UOB Asset Management

Fund Updates

United Sustainable Credit Income Fund

Why now?

In the space of a few short weeks we have seen the market shift away from historical tights and a late-cycle search for yield in credit, to a situation in which spreads are at recessionary wides. We now face the likelihood of a severe global recession. It seems that the world has a common enemy, and that it is a matter of joining forces to beat the virus and avoid deep economic downturn. We expect authorities to provide fiscal and monetary support for the private sector, and have already seen large-scale intervention in this regard. Governments and banks will need to work side by side to contain the fallout.

The short term will be economically challenging, with market pain and many market participants scrambling for cash and withdrawals. But we know that markets will try to look forward, through the stimulus and beyond stabilization in Covid-19 infections. Market participants had a fixed set of scenarios for recovery - V, U, W or L-shaped.

What matters most is, there will be a recovery.

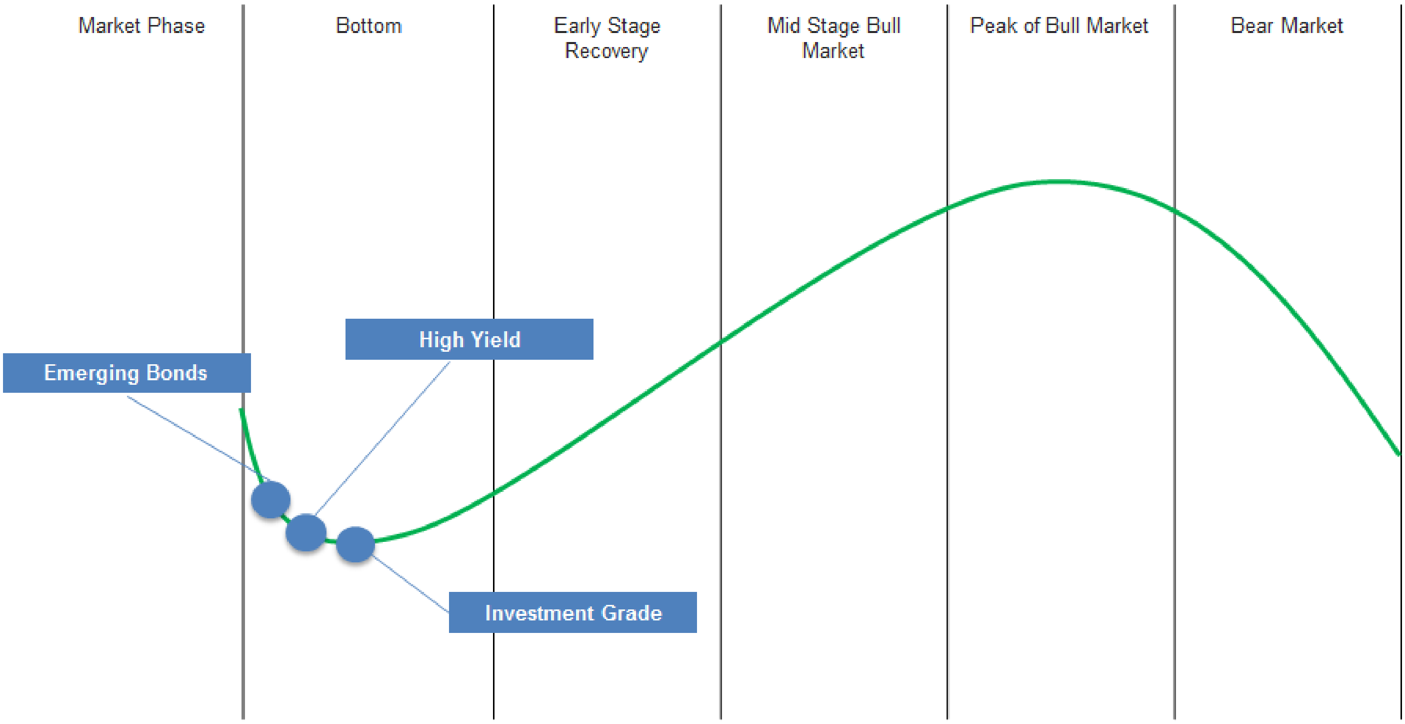
Compelling argument for bull market…

We are now at credit spread levels seen only for the third time since the 1930s: in the early 1980s, 2008 and now 2020.

Barclays OAS	EUR IG Corp.	EUR Bank Senior	EUR Bank T2	EUR Bank Coco	Corp Hybrids	US IG Corp	US HY ex fin	EUR HY ex fin	USD EM Corp
25-Mar-2020	245 bps	263 bps	342 bps	742 bps	375 bps	324 bps	1041 bps	845 bps	770 bps
31-Dec-2019	93 bps	80 bps	129 bps	301 bps	183 bps	93 bps	347 bps	285 bps	292 bps
Current/median OAS	1.93	2.53	1.77	1.75	1.29	2.35	2.21	2.07	2.23
YTD OAS Change	164%	228%	166%	146%	105%	248%	200%	197%	164%
Median OAS	127bps	104 bps	193 bps	424 bps	290 bps	138 bps	471 bps	407 bps	345 bps
Statistics since	2005	2005	2005	2014	2005	2005	2005	2005	2005

Source: Barclays, Robeco, 25 March 2020 | OAS: Option-adjusted spread compares the yield or return of a fixed income to the risk-free rate of return on the investment. | EUR: Euro-denominated, IG Corp: Investment Grade Corporate Bond, T2: Tier 2 capital, secondary component of bank capital, in addition to Tier 1 capital, Coco: Contingent convertibles, HY ex fin: High yield excluding financials, EM: Emerging Markets | bps: basis points | YTD: Year-to-Date

… end of one cycle, but sowing the seeds for a new one



Source: Robeco, March 2020 | *The illustration is for information purposes only and not intended to be an investment advice in any way. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future.*

We are of the view that the best allocation opportunities now are to reduce the exposure to emerging and high yield markets and to implement a long position in investment grade. This is the big sell-off that we have been waiting for – for years. The decision to underweight high yield took into consideration that downgrades are coming, and the expectation of many fallen angels, particularly in lodging, restaurants, retail, gaming and commodity related sectors.

In summary

The strategic entry points are clear. Credit spreads usually do not hang around at recessionary wides for long. At the current spread, we have already seen unusually attractive long-term value. Credit research has become more important than ever. Defaults are never zero even in the best of times, let alone in deep recessions. Given that, it is critical to avoid the losers. Great opportunities abound, but the portfolio is picking the names carefully and we are ready for a volatile near-term ride.

Why United Sustainable Credit Income Fund (the "Fund")?

While we want to ensure sustainable investing for a better tomorrow, it is important that our investment solution provides a sustainable income, and allows us to transit to a sustainable tomorrow.

1. Sustainable income

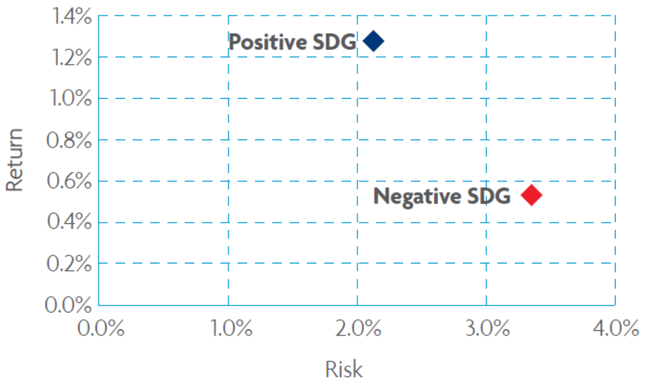
The Fund provides sustainable income through its unconstrained but disciplined approach. Thus optimising yield, credit and rate exposure throughout the cycle is crucial to ensure sustainable income for the portfolio. The Fund relies on high-quality fundamental credit research that encompasses a top-down market view to assess credit attractiveness and opportunities that drive credit market returns, and skillful issuer selection to create a broadly diversified portfolio.

2. Sustainable tomorrow

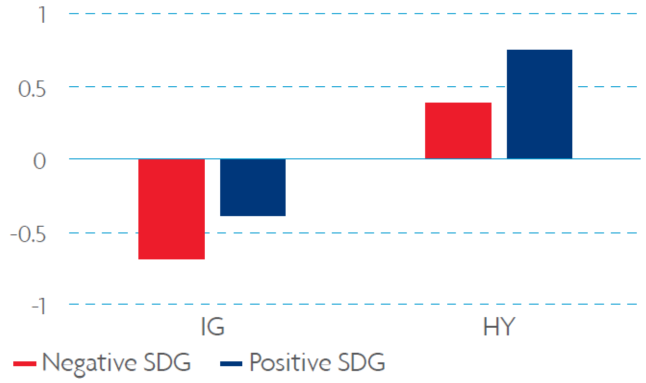
The Fund makes a positive contribution to the United Nations' 17 Sustainable Development Goals (SDGs) by applying a proprietary measurement framework to quantify companies' contributions to the 17 SDGs and will not invest in bonds of corporates which detract from these goals or have a negative SDG rating. This deep industry and company knowledge is supported by both Robeco's credit team and sustainability research specialists with a focus on financially material ESG issues.

The universe screening for positive SDG exposure enhances the risk/return by limiting downside risk and avoiding defaults. First, downside risk can be managed. Robeco's research has shown that companies in sectors that contribute positively to the SDGs have over the last five years delivered higher credit returns and lower volatility than companies in sectors that have a negative impact on the SDGs. Second, this is also reflected in Robeco's credit ratings. Companies in positive SDG sectors have had less downgrades and more upgrades compared to companies in negative SDG sectors.

Risk-return plot Investment-Grade credits 5-year



Rating changes (in notches)



Source: Barclays, Robeco, 31 March 2019 on a 5-year history. Calculations based on global investment grade and high yield universe covered by RobecoSAM.

3. Fund Positioning

The Fund's yield has substantially increased from below 4% (USD) at the start of 2019 to 6.7% (USD), 6.0% (SGD) as at 31 March 2020 with an interest rate duration of 4.1 years. The Fund holds a total of 134 issuers, with the portfolio credit rating remaining at investment grade of BBB-/BB+. The currency exposure of the Fund is hedged back to the US dollar.

United Sustainable Credit Income Fund Details

Fund Objective	: The Fund seeks to achieve income with the prospect of capital growth from a multi sector portfolio of fixed income instruments.
Inception Date	: 13 April 2020
Distribution Frequency[1]	: Monthly
Benchmark	: Nil
Investment Manager	: Robeco
ISIN Code	: Class SGD Acc (Hedged): SGXZ29784493 Class SGD Dist (Hedged): SGXZ93604486 Class USD Acc: SGXZ44708527 Class USD Dist: SGXZ81047326
Bloomberg Code	: Class SGD Acc (Hedged): UNSIASH SP Class SGD Dist (Hedged): UNIASHI SP Class USD Acc: UNSCIAU SP Class USD Dist: UNSIAUI SP
Management Fee	: 1.15% p.a.
Subscription Mode	: Cash and SRS (for Class SGD)

[1]The distributions are based on the NAV per unit of the relevant Distribution Class as at the last business day of every month. Investors should note that the intention of the Managers to make the distribution is not guaranteed. The Managers reserve the right to vary the frequency and/or amount of distributions. If a dividend distribution is made, it should not be taken to imply that further distributions will be made. Distribution may be made out of the income, capital gains or capital of the relevant Distribution Class. Investors should also note that the paying of distributions may have the effect of lowering the NAV of the Fund. Please refer to the prospectus for more information on distributions by the Fund.

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