First Sentier Asian Quality Bond Fund
Monthly review and outlook

Monthly review and outlook | November 2020

Market review

Encouraging news on the vaccine front and the very strong performance of global equity markets acted as a tailwind for corporate bonds worldwide. Credit spreads narrowed sharply, both in Asia and elsewhere.

Several drugs claimed 90%+ success rates against Covid-19 during the month. This prompted investors to suggest social distancing restrictions could be removed in 2021 and increased hopes that economic conditions will start to normalize in the months ahead. In turn, this could be supportive of the corporate earnings outlook and helped brighten sentiment towards risk assets. It is now up to regulators to approve/reject these treatments, before production can ramp up and for distribution to begin.

The US election had dominated attention earlier in the month. Donald Trump's reluctance to concede defeat diverted attention from possible policy changes under the new Biden administration, but this will likely become an increasing focus for investors in the months ahead. There had been suggestions that US Treasury yields might soar in the case of a Biden victory in the presidential election. But in the event, longer-dated yields fell slightly and shorter-dated yields were unchanged. The size of the latest US stimulus program seems likely to be smaller than initially expected, suggesting Treasury issuance might not rise as quickly as some had projected. This appeared to prevent yields from rising too significantly and helped support overall returns from credit markets. Combined with narrowing spreads, lower Treasury yields helped the JACI Investment Grade Index return 0.95% over the month.

A directive from outgoing US President Trump dampened sentiment towards selected Chinese issuers in mid-month. Trump added various Chinese companies with alleged links to the Chinese military to a blacklist, meaning that from late 2021 they will no longer be able to sell securities to US investors. While affected names have witnessed some selling from US and European investors as evidenced by the 80 bps widening of ChemChina's spread, we believe Chinese investors should be able to comfortably absorb any further selling. In fact any sharp sell-off in valuations might therefore present investment opportunities for our portfolios.

Performance review

The First Sentier Asian Quality Bond Fund returned 1.05% for the month of November on a net-of-fees basis. The positive return was largely attributed to spread tightening amid positive development on the Covid-19 vaccine front. Year-to-date return for the fund is now 5.5%.

On a relative basis, the fund outperformed the index in November. This was largely due to our overweight positioning in oil, resorts and property related names all of which enjoyed a strong bounce amid the vaccine news.

- 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.

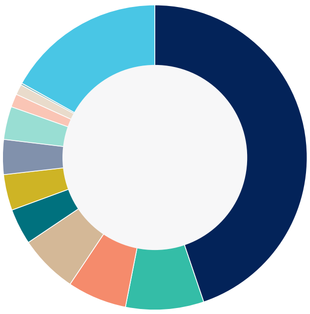
Cumulative performance in USD (%)[1]

	3 mths	YTD	1 yr	3 yrs	5 yrs	Since inception
Class I (USD - Acc)	0.6	5.5	5.9	15.6	25.4	91.2
Benchmark*	0.9	6.6	6.8	18.4	30.0	147.8

Calendar year performance in USD (%)[1]

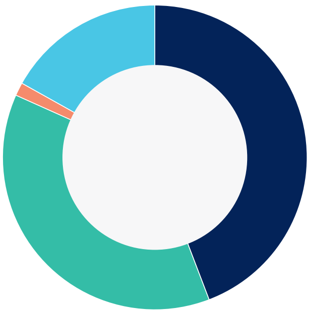
	2019	2018	2017	2016	2015
Class I (USD - Acc)	10.9	-1.3	5.6	3.4	0.9
Benchmark*	11.0	0.0	5.5	4.5	2.2

Asset allocation (%)[1]



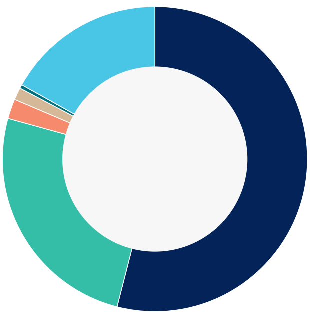
Country

- China 44.3
- Singapore 7.9
- Indonesia 6.1
- Hong Kong 6.0
- India 3.7
- South Korea 3.7
- Malaysia 3.6
- Thailand 3.6
- Taiwan 1.3
- Australia 1.1
- Other 0.1
- Liquidity 18.5



Sector

- Corporates 42.4
- Govt Related 37.8
- Treasury 1.3
- Liquidity 18.5



Credit rating

- BBB 54.2
- A 23.7
- AA 2.0
- Not Rated 1.3
- BB 0.4
- AAA 0.0
- Liquidity 18.5

Top 10 holdings (%)[1]

Stock Name	%
People's Republic of China (Government)	4.4
China National Chemical Corp	3.7
China Huarong	2.9
Pertamina Persero PT	2.8
China Overseas Land & Investment Ltd	2.6
DBS Group Holdings Ltd	2.6
Country Garden Holdings Co Ltd	2.5
Bank of Communications Co Ltd	2.4
United Overseas Bank Ltd	2.1
ENN Group International Investment Limited	2.1

Fund positioning

With an eye on capital preservation, the Fund continued to target underweight positioning in credit. That said, we took advantage of the sell-off in ChemChina following Trump's executive order by increasing exposure to the name.

We had earlier hedged all of the Fund's Chinese yuan and Singapore dollar exposures prior to the US election. We will likely wait for a retracement in the currencies before removing those hedges. In our view, appreciation in Asian currencies has been too strong recently, even though we anticipate structural weakness in the US dollar in the long term due to America's sharp increase in fiscal spending.

A short duration position was maintained in the US Treasury market. We continue to believe that Covid-19 vaccines, fiscal stimulus packages and an anticipated economic recovery will eventually see curves steepen. This position acted as a modest drag on performance, as Treasury yields drifted lower over the month.

Q4 2020 investment outlook

Following our last quarterly update, we continued to be mired in a Covid world, alternating between a relaxation of lockdowns and a spike in new cases. Credit markets remained strong, however, as policymakers' commitment to keeping cash rates low increased the appeal of higher yielding alternatives. In fact, during September in the US, Federal Reserve officials announced interest rates will not be increased until 2023 at the earliest. They are also committed to continue supporting the economy, lowering unemployment and pushing up inflation, even allowing it to overshoot their 2% target.

When European Central Bank President Mario Draghi said in 2012 he will do "whatever it takes" to save the euro during the Eurozone sovereign crisis, it was deemed to be bold and decisive. The same cannot be said now of what the Federal Reserve has been doing since the onset of Covid-19. The Global

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 30 November 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.

Financial Crisis in 2009 and the Eurozone Crisis in 2012 were both systemic in nature, warranting swift action by the central banks. The coronavirus pandemic, however, is a health crisis which cannot be resolved with zero interest rates or quantitative easing programs. Ultimately, accommodative monetary policy settings will do little for the real economy if the virus continues to prevent people from going back to work and stops people from leading normal lives.

To reiterate what we have cautioned previously, these reckless acts by central banks may actually do more harm than good in the longer term. Their actions will inevitably further inflate asset price bubbles they have created in the past decade; when these bubbles burst, there could be catastrophic consequences. To put some numbers into perspective, the US Federal Reserve's balance sheet is expected to hit USD10 trillion by the end of 2020. Before the financial crisis in 2008-9, the size was well below USD2 trillion. Global quantitative easing programs are expected to cost around USD6 trillion this year alone. That is more than half the cumulative total rolled out during the 2009-2018 period.

Some central banks in Asia have also jumped on the bandwagon, with Indonesia and Philippines both rolling out quantitative easing programs. Bank Indonesia (BI) has started buying bonds from both the primary and secondary markets in a bid to cap interest rates. The liquidity injection of close to USD 20 billion has, however, failed to spur much credit growth. In fact the bond buying has had an adverse impact, with foreign investors exiting the government bond market amid fears of depreciation in the rupiah following BI's quantitative easing. Historically, whenever BI has increased money supply the rupiah has weakened significantly. The Indonesian government has also pledged to do more on the fiscal front, which means supply of USD sovereign bonds will almost certainly rise. The lack of medical facilities in the country is even more worrying and there is a high likelihood that the actual number of Covid cases is being under reported. Test kits are not readily available in the country and even if they were, they would likely be unaffordable for many people. With the heightened uncertainty, we have turned more cautious on the outlook for Indonesian sovereign spreads.

In the coming weeks, markets might have to contend with some volatility brought about by campaigning for the US Presidential election, which will be contested on 5 November. Speculation around whether Republican Donald Trump or Democrat Joe Biden will win will intensify in the days and weeks ahead and investors will debate the potential impacts for markets. The world has become more politically and socially polarized in recent years and investors should be mindful about the unpredictability of voters; Trump's election victory in 2016 and Brexit did not happen by accident. Amid the Covid-19 pandemic, many voters could opt to cast a ballot by mail, which could potentially delay the election results and open up allegations of fraud. The risk of a contentious outcome is real. There has been some speculation that either candidate could dispute the election outcome, but this risk currently appears to be under-appreciated by markets. In short, if the situation turns ugly, it could bring about broader social unrest and protests. Markets could therefore face a period of intense volatility in the last quarter of the year, regardless of who wins the election.

On a brighter note, there are currently more than 160 coronavirus vaccines being developed by researchers around the world. No fewer than 26 are currently in clinical trials. Of these, 12 have reached Phase II trials, while another six are in the final Phase III of large-scale efficacy and safety tests. To put these figures into perspective, it took decades for hepatitis B drugs to reach the developmental milestones achieved by Covid-19 researchers in just nine months. We may be edging closer to an effective vaccine more quickly than many people think.

Asian credit markets staged a remarkable 'V shaped' recovery from their lows in March, partly reflecting aggressive interest cuts, quantitative easing measures and fiscal stimulus programs in the US. Returns for the JACI Investment Grade index are now well above 5% in the calendar year to date, an extraordinary return given the extent of the Covid sell-off in February and March. While spreads remain well above the post-GFC average, 'all in' yields are now close to record lows given the fall in Treasury yields. Many high quality credits are currently yielding a meagre <1%.

The Federal Reserve's purchases of investment grade corporate bonds in the US is generally supportive for Asian credits, but the low yield and high dollar price may prove to be a strong psychological barrier for the market to continue to break higher. Further, investors should not underestimate the risk that fiscal stimulus around the world fail to have their desired effect due to the Covid situation persisting or worsening. The market value of 'fallen angels' – investment grade issuers that are downgraded into the high yield category – in Asia is widely estimated to be around USD16 billion, or ~3% of the universe, is not significant at this stage, but the number could rise further. We are not anticipating a downgrade to India's sovereign credit rating, but this could lead to another ~USD40 billion worth of downgrades; this could have a ripple effect across other markets in the region. India has been among the worst hit countries, with Covid-19 putting tremendous strain on the public healthcare system.

On the issuance front, the deal calendar remains busy and most issues are currently being many times covered. Consequently, aggressive final price tightening from initial guidance has meant many issues have not performed particularly well in secondary trading. This was especially evident towards the end of the quarter.

Against this background, we are cautious heading into Q4. Protecting gains and holding high quality and liquid issues should allow us to ride through what could be a turbulent end to an extraordinary year.

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