

# BGF China Bond Fund

BlackRock®

March 2024

## Key figures at a glance

2024 YTD performance: 2.22%\*

**Performance:** Net of fees in the A2 CNH share class, the portfolio returned +0.24% in March. .

▲ **Offshore:** Strong positive returns driven by carry

▲ **Onshore:** Positive performance in carry

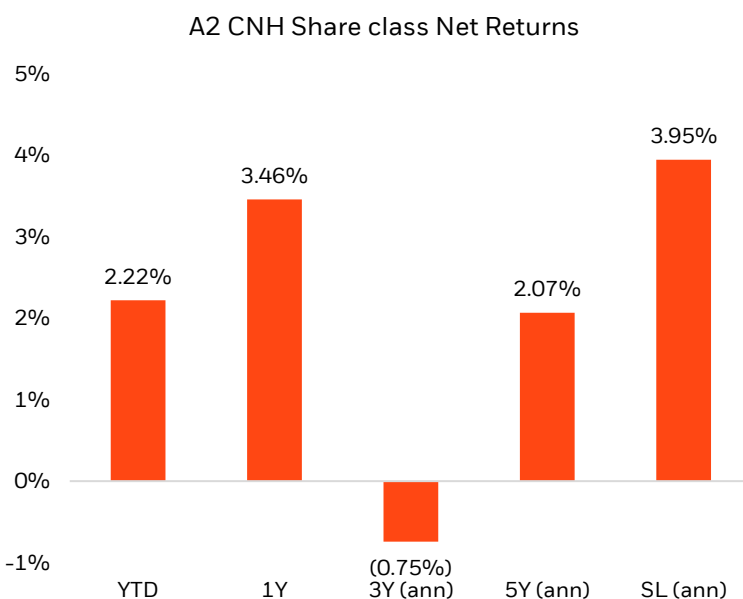
Most sectors were positive contributors, with the key ones being offshore financials, offshore local government related, offshore non-greater China, and onshore real estate. Our offshore rates hedge slight detracted the performance.

**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 continue to prefer a barbell approach, liking short-dated HY bonds with competitive carry alongside long end IG credits with competitive valuations supported by strong demand from onshore buyers.

▲ **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\* (%)



## 1<sup>st</sup> Quartile ranking by Morningstar RMB Bond since inception

### Recent Awards

#### 2022 Golden Bull Award

3-year Overseas China Fixed Income Fund (4<sup>th</sup> 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 (3<sup>rd</sup> consecutive win)

#### 2021 Asian Private Banker Asset Management Awards for Excellence

Best Fund Provider

#### 2021 Refinitiv Lipper Fund Awards

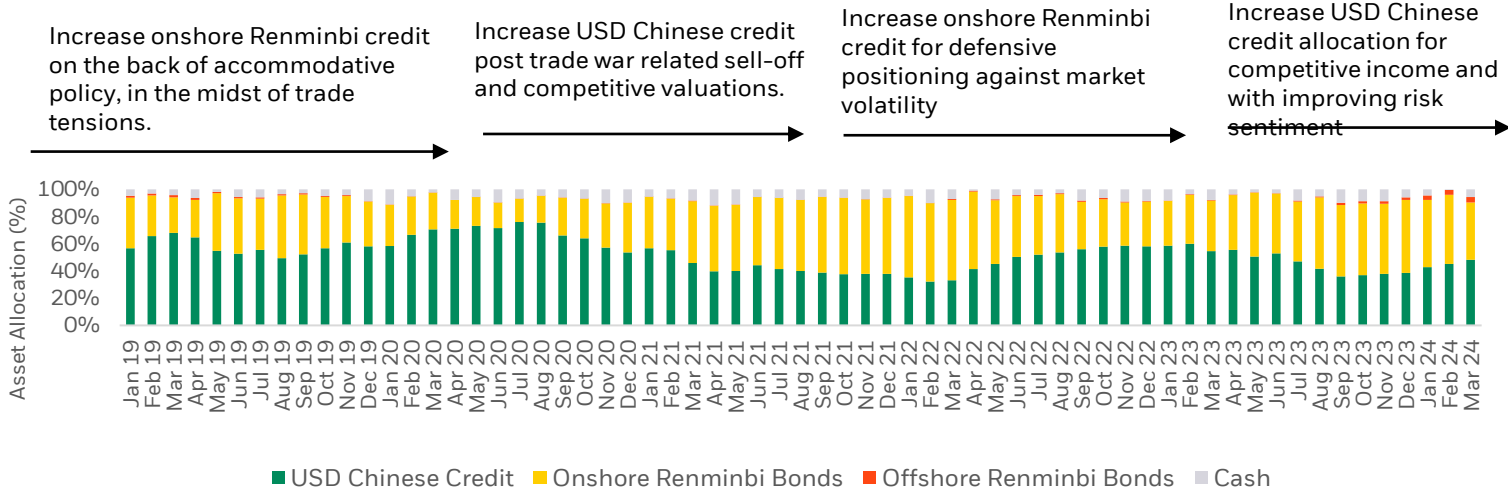
Winner over 3 & 5 years

\*The fund's performance with maximum 5% sales charge applied: -4.77% (1 month), -2.89% (year-to-date), -1.97% (1-year), -2.41% (3-year), 1.02% (5-year), 3.52% (since inception). Performance for A2 RMB share class, net in RMB on a NAV pricing with income reinvested as at 29 March 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, 29 March 2024

As of end March, the fund has 47% onshore and 53% offshore. We incrementally increased our offshore allocation and continue to take part in offshore CNH LGFV new issues with yield pick up close to 150bps in some names compares to onshore CNY bonds. In the offshore space, we have also added short-dated HY for competitive carry and extend duration in HK IG mainly given better valuation vs other IG. Fed expectations look fairly priced while lack of supply continue to support the spread in the offshore space. For onshore, given the significant yield compression, we took profit in some low yielding names, examples including some property names yielding less than 3%. 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	
<b>NAV</b>	CNH 20,821 million
<b>Duration</b>	2.97 years
<b>Rating</b>	BBB-
<b>No. of issuers</b>	401
<b>No. of holdings</b>	631
<b>Inception</b>	11 Nov 2011
<b>Annual management fee</b>	0.75%

Data as of 29 March 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 1.2 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. we recently shift some allocation back to offshore market given supportive credit technical support. 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

#### 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. We further de-risk in the property space with the recent round. As of end March 2024, the portfolio has 6.2 % in exposure to China Property, with a mix of 2.7% in IG and 3.5% in HY, and a balance of 3.5% onshore vs 2.7% offshore.

## Important information

Source: BlackRock, as of 29 March 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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