RBC GAM Webcast

Convertible Bonds – The Best of Both Worlds

May 14th, 2013

Mike Reed, Senior Portfolio Manager
Convertible Bonds – The Asset Class
Equity-like upside, bond-like protection

- Convertibles are a hybrid security that combine the security of bond investment with the upside potential of equities

- Debt
- Convertibles
- Equity

  - Unlimited equity upside
  - Fixed current income
  - Repayment of principal
Convertible Bonds – The Asset Class
Convertible Bond Payoff

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

**Bond Like**

- 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.

Data source: UBS Convertibles Marketing / MACE
Convertible Bonds – Index Characteristics
UBS Global Focus Convertible Index Comparative Performance

- 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 31 March 2013
**Convertible Bonds – Investment Case vs Equities**

Convertibles have offered similar returns with lower volatility

Convertibles have demonstrated an improved risk/reward profile

<table>
<thead>
<tr>
<th></th>
<th>Total return</th>
<th>Volatility</th>
<th>Sharpe</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equities</td>
<td>Converts</td>
<td>Equities</td>
</tr>
<tr>
<td>1 year</td>
<td>8.20%</td>
<td>4.84%</td>
<td>12.8%</td>
</tr>
<tr>
<td>3 year</td>
<td>23.98%</td>
<td>17.80%</td>
<td>17.2%</td>
</tr>
<tr>
<td>5 year</td>
<td>-3.46%</td>
<td>9.14%</td>
<td>22.3%</td>
</tr>
<tr>
<td>10 year</td>
<td>86.65%</td>
<td>82.94%</td>
<td>17.6%</td>
</tr>
</tbody>
</table>

- Convertible returns over 1, 3, 5 and 10 year periods are “equity-like”
- Volatility of convertible returns is consistently less than half of equity returns
- Over each period Sharpe ratio of convertibles is far superior to equities

Data source: Bloomberg, as at 28 February 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

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Investing in Convertibles 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
- Fundamental Analysis Credit / Equity
- Convertible Bonds Valuation Analysis
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 2 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 charter holder.

- **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.
**Convertible Bond Market Overview**  
Advantages of access to global convertible bond market

### Canadian Market

<table>
<thead>
<tr>
<th>Market Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalization</td>
<td>CAD$20.5bn</td>
</tr>
<tr>
<td>Average issue Size*</td>
<td>CAD$77m</td>
</tr>
</tbody>
</table>

**Sector Breakdown**

- **Relatively Small**
  - Represents only 5% of the global market
- **Concentrated**
  - Approximately 80% of all issues are in Financial, Energy, and Industrial sectors
- **Narrow**
  - Approximately 50% of market capitalization is in 39 issues from 28 different companies

### Global Market

<table>
<thead>
<tr>
<th>Market Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalization</td>
<td>US$475bn</td>
</tr>
<tr>
<td>Average issue Size*</td>
<td>US$888m</td>
</tr>
</tbody>
</table>

**Sector Breakdown**

- **Relatively Small**
- **Concentrated**
- **Narrow**

80% of issues are in financial, energy, and industrial sectors

**Country Breakdown**

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>38.5%</td>
</tr>
<tr>
<td>Europe</td>
<td>31.4%</td>
</tr>
<tr>
<td>Asia ex Japan</td>
<td>17.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

**Broad Range of Credits**

- **AAA**
- **AAA- AA**
- **AA- AA**
- **BBB**
- **CCC**

Data source: Bloomberg, UBS Convertibles Marketing / MACE.  
Canadian market data as of July 19, 2012; Global market data as of February 29, 2012

* Based on active issues trading between $50-$150
** Where no official rating is available, BlueBay assigns an effective rating using internal processes
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.

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Convertible Bonds – Current Outlook & Investment Case
Equities supported by valuation arguments

- 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 31 March 2013
Data source: Goldman Sachs and Bloomberg

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Convertible Bonds – Current Outlook & Investment Case
Emerging Markets – 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 vs developed market IG corporates  Emerging markets forward P/E earnings ratio

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Convertibles perform well in rising rate environments

- 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.
APPENDIX: BlueBay Convertible Bonds – Our Track Record
Long Only Products – BlueBay Global Convertible Bond Fund

Fund Type: UCITS IV Fund (Part I SICAV) This Fund is not available to Canadian investors.

Performance (US$ gross of fees to 30 April 2013)

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>1M</th>
<th>3M</th>
<th>YTD</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
<th>Ann. SI*</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlueBay Funds - BlueBay Global Convertible Bond Fund</td>
<td>2.73%</td>
<td>2.09%</td>
<td>5.07%</td>
<td>14.43%</td>
<td>-3.55%</td>
<td>13.83%</td>
<td>36.70%</td>
<td>15.54%</td>
</tr>
<tr>
<td>UBS Global Convertible Focus Index USD</td>
<td>2.37%</td>
<td>2.08%</td>
<td>4.26%</td>
<td>10.56%</td>
<td>-4.58%</td>
<td>9.73%</td>
<td>24.42%</td>
<td>11.08%</td>
</tr>
<tr>
<td>Alpha</td>
<td>0.36%</td>
<td>0.01%</td>
<td>0.81%</td>
<td>3.88%</td>
<td>1.03%</td>
<td>4.10%</td>
<td>12.28%</td>
<td>4.46%</td>
</tr>
</tbody>
</table>

Cumulative Gross Relative Performance (to 30 April 2013)

Risk/Return Characteristics

Data source: BlueBay Asset Management
Fund Type: UCITS IV Fund (Part I SICAV) *Annualised return. Fund inception date: 9 December 2008
Please refer to the Disclaimer located at the back of this presentation for important information regarding the performance shown above.
**APPENDIX:** Convertible Bonds at BlueBay – Our Track Record

Performance characteristics vs UBS Global Convertible Index

**Fund Type:** UCITS IV Fund (Part I SICAV) This Fund is not available to Canadian investors.

Data source: Mercer. Universe of 13 Funds.

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Comparison with the UBS Global Convertible Index (US$ net) over 3 years to December 2012

<table>
<thead>
<tr>
<th>Return (% p.a.)</th>
<th>Standard Deviation (% p.a.)</th>
<th>Reward to Risk</th>
<th>Tracking Error (% p.a.)</th>
<th>Information Ratio</th>
</tr>
</thead>
</table>

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APPENDIX: About BlueBay

Key facts

- Founded in 2001, BlueBay is a leading European credit specialist with long-only and alternative capabilities with assets under management of over US$55.7 billion*

- Absolute return-style products across investment grade, high yield debt, loans, distressed debt, convertible bonds, and emerging markets

- Operational and control infrastructure of a mainstream asset manager with the mindset of a boutique

- Based in London with offices in Hong Kong, Japan, Luxembourg and the US, BlueBay has 328 employees including 84 investment professionals**

- BlueBay Asset Management is a wholly-owned subsidiary of Royal Bank of Canada (RBC) and part of the RBC asset management division, RBC Global Asset Management group of companies

Data Source: BlueBay Asset Management   *As at 31 March 2013   **As at 31 March 2013. Investment professionals defined as staff members directly involved in the investment process

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The full name of the Canadian-domiciled fund is BlueBay Global Convertible Bond Fund (Canada) ("Fund"). RBC Global Asset Management Inc. ("GAM"), an indirect wholly-owned subsidiary of Royal Bank of Canada, is the manager of the Fund. BlueBay Asset Management LLP, a wholly-owned subsidiary of Royal Bank of Canada and an affiliate of GAM, is the sub-advisor of the Fund.

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