

First Sentier Asian Quality Bond Fund Monthly review

Monthly Review | March 2025

Market review

Impending 'liberation day' tariff announcements in April led to shaky risk sentiments in March as the trade war intensified. China unveiled fresh tariffs on a range of agricultural imports from the US. US importers also tried to mitigate tariff impacts on operating profit; Walmart asked Chinese suppliers for price reductions to cushion the impact of tariffs. Weaker-than-expected non-farm payrolls and increased underemployment numbers failed to sustain a rally in rates. The Federal Open Market Committee (FOMC) maintained the target range for the fed funds rate at 4.25% to 4.50%, and rates continued to remain rangebound on macroeconomic uncertainty as the market digested the Fed's message that the effects from tariffs (downside risks to growth) would be transitory.

The US Treasury curve steepened over the month, the 2s-10s slope increased by 10 basis points (bps). 2-year US interest rates reduced by -11bps, while the 10-year treasuries stayed flat to end the month at 4.21%.

JACI Investment Grade (IG) spreads widened, rising 18 bps to end the month at 122bps. In total return terms, the sub-index delivered positive performance of 0.04%.

In Asia Investment Grade Credit, market weakness was largely attributable to tariff concerns, but idiosyncratic headlines still moved markets. In Indian corporates, Adani Group's refinancing activities moved forward despite bribery allegations. Adani Green successfully raised USD1.06bn to refinance its renewable project loan, and Fitch revised the rating outlook from "watch negative" to "negative," citing moderating risks with the group's liquidity and funding requirements. CK Hutchinson's (CKHH) intention to sell its international ports business, including two Panama Canal ports, to a Blackrock-led consortium came under scrutiny from Beijing due to national security interests. While Fitch ratings placed the entity on Rating Watch Positive from anticipated proceeds from the sale, spreads of CKHH widened by 20-40bps on potential political risks. Meanwhile, Chinese TMT names continued to deliver solid performance amid market headwinds. Meituan and Xiaomi each received a notch in credit rating upgrade by Moody's and S&P respectively to Baa1 and BBB on improving fundamentals.

In Asian sovereigns, spreads of Indonesian Sovereign bonds widened from recent lows on the back of uncertainties regarding the execution and operation of Indonesia's newly established Sovereign Wealth Fund, as well as the government's aggressive spending plans.

Activity in the primary market increased from February, as issuers sought to tap the market ahead of liberation day announcements. Notable issuers included Petronas' USD5bn issuance, as well as Hong Kong MTR Corporation's first public bond deal of the year that saw USD3bn in issuance. Year-to-date, the issuance market remained dominated by Chinese and South Korean issuers.

Fund positioning

The Fund maintained an overweight in US rates in anticipation of a weakening macro fundamentals. Cautious additions were made in terms of credit risk, while local currency positions were maintained at existing levels.

Performance review

On a net-of-fees basis, the First Sentier Asian Quality Bond Fund returned -0.14% in March, underperforming its benchmark by -0.19%.

An overall neutral positioning in credit spreads relative to the benchmark was flat in terms of performance, and the portfolio's overweight in US rates contributed to returns. Sector selection detracted from returns as spreads widened in Indonesia on the back of policy uncertainty. Local rates and currency exposure was neutral for returns.

- The Fund invests primarily in debt securities of governments or quasi-government organization in Asia and/or 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 may also expose to RMB currency and conversion risk.
- 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.
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- 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.

| | We thought that... | Therefore, we... | And the results... |
|-----------------|---|---|--|
| US rates | Tariffs levied by the US would negatively impact growth, markets could be seized by risk-off sentiments. | Implemented an overweight in US interest rate positioning relative to its benchmark. | Positive for portfolio returns. |
| Asian IG | Fundamentals remain sound in Asian Investment Grade (IG) corporates, but spreads have reached extremely tight levels. | Maintained an underweight in credit positioning and focused on high quality names that are deemed more resilient should the market enter a risk-off mode. | Widening of spreads in Indonesian Quasi-sovereign detracted from returns, this was partially offset by the underweight in Indonesian sovereigns. |

Source : Company data, First Sentier Investors, as of end of March 2025

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