RBC BlueBay
Asset Management

RBC Emerging Markets Equity Focus Strategy: backing our best ideas

For Professional Investors Only | Marketing Communication

Christoffer Enemaerke
EM Equity Portfolio Manager

Dijana Jelic
EM Equity Product Specialist

Published September 2024

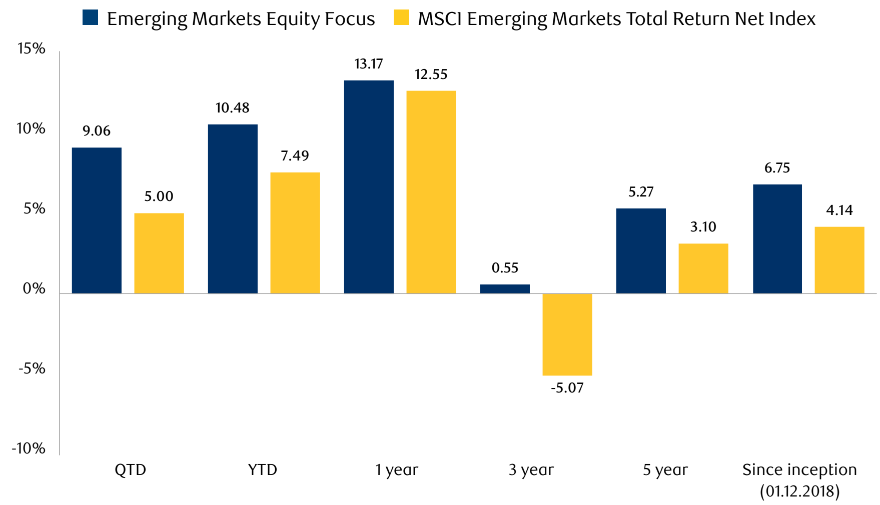
"Since its inception, the Focus Strategy has delivered an impressive track record of benchmark outperformance across 1, 3, and 5-year periods, as of June 2024."

With our EM Equity Focus Strategy passing the five-year point, we take a step back and reflect on the factors that have worked well and contributed to our alpha, and the areas for improvement.

The RBC Emerging Markets Equity Focus Strategy ("Focus Strategy") was launched in 2018, in response to investor demand for a more concentrated, higher-octane solution. The Focus Strategy represents an offshoot of our EM Equity team's flagship RBC Emerging Markets Equity Strategy, providing access to the same investment team, philosophy, and process, but in a more concentrated format of around 30 stocks rather than the flagship's 45-50 stock portfolio.

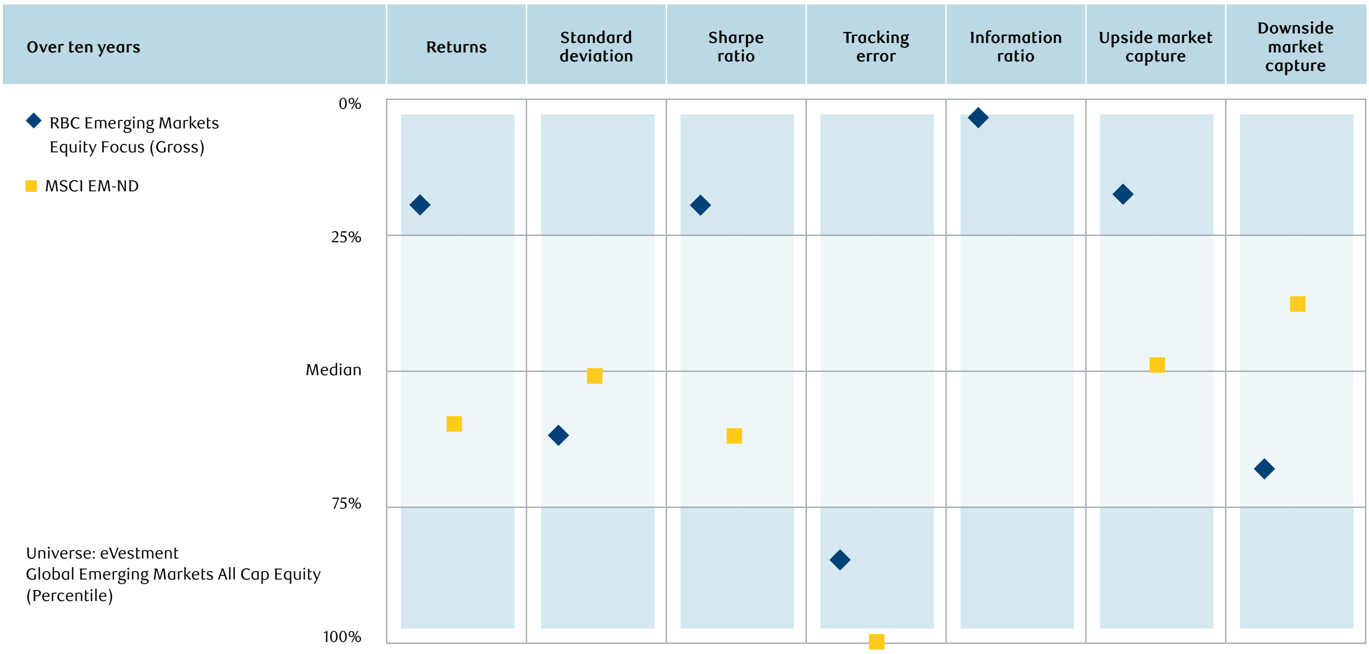
Since its inception, the Focus Strategy has delivered an impressive track record of benchmark outperformance across 1, 3, and 5-year periods, as of June 2024 (Exhibit 1). This has been achieved with lower volatility and downside market capture than the benchmark and most peers. Additionally, despite the relatively high stock concentration, tracking error has been below the peer group average. These factors have resulted in industry leading, risk-adjusted performance, as illustrated by the Sharpe and Information ratios (Exhibit 2).

Exhibit 1: Benchmark outperformance across different time periods: annualised returns



Source: RBC GAM, MSCI, as at 30 June 2024. Returns are presented gross of management fees and include the reinvestment of all income. All returns for periods greater than one year are shown on an annualised basis. Past performance is not indicative of future results and is calculated in USD. Returns may increase or decrease as a result of currency fluctuations.

Exhibit 2: Superior risk-adjusted returns: 3-year risk and return analysis versus eVestment peer group



	Returns	Rank	Standard deviation	Rank	Sharpe ratio	Rank	Tracking error	Rank	Information ratio	Rank	Upside market capture	Rank	Downside market capture	Rank
RBC Emerging Markets Equity Focus (Gross)	0.55	20	17.44	62	-0.15	20	3.67	85	1.53	---	110.1	18	87.8	68
MSCI EM-ND	-5.07	60	17.80	51	-0.46	62	0.00	100	---	---	100.0	49	100.0	38

Source: RBC GAM, as at 30 June 2024. Past performance is not indicative of future results and is calculated in USD. Returns may increase or decrease as a result of currency fluctuations.

Diverse and research-focused team

When asked about our strengths, one key differentiator is the team itself. We feel that our stable team, with very low turnover, is testament to our culture. We have consciously built a diverse team in terms of backgrounds, personalities, and ways of thinking, while also creating a collaborative environment where everybody feels a strong sense of ownership and responsibility.
We put an emphasis on discussion and debate to bring different perspectives to the table when evaluating investment opportunities. This approach has helped us build differentiated portfolios and avoid certain consensus calls.

"When asked about our strengths, one key differentiator is the team itself."

Another factor that we feel has been an important source of competitive advantage is our strong focus on independent research. The team has the benefit of a broad pool of resources and information available through the global RBC platform, while at the same time we are given the autonomy to operate independently and make our own investment decisions. Within the team, we conduct a vast amount of research from both a top-down and bottom-up perspective, and everybody is involved in the creation of this research, as well as with discussion and debate.

Our research is geared towards long-term factors. When it comes to the top-down, we focus on structural themes, while from a bottom-up perspective the objective is to assess the long-term durability of a company's business practices and returns. Ultimately, our research has helped us avoid distraction from short-term earnings and market noise.

Top-down thematic approach

The main emphasis from a top-down standpoint is on investment themes, which allow us to position our portfolios in areas of long-term structural growth and avoid challenged industries where growth is in decline. We invest in five themes across our portfolios, all of which have been in place for several years and some since inception. The themes are: Domestic Consumption, Financialisation, Digitalisation, Health and Wellness, and Green Infrastructure (Exhibit 3).

While these are multi-decade themes, we recognise that their drivers and ways to play may evolve over time. We therefore continuously review and refresh our thematic research. For example, within Domestic Consumption, we have made several changes to the ways to play the theme in recent years. This includes introducing Value Conscious to reflect a rising emphasis on value for money amongst consumers globally given the higher inflation, lower growth environment.

We also transitioned from Global to Local Brands, with the latter gaining market share since the pandemic due to improvements in the quality of their offering, their ability to cater to local tastes, and amidst supply chain disruptions experienced by the global players. We closely monitor macroeconomic and political developments, largely from a risk mitigation standpoint and to help us identify any extremes.

Focus on management quality

Within the investment process, our primary focus is on stock selection, with the majority of alpha and active risk deriving from stock specific sources (Exhibit 4). When evaluating companies, there are three key areas of focus which we have found lead to long-term valuation creation: quality management, strong franchises, and durable business practices.

One area that differentiates us is the emphasis we put on management. We have found that culture, return focus, clarity and execution of strategy, and investing for the future are particularly crucial elements when it comes to assessing management quality.

Exhibit 3: Long-term thematic research drives top-down views

Investment Themes	Ways to play
Domestic Consumption	Value Conscious Local brands Aspiration
Financialisation	Deposit franchises Behavioural insurance Capital markets
Digitalisation	Software and services AI Smart manufacturing
Health & Wellness	Healthy living Drugstores Medical services
Green Infrastructure	Electric vehicles Renewables Transition materials

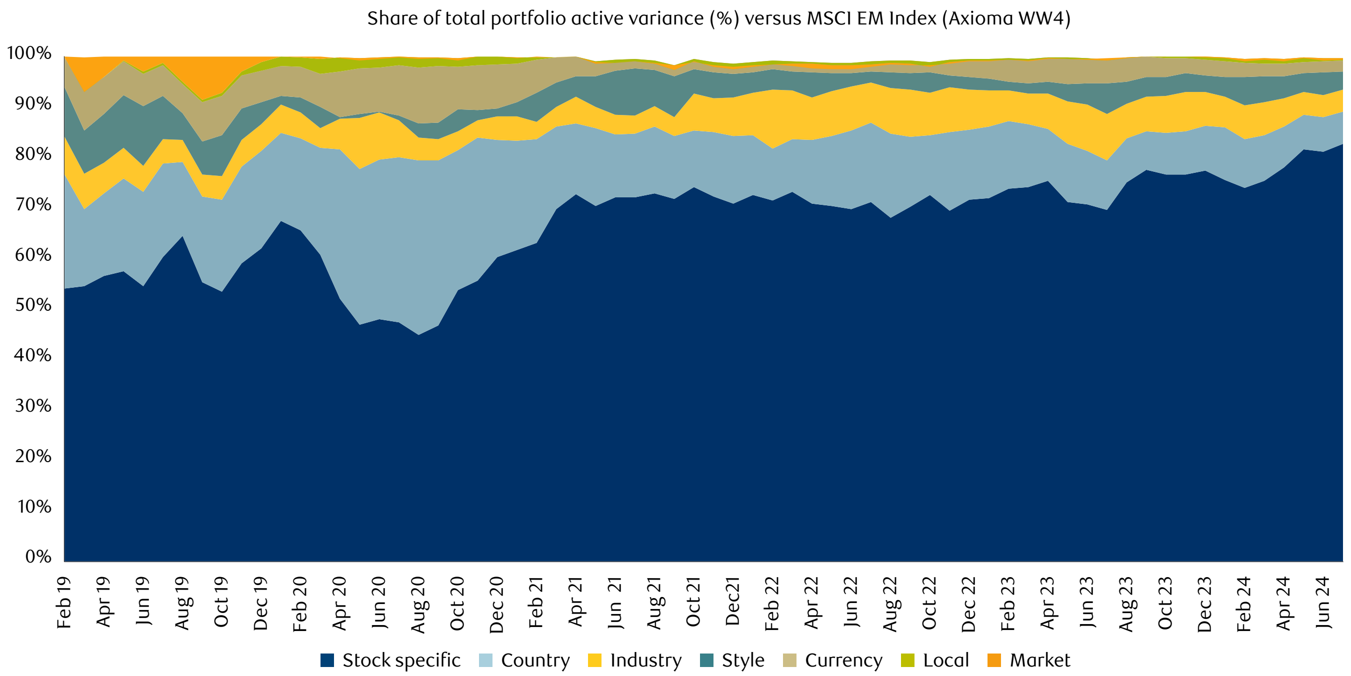
Source: RBC GAM.

Durability and ESG

While we have seen a surge in demand for ESG-focused products in recent years, ESG has been a critical component of the team's investment philosophy and process since the very beginning. As a team, we have been producing an annual ESG report since 2016. Ultimately, we believe companies that adopt a forward-thinking and proactive approach across a range of ESG factors are likely to have more durable business practices and returns.

We conduct our ESG research independently, with all team members responsible for ESG-related analysis as part of our rigorous investment process. We believe this structure ensures we can accurately assess a company's ESG credentials and better assess materiality, which is vital in an asset class where third-party ESG data and disclosure is still limited. Our approach also means we can more meaningfully engage with the companies in which we invest.

Exhibit 4: Tracking error breakdown: stock-specific risk sources dominate



Source: RBC GAM, Axioma, Barra, as at 30 June 2024. Annualised excess returns are shown in USD.

Culture of continuous learning

Learning from our mistakes has been a defining factor in our team 'DNA'. We have been holding an annual team offsite since 2016, which has been our key platform for continuous learning and improvement. Over the years, we have made refinements to our investment process and research activities due to the lessons learned at the offsites.

For example, a topic we have reviewed from various angles during our offsites has been the impact of portfolio concentration on returns. Interestingly, we have consistently found that our largest bets have tended to be our best performers, driving the bulk of alpha generation. We also found a correlation between weight size and contribution to relative returns. These findings encouraged us to gradually consolidate our portfolio holdings over time and also supported the launch of our Focus Strategy in 2018.

We also analysed the impact of our trading decisions and related to that, our behavioural biases. We found that we generally tend to be better buyers than sellers, which appears to be common in the asset management industry. We also found that while we are broadly diversified across the team in terms of biases, there is an element of status quo bias meaning that we hang on to some stocks for too long.

As a result of these findings, we have implemented several measures through the years in order to enhance our sell discipline and to continuously challenge our conviction. Some examples include introducing a formal portfolio sell note, conducting periodic alpha life cycle reviews, introducing stock debates by independent team members, and undertaking team reviews of candidates for sale.

"As a result of these findings, we have implemented several measures through the years in order to enhance our sell discipline."

These are just some examples of the many lessons and iterative improvements we have made to our investment process over the years, and we look forward to continuing on our path of learning and improvement.

Authors

Christoffer Enemaerke, CFA

Portfolio Manager

Christoffer is a portfolio manager on the RBC Emerging Markets Equity team at RBC GAM. He is currently responsible for research in Latin America. During his time at the firm, he has also specialised in India, Korea, China and Taiwan. Prior to joining the firm in 2013 as an investment analyst, Christoffer worked in the investment management division of a Nordic-based financial services group in Copenhagen. He started his career in the investment industry in 2010.

Dijana Jelic

Product Specialist

Dijana is a product specialist on the RBC Emerging Markets Equity team at RBC GAM. Prior to joining the firm in 2018, she worked as a vice president at an international bank, where she spent six years in the managed investments business as a product specialist for mutual funds, hedge funds and private equity, and where she positioned investment capabilities for global ultra high-net-worth individuals. Prior to this, Dijana worked in an investment advisory role for pension funds at a global accounting firm. Dijana began her career in the investment industry in 2011, having worked in various international auction houses prior to this.

Published September 2024

RE/0127/09/24

RBC BlueBay
Asset Management