Schroders

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Schroder Asian Investment Grade Credit

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

Performance overview

- J.P. Morgan Asia Credit Index IG was up 0.94% in USD terms over March. This uptick was underpinned by lower treasury yields (0.61%) and tighter credit spreads (0.32%).
- Consumer (1.23%) was the top-performing IG sector.
- The Fund (SGD A Dis, net) was up 0.76%, trailing its comparator benchmark, JP Morgan Asian Credit Index IG SGD-hedged (0.82%). CPF-OA cash benchmark was up 0.30%.

Drivers of fund performance

- The performance was propelled by rates positioning, sector allocation, security selection and country allocation.
- Rates positioning recorded gains as rates rallied.
- On a country allocation basis, our off-benchmark allocation to Australia and Japan aided active returns, more than offsetting the drag from our underweights to Indonesia and Mainland China.

Portfolio positioning

- Over the month, we trimmed tight spread names and those with lower carry, and rotated some names towards the A segment.
- From a country perspective, we increased active exposures in Australia, South Korea and Philippines, while reducing that in Japan, Saudi Arabia and Hong Kong SAR. China remains an area of concern as it is still contending with its property and local government debt problems. We keep our underweight to China and most sectors within, such as Financials, Quasi-sov and Real Estate as idiosyncratic risks are high.
- From a sector perspective, we increased active exposure to Financials and Industrials, and reduced exposure to Sovereigns.
- Given the volatility in rate movements, we stay cautious and nimble on duration, staying close to neutral. We continue to balance short-dated bonds with compelling carry, and longer-dated high quality bonds to lock in attractive yields.

Outlook

- Asia credit has exhibited resilience thus far, attributed largely to stable fundamentals and highly supportive technicals. Despite the burden of rising US Treasury yields, tighter credit spreads have largely cushion this rates pressure. Technicals are well-supported, as new issuance within this space has been slow. Improved credit fundamentals have bolstered this narrative. Overall, the attractive all-in yields, backed by high coupons, make the return prospects for Asia credit appealing.
- Our key investment themes are: 1) China's growth rebalancing; 2) diversification via Australia & Japan; 3) rising divergence; and 4) the low-carbon transition.
- In China, our focus remains on segments that are well-supported domestically and relatively shielded from potential aggravations in geopolitical tensions. That said Asia Pacific extends beyond just a China story, with markets like India, Indonesia and Korea advancing robustly and offering ample credit selection opportunities. In particular, India's macro story and growth momentum against years of prudent policy-making and reforms create a supportive backdrop for Indian credits. Additionally, both Japan and Australia credits provide a key source of diversification and credit risk. The Financials sector in these markets presents an attractive risk-return profile for investors.
- The low-carbon transition is set to spur a large global capital reallocation, with Asia playing a key role given its large emissions and high transition risk. The divergence in sustainability progress among issuers opens up opportunities for credit selection.
- We continue to favour high quality Asia Developed Market Financials, telcos and Chinese internet platforms.

Performance (%)

Year	Fund	Benchmark*	Benchmark 2*
1 month	0.76	0.30	0.82
Year to date	0.49	0.88	0.15
1 year	3.99	3.58	3.75
3 years (p.a.)	-1.33	3.56	-1.08
5 years (p.a.)	1.08	3.54	1.51
Since inception (p.a.)	1.86	3.52	3.90

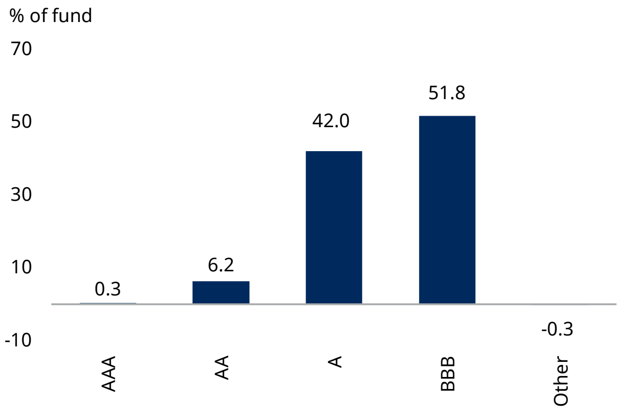
Source: Schroders, Morningstar as at 31 March 2024, bid to bid, with dividends reinvested in SGD. Inception date of Fund: 9 February 2007. Performance reflects that of SGD A Dist class. *Benchmark: CPFIS-OA Interest Rate + 1% p.a., Benchmark 2: JPM Asia Credit Investment Grade Index (SGD-hedged).

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.

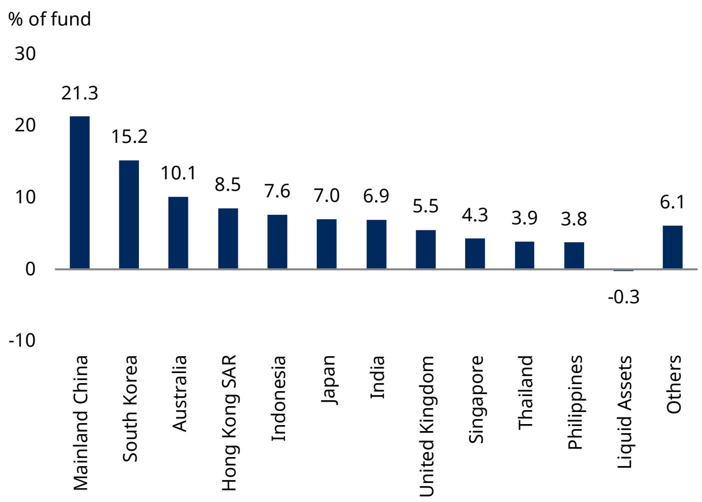
Key portfolio characteristics

Portfolio	
Average Yield to Maturity (in SGD)	4.3%
Average Credit Rating	A-
Average Effective Duration	4.7 years
Average Coupon	4.1%
Portfolio Holdings	199
Fund Size	SGD 539.58 million

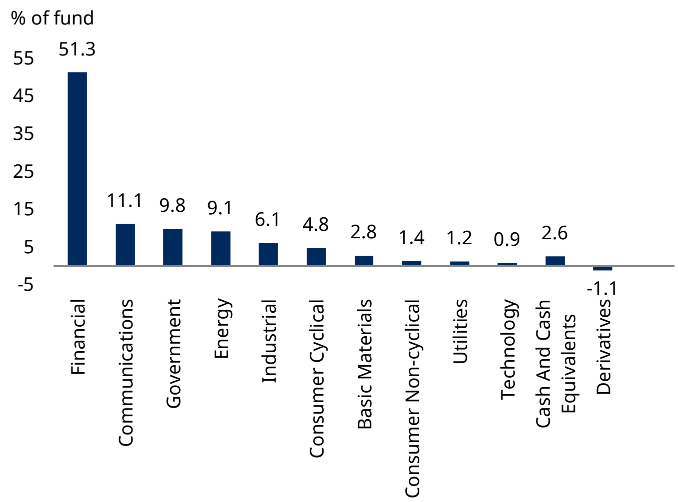
Ratings Allocation*



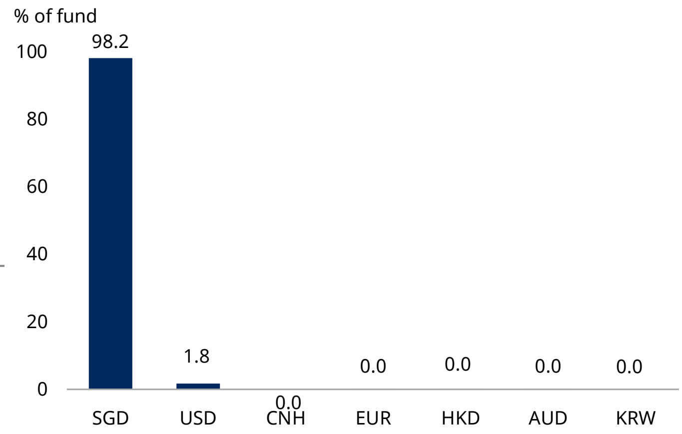
Country Allocation**



Sector Allocation



Currency Allocation



Source: Schroders, Morningstar, as at 31 March 2024.

*Based on average of S&P, Moodys and/or Fitch. ** Liquid assets include cash and derivatives. Other includes US, Malaysia, 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 a recommendation to invest in the Fund.

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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