

# Schroder Asian Investment Grade Credit

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

## Performance overview

- J.P. Morgan Asia Credit Index IG recorded gains of 1.82% in USD terms in August. Rally in treasuries (1.69%) contributed, while spread carry (0.13%) added slightly to returns.
- The Fund (SGD A Dis, net) was up 1.21%, trailing its comparator benchmark, JP Morgan Asian Credit Index IG SGD-hedged (1.62%). CPF-OA cash benchmark delivered gains of 0.30%.

## Drivers of fund performance

- Rates positioning contributed to returns, country allocation was flat, while sector allocation and security selection weighed on performance.
- On a country allocation basis, our off-benchmark allocation to Japan and Australia contributed to while our underweight to Mainland China and Indonesia detracted.
- From a security selection standpoint, positions in Indonesia Sovereign were the key detractor.

## Portfolio positioning

- Over the month, we took profit where bonds have traded up meaningfully, keeping some dry powder for new issues.
- From a country perspective, we increased active exposures in Mainland China, while reducing those in South Korea and Australia. We keep our underweight and stay selective in Mainland China, but expect any weakness to be confined to selected well-telegraphed sectors (i.e. China property, LGFVs).
- From a sector perspective, we increased active exposures to Quasi-sov and reduced exposures to Consumer and Oil & Gas.
- Until we have clearer visibility of US inflation progress, rates volatility will remain a key risk. We thus stay nimble in our duration positioning and maintain a neutral to small duration overweight.

## Outlook

- Asian credit experienced another month of gains, primarily driven by the rally in treasuries. At present, the market is pricing in more than five full 25bps cuts in the next four Fed meetings, given the broad-based weakening in leading manufacturing indicators globally and softening of the US labour market. As the potential Fed cut nears, we now maintain a neutral to small overweight for duration and focus on credit selection as the key driver of returns.
- While Asia credit, specifically the IG segment, has tightened below long-term averages, improved asset class quality and healthy investor demand amid compelling all-in yields should help support a tighter-for-longer trend. Returns

across Asia credit so far have been rather broad based, with positive returns across all sectors.

- Over in China, a decline in tax revenues suggest lower profit margins and a weaker labour market, while the significant increase in non-tax revenues has raised concerns about a deteriorating business environment. Housing market and domestic sentiment continue to be sluggish. Considering that the Real Estate sector may stay weak until stronger policy support is seen, we continue to limit our allocation in this sector, and instead focus on segments of strategic importance and on names that are relatively shielded from potential aggravations in geopolitical tensions. Examples include Chinese internet platforms and technology names.
- Considering prevailing valuations and ongoing macro uncertainties, we adopt a cautious approach towards risk-taking and emphasize the importance of being selective and nimble. We continue to diversify the portfolio, with key segments we favour being high quality Financials (Australia, Japan, South Korea).

## Performance (%)

Year	Fund	Benchmark*	Benchmark 2*
1 month	1.21	0.30	1.62
Year to date	3.66	2.38	3.52
1 year	7.67	3.58	7.26
3 years (p.a.)	-0.85	3.58	-0.83
5 years (p.a.)	0.55	3.55	1.01
Since inception (p.a.)	1.99	3.52	4.00

Source: Schroders, Morningstar as at 31 August 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).

©Morningstar 2024. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

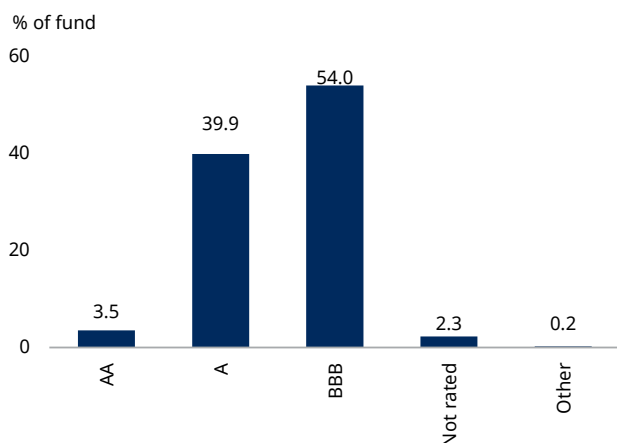
Note: From 1 July 2009, the Fund's investment policy was revised to lower volatility strategy focused on investing in good quality investment grade bonds with the majority of positions having an underlying maturity of less than 7 years. The above is for illustrative purposes only and does not constitute 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.

For illustrative purposes only and does not constitute to any recommendations to invest in the above-mentioned security/sector/country

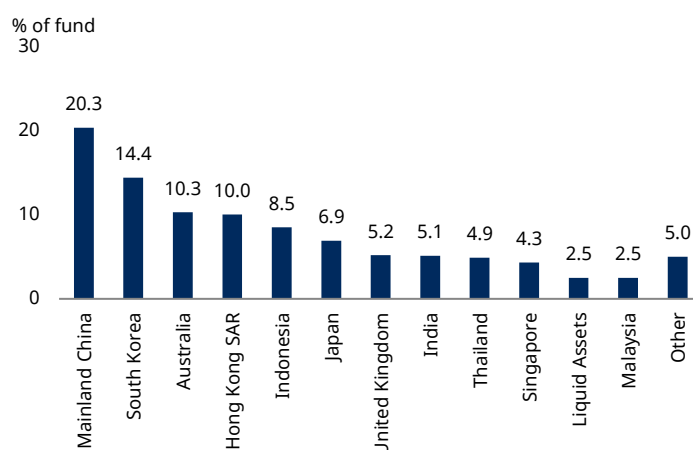
## Key portfolio characteristics

Portfolio	
Average Yield to Maturity (in SGD)	3.7%
Average Credit Rating	BBB+
Average Effective Duration	4.7 years
Average Coupon	4.2%
Portfolio Holdings	174
Fund Size	SGD 589.41 million

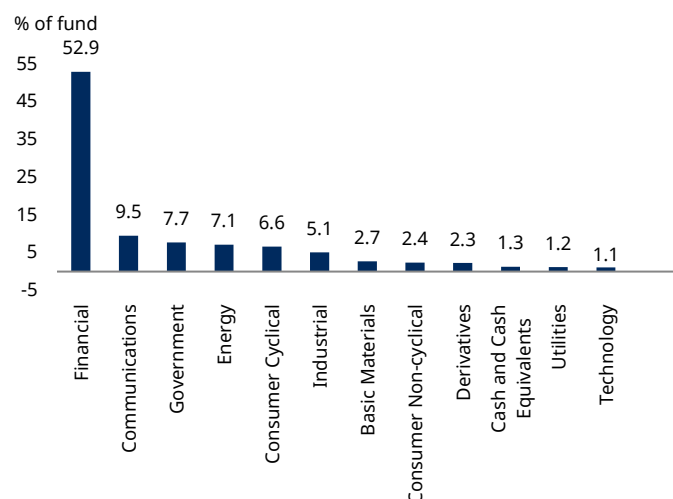
### Ratings Allocation\*



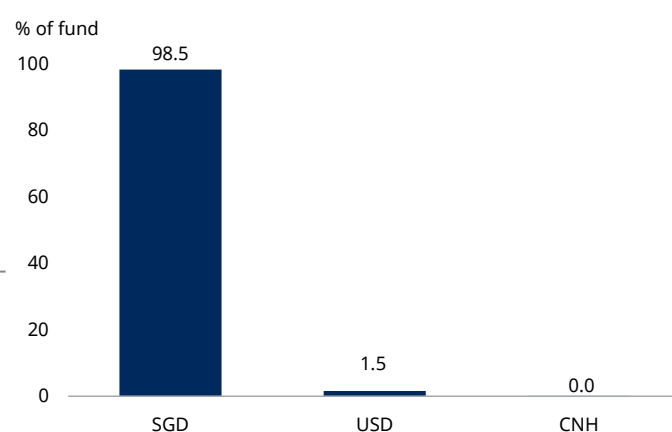
### Country Allocation\*\*



### Sector Allocation



### Currency Allocation



Source: Schroders, BRS Aladdin, Morningstar, as at 31 August 2024.

\*Based on average of S&P, Moodys and/or Fitch. \*\* Liquid assets include cash and derivatives. Other includes Philippines, Macau SAR, Europe, Kuwait and New Zealand. Note: Fund exposure data are extracted from BRS Aladdin. 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.

For illustrative purposes only and does not constitute to any recommendations to invest in the above-mentioned security/sector/country

## 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.

For illustrative purposes only and does not constitute to any recommendations to invest in the above-mentioned security/sector/country

## Important information

©Morningstar 2024. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

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.

The views and opinions contained herein are those of the individuals to whom they are attributed and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds.

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.

**Disclaimer:** This is prepared by Schroders for information and general circulation only and the opinions expressed are subject to change without notice. It does not constitute an offer or solicitation to deal in units of any fund and does not have any regard to specific investment objectives, financial situation or particular needs of any specific person who may receive it. Investors may wish to seek advice from a financial adviser before purchasing units of any fund. In the event that he chooses not to seek advice from a financial adviser, he should consider carefully whether the fund in question is suitable for him. Past performance of any fund or the manager, and any economic and market trends or forecast, are not necessarily indicative of the future or likely performance of the fund or the manager. The value of units in any fund, and the income accruing to the units, if any, may fall as well as rise. Investment in units of any fund involves risks, including the possible loss of the principal amount invested. Investors should read the prospectus, available from Schroder Investment Management (Singapore) Ltd or its distributors, before deciding to subscribe for or purchase units in any fund. Funds may carry a sales charge of up to 5%.

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.

### Schroder Investment Management (Singapore) Ltd

138 Market Street #23-01 CapitaGreen Singapore 048946

Telephone: 1800 534 4288 Fax: +65 6536 6626

Registration No.: 199201080H

For illustrative purposes only and does not constitute to any recommendations to invest in the above-mentioned security/sector/country