



Portfolio Manager Perspectives BlueBay Emerging Market Debt Update

September 7, 2017

As the ‘back to school’ trade begins, we have continued to reduce directional risk on the Fund. The medium-term fundamental backdrop remains positive, but short-term considerations are likely to increase volatility. At the very least, we want to lock in some performance, in order to give us the flexibility to increase exposure again should we see some temporary weakness.

As investors return to the market, there are a number of issues that can cause short-term uncertainty.

The situation on the Korean peninsula continues to worsen. Kim Jong-un has raised the stakes once again with his latest missile launch over Japan and underground thermonuclear test. The regional dimension to the crisis seems to be growing. Russia, China, South Korea, Japan and the US are all now threatened and trying to find a solution, and yet there is no agreement on a realistic pathway to peace. The current Korean crisis is perhaps best seen as an early example of regional powers led by nationalist leaders flexing their muscles as the US retreats from its post 1945 role as the ‘global policeman’. The stakes are high, and particularly dangerous given the nuclear dimension. We do not expect catastrophe, we think the cold rationale of deterrence still applies, but there are plenty of opportunities coming up for Kim to cause more mischief. We would expect more tests/threats to coincide with the 19th Party Congress in Beijing in mid-October and Trump’s visit to China at the beginning of November.

We are also wary that the political calendar in Washington DC in September is crowded. Congress is trying to provide emergency relief for Hurricane Harvey (to say nothing of the approaching Irma) while avoiding a government shutdown and raising the debt ceiling. Efforts to revive Obamacare are uncertain and the White House wants progress on immigration and tax reform. It is unrealistic to expect this all to be plain sailing given the polarised

political environment and the need to coordinate efforts with the ‘disrupter in chief’ in the White House. Congress is only scheduled to sit for 12 days in September – they will be busy!

On a more practical level, we also want to free up more space for the traditional September wave of new issuance. Although issuance needs for emerging market sovereigns and corporates into year-end are not overwhelming, supply may be frontloaded. We are already aware of forthcoming deals for Turkey, South Africa, Ukraine, Bahrain and Uruguay. It would be logical to expect even more given low US Treasury yields and continued strong inflows into the asset class. New issuance that we view as attractively priced will be an opportunity, so it makes sense to reduce inventory in preparation. Over the past week we have further reduced Argentina and Ecuador, and taken off positions in Iraq, Brazil, Ukraine and Azerbaijan in order to raise some cash.

We should emphasise that the positive medium-term view remains valid. We are still long, particularly in local markets where the disinflation trade remains intact. We have maintained our local market positions in Egypt, India, Turkey, South Africa and we are increasing exposure to Russia.

In summary, there is no major change of view, but a little more portfolio flexibility to help us navigate September.



David Dowsett
Partner, Co-Head of Emerging Markets
BlueBay Asset Management

This document is issued in the United Kingdom (UK) by BlueBay Asset Management LLP (BlueBay), which is authorized and regulated by the UK Financial Conduct Authority (FCA) and is registered as an investment adviser with the US Securities and Exchange Commission (SEC), and as a commodity pool operator and commodity trading advisor with the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). To the extent this document is accessible outside of the UK, it is issued by the following respective BlueBay entities or affiliates. In the United States, by BlueBay Asset Management USA LLC, which is registered as an investment adviser with the SEC and as an introducing broker with the NFA. In Germany BlueBay is operating under a branch passport pursuant to the Alternative Investment Fund Managers Directive (Directive 2011/61/EU). In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Australia, BlueBay is exempt from the requirement to hold an Australian financial services licence under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. In Canada, BlueBay is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permit BlueBay to carry out certain specified dealer activities for those Canadian residents that qualify as “a Canadian permitted client”, as such term is defined under applicable securities legislation. The registrations and memberships noted should not be interpreted as an endorsement or approval of any of the BlueBay entities identified by the respective licensing or registering authorities.

The document is provided for informational purposes only. It is not intended, nor should it be interpreted as investment, tax or legal advice. This document does not constitute an offer to sell nor is it a solicitation of an offer to purchase any

security or investment product in any jurisdiction. This document is not available for distribution in any jurisdiction where such distribution would be prohibited and is not aimed at such persons in those jurisdictions. Past performance is not indicative of future results. BlueBay makes no express or implied warranties or representations with respect to the information contained in this document and hereby expressly disclaim all warranties of accuracy, completeness or fitness for a particular purpose. BlueBay is under no obligation to update the information in this document to reflect changes after the publication date. The information contained in this document is believed to be reliable, but BlueBay cannot and does not guarantee its accuracy, timeliness or completeness. No part of this document may be reproduced in any manner without the prior written permission of BlueBay

In the United States, this document may be provided by RBC Global Asset Management (U.S.) Inc. (“RBC GAM-US”), an SEC registered investment adviser founded in 1983. In Hong Kong, this document may be provided by RBC Investment Management (Asia) Limited, which is registered with the Securities and Futures Commission. RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes BlueBay Asset Management LLP, RBC GAM-US, RBC Investment Management (Asia) Limited and RBC Global Asset Management Inc., which are separate, but affiliated corporate entities. Copyright 2017 © BlueBay, is a wholly-owned subsidiary of RBC and BlueBay may be considered to be related and/or connected to RBC and its other affiliates. © Registered trademark of Royal Bank of Canada. RBC Global Asset Management is a trademark of RBC. BlueBay Asset Management LLP, registered office 77 Grosvenor Street, London W1K 3JR, partnership registered in England and Wales number OC370085. All rights reserved.

