

Market Commentary

The 10-year U.S. Treasury yield ended at 4.15% in September, some 7 basis points lower than the previous quarter. Interest rate rallied during the period as the labour market cooled, and the Federal Reserve cut policy rate by 25 basis points to cushion softening growth. Meanwhile, the US yield curve took a pause in its steepening, reflecting rising market concern surrounding growth and jobs market.

Asian investment-grade corporate fundamentals remained stable overall. In China, companies in the technology, media, and telecommunications (TMT) sector reported mixed earnings, with the food delivery companies facing intense competition weighed on profits. Taiwan insurers were negatively affected by the dollar weakness, but risks are mitigated by solvency buffers. Korea and Japan insurers benefited from the boost in domestic yields and investment income. Japan telecommunication companies are also facing rising capital expenditure needs due to increasing industry competition, leading to large-scale bond issuances from the sector. In India, S&P upgraded the country's sovereign credit rating from BBB- to BBB in August, citing strong economic performance and ongoing fiscal reforms. This upgrade also benefited certain Indian companies whose credit ratings had been previously constrained by its sovereign rating, resulting in a positive impact on their bond prices. In Thailand, several state-owned enterprises undertook bond buybacks and issued perpetual bonds as part of liability management efforts to maintain their investment-grade status. Meanwhile, Indonesia experienced a cabinet reshuffle amid public protests, with the long-serving Finance Minister Sri Mulyani Indrawati being replaced by Purbaya Yudhi Sadewa. This raised concerns about the country's future fiscal discipline.

Performance in the Asian High Yield segment continued to outperform the Asia Investment Grade segment in this yield-chasing environment. In India renewables, onshore liquidity remains abundant, providing an additional option for onshore refinancing secured by assets. In Macau gaming, improvements in visitation and gross gaming revenue supported earnings despite intense competition. China's top 100 property developers experienced weak contracted sales. However, state-owned developers reported profit growth in the first half of 2025,

while surviving Chinese high-yield property developers saw easing liquidity pressures through offshore bond issuances or loans from parent companies.

Technicals in Asian fixed income remained supportive, as active issuances were absorbed by overall credit demand and improved fund flows. The JP Morgan Asia Credit Index (JACI) Investment Grade spreads were range-bound in the third quarter, ending at 102 basis points - 18 basis points tighter than at the end of Q2. The investment-grade index delivered a positive return of 2.6%, largely driven by yield income. The broader JACI returned 2.9% in total returns over the quarter.

In Europe, political uncertainties in France catalysed its rating downgrades and weighed on sentiment. We see no near-term resolution to the current state of political gridlock, which brings greater challenge to the government's scheduled timeline in meeting EU's 3% fiscal limit. Over in Asia, Japan Prime Minister Ishiba's resignation surprised the market, and the upcoming Liberal Democratic Party election is expected to impact the trajectory of government spending.

Performance Review – Asian Credit

The Asian Credit portfolio outperformed its benchmark in 3Q25:

Positive contributors:	Negative contributors:
• Overweight duration vs the benchmark • Overweight in Indonesia Quasi Sovereign bonds • Allocation to Middle East Banks • Security Selection in Hong Kong property bonds	• Overweight in Australian and Japan rates • Underweight in Indonesian and Philippine sovereign bonds

Strategy Positioning

The Strategy maintained a cautious approach, keeping an underweight in credit spreads compared to its benchmark and selectively adding credit positions only when valuations were attractive. In interest rates, the strategy continued to favor U.S. rates with an overweight position, while maintaining modest exposures to Japanese and Australian rates. Additionally, a small allocation was introduced in euro-denominated credits.

Performance Review - Rates and Currency

The Rates and Currency portfolio underperformed its benchmark in 3Q25:

Positive contributors:	Negative contributors:
• Overweight in US government bond • Underweight in Chinese government bond • Overweight in Australian dollar and Euro	• Overweight in Australian, Japanese, and UK government bonds • Overweight in Japanese yen

Strategy Positioning

The rates strategy reduced the overweight in US government bond while increased the exposure to Japanese government bond from neutral to net long. The Foreign Exchange (FX) strategy maintained the underweight position in the US dollar, increased the overweight exposure to the Euro and Australian dollar, and reduced the overweight exposure to the Yen relative to the benchmark.

Performance Review – Asian Total Return

The Asian Total Return portfolio delivered positive performance in 3Q25:

Positive contributors:	Negative contributors:
• Long position in US rates • Allocations in Asia convertible bonds • Allocations in Middle East and Asian financials • Security selection in Hong Kong property bonds • Security selection in High yield names	• Long position in the Japanese yen • Long position in Australian and Japan rates

Strategy Positioning

In light of a more cautious outlook for the U.S. economy, the strategy adopted a more defensive stance. Specifically, we increased our exposure to investments that benefit from a weaker U.S. Dollar, while maintaining positions that are aligned with the expectation of stable or lower U.S. interest rates.

The overall credit quality of the portfolio remains unchanged, with an average portfolio rating of BBB-. We have taken a more balanced approach to credit allocation, with a preference for higher-quality issuers that offer attractive income potential. Additionally, we are selectively identifying opportunities in Asian convertible bonds, which offer a unique blend of income and potential upside.

The Fund continues to hold positions in Japanese government bonds, based on our view that current valuations appear attractive.

Q4 Outlook

Global / US

We continue to view the inflationary impact from tariffs as one-off, even in the worst-case scenario, as tariff negotiations become a prolonged reality. Much of the cost impact will likely be absorbed by importers and exporters, thereby limiting the effect on end consumers. We expect the weakening consumption trend and declining components of the Consumer Price Index (CPI) basket - such as shelter prices - to anchor inflation and prevent it from rising.

Jerome Powell has finally, albeit belatedly, acknowledged a shift in risk toward labor market softness and slower economic growth. We believe this shift in tone has been long in the making and expect the trend to persist, prompting further rate cuts in upcoming Federal Open Market Committee (FOMC) meetings. Prior to the Fed's initial rate cut in 2024, our base case was for a cumulative easing of at least 200bps. With 125bps already delivered and 75bps currently priced in, the Fed appears to be behind the curve in its policy response - moving more slowly than it perceives itself to be.

Valuations across equities remain elevated and, in our view, are vulnerable to a sharp correction if macro data surprises to the downside. The Fed's lagging policy response could exacerbate volatility, especially if investors begin to question its ability to manage a deeper slowdown. The dedollarisation narrative continues to gain traction, with non-USD currencies likely to benefit as the U.S. economy weakens. Interest rates remain at historically attractive levels, offering compelling carry for fixed income investors. In managing our credit allocations, we remain disciplined - selective, focused on quality, and cautious in stretched areas of the market.

Asia

In Japan, the Bank of Japan (BOJ) remains cautious on rate normalization, but persistent inflation has prompted incremental steps - most notably, the BOJ's planned exchange-traded fund (ETF) divestment, signaling growing confidence in market stability. The yen remains well supported, driven by Fed rate cuts and its safe haven status amid rising global recession risks.

China's economic recovery is gradually gaining traction but continues to face headwinds. Growth remains weak, employment is subdued, and deflationary pressures persist. As the trade war with the U.S. continues, investors expect the Chinese government to support the economy through increased fiscal expenditure. We have long held the view that monetary easing alone is insufficient to stimulate growth; additional fiscal support is essential to revive the economy.

Thus far, Asia has demonstrated resilience against tariff and geopolitical headwinds, supported by benign inflation, accommodative central bank policies, and a relatively young population. Despite pockets of uncertainty - such as fiscal discipline concerns in Indonesia - other economies, such as Malaysia, are benefiting from an upturn in foreign investment.

Credit

As we approach the six-month mark of the credit market's post-Liberation Day rally, the risk-reward profile for credit remains asymmetric, underscoring the need for selective positioning and close monitoring of economic indicators. Asian credits have shown remarkable resilience. With credit spreads trading range-bound on the tight end, carry has become the dominant driver of returns. As such, we have become more discerning on risk and increasingly focused on credit fundamentals. In emerging market corporates, most bond prices have recovered following the volatility around Liberation Day. We remain selective, focusing on idiosyncratic names that offer compelling risk-adjusted returns.

Currencies

The U.S. dollar stands at the cusp of a structural turn, moving away from its period of strength. Investor sentiment is expected to continue favoring emerging market rates and currencies, especially as U.S. economic exceptionalism fades. The strong appreciation of developed market currencies against the U.S. dollar - such as the euro and Japanese yen - is also likely to be sustained, supported by fiscal stimulus in Europe and cautious policy normalization in Japan.

We maintain a constructive view on select local currency bonds and continue to favor diversified exposure across emerging and developed markets, with a focus on quality and liquidity.

Source: First Sentier Investors data as at 7 October 2025.

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