BGF China Bond Fund

BlackRock

January 2024

Key figures at a glance

2024 YTD performance: 0.94%*

Performance: Net of fees in the A2 CNH share class, the portfolio returned +0.94% in January, with a third consecutive month of positive returns across both onshore and offshore.

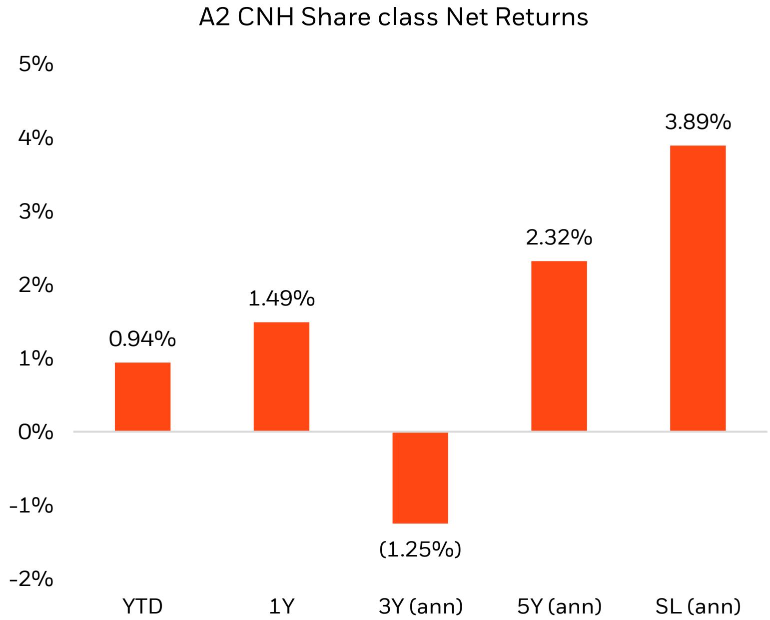
- ▲ **Offshore:** Strong positive returns driven by carry and credit
- ▲ **Onshore**: Positive performance in carry and rates

All sectors were positive contributors this month except convertibles, with the key ones being onshore rates bonds, and offshore Financials, non-Greater China, Industrials.

Positioning: We look to keep our onshore overweight in the near term. 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. Supportive LGFV policies and supply trends continue to be bullish for LGFVs which we remain constructive with a focus on diversification.

- ▲ **Favoured:** 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. Supportive LGFV policies and supply trends continue to be bullish for LGFVs which we remain constructive with a focus on diversification..
- ▲ **Cautious:** Nimble with duration, cautious with spread duration (to limit market beta exposure), and remain defensive in property.

Performance Summary* (%)



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

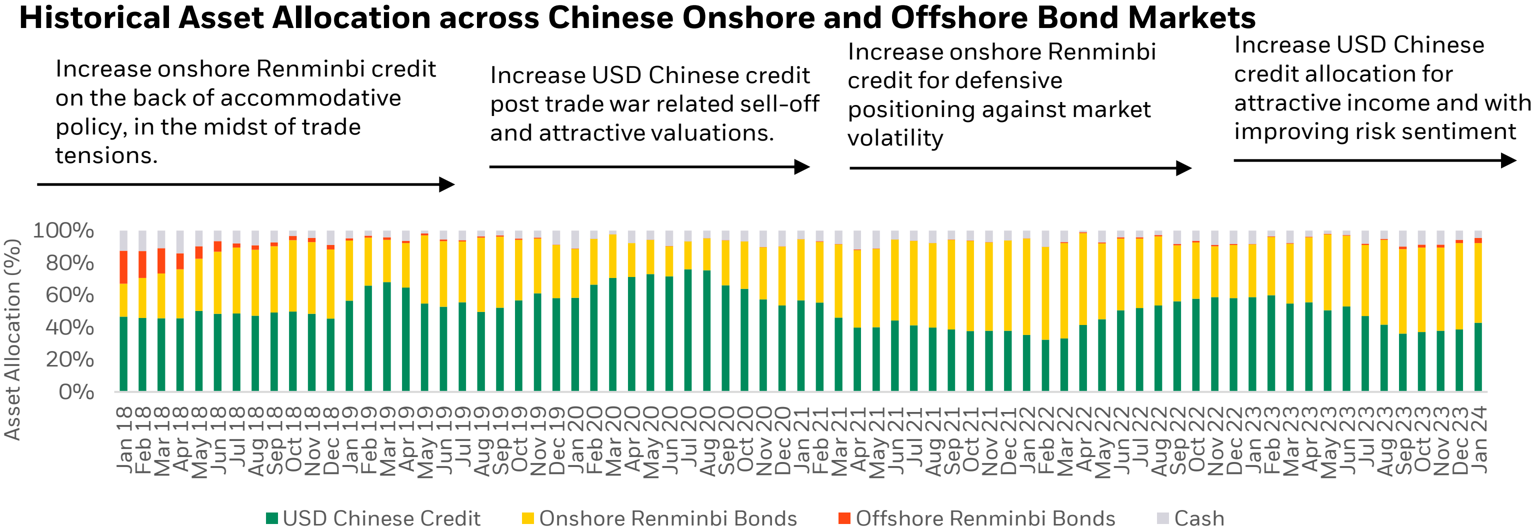
2021 Refinitiv Lipper Fund Awards
Winner over 3 & 5 years

*The fund's performance with maximum 5% sales charge applied: -4.11% (1 month) ,-4.11% (year-to-date), -3.58% (1-year), -2.92% (3-year), 1.28% (5-year), 3.46% (since inception). Performance for A2 RMB share class, net in RMB on a NAV pricing with income reinvested as at 31 January 2024 and assumed a 5% Front End Load where indicated. Source: BlackRock and Morningstar. A2 RMB 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 January 2024

As of end January, the fund has 53% onshore and 47% offshore, similar to last month end's levels after we increased our onshore allocation up from 35% as of end 2022. We think onshore is likely to 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 find that balancing risk between onshore RMB credit and offshore Chinese USD credit provides investors with the best of both worlds: a low volatility outcome through uncorrelated returns between onshore RMB credit (with potential capital gains) and offshore USD credit (through short-dated bonds for yield enhancement).

We are defensively positioned while capturing opportunities

Key Portfolio Statistics	
NAV	CNH 21,708 million
Duration	4.06 years
Rating	BBB
No. of issuers	409
No. of holdings	650
Inception	11 Nov 2011
Annual management fee	0.75%

Data as of 31 January 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 capital since April 2022 to offshore IG for higher carry and benefitted from the offshore rally, but later moved some allocation onshore prior to the SVB episode in Q1 2023 based on valuation considerations and benefitted from onshore outperformance amid volatility. CNH-USD hedging cost has turned negative, making the USD hedged share class more appealing

Low and nimble duration exposure
- Maintained low portfolio duration in most of the past year with duration mostly in CNY, minimizing sensitivity to US Treasury (UST) movements.
- Continue to be nimble in duration exposure

. **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
- Like central SOEs and strategically important LGFVs given ongoing push for infrastructure projects to support the economy. Avoid industrial local SOEs as we expect increasing credit differentiation.

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 unlikely to vanish overnight after 3 years of sector volatility. The latest rounds of easing reflects 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. As of end January 2024, the portfolio has 8.2% in exposure to China Property, with a mix of 4.4% in IG and 3.7% in HY, and a balance of 5.2% onshore vs 3.0% offshore.

Important information

Source: BlackRock, as of 31 January 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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