

# Nikko AM Asia Credit Fund

## January 2024 Supplementary Information

### Country Allocation

Country	Portfolio Weight	Benchmark weight
China	28.96%	37.59%
South Korea	17.26%	14.61%
Hong Kong	11.43%	12.67%
Indonesia	10.70%	13.34%
Singapore	6.91%	4.59%
Malaysia	5.36%	3.18%
Philippines	4.12%	4.86%
India	3.41%	4.65%
Australia	3.24%	0.00%
Thailand	3.19%	1.62%
Taiwan	1.56%	2.05%
Japan	1.11%	0.00%
Macau	0.00%	0.83%

### Other Information

	Portfolio	Benchmark
No. of Issuers	54	362

### Market Review

Asian investment grade (IG) credit retreated 0.12% in January as spreads widened 2 basis points (bps) while US Treasury (UST) yields moved slightly higher.

Following strong gains since November 2023, Asian credits remained relatively stable in the first month of 2024 as investors adjusted their expectations of an early pivot by the US Federal Reserve (Fed). However, Chinese policymakers' resolve to address the decline in the domestic stock market and support the overall economy led to a rally in Chinese credits, particularly in the real estate sector. To stimulate bank lending to households and businesses, the People's Bank of China (PBOC) lowered the reserve requirement ratio for most banks by 50 bps, effective 5 February. Additionally, the National Financial Regulatory Administration announced a policy change allowing commercial banks to extend new loans to developers, using their commercial property assets as collateral, not just for operational necessities but also for repaying loans and maturing bonds. Meanwhile, China reported an economic expansion of 5.2% in the fourth quarter and for the full year in 2023, although concerns about growth momentum persisted due to mixed activity data in December. In the rest of Asia, countries reported decent growths in the last quarter of 2023. Advance estimates indicated a year-on-year (YoY) expansion of 2.8% in Singapore's economy. Preliminary estimates for Malaysia revealed a 3.4% growth in the fourth quarter of 2023. In the

Philippines, fourth quarter GDP growth came in at 5.6% YoY. Overall, spreads of all major country segments — save for Indonesia, Malaysia and the Philippines — tightened. Taiwan's closely watched election turned out to be a non-event, where ruling Democratic Progressive Party (DPP) secured a third Presidential term with no major changes expected for its economic policies. Taiwan credits were not affected much by the election, and in fact, benefited more from the positive narrative around the semiconductor cycle upturn. Indonesia's sovereign spreads widened slightly, as the government did a new US dollar multi-tranche bond issue, and as concerns grew around potential resignations in President Joko Widodo's government.

The sharp decline in UST yields since mid-October reversed in January. Central bank statements pushing back on the timing of rate cuts and stronger-than-expected US economic data were key factors leading to upward pressure on yields. In addition, attacks in the Red Sea have caused significant supply chain disruptions and higher shipping costs, adding to concerns on inflation. Subsequently, investors closely monitored guidance from major central banks. At the close of the month, the Fed held rates steady but signalled that a rate cut was not imminent. At end-January, the benchmark 10-year UST yields settled at 3.91%, 3 bps higher compared to end-December.

### Investment Review and Outlook

The Fund gained 0.08% on gross basis in January, outperforming the benchmark return by 20bps. The outperformance in January was driven by positive allocation effect, mainly due to spread outperformance of off-benchmark Australian credits held by the Fund. This was partially offset by negative selection effect, mainly within China, while contribution from yield curve was marginal.

The fundamentals backdrop for Asian credit remains supportive. In China, the recent step up in fiscal measures suggests that policy makers are aware of the challenging environment. This further supports expectations for Chinese policymakers to deliver additional measures to help revive confidence in the economy and broaden out the recovery in 2024. Meanwhile, macro and corporate credit fundamentals across Asia ex-China are expected to stay resilient with a recovery in exports growth potentially offsetting softer domestic conditions. While non-financial corporates may experience a slight weakening in leverage and interest coverage ratios, we believe there is adequate ratings buffer for most, especially the IG corporates. Asian banking systems remain robust.

Asia credit is expected to remain well supported with subdued net new supply as issuers continue to access cheaper onshore funding. Although fund flows into Emerging Market (EM) hard currency funds have remained weak, demand remains robust from regional institutional investors. Nevertheless, following the sharp rally in recent months, these positive factors have been largely priced in, and the materialisation of some negative risk factors may exert some widening pressure Asia credit spreads, particularly the IG segment.

*Reference to any particular securities or sectors is purely for information only and does not constitute a recommendation to buy, sell or hold any securities or to be relied upon as financial advice in any way.*

## Risk Information

### Risk and Reward Profile

Lower risk				Higher risk		
Potentially lower reward				Potentially higher reward		
1	2	3	4	5	6	7

The Sub-Fund is classified as article 6 and analyses sustainability risk as part of its risk management process to enhance its long-term risk adjusted return but does not promote specific environment, social or sustainability characteristics within the meaning of the SFD Regulation

**Credit risk** - is the possibility that a bond issuer will fail to pay interest and principal in a timely manner.

**Liquidity risk** - investments that could have a lower level of liquidity due to (extreme) market conditions or issuer-specific factors and / or large redemptions of shareholders. Liquidity risk is the risk that a position in the portfolio cannot be sold, liquidated or closed at limited cost in an adequately short time frame as required to meet liabilities of the Sub-Fund.

**Counterparty risk** - the possibility that the counterparty, such as brokers, clearing houses and other agents be unable to perform its obligations due to insolvency, bankruptcy or other causes.

**Operational risk** - due to issues such as natural disasters, technical problems and fraud.

**Derivative risk** - the Sub-Fund may use derivatives as described in the Objectives and Investment Policy. Use of derivatives results in higher chances of loss due to the use of leverage, or borrowing. Derivatives allow investors to earn large returns from small movements in the underlying asset's price. However, investors could lose large amounts if the price of the underlying assets moves against them significantly.

**Emerging markets risk** - the risk arising from political and institutional factors which make investments in emerging markets less liquid and subject to potential difficulties in dealing, settlement, accounting and custody.

**Currency risk** - this exists when the Sub-Fund invests in assets denominated in a different currency. A devaluation of the asset's currency relative to the currency of the Sub-Fund will lead to a reduction in the value of the Sub-Fund.

**Investing in China risk** - the Sub-Fund intends to gain exposure to the financial securities of the People's Republic of China ("China") without directly investing in the PRC (excluding Hong Kong). Investments in China will be sensitive to any political, social, economic, legal and regulatory developments which may take place in or in relation to China, which may adversely impact on the securities markets in China as well as the performance of the Sub-Fund.

### Sustainability Risk

The risk arising from any environmental, social or governance events or conditions that, were they to occur, could cause material negative impact on the value of the investment. Specific sustainability risk can vary for each product and asset class, and include but are not limited to: Transition Risk, Physical Risk, Social Risk and Governance Risk.

## Important Information

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**Any investment in the Fund may only be made on the basis of the current Prospectus and the Key Investor Information Document (KIID), as well as the latest annual or interim reports.** Please refer to the "Risk Factors" for all risks applicable in investing in this Fund. These documents are available from our website [emea.nikkoam.com](http://emea.nikkoam.com) or can be obtained free of charge from the Funds registered office in Luxembourg: Private Business Center 32 – 36, boulevard d'Avranches, L-1160 Luxembourg, Luxembourg. Swiss representative, Swiss paying agent and place of jurisdiction in Switzerland: BNP Paribas, Paris, Zurich Branch, Selnaustrasse 16, 8002 Zurich. Telephone: +41 582 126374

Past performance is not a guide to future performance. Market and currency movements may cause the capital value of shares and income from them to fall as well as rise and you may get back less than you invested.

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