Schroders

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Schroder Asian Investment Grade Credit

Fund Managers: Peng Fong Ng, Shilpa Singhal | Fund update: February 2024

Performance overview

- JACI IG registered a return of -0.25% in USD terms, as the rise in treasury yields (-0.85%) offset gains from credit spread tightening (+0.95%).
- Real Estate (1.95%) was the top performing IG sector.
- In February, the Fund (SGD A Dis, net) was down -0.33%, outperforming its comparator benchmark, JP Morgan Asian Credit Index IG SGD-hedged (-0.39%). CPF-OA cash benchmark was up +0.28%.

Drivers of fund performance

- Sector allocation, security selection and country allocation contributed towards active returns, offsetting the small drag from rates positioning.
- From a security selection perspective, contribution from Hong Kong and Korea Financials more than offset the detraction from positions in UK Financials.
- In terms of country allocation, our overweight to India and off-benchmark allocation to Japan and Australia were the key drivers of relative returns, offsetting the drag from our underweight to Mainland China.

Portfolio positioning

- Over the month, we continue to rotate out of bonds with tight spreads to those with more compelling valuations. Active exposures to the A-rated segment were increased while that of AA decreased.
- From a country perspective, we increased active exposures to Macau SAR and reduced that in Korea. Mainland China remains our largest underweight amid uncertainties in the nation’s economic recovery and rising divergence across sectors and issuers; Key underweights include Financials and Quasi-sovereigns.
- From a sector perspective, we reduced active exposure to Sovereigns and Quasi-Sov and increased active exposure to Financials and Consumer.
- With rates likely to stay volatile, we maintain a cautious stance on duration, staying close to neutral and focusing on credit selection as the key return driver. We continue to balance short-dated bonds with good carry and long-dated quality bonds to secure attractive yields amidst an inverted yield curve,

Outlook

- We maintain an optimistic outlook for Asia credit and expect the asset class’ resilience this year to continue in the medium term. This is considering that Asia IG corporate fundamentals remain strong, and attractive all-in yields should support healthy technicals especially against low supply. The possible conclusion of a US interest rate hike cycle could also draw investors from other regions to Asian credit.
- Our key investment themes are: 1) China’s growth rebalancing; 2) Diversification via Australia & Japan; 3) Rising divergence; and 4) Low-carbon transition.
- In China, we continue to prioritize strategic and less levered sectors that align with the nation's growth objectives as the shift towards quality growth persists. It is crucial to remember that Asia Pacific extends beyond China, with markets like India, Indonesia, and Korea advancing robustly and offering ample credit selection opportunities. India continues to stand out with its macroeconomic resilience and strong services sector, providing a supportive backdrop for Indian credits. Additionally, Japan and Australia enhance the opportunity set with their predominantly high-quality financials that offer attractive yields.
- That said, heading into the third year of tight financing conditions, selectivity remains key as debt servicing pressure is building up for weaker & levered borrowers.
- 2024 is a big election year. While the base case outcomes appear more benign than previous election cycles, we will closely monitor the elections in the US and within the region as this may potentially lead to volatility.
- Despite a volatile macro environment, the search for carry should continue to support flows into the Asian credit market, particularly in IG. For investors with a medium to longer term horizon, we believe looking past short-term volatility and staying the course will allow them to lock in compelling risk-adjusted income and capital gains potential.
- Key segments favoured include high quality Asia DM Financials, telcos and Chinese internet platforms.

Performance (%)

Year	Fund	Benchmark*	Benchmark 2*
1 month	-0.33	0.28	-0.39
Year to date	-0.26	0.58	-0.66
1 year	4.04	3.58	4.37
3 years (p.a.)	-1.85	3.57	-1.50
5 years (p.a.)	1.24	3.54	1.69
Since inception (p.a.)	1.82	3.52	3.87

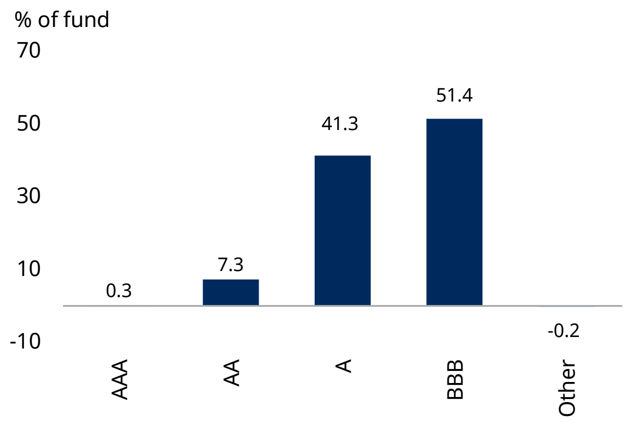
Source: Schroders, Morningstar as at 29 February 2024, bid to bid, with dividends reinvested in SGD. Inception date of Fund: 9 February 2007. Performance reflects that of SGD A Dist class. *Benchmark: CPFIS-OA Interest Rate + 1% p.a., Benchmark 2: JPM Asia Credit Investment Grade Index (SGD-hedged).

Note: From 1 July 2009, the Fund's investment policy was revised to lower volatility strategy focused on investing in good quality investment grade bonds with the majority of positions having an underlying maturity of less than 7 years. The above is for illustrative purposes only and does not constitute a recommendation to invest in the Fund. Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

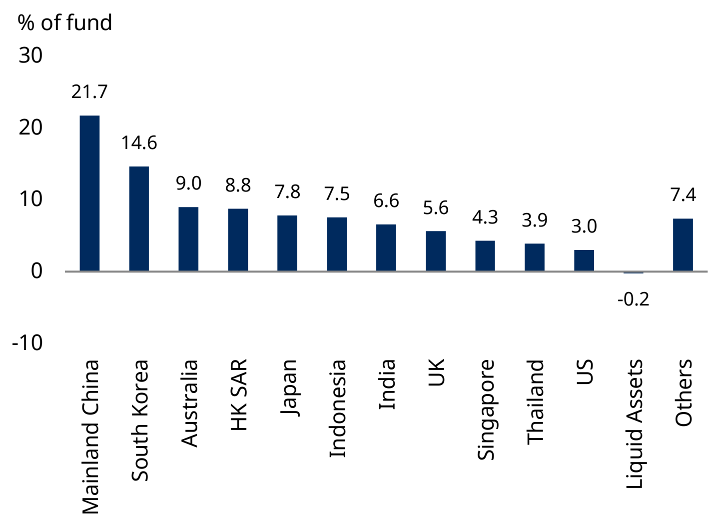
Key portfolio characteristics

Portfolio	
Average Yield to Maturity (in SGD)	4.5%
Average Credit Rating	A-
Average Effective Duration	4.7 years
Average Coupon	4.0%
Portfolio Holdings (excludes cash, cash equivalents and derivatives)	198
Fund Size	SGD 534.1 million

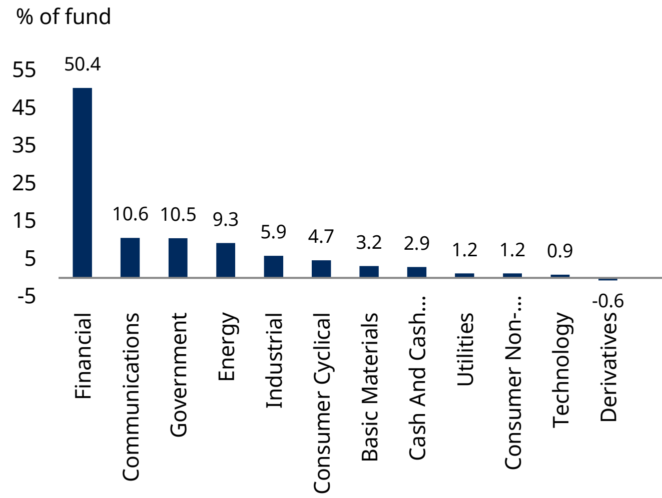
Ratings Allocation*



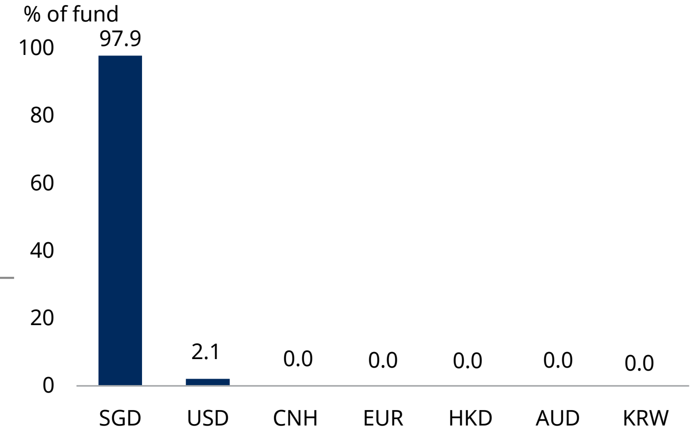
Country Allocation**



Sector Allocation



Currency Allocation



Source: Schroders, Morningstar, as at 29 February 2024.

*Based on average of S&P, Moodys and/or Fitch. ** Liquid assets include cash and derivatives. Other includes Philippines, Malaysia, EU, Macau SAR, Saudi Arabia, Kuwait and New Zealand. Note: Fund exposure data are extracted from BRS Explore. This may result in some differences in the information reported in this document or that shown in other official publications. For illustrative purposes only and does not constitute a recommendation to invest in the Fund. Numbers may not add up to 100% due to rounding.

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Risk considerations

- **Counterparty Risk**: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.
- **Capital Risk/Distribution Policy**: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.
- **Sustainability Risk**: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forgo certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and value of any particular investor.
- **Emerging Markets and Frontier Risk**: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
- **Derivatives Risk – Efficient Portfolio Risk**: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.
- **Currency Risk**: The fund may lose value as a result of movements in foreign exchange rates.
- **Operational Risk**: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
- **Performance Risk**: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.
- **IBOR Risk**: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.
- **Market Risk**: The value of investments can go up and down and an investor may not get back the amount initially invested.
- **Liquidity Risk**: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.
- **Capital Risk/Distribution Policy**: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.
- **Currency Risk/Hedged Share Class**: The hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

Important information

Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy.

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The CPF interest rate for the CPF-OA is based on the 3-month average of major local banks' interest rates. Under the CPF Act, the CPF Board pays a minimum interest rate of 2.5% per annum when this interest formula yields a lower rate. The interest rate for the Special and Medisave Accounts ("SMA") is pegged to the 12-month average yield of 10-year Singapore Government Securities (10YSGS) plus 1%, or 4% p.a. whichever is higher, reviewed quarterly. The interest rate to be credited to the Retirement Account ("RA") is the weighted average interest rate of the entire portfolio of Special Singapore Government Securities (SSGS) the RA savings are invested in which earn a fixed coupon equal to the 12-month average yield of the 10YSGS plus 1% at the point of issuance, or 4% p.a. whichever is the higher, reviewed yearly. The Singapore government will maintain the 4% p.a. minimum rate for interest earned on all SMA and RA monies until 31 December 2024. Thereafter, interest rates on all CPF account monies will be subject to a minimum rate of 2.5% p.a.. In addition, the CPF Board will pay an extra interest rate of 1% per annum on the first S$60,000.00 of a CPF member's combined balances, including up to S$20,000.00 in the CPF-OA. The first S$20,000.00 in the CPF-OA and the first S$40,000.00 in the CPF-SA are not allowed to be invested under the CPFIS. Investors should note that the applicable interest rates for each of the CPF accounts may be varied by the CPF Board from time to time.

Information herein is believed to be reliable, but Schroders does not warrant its completeness or accuracy.

This advertisement has not been reviewed by the Monetary Authority of Singapore.

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The Fund may use or invest in derivatives.

In respect of the Class USD Hedged A Dis Units, the Class SGD A Dis Units and the Class RMB Hedged A Dis Units, the Managers currently intend to declare distributions at a variable percentage (per annum) of the NAV per Unit to Holders, on a monthly basis, on such date as may be determined by the Managers. The distributions are not guaranteed and might be changed at the Manager's discretion in accordance with the Trust Deed.

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