First Sentier Asian Quality Bond Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | April 2021

Market review

Investment grade credit spreads in Asia continued to widen in April, although a drop in US Treasury yields was beneficial and helped offset most of this move. The JACI Investment Grade Index returned -0.19% over the month.

Sentiment towards credit in the region was hampered by a sharp sell-off in bonds of Huarong International, the Chinese state-owned asset manager. The weakness started near the beginning of the month, when Huarong announced that its financial results would be delayed as auditors needed more time to certify the accounts. Following this initial announcement, it emerged that the company was looking to overhaul some of its unprofitable non-core businesses to alleviate the need for debt restructuring. This raised investors' concern over Huarong's ability to refinance given the sheer size of its outstanding debt. There are currently around US$22 billion of Huarong bonds on issue, which represent around 1.5% of the market capitalization of the Asian Credit Index.

In mid-month, Huarong bonds had plummeted to between US$50 and US$60 (from a par value of US$100). The bonds subsequently rebounded back into the US$80s, after China's Financial Regulator issued a statement affirming that the company had adequate liquidity and that it was working with auditors to complete annual filings as soon as possible. There were some further positive developments too; Huarong repaid investors in maturing SGD-denominated bonds, and it emerged that officials were considering using central banks funds to support Huarong. That said, the situation continues to evolve and investors are still waiting for the company to release the delayed financial results. Further clarity is also required around potential debt restructuring.

In other news, a surge in Covid cases in India affected sentiment towards risk sentiment in that market and saw Indian spreads widen. By month end, Covid infections had risen to a weekly total of more than 370,000, reflecting the rapid spread of more transmissible variants of the virus. These new infections have extended the total number of Covid cases since the start of the pandemic to nearly 20 million; the second highest number globally, after the US. The extent of the latest outbreak has raised concern over the projected growth trajectory in India, and suggests agencies could review the country's Investment Grade credit rating.

Despite the generally weaker tone in Asian credit markets, new issues typically saw strong levels of interest. Notable new deals were completed by various investment grade firms in the technology sector. Chinese online media giant Tencent, for example, raised more than US$4 billion in a multi-tranche deal. The new issues were priced at a discount to existing bonds and performed well in secondary markets after the issuance process was complete. Taiwanese chipmaker TSMC also raised US$3.5 billion. There were also some notable new issuances in Malaysia, where state-owned oil and gas company Petronas raised an additional US$3 billion. These new bonds performed relatively poorly in secondary markets. The new issues were priced at the tighter end of the guidance range and the overall raising was up-sized from an initial US$2 billion. The timing of the deal also appeared to contribute to the underperformance; it came the day after Malaysia had issued US$1.3 billion of sovereign debt.

Performance review

The First Sentier Asian Quality Bond Fund returned -0.58% for the month of April on a net-of-fees basis.

The negative return was largely due to a widening in credit spreads as many Chinese SOEs got dragged along amid the troubles at Huarong, the Chinese state-owned asset

- The Fund invests primarily in debt securities of governments and corporate issuers organised, headquartered or having their primary business operations in Asia.
- The Fund's investments may be concentrated in a single, small number of countries or specific region which may have higher volatility or greater loss of capital than more diversified portfolios.
- The Fund invests in emerging markets which may have increased risks than developed markets including liquidity risk, currency risk/control, political and economic uncertainties, high degree of volatility, settlement risk and custody risk.
- The Fund invests in sovereign debt securities which are exposed to political, social and economic risks.
- The Fund invests in debts or fixed income securities which may be subject to credit, interest rate, currency and credit rating reliability risks which would negatively affect its value. Investment grade securities may be subject to risk of being downgraded and the value of the Fund may be adversely affected. The Fund may invest in below investment grade, unrated debt securities which exposes to greater volatility risk, default risk and price changes due to change in the issuer's creditworthiness.
- The Fund may use FDIs for hedging and efficient portfolio management purposes, which may subject the Fund to additional liquidity, valuation, counterparty and over the counter transaction risks.
- For certain share classes, the Fund may at its discretion pay dividend out of capital or pay fees and expenses out of capital to increase distributable income and effectively a distribution out of capital. This amounts to a return or withdrawal of your original investment or from any capital gains attributable to that, and may result in an immediate decrease of NAV per share.
- It is possible that a part or entire value of your investment could be lost. You should not base your investment decision solely on this document. Please read the offering document including risk factors for details.

manager. The decline in US treasury yields were not enough to offset the widening in spreads.

On a relative basis, the fund underperformed the index as our short duration positioning went against us this month. Our moderate overweight in Huarong also detracted value.

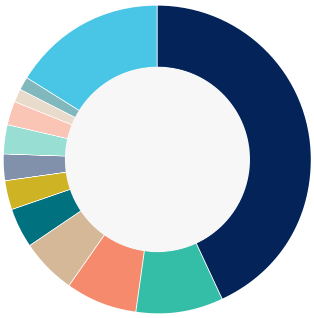
Cumulative performance in USD (%)[1]

	3 mths	YTD	1 yr	3 yrs	5 yrs	Since inception
Class I (USD - Acc)	-1.7	-1.6	5.4	16.5	19.9	88.8
Benchmark*	-1.8	-1.9	4.7	18.8	23.1	143.8

Calendar year performance in USD (%)[1]

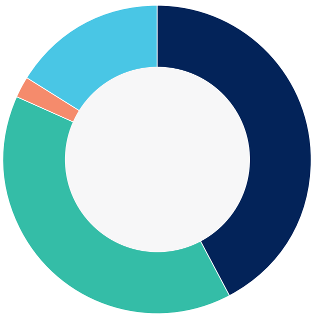
	2020	2019	2018	2017	2016
Class I (USD - Acc)	5.9	10.9	-1.3	5.6	3.4
Benchmark*	6.9	11.0	0.0	5.5	4.5

Asset allocation (%)[1]



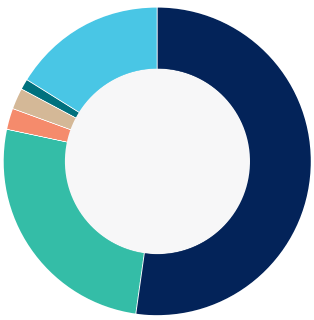
Country

- China 43.1
- Singapore 9.2
- Indonesia 7.6
- Hong Kong 5.6
- Thailand 4.3
- India 3.0
- Malaysia 2.9
- South Korea 2.9
- Australia 2.7
- USA 1.2
- Other 1.4
- Liquidity 16.0



Sector

- Corporates 42.3
- Govt Related 39.4
- Treasury 2.3
- Liquidity 16.0



Credit rating

- BBB 52.4
- A 26.1
- AAA 2.2
- AA 2.2
- BB 1.0
- Liquidity 16.0

Top 10 holdings (%)[1]

Stock Name	%
People's Republic of China (Government)	4.9
Pertamina Persero PT	4.2
China National Offshore Oil Corp	3.1
China National Chemical Corp Ltd	2.9
Country Garden Holdings Co Ltd	2.7
DBS Group Holdings Ltd	2.1
China Overseas Land & Investment Ltd	2.1
Temasek Holdings (private) Ltd	2.1
Bank of Communications Co Ltd	1.9
PTT PCL	1.9

Fund positioning

The Fund participated in a US$1 billion issuance of 10-year notes from Santos, one of Australia's largest gas producers. There is typically good liquidity in this name and the company has a BBB- credit rating with a stable outlook. The issuance tapped both RegS and 144A markets accessible to US investors, and received strong demand from investors; the final order books were more than six times oversubscribed. Priced at 210 bps above US Treasuries, we believed the bonds were fairly valued and provided additional diversification benefits for the portfolio. The Fund also participated in the issuance of new 5-year sustainable notes issued by Indonesian state-owned bank, Bank Mandiri. The final price was 135 bps above US Treasuries, which represented a premium over other banks in the Philippines.

The Fund has some exposure to Huarong International bonds, which detracted from relative performance over the month. In the near term, investors are likely to have ongoing concerns over potential asset sales and the company's ability to refinance its short-term liabilities. Moreover, new funding would be expensive with spreads at current levels. However, we continue to believe Huarong is systematically important to the financial industry and that it will remain supported by the Chinese state, if required. Accordingly, we remain comfortable with the position for now.

Finally, the Fund maintained a short duration position in US Treasuries. We believe progress on the Covid vaccination front will result in higher economic growth and expectations of rising inflation, which in turn is likely to exert upward pressure on US Treasury yields.

Q2 2021 investment outlook

The optimism around global economic recovery we witnessed at the start of the year looks set to continue, with the rollout of Covid vaccines gathering pace. Progress varies between countries, but encouraging progress has been made overall. By the end of March, nearly 100 million adults in the US had received at least one shot, and more than 53 million – or more than 20% of the adult population – had been fully vaccinated. At this rate, all adults in the US could be vaccinated by July. China also appears to have done an effective job in containing the virus, and have also pledged to supply half a billion doses of Chinese vaccine

Performance is based on First Sentier Asian Quality Bond Fund Class I (USD - Acc) is the non-dividend distributing class of the Fund, the performance quoted are based on USD total return (non-dividend distribution).
This Fund is a sub fund of Ireland domiciled First Sentier Investors Global Umbrella Fund Plc.
* The benchmark displayed is the J.P. Morgan JACI Investment Grade Index.
1 Source: Lipper & First Sentier Investors, Nav-Nav (USD total return) as at 30 April 2021. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. Fund inception date: 14 July 2003.

to more than 45 countries. Progress in Europe has been slower, owing to issues with production and distribution in the region. Overall, we expect investors to continue to focus on the pace of vaccine rollouts worldwide, given the correlation between economic activity levels and corporate profitability.

Despite signs of success in the containment of the virus and good progress with the vaccine rollout, President Biden recommitted to supporting the US economy through massive fiscal stimulus. To put some numbers into perspective, the US$1.9 trillion package Biden has approved equates to almost 9% of GDP. The package includes US$400 billion of direct payments to households, suggesting there could be an immediate impact on discretionary spending and, in turn, inflation. The additional US$2+ trillion infrastructure spending plan could result in additional inflationary pressure over time. Risk assets have understandably cheered these moves, and while these stimulus packages are likely to be positive for the US economy, there are some potential implications for markets that investors need to be mindful of.

The massive stimulus announced – and the probability of even more to come – suggests US Treasury supply could continue to rise sharply in the months ahead, in turn exerting further upward pressure on yields. Moreover, the unprecedented size of the fiscal stimulus, along with highly accommodative monetary policy, means there is a genuine risk of inflation surprising on the upside in the months ahead. This is despite Federal Reserve officials assuring investors that higher inflation is likely to be transient, and that official interest rates will not be raised until 2024 at the earliest. The Federal Reserve's central scenario seems plausible, but we believe there is a genuine risk that inflation surprises on the upside – perhaps increasing to its highest level since the Global Financial Crisis – and stays elevated for a longer period. We are also mindful that investors may have become too complacent regarding inflationary risks, with CPI being so low over the past decade. If higher inflation does materialize and remains persistent, we might therefore see bouts of volatility in financial markets, similar to those seen during the 'taper tantrum' period in 2013, when investors became jittery about the Federal Reserve reducing the scale of its quantitative easing program.

Approximately half of Asian corporates have reported earnings for the 2020 year, and the trend is clear. Firms have seen significantly lower revenues and earnings, and worsening debt and leverage ratios. The deterioration in credit fundamentals is not too unsettling at this stage, certainly among the investment grade universe. The decline in earnings so far has been most pronounced in Chinese high yield property names, such as Yuzhou, which reported losses of RMB166 million towards the end of March following two consecutive profit warnings. The good news is that may have seen the trough in earnings in this part of the market. That said, some caution is warranted, particularly with spreads on Asian investment grade issuers around 180 bps, below the 5 year average, and with 'all in' yields still on the low side.

Demand and supply dynamics in the Asian credit market remain supportive – new issues have generally seen strong demand among income-seeking investors. This helps explain why periodic sell-offs in recent years have tended to be quite shallow, and short lived. Indeed, any meaningful increase in spreads would present us with an opportunity to add some more risk into the portfolio, particularly if the spread widening coincided with a stabilization in US Treasury yields. We continue to monitor the new issuance calendar for new investment opportunities that are reasonably priced. Our dedicated credit analysts scrutinize the pricing and structure of new deals, looking for issues that can further diversify the portfolio.

With the likely increase in US Treasury supply in the years ahead to fund the additional fiscal stimulus, we see very little reason to change our structurally negative view on prospects for the US dollar. Nevertheless, should US Treasury yields continue to edge higher, and if the market starts pricing in an official interest rate hike earlier than 2024, we could see the US dollar strengthen in the next few months as investors further unwind the very crowded short dollar trade from last year. Consequently, we remain cautious around the duration risk associated with local currency bonds, especially higher beta issues like Indonesian and Indian bonds. On the other hand, any sell-offs could present interesting opportunities for us to initiate exposures in these securities given our concerns about the resilience of the US dollar over the longer term.

Source : Company data, First Sentier Investors, as of end of April 2021