nikko am
Nikko Asset Management

YOUR GOALS,
OUR COMMITMENT.

Nikko AM Asia Credit Fund

September 2024 Supplementary Information

Country Allocation

Country	Portfolio Weight	Benchmark weight
China	29.55%	33.91%
Hong Kong	16.29%	13.91%
South Korea	14.39%	16.41%
Indonesia	9.98%	13.96%
Philippines	5.39%	5.27%
Malaysia	4.99%	2.95%
Singapore	4.93%	3.79%
India	3.19%	4.72%
Australia	3.04%	0.00%
Japan	1.52%	0.00%
Thailand	1.48%	1.74%
Macau	1.46%	1.14%
Taiwan	1.45%	2.21%

Source: Bloomberg, Brown Brothers Harriman (Luxembourg) S.C.A., SMBC Nikko Bank (Luxembourg) S.A., BNP Paribas, Luxembourg Branch, Nikko Asset Management Asia Limited, Nikko Asset Management Co., Ltd. and J.P. Morgan

Other Information

	Portfolio	Benchmark
No. of Issuers	60	350

Source: Bloomberg, Brown Brothers Harriman (Luxembourg) S.C.A., SMBC Nikko Bank (Luxembourg) S.A., BNP Paribas, Luxembourg Branch, Nikko Asset Management Asia Limited, Nikko Asset Management Co., Ltd. and J.P. Morgan

Market Review

Asian investment grade (IG) credits gained 1.10% in September reflecting the sharp drop in US Treasury (UST) yields as well as marginally tighter spreads of about 6 basis points (bps).

Asian credit spreads widened at the start of the month, amid falling UST yields. Weak macroeconomic data from China pointed to deteriorating domestic demand, raising concerns that the economy might fall short of its official growth target. This added pressure on credit spreads, particularly of Chinese property credits.

Mid-month, the US Federal Reserve (Fed) delivered its long-anticipated pivot with a larger-than-expected 50 bps rate cut, which spurred a rally in risk assets and led to tightening spreads. Towards end September, Chinese policymakers unveiled aggressive stimulus packages aimed at supporting the economy and revitalising the struggling stock and property markets. Key monetary measures included new tools to support the stock market and larger than usual cuts across banks' reserve requirement ratio, interest rate and existing home mortgage rate. his was followed by the Politburo's commitment to ensure "necessary fiscal spending" to achieve this year's growth target. In their strongest statement yet, top officials vowed decisive action to halt the decline in the real estate market. These measures sparked a significant rally in Chinese credits and other sectors closely linked to the Chinese economy. For the month of September, spreads of all major country segment, save for Taiwan and Thailand, tightened.

Meanwhile, UST yields declined across the curve, with short-dated bonds significantly outperforming. Early in the month, markets anticipated more aggressive action from the Fed at its September meeting, fuelled by a weaker-than-expected US labour market report. The decline in yields slowed when August's month-on-month US Core consumer price index came in marginally above expectations.

In mid-September, the Fed lowered interest rates for the first time in over four years to address growing risks in the labour market. However, both the Fed's Summary of Economic Projections (SEP) and remarks from the Fed Chair during the press conference were interpreted as more hawkish, pushing long-end yields to drift higher. The SEP indicated an additional 50 bps of cumulative rate cuts over the remaining two meetings this year, followed by 100 bps of cuts in 2025, and another 50 bps in 2026, targeting a terminal rate of 2.9%. Longer-dated UST yields continued to drift higher toward the end of the month as risk sentiment improved, buoyed by the strong stimulus measures from China that boosted risk assets. At end-September, the benchmark 10-year UST yield settled at 3.78%, 12 bps lower compared to end-August.

Investment Review and Outlook

The Fund returned +1.27% on gross basis in September, outperforming the benchmark return by 16 bps. The outperformance was mainly driven by positive Selection effect within Hong Kong and Korea. Allocation effect was positive mainly coming from the off-benchmark allocation to Japan credits. Yield curve positioning detracted slightly.

The fundamentals backdrop for Asian credit remains supportive. In China, policymakers have finally unveiled a more substantive and coordinated policy stimulus package across monetary, fiscal and property fronts. We expect this policy package to at least provide some stabilisation in market sentiment although it remains to be seen if there will be a sustainable and meaningful impact on the property sector and broader real economy. Elsewhere, macroeconomic and corporate credit fundamentals across Asia ex-China are expected to stay resilient albeit moderating from the strong levels seen in the first half of 2024 as the global economy potentially enters a temporary soft patch. The start of the US Fed's easing cycle provides greater flexibility for Asian central banks to ease their own monetary policies, and this should help to support domestic demand in the near future. Apart from a few sectors and idiosyncratic situations, Asian IG corporate and banks are entering this softer period with strong balance sheets and adequate ratings buffer.

These robust fundamentals, along with still strong demand-supply technicals, should help to contain any spread widening due to the elevation of risks such as geopolitical and trade tensions, as well as concerns over the US presidential election outcome in November.
The biggest risk to Asia's macroeconomic and credit outlook is that of a deep US and global economic recession, which is not our base case. We still see any healthy correction as creating better entry opportunities for Asia credit, from both excess and total return perspectives.

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.

Class A USD

Synthetic Risk & Reward Indicator (SRRI)

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

Class A EUR

Synthetic Risk & Reward Indicator (SRRI)

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

Lower Liquidity Risk - lower liquidity means there are insufficient buyers and sellers in the market to facilitate the Fund to buy or sell investments readily, this could be due to market events as well as large redemptions, causing investments to be sold at a discount, or liquidated at a lower price.

Deposits default risk - deposits and money market instruments are exposed to the risk that their issuer may not be able to meet its interest payment or principal reimbursment obligations.

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

Derivative leverage risk - the derivatives used within the fund strategy may create a leverage that increases the Sub-Fund's short term volatility and exposes the fund to larger losses.

Emerging markets risk - emerging markets may be exposed to political, fiscal and institutional instability that creates risks associated dealing, settlement, accounting, ownership, custody as well as liquidity (including the risk of internal or external embargos on the sale or acquisition of currencies and securities).

China Interbank Bond Market and Bond Connect risk - may expose the fund to, regulatory, liquidity (including clearing and settlement constraints), operational and counterparty risks due to the specificities of these investment regimes.

Important Information

Nikko AM Global Umbrella Fund is an open-ended investment company established in Luxembourg (the "Fund"). This information has been issued by Nikko Asset Management Luxembourg S.A. and is not aimed at or intended to be read by investors in any country in which the Fund is not authorised.

The Fund is registered in multiple jurisdictions and some sub-funds and/or share classes may not be available in all jurisdictions. Please contact Nikko Asset Management Europe Ltd for further information. This material is for information only and is not a recommendation to sell or purchase any investment.

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

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 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.

MSCI: The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).

Contact Us

Nikko Asset Management Europe Limited
Level 5, City Tower, 40 Basinghall Street, London, EC2V 5DE
United Kingdom
Phone: +44 (0)20 7796 9866
Email: EMEAenquiries@nikkoam.com

Nikko Asset Management Luxembourg S.A. (German Branch)
Frankfurt Spaces Tower One , Brüsseler Str. 1-3, 60327, Frankfurt am Main, Deutschland
Phone: +49 (0) 69 505047 301
Email: EMEAenquiries@nikkoam.com

Information sources include Bloomberg, Brown Brothers Harriman (Luxembourg) S.C.A., SMBC Nikko Bank (Luxembourg) S.A., BNP Paribas, Luxembourg Branch, Nikko Asset Management Asia and Nikko Asset Management Co., Ltd. All information as of 30 September 2024.