UOB Asset Management

# United SGD Fund

## January 2023

### Why Invest?

- **Inflation hedge**: The United SGD Fund has generated an annualised return of 2.85 percent since its inception in 1998, providing a good hedge against inflation. While periods of interest rate rises may cause mark-to-market risk for bond funds, this effect will be evened out when the bonds mature.

- **Attractive yields:** Given the recent sharp rise in interest rates, short-duration bonds now provide an attractive level of yields. This Fund offers a weighted average yield to maturity of 5.55 percent as of January 2023.

- **Laddered investment strategy:** By doing so, this Fund is able to ride the momentum of rising interest rates while keeping duration short. A laddered strategy means capital from the Fund's matured bonds is continuously re-invested into higher-yielding, shorter-dated bonds. This Fund has an effective duration of 1.15 years as of January 2023.

- **Above-deposit returns:** The recent rise in interest rates provide a more attractive entry point due to the yield pick-up of Singapore government bonds over Singapore dollar deposits, without the corresponding interest rate risk.

- **Weathering market downturns:** The Fund has exposure to short-duration high-quality credits. In the midst of market instability, the Fund represents a good defensive asset by offering downside protection while still being able to generate a decent level of income.

### Investment Objectives

*The investment objective of the United SGD Fund is to invest substantially all its assets in money market and short-term interest-bearing debt instruments and bank deposits with the objective of achieving a yield enhancement over Singapore dollar deposits*

### Fund Information

**Morningstar Rating**

★★★★★

**Fund Size**

*SGD 1733.08 mil*

**Base Currency**

*SGD*

**Fund Manager**

*Joyce Tan*

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## One Month Portfolio Review

The United SGD Fund – A (Acc) SGD (the "Fund") returned +0.77 percent[1] in January 2023 in Singapore dollar (SGD) terms against the benchmark which returned +0.22 percent[2].

## Historical Performance

**Fund Performance Since Inception[3] in Base Currency**

United SGD Fund - A (Acc) SGD
Benchmark
220
180
140
100
06/98
06/01
06/04
06/07
06/10
06/13
06/16
06/19
06/22
Date

*Past performance is not necessarily indicative of future performance.*

Fund performance is calculated on a NAV to NAV basis.

Benchmark: Since inception – 2 May 2021: 6-month SIBID rate; 3 May 2021 – 7 Apr 2022: 12-month Bank Deposit Rate; 8 Apr 2022 – Present: 6-month Compounded Singapore Overnight Rate Average.

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

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[1] *Source: Morningstar, Performance from 31 December 2022 to 31 January 2023 in SGD terms, on a Net Asset Value ("NAV") basis, with dividends and distributions reinvested (if any).*
[2] *Source: Morningstar, Performance from 31 December 2022 to 31 January 2023 in SGD terms.*
[3] *The United SGD Fund – A (Acc) SGD (ISIN Code: SG9999001382) was incepted on 19 June 1998.*

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

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## Annualised and Cumulative Returns

**Performance (Class A (Acc) SGD)**

| | Cumulative Performance (%) | Annualised Performance (%) | | | |
|---|---|---|---|---|---|
| | 1 month | 1 Year | 3 Years | 5 Years | Since Inception |
| **Fund NAV to NAV** | 0.77 | -1.11 | 0.43 | 1.16 | 2.85 |
| **Fund (Charges applied^)** | -1.24 | -3.09 | -0.25 | 0.75 | 2.76 |
| **Benchmark** | 0.22 | 1.09 | 0.72 | 1.15 | 1.23 |

*Source: Morningstar. Performance as at 31 January 2023, SGD basis, with dividends and distributions reinvested, if any. Performance figures for 1 month till 1 year show the percent change, while performance figures above 1 year show the average annual compounded returns. Benchmark: Since inception – 2 May 2021: 6-month SIBID rate; 3 May 2021 – 7 Apr 2022: 12M Bank Deposit Rate; 8 Apr 2022 – Present: 6-month Compounded Singapore Overnight Rate Average. 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.*

## Market Review

Most government bonds rallied in January 2023 as global inflation eased and US Federal Reserve (Fed) speak foreshadowed a slower pace of rate hikes in 2023. Market sentiment was also supported by satisfactory US data and corporate earnings raised hopes for a "soft landing". The 2-year US Treasury (UST) yield and the 10-year UST yield dropped -23 basis points (bps) and -37bps to 4.20 percent and 3.51 percent respectively.

Clearer signs of a softening in central banks' rhetoric might be constructive for risk in the near term. However, dovish hints are materializing in the context that demand growth is softening, which might dampen inflation and imply that policymakers are more inclined to take stock of the cumulative effects of earlier monetary policy tightening and become more data-dependent in future policy decisions. Nevertheless, China's reopening theme was a sufficient reason to be slightly more upbeat. The International Monetary Fund (IMF) upgraded its 2023 global growth forecast by 0.2 percent points to 2.9 percent, reinforcing its view that a global recession is not on the cards.

The new year (2023) and strong secondary performance saw the Asia ex-Japan primary market return to life, with US$26.2 billion of G3 currency bonds (bonds issued denominated in US Dollars, Japanese Yen, or Euros) priced. That was well ahead of December 2022 figure (US$2.6 billion priced), but still lower than January 2022 (US$31.9 billion priced). January's supply was heavily skewed towards sovereign & quasi-sovereign issuers. JP Morgan Asia Credit Index (JACI) Investment Grade Spread widened marginally by 3bps to 183bps. Elsewhere, oil prices edged lower (West Texas Intermediate (WTI) oil & Brent oil -1.7 percent), but metal prices rallied as China's reopening progressed (copper price +10.9 percent, and iron ore price +8.5 percent).

## Outlook and Positioning

A tussle of wills between the market hopes for the Fed to start to cut interest rates later in 2023 versus the Fed's reiteration that rate cuts are premature since the inflation battle is not over. We aim to maintain our preference for defensive positioning with a preference for quality credits with leading market shares and of systemic importance, in defensive sectors.

The Fund will continue to:

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 models;
3. Invest in bonds maturing/callable/puttable on rolling three years;
4. Maintain 3-5 percent cash for liquidity; and
5. Hedge foreign currency risk to Singapore Dollar.

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