FUND COMMENTARY SICAV

Eastspring Investments - China Bond Fund

February 2022

INVESTMENT OBJECTIVE

The Fund seeks to maximise total return by investing at least 70% of its net assets in fixed income / debt securities denominated in Renminbi (offshore Renminbi (CNH) or onshore Renminbi (CNY)) . The Fund may also invest in non-Renminbi denominated securities. Investments in Chinese onshore debt securities will be through the China interbank bond market direct access program (the "CIBM Direct Access Program"), QFII/RQFII and/or China Hong Kong Bond Connect ("Bond Connect").This Fund may invest up to 20% of its net assets in ABS, MBS, Contingent Convertible Bonds ("CoCos"), Distressed Securities and Defaulted Securities, with a limit of 10% for Distressed Securities and Defaulted Securities combined. In addition, this Fund may invest up to 10% of its net assets in synthetic fixed income instruments (including credit-linked notes). It may also hold up to 10% of its net assets in equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation.

FUND DETAILS

Reference Index

Markit iBoxx ALBI China Onshore Bond Index

Portfolio Manager

Guan Yi Low

Market review

In February, the China onshore bond market fell modestly with the Markit iBoxx ALBI China onshore bond index falling by 0.3% in local currency terms. In US dollar terms, however, the index delivered a moderate positive gain, bolstered by resilience of the Chinese renminbi against the US dollar despite the spike in global risk aversion.

Based on the credit data released by the People's Bank of China (PBoC), January's Total Social Financing (TSF) came in at CNY 6.17trn - a record monthly gain and significantly above market expectations (Wind poll median: CNY 5.45trn). Compared to the same period last year, TSF rose by CNY 984.2bn, mainly contributed by higher new renminbi loans, government bonds and enterprise bond financing. The new renminbi loans issued by financial institutions were CNY 3.98trn, also the highest-ever monthly gain and up CNY 394.4bn YoY.

The better-than- expected January credit data fuelled expectation of stronger growth momentum, which coupled with the broadly higher global interest rates during the month, influenced yields higher in the China bond market. During the last week of February, news that some cities have loosened mortgage policies also led to further rises in the onshore bond yields. Overall, Chinese Government Bond (CGB) yields moved higher in February 2022. As at end of February 2022, 5-year CGB yield was at 2.55% and the 10-year CGB yield was at 2.79%, which were 17bps and 9bps higher respectively compared with the level as at 31 Jan 2022.

Performance

The Fund outperformed its benchmark moderately before fees in February. The outperformance was mainly attributed to the Fund's overweight in the 1030-year CGBs as the CGB yield curve bear flattened and 5-year CGB underperformed. The Fund's modest exposure to China onshore property credits, however, partially negated the gains as the sector continued to weaken amid ongoing liquidity stress in the sector.

Strategy and outlook

We maintain our view that the PBoC will remain focused on growth in 1H 2022 and keep monetary policy accommodative. As such, we view that the room for upward moves in bond yields to be limited in the near term.

We think the 10-year CGB will range trade between 2.7-2.9% in Q1 and thus will maintain our duration at neutral to overweight position, while seek trading opportunities. For credits, we will be more cautious on property developer bonds, while participating in new issues by local SOEs or local government financing vehicles with short maturities.

All data as of 28 February 2022 unless otherwise stated.

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Commentaries are supplemental information, for complete performance data including appropriate Gross and Net results with calculation methodology please see corresponding factsheet at www.eastspring.com/usoffshoreadvisors

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