First Sentier Asian Quality Bond Fund
Monthly review and outlook

Monthly Review and Outlook | August 2020

Market review

The overall backdrop for Asian credit was little changed, with positive momentum from July continuing well into August. The outlook for corporate earnings remained mixed, at best, and news releases suggested companies in various sectors across the region continue to face serious financial pressures. In spite of that and the historically low yields on offer, demand from income-oriented investors remained insatiable.

Primary issuance remained very active and there was strong demand for new tenders. Most order books were covered multiple times, enabling companies to issue the new debt at premium valuations. New issues were typically completed 45-50 bps tighter than initial price guidance, underlining the ongoing strong appetite for credit in the region.

The Federal Reserve continued to buy investment grade corporate bonds in the US and investors appeared confident that this very large buyer would increase its purchases to help support valuations on any sign of weakness. This thematic has exerted downward pressure on credit spreads globally and has provided a tailwind for corporate bond valuations in all major regions over the past few months.

US Treasury yields edged higher during the month, perhaps reflecting an increase in supply as authorities look to finance massive virus-related fiscal support packages. This offset the narrowing in credit spreads and acted as a drag. As a result, the JACI Investment Grade Index declined -0.10% over the month.

Performance review

The First Sentier Asian Quality Bond Fund returned 0.20% for the month of August on a net-of-fees basis.

The positive return was largely attributed to strong performance in Singapore banks including DBS and UOB. Our short duration positioning in US interest rate also protected the portfolio from losses resulting from rising US treasury yields.

On a year-to-date basis, the strong positive return for the fund was largely due to the spectacular rally in US treasury. The continued recovery of credit spreads from the March lows also contributed to recent performance even though they are still wider than the levels at the start of the year.

On a relative basis, the fund has fully recovered from the underperformance during the March sell-off. Our exposures in CNY and SGD has also been adding value as these two currencies continued to strengthen against the US dollar. The yield on the Chinese quasi bonds we hold also present us with significant pickup over US treasuries.

- 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.

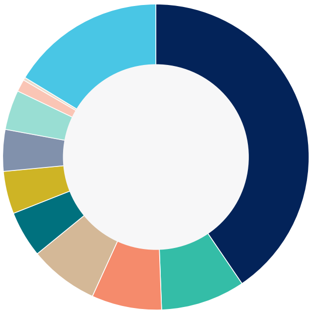
Cumulative performance in USD (%)[1]

	3 mths	YTD	1 yr	3 yrs	5 yrs	Since inception
Class I (USD - Acc)	3.9	4.9	4.9	15.0	26.3	90.0
Benchmark*	3.6	5.6	6.0	17.4	30.4	145.6

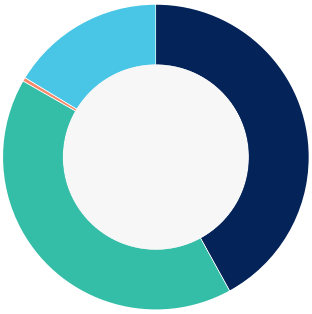
Calendar year performance in USD (%)[1]

	2019	2018	2017	2016	2015
Class I (USD - Acc)	10.9	- 1.3	5.6	3.4	0.9
Benchmark*	11.0	0.0	5.5	4.5	2.2

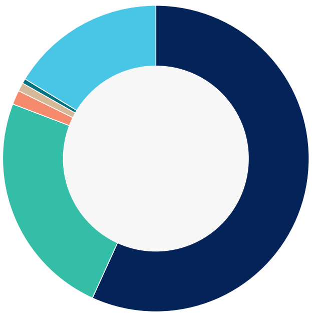
Asset allocation (%)[1]



Country
- China 40.6
- Singapore 8.9
- Indonesia 7.4
- Hong Kong 7.3
- India 4.9
- South Korea 4.5
- Thailand 4.4
- Malaysia 4.2
- Australia 1.3
- New Zealand 0.2
- Liquidity 16.3



Sector
- Corporates 42.0
- Govt Related 41.4
- Treasury 0.4
- Liquidity 16.3



Credit rating
- BBB 56.9
- A 24.0
- Not Rated 1.5
- AA 0.9
- BB 0.5
- AAA 0.0
- Liquidity 16.3

Top 10 holdings (%)[1]

Stock Name	%
People's Republic of China (Government)	4.2
China Overseas Land & Investment Ltd	3.8
China Huarong	3.7
Pertamina Persero PT	3.3
DBS Group Holdings Ltd	3.1
Bank of Communications Co Ltd	3.0
Sinochem Hong Kong (Group) Co Ltd	2.8
United Overseas Bank Ltd	2.6
PTT PCL	2.2
Perusahaan Listrik Negara	2.2

Portfolio positioning

The Fund participated in new issues from Malaysian telecom company Axiata Group, car maker Great Wall and conglomerate Yunda Holding, both from China. These purchases added further diversification to the portfolio.

On the sell side, we took profits on Indonesian quasi bonds Pertamina and PLN and India's Power Finance, all of which had been purchased during the market sell-off in March and April.

The Fund's credit spread duration was reduced to almost neutral during the month. This reflected a more cautious outlook following the strong rally since April. The momentum in credit markets remains strong, but we are cognizant that the COVID-19 pandemic continues to have a significant adverse impact on Asian economies.

Q3 2020 investment outlook

What started as a health crisis has now morphed into an economic crisis as COVID-19 continues to impair business activities, increase unemployment and erode consumer's confidence. The pandemic is also likely to have a far-reaching impact on society, even after restrictions are lifted. Hence it is plausible that financial markets could continue to react to the number of new cases and fatalities, the progress made on developing a vaccine, and concerns around a second wave of infections.

Prospects for an economic recovery in the months ahead remain unclear, particularly as there have been signs that economies that are reopening are facing heightened risks of another round of widespread infections. Lockdowns seem likely to be re-introduced in some areas, bringing unintended consequences including poverty, mental distress and a dysfunctional society. Central banks and governments have rolled out large monetary and fiscal stimulus packages to help soften the blow of virus-related closures and disruptions. The level of support has been unprecedented; authorities seem willing to do whatever it takes to prevent a complete collapse in economies.

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 JP Morgan Asia Credit Investment Grade Index.
1 Source: Lipper & First Sentier Investors, Nav-Nav (USD total return) as at 31 August 2020. 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.

Equity and credit markets have been quick to acknowledge the scale of these support packages. Some stock markets, for example, have recovered in a 'V' shape, rebounding close to pre-virus levels. It appears investors are willing to look through expectations of weaker corporate earnings towards a 'normalization' in economic conditions and profitability as virus-related restrictions are lifted. We acknowledge that economies will recover in due course and that the pandemic will eventually pass, but we are becoming increasingly uncomfortable with overall level of debt globally. It seems likely that some countries will be unable to service their debt repayment obligations in the future. If and when this occurs, it could trigger a new financial crisis that dwarfs anything we have seen before.

November's US Presidential election is another development that will increasingly affect sentiment in the months ahead. There could be some volatility in risk assets as candidates' campaigns gather steam and as their policies are announced. Speeches made by the two forerunners – Republican Donald Trump and Democrat Joe Biden – will be closely scrutinised. Markets could enter a 'risk off' phase if Biden maintains his current lead in national polls and looks likely to take control of the Senate and the White House. He has proposed more than U$3 trillion of new taxes and tighter regulations, which could act as a headwind for large parts of the economy. On the other hand, if Trump looks like being re-elected, risk assets could conceivably rally further as investors embrace his progressive economic policies. All of that said, market price action brought about by the US election could prove temporary. Back in 2016, markets perceived a Trump victory to be "unthinkable" prior to the election, but both equities and credit rallied strongly and US Treasury yields rose after Trump won; the opposite of what markets had anticipated. Ultimately, investors must focus on what can be realistically be achieved by the US economy without focusing too much on the promises of the two Presidential candidates.

All in all, the third quarter of 2020 starts with even more uncertainty than we saw back in April. Accordingly, given the strong recovery in Asian Investment Grade credit in the second quarter, we have become more cautious and are looking to preserve the gains that have already been made. Avoiding defaults and deteriorating issuers is likely to become even more important for investors in the months ahead, underlining the importance of careful issuer selection and ongoing monitoring. We are not anticipating a repeat of March's meltdown in credit markets, but that episode nonetheless reinforced the importance of maintaining exposure to high quality, liquid investments during periods of stress.

Source : Company data, First Sentier Investors, as of end of August 2020