

February 2022

### INVESTMENT OBJECTIVE

The Fund seeks to generate income by investing in a diversified portfolio of primarily high yield corporate fixed income securities issued by Asian entities or their subsidiaries. The portfolio consists of securities denominated in US dollars as well as various Asian currencies. It aims to maximize total returns through investing primarily in non-investment grade fixed income securities.

### FUND DETAILS

#### Reference Index

JPMorgan Asia Credit Index ("JACI")  
Non-Investment Grade Index

#### Portfolio Manager

Leong Wai Mei

### Market review

In February, volatility in global interest rates continued to weigh on global bond markets. Investor appetite for risk assets was also dampened by concerns over the prospect of more aggressive monetary policy tightening by major central banks, as well as military conflict between Russia and Ukraine. Against this backdrop, the JPMorgan Asia Credit Non-Investment Grade index fell by 4.1% over the month, weighed down by a combination of higher US interest rates and credit spread widening.

The selloff in global bonds deepened in the early part of the month, after hawkish comments from prominent policymakers such as European Central Bank Christine Lagarde raised concerns about aggressive monetary policy tightening. In the US, stronger-than expected payrolls data and a fresh four-decade high in inflation in the US also stoked expectations for rampant inflation, sending ten-year US Treasury (UST) yields to levels last seen in 2019. However, US interest rates retraced partially the upward moves subsequently as central banks' policy stance started taking a backseat to geopolitical tensions. With markets nervously awaiting the next headline on the Russia-Ukraine conflict, investors sought out the relative safety of bonds and other safe-haven assets. Over the month, the US Treasury yield curve continued to bear flattened with the 10-year yield rising by 5 bps to 1.8%, while 2-year yield rose by 25 bps to 1.4%.

The rise in US interest rates contributed to declines in Asian USD credits, while the risk averse environment also pressured Asian credit spreads wider. The Asian credit market selloff was broad-based across all countries, rating buckets, and sectors. However, investment grade bonds in general delivered more muted declines, while high yield sector continued to be weighed down by the weakness in the China property sector. China property sector emerged again, the key laggard as investor sentiment continued to be dampened by newsflow on the financial woes of China high yield property developers. Investor sentiment across the sector was also weighed down by news of slumping new-home sales.

Nevertheless, recent weeks saw an improvement in the magnitude and speed of policy easing measures towards the sector. As reported by Caixin on March 1, since mid-January, 15 Chinese provinces and cities have loosened requirements on home purchases. Banks in multiple cities (for instances, Shenzhen and Guangdong) have lowered mortgage rates, cut mortgage down payments, and expedited mortgage approval, according to local media reports. Among various regulatory relaxation measures, Chinese authorities have also made it easier for property developers to access cash from presales held in escrow accounts.

Outside of the China real estate sector, other sectors which underperformed included high yield sovereigns as well as Macau gaming sector. High yield sovereigns such as Sri Lanka and Pakistan underperformed amid concerns that the Russia-Ukraine conflict would result in higher prices for their fuel and food imports, thereby weighing further on their weak external balances. Macau gaming also underperformed amid weak gaming revenue recovery, which raised downgrade risks in the sector.

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Nonetheless, not all high yield markets/ sectors fared poorly. High yield quasi-sovereigns, industrials and infrastructure names were relatively resilient, and outperformed even the investment grade credit market.

By country, China, Sri Lanka, Macau and Pakistan underperformed, while countries like Malaysia, India, Indonesia and Hong Kong fared well.

#### Performance

During the month, the Fund's overweight in the China real estate sector weighed on relative performance. Credit selection was similarly a drag, as the modest overweight in names such as Zhenro detracted from performance. Zhenro was among the key laggards during the month after the company retracted its decision to call its perpetual, while announcing debt exchange exercise for its USD bonds.

The negative attribution effect was, however, partially cushioned by gains from positive credit selection in Indonesia, where exposures to selected oil&gas and financial names contributed positively.

Further, the overall underweight in the Philippine corporates was another positive contributor.

#### Strategy and outlook

As we enter into the new year, market volatility seems likely to persist in the near term, as since the onset of Russia's invasion of Ukraine, market participants across the world have appeared to be focusing more on the negative growth implications than inflation risks, lowering their bets on rate hikes and increasing haven allocations. With the security outlook in eastern Europe set to be the prime focus for global markets, at least for the near term, and emerging signs that financial conditions are starting to tighten, the flight to safety could continue for some time.

The direct impact from the Russia-Ukraine conflict on Asia, however, appears relatively contained in the near term with China's pro-growth policies acting as a buffer. Sustained tensions will weigh on the region's economy through, among others, adverse effects on global growth from supply shocks and higher commodity prices. We think these repercussions should be at least partially mitigated by the receding drag from Omicron and the prospect of significant energy supplies coming from Iran and increased oil production by OPEC countries and the US.

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Also, although most Asian economies are net commodity importers, Asian credits have thus far been substantially more resilient than the broader emerging-market (EM) universe, with spreads on the JACI widening by around 30 bps in February. This was a fraction of the spread widening seen in the broader EM dollar debt market, at around 72-85 bps. The steadier performance of Asian USD bonds was likely due to the higher proportion of domestic investor base and better overall credit quality of Asian credits, as well as the fact that Asia is located farther away from the associated geopolitical risks as compared to the rest of EM. We believe these factors should sustain the relative resilience of Asian credits moving forward. In fact, Asia could potentially benefit from reallocation flows away from Russia following the exclusion of Russian financial assets from major indices

For the Fund, we maintain an overweight in the China property sector, although we remain selective, preferring state-owned (SOE) linked real estate names and select better-quality privately-owned enterprises, which could weather through the current liquidity squeeze. The fund is better positioned to weather the widening in the non-China HY space since it remains underweighted select sectors in Indonesian High yield and Mongolia. We will reassess to see if value emerges in select names in these sectors as it widens on the back of broad EM spread widening.

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