Schroders

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# Schroder Asian Investment Grade Credit

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

## Performance overview

- J.P. Morgan Asia Credit Index IG recorded gains of 1.21% in USD terms in June. Rally in US Treasury yields (1.41%) contributed, which was pulled down slightly by widening of spreads (-0.19%).
- The Fund (SGD A Dis, net) was up 0.40%, trailing its comparator benchmark, JP Morgan Asian Credit Index IG SGD-hedged (1.08%). CPF-OA cash benchmark delivered gains of 0.29%.

## Drivers of fund performance

- Country allocation, sector allocation and security selection all weighed on performance. Rates-related returns were marginal.
- On a country allocation basis, our off-benchmark allocation to Japan detracted from returns.
- From a security selection standpoint, gains from our positions within Philippines Sovereign and China Quasi-Sov was offset by the drag from UK Financials.

## Portfolio positioning

- Over the month, we made some switches amongst names and increased cash levels modestly. The portfolio's exposure to the A and BBB segments was decreased.
- From a country perspective, we increased active exposures slightly in India and South Korea, while reducing those in Japan and Mainland China. 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 reduced active exposures to Financials and 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

- Asian credit had a modest gain in June, supported by lower treasury yields, but faced some pressure from widening credit spreads. Global growth-inflation dynamics continue to be the key driver of credit markets over the month as data-dependent central banks have led investors to closely watch every piece of incoming economic data.
- More than halfway through the year yet the narrative of a resilient US economy stays untarnished. While disinflation is back on track in the US, there is still progress needed to reach its final stages. The occasional sparks from trade tensions between the US and China also serve as reminders of a potentially fresh battle in the fight against inflation. Gradual signs of softening of the tight labour market in the US is encouraging, though by no means indicative that a rate cutting cycle is in the offing.
- With rate volatility here to stay, we retain a neutral to small overweight duration positioning relative to the benchmark while focusing on credit selection as the main driver of returns .
- China's low headline inflation continues to shine a spotlight on the ongoing deleveraging in the property sector – and the resultant still subdued consumer and business sentiments. Authorities remain determined to protect their 5% growth target at all costs, evident from the rollout of countless support measures to ensure stability of the property sector.
- While this is a positive step forward, we remain cautious as the success of these measures depend on the availability of institutionalized funding support and policy execution.
- We keep our underweight in China and stay highly selective, favouring only selected segments such as Chinese internet platforms and technology companies. Beyond China, the macro story remains strong with markets like India, Indonesia and Korea advancing robustly and offering ample credit selection opportunities.
- Segments we favour include Asia Pacific Financials, Indian renewables and Macau gaming. The enticing all-in yields in Asia credit are predicted to uphold demand for the asset class and reinforce technical aspects and will continue to be one of the main drivers of the Asia Credit market.

## Performance (%)

| Year | Fund | Benchmark* | Benchmark 2* |
|---|---|---|---|
| 1 month | 0.40 | 0.29 | 1.08 |
| Year to date | 0.77 | 1.77 | 0.72 |
| 1 year | 3.93 | 3.58 | 4.02 |
| 3 years (p.a.) | -1.57 | 3.57 | -1.29 |
| 5 years (p.a.) | 0.50 | 3.55 | 1.00 |
| Since inception (p.a.) | 1.85 | 3.52 | 3.88 |

Source: Schroders, Morningstar as at 30 June 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). Returns of more than 1 year are annualised.



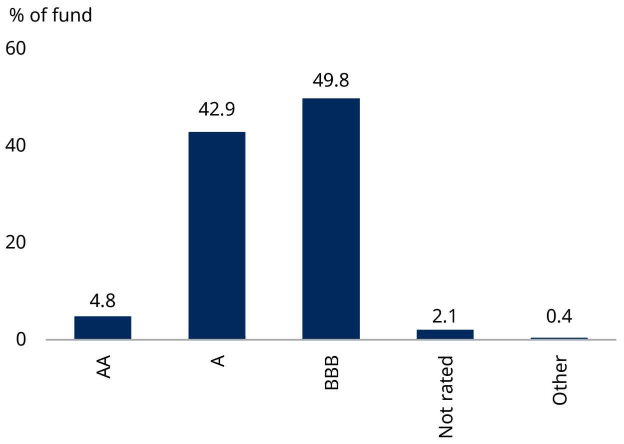
Note: From 1 July 2009, the Fund's investment policy was revised to lower volatility strategy focused on investing in good quality investment grade bonds with the majority of positions having an underlying maturity of less than 7 years. The above is for illustrative purposes only and does not constitute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

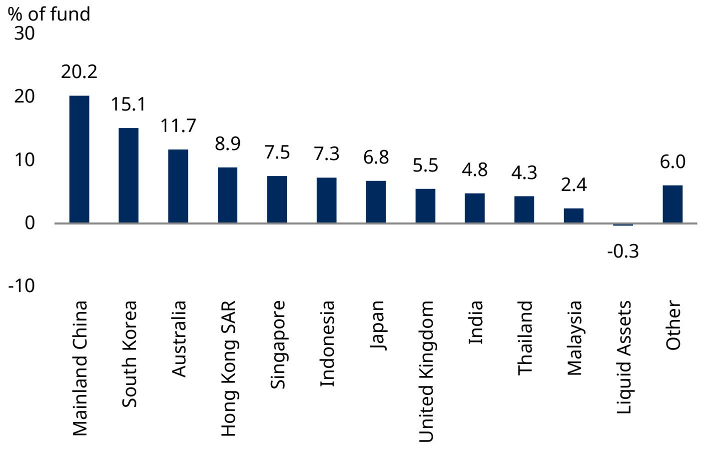
## Key portfolio characteristics

| Portfolio | |
|---|---|
| Average Yield to Maturity (in SGD) | 4.3% |
| Average Credit Rating | BBB+ |
| Average Effective Duration | 4.6 years |
| Average Coupon | 4.2% |
| Portfolio Holdings | 202 |
| Fund Size | SGD 593.03 million |

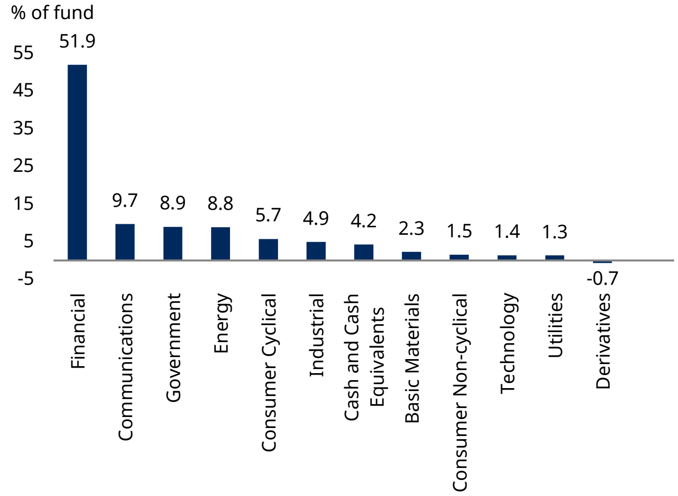
### Ratings Allocation*



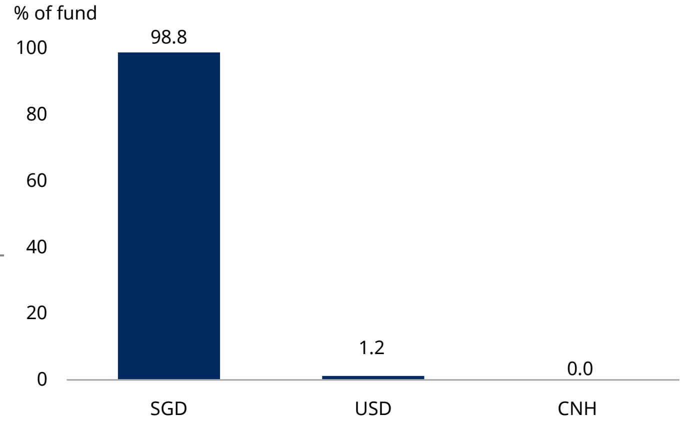

### Country Allocation**




### Sector Allocation




### Currency Allocation




Source: Schroders, BRS Aladdin, Morningstar, as at 30 June 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.

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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.

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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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