

# BlueBay Emerging Market Corporate Bond Fund

May 2015

## Performance (USD) Gross of Fees

|  | 1M     | 3M     | YTD    | 1YR    | 3YR*   | 5YR*   | SI*    |
|--|--------|--------|--------|--------|--------|--------|--------|
| BlueBay Emerging Market Corporate Bond Fund      | 0.27%  | 1.42%  | 3.20%  | 2.23%  | 5.12%  | 7.44%  | 10.50% |
| JP Morgan Corporate Emerging Market Bond Index** | 0.55%  | 2.83%  | 5.10%  | 4.33%  | 6.59%  | 7.67%  | 8.07%  |
| Alpha  | -0.28% | -1.41% | -1.90% | -2.10% | -1.47% | -0.23% | 2.43%  |

## Calendar Year Performance (USD) Gross of Fees

|  | 2011  | 2012   | 2013   | 2014   | 2015 <sup>YTD</sup> |
|--|-------|--------|--------|--------|---------------------|
| BlueBay Emerging Market Corporate Bond Fund      | 5.53% | 16.93% | -3.95% | 5.40%  | 3.20%               |
| JP Morgan Corporate Emerging Market Bond Index** | 3.24% | 16.95% | -1.73% | 5.70%  | 5.10%               |
| Alpha  | 2.29% | -0.02% | -2.22% | -0.30% | -1.90%              |

## Risk Statistics<sup>1</sup>

|                    |       |
|--------------------|-------|
| Standard Deviation | 6.71% |
| Tracking Error     | 3.32% |
| Information Ratio  | 0.73  |

## Top Sector

|                | Overweights |                 | Underweights |
|----------------|-------------|-----------------|--------------|
| Utilities      | 6.20%       | Financial       | -13.63%      |
| Infrastructure | 3.79%       | TMT             | -2.48%       |
| Transport      | 2.20%       | Consumer        | -2.16%       |
| Oil & Gas      | 1.03%       | Metals & Mining | -1.85%       |
| Diversified    | 0.31%       | Industrial      | -0.65%       |

The Government position was 0.21%

## Top Country

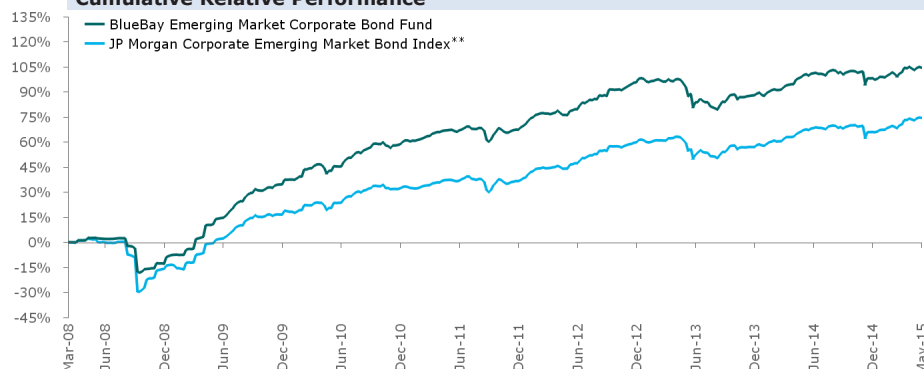
|        | Overweights |             | Underweights |
|--------|-------------|-------------|--------------|
| Russia | 3.14%       | Hong Kong   | -5.48%       |
| China  | 2.84%       | South Korea | -4.46%       |
| Brazil | 2.84%       | Thailand    | -2.25%       |
| Mexico | 2.37%       | India       | -1.57%       |
| Panama | 1.17%       | Peru        | -1.46%       |

US Futures exposure was 0.05%

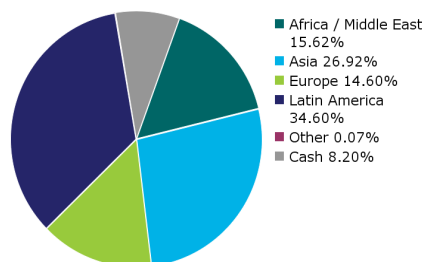
## Investment Objective

To achieve a total rate of return in excess of the JP Morgan Corporate Emerging Market Bond Index (CEMBI) Diversified from a portfolio of fixed income securities of corporate issuers based in Emerging Market Countries.

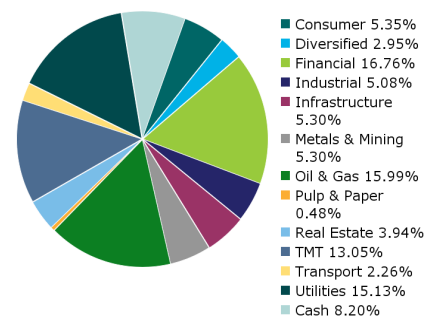
## Cumulative Relative Performance\*



## Regional Breakdown (% NAV)

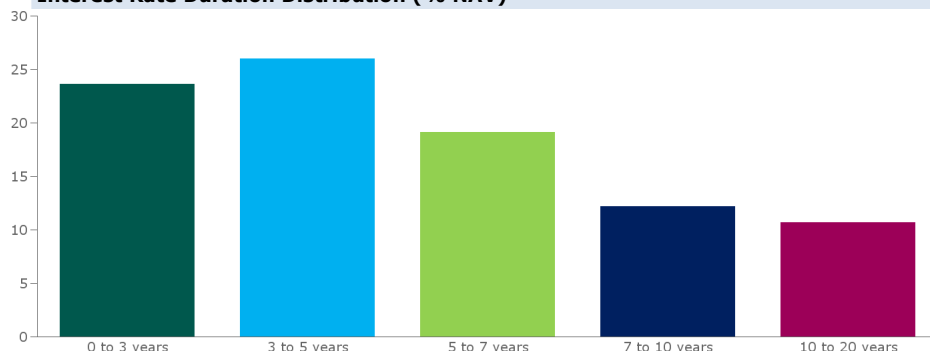


## Sector Breakdown (% NAV)



The Government position was 0.21%

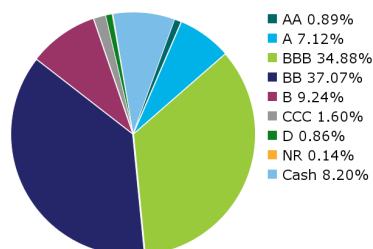
### Interest Rate Duration Distribution (% NAV)



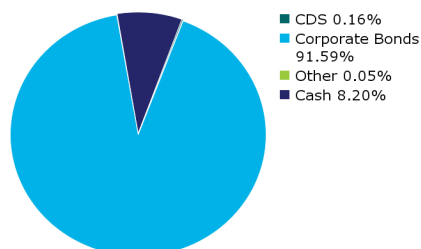
### Fund Characteristics

|                                       | Fund | Index |
|---------------------------------------|------|-------|
| Weighted Interest Rate Duration (yrs) | 5.71 | 5.70  |
| Weighted Yield to Maturity            | 5.28 | 5.24  |
| Spread over Treasuries                | 398  | 324   |
| Total No. of Issues                   | 146  | 455   |
| Total No. of Issuers                  | 113  | 316   |
| Weighted Rating                       | BBB- | BBB   |
| Average Position (%)                  | 0.64 | 0.22  |

### Credit Quality Breakdown (% NAV)



### Investment Breakdown (% NAV)



### Top 5 Holdings (long)<sup>a</sup>

|  |       |
|--|-------|
| DP World Ltd 6.85% 07/37                     | 2.52% |
| Bank of China 5% 11/24                       | 1.85% |
| Anglo Gold 8 <sup>1/2</sup> % 07/30/20       | 1.85% |
| BBVA Bancomer S.A. 6 <sup>3/4</sup> % 09/22  | 1.76% |
| Puma Intl Financing 6 <sup>3/4</sup> % 02/21 | 1.75% |

### Fund Facts

|                              |  |
|------------------------------|--|
| Total Fund Size <sup>2</sup> | USD 1,560m   |
| Inception Date               | 31 March 2008  |
| Currency                     | USD  |
| Benchmark                    | JP Morgan Corporate Emerging Markets Bond Index (CEMBI) Diversified  |
| Fund Legal Name              | BlueBay Funds - BlueBay Emerging Market Corporate 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                    | Part I SICAV (UCITS IV)  |
| Domicile                     | Luxembourg   |
| Investment Manager           | BlueBay Asset Management LLP   |

### Investment Strategy

- The Fund invests predominantly in fixed income securities issued by corporates and financial institutions based in emerging markets
- The Fund seeks to generate excess returns via superior country, sector and security selection; based upon high quality, proprietary research
- Portfolio duration is controlled within a narrow band relative to the benchmark

### Team Info

| Fund Managers                  | Polina Kurdyavko | Adam Borneleit | Anthony Kettle |
|--------------------------------|------------------|----------------|----------------|
| Joined BlueBay                 | July 2005        | June 2008      | March 2006     |
| Investment Industry Experience | 15 years         | 21 years       | 15 years       |

Size of team 33 investment professionals

Average Investment Industry Experience 13 years

### Contact Information

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A Fitch Fund Quality Rating provides an assessment of a fund's key attributes and consistency of longer-term returns relative to its peer group and/or benchmarks. Ratings are as follows from highest to lowest: Excellent, Strong, Good, Weak and Inadequate. Further information on this rating is available from Fitch Ratings.

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May 2015

## Commentary

### Market Review

May proved to be an interesting month for the emerging markets (EM) corporate market, as the rally in the high yield segment of the market continued, albeit at a slower pace (the benchmark JPM CEMBI Div HY index returning +1.7%; 18bps tighter in spread) while the investment grade segment was more negatively affected by the move higher in US Treasuries, returning -0.04% in total return terms; 3bps tighter in spread. At the overall index level, the CEMBI Div finished up +0.55% in May, giving a year-to-date (YTD) return of +5.1%, which given the macro backdrop of lacklustre growth, softer commodity prices and presence of a number of idiosyncratic EM-specific headwinds, is a pleasing return. Top performing markets on the month were Ukraine (on the back of a more positive outlook in terms of the sovereign and quasi-sovereign restructuring proposals) and Russia (which benefited from above-consensus GDP for the first quarter, higher oil prices, and no marginal bad news with respect to sanctions or on-the-ground violence in Eastern Ukraine). The oil & gas sector continued its run of strong performance, as fears of another leg down in oil subsided, with prices appearing to stabilise within the mid-60s range for now. The notable underperformer on the month was the Asian bloc, which sold off in sympathy with the US duration sell-off and due to some 'indigestion' following a significant amount of issuance in this space in recent months. On the macro side, the big theme over the month was heightened Treasury volatility and the back-up in US Treasuries and German bund yields, which continued into May. It is difficult to pinpoint the exact cause of this, though given the magnitude of the moves over a short period in the absence of any meaningfully stronger data, we believe it was technically-driven and that such volatility is set to continue over the short term. Furthermore in developed markets, the big watchpoint over the month was the Greek situation, as it became increasingly unlikely that a deal would be agreed and the market began to price in a greater probability of a Greek default and 'Grexit'. Within EM specifically, the main talking point was China, where we continued to see accommodative policies, this time in the form of a PBOC 25bps rate cut to address the slowing growth trend. Elsewhere, on the political front, the was some volatility in Turkish credit in the run-up to upcoming elections, while in Brazil there were some speculative reports that Joaquim Levy was contemplating leaving his position as Finance Minister. From a technical standpoint, the asset class remained fairly well bid, as a result of the lack of issuance (only \$24bn of new deals priced in May compared with \$39bn in April) coupled with nine consecutive weeks of inflows into the asset class, a broader local buyer base in recent months (e.g. Chinese banks, Taiwanese insurers) and a continued strong bid from European and US crossover investors who remain starved of yield in their domestic markets.

### Performance

Our somewhat defensive positioning in more liquid, higher-quality names caused us to underperform the benchmark return of 0.55%, but still deliver a positive absolute return of 0.27% on the month. This month, it was certainly a case of us not owning credits that performed particularly well, rather than owning poor credits whose price fell materially. As such, one of biggest detractors from relative performance over the period was Russia, where our underweight position based on weaker fundamentals was overshadowed by the strong technical bid for Russian corporate paper, making Russia one of the top performers in the index on the month. Elsewhere, in Colombia, our underweight in oil & gas credit Pacific Rubiales, which we do not like on a fundamental basis, detracted as news about a potential takeover by Grupo Alfa broke, with bonds spiking approximately 10 points on the news. In addition, our bias to be materially underweight other fundamentally weaker segments of the market, such as Jamaica, Kazakhstan, Zambia and Ukraine, all detracted as the 'junk rally' gained momentum over the month. On the positive side, our bias to be underweight the tighter spread markets in Asia such as Hong Kong, Korea, Thailand and Singapore cumulatively added to performance given the move higher in Treasuries over the month. In the UAE, our holding in DP World performed well, narrowing some 40bps in spread on the month, while in Peru, our zero weight in a weaker metals & mining credit (Southern Copper) also performed well as copper prices were softer on the month and the credit underperformed.

### Market Outlook

Fundamentally, for the most part we have not seen a lot of signs of deterioration in companies' credit metrics and crucially, the persistently stronger USD has not led to an increase in default rates – in fact we are currently running at a 1.5% EM high yield default rate which is at the lower end of our forecast range. From a technical perspective, the asset class appears to remain well supported and we expect this to continue. This has been primarily due to the fact that we have not seen a lot of issuance this year (\$136bn YTD, compared to closer to \$180bn this time last year). However, we are mindful of the fact that the successful filing of financials from PETBRA may pave the way for an uptick in issuance out of Brazil in the second half of the year. From a valuations perspective, despite the magnitude of the rally YTD, valuations still look attractive, albeit less so than in previous months in our opinion. Looking forward, there are a number of key milestones, both on the macro level and within EM specifically, that warrant close attention. Firstly in the US, with June now off the table, the consensus is currently for a September/December initial rate hike and as such, every data point in the coming weeks and months has potential to bring with it heightened volatility. In Greece, it seems that we are nearing some sort of end game, be it a default or a resolution of sorts. Either way, we need to be mindful of the potential for the contagion to spill over into EM credit markets, as was the case in 2011. Turning to EM, the themes to be on the lookout for will be China, where we will be looking out for the impact of the stimulus on Chinese growth in the second half of the year. Also in Brazil, we expect more headlines from the Lava Jato investigations, and will be looking closely at any political developments as well. In Russia, we continue to monitor any geopolitical developments and in Turkey, we await the outcome of the upcoming elections. Suffice to say that we expect there to be bouts of volatility over the coming months, which should present opportunities to take advantage of, and generate, alpha.

\* Since inception.

\*\* The full name of the index is JP Morgan Corporate Emerging Markets Bond Index (CEMBI) Diversified.

▼ Performance shown for 1yr periods onwards are annualised figures.

■ The report exposures are solely emerging market positions. All index hedges including US Treasury and EUR have been excluded. Please note as of September 2009 newsletter data includes all CDS positions.

1. 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.

2. The Fund AUM is stated on a T+1 basis and includes non-fee earning assets.

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