Schroders

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Schroder Asian Investment Grade Credit

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

Performance overview

- J.P. Morgan Asia Credit Index IG recorded gains of 1.30% in USD terms in July. Rally in US Treasury yields (1.21%) contributed, while spread carry (0.09%) added slightly to returns.
- The Fund (SGD A Dis, net) was up 1.63%, outperforming its comparator benchmark, JP Morgan Asian Credit Index IG SGD-hedged (1.14%). CPF-OA cash benchmark delivered gains of 0.30%.

Drivers of fund performance

- Country allocation and rates-related returns contributed to returns. Sector allocation and security selection's contribution was marginal.
- On a country allocation basis, our underweight to Indonesia contributed while off-benchmark allocation to Japan detracted from returns.
- From a security selection standpoint, though impact was minimal, gains from our positions within Hong Kong Financial was offset by the drag from Indonesia Sovereign.

Portfolio positioning

- Over the month, some switches were made towards short-dated attractive carry. The portfolio's exposure to the BBB segments was increased.
- From a country perspective, we increased active exposures in Hong Kong and Indonesia, while reducing those in South Korea. We keep our underweight and stay selective in China, but expect any weakness to be confined to selected well-telegraphed sectors (i.e. China property, LGFVs).
- From a sector perspective, we reduced active exposures to Quasi-sov and increased exposures to Consumer and Financials.
- 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 had another month of gain, supported by a treasury rally as well as spreads tightening within HY. The much-awaited Fed cut is no longer just a mirage, as affirmed by the slowing June inflation print and the weaker-than-expected July labour market report.
- Looking ahead, we think rate volatility is here to stay as the path towards an eventual rate cut appears bumpy, especially as investors reassess the economic condition with the upcoming data. We thus maintain a relatively neutral duration positioning, focusing on credit selection as the key driver of returns.
- Despite tight spread levels, we believe that solid credit fundamentals, negative net supply, and stable rate expectations will continue to support the Asia credit market.
- The high all-in should also uphold demand for the asset class. Returns across Asia credit so far have been rather broad based, with positive returns across all sectors.
- Following the 1Q rebound, the Chinese economy decelerated notably in 2Q with muted growth at 1.0% QoQ; clearly displaying an uneven growth path.
- Chinese policymakers emphasized a pro-growth stance in the Third Plenum and July Politburo meeting. Despite housing market policy easing measures announced in Q2, homebuyer confidence and home price growth remains sluggish. Considering that the sector may stay weak until stronger policy support is seen, we continue to limit our exposure to this sector.
- In China, we continue to 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 current valuations and lingering macro uncertainty, we avoid chasing risk aggressively and believe selectivity and nimbleness will be essential. At the same time, we continue to diversify the portfolio with Australia and Japan Financials.

Performance (%)

Year	Fund	Benchmark*	Benchmark 2*
1 month	1.63	0.30	1.14
Year to date	2.42	2.07	1.86
1 year	5.42	3.58	4.85
3 years (p.a.)	-1.09	3.57	-1.10
5 years (p.a.)	0.72	3.54	1.12
Since inception (p.a.)	1.93	3.52	3.93

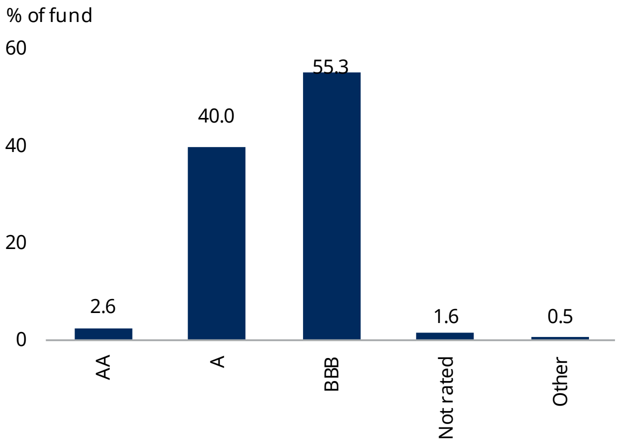
Source: Schroders, Morningstar as at 31 July 2024, bid to bid, with dividends reinvested in SGD. Inception date of Fund: 9 February 2007. Performance reflects that of SGD A Dist class. *Benchmark: CPFIS-OA Interest Rate + 1% p.a., Benchmark 2: JPM Asia Credit Investment Grade Index (SGD-hedged).

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.

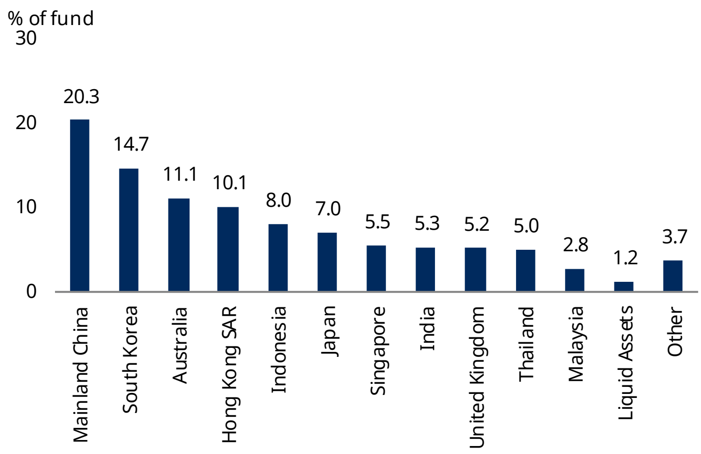
Key portfolio characteristics

Portfolio	
Average Yield to Maturity (in SGD)	4.2%
Average Credit Rating	BBB+
Average Effective Duration	4.6 years
Average Coupon	4.2%
Portfolio Holdings	181
Fund Size	SGD 596.81 million

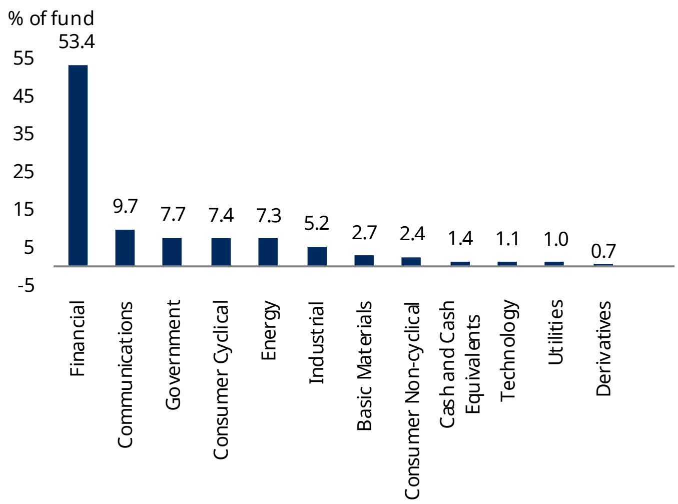
Ratings Allocation*



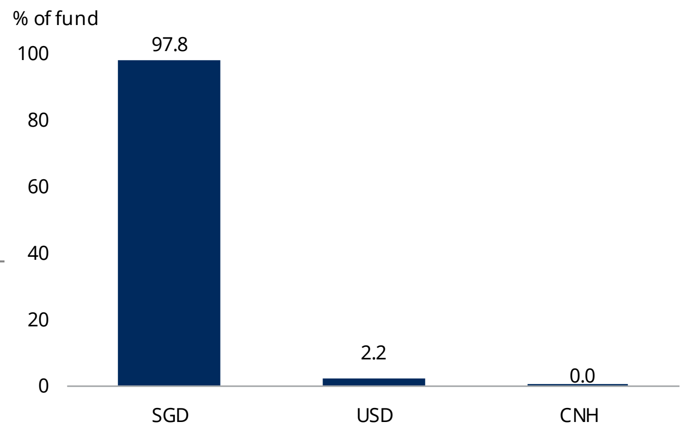
Country Allocation**



Sector Allocation



Currency Allocation



Source: Schroders, BRS Aladdin, Morningstar, as at 31 July 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.

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

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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