United Smart Sustainable Singapore Bond Fund

February 2023

Why Invest?

- **Benefits from Singapore's sustainability journey**: This is the first-ever Singapore-focused Environmental, Social, and Governance (ESG) Fixed Income Fund. The Fund allows investors to gather stable income by investing in bonds issued by Singapore (and Asian) companies that have strong forward-looking, sustainable mandates.

- **Asia-centric and Singapore-focused**: The Fund invests at least 65 percent in Singapore's fixed income and a maximum of 35 percent in Asia. This allows the Fund to benefit from the strength of the SGD and the stability of Singapore's capital markets.

- **Thematic Focus**: The Fund supports three core sustainable investing themes identified using the Singapore Green Plan 2030, i.e. 1) green, clean, and smart Singapore, 2) preparing for climate change, and 3) sustainable production.

- **Consistent Payout**: The Fund (Distribution Class) offers a monthly dividend income[1] as well as the potential for capital upside. As of February 2023, the annualized yield is at 1.50 percent.

Investment Objectives

The investment objective of the United Smart Sustainable Singapore Bond Fund is seeking to provide stable income and capital appreciation over the medium to long term by investing predominantly in fixed income instruments focusing on Singapore. Investments will be selected following the Fund's investment focus and approach, which includes the consideration of Sustainability and Environmental, Social and Governance (ESG) factors.

Fund Information

Fund Size

SGD 52.80 mil

Base Currency

SGD

Fund Manager

Koh Hwee Joo

[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.*

UOB Asset Management

One Month Portfolio Review

The United Smart Sustainable Singapore Bond Fund A SGD Acc (Hedged) (the "Fund") returned +0.00[2] percent in February 2023. The benchmark[3] returned +0.30[4] percent in SGD terms in the same month.

Historical Performance

Fund Performance Since Inception[5] in Base Currency

United Smart Sustainable Singapore Bond Fund- A SGDH Acc
Benchmark
110
100
90
80
10/21
12/21
02/22
04/22
06/22
08/22
10/22
12/22
02/23
Date

Past performance is not necessarily indicative of future performance.

Fund performance is calculated on a NAV to NAV basis.

Benchmark: Since inception -7 April 2022: 12-month Singapore dollar Fixed Deposit + 1 percent; 8 April 2022 - Present: 6-Month Compounded Singapore Overnight Rate Average (SORA) + 1 percent

Source: Morningstar. Performance as at 28 February 2023, SGD basis, with dividends and distributions reinvested, if any.

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[2] *Source: Morningstar, Performance from 31 January 2023 to 28 February 2023 in SGD terms, on a NAV (Net Asset Value) basis, with dividends and distributions reinvested (if any).*
[3] *Benchmark: Since inception -7 April 2022: 12-month Singapore dollar Fixed Deposit + 1 percent; 8 April 2022 - Present: 6-Month Compounded Singapore Overnight Rate Average (SORA) + 1 percent*
[4] *Source: Morningstar, Performance from 31 January 2023 to 28 February 2023 in SGD terms.*
[5] *The United Smart Sustainable Singapore Bond Fund Class A SGD Acc (Hedged) (ISIN Code: SGXZ18977330) was incepted on 26 October 2021.*

All statistics quoted in the write-up are sourced from Bloomberg as of 28 February 2023 unless otherwise stated.

UOB Asset Management

Annualised and Cumulative Returns

Performance (Class A SGD Acc (Hedged))

	Cumulative Performance (%)	Annualised Performance (%)			
	1 month	1 Year	3 Years	5 Years	Since Inception
Fund NAV to NAV	0.00	-2.21	-	-	-2.72
Fund (Charges applied^)	-2.00	-4.17	-	-	-4.17
Benchmark	0.30	2.29	-	-	2.02

Source: Morningstar. Performance as at 28 February 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. Since inception performance under 1 year is not annualized. Benchmark: Since inception -7 April 2022: 12-month Singapore dollar Fixed Deposit + 1 percent; 8 April 2022 - Present: 6-Month Compounded Singapore Overnight Rate Average (SORA) + 1 percent. 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.

Fund performance in February 2023 managed to stay steady due to good credit selection offsetting the drastic sharp rise in underlying interest rate. Our anchored positioning in quality Singapore bonds contributed to the overall portfolio. Despite the negative sentiment in Indian names triggered by the Adani complex saga, our superior selection of quality Indian names had seen a much better performance with some investors even chasing these quality names. Our strategy remains to position in defensive credits and heavier exposure in Singapore bonds continued to anchor our Fund with resiliency. Our broad short-duration strategy also minimized the negative impact of the recent drastic sharp rise in interest rates. That said, tactical positioning in the 10-year US Treasury (UST) had brought some marked-to-market losses to overall performance.

Market Review

Investors' optimism in January 2023 did not last through into February 2023. Even after a 25 basis points (bps) rate hike by US Federal Reserve (Fed) in early February 2023, the concerns about longer and higher rates remained heightened. Market risk sentiment was dampened after several US economic data were much stronger than expected. Robust US employment figures for January 2023 had also led traders to start pricing in the higher chances of a 50bps rate hike in the March 2023 Federal Open Market Committee (FOMC) meeting, and Federal funds futures are suggesting rates to peak at a higher level than the previous 5.25 percent. Overall, the 10-year UST yield ended February 2023 41bps higher at 3.93 percent while the 5-year UST yield also rose significantly by 56bps to 4.18 percent.

On the Singapore front, economic data remained weak. Singapore's final Gross Domestic Product (GDP) for the fourth quarter of 2022 only came in at 2.10 percent year on year (y/y), slightly below advance estimates of 2.20 percent y/y and consensus of 2.30 percent y/y. For the whole year 2022, GDP grew 3.60 percent y/y versus an initial 3.80 percent y/y estimate. Despite the slower growth in the fourth quarter of 2022, the authorities held on its forecast for 2023's growth at 0.5 percent - 2.5 percent, supported by the service sector. Specifically, Singapore's non-oil domestic exports (NODX) continued to fall for the fourth straight month, at 25.00 percent (y/y) in January 2023 and worse than the forecast of a 21.90 percent drop after December 2022's drop of 20.60 percent. Inflation levels were higher in January 2023, pushed up by the Chinese New Year spending and the higher Goods and Service Tax (GST). The headline Consumer Price Index (CPI) in January 2023 edged higher to 6.60 percent y/y from December's (2022) 6.50 percent y/y on the back of higher accommodation inflation. However, the core inflation came in at 5.50 percent y/y in January 2023, lower than the 5.60 percent y/y consensus. Official projections for 2023 remain unchanged at 5.50 to 6.50 percent for headline inflation while core inflation is at 3.50 percent to 4.50 percent, after considering the increase in GST from 7 percent to 8 percent. Overall, Singapore government bonds had outperformed its US treasury peer with a 5-year tenor bond yield rose by 52bps to 3.37 percent.

On the Asia credit market, risk appetite was boosted by optimism surrounding China reopening. However, any tightening in credit spreads was more than offset by the substantial rise in underlying UST yield. In addition, during February 2023, Indian names were somewhat dampened by the Adani complex saga triggered by the short seller report while profit warnings from some Chinese and Hong Kong companies had also undermined any aggressive investors' interest. The China property space saw some profit-taking across the board with the mixed news flow. China's Dalian Wanda Group surprisingly priced the second dollar-bond new issue in 2023 and was quickly oversubscribed, with other property developers reported to be in the bond issuance pipeline. Meanwhile, Chinese property developer Country Garden Holdings Co. is planning to buy residential land in local government auctions for the first time in more than a year, and some defaulted developers (e.g. Evergrande Group) are in talks to be engaging in potential debt restructuring either onshore or offshore. In February 2023, new issuances slowed as issuers took a pause in view of sharply higher rates and volatility. This again provided support to the market.

Primary issuance in Singapore Dollar (SGD) space picked up pace in February 2023 after a quiet January 2023. Foreign banks continued to be active, with BNP Paribas issuing S$600 million of Basel III Additional Tier 1 (AT1) Perpetual Non-call Five (NC5) at a 5.9 percent coupon while Credit Agricole did S$500 million of Basel III Tier 2 Ten Non-Call Five (10NC5) at 4.85 percent coupon. Interestingly, some large private placement deals were also done, like S$500 million Keppel Offshore & Marine floating rate notes at 6-Month the Singapore Overnight Rate Average (SORA) plus 400 bps and Malaysia Cagamas's S$200 million 1-year at 4.47 percent. There was also a S$3.2 billion reopening of the 2-year Singapore Government Securities (SGS) June-2025 issue which was cut-off at 3.66 percent, or 20 bps higher versus pre-auction which caused the secondary SGS to reprice wider as SGS was trading rich relatively to swaps at the front end.

Overall, the overall Asian credit spread had narrowed but not enough to offset the much higher underlying UST yield. Investment grade credit had narrowed much more than non-investment grade peers. In US Dollar terms, JP Morgan Environmental, Social, and Governance (ESG) Asia Credit Index returned -1.35 percent for February 2023, largely driven by both the -1.45 percent loss by the non-investment grade segment and the -1.33 percent loss by the investment grade segment amid a substantial rise in the US interest rate.

Outlook and Positioning

The inflation trend remains a key focus for investors as it seems to dictate the monetary policy stance of the global central bank and in turn, the interest rate trajectory. Recent slightly stronger-than-expected employment and economic data probably have led many to position for the interest rate to peak at an even higher level. That said, the global central bank may be treading on its toes, trying to strike a balance as the economy may still be trying to digest the unprecedented rate hikes in the past year. With more hikes, there will be more pain if the economy turns out to be more vulnerable than expected. To reiterate, with central banks' mandate of inflation targeting, chances of policy missteps remain and extra caution is crucial to avoid pushing the global economy into an ugly recession.

Looking at credit spread valuation, the Asia credit investment grade spread outperformed its developed market peers in February 2023. This was led by the favourable market technical and optimism about China's growth. With limited new bond issuance, many were seen chasing the Asian papers beyond the pre-pandemic spread level. Asian credit spread was currently narrower than the 5-year historical average, making it less attractive now. Nonetheless, Asian credit remains very attractive relative to its historical level on an absolute yield basis, which makes it the preferred asset class of many investors.

Moving ahead, the Fund remains well-positioned with a preference for defensive carry names (names that provide attractive yield without compromising credit and sustainability quality). As for Chinese real estate developers, we prefer to stay out of this sector for now but will be closely monitoring the situation, especially after the recent move which was perceived as China's intention to ensure the survival of its good quality investment grade leading developers at all cost. While the Chinese official has the intention to save this sector, the fundamentals of the China High Yield Property market have not improved, and offshore bonds of the distressed names would be the last to benefit if anything. Within the non-investment grade segment, we prefer to stay cautious and keep light exposure in view of unattractive valuation. On duration management-wise, despite our opinion that we are not too far from the peaks in interest rates, the need to stay optimistically cautious is warranted as inflationary pressures may prove to be much more stubborn than expected. Staying nimble in duration management will be crucial during this transition. All said, as we enter into a new normal world while living with COVID-19, credit selection and portfolio diversification are critical amid rising idiosyncratic risks.

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