

The Fund aims to achieve total return, consisting of both income and capital gains and invests primarily in debt securities of governments or quasi-government organization issuers in Asia and/or issuers organised, headquartered or having their primary business operations in Asia.

- The Fund invests primarily in debt securities of Asian government or quasi-government organization and/or corporates organised, headquartered or having their primary business operations in Asia.
- The Fund's investments may be concentrated in a single or small numbers of Asian countries 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 debt/ 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 efficient portfolio management purposes, which may subject the Fund to additional liquidity, valuation, counterparty and over the counter transaction risks.
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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.

In **Part 1**, we introduced the foundation of convertible bonds—hybrid instruments that combine the defensive characteristics of traditional bonds, such as coupons, maturity, and repayment seniority, with an embedded equity conversion option that allows investors to participate in equity upside. This dual structure creates a distinctive payoff profile that balances downside protection with equity linked potential.

In **Part 2**, we extended this framework into the practical realities of market cycles. We illustrated how convertible bonds behave differently depending on prevailing conditions: trading more like bonds during equity drawdowns when credit fundamentals dominate, and offering tactical opportunities during transition phases. We also shared how we approach convertible bonds with market cycle aware behaviour across bear and transition environments.

Building on these foundations, our final instalment explores how we trade convertible bonds during bullish market conditions, and how our Total Return strategy—the First Sentier Asia Strategic Bond Fund—has utilised convertibles within its broader portfolio allocation.

## Bullish equity market: Strategic entries and exits

In market rallies, convertible bonds absorb more equity risk as underlying stock prices rise, resulting in higher volatility than traditional bullet bonds. As equity prices increase, the volatility of the corresponding convertible bond typically rises as well, even though the instrument still retains some degree of downside protection relative to the underlying equity.

For a pure bond investor operating in the convertible space, our approach in such environments is to position early ahead of emerging trends and remain disciplined around entry levels, which ultimately define our downside risk. In strong markets, we are comfortable holding convertible bonds with negative yields and relatively high cash prices to capture additional upside. However, we generally look to exit positions before they exceed the 130–140 cash price range, thereby avoiding excessive equity-like volatility.

One of the trades we executed during the equity bull market of 2025 was the purchase of BABA 0.000% 09-Jul-2032, an A+/Aa1/A-rated convertible bond acquired through primary market issuance despite its 0% coupon and lack of yield. Although the initial convertible premium of 48% was far from cheap, we

believed the equity rally still had meaningful room to continue. After the bond price appreciated from 100 at issuance to 122 in just two months, we took profit on the position, as we observed rising equity volatility increasingly being priced into the bonds.

## First Sentier Asia Strategic Bond Fund

Among the strategies we manage, the **First Sentier Asia Strategic Bond Fund** is best placed to include convertible bonds in its portfolio allocation. As a total return strategy, the Fund maintains an average investment grade credit rating, but adopts an **unconstrained, benchmark agnostic approach** across Asian fixed income markets, enabling it to allocate to convertibles as a **tactical tool**, rather than treating them as a standalone asset class.

The Fund's use of convertibles has evolved meaningfully across recent market environments:

- **2023 – Risk off environment:** With uncertainty elevated, the Fund held only **1%** in investment grade convertibles, using them primarily for their yield characteristics.
- **2024 – Transition market:** The Fund began the year with a small allocation of roughly 1.5%, which increased to 4.4% by December 2024. Factors such as tentative signs of recovery in China's equity market guided this shift. Given the uncertain environment, the focus remained on higher-quality names that provided carry while retaining embedded upside potential.

- **2025 – Equity bull market:** Convertible bond exposure ranged between **3% and 7%**, delivering nearly **20% in total returns**. This reflects how convertibles can amplify performance when equity optionality is rewarded.

Importantly, our approach to convertible bonds is not to maintain a permanent allocation. Their shifting behaviour across market cycles means they are most effective within a flexible strategy that can adjust position size, risk exposure, and underlying credit quality. Investors who treat convertibles as a standalone, fixed allocation may experience heightened volatility. However, for managers who deploy convertibles tactically as an additional alpha source within a total return framework—and who possess the expertise to adjust exposure across credit, duration, and currencies as conditions change—convertibles can present compelling opportunities.

In its quest to deliver total returns to investors, the First Sentier Asia Strategic Bond Fund draws on a **diverse set of return drivers**, including interest rates, credit, and currencies. As of December 2025, its monthly distribution share class delivered a compelling 8% p.a to investors. The Fund's ability to rotate between **risk-off positioning**—such as cash equivalents and short dated credit—and **risk-on positioning**—including high yield and higher beta local currency bonds—helps it adapt swiftly to evolving market conditions as it aims to deliver attractive total returns consistently over time.

To find out more, please visit <https://www.firstsentierinvestors.com/hk/en/retail/our-funds/fixed-income/asian-fixed-income.html> to explore our strategies.

The SFC has not reviewed the contents of this website.

Source: First Sentier Investors as at 31 January 2026.

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