

Shifting Paradigms of Global Fixed Income

The Case for Asian Fixed Income

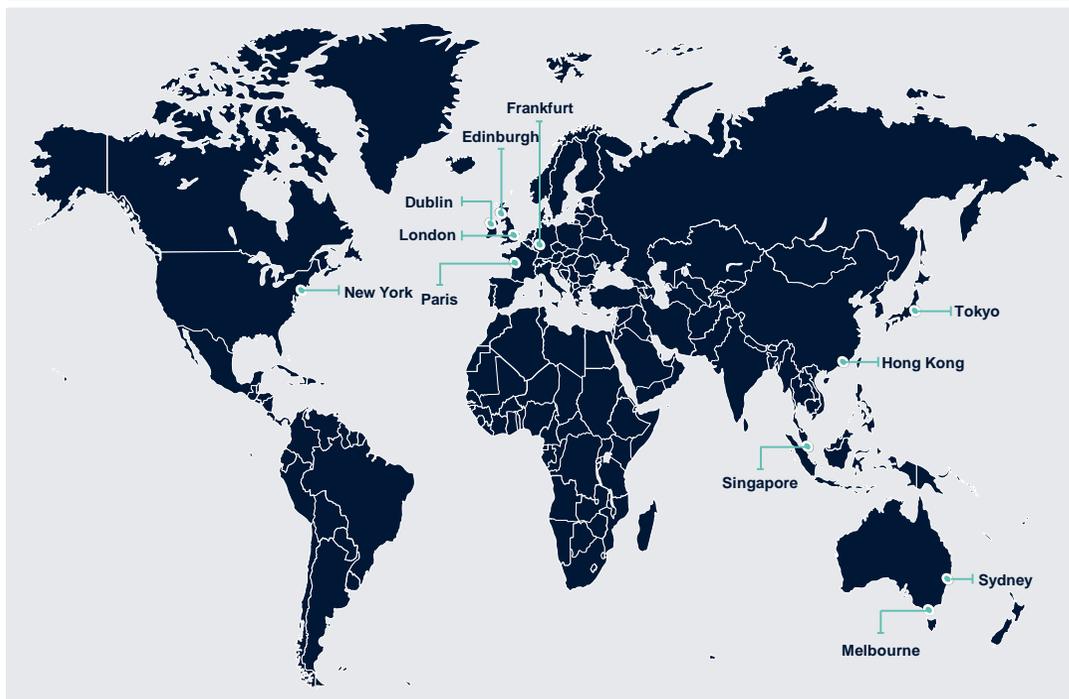
May 2021



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First Sentier Investors



- Stewards of US\$180.3 billions AUM on behalf of clients globally
- Principles of responsible investment are integral to each investment team, overall business management and culture

Fixed Income capability	AuM (USD bn)
Developed Markets Fixed Income	10.3
Emerging Markets and Asian Fixed Income	4.6
High Yield	0.2
Global Fixed Income	0.7
Global Credit	1.3
Short Term	44.4
Total	61.4

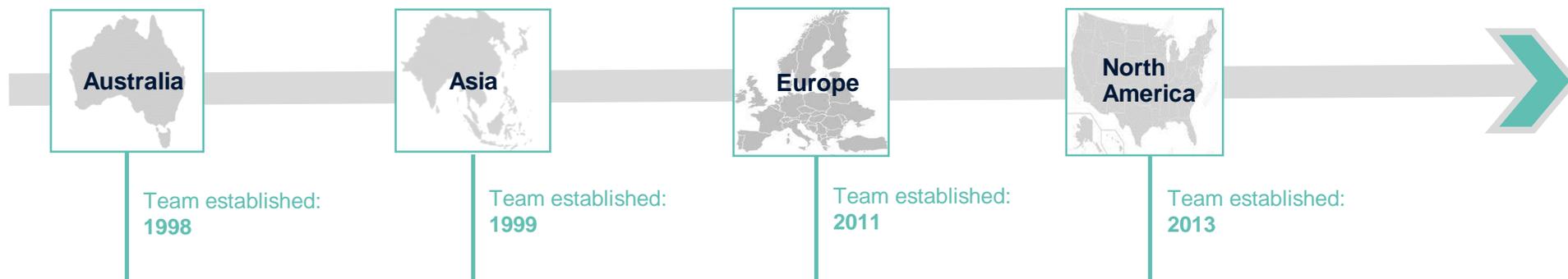
- Global platform with specialized teams in their relevant fields, supported by a common infrastructure
- Ability to tailor global fixed income investment solutions to meet clients' objectives

Our business

- Multi-decade heritage in fixed income investing
- Experienced team located across New York, London, Hong Kong, Singapore and Sydney
- US\$ 61.4 bn under management globally
- UN Principles of Responsible Investment “A” or higher rating in all Fixed Income areas (2020 assessment report)

Our approach

- A research-driven fundamental investment approach, locally-based and globally-collaborative
- ESG factors are embedded into credit research and analysis
- An open and accountable investment culture, fostering a pronounced sense of partnership with our clients
- A digitally-enabled investment environment, maximising transparency, resource-efficiency, scalability and alpha transfer



We believe that successful fixed income investing requires a deep focus upon risk management given the inherently asymmetric nature of the investments

We believe that in the short term markets misprice, provides an opportunity for investors to add value

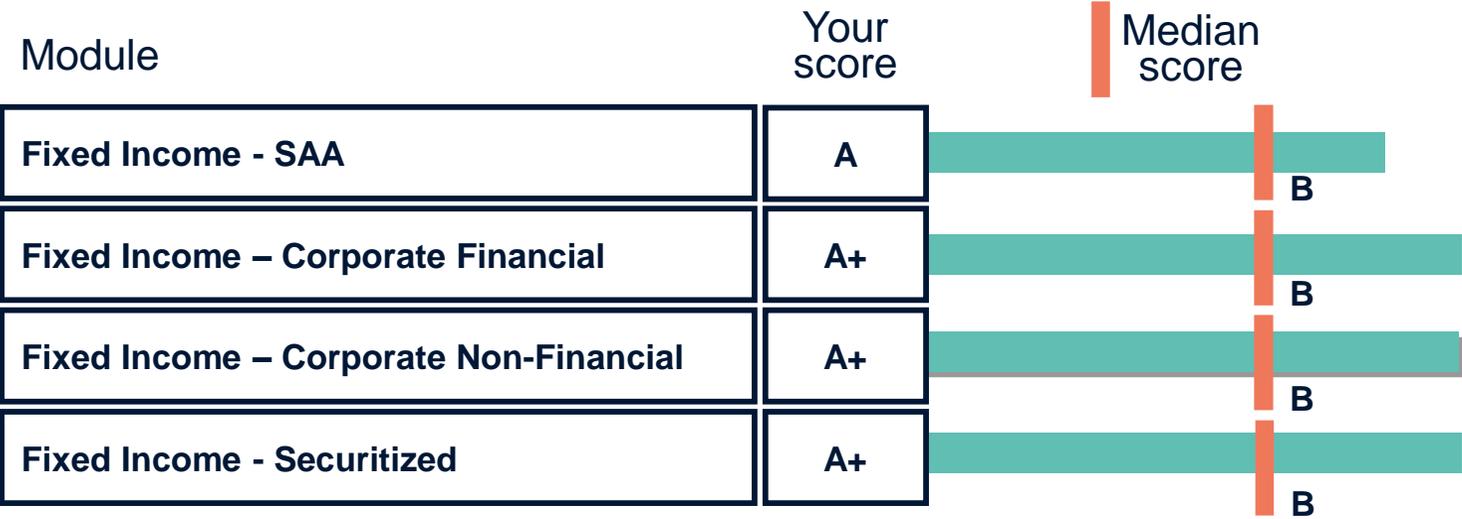
We believe that in the long run, fundamental valuations will assert themselves and be the most important driver of returns

We are stewards of our clients capital and believe that ESG factors should be considered in our research to ensure positive outcomes for our clients

A range of products with different investment processes underpinning a common philosophy

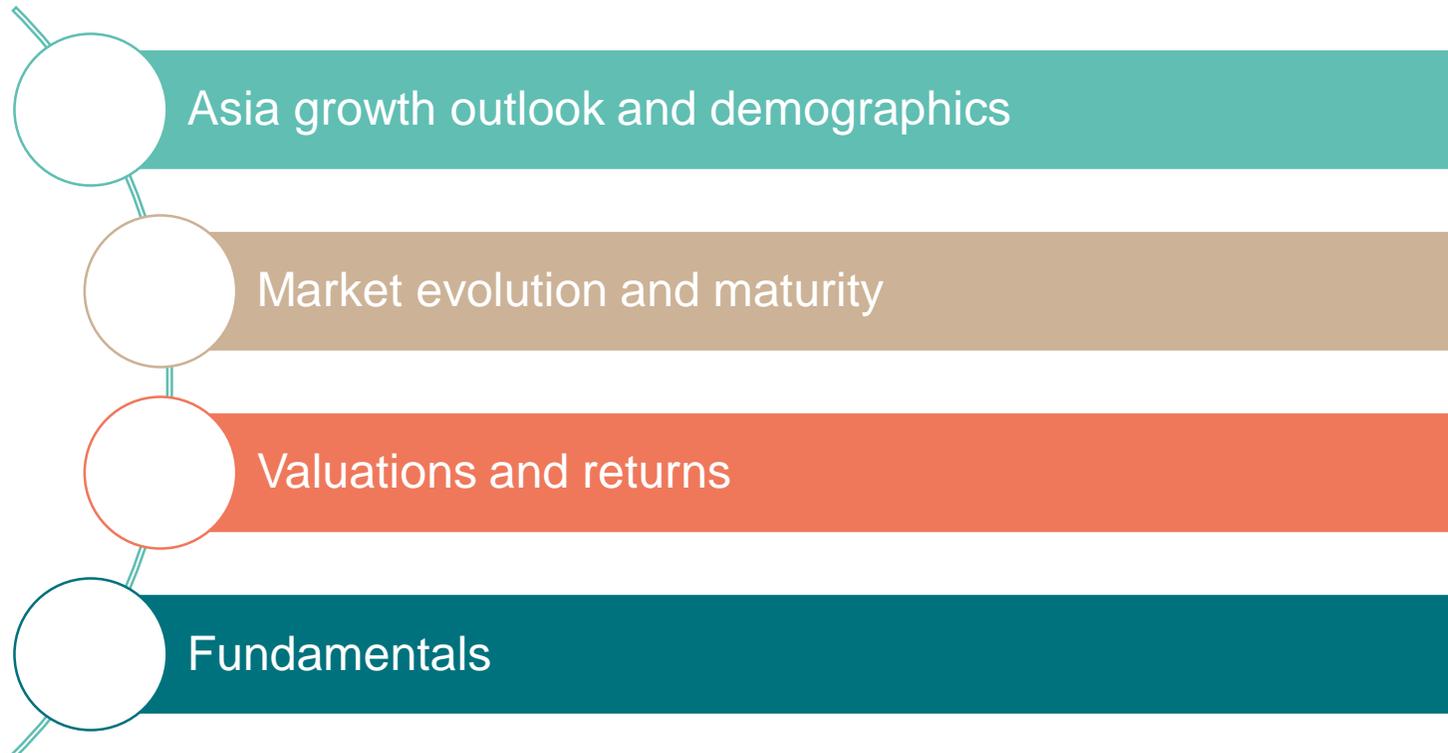
Global endorsement & recognition

- ✓ Highly rated for ESG by global consultants
- ✓ Assisted Moody’s in developing methodology for rating “green” bonds in Australia
 - ✓ All Fixed Income ratings in 2020 above industry median



The Case for Asian Fixed Income

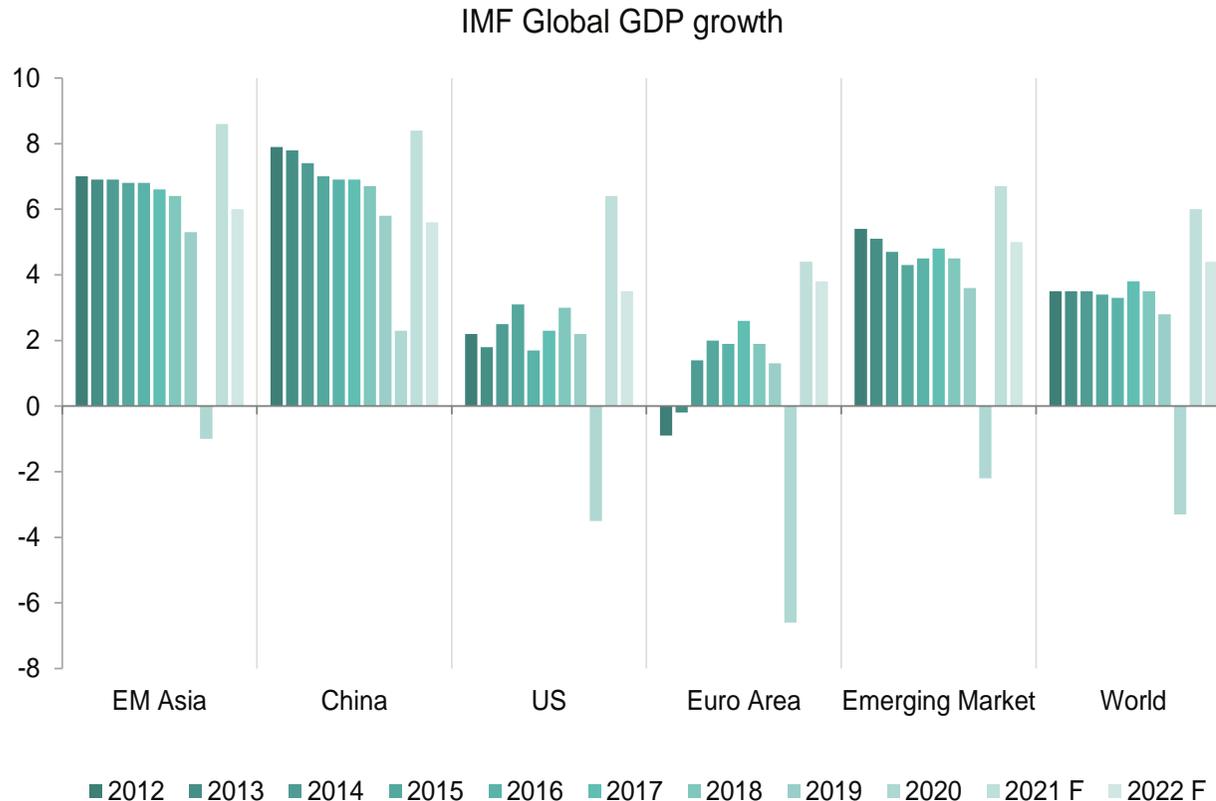




Shifting Paradigms of Global Fixed Income

China Driving Regional Sentiment

IMF global real GDP growth & outlook



- IMF estimates that Asia is to grow 8.6% in 2021
- Economic integration continues to be supportive factor in regional development
- In 2020, CN, JP, SK, AU, NZ + 10 ASEAN members signed the Regional Comprehensive Economic Partnership (RCEP) agreement which when fully implemented in 2022, will represent the world's biggest trading block
- In addition, China concluded a Comprehensive Agreement on Investment (CAI) with the EU on the last day of 2020
- Recent announcements from China on carbon emissions point to a leadership role in coming years on environmental issues

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Structural Demand



Asia population will generate many long term investment themes – particularly demand for healthcare, infrastructure, pension and savings products

Total World Population = 7.25bn

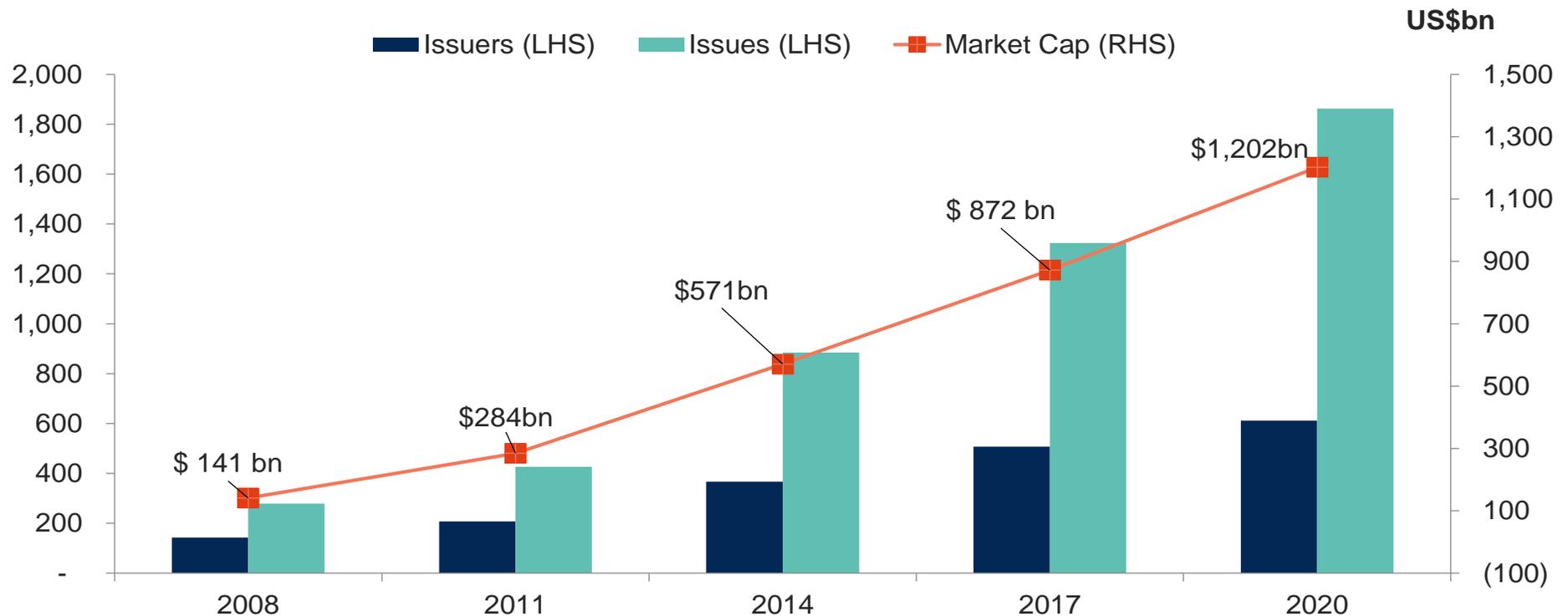
Source: BofA Merrill Lynch Global Investment Strategy, UN DESA

ADB forecasts over the next 15 years, 500 million adults in Asia will begin a pension savings plan for the first time

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Asia is growing asset class

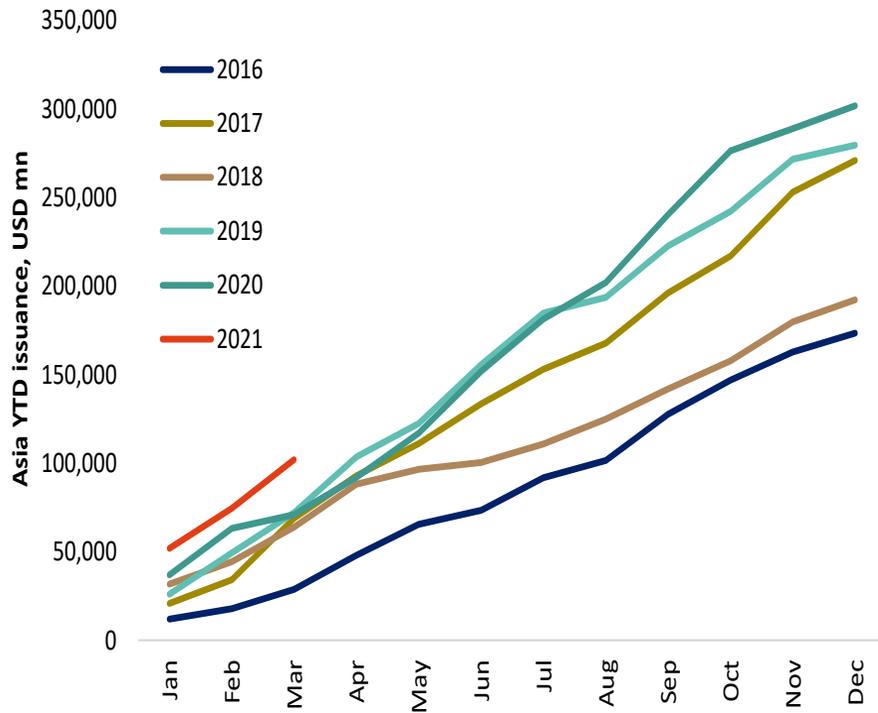
Asia credit market has fivefold in the last decade



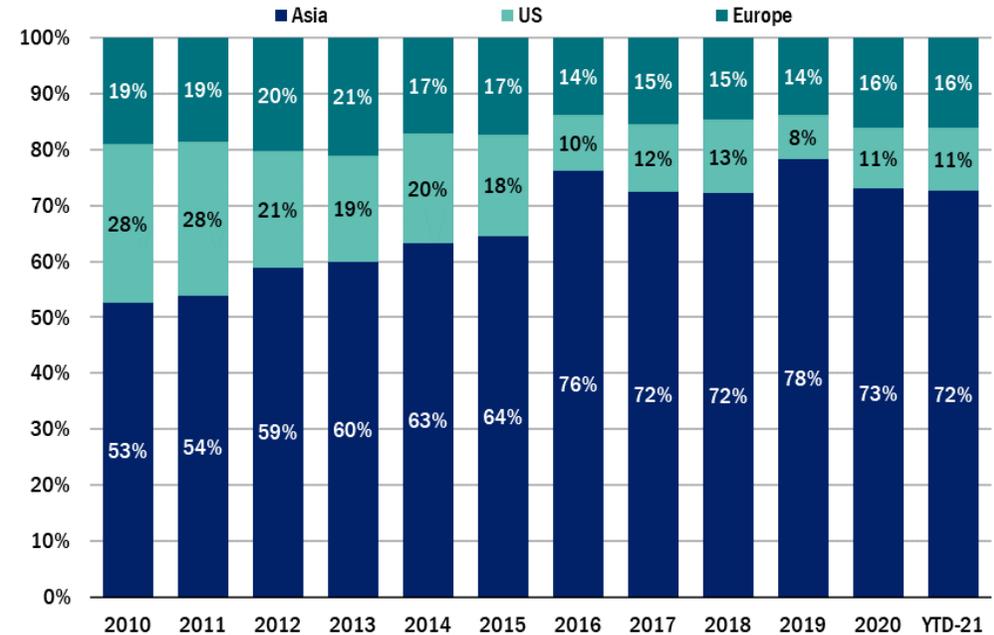
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Asia credit is held locally

Supply continues to rise



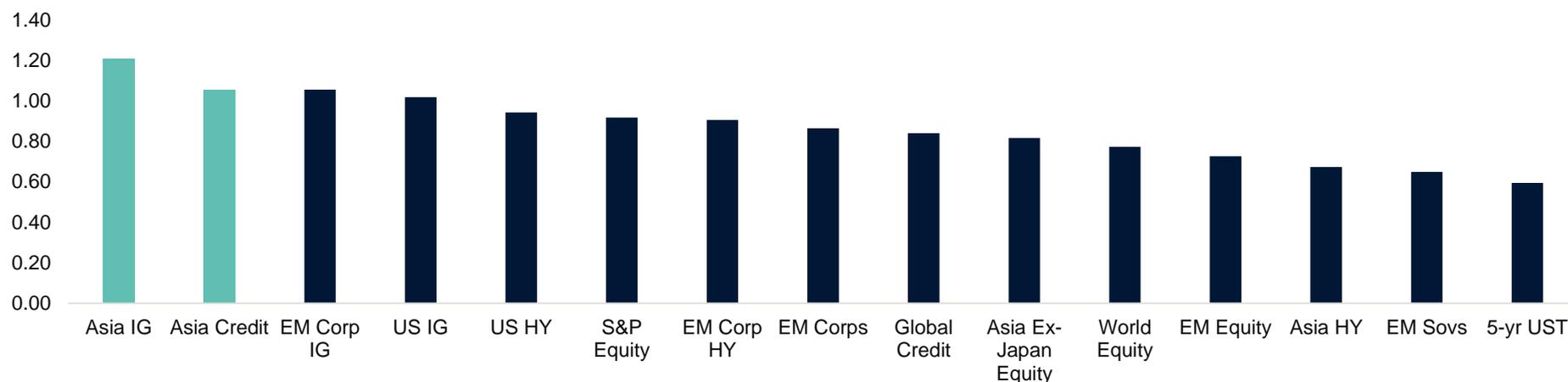
New issue allocations are largely absorbed by Asian investors



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Asia credit delivered superior risk-adjusted returns

Asia IG and Asia Credit are ranked highest in risk-adjusted returns



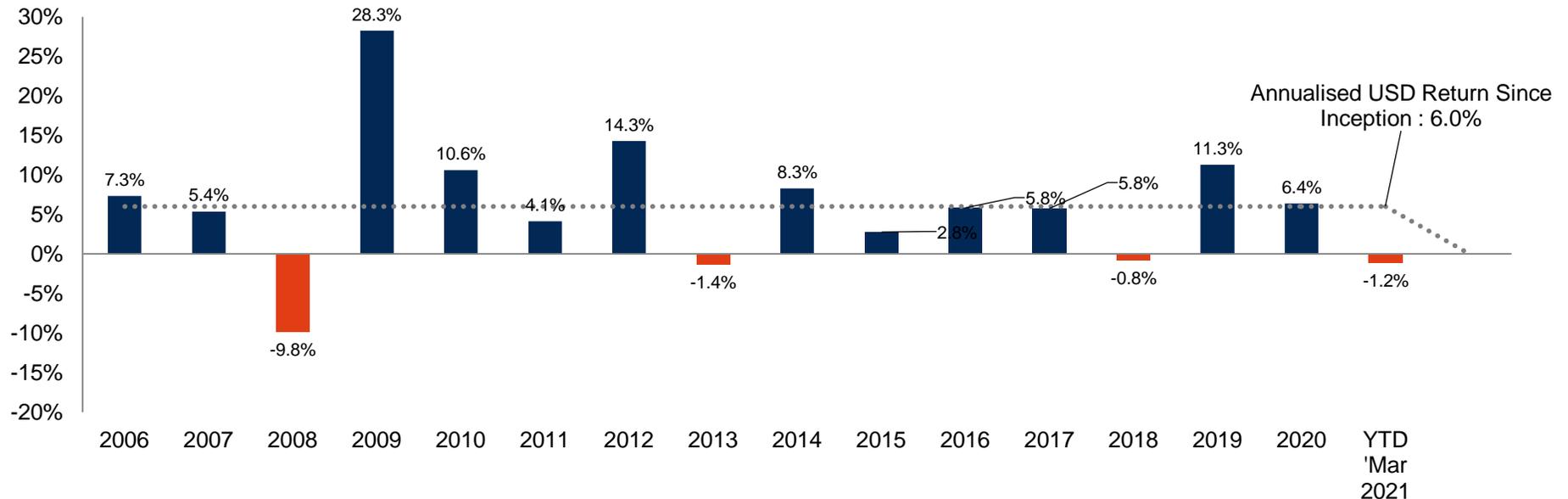
	5-yr UST	Asia Credit	Asia IG	Asia HY	Global Credit	EM Corp IG	EM Corp HY	US IG	US HY	EM Sovs	EM Corps	World Equity	S&P Equity	EM Equity	Asia Ex-Japan Equity
Annualised Return	2.9%	5.6%	5.5%	6.4%	5.9%	6.5%	9.3%	4.4%	8.6%	7.1%	7.1%	12.9%	15.2%	13.9%	14.8%
Annualised Volatility	2.8%	4.2%	3.5%	7.7%	5.6%	5.0%	9.0%	3.2%	7.8%	9.0%	6.8%	15.1%	15.3%	17.5%	16.7%
Sharpe Ratio	0.6	1.1	1.2	0.7	0.8	1.1	0.9	1.0	0.9	0.6	0.9	0.8	0.9	0.7	0.8

Source: First Sentier Investors, MSCI, JP Morgan, Bloomberg. Sharpe ratio is calculated for the period of 5 years from Dec-2015 to Dec-2020. Past performance is not indicative of future performance.

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Asia credit gives stable and resilient returns

JP Morgan Asia Credit Index

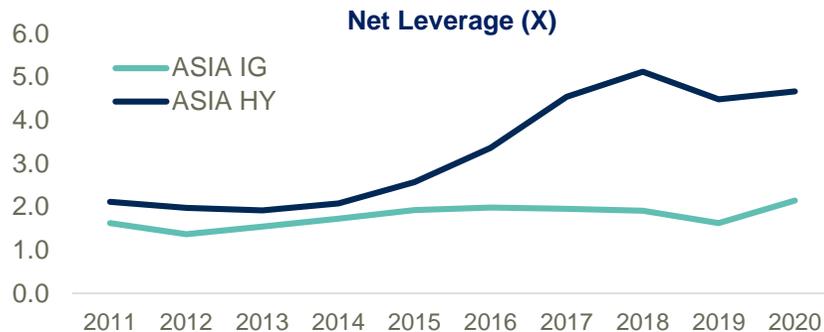


- **Attractive annualised return of above 6%**
- **2006, 2015 & 2016 delivered positive returns despite FED rising rates**

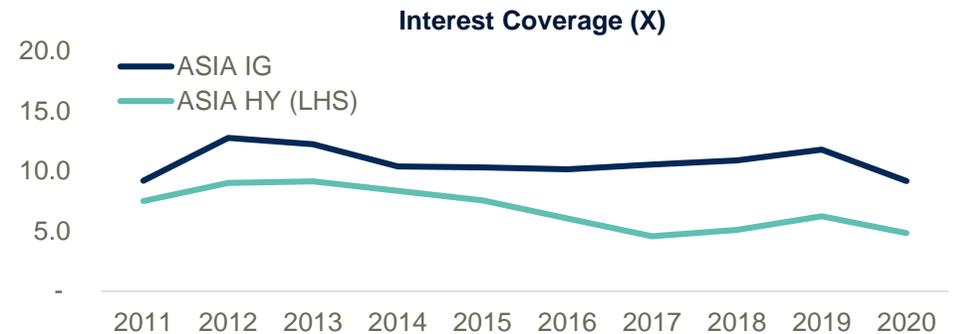
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Asia credit fundamental is stable

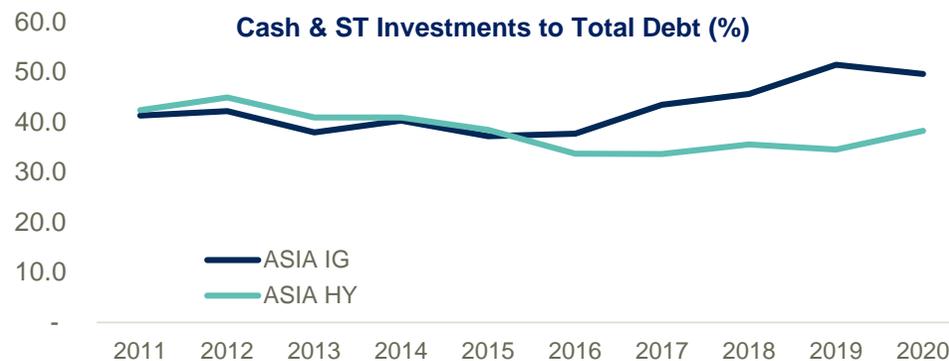
Leverage ratios trend higher due to lower EBITDA



Debt Servicing remains strong helped by lower borrowing cost as interest rate declines



Strong liquidity buffer is a key credit strength



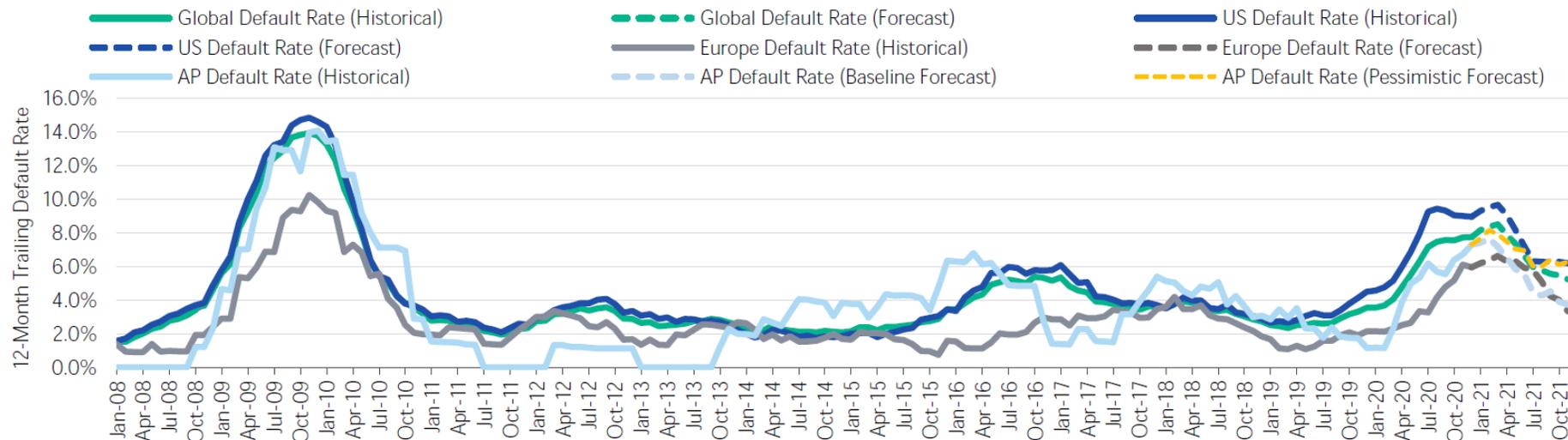
- **Asia credit is well-positioned to weather the pandemic-led down cycle**

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Fallen Angels – lower relative risk

Default rates in Asia is lower than US and Global rates

Trailing 12-month Asia-Pacific high-yield nonfinancial company default rate (January 2008 – December 2020)



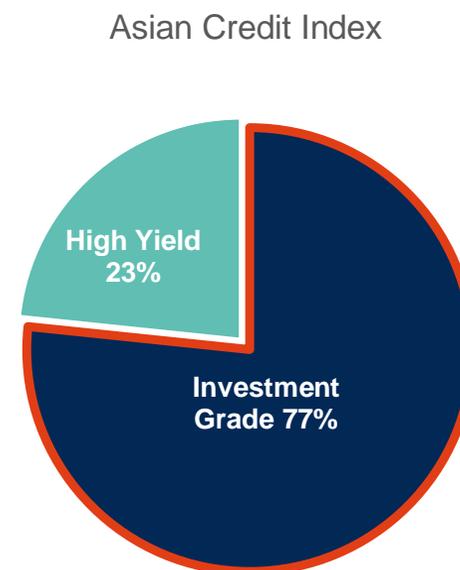
- **Moody's projected default rates in Asia will be 3.6% in 2021, lower than 7.3% in 2020**
- **Asia has lower expected default rates than Global forecasted at 5.2% and US at 6.2%**

Source: Moody's, First Sentier Investors. Moody's forecast is based on their 27 names that they cover at B3- rated or below by the end of 2020. Moody's baseline forecast is based on two assumptions: 1) an average forecast US high-yield spread of 406 basis points in 2021, lower than the 545 basis points in 2020, reflecting improving financial conditions following tremendous fiscal and monetary stimulus by the major central banks in 2020, and 2) a slight improvement of the GDP weighted average forecast unemployment rate in Asia-Pacific to 4.2% at the end of 2021 from 4.5% a year ago.

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Investment Grade credit dominates Asia issuers

	Top 10 corporate issuers in IG *	Classifications	MV%
1	ICBC Bank	China Banks	1.68
2	China National Offshore Oil Corporation	China state-owned O&G	1.52
3	Huarong Asset Management	China state-owned financials	1.50
4	Tencent Holdings Ltd	China Tech	1.48
5	Bank of China	China Banks	1.25
6	Alibaba Group Holdings Ltd	China Tech	1.25
7	CK Hutchison	HK conglomerates	1.13
8	China Cinda Asset Management	China state-owned financials	1.05
9	Country Garden	China Property	0.95
10	BOC Aviation	China Financial Leasing	0.78



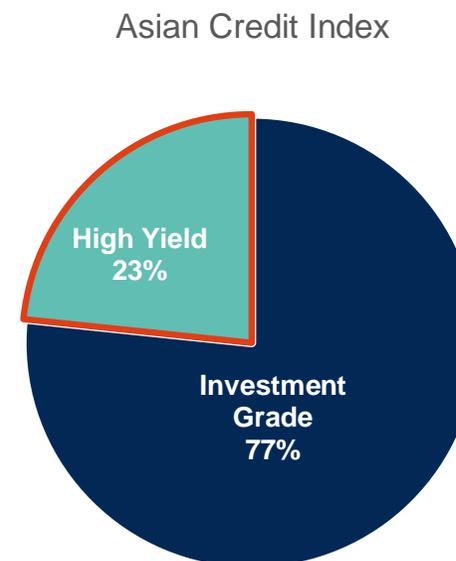
- **Asia credit is dominated by solid investment grade issuers**
- **Solid China banks and financials and Giant tech companies are the top corporate issuers in Investment Grade**

Source: First Sentier Investors as of end of April 2021 *Corporate Issuers only, excluding Sovereign and Quasi-Sovereign following JP Morgan Index Sector classification. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same.

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Asia HY dominated by Large Property Developers and offers market for diversification

	Top 10 issuers in HY	Classifications	MV%
1	Evergrande Group	China Property	0.94
2	Kaisa Group	China Property	0.79
3	Sri Lanka	Sovereign	0.65
4	Sunac	China Property	0.61
5	Vedanta Resources	India metals & Mining	0.43
	Wynn Macau Limited	Macau Hotel & Resorts	0.39
7	Pakistan	Sovereign	0.37
8	Fosun International Holdings	China Conglomerate	0.37
9	Melco Resorts	Macau Hotel & Resorts	0.35
10	Yuzhou Property	China Property	0.34



- **Large China property developers dominates Asia HY space**
- **Diversification in HY is available through exposure in India, Indonesia, Macau, and Frontier sovereigns**

Source: First Sentier Investors, JP Morgan, as of 31 March 2021. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same.

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Spreads and Yield

Asia IG spreads remains attractive



All-in yield fell below average however spreads remains elevated



Asia HY spreads remains attractive



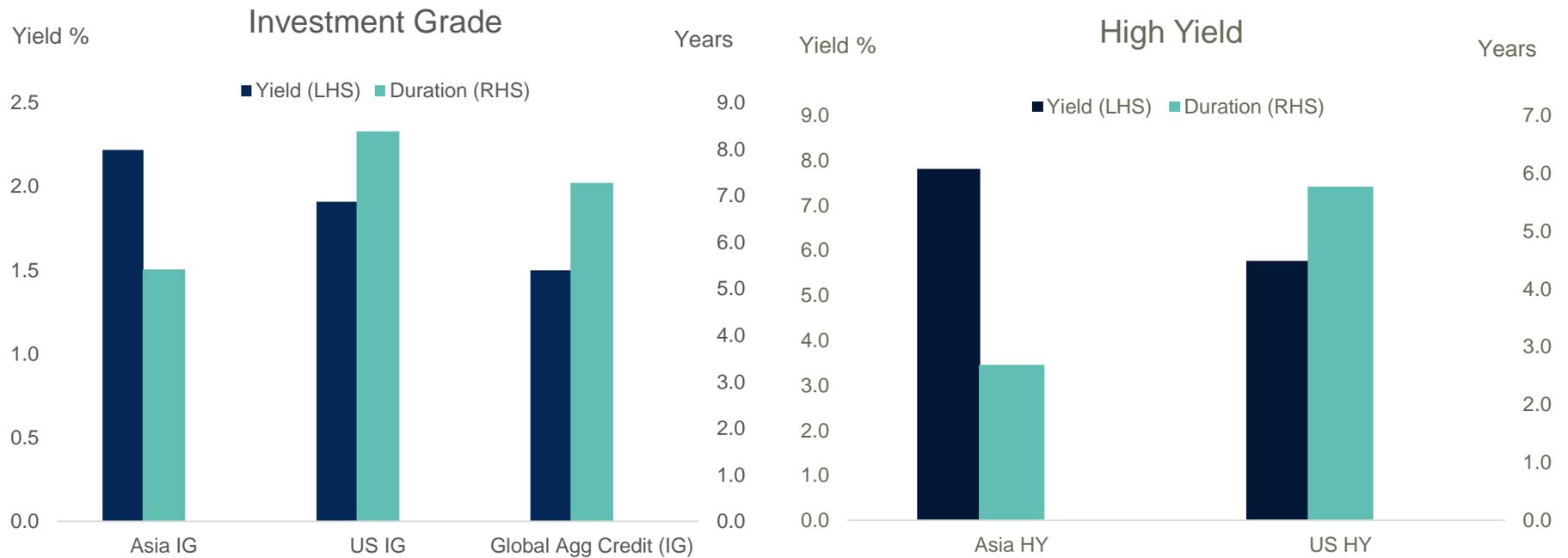
Asia HY spreads remains attractive



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Asia IG vs US IG

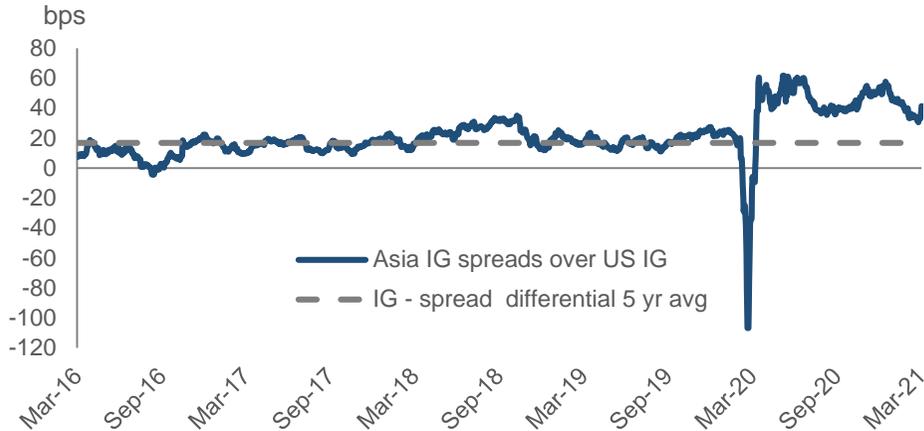
Asia offers better yield with lower duration in both IG and high yield



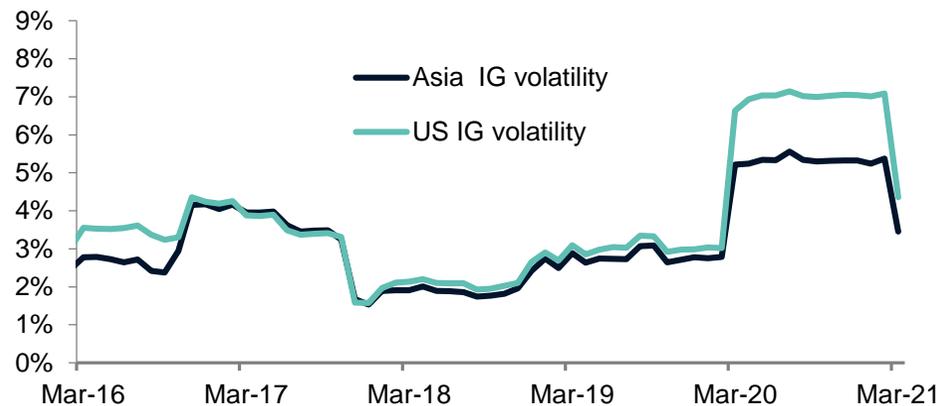
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Asia IG vs US IG

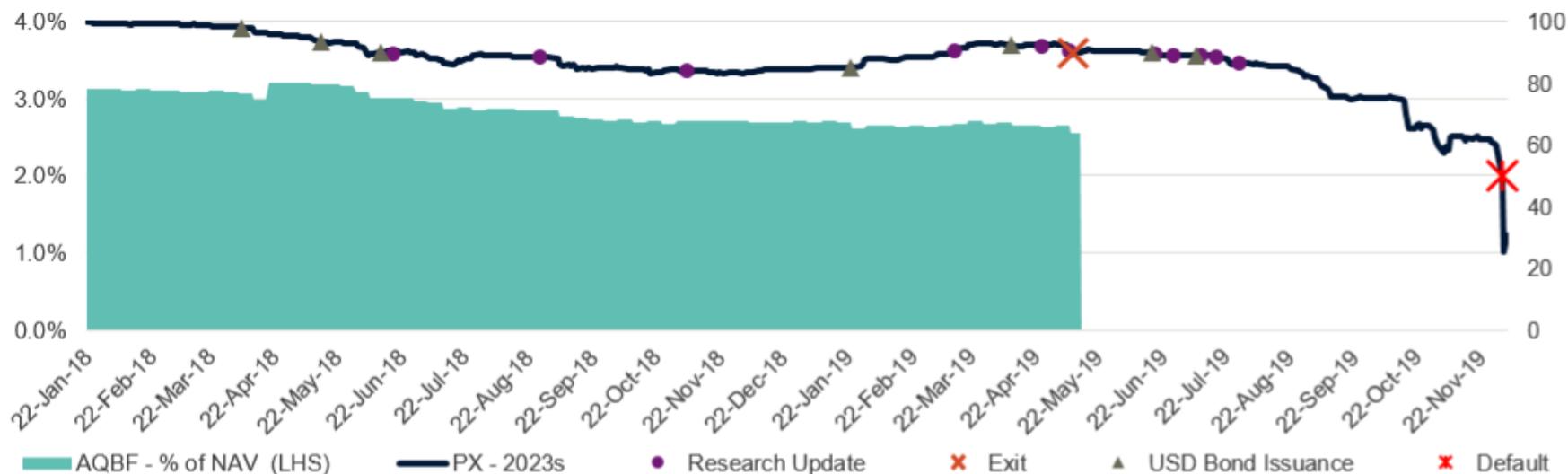
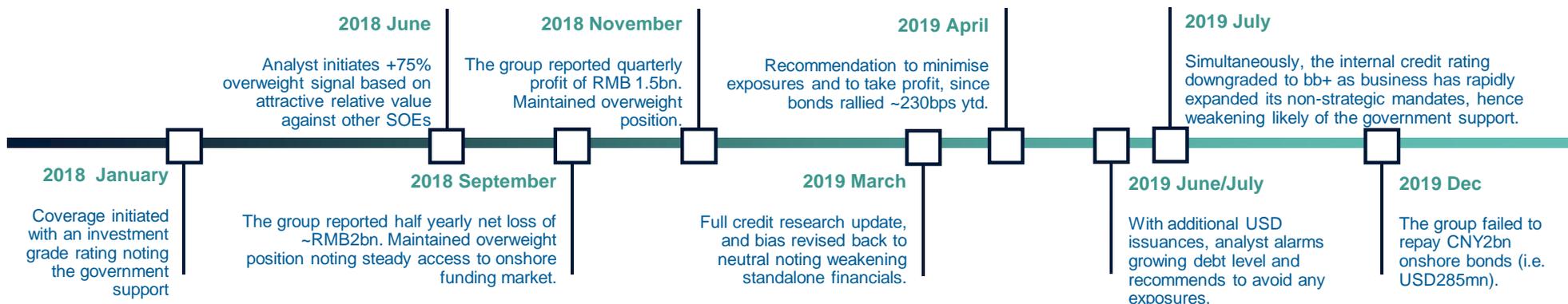
Asia IG has outperformed US IG for the last decade while still offering spread premium over US IG



Asia IG volatility is lower than US IG



ESG Case Study – PK Founder Group



Source: First Sentier Investors as of end of 2020. For illustration purposes only. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of First Sentier Investors' portfolios at a certain point in time, and the holdings may change over time.

Appendix





Jamie Grant

Jamie Grant, based in our Hong Kong office (who is now on a secondment in Australia until September 2021), is the Head of Emerging Markets and Asian Fixed Income for First Sentier Investors ('FSI').

Jamie joined FSI in 2013 in the role of Head of Asian Fixed Income, responsible for the development of the team's Asian fixed income capabilities. His role was expanded in September 2017 taking responsibility for the further development of FSI's Emerging Markets business.

Jamie has more than 20 years' industry experience specialising in corporate credit. He has experience in funds management and credit analysis across Europe, the US, Latin America and Asia and has managed investment teams in the UK, Asia, Latin America and Australia.

Jamie's most recent role was Global Head of Fixed Income at QBE Insurance. In this role Jamie was responsible for the QBE Group's fixed income business across Asia Pacific, Europe, the UK, US and Latin America. Prior to this Jamie spent more than eight years working for AXA Investment Managers, comprising seven years in London as a Senior Investment Manager and two years in Singapore as the Head of Fixed Income Asia.

Jamie holds a Bachelor of International Business Relations from Griffith University, Brisbane.

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