BGF China Bond Fund

BlackRock.

September 2024

Key figures at a glance

2024 YTD performance: 5.53%*

Performance: Net of fees in the A2 CNH share class, the portfolio returned +0.99%* in September.

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

▼ **Onshore**: Onshore performance was positive in September, driven by carry and rates.

Key performance contributors were convertibles from both onshore and offshore, onshore rates bonds, and broader offshore sectors including financials, non-greater China, TMTs, local government related, and industrials

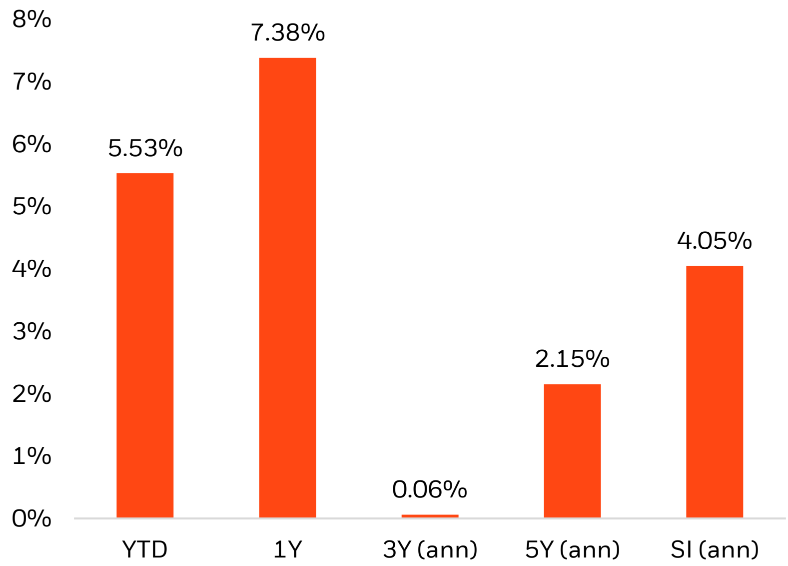
Positioning: In onshore, we kept 33% balanced across rates bond, financials, and corporate credits. We prefer short-dated credit bonds especially in the financials space. We have recently added good quality bank tier 2 papers post market correction. In offshore, we kept 67% in exposure with 10% from 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

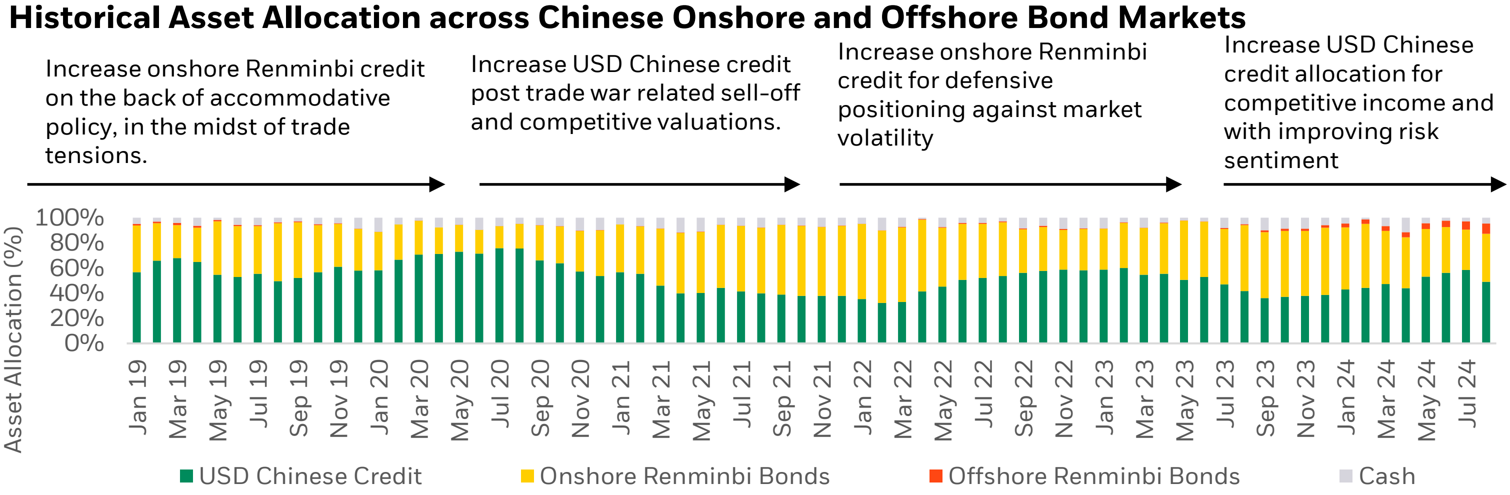
2021 Refinitiv Lipper Fund Awards
Winner over 3 & 5 years

*The fund's performance with maximum 5% sales charge applied: **-4.06% (1 month) ,0.25% (year-to-date), 2.01% (1-year), -1.64% (3-year), 1.10% (5-year), 3.63% (since inception).** Performance for A2 CNH share class, net in CNH on a NAV pricing with income reinvested as at 30 September 2024 and assumed a 5% Front End Load where indicated. Source: BlackRock and Morningstar as at 30 September 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, 30 September 2024

As of end September, the fund has 33% in onshore and 67% in offshore. We increased our offshore allocation in through both CNH and USD space. We continue to take parts in offshore CNH issuance which offer better yield level compared to onshore peers. We also increased high beta offshore China credits in TMTs space which has benefited from the market rally. We took some profit in offshore convertibles after the rebound with the recognition that near term risk events like US elections and Middle East tensions may continue to increase market volatility. In onshore, we actively reduced our long-end CGB exposure as we think onshore rates curve will continue to bull steepening. As spread widened with the recent market correction in onshore post the stimulus, we have started to shift allocation to onshore, focusing on short-end credit, to capture the attractive all-in-yields.

We are defensively positioned while capturing opportunities

Key Portfolio Statistics	
NAV	CNH 18,141 million
Duration	3.42 years
Rating	BBB-
No. of issuers	361
No. of holdings	602
Inception	11 Nov 2011
Annual management fee	0.75%

Data as of 30 September 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. Post market correction, we will take opportunity to add onshore credit as all-in yield is more appealing,

Dynamic duration management
- We remain agile in our duration management, actively adjusting our CNY and USD duration in response to evolving market conditions. After PBoC policy announcement, we took profit and trimmed long-end duration. We decreased onshore duration from 3.3 years to 1.4 years as we think CGB curve will continue to bull steepening. We are now keeping CNY duration at 1+years but we will continue to nimbly adjust our duration position based on economic developments. For dollar duration, we also took profit and brought down our USD duration slightly from 1.9 years to 1.6 years. We think market pricing for rate cuts has been excessive and macro data from US has been resilient so far, which might not support an aggressive Fed cut by the year end.

Allocation to onshore and strategically important names
- Expect monetary policy to be accommodative, and onshore to remain as a stable carry, Looking to add onshore allocation for appealing all-in yield.

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. We think government tone has shown more urgency in resolve property slump with more targeted policies being rolled out. The latest rounds of easing reflect stronger determination from authorities to ensure stable sectoral development, but we think execution remains the key. 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. Post the market rally, we took the advantage to bring down our property exposure. As of end September 2024, the portfolio has 3.9% in exposure to China Property, with a mix of 1.3% in IG and 2.6% in HY, and a balance of 1.6% onshore vs 2.3% offshore.

Important information

Source: BlackRock, as of 30 September 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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