Schroders

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Schroder Asian Investment Grade Credit

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

Performance Overview

- J.P. Morgan Asia Credit index IG gained 1.10% in USD terms over the month of September, driven by lower US treasury yields (0.76%) and to a smaller extent, tighter spreads (0.34%).
- The fund (SGD A Dis, net of fees) was up 1.20%, outperforming its comparator benchmark, J.P. Morgan Asia Credit Index IG SGD-hedged, which returned 0.92%. Its CPF-OA cash benchmark delivered 0.29%.

Drivers of Fund Performance

- Country allocation, along with sector allocation and security selection, drove the outperformance, while rates positioning slightly detracted from active returns.
- From a country allocation standpoint, our off-benchmark allocations to Japan and Australia were the key contributors of positive returns.
- In terms on credit selection, individual contributions were relatively small. Financials (South Korea and Hong Kong SAR) and Indonesia Sovereign were the top contributors.

Portfolio Positioning

- We remain active in the new issuance market, adding Australia Utilities and Financials names and funded by bonds that have performed well. Amid the turn in sentiment towards China, driven by recent easing measures, we added Greater China convertible bonds to capture upside potential.
- From a country perspective, we increased active exposures in Japan and Australia, while reducing those in South Korea, Hong Kong SAR, and Indonesia.
- Sector-wise, we dialled up active exposures in Utilities, TMT, and Industrials, while largely reducing exposures in Quasi-sovereign, Sovereign, and Real Estate.
- We kept a neutral to small duration overweight over the month as rates volatility are likely to remain elevated due to the upcoming US election and heightened geopolitical risk.

Market Outlook

- The long-anticipated start of the Federal Reserve's rate cutting cycle in September, along with a meaningful step up in stimulus from China policymakers, has created a supportive backdrop for Asia credit.
- As we look forward, the Fed's 50bps rate cut is well-justified to mitigate downside risks to the US economy and demonstrate the Fed's strong commitment to engineering a soft landing. We see less value in chasing the addition of duration, particularly as rates volatility is likely to stay high amid global growth uncertainty. We thus maintain a neutral to small duration overweight for the portfolio, while keeping a lookout for attractive levels to add duration over the longer term.
- After the Fed opened the door for easier policy, Chinese policy makers soon walked through with broad-based package of measures to set in place momentum for renewed growth. We see these measures as necessary to lower near-term systematic risks and bring this year's GDP growth closer to the target 5%. In response, we have selectively increased exposures (i.e. reduced the extent of underweight) to China. That said, we maintain zero exposure to the property sector as the sector remains challenging fundamentally. We continue to focus our exposure on sectors of strategic importance and companies with efficient business models, such as Chinese internet platforms and technology names as we closely watch the policy stimulus details and their subsequent tangible economic outcomes.
- Our overall view for the Asia credit market remains constructive. We expect search for yield motives to remain intact and the firm macro backdrop should support many of the idiosyncratic opportunities across Asia credit. That said, we do not see ourselves adding risks materially going forward, as volatility is likely to stay high and as spreads remain at historical tights. Protecting alpha will be key and we seek to rotate from cyclicals or sectors with excess capacity, into names with stable cash flows such as financials, infrastructure, telcos, and utilities. We continue to favour selected segments, such as developed market financials (Australia, Japan, Hong Kong SAR, and South Korea).

Performance (%)

Year	Fund	Benchmark*	Benchmark 2*
1 month	1.20	0.29	0.92
Year to date	4.91	2.67	4.47
1 year	10.75	3.58	9.76
3 years (p.a.)	-0.18	3.58	-0.21
5 years (p.a.)	0.86	3.55	1.27
Since inception (p.a.)	2.05	3.52	4.04

Source: Schroders, Morningstar as at 30 September 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).

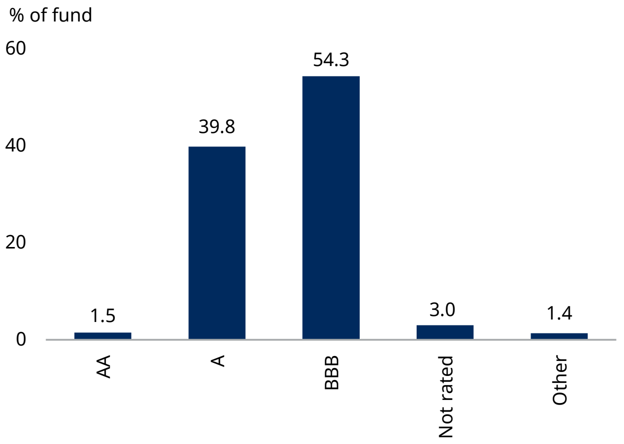
Note: From 1 July 2009, the Fund's investment policy was revised to lower volatility strategy focused on investing in good quality investment grade bonds with the majority of positions having an underlying maturity of less than 7 years. The above is for illustrative purposes only and does not constitute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

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

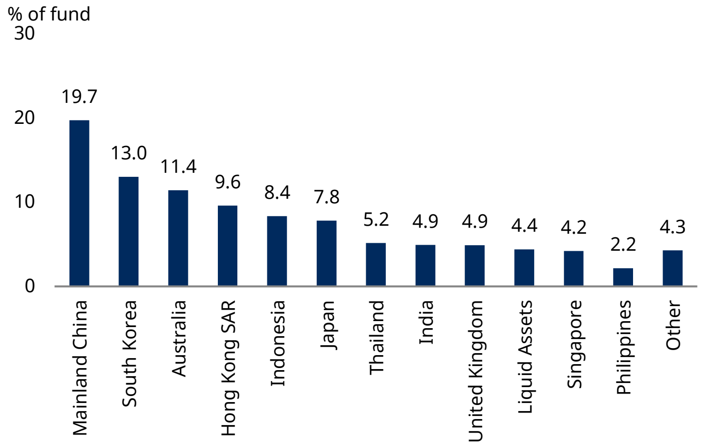
Key Portfolio Characteristics

Portfolio	
Average Yield to Maturity (in SGD)	3.6%
Average Credit Rating	BBB+
Average Effective Duration	4.7 years
Average Coupon	4.2%
Portfolio Holdings	168
Fund Size	SGD 591.72 million

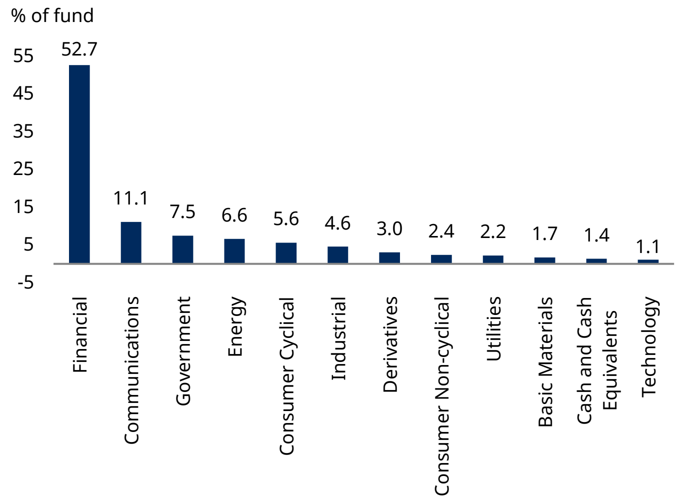
Ratings Allocation*



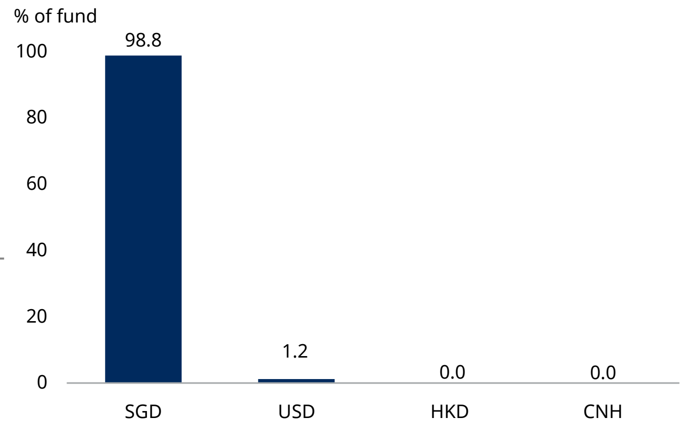
Country Allocation**



Sector Allocation



Currency Allocation



Source: Schroders, BRS Aladdin, Morningstar, as at 30 September 2024.

*Based on average of S&P, Moodys and/or Fitch. ** Liquid assets include cash and derivatives. Other includes Malaysia, Macau SAR, Europe, Kuwait, New Zealand, and Taiwan. 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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