



Ways to access emerging market debt

For Professional Investors Only | Marketing Communication

Emerging markets team

Published May 2025

“Active funds can also benefit from a larger investable universe with the option of investing in off-benchmark positions.”

We introduce a framework to help investors consider the most suitable way to access EMD including benchmark relative and several benchmark agnostic strategies, including unconstrained, absolute return (long/short) and private credit.

Passive investment in EMD is sub-optimal and investors should tread carefully

EMD markets can, at times, be significantly inefficient and volatile with meaningful dispersion between the best and worst performing bonds. Passive investors could therefore be tied into highly volatile returns. In contrast, active investors are in a position to avoid the potential pitfalls associated with deteriorating credit developments and can employ downside protection strategies to mitigate negative periods in the market, allowing for an attractive risk-return profile.

Active funds can also benefit from a larger investable universe with the option of investing in off-benchmark positions. These may include bonds that lie outside the index yet offer higher risk-adjusted return potential, or bonds issued by smaller issuers that the index might not capture due to liquidity or other constraints defined by the index provider.

This is particularly relevant in the EM local currency market, which accounts for approximately 80% of the global EM debt universe¹, yet the key indices only represent about 20% of the investable local market universe. This means the benchmark is highly concentrated amongst the high beta local currency markets and can be very volatile and not necessarily a true reflection of the overall sub-asset class. As a result, passive investors miss a vast opportunity to diversify outside of the benchmark and potentially boost returns.

¹ RBC Global Asset Management as of 31 December 2024.

A framework to help identify the most suitable active approach

Below, we introduce a framework to help investors consider the most suitable way to access EMD, based on their requirements with respect to benchmark, liquidity, flexibility regarding asset class exposure and yield. We illustrate this spectrum in Figure 1, using the strategies we offer to our clients as examples.

Benchmark relative

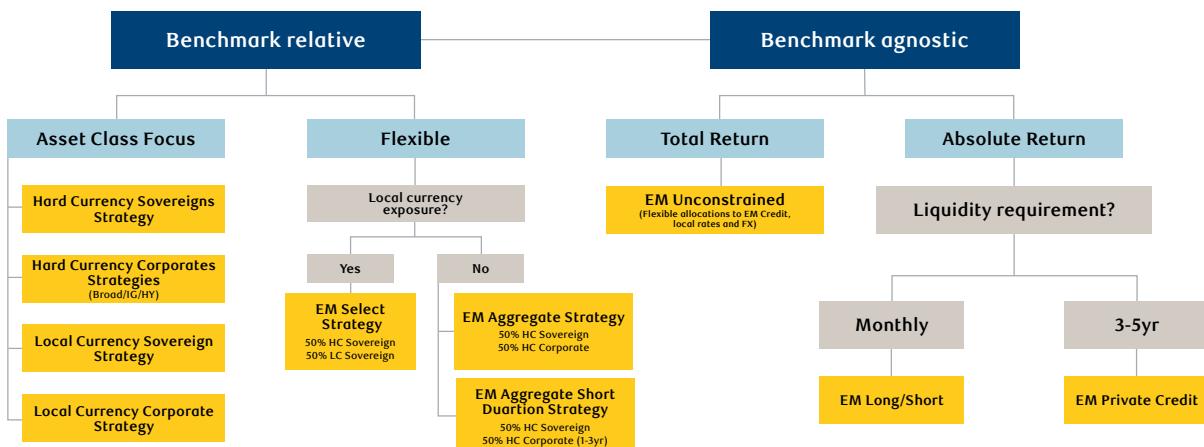
- **Asset class focus:** Investors who aim to gain exposure to the beta of a specific sub-asset class (e.g. to perform a specific role in a multi-manager portfolio or because of a strong view on certain asset classes), can invest in strategies where the manager seeks to outperform this sub-asset class benchmark over a cycle.
- **Flexible:** Investors with more flexibility, but still seeking benchmark-relative returns, can target strategies which span multiple asset classes, but allow their active manager some flexibility to allocate between these sub-asset classes. These strategies aim to produce higher overall returns and lower volatility than holding separate single asset class investments as managers have an additional active lever to pull.

Benchmark agnostic

- **Total return, unconstrained (long-biased):** These 'go anywhere' strategies are for investors who want the ability to capture the attractive upside available in EMD through a high conviction portfolio, but would like more flexibility to limit the downside during periods of high volatility, often using derivatives to manage risk quickly and efficiently. These are still long-biased solutions, but without the constraints of a market benchmark. They can help to smoothen the volatility of investments over the long term.

- **Absolute return, long/short (hedge fund):** For investors who have the ability to allocate to long/short hedge funds, these strategies are similar to unconstrained strategies but have the added ability to short bonds. These are designed to be market neutral and generate strong positive returns irrespective of the underlying market environment. Typically, liquidity will be limited to monthly or longer and net return targets will be double-digits.
- **Private credit:** For investors able to lock up their capital for multiple years, a private credit strategy can target 15% gross and net IRR in excess of 12%, annualised. In an uncertain and volatile environment, when demand for EM corporate issuance may be unreliable, healthy corporates in EM often choose the private credit route for funding smaller or shorter maturity financing requirements, often at a premium versus their funding costs in the liquid, public markets. As a result, investors in EM private credit can earn a healthy premium whilst still focusing on higher quality credits. At times, private market lenders, particularly banks, will need to reduce their balance sheets for reasons unrelated to the specific underlying assets. Given the illiquid nature of the private credit markets within EM, this activity can cause temporary asset price dislocations. Investors in a position to take advantage of these dislocations can generate an additional return pick up in their private credit portfolios.

Figure 1: Finding the best solution for EMD exposures



Source: RBC GAM, as at December 2024.

This document is a marketing communication and it may be produced and issued by the following entities: in the European Economic Area (EEA), by BlueBay Funds Management Company S.A. (BBFM S.A.), which is regulated by the Commission de Surveillance du Secteur Financier (CSSF). In Germany, Italy, Spain and Netherlands the BBFM S.A is operating under a branch passport pursuant to the Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC) and the Alternative Investment Fund Managers Directive (2011/61/EU). In the United Kingdom (UK) by RBC Global Asset Management (UK) Limited (RBC GAM UK), which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). In Switzerland, by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The place of performance is at the registered office of the Representative. The courts at the registered office of the Swiss representative or at the registered office or place of residence of the investor shall have jurisdiction pertaining to claims in connection with the offering and/or advertising of shares in Switzerland. The Prospectus, the Key Investor Information Documents (KIIDs), the Packaged Retail and Insurance-based Investment Products - Key Information Documents (PRIIPs KID), where applicable, the Articles of Incorporation and any other document required, such as the Annual and Semi-Annual Reports, may be obtained free of charge from the Representative in Switzerland. In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Asia, by RBC Global Asset Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong. In Australia, RBC GAM UK is exempt from the requirement to hold an Australian financial services license 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, by RBC Global Asset Management Inc. (including PH&N Institutional) which is regulated by each provincial and territorial securities commission with which it is registered. RBC GAM UK is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permits RBC GAM UK 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. In the United States, by RBC Global Asset Management (U.S.) Inc. ("RBC GAM-US"), an SEC registered investment adviser. The entities noted above are collectively referred to as "RBC BlueBay" within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of RBC BlueBay by the respective licensing or registering authorities. Not all products, services or investments described herein are available in all jurisdictions and some are available on a limited basis only, due to local regulatory and legal requirements.

This document is intended only for "Professional Clients" and "Eligible Counterparties" (as defined by the Markets in Financial Instruments Directive ("MiFID") or the FCA); or in Switzerland for "Qualified Investors", as defined in Article 10 of the Swiss Collective Investment Schemes Act and its implementing ordinance, or in the US by "Accredited Investors" (as defined in the Securities Act of 1933) or "Qualified Purchasers" (as defined in the Investment Company Act of 1940) as applicable and should not be relied upon by any other category of customer.

Unless otherwise stated, all data has been sourced by RBC BlueBay. To the best of RBC BlueBay's knowledge and belief this document is true and accurate at the date hereof. RBC 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. Opinions and estimates constitute our judgment and are subject to change without notice. RBC BlueBay does not provide investment or other advice and nothing in this document constitutes any advice, nor should be interpreted as such. This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product in any jurisdiction and is for information purposes only.

No part of this document may be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose in any manner without the prior written permission of RBC BlueBay. Copyright 2025 © RBC BlueBay. RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management Inc., RBC Global Asset Management (UK) Limited and RBC Global Asset Management (Asia) Limited, which are separate, but affiliated corporate entities. ® / Registered trademark(s) of Royal Bank of Canada and BlueBay Asset Management (Services) Ltd. Used under licence. BlueBay Funds Management Company S.A., registered office 4, Boulevard Royal L-2449 Luxembourg, company registered in Luxembourg number B88445. RBC Global Asset Management (UK) Limited, registered office 100 Bishopsgate, London EC2N 4AA, registered in England and Wales number 03647343. All rights reserved.

Published May 2025

RE/0352/02/26



**RBC BlueBay
Asset Management**