

## Part 2A of Form ADV The Brochure

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BlueBay Asset Management USA LLC

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This brochure provides information about the qualifications and business practices of BlueBay Asset Management USA LLC ("BlueBay USA"). If you have any questions about the contents of this brochure, please contact Robert Lilly at 203-541-4314 or email [rlilly@bluebayinvest.com](mailto:rlilly@bluebayinvest.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

**Additional information about BlueBay is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **MATERIAL CHANGES**

This brochure contains information about BlueBay USA. There have been no material changes since its adoption.

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## 1. Advisory Business – Who Are We

BlueBay Asset Management USA LLC (“BlueBay USA”) is a private investment management firm founded in 2006 and formed under the laws of the state of Delaware as a limited liability company. BlueBay USA is a subsidiary of Royal Bank of Canada (“RBC”), a global financial services company with a number of affiliated entities. BlueBay USA is a registered adviser and has approximately \$43.4 billion assets under management.

We use the terms “BlueBay USA”, “we”, “us” or “our” in this brochure to refer to BlueBay Asset Management USA LLC.

BlueBay USA provides marketing, execution and research services to BlueBay Asset Management LLP (“BlueBay LLP”), a subsidiary of RBC and an affiliated entity. BlueBay LLP is a UK resident entity and is authorised and regulated by the UK Financial Services Authority. BlueBay LLP is a specialist fixed income credit manager and BlueBay USA acts as sub-advisor on some funds managed by BlueBay LLP.

BlueBay LLP provides asset management services to institutional investors and third-party distributors. BlueBay LLP manages a wide range of long-only and alternative specialist fixed income portfolios that focus on the following four sub-asset classes of fixed income:

- **Convertible bonds** – Our convertible debt strategy aims to generate equity-like returns with lower volatility than investing in equities, in a manner consistent with the investment guidelines. We seek to achieve the targeted return by exploiting existing market inefficiencies at each stage of the investment process, using our strong credit and equity expertise and high quality, proprietary research. We implement strategies adopted from the long/short convertible bond universe to optimise the risk/return characteristics of the portfolio, with a focus on capital preservation throughout the credit cycle.
- **High yield/distressed debt** – Our high yield and distressed debt strategies place strong emphasis on downside risk management, with dynamic, proactive proprietary research driving the security selection process. We exploit capital appreciation opportunities through rigorous analysis across sectors, issuers and capital structures, as well as positive risk migration and credit trajectory. This also includes a Direct Lending Fund, which provides lending solutions to European mid-market companies.
- **Emerging market debt** – Our approach for investing in emerging market debt reflects our belief that the asset class continues to be inefficient while the underlying sovereign and corporate credits are generally improving, relative to developed markets. Local markets, in particular, are at an earlier stage of development relative to hard currency/developed bond markets, resulting in higher pricing volatility and real interest rate premia. We believe in the value of active management, with a focus on identifying high conviction capital appreciation and relative value opportunities through our rigorous fundamental research process. We seek to capitalise on attractive alpha-generating opportunities whilst minimising downside volatility.
- **Investment grade debt** – The cornerstone of our investment grade debt investment philosophy is our focus on delivering attractive absolute, risk-adjusted returns throughout the credit cycle based on our dynamic, research-driven approach. We believe that financial markets are inefficient and it is possible to generate alpha through active portfolio management. We employ a disciplined investment process in order to identify opportunities to generate alpha, and actively seek to identify underweight, as well as overweight positions. We recognise the asymmetric nature of tail risk at an issuer level and employ both credit derivatives and cash bonds in an unconstrained and dynamic manner to meet our alpha targets. We believe in the value of active management, with a focus on identifying high conviction and relative value opportunities through our rigorous, fundamental research process. We seek to capitalise on attractive alpha-generating opportunities whilst minimising downside volatility.

## 2. Fees And Compensation

The latest prospectus for each fund provides details of the specific schedule of fees payable for the relevant fund structure or class. The standard structures are a management fee only share class or a management fee plus performance fee share class. Fees within the various fund structures will differ between share classes, depending on share class characteristics e.g. minimum investment levels, lock-ups, performance fees. However the following criteria generally apply with regards to fees:

- An annual management fee of up to 2% of the net asset value is payable and these fees will be payable monthly or quarterly in arrears; and
- A performance fee, which is based upon the performance of the relevant share class, is payable, quarterly or annually in arrears. This fee is payable if the fund achieves an absolute or relative positive return or exceeds a specific agreed return over the previous annual accounting period. The performance fee is generally set at a maximum of 20%.

In addition to BlueBay fees, fund clients will incur other fees and expenses. These will be fees charged by third parties in connection with the administration of the portfolio, including, transfer agency fees, custodian fees, administrator fees, foreign currency exchange fees, brokerage and other transaction costs.

BlueBay provides investment management services to a number of segregated accounts (subject to an agreed and executed investment management agreement). Segregated accounts typically have a minimum of US\$100 million invested and may be managed on a management fee only basis or a combination of management and performance fees.

BlueBay's investment management fees for segregated accounts are negotiated in connection with the respective asset class and/or modified for portfolios that have special investment constraints or unusual reporting or administrative requirements or unique characteristics.

Management fees are generally payable quarterly (although monthly payment periods may also apply), and are generally based upon the market value of the portfolio managed as of the end of the preceding calendar quarter or the average market value of the portfolio managed within the preceding calendar quarter. Performance fees, where applicable, are generally payable annually. All client fees are paid in arrears and are billed to the client. Fees charged by BlueBay do not include brokerage commissions, transaction costs and other related costs and expenses which may be incurred by the client. Further details on such expenses are discussed in Brokerage Practices section of the Brochure.

BlueBay's investment management agreements may be terminated by BlueBay or its client, subject to applicable notice provisions contained in the investment management agreement.

### **3. Performance Based Fees and Side-by-Side Management**

BlueBay USA may act as sub-advisor on both long-only and alternative investment strategies for funds and segregated accounts managed by BlueBay LLP. BlueBay LLP offers a variety of fee schedules for its investment products which may include both performance and management fees, where appropriate. BlueBay USA receives sub-advisory fees based on an agreed percentage of the management and performance fees received by BlueBay LLP on the assets on which BlueBay USA is sub-advisor. We will act as sub-advisor on all portfolios which may give rise to certain conflicts of interest; however we have a fiduciary duty to treat all of our clients fairly.

We may receive a sub-advisory fee from BlueBay LLP based on a percentage of performance based fees received by BlueBay LLP. The existence of such fees may create a conflict of interest in that we may be encouraged to take greater risks in performance based fee accounts in pursuit of higher returns, however, we have a fiduciary duty to treat all clients fairly and the risks taken are monitored to ensure they are appropriate for the targeted level of return.

To ensure that we meet our fiduciary duties, we have adopted and implemented policies and procedures designed to ensure that conflicts of interest in side-by-side sub-advice are minimized and monitored on an ongoing basis. These include performance comparisons between performance fee and management fee portfolios, employee compensation structures that assess and review risk taking and performance generation for each portfolio, and implementation of appropriate investment aggregation and allocation policies and procedures.

#### 4. Types Of Clients

We provide investment management services to predominantly institutional clients including but not limited to:

- Pension Funds
- Corporations
- Non-Profit Organisations
- Family Offices
- Insurance Companies
- Sovereign Wealth Funds
- Fiduciary Consultants
- Distribution Channels
- Private & High Net Worth Individuals

The majority of pooled investment vehicles have minimum investment requirements and these are noted in the applicable prospectus or offering memorandum.

We provide investment management services to a number of segregated accounts (subject to an agreed and executed investment management agreement). Segregated accounts typically have a minimum of US\$100 million (or equivalent) invested and may be managed on a management fee only basis or a combination of management and performance fees. We may waive account minimums at our discretion.



## 5. Methods Of Analysis, Investment Strategies And Risk Of Loss

As mentioned previously, we manage a wide range of long-only and alternative specialist fixed income portfolios that focus on the following four sub-asset classes of fixed income:

### **Convertible Bonds**

Our convertible debt strategy is managed by a team of dedicated credit analysts and portfolio managers, and also draws upon our other specialist teams, which combined, provide our proprietary convertible bond analysis.

Security selection is based on dynamic proactive proprietary research. We exploit capital appreciation opportunities through sector and issuer analysis. We also place a strong emphasis on the technical characteristics of each individual security to ensure that they are consistent with our overall investment objectives.

All investment decisions are taken in accordance with our investment process. Monitoring and risk control are continually assessed throughout the process. The investment process is comprised of six stages:

- Stage 1 – Macro Strategy
- Stage 2 – Preliminary Screening
- Stage 3 – Fundamental Credit and Equity Analysis
- Stage 4 – Valuation and Relative Value Analysis
- Stage 5 – Technical Analysis
- Stage 6 – Portfolio Construction

### **High Yield/Distressed Debt**

Our high yield debt issuer selection process is primarily qualitative, driven by proprietary research involving a detailed analysis of screened credits. The credit screening process is designed to provide us with an in-depth understanding of the company's business, capital structure and the risks associated with a potential investment. The investment process is comprised of four stages:

- Stage 1 – Idea Sourcing and Preliminary Screening
- Stage 2 – Credit Analysis
- Stage 3 – Relative Value and Absolute Risk and Return
- Stage 4 – Portfolio Construction

### **Emerging Market Debt**

Our emerging market sovereign debt investment process uses the combination of a strategic approach to investment and a tactical trading style. Macroeconomic analysis forms the basis of our investment decisions. Both our sovereign external and local currency debt strategies follow largely the same investment process, however, due to the additional risks of investing in local currencies, there are two extra steps within the Fundamental Analysis stage of the local currency debt investment process: Currency Valuation and Interest Rate Analysis.

All investment decisions are taken in accordance with our investment process. Our process combines three stages:

- Stage 1 - Fundamental Analysis
- Stage 2 - Valuation
- Stage 3 - Portfolio Construction

The stages above form part of a continuous review process, rather than a linear process.

The investment process for our emerging market corporate debt strategies is both qualitative and quantitative. The investment process is driven by rigorous, proprietary bottom-up fundamental research involving a detailed analysis of screened credits. The process incorporates our macro-view, our sovereign macro-economic analysis and our assessment of value relative to non-emerging market corporates. The in-house credit analysis provides us with an in-depth understanding of each company's business

and capital structure, and the risks associated with a potential investment. Bottom-up credit research is the main driver of our decision-making process in selecting emerging market corporate debt securities for the portfolio.

The team follows a four stage process:

- Stage 1 – Liquidity Screening
- Stage 2 – Relative Value Screening
- Stage 3 – Fundamental Analysis
- Stage 4 – Portfolio Construction

#### **Investment Grade Debt**

Our investment grade debt strategies aim to generate performance across both interest rates and credit through both relative value and market directional positions. They have no bias to asset type or strategy type, as these are dictated by investment opportunities. The mix is expected to vary across the investment cycle and we focus on specific markets, assets or strategies that, we believe, offer the most opportunities and the most asymmetric risk/return characteristics.

Investment decisions for all of our investment grade debt strategies are taken in accordance with our investment process which combines six stages:

- Stage 1 – Macro Strategy Input
- Stage 2 – Preliminary Screening
- Stage 3 – Fundamental Analysis
- Stage 4 – Relative Value Analysis
- Stage 5 – Technical Analysis
- Stage 6 – Portfolio Construction

#### **Methods of Analysis**

We seek to provide asset management services characterized by active management, a strong investment process, a focus on capital preservation and the generation of attractive risk-adjusted returns for all four investment strategies. Funds offered by BlueBay have set guidelines which are published and available for review. For these funds, we monitor each respective guideline and limits imposed as part of our management of the Fund.

Our segregated mandates may have tailored guidelines according to specific client requirements. Tailored guidelines may have a positive or negative impact on a client's risk profile and returns for these mandates, we monitor each account's respective guidelines and limits imposed as part of our management of the account.

Our investment approach is governed by a style incorporating the following investment principles:

- Focus on absolute returns – both our long-only and alternative strategies use short exposures (either directly or via credit derivatives) as one of a number of techniques designed to deliver absolute-style returns
- Strong emphasis on capital preservation – the use of credit derivatives helps us to maximize portfolio efficiency and minimize risk
- Dynamic, research-driven approach
- Disciplined, risk controlled environment
- Active management: Our investment approach draws on both top-down and bottom-up inputs, resulting in an active style of management

Finally, credit analysis is the fundamental aspect of our investment approach and is designed to identify existing market inefficiencies at all stages of the investment processes as well as drive security selection using our credit expertise and proprietary research.

## Risk of Loss

Risk management at BlueBay is used to identify and quantify risks faced by the business, mitigate and manage such risks within the context of the overall risk appetite, and to provide ongoing monitoring of such risks for escalation as needed throughout the year.

This is achieved through a strong risk governance framework, independent reporting and robust systems and controls, which are regularly reviewed by staff responsible for risk monitoring and external reviews by independent third parties.

BlueBay is exposed to four primary sources of risk:

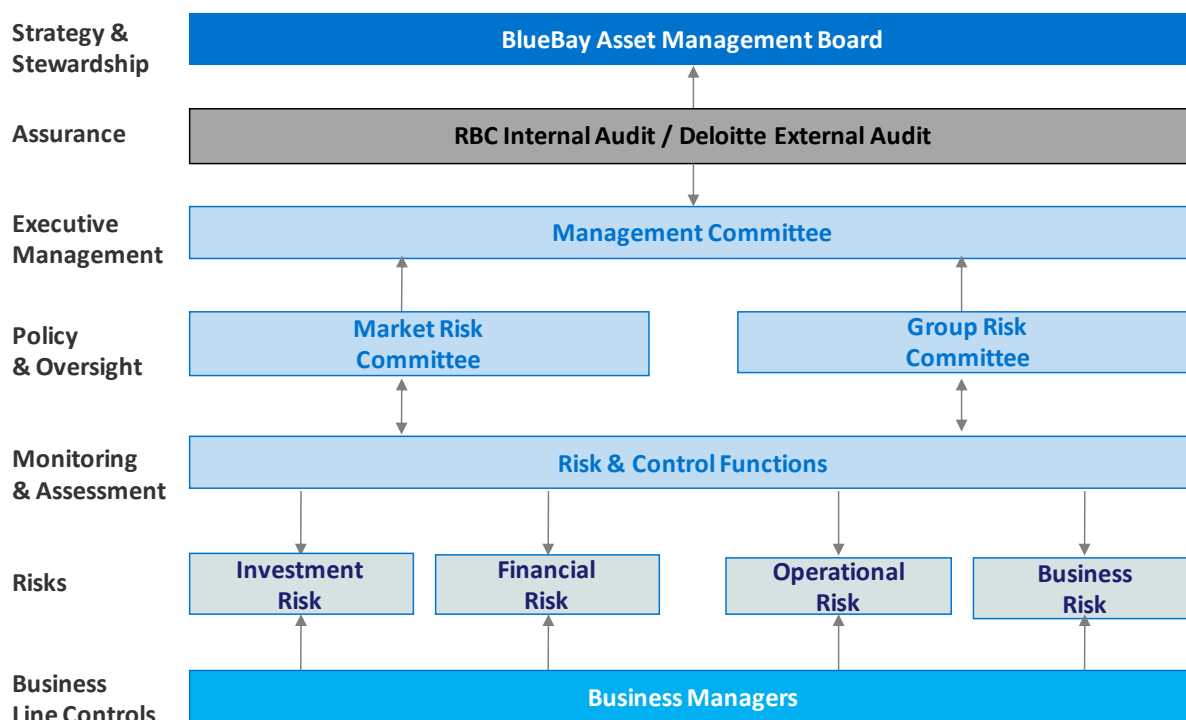
- Investment risk, which is the risk that BlueBay's fund products fail to deliver the expected level of performance;
- Business risks, which are internal or external risks related to the execution of BlueBay's business strategy;
- Operational risks, which are risks related to people, processes, systems and external events; and
- Financial risks, which are risks from market fluctuations, counterparty failures or withdrawal of liquidity affecting BlueBay directly.

## Risk Appetite

BlueBay's risk tolerance is expressed through a risk appetite statement (as presented in the Internal Capital Adequacy Assessment Process (ICAAP) report) which defines the types and degree of risk that BlueBay is willing to accept in order to execute its business strategy. Formulated by the Board and monitored by it quarterly, it provides practical guidance to key stakeholders about the level of tolerance for risk in the principal risk categories BlueBay is facing. It also determines the framework of controls and oversight required to ensure risk exposures remain within acceptable levels.

## Risk Governance

BlueBay's Governance framework is designed to ensure clear accountabilities, defined authorities and an efficient flow of information. Overall risk oversight is provided by the Board.



## The Board

The Board has responsibility for setting the risk management and internal control policies for BlueBay. It is responsible for reviewing the adequacy and effectiveness of the internal controls and risk management processes. In order to identify risks and potential

control weaknesses the Board draws upon the Risk Register (a list of key risks identified by BlueBay management) which it reviews on an annual basis. To assist in these responsibilities the Board agrees an internal audit program with RBC Internal Audit Department to review the processes and controls in place. Additionally the Board reviews the scope and nature of the external audits conducted by Deloitte and reviews findings.

The Board fulfils this duty by means of direct intervention or by delegating appropriate responsibilities to the Management Committee.

The Board comprises seven non-executive members and four executive members, meeting 4 times per year.

### **Management Committee**

The Management Committee is responsible for the execution of the business strategy and therefore bears responsibility for the identification, assessment and management of all risk categories through its day-to-day management and the implementation of effective management structures. The members of the Management Committee collectively have direct responsibility for all functions within BlueBay and receive update reports on the issues and risks arising from the various departments through regular meetings with the department heads. The Management Committee additionally relies on the support of the Group Risk Committee and the Market Risk Committee to provide policy and oversight over the main areas of risks.

The Management Committee comprises the CEO, CIO, CFO, COO, Global Head of Business Development & Head of Human Resources, meeting twice monthly.

### **Group Risk Committee**

The purpose of the Group Risk Committee is to set policy and provide oversight over business and operational risks, review the effectiveness of BlueBay's control environment and to enhance staff awareness of the risks and mitigating policies and procedures.

The Committee comprises the Head of Risk (chair), COO, CFO, General Counsel, Head of Compliance and Head of Operational Risk. The Committee meets monthly.

### **Market Risk Committee**

The purpose of the Market Risk Committee is to set policy relating to BlueBay's investment risk management framework and provide ongoing review and oversight of investment risk and performance. Additionally the Committee establishes mandates and guidelines for BlueBay fund products as well as providing oversight over financial risks assumed by BlueBay.

The Committee comprises the Head of Risk (chair), COO, CIO and the Head of Investment Risk. The committee meets weekly.

The cross-memberships within Management, Group Risk and Market Risk Committees encourage and enable the flow of information across BlueBay. Taken together, these committees provide ongoing oversight over all risks faced by BlueBay.

### **Risk Monitoring**

Risk management is the responsibility of all staff within each department performing functions that are vital for the effective management and mitigation of risks.

BlueBay's Risk and Performance Department is tasked with the independent monitoring of all risk categories, reporting in to the COO. The Head of Risk has an additional reporting line to the CEO. Additionally, some departments such as Legal, Compliance and Finance and Operations also provide independent review and challenge as part of their day-to-day operations. Risk and control awareness throughout the organisation is reinforced through the annual update of the Risk Register.

Breaches and errors are escalated to Risk and Compliance and recorded in the breaches and errors register. Issues are brought to the attention of the Risk Department for inclusion in the Risk Register.

### **Independent Verification**

Independent verification of systems and controls is provided by Internal and External Audit. Internal Audit services are provided by RBC Group Internal Audit, who report their findings to the BlueBay Board and to the RBC Audit Committee responsible for subsidiary entities.

The Internal Audit program helps the Management Committee ensure that adequate systems of internal control are in place and it provides assurance to the Board and the RBC Audit Committee that the risks identified by BlueBay are being properly managed. The internal audit programme involves an annual audit of departments within BlueBay, with all departments audited at least every three years.

External audit services are provided by Deloitte, who are the reporting accountant for the annual report and accounts and for the ISAE 3402 Assurance report on controls at a service organisation ("ISAE 3402"). Deloitte reports in the ISAE 3402 on the design of

control procedures and the achievement of specified control objectives. They also report on the effectiveness of the control procedures which were tested.

Deloitte also reviews BlueBay's systems and controls associated with preparation of its financial statements, on which clients may rely to assess BlueBay's financial strength, in its role as the external auditor.

Issues identified in audit reviews are agreed with the responsible manager and resolved within a given time frame. The Group Risk Committee monitors the status of open issues and ensures timely completion.

## **Risk Measurement and Mitigation**

### **a) Investment & Financial Risks**

BlueBay mitigates investment risk by adhering to the following key principles:

- All investment positions are priced daily by the independent Pricing Team and reconciled against administrators' records on official NAV dates by Fund Accounting.
- Daily performance reports are distributed to senior management.
- Compliance performs pre-trade checks to ensure transactions do not breach applicable regulations, prospectus restrictions or investment management agreements.
- The Market Risk Committee sets internal guidelines for all BlueBay fund products to ensure they are managed in accordance with their mandates.
- The Risk Team produces and reviews detailed daily risk reports for all BlueBay fund products and engages with the portfolio managers to ensure all risks are understood and clearly communicated.
- The Risk Team monitors exposures against internal guidelines and reports exceptions to the Market Risk Committee.
- Brokers and counterparties used by BlueBay funds are subject to an initial approval process, daily oversight and annual review. Exposure to counterparties is monitored daily and subject to internal limits.
- OTC derivatives are transacted under ISDA agreements with bilateral CSA. Daily exchange of margins ensures that mark-to-market exposures are cash collateralised to the full extent permitted by the CSA. Similarly, repurchase agreements are only traded under valid GMRA's.
- Custodians and sub-custodians are reviewed annually.
- Minimum cash amounts in all BlueBay funds are monitored daily. All investment positions are classified in terms of liquidity by the Risk Team at least once a month.
- New investment products are subject to an internal approval process to ensure all infrastructure departments can handle them appropriately.

### **Market Risk**

The measures used by BlueBay to monitor market risk are:

- Value at Risk (VAR) and/or ex-ante Tracking Error. VAR is calculated by way of Monte Carlo simulation, using 95% confidence level, one day horizon and a one year, exponentially weighted look-back period. Other confidence levels, horizons and look-back periods are used for regulatory purposes. To monitor the effectiveness of the VAR model, the Risk Team performs an ongoing backtesting of the model against daily returns for all BlueBay fund products. At least twice a year, the results of the backtesting program are reviewed by the Market Risk Committee.
- Risk factor sensitivities, such as interest rate sensitivity (IR01), credit spread sensitivity (CR01), FX delta, equity delta and vega.
- Leverage, or the sum of exposures from all investment positions divided by the NAV of a fund. Exposure is calculated as market value for cash products, ten year equivalent notional for interest rate derivatives, and delta adjusted notional for all other derivatives.
- Concentrations, such as top issuer, top 5 issuers, top issuer by rating, top country and/or top sector.

- Stress tests. Stress tests consist of both historical and predictive scenarios. Stress tests are updated if warranted by market events, new asset classes or on request, and the Market Risk Committee formally reviews all scenarios at least annually to ensure they are still relevant.
- Drawdown.

Internal guidelines are set to cover those risk measures that are deemed particularly relevant for the investment strategy pursued by each fund. Guidelines are set conservatively to alert the Risk Team when risk levels start moving outside of the normal ranges. Guidelines are “soft”, and there is no expectation that the portfolio managers need to comply with these guidelines at all times, provided that the Risk Team and the Market Risk Committee are comfortable with the resulting risk levels.

Exceptions are reported daily to the Market Risk Committee, which can instruct portfolio managers to bring risk levels back within guidelines. The Committee formally reviews and approves all outstanding exceptions once a week.

### Counterparty Risk

The Market Risk Committee approves all counterparty relationships. The Risk Team maintains a list of approved counterparties, which is reviewed at least annually.

Counterparties are grouped into tiers, which determine approved products and applicable limits. A summary is provided in the table below.

Cpty Tier	Conditions	Approved Products					
		DVP	FOP	Loans	Cash Sweep	OTC	Repos
Tier 1	A-/A3 or better by at least one agency, observable CDS spread and/or equity price	Y	<5% of NAV	Y	Y	Subject to ISDA	Subject to GMRA
Tier 2	Major provider of liquidity	<100m notional	N	(Y)	N	N	N
Tier 3	Occasional provider of liquidity	<10m notional	N	N	N	N	N

For Tier 1 counterparties (and where possible for Tier 2 & 3 counterparties) the Risk Team monitor rating changes, CDS spreads and equity price movements daily. The general requirement for a Tier 1 counterparty is a senior debt rating of A-/A3 by at least one agency, and a 5 year CDS spread of less than 250bp, although the Market Risk Committee may approve exceptions.

Counterparty exposures are monitored daily by the risk team. Counterparty exposure is defined as the replacement value (positive mark-to-market) of a contract. Exposures are netted by counterparty and product category and include any collateral held or posted.

OTC collateral is monitored daily by Operations.

Unless more restrictive limits are defined by applicable regulations, prospectus or investment management agreements, the following internal limits per counterparty apply:

- Long only funds: 8% of NAV for OECD banks, 4% of NAV for other counterparties
- Alternative funds: 20% of NAV per counterparty
- BlueBay overall: 3% of AUM per counterparty

Overall notional limits apply for DVP trades with Tier 2 & 3 counterparties, and additional limits apply for Free of Payment settlement and securities lending transactions.

### Liquidity Risk

Each portfolio holding is allocated to one of four liquidity buckets based on the Risk Team’s assessment of the time it will take to liquidate each holding in normal market conditions without materially impacting the value of the position.

The four liquidity buckets are:

- L1: assumes instruments can be liquidated with 1 day;
- L2: assumes instruments can be liquidated with 1 week;

- L3: assumes instruments can be liquidated with 1 month;
- L4: instruments are deemed illiquid.

The Risk Team uses both quantitative and qualitative criteria to determine the appropriate liquidity bucket. Quantitatively, the liquidity score is determined by a set of criteria ranging from the security's bid-offer spread, the number of market makers or the size of a holding relative to the total amount outstanding of a security.

The Risk Team may change the liquidity score derived from the quantitative criteria if there are other indicators that point to a different liquidity score. For this more qualitative assessment, the Risk Team will seek advice from BlueBay's trade execution team.

Changes to the liquidity profile over time are monitored by the Risk Team, which will report any significant changes to the relevant portfolio managers and the Market Risk Committee. Action may be taken to increase the liquidity of a sub-fund where deemed necessary.

Liquidity scores are part of the quarterly risk report to the Fund board of directors and liquidity stress tests is reviewed quarterly by the Market Risk Committee.

### **Financial Risk**

BlueBay is exposed to the following principal sources of financial risk:

- Investment risk from seed investments
- Foreign exchange rate risk from foreign currency fee receipts
- Counterparty risk from cash deposits
- Liquidity risk

These risks are mitigated as follows:

- Investment risk from seed investments is covered by the monitoring described under Investment Risk. The Group Risk Committee also monitors the risk exposure using value at risk key risk indicators.
- Foreign exchange rate risk is managed at the RBC Group level in line with RBC Group policies. BlueBay limits its local exposure by ensuring fee income receipts are automatically converted to GBP and only operating levels of cash are kept in non-GBP currencies.
- For cash deposits, BlueBay maintains banking relationships with multiple Tier 1 institutions that are subject to daily monitoring by the Risk Team. Should the Market Risk Committee become concerned about such an institution balances can be moved to another one intraday.
- Liquidity risk is mitigated by the fact that BlueBay has no debt and is adequately monitored through the ICAAP process.

### **b) Operational & Business Risks**

Operational risk (including Information Security) is managed and mitigated by means of a defined risk governance framework giving clear reporting lines, suitably trained and qualified staff and a comprehensive structure of internal controls with appropriate monitoring and oversight. The process followed is to identify, assess, mitigate, monitor and report these risks.

#### **Identify**

Risk are identified by senior management and business managers and recorded in the Risk Register. This process is an ongoing assessment with a formal review of the risk register held annually. At this time the business areas conduct a risk and controls assessment with the output feeding into the Risk Register. Risk Register items may either have led to material losses in the past, or they may be potential concerns. A series of key risk indicators ("KRIs") have been developed across the business areas helping to identify areas of potential change within the risk framework.

#### **Assess & Mitigate**

Every risk item is assigned an inherent risk score based on the likelihood and the impact of such an event occurring. Existing controls are also listed and the resultant residual risk scored and assessed. The residual risk is reviewed to ensure that it is acceptable within the parameters defined by BlueBay's risk appetite and further controls considered if necessary.

The scoring of Risk Register items is based on the following matrix, with the likelihood estimated over a three year horizon:

L I K E L I H O O D	>50%	Probable	4	4	8	12	16
	10-50%	Possible	3	3	6	9	12
	1-10%	Unlikely	2	2	4	6	8
	<1%	Rare	1	1	2	3	4
				1	2	3	4
				Minor	Moderate	Major	Severe
Financial Loss (% of Revenues)				<1%	1-5%	5-10%	>10%
Management Effort				Minor impact on day to day business activities	Moderate impact which can be managed under normal circumstances	Major impact which with proper management can be endured	Serious impact which threatens survival of business
Regulatory Compliance				Minor breach - no fine, no business disruption	Fine but no business disruption	Significant fine and major disruption to the business	Severe fine and damage to reputation
Stakeholder Confidence				Minimal impact	Some short term impact	Disruption to stakeholder confidence with some long term effects	Major long term loss of confidence by stakeholders

#### IMPACT

#### Monitor

Risks and controls are monitored through ongoing assessment of issues raised by business areas and regular reporting of KRIs and other management information, as outlined in 5 above.

#### Manage & Report

BlueBay uses an operational risk management system called Arc Logics (formerly called SWORD) to help manage and report its risks.

The risk register is maintained on this system and allows risks to be matched up with mitigating controls. Risks are classified on the system as Investment, Financial, Business or Operational and are rated according to the scoring methodology. Mitigating controls are mapped by business process to the relevant risk and their effectiveness is scored. Quarterly control assurance reporting allows control owners to verify that their controls have been working effectively and have managed the risks appropriately.

The system also acts as a loss database recording control breakdown incidents that have occurred. This allows for losses to be linked to the failed control, along with details of the loss and remedial actions. Operational Risk is responsible for recording and resolving these incidents which are formally documented and reviewed by the Group Risk Committee.

Additionally key business issues and actions, which may have arisen from control failures, audit review or business necessity, are also recorded in the system. Issues and actions can be assigned appropriately allowing users and management to readily track and manage issues.

Various scenarios, utilising risks identified in the risk register combined with internal and external loss data, are modelled and their impact on the business assessed. These scenarios and their financial impact are documented in the BlueBay ICAAP which is approved by the BlueBay Board.

BlueBay key processes and procedures are documented and maintained by the relevant business areas. All key risk related policies are developed in line with RBC Group policies (where appropriate) and best market practice. These are reviewed and approved by the Group Risk Committee.



## **6. Disciplinary Information**

Neither BlueBay USA nor its employees have been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## 7. Other Financial Industry Activities And Affiliations

BlueBay USA is a subsidiary of RBC, a global financial services company with a number of affiliated entities. RBC group entities may have direct and indirect interests in the financial instruments and markets in which BlueBay USA invests for its clients and may affect transactions with those clients. RBC group entities may act in a variety of roles including those of proprietary trader, broker, underwriter, agent or lender in connection with transactions in which BlueBay USA's clients have an interest and will receive remuneration or other benefits in connection with these roles.

BlueBay USA's policies to manage these conflicts include:

- Order Execution Policy requiring that trades with RBC group entities are executed on an arm's length basis and that BlueBay USA obtains the best possible result taking into account price, costs, speed, likelihood of execution and settlement, size, nature of the order or any other relevant consideration;
- Information barriers between BlueBay USA and RBC designed to ensure that information is not improperly shared;
- The observance of a BlueBay USA corporate code of ethics and the RBC Code of Conduct; and
- BlueBay USA does not invest in RBC shares on behalf of its clients.

Specifically, we serve as a sub-advisory to a RBC registered investment company. We also provide investment advisory services to the clients of BlueBay Asset Management LLP, an affiliate based in the United Kingdom. Further, RBC entities may recommend our services to their clients and may be compensated for such introduction.

## 8. Code Of Ethics, Participation Or Interest In Client Transactions And Personal Trading

We have adopted a Code of Ethics pursuant to numerous global regulations which are applicable to our business, including SEC Rules and the Investment Company Act of 1940 Rules. Our Code of Ethics sets forth our standard of business conduct as a fiduciary and specifically requires that its employees and partners comply with laws and regulations governing the investment management business. In summary, the Code of Ethics requires our employees and partners to:

- Act with integrity, competence, diligence, respect and in an ethical manner with clients, prospective clients and all other persons with whom they deal in the course of their business activities;
- Place the interests of clients above their own personal interests;
- Use reasonable care and exercise independent and objective professional judgment when carrying out their duties for clients and prospective clients and with persons with whom they interact in the course of carrying out their duties;
- Promote the integrity of and uphold the laws and rules governing capital markets and the investment management profession;
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals with whom they interact.
- Ensure that all verbal and written business communications, including Bloomberg instant messages, and email messages, are professional and do not include any material that could be regarded as inappropriate or offensive.

Our code of ethics that is applicable to all employees and partners. Among other things, the code requires us and our employees and partners to act in clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. Our restrictions on personal securities trading apply to employees and partners, as well as their family members living in the same household.

All partners and employees are required to confirm on an initial and annual basis that they are familiar with and will comply with the guidelines laid out in the compliance manual. BlueBay's compliance manual is regularly amended according to changes in business activities, regulations and law. The compliance manual is formally updated and redistributed to all partners and employees once a year. The compliance manual was last updated in April 2013.

Additionally, BlueBay employees are required to sign up to RBC's code of conduct. BlueBay is committed to ensuring the integrity of the business by maintaining its ethical standards and continuing the high degree of professionalism.

Our Code of Ethics policy is available upon request and can be obtained by emailing [compliance@bluebayinvest.com](mailto:compliance@bluebayinvest.com)

### Personal Account Trading

We have adopted policies and procedures governing the personal account dealing of its Employees (permanent, contract and temporary employees of the firm, including interns); Partners; Executive and non- Executive Directors; any officer; advisory person; and connected Persons of each of the listed persons. The policies and procedures are designed to mitigate the conflicts of interest between us and our clients.

Our Personal Account Trading policy requires prior approval from Compliance before executing a trade in a security for a personal account. Permission to trade is given only if clients do not hold the security and if there are no open orders in the security for clients and subject to any exemptions being available.

Covered Persons will not be permitted to trade in the following situations:

- there is an open order for any security issued by the same issuer for a client; and/or
- the issuer of the security is included in the Restricted List which includes issuers in relation to which we may hold Inside Information; and/or
- client accounts are holding securities issued by the same issuer unless an exemption applies.

Employees and partners may not purchase and sell the same security within any 30-day period. Employees and partners are required to arrange for their brokers to provide Compliance with copies of their trade confirmations and periodic transaction statements to enable Compliance to monitor for compliance with the policy. Ongoing disclosures of investment transactions must be provided to compliance. Compliance monitors personal account trading relative to client trading, to ensure that employees and partners do not engage in improper transactions.

## **Royal Bank of Canada (RBC) securities**

We are part of the RBC group which means that we are subject to additional restrictions with regards to transactions in RBC securities and certain restrictions apply to all Covered Persons that wish to trade RBC securities. Transactions are only permitted in RBC securities during open trading window periods as established by RBC senior management.

## **Gifts and Entertainment**

Under our Gifts and Entertainment policy, employees and partners are prohibited from giving or receiving gifts or entertainment that may conflict with their duties to clients. Employees and partners are required to obtain approval from a member of our Management Committee before giving or receiving a gift valued at more than \$150, or entertainment valued at more than \$250. Quarterly disclosures of all gifts and entertainments given and received, irrespective of value must be disclosed to enable Compliance to monitor for compliance with the policy.

## **Conflicts of Interest**

### **Introduction**

BlueBay may on occasion find itself in a position where conflicts of interest will arise. If these conflicts of interest are not properly identified and managed, this could lead to a loss of revenue, reputation damage to BlueBay. Consequently, it is important that conflicts of interest are correctly identified and managed within BlueBay, in accordance with this policy.

All BlueBay staff has a role to play in the identification and control of conflicts of interest and must be scrupulous in avoiding any conflict of interest with regard to BlueBay's interest. This policy provides information about conflicts and sets out details of how to avoid and manage conflicts.

### **Definition of Conflict Of Interest**

A conflict of interest typically arises where there is an implicit or explicit relationship of trust. Where a person or company can exploit a professional or official capacity for their own benefit or for the company's benefit, a conflict of interest may be present.

### **Scope of conflicts of interest**

The scope of conflicts of interest is any conflicts that could arise between a Fund and a "relevant person".

For the purposes of this policy a "relevant person" is any person contributing to the business activity of the fund(s) or a person linked directly or indirectly to the fund(s), this includes the Asset Manager and members of the Board of Directors.

It is important to note that a conflict of interest is possible even where no improper or unethical behaviour occurs. However, a conflict will not arise if there is a benefit to a relevant person but no possible disadvantages arise for the funds or the underlying investors.

The 2010 Law and the Regulation 10-4 in addition to the Law of 2007 in conjunction with the MIFID Directive and Circular 07/307 of the CSSF sets out key obligations of firms.

### **Conflicts of Interest – Internal Monitoring and Control**

The board of directors of the management company has the responsibility to ensure that the management company has procedures in place to identify all potential and actual conflicts of interest and to appropriately manage those conflicts. The board of directors of the management company should maintain and operate effective organisational and administrative arrangements that could reasonably be expected to identify, monitor and manage conflicts of interest.

### **Identification of Potential Conflicts**

Conflicts of interest may exist or arise in relation to various activities undertaken by the management company in its own right or on behalf of the UCITS that it manages. It is important that all potential situations that may give rise to a conflict are identified and the protection of investors'/unitholders' interests is the primary concern of the board of directors of the management company.

The risk of a conflict of interest arising is increased where the management company is part of a larger financial group that provides a wide range of banking and investment services, including services to the management company and the UCITS which it manages.

### **Monitoring, Control and Management of Conflicts**

All policies and procedures adopted by the ManCo have been developed with a view to preventing a conflict of interest arising, or if it arises to ensure that it is identified, managed and reported. This may include using these types of controls:

- ensuring that adequate segregation of duties is applied throughout the business, including signing authorities, systems access, etc.;
- the use of 'Chinese walls', both physical and procedural;
- the sharing of information only on a 'need to know' basis;
- establishing appropriate and independent reporting lines between departments;
- consideration of a policy to encourage the reporting of conflicts of interest situations;
- independent review of situations that have higher risk of conflict, e.g. error corrections, services provided by a group company, etc., by the Risk Management function or Compliance;
- regular control of the application of procedures by the Internal Auditor.

### **Management and reporting of Conflicts**

Where a conflict of interest, or potential conflict, is identified the Conducting Officers of the ManCo must ensure that steps are taken to ensure that the conflict does not negatively impact the UCITS that it manages or the unitholders of the UCITS. This may include additional independent oversight by management of the specific situation.

Where a conflict cannot be avoided the ManCo should ensure that the risk of damage to the UCITS, or the unitholders of the UCITS, is prevented. The circumstances of the situation should be reported to the Conducting Officers and, as appropriate, the Board of Directors. The ManCo must report such situations to investors in the affected UCITS in the manner that they usually report to their clients.

In addition, The Markets in Financial Instruments Directive ("MiFID") requires that firms:

- take all reasonable steps to identify conflicts of interest between the interest of BlueBay and the duties owed to its clients.(Article 18);
- implement a conflicts of interest policy identifying conflicts of interest (or potential conflicts of interest) (Recital 26 and Article 22);
- appropriately manage any conflicts of interest (Recital 27 and Article 22);
- maintain records of the investment services/investment activity carried out by, or on behalf of the firm where a conflict of interest entailing a material risk of damage to the interests of one or more clients has arisen or may arise (Article 23).

A conflicts of interest register is available upon request.

In addition, Specialised Investment Funds ("SIFs") must be structured and organised in such a manner as to minimise the risk of investors' interests being prejudiced by conflicts of interest between SIFs and any person contributing to the fund or any person directly or indirectly related to the fund. In the case of possible conflicts of interest, the SIF must ensure the safeguarding of investors' interests.

This policy of the Management Company has been designed to ensure that conflicts of interest that may arise have been identified and are managed appropriately and in accordance with relevant regulations.

### **Identification of conflicts of interest**

It is important to assess whether the interests of a fund or funds may be damaged. This is likely to occur if any relevant person:

- is likely to make a financial gain, or avoid a financial loss to the detriment of a fund, either through a lost benefit or a financial cost;
- has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of a fund , which is distinct from the Fund's interest and not to their benefit;
- has a financial or other incentive to favour the interest of another party over the interests of the fund , or to the detriment of the fund;
- carries on or has a significant interest externally in the same business as the fund, or is connected to or with the fund;
- receives or will receive from a person other than the fund an inducement in relation to a service provided to the fund, in the form of monies, goods or services, other than the standard commission or fee for that service;

Relevant persons engaged in the approval of the purchase of supplies on behalf of BlueBay are expected to be free of interests or relationships that are actually or potentially unfavourable or detrimental to the best interests of BlueBay. Relevant persons shall not engage or participate in any commercial transaction involving BlueBay, (including its affiliates, divisions or subsidiaries) in which they have a financial interest; and

BlueBay is required to meet its obligations to regulators or other external agencies, and such obligation conflicts with the interest of a fund.

### **Management of conflicts**

BlueBay maintains and operates internal organisational and administrative arrangements to prevent or manage conflicts. These arrangements include:

- robust governance arrangements under which key business decisions are taken by the Board of Directors and its appointed committees;
- clearly defined and documented reporting lines and responsibilities;
- segregation of duties to avoid conflicts of interest wherever possible;
- alignment of firm and employee interests with investor interests through linking of remuneration to portfolio performance;
- portfolio risk management arrangements to monitor levels of risk taking;
- reporting to senior management of action taken to manage actual conflicts arising and to minimise the risk of recurrence of the conflict;
- contractual obligation on all employees to comply with Compliance and HR policies designed to mitigate conflicts and to report conflicts arising;
- training on regulations, and the policies implemented to promote compliance with those regulations; and
- recording of potential and actual conflicts and regular review of the effectiveness of BlueBay's management of conflicts.

When BlueBay delegates functions to third parties, such as the asset management of funds, these third parties are also required to follow these standards with regards to management of conflicts.

### **Conflicts of Interest Management and Delegated Activities**

As a general rule, the management company should also take appropriate measures to ensure on an ongoing basis that any third parties to whom it has delegated activities also have a conflicts of interest policy, in relation to the activities being carried out on its behalf.

### **Conflicts arising from acting for multiple funds**

BlueBay has put in place policies to manage Conflicts that may arise when trading for multiple funds, and ensures that the same principles are observed by third parties to whom it outsources. These policies include:

Order Execution Policy to ensure that funds are provided with "best execution";

Order Allocation Policy to ensure the fair allocation of aggregated orders and trades; and

Cross Trade Policy to ensure that such trades are executed at the appropriate market price and in the best interest of both funds.

In certain cases, BlueBay receives management fees based upon assets under management and in others based upon its performance in managing the accounts. While BlueBay may benefit more from above average performance in the performance fee accounts as compared with accounts for which it receives asset based fees, its procedures require the fair and equitable allocation of securities among these accounts.

## **Conflicts between funds and relevant persons**

BlueBay policies to manage these conflicts include:

Personal Account Dealing Policy to ensure that conflicts between an employee's trading and trading undertaken on behalf of clients are avoided;

Gifts & Entertainment policy to ensure that employees do not accept or give a gift or other benefit that is not justifiable in the circumstances because it gives rise to a potential conflict;

contractual provisions restricting employees from working for any other businesses if there is any risk of a conflict arising;

remuneration arrangements for portfolio managers that reward both short term and long term performance, and on an individual and on an investment team basis;

Remuneration policy of BlueBay FMC;

Remuneration policy adopted on 29 January 2013 by the Remuneration Committee for BlueBay LLP;

Strategy for the exercise of voting rights; and

Disclosure of interests by the directors during board meetings.

## **Conflicts arising from transacting with affiliates**

BlueBay is a part of the Royal Bank of Canada ("RBC"), a global financial services company with a number of affiliated entities. RBC group entities may have direct and indirect interests in the financial instruments and markets in which BlueBay invests for funds and may be used, where permitted by regulation and the client's contract, to effect transactions for funds. RBC group entities may act in a variety of roles including those of proprietary trader, broker, underwriter, agent or lender in connection with transactions in which BlueBay funds have an interest and will receive remuneration or other benefits in connection with these roles.

BlueBay policies to manage these conflicts include:

Order Execution Policy requiring that trades with RBC group entities are executed on an arm's length basis and that BlueBay obtains the best possible result taking into account price, costs, speed, likelihood of execution and settlement, size, nature of the order or any other relevant consideration;

Information barriers between BlueBay and RBC designed to ensure that information is not improperly shared; The observance of code of ethics and the RBC Code of Conduct; and

BlueBay does not invest in RBC shares on behalf of the funds.

## **Reporting and Disclosure of Conflicts**

Any potential conflict of interest that arises in a specific situation or transaction must be disclosed to Compliance and resolved and the action to be taken approved before anyone in BlueBay takes any action. Conflicts of interest may not always be evident, and you should consult with Compliance if you are uncertain about any situation and whether a potential conflict of interest may exist.

On disclosure, Compliance will review the circumstances of the potential conflict to determine whether an actual conflict exists, how the conflict may adversely affect the interests of the fund(s) or its investors and if there are any reasonable steps that can be taken to manage the conflict.

If it is not possible to manage the conflict of interest so that the interests of the client are not harmed, it may be necessary to disclose to the client the nature of the conflict and how or whether a service can be provided or can continue to be provided to the client. All relevant facts must be disclosed to the client in order to allow them to make an informed decision relating to its interests.

If BlueBay does not refrain from acting then the nature of the Conflict will be disclosed to the affected client so that the client may make an informed decision with respect to the services to be provided in the context of which the Conflict arises. It should be noted that conflicts of interest cannot generally be managed simply by means of disclosure and over-reliance on generic disclosure rather than identifying ways of managing the conflict is not permitted.

The Compliance Officer will be responsible for ensuring that the conducting persons and senior management are advised of conflict of interests issues, and that appropriate approval is obtained where relevant based on the nature of the conflict and the extent to which it can be managed.

A conflicts of interest register is available upon request.

## **Record keeping**

BlueBay keeps a record of potential conflicts of interest that may arise within the organisation and this shows the types of services and activities it carries out in which a conflict of interest entailing a material risk of damage to the interests of one or more clients has arisen or may arise.

This records will be maintained by the Compliance Department and updated on an ongoing basis and will be kept for six years.



## 9. Brokerage Practices

Execution traders are responsible for the selection of brokers, subject to these being an approved counterparty. Through being continuously in touch with the market, traders are able to recognize opportunities and then identify the most appropriate broker with whom to place the trades. In this manner they are able to use their professional judgment to keep market impact to a minimum. Compliance also monitors trades on an ongoing basis to determine whether best execution is being obtained.

Remuneration of all investment professionals is geared to performance and takes into account the profitable growth of each investment team's business.

### **Discretionary Authority**

There are no specific limitations on the securities to be bought or sold or the amount of such securities to be bought or sold for a particular account except as noted in the relevant client investment management agreement. Limitations may be imposed as a result of the requirement to comply with client investment guidelines and restrictions that are detailed in the investment management agreement.

We manage portfolios of investments on a discretionary basis for its clients, making and giving effect to decisions to deal using two methods. First, we can place an order resulting from a decision to deal on behalf of a client with a third party "Broker" (e.g. a stockbroker or investment bank) for that Broker to execute on behalf of the client. Secondly, we can execute the transaction resulting from a decision to deal on behalf of the client directly with a third party "Counterparty" (e.g. dealing directly with a market maker on a "request for quote" basis) or on an exchange or a trading system. The Counterparty, exchange or trading system with which we choose to execute such a transaction is referred to in this policy as an "Execution Venue".

### **Execution factors and criteria**

When giving effect to decisions to deal on behalf of clients, the exact nature of the best possible result will be determined by us by reference to a wide variety of factors including: price, costs, speed, likelihood of execution and settlement, size, nature of the order, or any other consideration relevant to the execution of the order.

Price will ordinarily merit a high relative importance in obtaining the best possible result. However, in some circumstances we may appropriately determine that other factors are more important than price. We determine the relative importance of the various factors by using our commercial judgement and experience in light of market information and taking into account the following criteria: the characteristics of the client, the characteristics of the order, the characteristics of the instrument or product and the characteristics of the Brokers or Execution Venues to which that order can be directed.

### **Choosing between order placement and direct execution**

Once we have made a decision to deal, the trader decides whether to place the order with a Broker or to execute the transaction directly on an execution venue. This decision is made having regard to the relative importance of the execution factors for the instrument or product in question. For some instruments or products, there is no choice. So, for example, when trading "over the counter" derivatives, the transaction will always be effected by way of direct execution with a Counterparty.

### **Order placement with Brokers**

Each portfolio manager and trader specializes in one of the four main strategies managed by us: Emerging Market debt, Global High Yield/Distressed, Global Convertibles and European Investment Grade debt. The core senior portfolio managers for each of the four strategies have focused on their asset class for more than 10 years, gaining insight and experience under a variety of market conditions. We have dedicated an execution team of traders to each of the four asset classes, providing them with in-depth knowledge of the instruments and products traded and the Brokers/Counterparties with which to trade.

Where we place an order with a Broker for execution, we are not responsible for controlling or influencing the arrangements made by the Broker relating to the execution of that order (for example, we do not control the Broker's choice of Execution Venues) and are not required to duplicate the efforts of the Broker in ensuring the best possible result. Our obligation is therefore to ensure that the Brokers included in our Approved Broker/Counterparty List are those which will enable it to comply with the Best Execution Obligation and that orders are passed only to those Brokers.

### **Direct execution with Execution Venues**

Our traders will use their professional judgement, skill and experience to decide the most appropriate Execution Venue when seeking to comply with the Best Execution Obligation. We execute the majority of our trades with the Counterparties listed in the our Approved Broker/Counterparty List rather than on an exchange or other trading system.

The traders have built relationships with the Counterparties with which we trade, enabling them to ascertain which organization is likely to provide the product or instrument required in a way that allows us to satisfy the Best Execution Obligation owed to its clients. Typically the traders approach a range of Counterparties to obtain the best price available for a security. However, it may not be advantageous for us to seek multiple quotes if a security has limited liquidity and a small number of market makers, in which case placing an order may lead to a price movement that is unfavorable to our clients as a result of informing the market of our trading intentions. At all times the traders use their professional judgment to obtain the best possible result in the circumstances.

“Over the counter” trading in derivatives is effected by us with Counterparties that act as principal under ISDA and related master documentation. Owing to factors beyond our reasonable control, relationships with some of these Counterparties may have been established only for particular clients and so may not be available for all clients. Any decision to execute a transaction with a particular Counterparty on behalf of a client is made from the available pool of Counterparties for that client.

### **Counterparty Approval Process**

Before undertaking business with a Counterparty for the first time, an approval process is followed to ensure that we only trade with appropriate counterparties. We maintain an Approved Broker/Counterparty List which formally records the parties with which a trader may do business. All approved counterparties are programmed into Charles River, our Investment Management System.

The Risk department within BlueBay has authority to approve new counterparties. On the basis of the completed initial approval form, financial statements, credit rating, and clearing arrangements, the Risk department considers whether the trading risk of the Counterparty is acceptable in light of the type of trading for which approval is sought.

### **The Selection of Trading Counterparties**

As mentioned above, our Approved Counterparty List formally records the banks and brokers with whom our execution traders may do business. The execution traders initiate the approval process for a new counterparty by completing a form detailing the counterparty, the type of business to be transacted, and the reason for wanting to trade with the counterparty. The process will cover a number of factors including provision of liquidity, pricing, and the level of new issuance activity of the counterparty and any additional information that the execution trader considers relevant to the decision on whether to approve the counterparty. Compliance adds the regulatory status, the Financial Action Task Force status of the country in which the counterparty is situated, the results of the check of unauthorized firms doing business in the UK, and details of any legal or regulatory action based on publicly available information.

The Market Risk Committee obtains the most recent audited financial statements, the credit rating of the counterparty or counterparty parent (where applicable), and the detail of the clearing arrangements. On the basis of the completed initial approval form, financial statements, credit rating, and clearing arrangements, the Market Risk Committee considers whether the trading risk of the counterparty is acceptable in light of the type of trading for which approval is sought.

On a daily basis, the Risk Team monitors market indicators such as credit default swap spreads for OTC and depositor counterparties. If these indicators raise concern about the credit quality of any counterparty, the Market Risk Committee may prohibit further trading or remove the counterparty from the Approved Broker/Counterparty List.

### **Ongoing Review of Counterparties**

On a daily basis, the Risk department monitors market indicators such as credit default swap spreads for OTC and depositor counterparties. If these indicators raise concern about the credit quality of any counterparty, the Market Risk Committee may prohibit further trading or remove the counterparty from the Approved Broker/Counterparty List.

On an annual basis, the Broker/Counterparty Annual Approval List is updated by both Risk and Compliance with details of any legal or regulatory action (based on publicly available information) and trading volumes during the previous year, and by the Head of Pricing Group & Trade Execution with details of any market information that may affect our decision to do business with the firm. The Market Risk Committee obtains the most recent financial statements and credit ratings of each OTC and depositor counterparty. On the basis of the completed annual approval list, financial statements and credit ratings, the Market Risk Committee considers whether the trading risk of each of the counterparties on the annual approval list continues to be acceptable.

RBC Capital Markets, an affiliate of RBC and BlueBay, has been included on our Approved Counterparty List since before the acquisition. The Approved Counterparty List formally records the banks and brokers with whom our traders may do business and is subject to customary review, as with any other counterparty. We are entitled to use RBC Capital Markets for brokerage services, as long as trades are executed at arm’s length and in compliance with our best execution policies and procedures. We do not have any minimum trading threshold to transact with RBC Capital Markets.

Segregated account prospects may request that we exclude RBC Capital Markets as a broker for their account.

### **Soft Dollar Benefits**

We do not have any soft commission arrangements in place. Any proposal to implement such an arrangement would require compliance and Senior Management approval.

### **Best Execution Reviews**

When dealing on behalf of clients, the exact nature of best execution will be determined by us by reference to a wide variety of factors including price, costs, speed, likelihood of execution and settlement, size, nature of the order, or any other consideration relevant to the execution of the order. Our Order Execution policy is available upon request.

Our Execution Team's collective professional experience, market knowledge and counterparty relationships developed over many years enables us to proactively source liquidity.

Access to primary and secondary market sources is achieved directly via our execution traders. Their role involves interacting with investment banks and other counterparties so that trades can be executed at the most optimal liquidity point in the markets.

We monitor the effectiveness of its order execution arrangements to identify and, where appropriate, correct any deficiencies. We review on a regular basis whether the brokers and execution venues included in the Order Execution Policy (available on request) provide the best possible result and whether any changes are necessary. Compliance also monitors trades on an on-going basis to determine whether best execution was obtained.

### **Trade Allocation and Trade Aggregation**

We have established and implemented an Order Allocation policy, setting out the most important and/or relevant aspects of the order allocation arrangements to ensure fair allocation. Generally the portfolio managers will allocate trades across clients with similar strategies to bring the holding in each account to a similar percentage of the value of the portfolio. The portfolio manager will take into account factors impacting the allocation, including:

- Client investment guidelines that exclude a particular security or type of security;
- Client investment guidelines that restrict the amount (usually as a percentage of the portfolio value) of a particular security or security type;
- Minimum tradable lot sizes applicable to a security; and Round lot sizes.

The trader aggregates orders and places a block order with one or more brokers. Block trades are entered into for efficient trading purposes, to limit market impact and to achieve the best price at execution. If the block trade is filled in its entirety, all participating clients receive the order amount. If the trade is partially filled or executed with more than one broker, each tranche of the trade is allocated among the participating accounts pro rata according to the order size specified by the portfolio manager at the time of order placement. Tranches are executed and allocated on this pro rata basis until the order has been filled or the outstanding order has been cancelled by the portfolio manager.

### **Cross Transactions**

We may from time to time effect "cross transactions" between two of our clients, in which one client will purchase securities held by another client. Such transactions are executed only when we deem the transaction to be in the best interests of both clients and at a market price which is checked via a Price Data Warehouse, Our proprietary pricing system, by our independent Pricing Team. In the instance that the cross transaction needs to be executed at a price other than one obtained through Price Data Warehouse or quarter end. The price must be first approved by both the Head of the Pricing Team and Compliance. We do not receive any compensation in connection with such cross transactions. We comply with the conditions and/or constraints on cross transactions under ERISA and the Investment Company Act of 1940 each of which impose conditions and/or constraints on cross transactions.

### **Insider Trading**

We have adopted an Insider Trading policy concerning the misuse of insider information. Employees who receive possible inside information liaise with Compliance to determine whether it is material non-public price-sensitive information. If the information is deemed to be inside information, the security is added to our restricted list, which means that we cannot trade in the security for any clients and also, employees will be prohibited from executing trades in the security for their personal accounts. Securities are added to the restricted list in our portfolio management system, Charles River Investment Management System (Charles River) that is used to check all trade orders against investment guidelines and restrictions. Input of an order in a restricted list security will give rise to an alert that prevents transmission of the order to the trade execution desk. Employees notify Compliance when they are no longer in possession of inside information and the security is removed from the restricted list if Compliance is satisfied that the information is no longer material non-public price-sensitive information.

Under certain circumstances an employee might invest in a security that is not considered suitable for client accounts because of size, liquidity, or other factors. A change in these factors could result in the security becoming more suitable for clients, but

Compliance might not allow the security to be purchased for client accounts in order to avoid even the appearance of employees trading ahead of clients. Compliance does not grant preclearance where it would appear that an employee's trading could disadvantage our clients.

#### **Directed Brokerage**

We permit directed brokerage by clients in certain circumstances. At the time of negotiation of the investment management agreement each client is made aware of the risks of directed brokerage, including that best execution may not be achieved as the result.

#### **Trade Errors**

Should a mandate breach or error occur, our priority is to rectify the situation as soon as possible, ensuring that our clients are put back to the position they would have been had the error never occurred. Any error goes through a formal review process whereby the error is rectified, compensation paid if necessary and a procedural review of the failed control undertaken. All errors are reviewed by Operational Risk and Compliance and are escalated to senior management and the client as appropriate. All errors are further reviewed at the Group Risk Committee which meets twice a quarter. This rigorous review process ensures that procedures are put in place to prevent reoccurrence. Operational Risk track any resultant control enhancements ensuring timely implementation.

Execution traders are responsible for the selection of brokers, subject to these being an approved counterparty. Through being continuously in touch with the market, traders are able to recognise opportunities and then identify the most appropriate broker with whom to place the trades. In this manner they are able to use their professional judgment to keep market impact to a minimum. Compliance also monitors trades on an ongoing basis to determine whether best execution is being obtained.

Remuneration of all investment professionals is geared to performance and takes into account the profitable growth of each investment team's business.

## 10. Review Of Accounts

### Segregated Accounts

We have a dedicated Client Relations team. Each client account is allocated a Client Relations Manager (CRM) who is the primary point of contact for all client enquiries, reporting and regular reviews of the client's portfolio. Client review meetings are conducted by the CRM with the primary responsibility for the client and attended by the portfolio manager.

The portfolio manager is responsible for ensuring the portfolio is in compliance with the client's investment guidelines/investment restrictions. Investment guidelines are programmed into Charles River and any trades placed on behalf of the client will be subject to a pre-trade compliance check before they are passed through to our dedicated trade execution desk. Compliance monitors the client's accounts for post trade compliance and have responsibility for investigating any breaches of the investment guidelines and authorising corrective action to be taken.

Segregated account reporting is agreed with the client at the outset of the relationship. Client reporting is despatched by the Client Relations team and provided generally on a monthly basis via e-mail, or as requested by the client. Reporting includes input from the portfolio managers, fund/investment accounting team and risk/performance team and is subject to a rigorous review process.

The Chief Investment Officer (CIO) and the portfolio managers review the performance and risk of all our funds and segregated client accounts on an on-going basis. In addition, the Market Risk Committee, which is chaired by the Chief Investment Officer and includes Chief Operating Officer, the Head of Risk and the Head of Investment Risk, meets regularly (usually weekly) and amongst other things, performs an ongoing review and oversight of investment risks and performance for all accounts managed by us.

### BlueBay Funds

Underlying investors invested in various BlueBay funds receive a fund factsheet (including performance and risk statistics, portfolio characteristics, market commentary and fund facts) on a monthly basis. Statements of holdings in the funds are produced by the respective fund administrator on a monthly basis; investors also receive audited annual financial statements and unaudited semi-annual financial statements for the fund in which they are invested. Clients can access all fund reporting generated by us via the secure client extranet website, BlueBayLink, or request to receive this information via e-mail.

## **11. Client Referrals And Other Compensation**

From time to time, we may enter into arrangements with various third parties pursuant to which each has agreed to introduce BlueBay USA to prospective clients and investors who are eligible for and may have an interest in advisory services or investment products managed by us. Compensation will vary for each such party and will be paid pursuant to the terms of a written agreement with the respective party, which also outlines the nature of the activities to be undertaken. All client and investor solicitation activities will be undertaken in accordance with the requirements of the various federal securities laws and disclosure specific to the solicitation will be provided to each prospective client and investor at the time of solicitation.

## 12. Custody

We generally do not accept custody of client funds or securities. All clients' accounts are held in custody by unaffiliated broker/dealers, banks or other institutions approved to provide custodian services. We do have the ability to issue instructions in relation to the movement of client assets and cash but only in accordance with the provisions of relevant agreements and mandates.

Account custodians will send statements directly to the account owners. Clients should carefully review these statements, and should compare these statements to any account information provided by us.

### **13. Investment Discretion**

We maintain investment discretion over all of our clients' accounts. We have the authority to determine, without obtaining specific client consent, the amount and price of securities bought and sold, the preferred broker-dealers through which they effect trades, and the commission rate charge for trades. Limitations may be imposed as a result of the requirement to comply with client investment guidelines and restrictions that are detailed in the investment management agreement.



#### 14. Voting Client Securities

Our policy is to vote client proxies in the interest of maximizing shareholder value. We vote client proxies in a way that we believe, consistent with our fiduciary duty, will cause securities to increase the most or decline the least in value. Our clients do not direct our vote. Consideration will be given to both the short and long term implications of the proposal to be voted on when considering the optimal vote.

We have currently identified no conflicts of interest between our client interests and our own within our proxy voting process. Nevertheless, if we determine that we are facing a material conflict of interest in voting your proxy, our procedures provide for our Compliance department to determine the appropriate vote. If the Compliance department is unable to determine the appropriate vote, a competent independent third party will be engaged, at our expense, who will determine the vote that will maximize shareholder value. As an added protection, the third party's decision is binding.

Our complete proxy voting policy and procedures are memorialized in writing and are available for your review. In addition, our complete proxy voting record is available to our clients, and only to our clients. Please contact us if you have any questions or if you would like to review either of these documents.

## 15. Financial Information

A balance sheet is not required to be provided as we (i) do not solicit fees more than six months in advance, (ii) do not have a financial condition that is likely to impair our ability to meet contractual commitments to our clients or (iii) have not been subject to any bankruptcy proceeding during the past 10 years.

CONFIDENTIAL

## Part 2B of Form ADV The Brochure Supplement

October 31, 2013

BlueBay Asset Management USA LLC

This brochure supplement provides information about Tom Kreuzer and Andrzej Skiba. It supplements our accompanying Form ADV Firm Brochure. Please contact our Compliance Officer, Robert Lilly, at 203-541-4314 if you have any questions about the Form ADV Firm Brochure or this Brochure Supplement, or if you would like to request additional or updated copies of either document.

Additional information about Messrs. Kreuzer, and Skiba is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Biographical Information

Tom Kreuzer	
<b>Educational Background and Business Experience</b>	Born in 1977, Tom, a Portfolio Manager, joined BlueBay in July 2002 from Deutsche Bank Investment Banking where he spent three years, firstly as an Analyst, then he was promoted to Associate in 2002. He worked in the Leverage Finance and Financial Sponsor Group in New York and later in London. Tom holds a BA (Cum Laude) from Middlebury College.
<b>Disciplinary Information</b>	Tom has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Tom or of BlueBay (USA).
<b>Other Business Activities</b>	Tom is not engaged in any other investment related business, and does not receive compensation in connection with any business activity outside of BlueBay (USA).
<b>Additional Compensation</b>	Tom does not receive economic benefits from any person or entity other than BlueBay (USA) in connection with the provision of investment advice to clients.
<b>Supervision</b>	Tom reports into the BlueBay (USA) Board.

Andrzej Skiba	
<b>Educational Background and Business Experience</b>	Born in 1979, Andrzej, a Portfolio Manager, joined BlueBay in February 2005 from Goldman Sachs where he worked as a Credit Analyst covering European investment grade Telecom, Media and Utility sectors. Andrzej spent his first four years at BlueBay as a credit analyst covering the TMT, Utilities and Retail sectors for the Investment Grade group. Andrzej has a BSc. (Hons) in Management and International Business Economics from UMIST and is a CFA Charter Holder. <sup>1</sup>
<b>Disciplinary Information</b>	Andrzej has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Anthony or of BlueBay (USA).
<b>Other Business Activities</b>	Andrzej is not engaged in any other investment related business, and does not receive compensation in connection with any business activity outside of BlueBay (USA).
<b>Additional Compensation</b>	Andrzej does not receive economic benefits from any person or entity other than BlueBay (USA) in connection with the provision of investment advice to clients.
<b>Supervision</b>	Andrzej reports into the BlueBay (USA) Board.

<sup>1</sup> **Chartered Financial Analyst (CFA)**

The Chartered Financial Analyst (CFA) designation is an international professional certification offered by the CFA Institute (formerly AIMR) to financial analysts who complete a series of three examinations. To become a CFA Charterholder, candidates must pass each of three six-hour exams, possess a bachelor's degree from an accredited institution (or have equivalent education or work experience) and have 48 months of qualified, professional work experience. The CFA curriculum includes these topic areas: Ethical and Professional Standards; Quantitative Methods (such as the time value of money, and statistical inference); Economics; Financial Reporting and Analysis; Corporate Finance; Analysis of Investments (stocks, bonds, derivatives, venture capital, real estate, etc.); Portfolio Management and Analysis (asset allocation, portfolio risk, performance measurement, etc.) CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.