

# Nikko AM Asia Credit Fund

## March 2024 Supplementary Information

### Country Allocation

| Country     | Portfolio Weight | Benchmark weight |
|-------------|------------------|------------------|
| China       | 26.16%           | 36.91%           |
| South Korea | 14.98%           | 15.15%           |
| Hong Kong   | 14.32%           | 12.72%           |
| Indonesia   | 10.08%           | 13.38%           |
| Singapore   | 6.54%            | 4.47%            |
| Philippines | 5.40%            | 4.91%            |
| Malaysia    | 5.09%            | 3.16%            |
| India       | 3.25%            | 4.71%            |
| Australia   | 3.08%            | 0.00%            |
| Thailand    | 2.97%            | 1.65%            |
| Taiwan      | 1.49%            | 2.10%            |
| Macau       | 1.48%            | 0.84%            |
| Japan       | 1.05%            | 0.00%            |

### Other Information

|                | Portfolio | Benchmark |
|----------------|-----------|-----------|
| No. of Issuers | 56        | 355       |

### Market Review

Asian investment grade (IG) credit gained 0.94% in March as spreads tightened about 5 basis points (bps) and UST yields fell slightly.

Asian credit spreads widened in early March, partly dragged by weakness in the Chinese property sector following concerns around a large developer, but recovered later as indications grew that banks would support the developer. At the National People's Congress, Chinese Premier Li Qiang announced a 2024 growth target of 'about 5%', while maintaining the official deficit at 3% of GDP. Notably, the lack of significant measures to address growing economic headwinds did not negatively impact Chinese credits. Hong Kong credits rallied, following strong property sales after the removal of all property cooling measures. Indian credits underperformed marginally as reports of US prosecutors investigating India's Adani Group for potential bribery dampened sentiment.

Asian credits' overall resilience was supported by strong technicals—as new supply remained relatively limited while funds inflows strengthened. At the end of March, spreads for all major country segments, save for India, South Korea and Thailand, tightened.

officials from the US Federal Reserve (Fed) and European Central Bank suggesting that easing measures would be implemented this year. The US jobs report supported the drop in yields. Although US labour data mostly surpassed expectations, investors interpreted softer wage growth and a higher unemployment rate as indicators of a potentially easing jobs market. However, the rally reversed following sticky US inflation data. UST yields retraced lower again after the Fed maintained its relatively dovish stance at the March Federal Open Market Committee meeting, keeping the median dots for three cuts in 2024 unchanged. At end-March, the benchmark 10-year UST yield settled at 4.20%, 5 bps lower compared to end-February.

### Investment Review and Outlook

The Fund returned +0.99% on gross basis in March, outperforming the benchmark return by 5 bps. Nearly all the outperformance was derived from Selection effect, mainly from within Indonesia and Korea. Allocation effect and yield curve positioning had negligible contribution in March.

The fundamentals backdrop for Asian credit remains supportive. In China, the National People's Congress announced a 2024 growth target of 'about 5%', with a larger augmented deficit and continued accommodative monetary policy, suggesting policy makers are aware of the challenging environment. The growth target still appears challenging, as the property sector continues to drag despite a recent recovery in China's Purchasing Managers' Index (PMI). Meanwhile, macroeconomic 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 both leverage and interest coverage ratios stemming from lower earnings growth and incrementally higher funding costs, we believe there is adequate ratings buffer for most, especially the IG corporates. Asian banking systems remain robust.

Technically, 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 hard currency funds have remained weak, demand remains robust from regional institutional investors looking to lock in attractive yields. Nevertheless, following the sharp rally in recent months, these positive factors have been largely priced in, and the materialisation of some negative risk factors such as a weaker-than-expected global economy, as well as local political uncertainties and geopolitical tensions, may exert some widening pressure on 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

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.

**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.

## 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., Nikko Asset Management Asia and Nikko Asset Management Co., Ltd. All information as of 28 March 2024. The copyright and intellectual rights to the index displayed above are the sole property of the index provider. Authorised and regulated by the Financial Conduct Authority number 122084 and the Commission de Surveillance du Secteur Financier (CSSF) number RCS Luxembourg B 123.103.