Schroders

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Schroder Asian Investment Grade Credit

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

Performance overview

- J.P. Morgan Asia Credit Index IG recorded gains of 1.08% in USD terms in May, attributed to the rally in US Treasury yields (1.00%). Spread returns were flat (0.08%).
- All sectors ended in the green, with Consumer (1.76%) and Real Estate (1.59%) demonstrating stronger performance.
- The Fund (SGD A Dis, net) was up 1.46%, outperforming its comparator benchmark, JP Morgan Asian Credit Index IG SGD-hedged (0.92%). CPF-OA cash benchmark delivered gains of 0.30%.

Drivers of fund performance

- The outperformance of the fund was driven by country allocation, sector allocation, and security selection. Rates-related returns were marginal.
- On a country allocation basis, our off-benchmark allocation to Australia and Japan contributed to active returns.
- From a security selection standpoint, gains from our positions within Indonesia Sovereign and Financials (Thailand and UK) more than offset the drag from Korea Financials and Thailand Oil & Gas.

Portfolio positioning

- We redeployed our cash from selling tight-spread bonds into new issues with attractive valuations and short-dated credits for carry. The portfolio's exposure to the A and BBB segments was increased.
- From a country perspective, we increased active exposures in Japan, Malaysia, and Mainland China, while reducing those in South Korea and Hong Kong. We keep our underweight to China, particularly Financials and Quasi-sov. Overall, we expect any weakness in Asia credit to be confined to selected well-telegraphed sectors (i.e. China property and LGFVs).
- From a sector perspective, we increased active exposures to Financials and Industrials, while reducing that in Quasi-sov.
- 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

- Asia credit continues to trade with a firm tone, especially with carry back in vogue. This is attributable to the asset class's: 1) stable fundamentals, 2) strong technicals as supply remains muted and runs well below maturities, and 3) attractive all-in-yields, with JACI yields at 6.5%, which remains in the upper quartile of the historical trading range.
- Our key investment themes are: 1) China's recovery spillover; 2) diversification via Australia & Japan; and 3) impact on supply chains from geopolitical risks.
- Over in China, the property sector remains an area of concern, notwithstanding more supportive government policies, such as a new initiative to reduce housing inventory. While this is a positive step forward, we stay cautious as policy execution faces challenges and property fundamentals are unlikely to improve drastically in the near term. We continue to focus on segments of strategic importance, including Chinese internet platforms, technology names, retail-oriented companies, and Macau gaming. More attention will turn towards the upcoming Third Plenum in July, where key economic reforms for the coming years will be laid out.
- Considering current valuations and lingering macro uncertainty, we see less value in chasing risk aggressively and believe selectivity and nimbleness will be essential. Valuations are beginning to look rich in selected segments of the market, while others, such as Australia and Japan subordinated debt and Macau gaming, continue to offer good risk-return potential. Against the inverted yield curve and high-for-longer narrative, shorter dated credits, especially that of IG Financials, look increasingly attractive.
- Trade tensions remain high between US and China as the US election approaches, while tariffs are also heating up in Europe on China EVs. We recognize that geopolitics is a risk to monitor as this could cause some short-term volatilities. This also opens up opportunity for credit selection within key beneficiaries, such as South Korea EV battery and semiconductor names.

Performance (%)

Year	Fund	Benchmark*	Benchmark 2*
1 month	1.46	0.30	0.92
Year to date	0.38	1.47	-0.36
1 year	3.38	3.58	2.64
3 years (p.a.)	-1.35	3.57	-1.32
5 years (p.a.)	0.78	3.54	1.09
Since inception (p.a.)	1.83	3.52	3.83

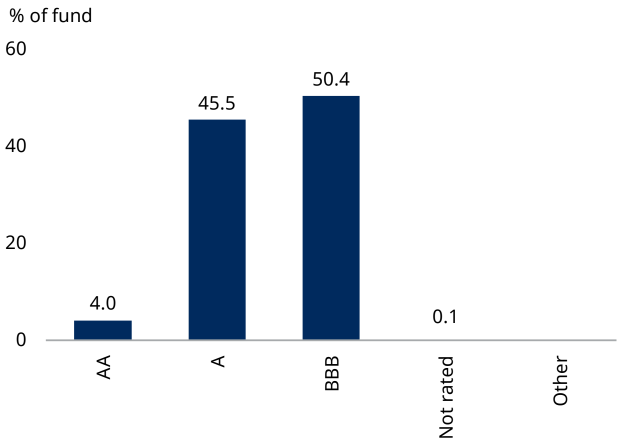
Source: Schroders, Morningstar as at 31 May 2024, bid to bid, with dividends reinvested in SGD. Inception date of Fund: 9 February 2007. Performance reflects that of SGD A Dist class. *Benchmark: CPFIS-OA Interest Rate + 1% p.a., Benchmark 2: JPM Asia Credit Investment Grade Index (SGD-hedged).

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.

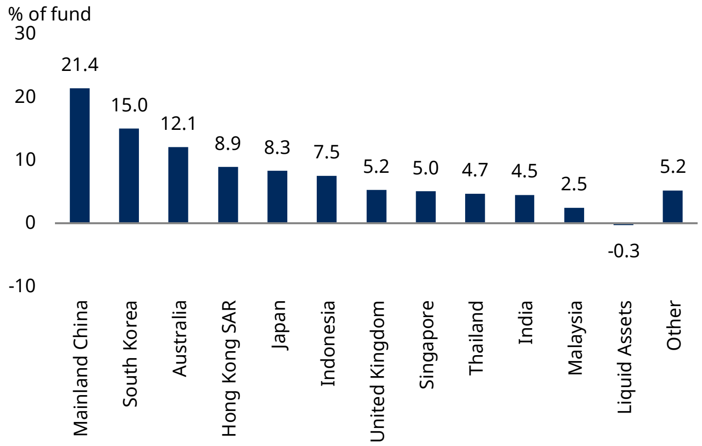
Key portfolio characteristics

Portfolio	
Average Yield to Maturity (in SGD)	4.5%
Average Credit Rating	BBB+
Average Effective Duration	4.6 years
Average Coupon	4.2%
Portfolio Holdings	204
Fund Size	SGD 562.64 million

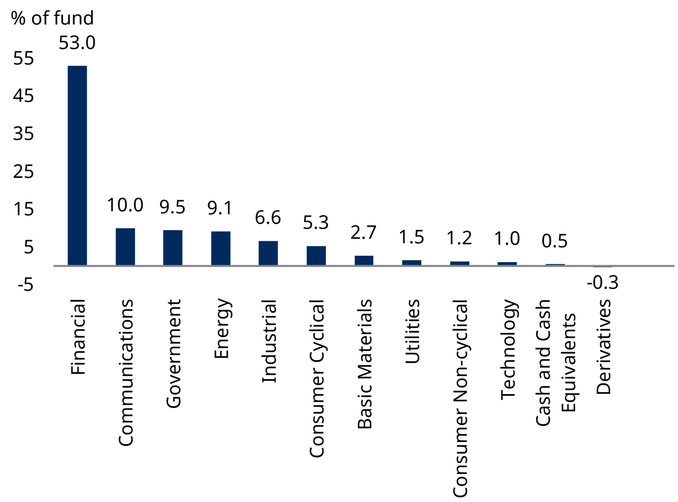
Ratings Allocation*



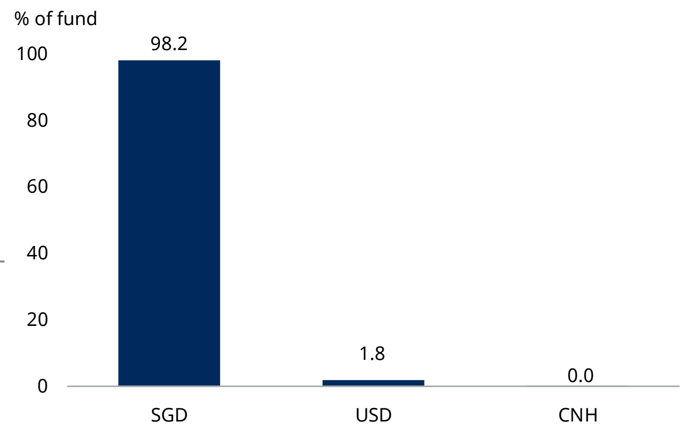
Country Allocation**



Sector Allocation



Currency Allocation



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

*Based on average of S&P, Moodys and/or Fitch. ** Liquid assets include cash and derivatives. Other includes Philippines, Macau SAR, Europe, US, 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.

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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