%	-1.90%	12.92%
2019	4.90%	-3.39%	5.59%	18.51%
2020	-2.75%	-6.14%	1.28%	19.79%
2021	-3.23%	-9.37%	0.12%	19.91%
2022	-3.86%	-13.23%	0.49%	20.40%
2023	5.10%	-8.13%	4.55%	24.95%

GBI total return	-8.13%
Diversified total return	24.95%
Beta outperformance	33.08%
Annualised beta outperformance	2.36%
Down years outperforming	8/8 100%
Up years outperforming	1/6 17%
Average beta outperformance in down years	4.69%
Average beta outperformance in up years	-0.67%

Diversified FX Portfolio versus GBI-EM index



Past performance is not indicative of future results. The return on 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. 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). Source: JPMorgan, RBC BlueBay Asset Management as at December 2023. The represented performance is hypothetical and does not represent the investment performance of an account or fund that an investor is able to invest in. No representation is being made that the fund available to invest in by an investor will or is likely to achieve profits or losses similar to those shown. There are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular investment or trading strategy. There are numerous other factors related to the implementation of any specific investment or trading strategy which cannot be fully accounted for in the preparation of hypothetical performance results and all which can adversely affect trading results

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Why invest in the broad emerging market local currency debt universe?

One of the highest yielding asset classes	EM Local Currency Debt is one of **the highest yielding asset classes** on the market today, with yields ranging between 6.5% and 13.5% across the different components of the entire universe
Broad range across duration	EM Local Currency Corporate Debt is also one of the **shortest duration asset classes** across all fixed income markets, whereas the inflation-linked universe is a **very high duration asset class** – creating significant alpha potential in a world with heightened inflation dynamics
High quality credit	With an average rating of BBB2, and the vast majority of the universe rated investment grade, EM local currency debt is also a **high quality asset class.**
Higher returns, lower volatility	Since the inception of the ICE BofA corporate index, the Bloomberg inflation linked index and the FTSE Frontier index, the broad local universe has delivered **higher absolute returns than the EM local sovereign market**, and has done so with a lower realised volatility
Significant alpha potential	At ~US$24 trillion in size, the investment universe is vast and rich in diversity. The lack of dedicated investors in this space makes this, in our view, **an asset class rich in potential for identifying opportunities and generating alpha**

Source: RBC BlueBay Asset Management, as at January 2024

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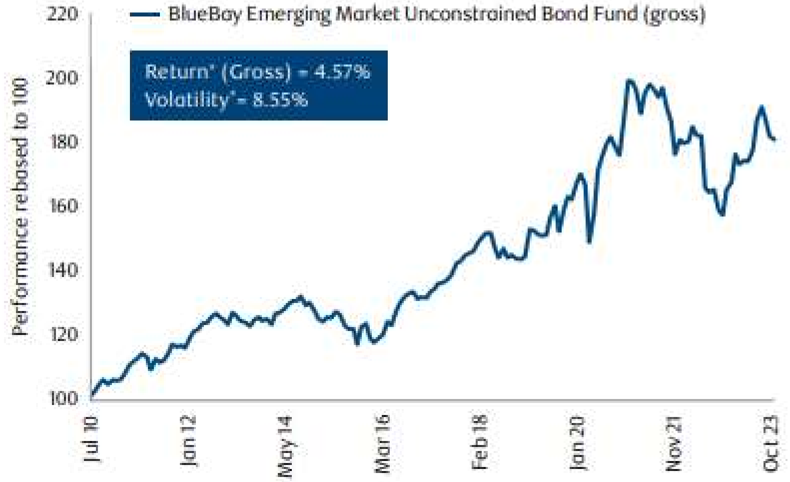
Emerging Market Unconstrained Strategy

The proof is in the pudding

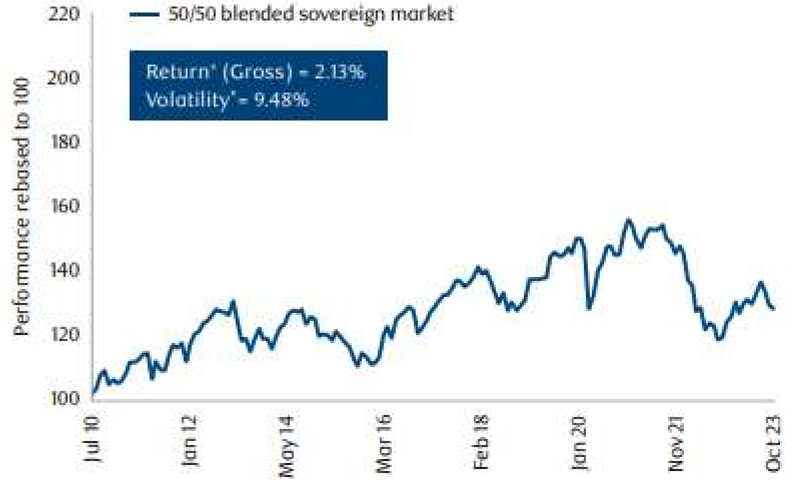
In practice

Performance EM unconstrained bond fund (gross of fees)



Source: RBC GAM and Bloomberg as at 31 October 2023.
*Annualised since inception. This fund is considered to be actively managed and does not have a benchmark to define the portfolio composition of the fund or as a performance target.

50/50 blended sovereign market (monthly data series)



Source: Bloomberg, the 50/50 blended sovereign market is: 50% JPM EMBI Global Diversifed, 50% JPM GBI – EM Global Diversified USD unhedged as at 31 October 2023. The above is for information purposes only.
*Annualised since inception.

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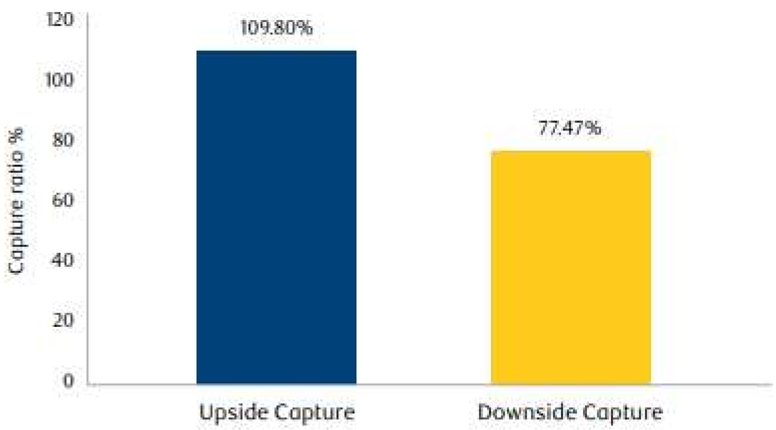
The strength of using more alpha sources

Trailing 3 years, since inception



Source: RBC GAM, as at 31 October 2023. Inception date 20 July 2010.

Alpha sources

The return and volatility achieved over the longer period are also broadly consistent with the product design of this fund. Over the long term, we aim to achieve cash + 4-6% return with a 0-8% volatility target as shown below.

Alpha source	Alpha target (bps)	Alpha range
Sovereign/Corporate Credit	330	0-75%
Local Currency Rates	140	0-50%
Currency	80	0-50%
Term Structure	50	0-30%
Total	**Cash + 4-6%**	
Target volatility	0-8%	

Source: RBC GAM, as at 31 October 2023.

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The effect of adding EM Unconstrained strategy to an EMD portfolio

•

The table shows average annualised returns, volatility and inter-asset correlations over the last 13 years, based on monthly data.

Annualised returns, volatility and inter-asset correlations (%)

	Emerging Market Unconstrained	EMBI Global Diversified	GBI-EM Global Diversified	CEMBI Diversified
	Correlation	76.5	72.1	72.2
Volatility	8.58	8.47	11.39	6.60
Returns	4.83	3.60	1.06	4.18

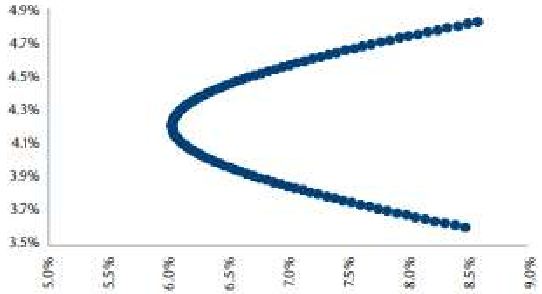
Source: RBC GAM, as at 31 October 2023.

RBC BlueBay Asset Management

The effect of adding EM Unconstrained strategy to an EMD portfolio

Efficient frontier between the strategy and EM hard currency sovereign

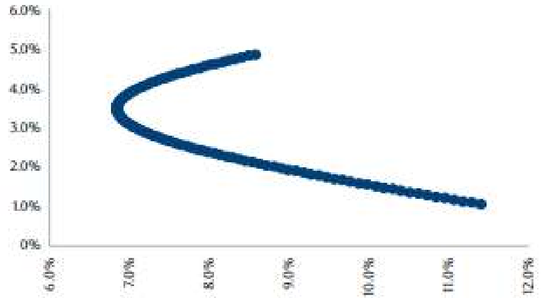
If a client only has an EM hard currency sovereign allocation at present, the chart shows that adding up to 45% of the strategy will cut volatility by nearly 25% from the 8.5% level, while boosting returns by 65bps (annualised).



Source: RBC GAM, as at 31 October 2023.

Efficient frontier between the strategy and EM local currency sovereign

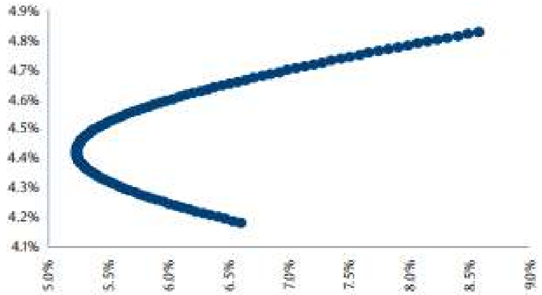
If a client only has an EM local currency sovereign allocation at present, the chart shows that adding up to 60% of the strategy will cut volatility by nearly 40% from the 11% level, while boosting returns by 200bps (annualised).



Source: RBC GAM, as at 31 October 2023.

Efficient frontier between the strategy and EM corporate

If a client only has an EM corporate allocation at present, the chart shows that adding up to 35% of the strategy will cut volatility by nearly 20% from the 6.5% level, while boosting returns by 20bps (annualised).



Source: RBC GAM, as at 31 October 2023.

Thus, we can see that the strategy is most beneficial for reducing overall portfolio volatility, if a client has either EM hard or local currency allocations.

The table shows average annualised returns, volatility and inter-asset correlations over the last 13 years, based on monthly data.

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Diversification/correlation

EM unconstrained in a broader portfolio context

The higher return profile combined with slightly lower volatility increases the Sharpe ratio for this portfolio, which makes it a suitable allocation against other allocations in investors' portfolios.

Correlation to major indices shows that the fund maintains a reasonably low (0.5) correlation with global government and aggregate bond indices, thus making it particularly suitable for addition in broader portfolios. It also retains a lower correlation with broader equity indices. The fund's correlation with major EM indices runs between 0.71 to 0.76.

Correlation to major indices

	EMU
BlueBay Emerging Market Unconstrained Bond Fund	1.00
EM Local Currency Sovereign Index	0.73
EM Hard Currency Sovereign Index	0.76
EM Hard Currency Corporate Index	0.71
S&P 500	0.55
MSCI EM Equity Index	0.66
Barclays Global Aggregate Index	0.46
JPM Global Bond Index	0.32
MSCI World Equity Index	0.61

Source: Bloomberg, GAM, as at 31 October 2023.

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BlueBay Emerging Market Unconstrained Bond Fund

March 2024 | Managed by RBC Global Asset Management (UK) Limited

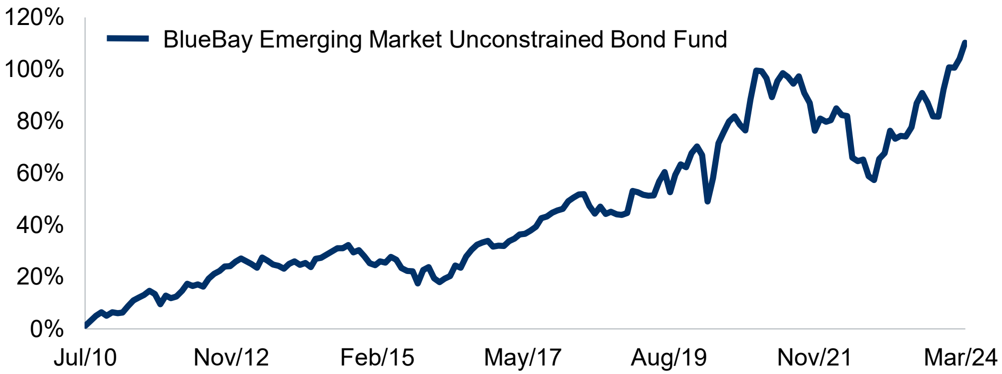
Marketing communication

Performance of the BlueBay Emerging Market Unconstrained Bond Fund

Performance (%) gross of fees (USD)

	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]	1.88	1.83	1.39	-1.35	1.29	6.43

Cumulative performance since inception gross of fees (USD)



Performance analysis (gross of fees)[2]

1 Year	20.52
5 Year annualised	6.74
10 Year annualised	5.14
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

Past performance is not indicative of future results. The return on 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. 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). Source: RBC Global Asset Management, as at 31 March 2024. Notes: [1] Partial performance since inception: 20 July 2010; [2] Risk statistics are annualised 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 annualised in accordance with current industry standard reporting practices.

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Issuer ESG evaluation framework and outputs

- Designed a unique ESG evaluation framework, which builds on third-party ESG data, leverages off internal knowledge and insights, and seeks to empower all investment professionals to be ESG proficient
- A risk-orientated approach to our ESG assessment reflecting our focus on capital preservation
- An integrated process whereby credit and ESG analysts work together, with the outputs feeding into portfolio construction
- On-going monitoring of issuers on ESG, with a formal review cycle as well as ad-hoc reviews as appropriate

ESG evaluation output metrics: two distinct but complementary issuer and security level ESG metrics

Fundamental ESG (Risk) Rating

We assign one overall ESG rating for an **issuer**[1]

Very High	High	Medium	Low	Very Low

Investment ESG Score

For **a security** of an issuer[1] we indicate the expected investment relevance/materiality of ESG risk factors

-3	-2	-1	0	+1	+2	+3

Bond A   Bond B   Bond C, etc

Note: [1] ESG evaluations are only completed for in scope strategies, for specific issuer and security types and certain investment exposures
Source: RBC Global Asset Management
For information purposes only

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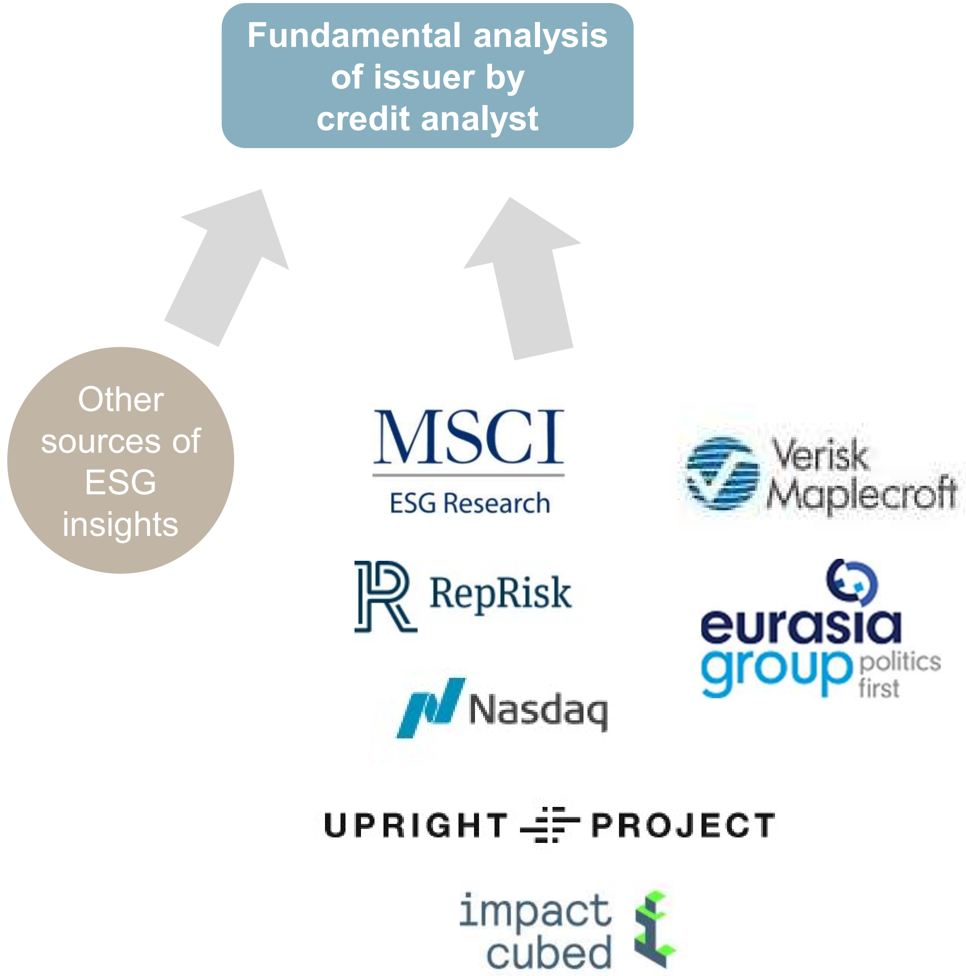
Sources of ESG related data and research



Sourcing issuer ESG and political data and insights from specialist third party ESG information providers

Access to ESG intelligence and insights from additional resources such as:

- Company management contact/communications
- Sell-side brokers with ESG capabilities
- Industry reports, webinars written by specialist third party providers
- Stakeholders such as regulators, non-governmental organisations, industry groups etc.
- Media channels specialising in ESG news flow
- <u>In-house sector credit analyst knowledge of issuer</u>

Source: RBC Global Asset Management, 1st October 2023
RBC GAM also sources ESG research and data form Institutional Shareholder Services (ISS) as well as Glass, Lewis & Co to support proxy voting related activities
For information purposes only

Engagement

Number of EM issuers engaged on ESG related matters in the last 12 months	87
	45 sovereign, 42 corporate

Total number of ESG engagements over the last 12 months	220
	150 sovereigns, 70 corporates

Recent Engagements

Antofagasta	▪ Chilean copper producer, with a smaller transport business. ▪ We visited the company in August, meeting with the CFO, for an update on the company's performance and ESG outlook. ▪ The 3 main environmental risks are water supply, carbon emissions and basins impact (tailing damps). They have been testing hydrogen technologies with the target to reduce CO_2 by 30% in 2025. ▪ Our view remains that the company is Medium Risk ESG; however, they are certainly on an improving trend.
Government of Indonesia	▪ We attended a meeting with the Minister of Finance of Indonesia, Mrs. Sri Mulyani Indrawati, taking the opportunity to explain the importance of Indonesia's ongoing efforts to implement the phase-out of coal fired power generation. ▪ We emphasised the importance of strengthening Indonesia's ambition would like to see the country eventually make its commitments compatible with Paris Agreement's 1.5 degree C temperature limit. We discussed deforestation risks, where they highlighted their partnership with Norway, who have agreed to pay the country 56m$ subject to Indonesia reducing CO_2 emissions and preserving its vast tropical rainforest. We have since reached out to the Norwegian Embassy in Jakarta to learn about their cooperation with Indonesia Environment Fund (IEF) and the structures they use for channelling funds to eligible investments. ▪ We followed up our meeting with Indonesia with a courtesy email a few weeks later, reiterating to the delegation the existence of and our membership in the Indonesia Working Group within the Investor Policy Dialogue on Deforestation (IPDD).
MTN International (MTN)	▪ MTN is Africa's largest mobile network operator. We have had several engagements with MTN in recent months where we discussed; Governance and human rights due diligence, Privacy and freedom of expression, specifically on SIM registration and African governments' requirement to link it to biometrics or government ID ▪ We will be following up with the company in the coming months and will continue to monitor the ESG progress very closely. ▪ Overall, we retain a positive view on MTN and have seen good ESG focus in the last year and following our engagements.

Source: RBC Global Asset Management, September 2023.

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Market outlook

Key themes for EM in 2024

Carry is a powerful source of return

Only a material sell off in US treasury and unexpected defaults will derail the return potential of carry

Relative valuation of EM credit remains attractive versus DM credit

2024 is the year of elections – and conflicts!

Political volatility is not just a risk – also an opportunity to make alpha. Structured analysis of elections are paramount.

Hedging strategies are essential to protect downside

EM country fundamentals are improving

Higher revenues from commodity prices and tourism will help reduce budget deficit

Inflation is falling in many EM countries faster than DM countries, thus offering much higher real rates

Source: RBC Global Asset Management, as of January 2024
Source: From left: app.hedgeye.com, cartooningforpeace.org, pressdemocrat.com

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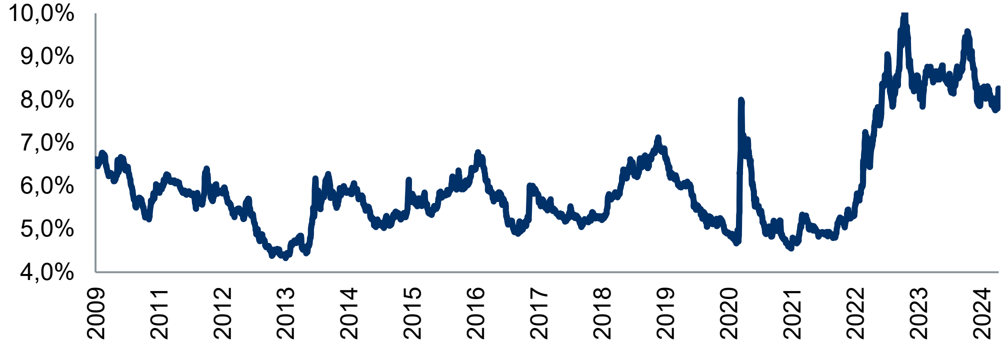
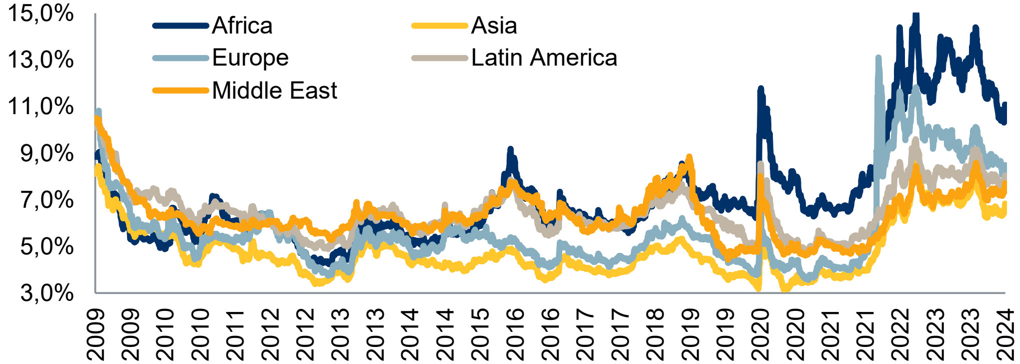
The power of carry

- Hard currency sovereign yield is down from peak in 2023 but remains elevated when compared to the last 15 years
- On a regional basis, yields are highest in Africa, Eastern Europe and Latin America
- Possible scenarios of spread and 10-year Treasury yields at current levels skewed to strong positive returns going forward

JPM EMBI Global Diversified Index yield (%)





- Index spread : 350 bps
- US 10 Treasury yield: 4.60%

JPM EBI Global Diversified [1]

- Yield: 8.25%
- IR Duration: 6.4yrs
- Spread Duration: 6.1yrs

Source: RBC Global Asset Management, as of April 2024
Note: [1] As of April 2024

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Rise of the Global South

Emerging market’s increasing influence is driving global economic trend

China

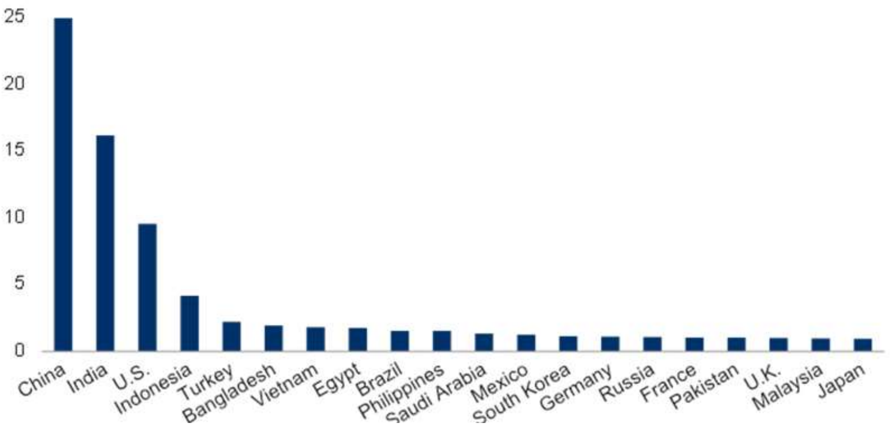
- Structural shift to a lower growth, defensive, ‘fortress China’ growth model
- Growth remains reasonable on an absolute basis
- China is the largest lender to EMs
- Inward focus, One Belt Road projects reigned in

EMs

- More key players such as India, Saudi, and UAE flexing their muscles
- Increased FDI into EMs is likely
- Sovereign debt remains a key concern for some EMs

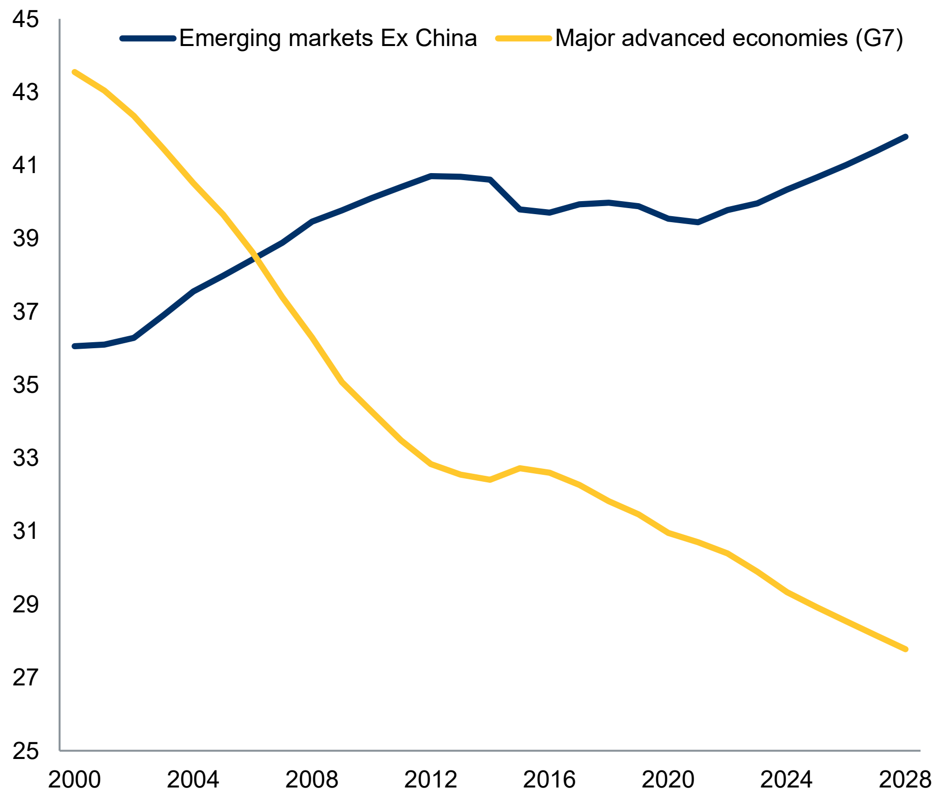
China remains the top driver of world growth

Share of world GDP growth from 2023 to 2028 (%)



EM’s rising influence

GDP based on purchasing-power-parity (PPP) share of world total (%)



Source: RBC Global Asset Management, IMF, World Economic Outlook database; and IMF estimates as October 2023

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Conclusion

- ✓ Emerging Markets are doing a better job
- ✓ EMD is an attractive allocation in a portfolio context, due to lower correlations and high yields.
- ✓ EMD would give you a better (risk)return if you look broader than the Benchmark, unconstrained.
- ✓ RBC BB could be your partner

Thank you

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