

RBC Global Asset Management  
PH&N Institutional

# Diving for treasure in choppy waters

## Opportunities in Event Driven Credit

**Presented by:**

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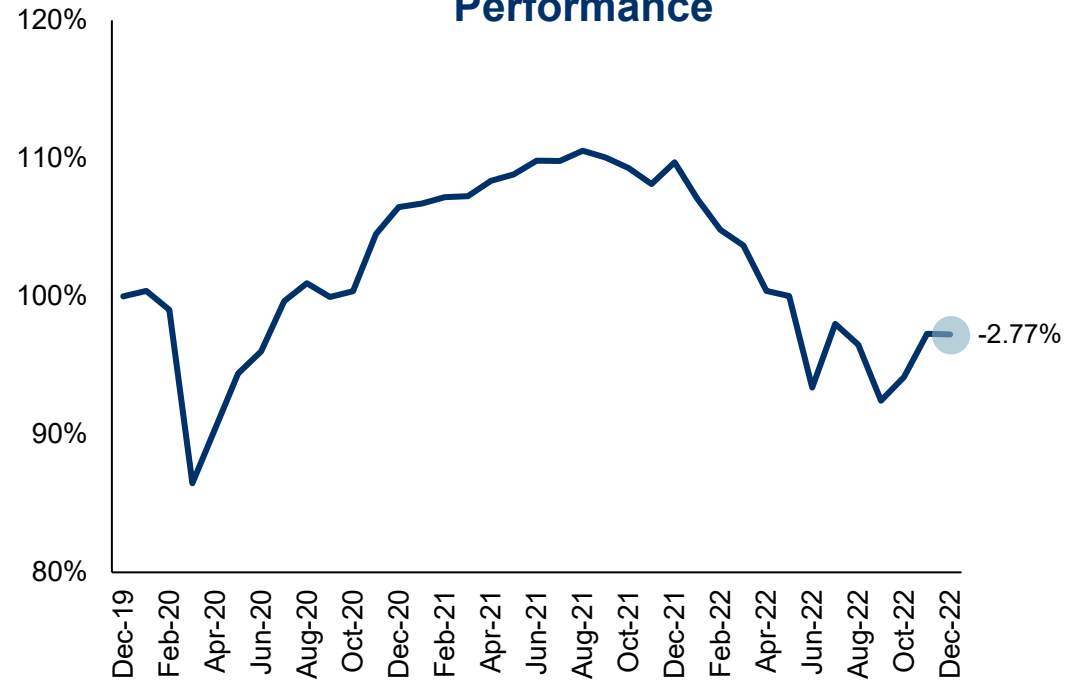
# Quiz...



2020-2022 was very choppy for credit markets. **Global high yield markets returned -2.77% over that period.**

What do you think the median **Event Driven/Special Situations strategy** delivered for returns?

## Global High Yield Bonds - Cumulative Performance



Source: RBC GAM, ICE BofAML Global High Yield Index - USD Hedged Returns. As of December 31, 2022

# Quiz...

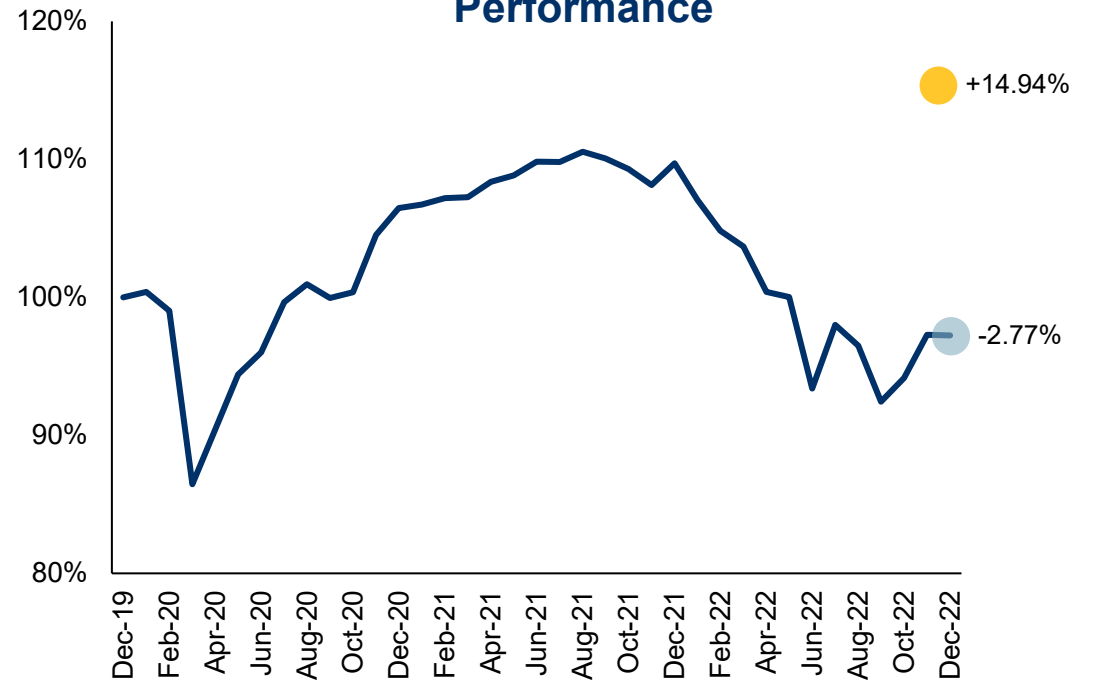


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What do you think the median **Event Driven/Special Situations strategy** delivered for returns?

Answer: **+14.94%**<sup>1</sup>

## Global High Yield Bonds - Cumulative Performance



Source: RBC GAM ICE BofAML Global High Yield Index - USD Hedged Returns. As of December 31, 2022

<sup>1</sup> Based on eVestment database. Event Driven – Multi-Strategy category, USD  
Source: RBC GAM, ICE BofAML, eVestment, as of 31 December, 2022

# Introduction to the asset class

# Event Driven/Special Situations Credit

## Examples of investment types

<b>Stressed</b>	<b>Distressed</b>	<b>Credit Shorts</b>
<ul style="list-style-type: none"><li>• Intrinsically cheap bonds or bank debt</li><li>• Likely still paying interest/coupons</li><li>• Prices expected to revert to par</li></ul>	<ul style="list-style-type: none"><li>• Bonds or bank debt trading at deep discounts</li><li>• Need financial/operational restructurings</li><li>• Commonly involves debt-for-equity swaps</li></ul>	<ul style="list-style-type: none"><li>• Bonds which are expensive to intrinsic value</li><li>• Over-leveraged, secular pressures, operational challenges</li><li>• Opportunities identified through coverage of high yield markets</li></ul>
<b>Hold period:</b> 3-24 months <b>Expected IRRs<sup>1</sup>:</b> 12-20%	<b>Hold period:</b> 6-24 months <b>Expected IRRs<sup>1</sup>:</b> 20-30%	<b>Hold period:</b> 3-12 months <b>Expected IRRs<sup>1</sup>:</b> 15-20%

<sup>1</sup> Internal Rate of Return (IRR) values are gross of fee and are targets only and based on certain facts and assumptions. No representation is being made that these targets are likely to be achieved.  
Source: RBC GAM, as of June 30, 2023

# Characteristics of Event Driven Credit investing

- Positions often senior in the capital structure and secured
- Focus on capital preservation
- Active involvement in restructuring processes
- Investments with asymmetric risk profiles

**Potential for high risk adjusted returns with low correlation to traditional markets**

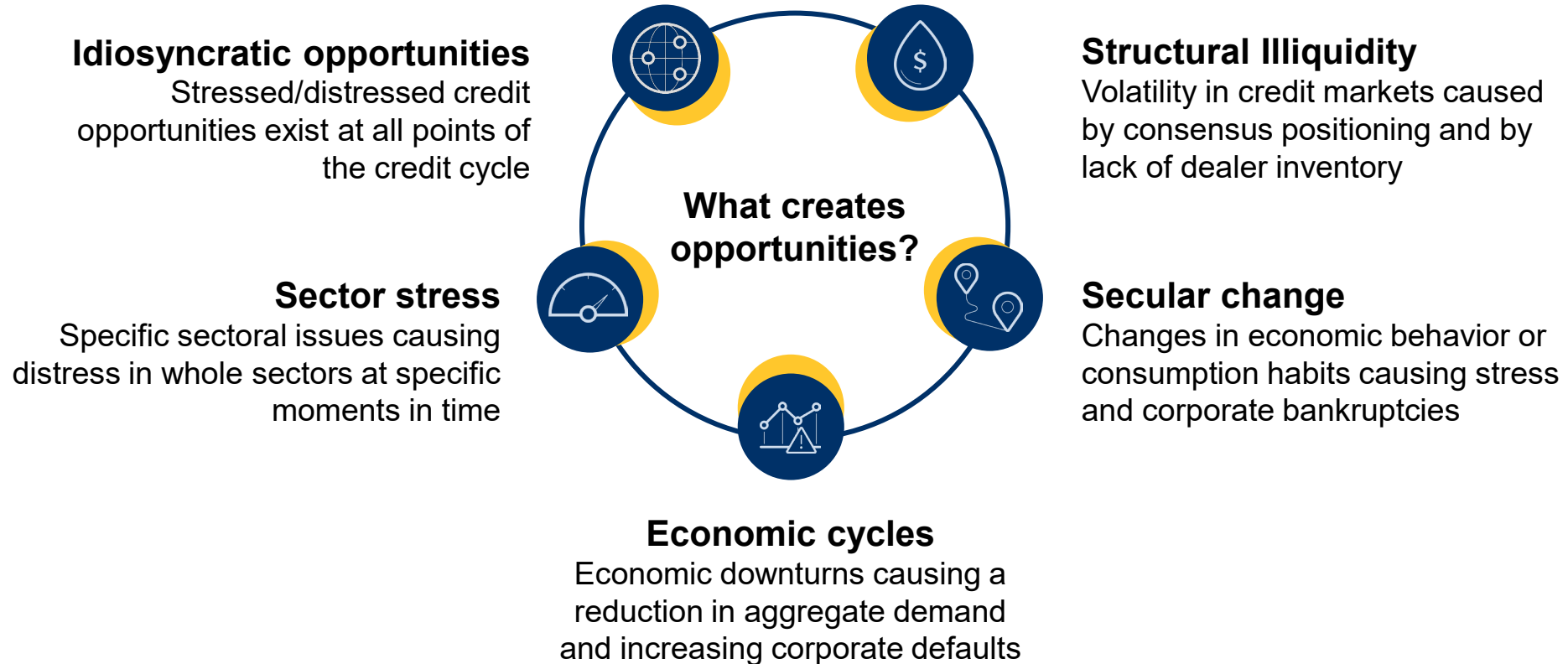
Drivers of Success



Market opportunity

# What creates opportunities?

Special situations and company-specific events can occur in all market environments





# Opportunities have been increasing

Companies are facing a “perfect storm”

Residual effects of Covid-19 including:

- Higher leverage
- Reduced profit capabilities
- Supply distributions

Energy, commodity and wage inflation

Cost-of-living crisis

Increasing interest rates

War/geopolitical tensions

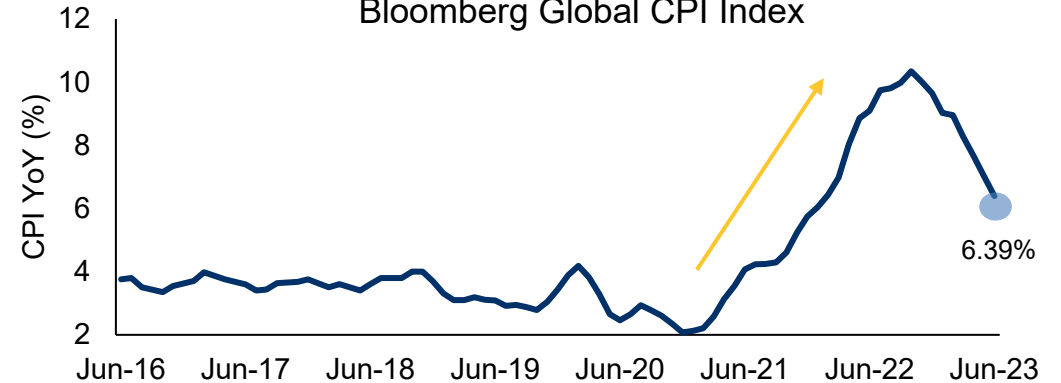
Mini banking crisis

Tightening lending standards

Unsupportable cost of financing

## Global rise in inflation <sup>1</sup>

Bloomberg Global CPI Index



## Breakout from downward trend in rates <sup>2</sup>

Germany 10yr Bond

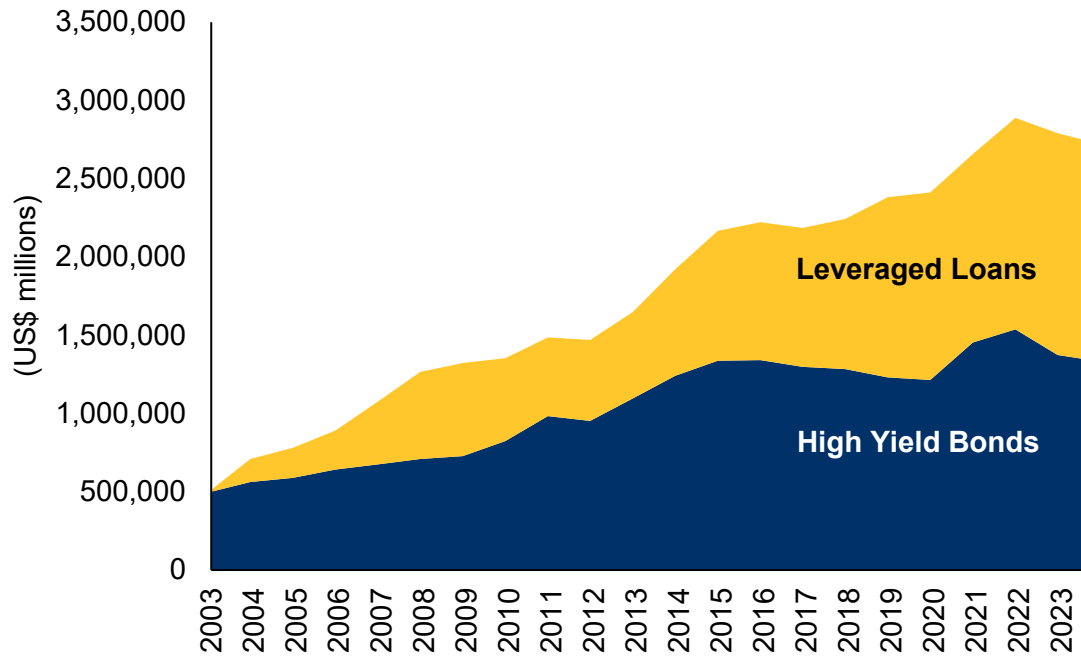


Notes: <sup>1</sup> Source: RBC GAM, Bloomberg, latest monthly data for June 30, 2023, Global GDP-weighted CPI. <sup>2</sup> Source: RBC GAM, Bloomberg; as of June 30, 2023  
Source: RBC GAM, Bloomberg, as of June 30, 2023

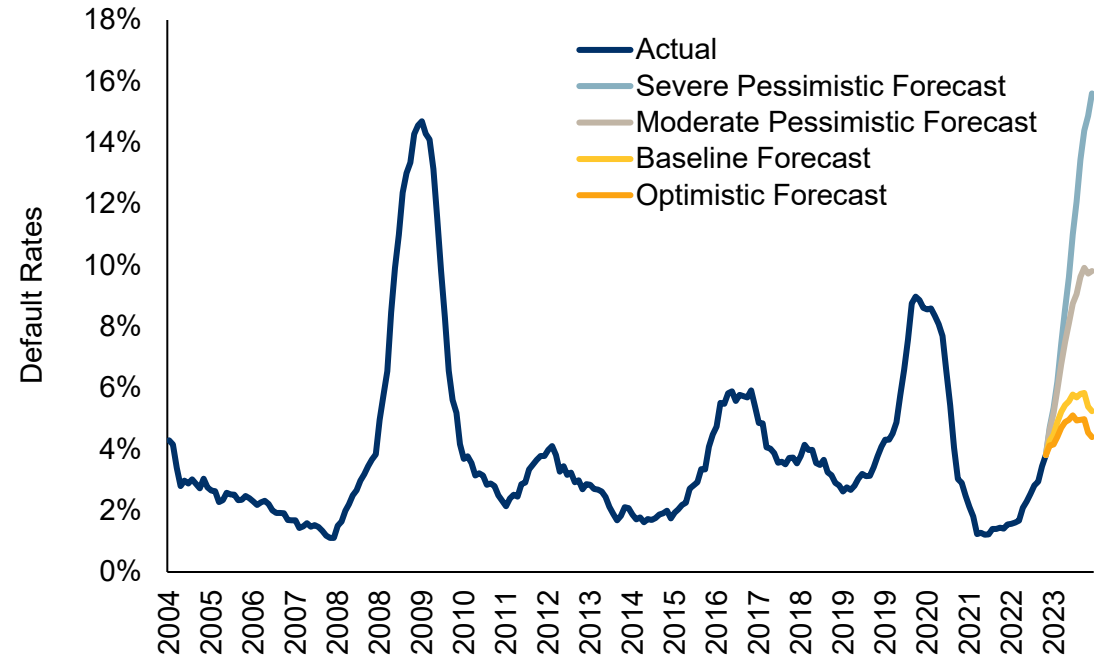
# Market size has grown dramatically and defaults are expected to rise

The environment is rich for new opportunities

### High Yield and Leveraged Loan market size (U.S.)



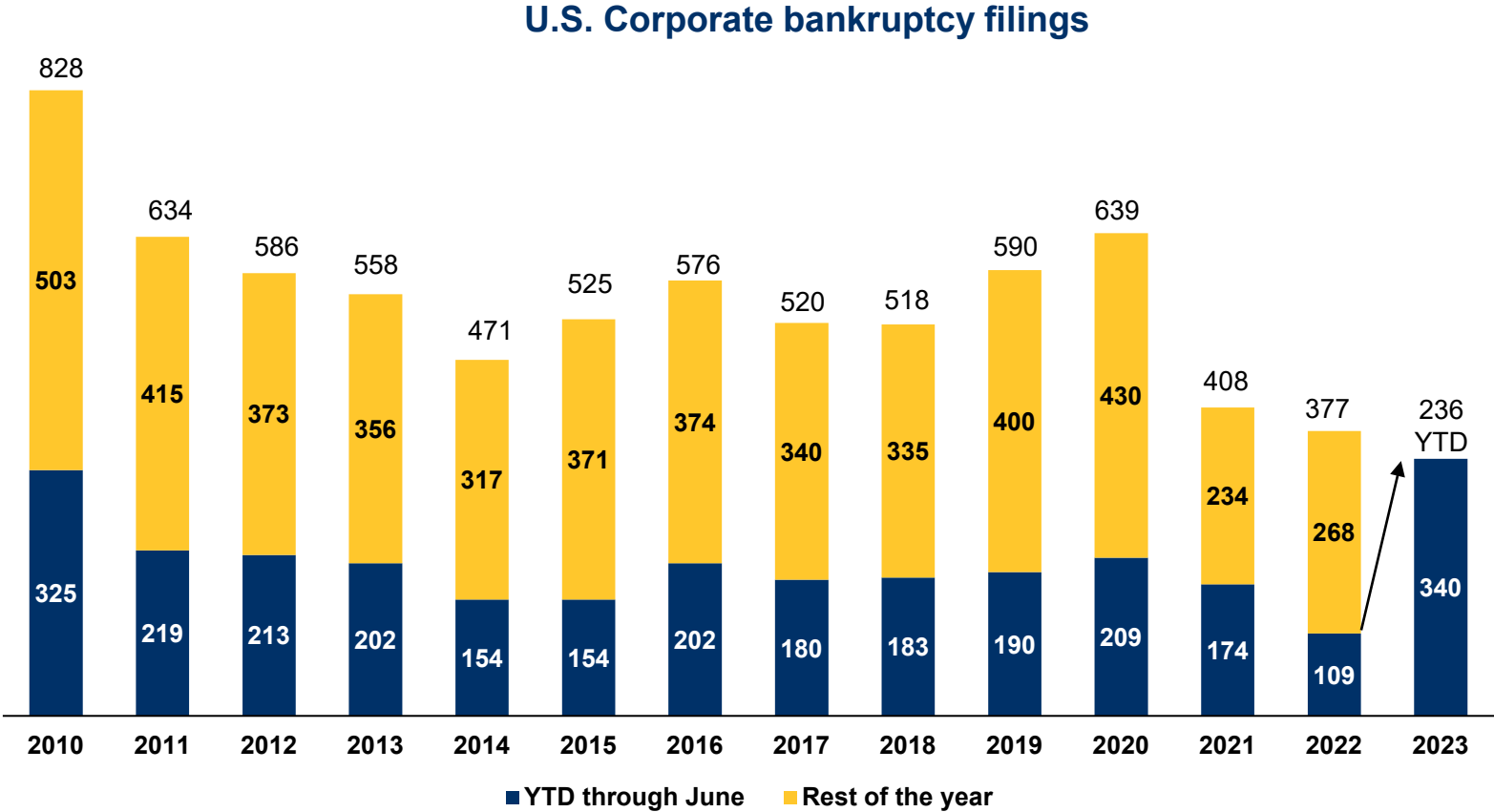
### Moody's Actual and Predicted Default Rates (U.S.)



For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue.  
 LHS – Bloomberg, as at July 31, 2023. LHS: Indices = ICE BofA European Currency High Yield Constrained Index (EUR) and Morningstar European Leveraged Loan Index. RHS: Indices ICE BofA US High Yield Index (USD) and Morningstar LSTA US Leveraged Loan Index RHS – Moody's Investor Services, as at June 30, 2023  
 Source: RBC Global Asset Management, as at July 31, 2023

# What are we seeing so far this year

U.S. corporate bankruptcies are at recent highs



As of July 6<sup>th</sup> 2023  
Source: S&P Global, RBC BlueBay Asset Management

# Opportunities in practice

# Investment Example

1

## Offshore service vessels



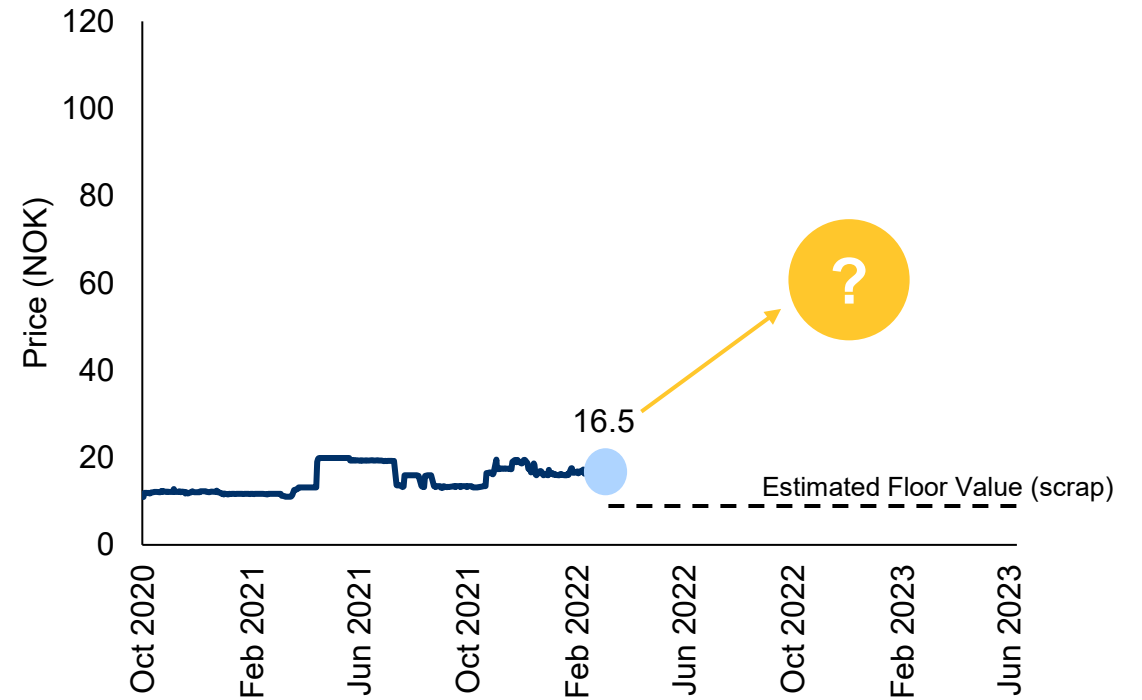
Market-implied valuation of vessels

USD \$23 million

Our independent valuation of vessels

USD \$80 million

## BOA OCV 2024 Bond Price



The information provided should not be deemed a recommendation to buy or sell any security or financial instrument. Past performance is not indicative of future results. Source: Bloomberg, RBC GAM, as of June 30, 2023

# Investment Example

1

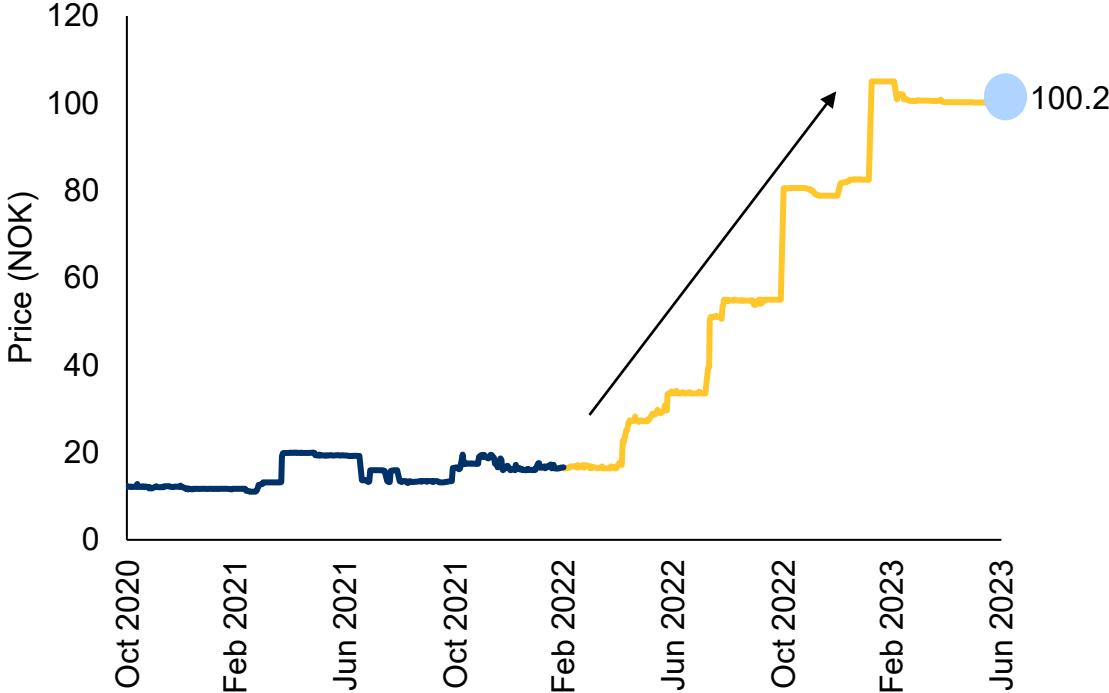
## Offshore service vessels



### Outcome

Hold Period	28 months
Cash-on-Cash Return	6.3x (+247% IRR)

## BOA OCV 2024 Bond Price

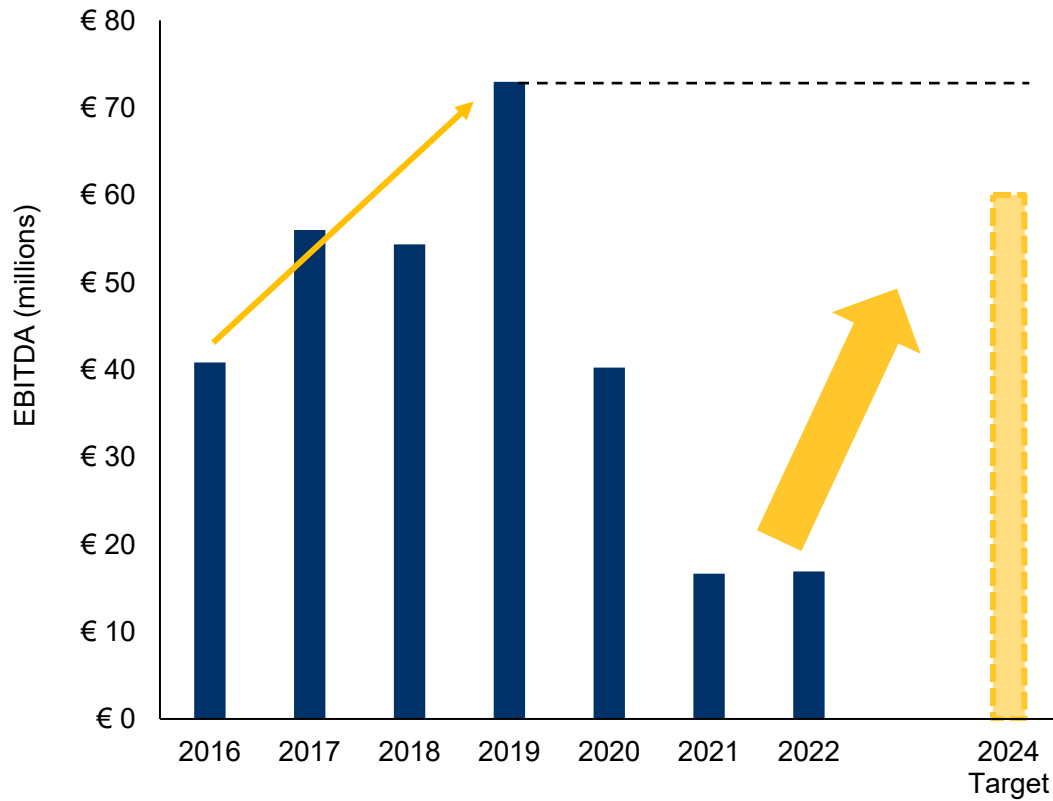


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# Investment Example

2

## Refrigerator & glass products manufacturer



### Operational Challenges



**2020**  
Covid

**2021**  
Facility fire



**2022**  
Facility re-relocation

### Investment Projections

**Investment IRR (gross)**<sup>1</sup> 25% Mid case

**Cash-on-Cash Returns** 1.7x Mid case

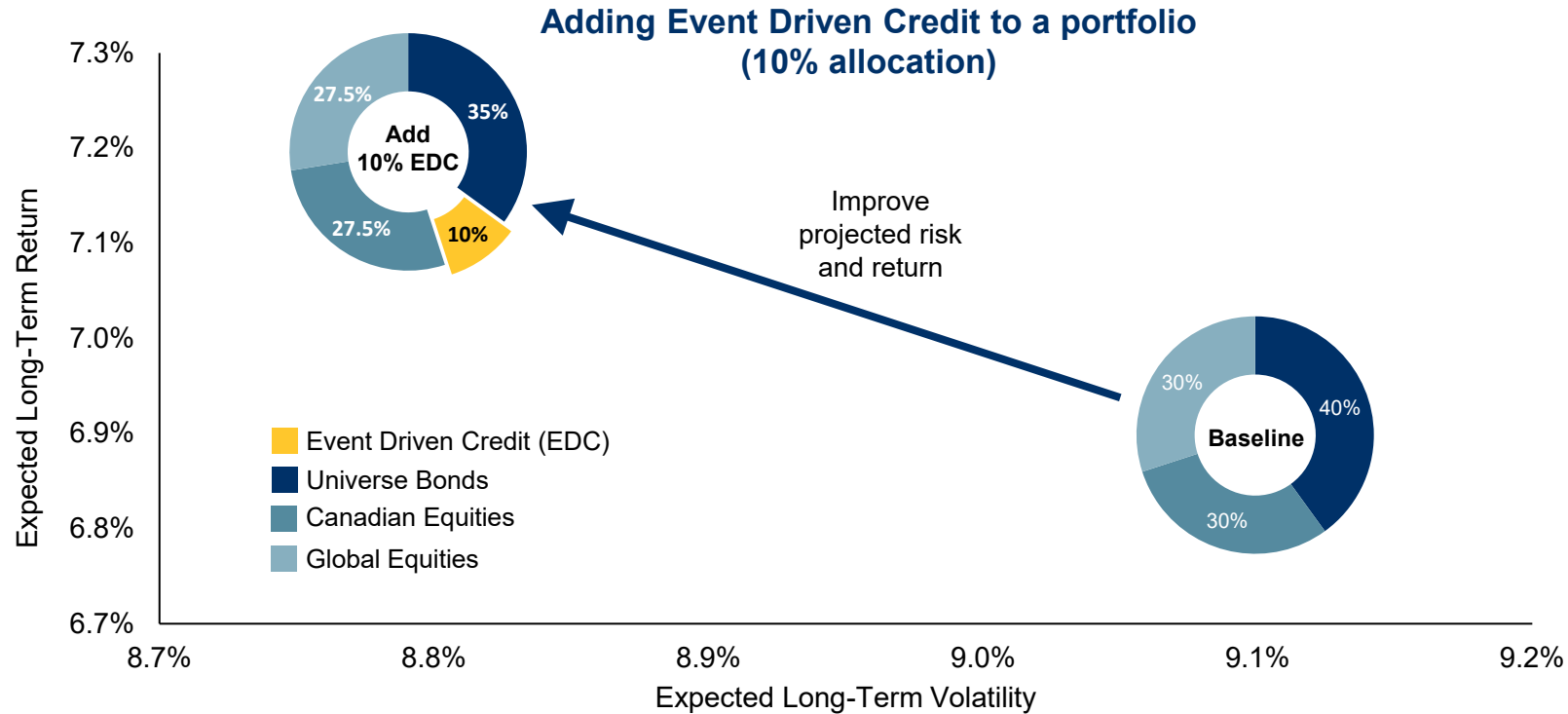
Source: RBC Global Asset Management, Bloomberg, as at 25 April 2023. Note: <sup>1</sup> The internal rates of return ("IRRs") presented on a "gross" basis do not reflect any management and performance fees, carried interest, if relevant, taxes or allocable expenses borne by investors, which in the aggregate may be substantial. Past performance is not indicative of future results. The information provided is to illustrate the investment process of the European Special Situations Strategy and should not be deemed a recommendation to buy or sell any security or financial instrument. No representation is made that any targets or objectives will be achieved, in whole or in part.

# Implementation



# Portfolio implementation

Potential to improve long-term return while reducing volatility



Modeled Expectations <sup>1</sup>	Baseline	→	Add 10% EDC
Long Term Return	6.9%		7.2%
Annual Downside Risk <sup>2</sup>	-15.0%		-15.1%
Annual Volatility	9.1%		8.8%
Sharpe Ratio	0.44		0.49

<sup>1</sup> Refer to appendix for modeling assumptions and disclosures.

<sup>2</sup> CVaR95 which represents the expected loss during the worst 5% of return outcomes.

Hypothetical performance analyses are for illustrative purposes only and there is no guarantee that hypothetical returns or projections will be realized.

# Key Considerations



Volatility creates opportunity



Capitalize on market inefficiencies and asymmetric risk/reward



Unique profile, behaves differently and complementary to traditional assets



Manager skill & network very important



Less liquidity than traditional assets



Added governance complexity

Questions?

# Assumptions and Disclosures

## Capital Market Assumptions, Q2 2023

Asset Classes	Representative Data Series	Expected Long Term Return	Expected Annual Volatility	Expected Annual Downside Risk
Universe Bonds	FTSE Canada Universe Bond Index	3.7%	4.4%	-6.3%
Canadian Equities	S&P/TSX Composite Index	9.1%	16.8%	-27.0%
Global Equities	MSCI World Index (CAD)	7.9%	14.4%	-24.7%
Event-Driven Credit Strategy <sup>1</sup>	BlueBay Event-Driven Credit Strategy (GBP)	8.9%	8.3%	-15.4%

### Correlations

	Universe Bonds	Canadian Equities	Global Equities	Event-Driven Credit Strategy
Universe Bonds	1			
Canadian Equities	0.1	1		
Global Equities	0.2	0.7	1	
Event-Driven Credit Strategy	0.0	0.7	0.4	1

<sup>1</sup> Expected returns are modeled net of fees.

Expected risk, return, and volatility values are for illustrative purposes only and are not guaranteed. No representation is being made that the funds will or are likely to achieve returns similar to those shown.

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