BlueBay Investment Grade Absolute Return Bond Fund

Q1 2019 Quarterly Report

Performance

Performance Comparison as of March 31, 2019 (%)	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	SI*
BlueBay Investment Grade Absolute Return Bond Fund – CAD Hedged	-0.07	-3.28	0.65	2.09	0.12	0.31	1.25

Series F performance in Canadian dollars.
*Inception date is August 20, 2013.

Market Review

After a notably weak previous quarter, the first quarter saw a rebound in most major asset classes as a number of concerns related to a global economic slowdown and trade tensions eased, supporting broad investor sentiment. Additionally, the economic growth concerns helped push many central banks in a more accommodative direction, which provided further reassurance to markets.

In February, the U.S. Federal Reserve (the Fed) announced the planned end of their quantitative tightening (QT) program, which has been working to unwind some of the supportive financial measures enacted by the Fed following the 2008 financial crisis. In addition to announcing the scheduled end of QT in September of this year, the Fed also reduced expectations regarding the path of future interest rate increases. In Europe, disappointing economic data led the European Central Bank (ECB) to announce continued accommodative measures and push back their first intended interest rate increase into 2020. While markets generally viewed these central bank moves positively, particularly the Fed actions, there was a return of volatility towards the end of the quarter which could be partially attributed to confusion over whether investors should be buoyed by a more accommodative shift by central banks or concerned about the future economic growth outlook.

Bond index performance was primarily positive during the quarter, driven by lower core rate yields as well as tightening credit spreads. Most sovereign credit spreads were slightly tighter, although Italy was a notable underperformer, with spreads ending the quarter wider. Corporate bonds in both the U.S. and Europe experienced strong quarters as spreads in both markets tightened more over the period than they have since Q3 2012. All sectors of the corporate bond market performed well, with Financials, Energy, and other more recession-sensitive sectors generating particularly strong returns.

Fund Performance

This quarter's unhedged performance breakdown is shown in the accompanying table.

Performance Breakdown	BPS
Term structure strategy	-44
Top-down corporate credit strategy	-22
Bottom-up corporate credit strategy	+23
Sovereign credit strategy	+42
Currencies strategy	-42

Term structure: Short positioning in both U.S. and UK rates was negatively affected by the significant decrease in core developed market yields in March, which was only partially offset by long positioning in European duration. Positive contribution from a long position in Icelandic local rates helped performance recover somewhat.

Corporate credit: Fund positioning in corporate credit was slightly short to begin the quarter. This was shifted back to a neutral stance through February as corporate bonds performed well, although January's short positioning was a drag on top-down performance. Bottom-up corporate positioning was a positive contributor as long positions in Financials and defensive companies outperformed the broad market.

Sovereign credit: Our long positioning in sovereign credit during the quarter benefitted from the broad tightening of spreads in the space. Strong performance from Greek debt was a prominent contributor. Italian spreads underperformed during the quarter, but well-timed tactical positioning meant that Italian bonds did not detract from performance despite the fund's long position.

Currencies: A strengthening British pound had a negative effect on the fund's short position, which was reduced over the course of the quarter as the risk associated with a hard Brexit evolved. The long position in Icelandic krona also detracted.

Outlook

Looking ahead, growth concerns combined with political and monetary policy uncertainty may lead to further volatility in the short-to-medium term. In spite of this, we suspect that market concerns are overstated. This should combine with more accommodative central bank policy to support risk assets. Economic growth in the U.S. has remained relatively solid and some anecdotal evidence of stabilizing Chinese growth should also be supportive of Europe. The Fed has communicated that interest rate hikes are currently on hold, but with future rate decisions now data dependent, our expectations of strong U.S. data in the coming periods lead us to anticipate rate increases in the coming 12 to 18 months. In Europe, concerns over economic growth and low inflation should keep the ECB in an accommodative stance. This should support Bunds and European sovereign credit, where we believe opportunity remains in Greece and Italy.

In corporate bonds, while performance this past quarter has been strong, the outperformance of more defensive and high-quality issues appears to show a defensive rally that lacks conviction. As such, concern remains over supply-and-demand dynamics, with demand continuing to be affected by market concerns while supply could be elevated. We will focus on bottom-up opportunities in both the U.S. and Europe to add value, including shorts in vulnerable BBB cyclical issuers and long positions in highly liquid defensive issuers. We believe that our relative value strategy is well positioned to take advantage of dislocations within the market created by volatility, but we will remain cautious in our approach.

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