

Adapting to evolving markets: Unlocking opportunities with global credit

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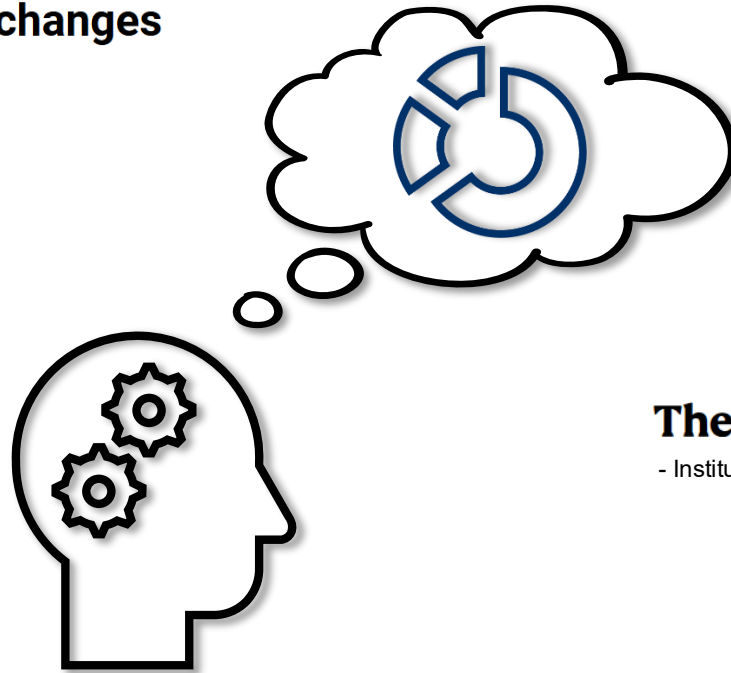
Asset allocation decisions are always top-of-mind for institutional investors

Report finds 60% of institutional investors adjusted portfolios in 2024 due to interest rate changes

- Benefits Canada, May 1, 2025

The death of the Yale Model?

- Financial Times, March 31, 2025



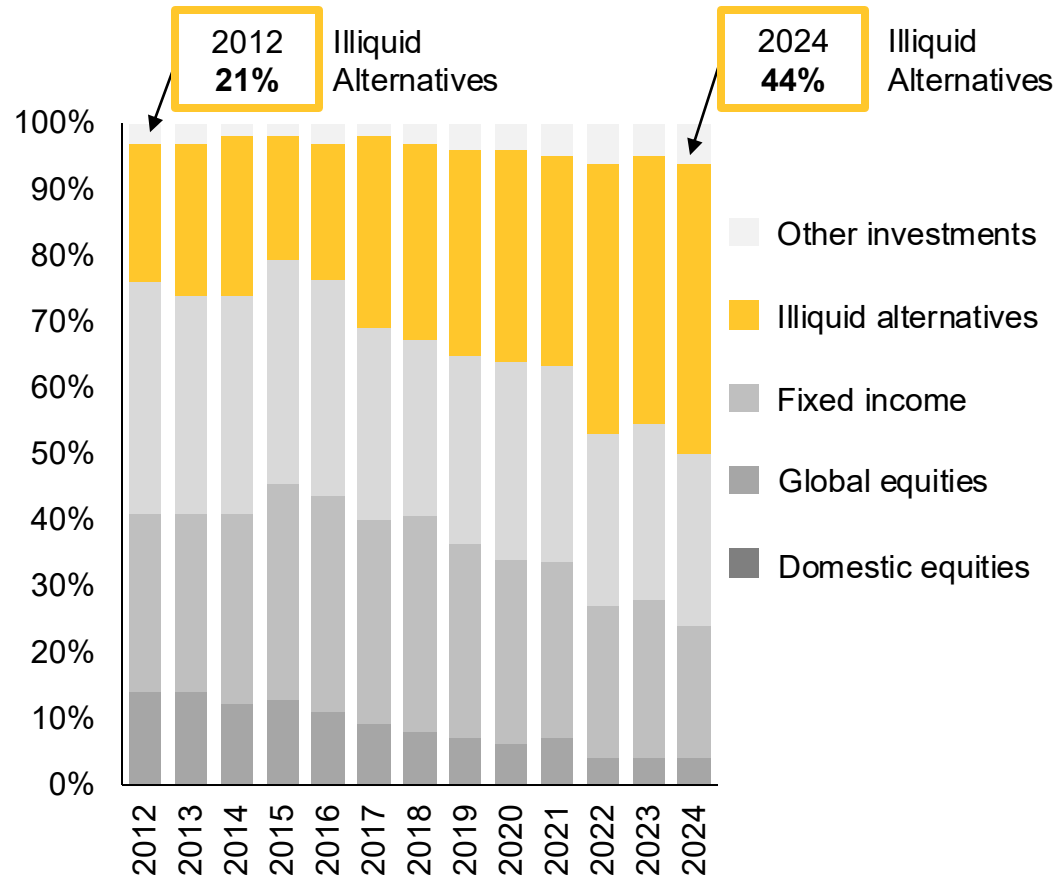
The New Standard in Portfolio Allocation

- Institutional Investor, January 13, 2025

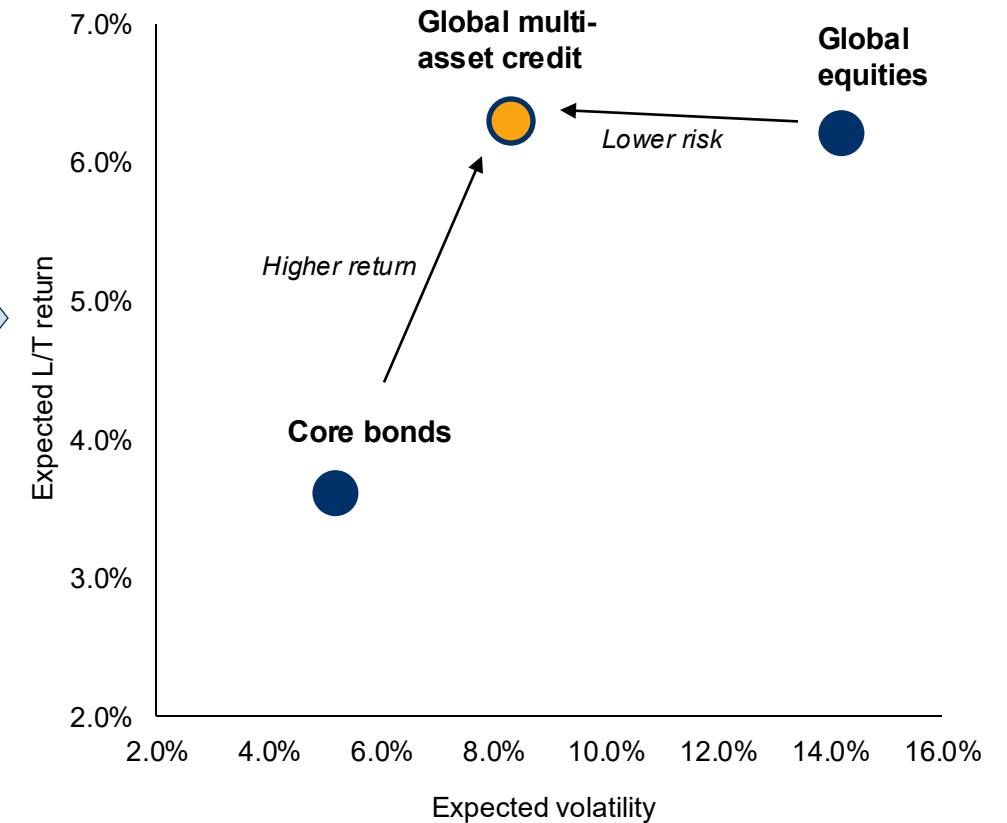
Asset allocation has trended towards illiquid strategies in past years

With illiquidity budgets filling up, attention has been increasingly turning to public market credit

Canadian institutional asset mix



Forward-looking return & risk projections



Source: LHS chart: RBC GAM, Coalition Greenwich: Canadian Institutional Investor Research, 2024. Illiquid Alternatives consist of Private Equity, Private Credit, Real Estate, Infrastructure, Hedge Funds. Global Equities represented by ACWI Equities. Global Multi-Asset Credit represented by Multi-Asset Credit. RHS Chart: RBC GAM, as of March 31, 2025

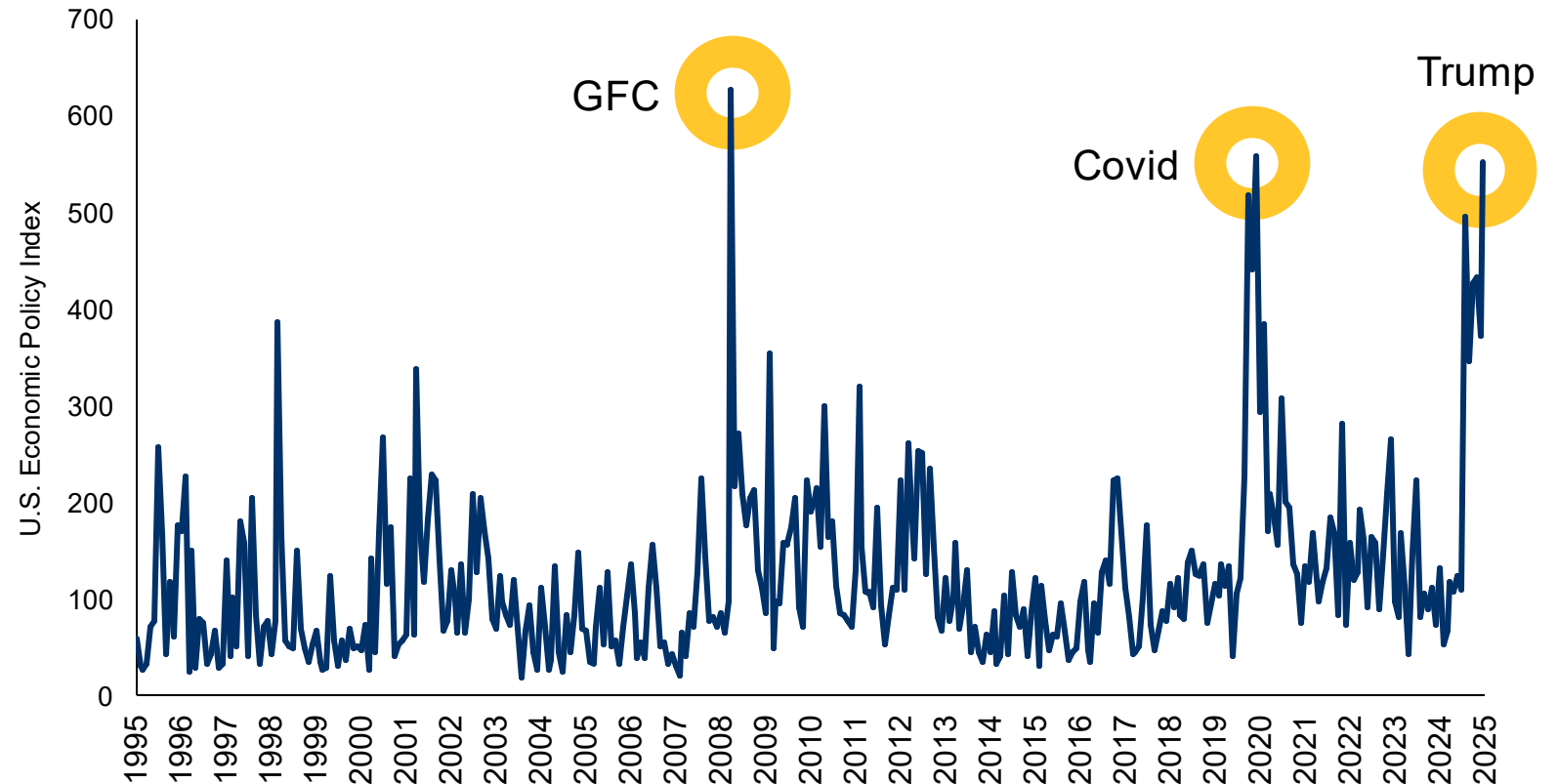
Man-made uncertainty...

Pushing U.S. economic policy uncertainty to multi-year highs



Donald Trump is shown holding a large sign titled "Reciprocal Tariffs". The sign lists various countries and their corresponding tariff rates, categorized into "Tariffs Charged to the U.S.A." and "U.S.A. Discounted Reciprocal Tariffs".

Country	Tariffs Charged to the U.S.A.	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
	10%	10%
	60%	30%
	10%	10%
		37%

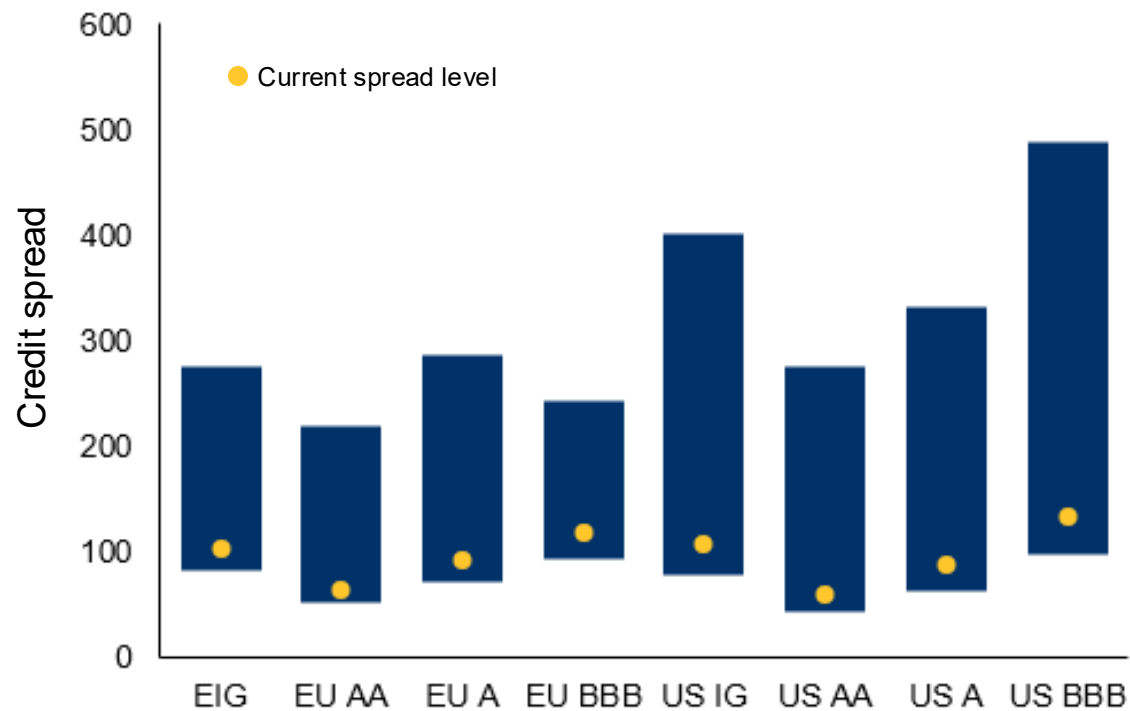


Source (LHS): Getty Images.

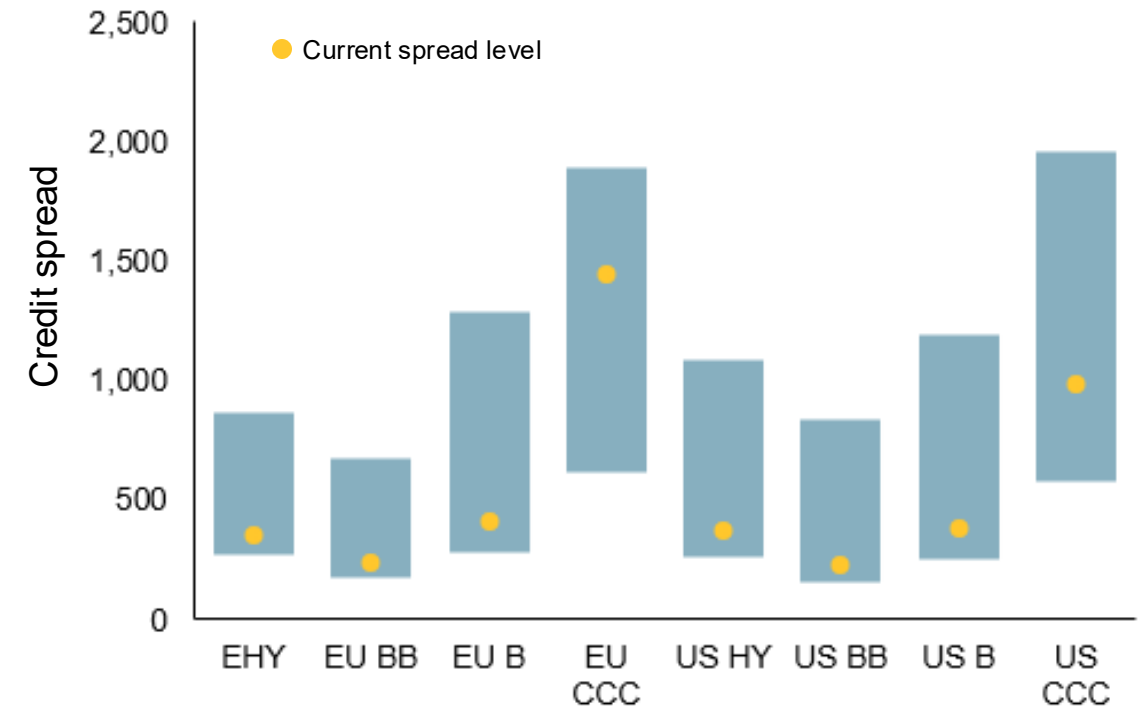
Source (RHS): RBC GAM, Bloomberg, as at June 4, 2025. US Economic Policy Uncertainty Index (EPUCNUSD Index). Photo credit: Getty Images

Credit spreads are still tight, while uncertainty is rising

Investment grade corporate spreads by rating (last 5 years)

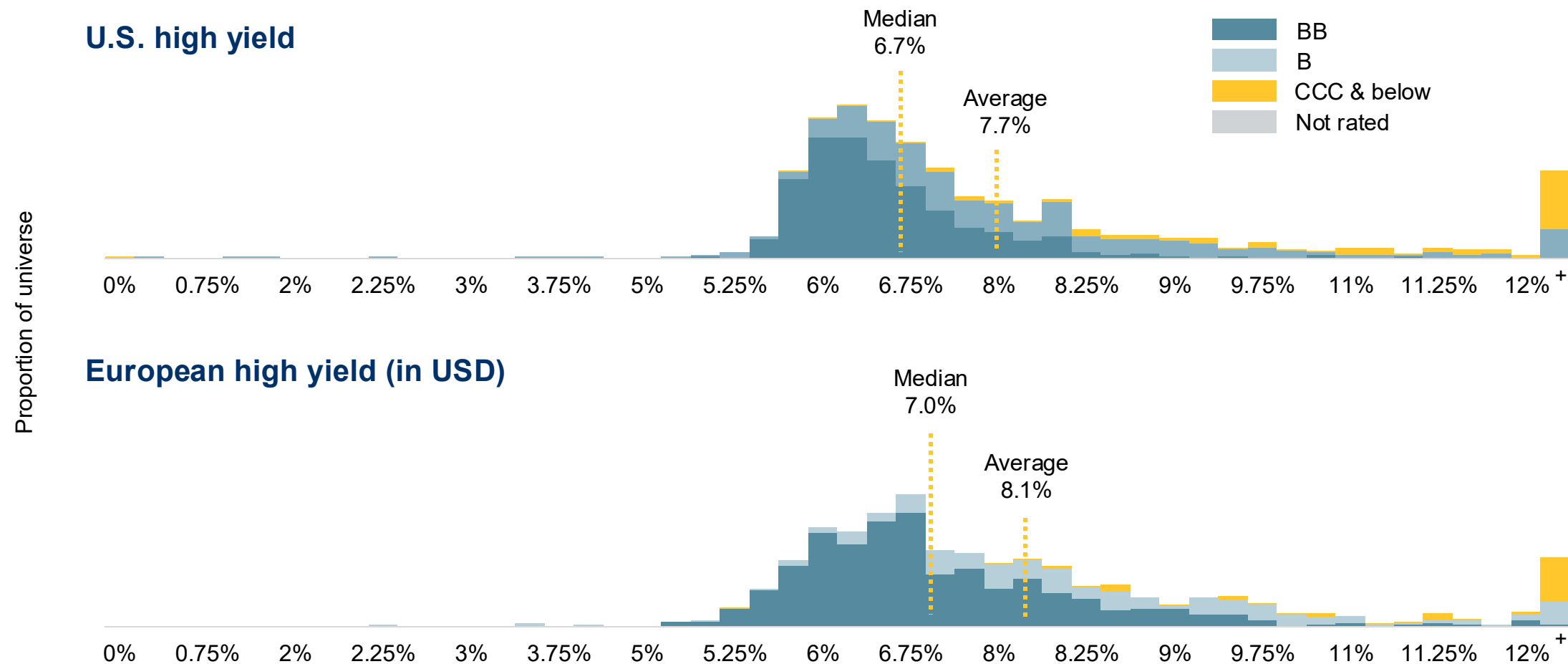


High yield corporate spreads by rating (last 5 years)



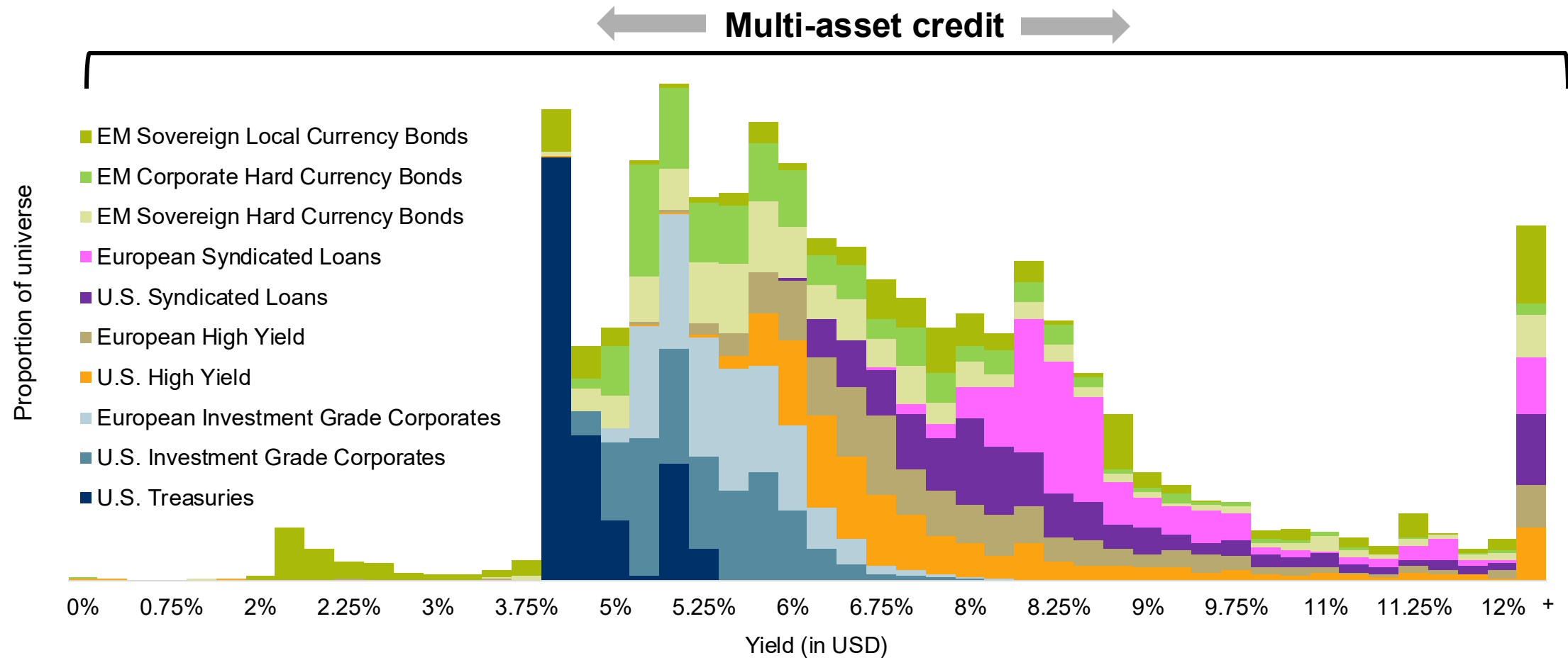
Note: Historical range is over the last five years and effected by Covid-era extremities. EIG represents European Investment Grade, EHY represents European High Yield. EU represents European indices. US represented U.S. Indices.
Source: RBC GAM, Barclays, ICE BofA benchmarks as at April 23 2025.

But in credit markets, the average yield only tells half the story



Source: RBC GAM, Bloomberg. As at 31 March 2025. See Appendix for index names. EUR yields are adjusted by +2.04%.

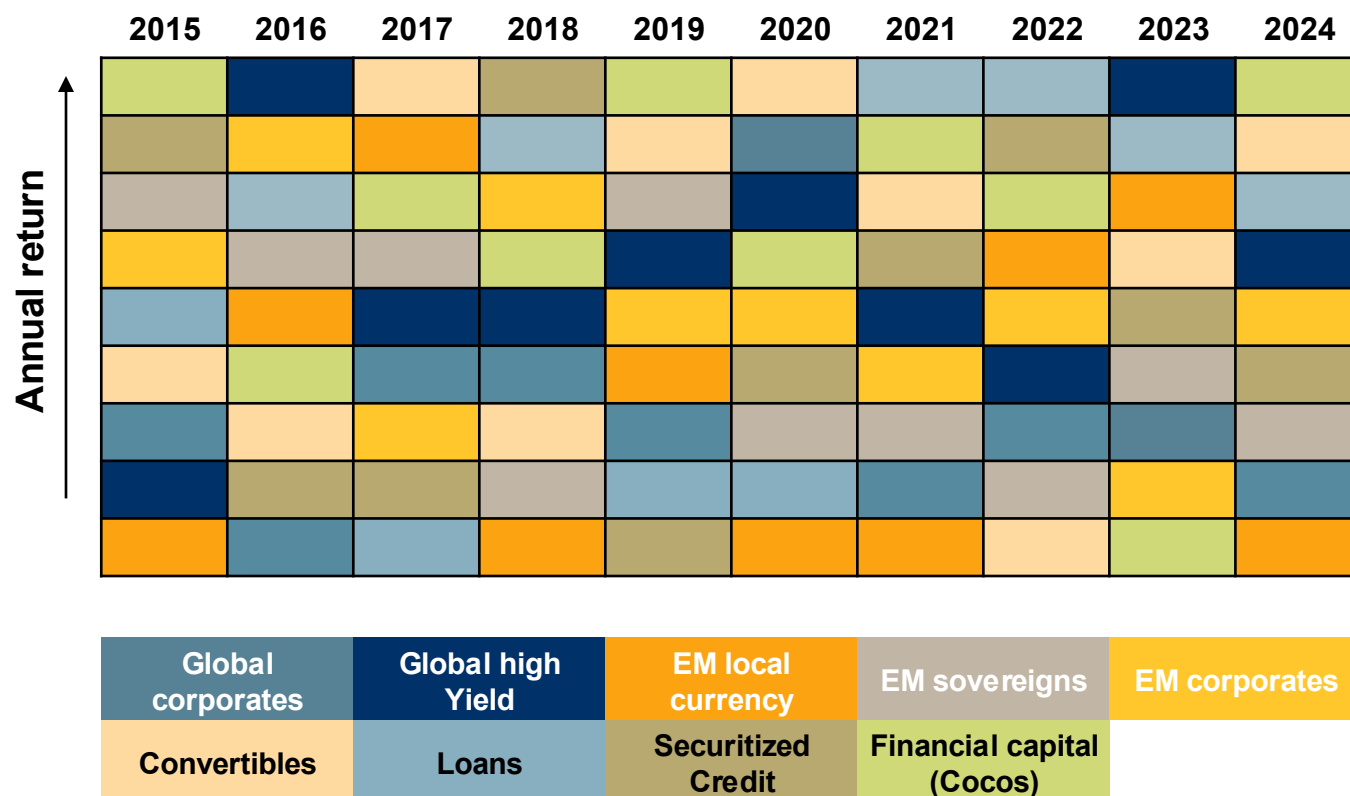
Multi-asset credit gives investors a whole spectrum of opportunity



Note: Please refer to the Appendix for full index names. EUR yields are adjusted by +2.04% and GBP yields by -0.04% (using prevailing annualised 3-month FX forwards as at March 31 2025). Note that each asset class has been given an equal weight in the chart, albeit some asset classes are much bigger than others.

Opportunity to add alpha through asset allocation

Credit assets have unique attributes, suited for different market environments



Consolidated credit portfolio

- ✓ Access to multiple asset classes through a single portfolio
- ✓ Rotate between sectors in response to evolving market conditions
- ✓ Integrated portfolio construction and risk management

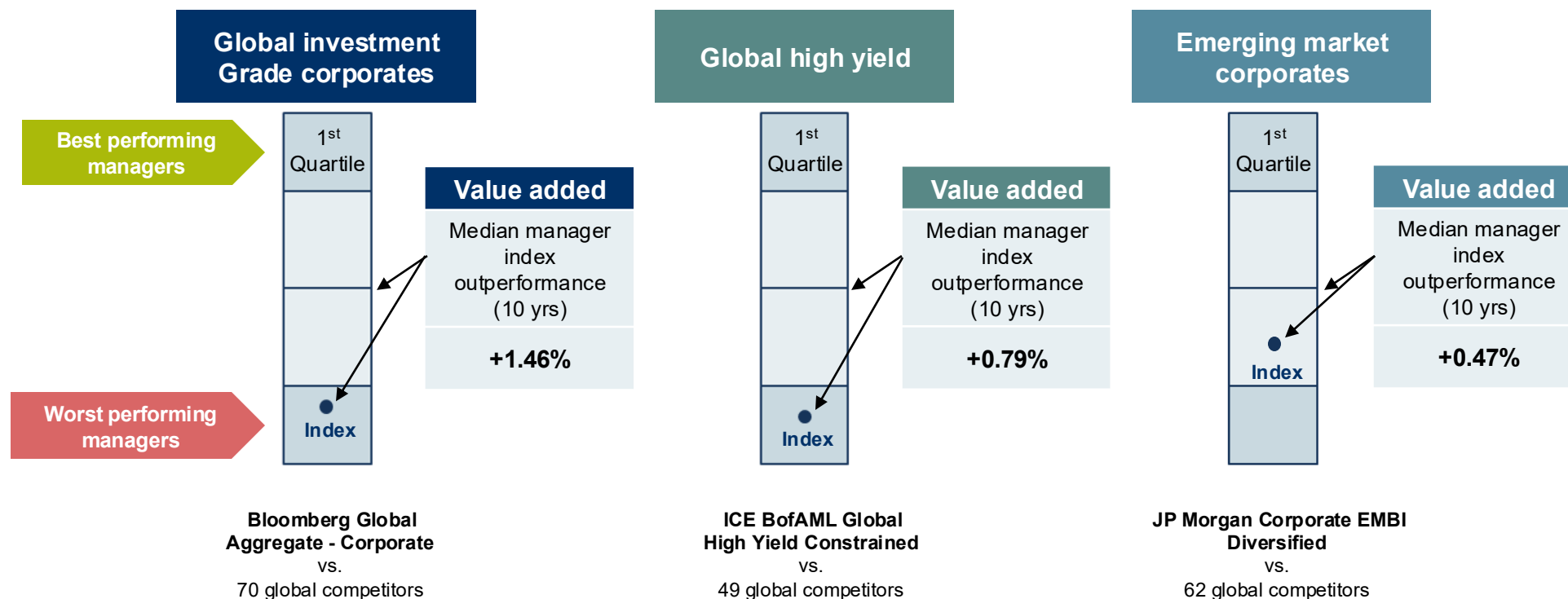
Asset classes: Global Corporates - ICE BofA Global Corporate Index USD. Global High Yield - ICE BofA Global High Yield Constrained Index USD. EM Local Currency - JP Morgan GBI-EM Global Diversified Index USD. EM Sovereigns - JP Morgan EMBI Global Diversified Index USD. EM Corporates - JP Morgan CEMBI Diversified Index USD. Mortgages - FTSE Canada Conventional Mortgage Index CAD. Loans - Morningstar LSTA Leveraged Loan Index USD. Securitized Credit - Blend 50% Palmer Square CLOs, 50% BBG MBS/ABS/CMBS USD. Convertibles - Bloomberg Global Convertibles Composite Unhedged USD. Financial Capital - ICE BofA Contingent Capital Index USD. Source: RBC GAM, Bloomberg.

Opportunity to add alpha within public market credit strategies

Many different levers available for an active manager to outperform the benchmark

Many levers to generate Alpha	
Geography	✓
Sector	✓
Security	✓
Currency	✓
Capital structure	✓
Duration	✓
Yield curve	✓
Credit quality	✓
Illiquidity	✓

10-year manager outperformance in global credit



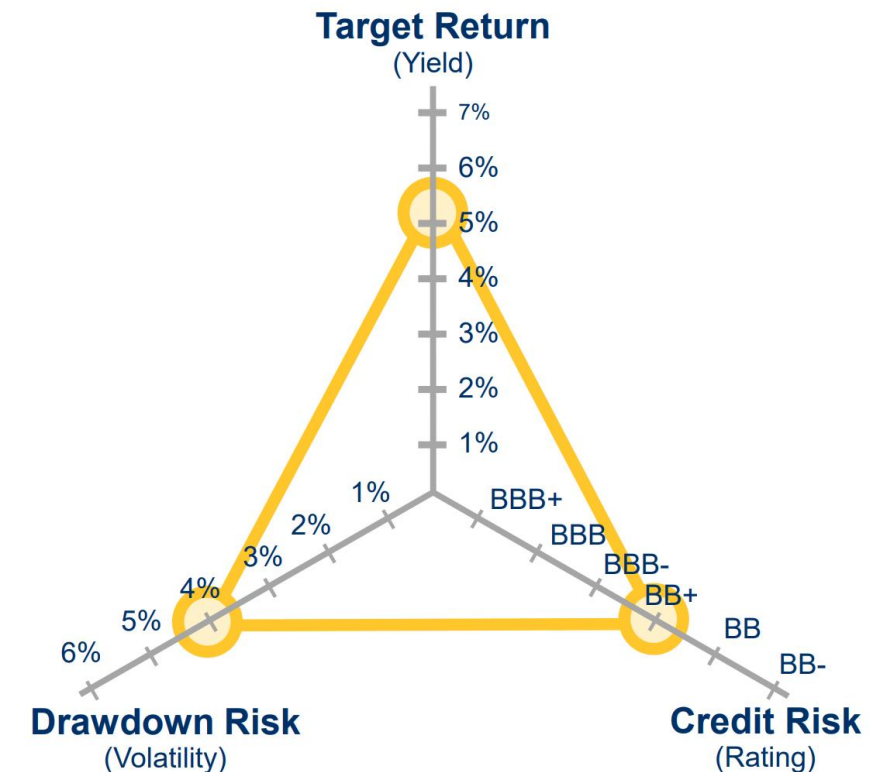
As of December 31, 2024. Source: RBC GAM, eVestment. Returns are Gross of Fees and in US Dollars. Rankings change monthly. eVestment Alliance and its affiliated entities (collectively, "eA") collect information directly from investment management firms and other sources believed to be reliable; however, eA does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. All categories not necessarily included; Totals may not equal 100%. Copyright 2011-2024 eVestment Alliance, LLC. All Rights Reserved.

How we bring it all together into a single portfolio

Relative value between asset classes

	Less positive		↔ More positive			
High yield			-1			
Securitized credit					+1	
Financial capital bonds					+1	
Convertibles				Neutral		
EMD hard currency (sovereign & corporates)				Neutral		
EMD local currency (sovereign & corporates)				Neutral		
Investment grade				Neutral		
Cash				Neutral		

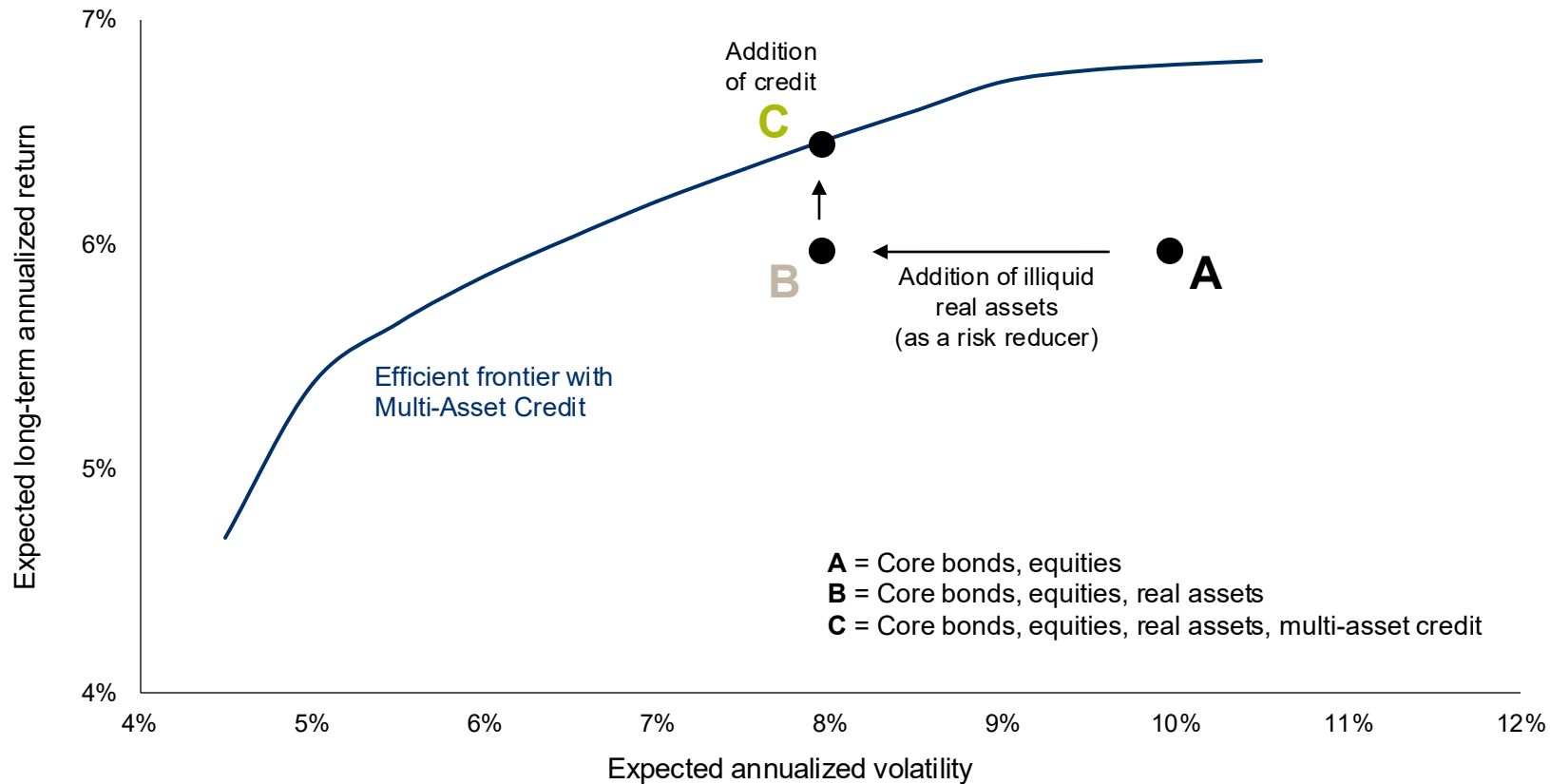
Triangle of efficiency



Source: RBC GAM, as at March 31, 2025.

Credit allocations can improve risk-adjusted returns


Modelling shows that multi-asset credit benefits portfolios, regardless of risk tolerance





Equities represented by ACWI Equities and Canadian Equities. Real Assets represented by Real Estate and Infrastructure
Refer to appendix for modeling assumptions and disclosures. Hypothetical performance analyses are for illustrative purposes only and there is no guarantee that hypothetical returns or projections will be realized.


Key takeaways


The goal is not just higher returns, but better outcomes

 Investors are increasingly looking at global credit for their liquid return-seeking allocations

 Credit offers an attractive risk/reward balance versus other public market assets

 Not all credit is the same; active management can help generate alpha

 Multi-Asset Credit strategies growing in popularity due to dynamism & diversification

 Credit can help improve risk-adjusted portfolio returns, regardless of risk tolerance

Appendix

Capital markets assumptions

Asset Classes	Representative Data Series	Expected Long-Term Return	Expected Annual Volatility	Expected Annual Downside Risk
Core Bonds	FTSE Canada Universe Bond Index	3.6%	5.2%	-7.7%
Canadian Equities	S&P/TSX Composite Index	7.7%	16.8%	-26.1%
ACWI Equities	MSCI ACWI Index (CAD)	6.2%	14.2%	-24.9%
Real Estate*	MSCI RealPac Property Index (CAD)	5.5%	8.0%	-10.7%
Infrastructure*	EDHEC Infra 300 Index (Local)	6.7%	12.2%	-17.7%
Multi-Asset Credit	Custom Index ¹	6.3%	8.3%	-16.5%

* Expected return net of fees

¹ 7.5% ICE BofA 3 Month US T-Bills (CAD-H), 35% ICE BofA Global High Yield Index (CAD-H), 11.25% J.P. Morgan Emerging Market Bond Index (CAD-H), 11.25% J.P. Morgan Corporate Emerging Markets Bond Index (CAD-H), 7.5% J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) (CAD-H), 7.5% Credit Suisse Leveraged Loan Index (CAD-H) and 20% Thomson Reuters Convertible Global Focus Index (CAD-H).

Capital market assumptions represent the views of PH&N Institutional for the purposes of illustrating and understanding the potential risk-reward trade-off of different portfolio decisions and are established by considering a variety of qualitative and quantitative sources of information including: different forecasting models; internal and external research; existing and implied future conditions as priced by capital markets; and internal views of our fund managers. Expected long term annualized returns are for a 10-year forecast time horizon. Volatilities, downside risk and correlations are estimated from historical data and adjusted as required to reflect future market conditions. Investors should be aware of the limitations using forward-looking assumptions in that there is absolutely no guarantee that future performance will occur according to any ex-ante expectation.

Source: RBC GAM, December 31, 2024

Capital markets assumptions

Correlations						
	Core Bonds	Canadian Equities	ACWI Equities	Real Estate	Infrastructure	Global Multi-Asset Credit
Core Bonds	1					
Canadian Equities	0.1	1				
ACWI Equities	0.2	0.7	1			
Real Estate	-0.1	0.0	0.0	1		
Infrastructure	0.4	0.0	0.0	0.2	1	
Multi-Asset Credit	0.3	0.8	0.6	-0.1	0.1	1

Capital market assumptions represent the views of PH&N Institutional for the purposes of illustrating and understanding the potential risk-reward trade-off of different portfolio decisions and are established by considering a variety of qualitative and quantitative sources of information including: different forecasting models; internal and external research; existing and implied future conditions as priced by capital markets; and internal views of our fund managers. Expected long term annualized returns are for a 10 year forecast time horizon. Volatilities, downside risk and correlations are estimated from historical data and adjusted as required to reflect future market conditions. Investors should be aware of the limitations using forward-looking assumptions in that there is absolutely no guarantee that future performance will occur according to any ex-ante expectation.

Index names and yield conventions

Asset class	Index	Yield convention	Spread convention
US Treasuries	Bloomberg US Treasury Index (LUATTRUU Index)	Yield to maturity	OAS to Govt
U.S. Investment Grade Corporates	ICE BofA US Corporate Index (C0A0 Index)	Yield to maturity	OAS to Govt
Euro Investment Grade Corporates	ICE BofA Euro Corporate Index (ER00 Index)	Yield to maturity	OAS to Govt
U.S. High Yield	ICE BofA US High Yield Index (H0A0 Index)	Yield to maturity	OAS to Govt
European High Yield	ICE BofA Euro High Yield Index (HP00 Index)	Yield to maturity	OAS to Govt
U.S. Syndicated Loans	JPM Leveraged Loan Index (JLLILLI Index)	Yield to 3-year takeout	Spread to 3-year takeout
European Syndicated Loans	JPM European Leveraged Loan Index (JLLELLI Index)	Yield to 3-year takeout	Spread to 3-year takeout
EM Sovereign Hard Currency	JP Morgan EMBI Global Diversified Index (JPGCCOMP Index)	Yield to worst	OAS to Govt
EM Sovereign Local Currency	JP Morgan GBI-EM Global Diversified Index (JGENVUUG Index)	Yield to worst	-

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