BlueBay Global Convertible Bond Fund

RBC Global Asset Management Investment Summit

Presented by: Michael Reed, Senior Portfolio Manager

June 2013
**Convertible Bonds – The Asset Class**

**Convertible Bond Payoff**

- Convertibles can be seen as an optimal alternative to direct equity exposure

- **Balanced:** The convertible is at its point of maximum convexity. As the underlying equity price increases, the convertible bond price rises, reflecting the increasing equity-like profile of the security.

- **Equity:** The valuation of the convertible has a high correlation with the underlying equity price.

- **Bond:** The equity value has fallen and the convertible now has little equity sensitivity. The convertible bond exhibits bond-like behaviour, reacting mainly to movements in interest rates and credit spreads.

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Data source: UBS Convertibles Marketing / MACE
Convertible Bonds – Index Characteristics

UBS Global Focus Convertible Index Constituents Characteristics

**Split by Regions**
- US: 36.1%
- Europe: 39.5%
- Japan: 17.9%
- Asia ex Japan: 6.5%

**Split by Currency**
- USD: 54.2%
- EUR: 28.9%
- JPY: 11.8%
- Other: 9.9%

**Split by Sector**
- Electronics: 17.4%
- Property: 11.8%
- Telecom: 9.3%
- Oil & Gas: 8.3%
- Retail/Wholesale: 6.8%
- Pharmaceutical: 5.0%
- Services: 5.0%
- Utilities: 4.9%
- Industrials: 4.7%
- Steel/Metals: 4.4%
- Construction: 4.3%
- Insurance: 3.9%
- Food & Drink: 3.8%
- Leisure: 3.3%
- Banking/Finance: 3.1%
- Transport: 2.3%
- IT: 0.5%
- Other: 1.3%

**Split by Credit***
- AAA-AA: 6.7%
- BB: 7.8%
- CCC: 2.0%
- B: 1.3%
- A: 35.6%
- BBB: 25.4%
- Other: 9.9%

**UBS Global Focus Convertible Index Statistics**
- **Global Market Cap**: US$ 475 bn
- **UBS Index Market Cap**: US$ 123 bn
- **Average Issue Size**: US$ 798 m
- **Average Delta**: 45.66
- **Average Premium**: 26.5
- **Average Yield to P/M**: -3.82
- **No. of Issues**: 154
- **No. of Issuers**: 129

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Data source: UBS Convertibles Marketing / MACE, as at 30 April 2013

*Where no official rating is available, an effective rating is assigned using internal processes*

**Delta** – The change in value of the convertible as a percentage of the movement of the underlying asset. i.e. the equity sensitivity

**Premium** – The percentage over which the convertible is priced relative to the underlying conversion property
Convertible Bonds – Index Characteristics

UBS Global Focus Convertible Index Comparative Performance

Comparative Index Performance (Rebased to 100)

- MSCI World Equity Index
- UBS Global Focus Convertible Bond Index
- Merrill Lynch Global Corporate Bond Index

Statistical Metrics, as at 30 April 2013

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<tr>
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<th>MSCEI</th>
<th>UBS Convert Bond</th>
<th>Global Corp Bond</th>
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</thead>
<tbody>
<tr>
<td>Return 2013 YTD</td>
<td>10.3%</td>
<td>4.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Lifetime from 30 June 1998</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Return</td>
<td>36.0%</td>
<td>93.2%</td>
<td>155.3%</td>
</tr>
<tr>
<td>Annualised Return SI</td>
<td>2.1%</td>
<td>4.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Volatility</td>
<td>17.3%</td>
<td>8.2%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Beta vs MSCI World</td>
<td>1.000</td>
<td>0.398</td>
<td>0.032</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>-0.01</td>
<td>0.27</td>
<td>0.78</td>
</tr>
</tbody>
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- Over the long term, convertibles have outperformed equities significantly
- Volatility of the convertible bond index is less than half that of the MSCI World Equity Index

Data source: UBS Convertibles Marketing / MACE, as at 30 April 2013
Convertible Bonds – Current Outlook & Investment Case
Convertible Inclusion Improves a Portfolio’s Risk/Return

- The inclusion of convertibles clearly expands the efficient frontier in a portfolio
- Replacing stock allocations with convertibles reduces volatility
- Adding convertibles improves the diversification of a portfolio

Efficient Frontier (data 1989 to 2011)

Data source: Merrill Lynch Convertible research, data calculated from 1989 to 2011
Convertible Bonds – Current Outlook & Investment Case
Credit Markets Remain Attractive

- Current credit spreads imply annual default rates of over 2.0% for investment grade and over 4.5% for high yield credits
- Default rates are expected to remain low for 2013
- Current credit spreads are too wide for bottom-up anticipated default rates

Data source: Bloomberg, as at 30 April 2013
US HY default rates – source JP Morgan
Convertible Bonds – Current Outlook & Investment Case
Equities Supported by Valuation Arguments

Dividend yield gap - Equity yields compelling
S&P dividend payouts - Low by historic ratios

• Equity yields are attractive relative to bond yields on an historic basis
• Given current corporate profitability dividend payout ratios have room to increase

Data source: JP Morgan as at 30 April 2013
Data source: Goldman Sachs and Bloomberg, As at 30 April 2013
Convertible Bonds – Current Outlook & Investment Case
Emerging Markets (EM) – Credit and Equity Opportunities

- Strong GDP growth and healthy banking systems are supporting EM credit
- Equivalent grade credits trade at a discount in EM
- Healthy asset inflows are supportive of both EM credit and equity markets
- EM equities trading near cyclical lows on forward P/E

Spread of emerging market IG corporates versus developed market IG corporates

Emerging markets forward P/E earnings ratio

Data source: Bloomberg, BlueBay Asset Management, Bloomberg, as at 31 March 2013
Data source: BNP Paribas as at 1 February 2013
Convertibles Have Offered Protection Against Duration

- We believe that in periods of rising rates the equity component of convertibles normally compensates for falling bond floors.
- Over last 20 years, in each annual period that government bonds have posted significant losses, convertibles have posted positive returns.
BlueBay Convertible Bonds

Why Invest in Convertible Bonds at BlueBay?

- BlueBay employs a unique 360-degree approach to convertible fund management
- Portfolio construction is performed by combining top-down, bottom-up and derivative valuation techniques

Portfolio Construction

- Macro Overlay
- Convertible Bonds Valuation Analysis
- Fundamental Analysis Credit / Equity
BlueBay Convertible Bonds – The Team
A Dedicated Team of Investment Professionals

Michael Reed
Senior Portfolio Manager
- Mike joined BlueBay in October 2007 from Pendragon, where, as a Partner, he ran the company’s convertible arbitrage strategies. Prior to that, he was a Managing Director of Salomon Brothers, responsible for international convertible bond trading between 1994 and 2002. Michael joined the Japanese Warrant Arbitrage desk at Salomon in 1989 and spent two years trading Japanese Warrant Arbitrage in Tokyo. Michael holds a Bachelor of Engineering from Southampton University.

Alessandro Esposito
Portfolio Manager
- Alessandro began his career in 1998 at JPM before moving to Intesa in 2000. He began trading hybrids and equity derivatives at Morgan Stanley in 2003 and ran the convertible arbitrage strategy at Peloton Partners from 2006. He joined BlueBay in December 2007 as a Portfolio Manager on the convertible arbitrage team. He has MSc in Mathematical Trading and Finance and is a CFA charterholder.

- Experience: The Portfolio Managers have a combined 39 years of investment experience.
- Participation at Investment Committee: Senior investment professionals across all product areas are members of the Investment Committee, chaired by the CIO.
- Proprietary research: Working with the dedicated credit analysts within BlueBay, covering Investment Grade, High Yield, and Emerging Markets.
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