UOB Asset Management

United Asian Bond Fund

October 2023

Why Invest?

Investment-grade (IG) focus: The United Asian Bond Fund - SGD is actively managed with a focus on Investment Grade (IG) bonds. In the current volatile market, a preference for IG bonds could potentially reduce the volatility and enhance the risk-return profile of the Fund.

Attractive dividend payout: For Class A SGD Dist (Hedged), the current distribution policy is 4.5 per cent per annum, paid out monthly, which may be suitable for investors who are seeking regular income[1].

Stay defensive: The Asian credit market in 2022 has been negatively affected by a cash crisis among Chinese property developers and volatile emerging market fund flows. We continue to maintain our defensive positioning with a preference for quality companies. The Fund is currently underweight in the China Property sector.

Lower interest rate risk: Relative to IG bonds in the US, the duration of Asian IG bonds tends to be shorter. This means lower sensitivity to rising interest rates.

Recession hedge: The investment grade focus and longer duration positioning will benefit from the falling interest rate in the event of a recession.

Investment Objective

The investment objective of the United Asian Bond Fund seeks to provide stable current income and capital appreciation by investing primarily in debt securities issued by Asian corporations, financial institutions, governments and their agencies (including money market instruments).

Fund Information

Fund Size
SGD 47.01 mil

Base Currency
SGD

Fund Manager
Goh Wee Liam

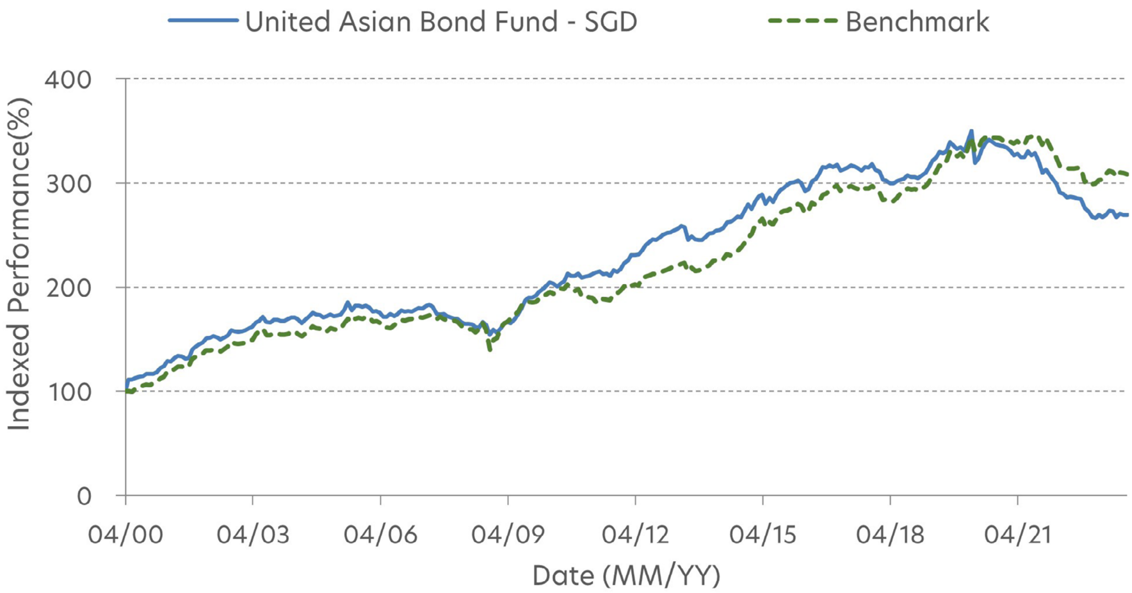
[1] Distributions (in SGD) are not guaranteed. Distributions may be made out of income, capital gains and/or capital. This relates to the disclosed distribution policy as set out in the Fund's prospectus.

One Month Portfolio Review

The United Asian Bond Fund – SGD (the "Fund") returned -0.12 per cent[2] in October 2023. Its benchmark, the JP Morgan Asia Credit Index (JACI) Investment Grade Total Return, returned -0.30 per cent[3] in the same month.

Historical Performance

Fund Performance Since Inception[4] in Base Currency



Past performance is not necessarily indicative of future performance.

Fund performance is calculated on a NAV to NAV basis.

Benchmark: Apr 00 – Jul 03: JP Morgan Emerging Markets Bond Index Global Constrained Asia; Aug 03 – Dec 06: JP Morgan Asia Bond Total Return Composite; Jan 07 –3 Apr 22: JP Morgan Asia Credit Index Total Return Composite: 4 Apr 22 – Present: JP Morgan Asia Credit Index Investment Grade Total Return

Source: Morningstar. Performance as at 31 October 2023, SGD basis, with dividends and distributions reinvested, if any.

[2] Source: Morningstar, Performance from 30 September 2023 to 31 October 2023 in SGD terms, on a Net Asset Value ("NAV") basis, with dividends and distributions reinvested (if any).
[3] Source: Morningstar, Performance from 30 September 2023 to 31 October 2023 in SGD terms.
[4] The United Asian Bond Fund- SGD (ISIN Code: SG9999001416) was incepted on 5 April 2000.

All statistics quoted in the write-up are sourced from Bloomberg as of 31 October 2023 unless otherwise stated.

Annualised and Cumulative Performance

Performance (Class SGD)

	Cumulative Performance (%)	Annualised Performance (%)			
	1 Month	1 Year	3 Years	5 Years	Since Inception
Fund NAV to NAV	-0.12	-2.22	-7.13	-2.53	4.29
Fund (Charges applied^)	-5.12	-7.10	-8.71	-3.52	4.07
Benchmark	-0.30	2.44	-3.49	0.95	4.89

Source: Morningstar. Performance as at 31 October 2023, SGD basis, with dividends and distributions reinvested, if any. Performance figures for 1 month till 1 year show the per cent change, while performance figures above 1 year show the average annual compounded returns. Benchmark: Apr 00 – Jul 03: JP Morgan Emerging Markets Bond Index Global Constrained Asia; Aug 03 – Dec 06: JP Morgan Asia Bond Total Return Composite; Jan 07 –3 Apr 22: JP Morgan Asia Credit Index Total Return Composite: 4 Apr 22 – Present: JP Morgan Asia Credit Index Investment Grade Total Return. Past performance is not necessarily indicative of future performance. ^Includes the effect of the current subscription fee that is charged, which an investor might or might not pay.

The Fund returned -0.12 per cent in October 2023 versus the benchmark of -0.30 per cent. The outperformance came from underweighting duration relative to the benchmark (+0.96 per cent). The key contributors to returns were the holding in Indonesia and Philippines Sovereign bonds (+0.22 per cent).

Market Review

US consumer confidence slipped to a five-month low in October 2023 even as employment costs unexpectedly accelerated in the third quarter of 2023 (the Employment Cost Index rose by 1.1 per cent in the third quarter, faster than the 1 per cent gain registered in the second quarter). The resilient US data and the language to relax the Yield Curve Control from the Bank of Japan (BOJ) (calling its 1 per cent ceiling on 10-year Japanese government yields a reference point rather than a hard cap) saw US Treasury (UST) yields surge higher and steeper. The 2-year and 10-year UST yields bear steepened (long-term interest rates increasing at a faster rate than short-term rates) to 5.08 per cent (+4 basis points (bps)) and 4.93 per cent (+36bps) respectively. Federal Open Market Committee (FOMC) meeting on 1 November 2023 is widely tipped to stay on hold till the end of 2023 while advocating patience and maintaining policy optionality. Commodity prices were mixed (West Texas Intermediate (WTI) oil price -10.8 per cent, copper price -2.4 per cent, iron ore price +3.7 per cent) despite rising tension in the Middle East. Both Gold price (+7.3 per cent) and BitCoin price (+28.8 per cent) were higher in October 2023.

JP Morgan Asia Credit Index (JACI) Investment Grade spreads tightened to 167bps (-3bps) as sentiment improved on news of policy easing plans in China to raise the government's budget deficit for 2023 to 3.8 per cent of Gross Domestic Product (GDP) from 3 per cent set in March 2023. The credit rating of three major investment-grade developers in China (that were long perceived as stronger issuers), China Vanke Company Limited (China Vanke), and Poly Developments and Holdings Group Company Limited were downgraded by one notch. The bonds issued by China Vanke and matures in 2024 and 2025 fell 10 points (pts) to 20pts in October 2023. This fall is a symbolic event for China's property sector as China Vanke is viewed as one of the strongest and safest property developers in China, due to the solid credit fundamentals and shareholders background which were partly owned by Government related entities.

The primary issuance of Asia ex-Japan G3 currency bonds (bonds issued denominated in US Dollars, Japanese Yen, or Euros) were US$8.8 billion in October 2023 (September 2023: US$14.4 billion, October 2022: US$6.9 billion). Year-to-date supply was US$119 billion (-22 per cent year-on-year (y/y)). South Korean issuers were prominent with major deals from Korea Development Bank (KDB, US$2 billion), Hyundai Capital America (HYNMTR, US$1.5 billion), Industrial and Commercial Bank of China Limited (ICBCAS, US$1.5 billion), KEB Hana Bank (KEBHNB, US$500 million), Shinhan Bank Co. Limited (SHNHAN, US$500 million), Medco Platinum Road Pte Limited (MEDCIJ, US$500 million), Fujian Zhanglong Group Co. Limited (ZHANLO, US$500 million) and Korea Investment & Securities Co. Limited (DFHOLD, US$400 million).

Outlook and Positioning

Market volatilities are expected to ensue as investors grapple with the high-for-longer US Federal Reserve (Fed) narrative, US funding needs, and geopolitical tensions, including the recent Israel-Hamas conflict and China's bumpy recovery. As these may create a potentially wide range of outcomes, we continue to stay up in credit quality, maintaining our preference for defensive sectors with resilient balance sheets, credits with leading market shares and of systemic importance. The Fund continues to underweight the Chinese Property sector. While China's Government intends to revive the sectors, the fundamentals of China's high-yield property market have not improved, and offshore bonds of the distressed names would be the last to benefit. The weak sentiment is likely to negatively impact the prices for investment-grade China property bonds as well.

The Fund will:

1. Assess the relative value of bonds in the portfolio;
2. Focus on companies that have good access to capital markets and have defensive business model;
3. Underweight duration relative to the benchmark for the time being given volatility in rates
4. Focus on credit spread compression by selecting corporates with improving fundamentals that is not captured in its current pricing.

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