

BGF China Bond Fund

BlackRock®

August 2024

Key figures at a glance

2024 YTD performance: 4.49%*

Performance: Net of fees in the A2 CNH share class, the portfolio returned +0.52% in August.

▲ **Offshore:** Offshore saw a positive return across carry, rates and credit.

▼ **Onshore:** Onshore performance was slightly negative in August mainly driven by convertibles.

Key performance contributors were offshore sectors including Non-greater China, Financials, TMTs, Local government related, and industrial sector. The main detractor was onshore convertibles.

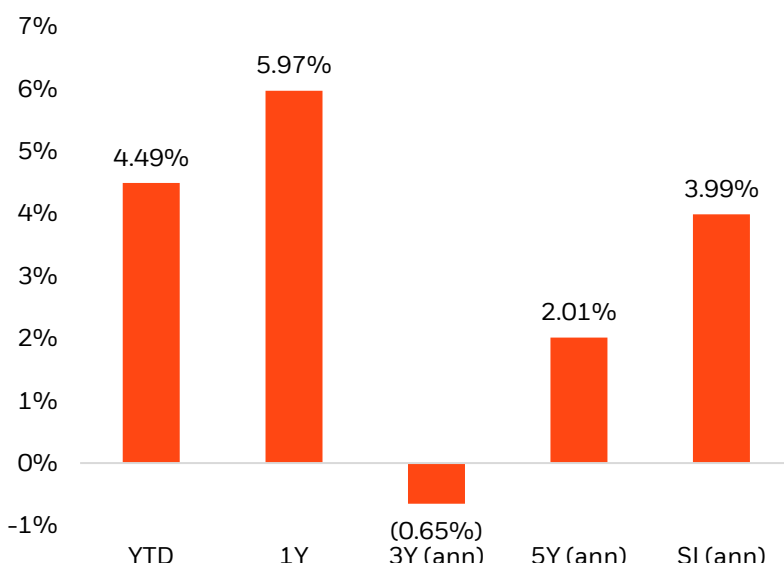
Positioning: In onshore, we continue to maintain a barbell approach, prefer high quality short-dated credit bonds on one hand, and longer-dated rates bond on the other hand which serve as a hedge against economic slowdown. In offshore, we kept 60% in exposure with 8% from CNH bonds. We continue to prefer a barbell approach, liking short-dated HY bonds with attractive carry alongside long end IG credits with attractive valuations supported by strong demand from onshore buyers.

▲ **Favoured:** Supportive policies and supply trends continue to be bullish for China fixed income which we remain constructive with a focus on diversification.

▲ **Cautious:** We remain cautious in the property sector, where we are selective in high quality SOE developers, while having minimal exposure to distressed names that have limited downside.

Performance Summary* (%)

A2 CNH Share class Net Returns



1st Quartile ranking by Morningstar RMB Bond since inception

Recent Awards

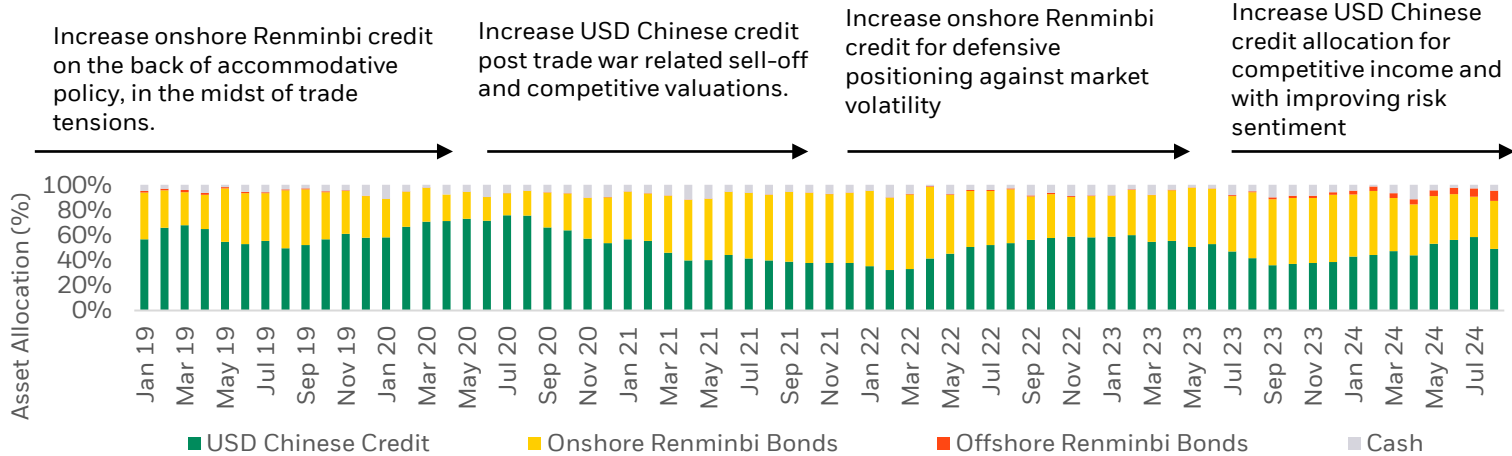
- 2022 Golden Bull Award**
3-year Overseas China Fixed Income Fund (4th consecutive win)
- 2022 Asian Private Banker Asset Management Awards for Excellence**
Best Fund Provider
- 2022 Refinitiv Lipper Fund Awards Hong Kong**
Winner over 3, 5, & 10 years
- 2022 Fund Selector Fund Awards**
Platinum (Highest Award)
- 2021 Golden Bull Award**
3-year Overseas China Fixed Income Fund (3rd consecutive win)
- 2021 Asian Private Banker Asset Management Awards for Excellence**
Best Fund Provider
- 2021 Refinitiv Lipper Fund Awards**
Winner over 3 & 5 years

*The fund's performance with maximum 5% sales charge applied: -4.51% (1 month), -0.73% (year-to-date), 0.67% (1-year), -2.33% (3-year), 0.97% (5-year), 3.58% (since inception). Performance for A2 CNH share class, net in CNH on a NAV pricing with income reinvested as at 31 August 2024 and assumed a 5% Front End Load where indicated. Source: BlackRock and Morningstar as at 31 August 2024. A2 CNH share class inception date: 11 Nov 2011. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Morningstar rating should not be seen as any sort of guarantee or assessment of the creditworthiness of a fund or of its underlying securities and should not be used as the sole basis for making any investment decision.

Outlook and Positioning

Balanced allocation between the onshore and offshore markets.

Historical Asset Allocation across Chinese Onshore and Offshore Bond Markets



Source: BlackRock, 31 August 2024

As of end August, the fund has 40% in onshore and 60% in offshore. In offshore, we decreased some allocation in the USD credits space as we took profit after strong rates rally in August. That said, we continue to increase our CNH allocation given better relative valuation compares onshore peers. We also participated in offshore Financials and LGFVs new issuances to take advantage of the attractive new issuance premium. In onshore, we added into the financials and rates bonds space, we think liquidity will remain ample and policy rates should continue to be supportive. The onshore market will remain a source of stable carry given continued accommodative policy. We will continue to adjust our split between onshore and offshore according to market conditions and relative valuation opportunities.

We are defensively positioned while capturing opportunities

Key Portfolio Statistics

NAV	CNH 18,407 million
Duration	5.47 years
Rating	BBB-
No. of issuers	353
No. of holdings	597
Inception	11 Nov 2011
Annual management fee	0.75%

Data as of 31 August 2024

Keep market beta risk low

- Average Investment Grade (IG) rating for a balance of income and quality
- Kept credit beta low offshore by keeping to the shorter end with USD spread duration at 1.3 years

Yield arbitrage between onshore and offshore markets

- Adjust allocation between onshore and offshore depending on market conditions and relative valuation opportunities. E.g. we moved some allocation onshore prior to the Silicon Valley Bank episode in Q1 2023 based on valuation considerations and benefitted from onshore outperformance amid volatility and in 2024 H1 we have reallocated to offshore credit due to attractive valuation and technical support and currently we remain overweight in the offshore market.

Dynamic duration management

- We remain agile in our duration management, actively adjusting our CNY and USD duration in response to evolving market conditions. We reduced some of the CNY duration ahead of strong CPI print in March, and further reduced CNY duration to 1+ years in early July after PBoC announcement on CGB borrowing. Recently we have added back CNY duration as we think current levels CGB level are attractive, and that growth moderation will continue to be supportive for onshore duration in the medium to longer term. We are keeping CNY duration at 3+ years for. For dollar duration, we had low exposure at 0.57 years at the beginning of the year as we believe that the markets had priced in cuts too aggressively. However, in recent weeks, with softer labor market data, along with the Fed's recent rate cut reflecting the its certainty in easing the cycle, we have increased USD duration.

Allocation to onshore and strategically important names

- Expect monetary policy to be accommodative, and onshore to remain stable and serve as a hedge against risk-off sentiment

Selective and diversified positioning in China property

- In property, we continue to focus on SOE developers and a select few strong POE developers. We prefer those with better asset quality, low near-term redemption pressure, strong funding access and small off-balance-sheet obligations. Although there has been some recovery in sentiment with the announcement of a combination of encouraging policies, overall impact on the housing market remains uncertain, with weak demand and confidence continue to weight on the sector volatility. The latest rounds of easing reflect stronger determination from authorities to ensure stable sectoral development, but we remain selective and continue to prefer a barbell strategy, with most positions in higher quality survivors to capture potential upside, while holding some distressed credits with limited downside for potential recovery. Finally, we continue to have a balanced allocation across onshore and offshore to diversify risk. We further de-risk in the property space recently from names that have less clear recovery path. As of end August 2024, the portfolio has 4.5% in exposure to China Property, with a mix of 1.4% in IG and 3.1% in HY, and a balance of 1.8% onshore vs 2.7% offshore.

Important information

Source: BlackRock, as of 31 August 2024. The figures shown relate to past performance. Past Performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. The Fund is actively managed, and the Investment Adviser has discretion to select the Fund's investments and is not constrained by any benchmark in this process. Fund launch date: November 11th, 2011 Based on the A2 CNH share class. Fund performance figures are calculated net of fees and are NAV to NAV with income reinvested. The Fund was restructured from Renminbi Bond Fund to BGF China Bond Fund on Dec 8th, 2017 with the ability to invest onshore. The performance shown was based on the Renminbi Bond fund performance before Dec 8th, 2017 and the BGF China Bond Fund after Dec 8th 2017. The return may increase or decrease as a result of currency fluctuations. Suanjin Tan founded the fund in 2011, left in 2016, and rejoined as a fund manager starting Oct 2021.

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