FUND COMMENTARY SICAV

Eastspring Investments - Asian High Yield Bond Fund

February 2021

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

The global bond rout extended in February as long-term bond yields continued to climb higher. Asian USD high yield bonds, however, held up relatively well with the JPMorgan Asia Credit -Non-Investment Grade index rising by 0.46%.

US Treasuries (UST) led the February bond selloff, with ten-year yields jumping 34 bps (to 1.40%) in February, the biggest monthly increase since late 2016. Market observers generally cited mounting expectations of faster inflation, on the back of a strong rebound in economic activity, and concerns over central banks pulling back on their ultra-loose monetary policy, as the main factors driving the jump in bond yields. A key gauge of the market's expectation of annual inflation over the next decade, the ten-year US breakeven rate, rose in February to the highest level since 2014. Nevertheless, with the Federal Reserved expected to keep policy rate unchanged through to 2023, short-end rates remained well anchored over the month.

The rise in US Treasury yields impacted performance of Asian USD credits, particularly the investment grade sector given their longer duration profile. The high yield sector, on the other hand, managed to hold on gains as higher accrual income and moderate spread tightening helped offset the impact of higher US rates.

Across broad credit sectors, high yield corporates outperformed, although negative idiosyncratic news resulted in some performance drags in pockets of the market; News of China Fortune Land defaulting on its USD bond maturing 2021 emerged late February, pulling down the overall performance of the China high yield property sector, especially those with weaker credit profiles. In contrast, Indonesian high yield property credits registered the strongest showing, buoyed partly by supportive policy measures, such as Bank Indonesia's loosening the loan-to-value ratio and loan disbursement requirements for mortgage loans.

High yield sovereign and quasi-sovereign issuers also saw diverging fortunes; Sri Lanka continued to underperform as concerns over its ability to service its foreign debt persisted amid falling foreign reserves. Pakistan and Mongolia sovereigns, in contrast, emerged as key outperformers; The announcement of Pakistan reaching staff-level agreement with IMF on funding facility and the easing of political noises in Mongolia with the installation of a new Prime Minister supported investor sentiment there.

Performance

In February, the Fund's overweight in Indonesia high yield real estate sector and security selection there was a key positive contributor. In addition, the Fund's allocation to Philippine corporates lifted relative performance.

All data as of 28 February 2021 unless otherwise stated.

Contribution from China high yield credits was more mixed; while the overweight in real estate sector was generally positive, the gains were negated by the selection of quasi-government/ local government-linked securities.

Further, the Fund's modest non-benchmark allocation to IDR bonds also detracted from relative performance as the domestic bond market declined on the back of higher domestic rates and weaker IDR.

Strategy and outlook

Global interest rates have moved up swiftly in recent weeks amid rising optimism of a stronger economic recovery and expectation of higher inflation. However, concerns over higher inflations appear to be pre-mature; Despite reflation trades continuing to gain pace last month, inflation has remained modest in most major economies. Both the US Fed and ECB have also continued to pledge to keep monetary policy accommodative - keeping rates zero-bound and maintaining its quantitative easing program even as market participants have already acted to price in the first Fed rate hike to happen in 2023, earlier than the central bank's "dot plot" projection.

As such, our view remains that while we could continue to see rates volatility in the near term, the recent moves have been rather excessive and further rises are likely to be capped. Secular disinflationary trends and the still-significant global output gap are also expected to keep inflationary pressures in check further out. We thus expect investor demand for carry and, by extension, Asian bonds, to remained supported when UST yields stabilizes. With liquidity conditions remaining flush, the yield advantage offered by Asian bonds as well as the stronger growth backdrop should continue to draw investors into the asset class. The improvement in the growth conditions should also remain broadly supportive for corporate earnings, even as the tighter onshore financing conditions in China could challenge weaker issuers there.

Against this backdrop, the Fund maintains its overweight in the Chinese real estate sector over industrials, while overweighting Indian renewable energy and selective Indonesian corporates.

We continued to rotate within the Chinese real estate sector as we seek to differentiate the winners from losers with the implementation of the "3-red lines" reform.

Further, we participated in selective new issuances, including those issued by India renewable energy companies, while reducing our exposure to selected high yield sovereigns where we view valuations to be more stretched.

FUNDS COMMENTARY SICAV

Eastspring Investments - Asian High Yield Bond Fund

February 2021

Please note that the securities mentioned are included for illustration purposes only. It should not be considered a recommendation to purchase or sell such securities. There is no assurance that any security discussed herein will remain in the portfolio of the Fund at the time you receive this document or ¬that security sold has not been repurchased. The securities discussed do not represent the Fund's entire portfolio and in the aggregate, may represent only a small percentage of the Fund's portfolio holdings.

Disclaimer

FUND COMMENTARY SICAV

Eastspring Investments - Asian High Yield Bond Fund

February 2021

FUNCTION COMMENTARY SICAV

Eastspring Investments - Asian High Yield Bond Fund

February 2021

The securities have not been and will not be registered in Peru under decreto legislativo 861: ley del mercado de valores (the "securities market law"), and are being offered to institutional investors only (as defined in article 8 of the securities market law and the reglamento del mercado de inversionistas institucionales) pursuant to a private placement, according to article 5 of the securities market law. The interests have not been registered in the securities market public registry (registro público del mercado de valores) maintained by, and the offering of the securities in Peru is not subject to the supervision of, the superintendencia del mercado de valores. Any transfers of the interests shall be subject to the limitations contained in the securities market law and the regulations issued thereunder.

As the securities are not registered, there is no obligation to deliver in Peru public information with respect to the securities offered hereby. These securities cannot be offered by way of public offering as long as they are not registered in the securities market public registry.

Eastspring Investments, Inc.
225 W Wacker Drive, Suite 1200
Chicago, IL 60606
Tel: +1.312.730.9527
eastspring.us/offshoreadvisor