



# Celebrating 10 years of the RBC Emerging Markets Value Equity Strategy

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Emerging Markets  
Equity team

RBC BlueBay  
Asset Management

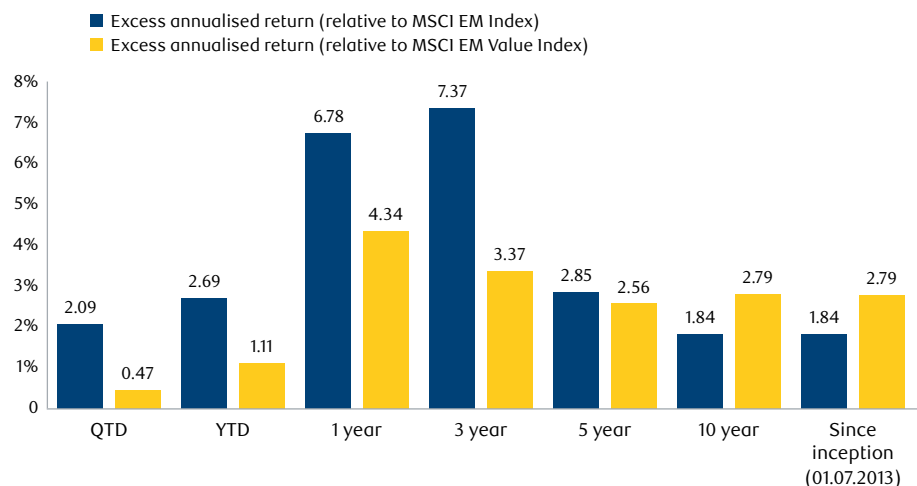
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The RBC Emerging Markets Value Equity Strategy has reached 10 years since its inception in July 2013, with a total AUM of USD1.286 billion<sup>1</sup>.

Over this time, the strategy has outperformed both its primary benchmark, the MSCI EM Index, and the Value index, the MSCI EM Value Index, despite the Value style being out of favour for the majority of this period (Exhibit 1). When reflecting on the past 10 years, we believe there are a number of aspects that have enabled the team to build a differentiated portfolio and deliver a strong performance track record.

Exhibit 1: Strong track record of outperformance against the MSCI EM and MSCI EM Value benchmarks



Source: RBC GAM, MSCI, as at 30 June 2023. Figures are in USD and gross of fees, and returns for periods greater than one year are shown on an annualised basis. Returns include the reinvestment of all income.

<sup>1</sup> As at 30 June 2023.

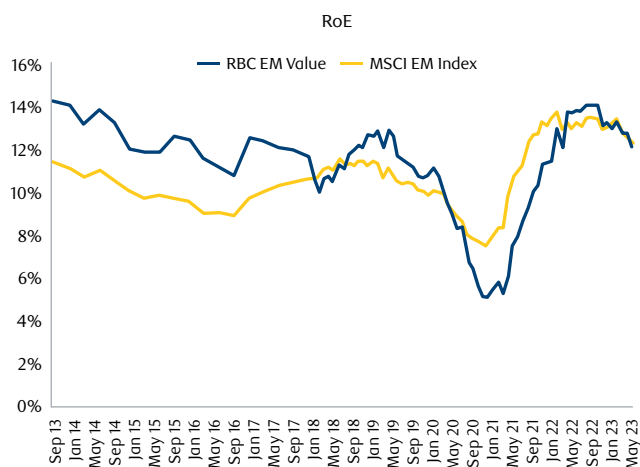
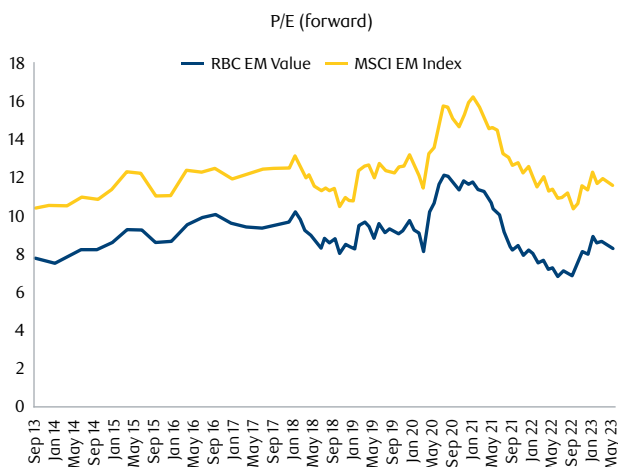
# A differentiated approach to Value investing

## Quality value approach

The strategy seeks to invest in temporarily mispriced securities with strong fundamentals and catalysts for re-rating. The team looks at traditional valuation measures, such as P/E and P/BV, as well as metrics of value creation over time, such as growth, cash-flow returns on investment and dividends, as well as the quality of a company.

The strategy has consistently traded at a significantly cheaper valuation than its core benchmark, the MSCI EM Index, without sacrificing quality (Exhibits 2 and 3).

### Exhibits 2 and 3: Cheaper valuation with superior fundamentals to the MSCI EM Index

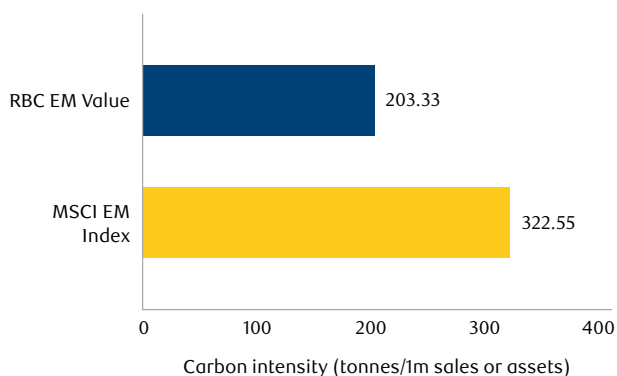


Source: RBC GAM, MSCI, as at 30 June 2023. The MSCI EM Net Index is the benchmark for the strategy.

## Durability and ESG

ESG forms a critical part of the investment process. This helps us to mitigate ESG related risks and focus on those companies with durable business practices that are able to achieve sustainable, long-term returns. One outcome of our focus on ESG is the carbon intensity of the strategy, which is significantly lower than that of the benchmark (Exhibit 4).

### Exhibit 4: Carbon intensity of the portfolio is significantly lower than the MSCI EM Index



Source: MSCI ESG, as at 31 March 2023. Carbon intensity is calculated in tonnes/1 million USD in sales. Sales figures used to calculate carbon intensity are sourced from MSCI ESG.



In our bottom-up research process, one of the first steps taken is a corporate governance red flag screen whereby companies with poor corporate governance are immediately eliminated. This helps us to avoid value traps. Additionally, a proprietary investment checklist forms the final step of the process and considers areas such as a company's impact on society and the environment.

## Thematic top-down research

Another factor that we feel has been an important source of competitive advantage is our strong focus on independent research. Within our Emerging Markets Equity team, we produce a vast amount of research from both a top-down and bottom-up perspective, and everybody in the team gets involved in research, as well as discussion and debate.

Importantly, our research is geared towards long-term factors. When it comes to the top-down aspect, we focus on structural themes. We invest in five themes across the portfolio, all of which have been in place for several years and some since inception. The themes are: Domestic Consumption, Financialisation, Health and Wellness, Green Infrastructure and Digitalisation (Exhibit 5). While these are multi-decade themes, we recognise that the drivers and ways to play each theme may evolve over time. We therefore continuously review and refresh our thematic research. For example, within Digitalisation, we have done a lot of work on tech infrastructure and AI, and within our Value strategy we have maintained consistent exposure to technology, which is unusual for a Value approach.

## A diverse team focused on continuous improvement

When asked about our strengths, one key differentiator is the team itself. We feel we have the optimum team in terms of size, structure and skill set. We have built a diverse team in terms of gender, culture, education and experience, while also creating a collaborative environment where everybody feels a strong sense of ownership and responsibility. Our structure, whereby team members contribute to both portfolio management and research duties, with responsibilities clearly defined, has been an important factor in this endeavour.

Learning from our mistakes has been a defining factor in our team 'DNA'. We have been holding an annual team offsite for the past eight years, where we formally review areas that have been successful for us and areas where we can improve.

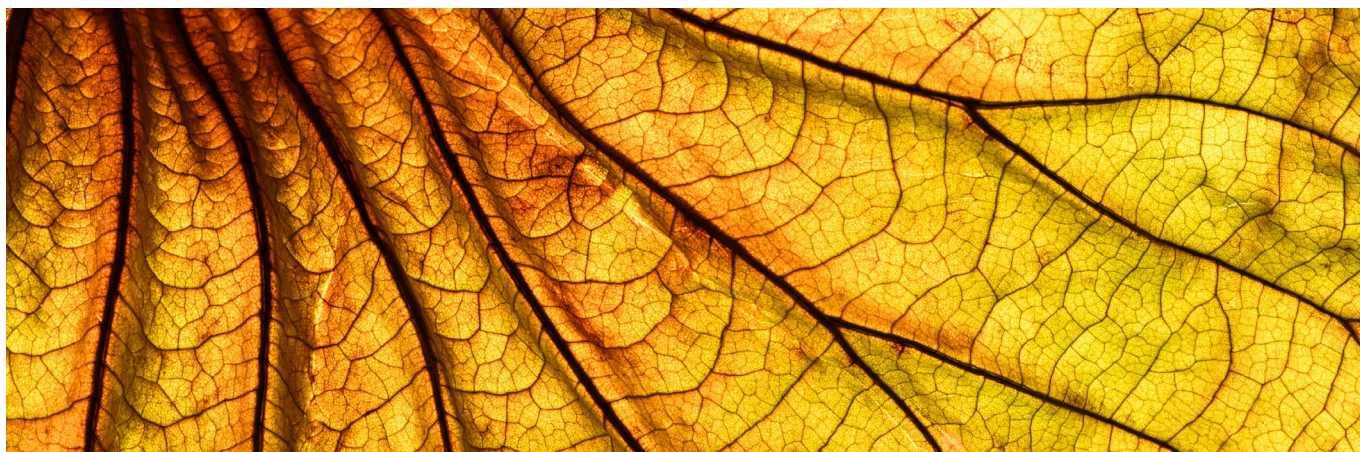
## Exhibit 5: Long-term themes position the portfolio in areas of structural growth and avoid those in decline

Investment themes	Ways to play
Domestic consumption	<ul style="list-style-type: none"> <li>Value conscious</li> <li>Local brands</li> <li>Aspiration</li> </ul>
Financialisation	<ul style="list-style-type: none"> <li>Deposit franchises</li> <li>Behavioural insurance</li> <li>Capital markets</li> </ul>
Digitalisation	<ul style="list-style-type: none"> <li>Cloud</li> <li>AI</li> <li>Smart manufacturing</li> </ul>
Health & Wellness	<ul style="list-style-type: none"> <li>Healthy living</li> <li>Healthcare</li> <li>Beauty &amp; cosmetics</li> </ul>
Green infrastructure	<ul style="list-style-type: none"> <li>Electric vehicles</li> <li>Renewables</li> <li>Transition materials</li> </ul>

Source: RBC GAM, as at 30 June 2023.

One area we have analysed for several years has been the impact of our trading decisions. What we have found is that we tend to be better buyers than sellers, and that we have been more successful when selling on valuation than for other reasons. As a result, we agreed to implement a number of enhancements such as a sell watchlist and regular presentation of sell ideas.

We also introduced an independent stock review whereby two team members are assigned to take the positive and negative viewpoint on a stock and present their findings to the team. We have found this to be helpful in bringing fresh perspectives to the table and mitigating the risk of behavioural biases. We have also found it to be the source of some very lively team debates!



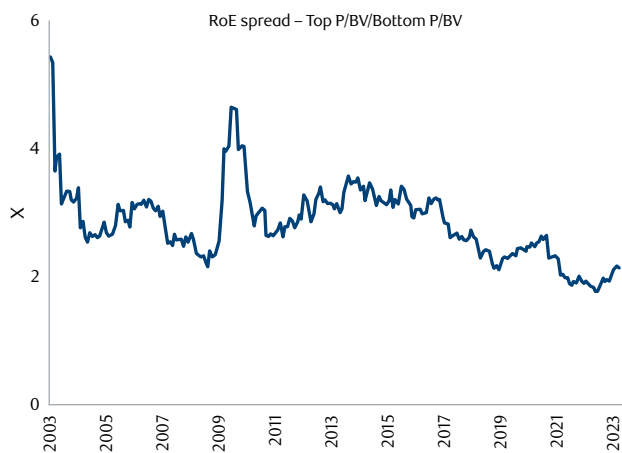
## The case for Value investing

The new economic regime, characterised by higher interest rates, higher inflation, and higher raw material prices, has made quality Value investing more attractive as there is greater emphasis on profitability, strong balance sheets and dividends. On the other hand, growth will be harder to come by as money is no longer free and the economic environment is more challenging. We have also seen the profitability of Value names improve, evidenced by the spread of RoE between expensive and cheap companies narrowing, while the spread of performance between Growth and Value is still very wide, despite the better performance of Value in recent times (Exhibits 6 and 7).

**“We have also seen the profitability of Value names improve, evidenced by the spread of RoE between expensive and cheap companies narrowing, while the spread of performance between Growth and Value is still very wide.”**

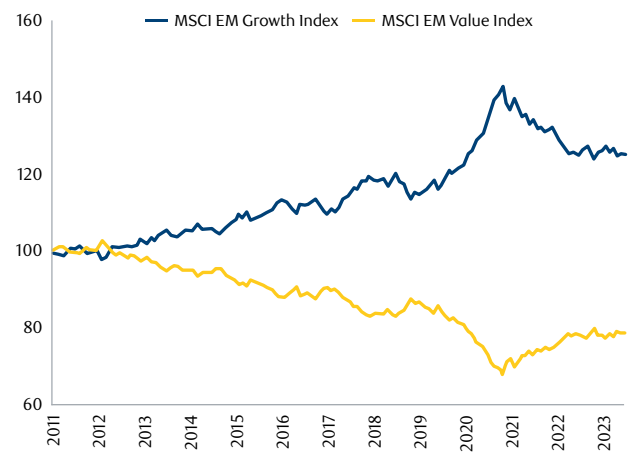
What we have found is that the elevated valuations of the most expensive Growth stocks aren't justified by their fundamentals, and we expect to see further weakness in this segment, given the pressured economic backdrop, higher rate environment and rising competition.

**Exhibit 6: RoE spread between cheapest and most expensive names has been narrowing**



Source: Factset, RBC GAM, as at 30 June 2023.

**Exhibit 7: Performance gap between Growth and Value has further room to close**



Source: MSCI, Bloomberg, RBC GAM, as at 30 June 2023.



## Authors

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Laurence is Portfolio Manager & Deputy Head of Emerging Markets Equities at RBC BlueBay (RBC Global Asset Management's business outside North America). Prior to joining the firm in 2013, she headed the emerging markets team of a leading U.K. asset manager. In this role, Laurence was responsible for managing Asian and global emerging market income strategies, and developing quantitative stock selection and environmental analysis models. She began her investment career in 1998 as a quantitative analyst at a major financial services company, where she supported European and global equity portfolio management by developing quantitative models to assist in the portfolio construction and security selection process.

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Dijana is a product specialist on the Emerging Markets Equity team at RBC BlueBay (RBC Global Asset Management's business outside North America). Prior to joining the firm in 2018, she had worked as a vice president at an international bank, where she spent six years in the managed investments and investment marketing businesses, focusing on the positioning of investment capabilities for private clients. She also worked in an investment advisory role at a global accountancy firm. Dijana began her career in the investment industry in 2011.

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