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Nikko Asset Management

YOUR GOALS,
OUR COMMITMENT.

Nikko AM Asia Credit Fund

April 2024 Supplementary Information

Country Allocation

Country	Portfolio Weight	Benchmark weight
China	28.21%	36.25%
South Korea	15.22%	15.84%
Hong Kong	13.24%	13.02%
Indonesia	9.97%	13.30%
Singapore	6.70%	4.41%
Malaysia	5.10%	3.11%
Philippines	3.91%	4.87%
India	3.31%	4.67%
Australia	3.14%	0.00%
Thailand	3.00%	1.58%
Japan	2.54%	0.00%
Macau	1.52%	0.86%
Taiwan	1.46%	2.96%

Other Information

	Portfolio	Benchmark
No. of Issuers	57	356

Market Review

The US Treasuries (UST) sell-off prompted Asian investment grade (IG) credits to shed -1.26% in April even though spreads narrowed by 9.5 basis points (bps).

Asian credit spreads moved largely sideways for most of April, initially unaffected by the sharp rise in UST yields. The overall resilience was supported by stable fundamentals and favourable technicals—as new supply remained relatively limited. Market response was also sanguine to the news that Fitch Ratings had revised its outlook for China's A+ rating from 'stable' to 'negative', citing increasing risks to the country's public finances. Chinese property credits rallied, fuelled by speculation that policymakers would unveil more stimulus measures. During the month, China reported that its economy accelerated in 1Q 2024, with real gross domestic product (GDP) growth reaching a higher-than-expected 5.3% year-on-year (YoY) over the three months, up from 5.2% in 4Q 2023. Elsewhere in Asia, preliminary estimates indicated that South Korea, Malaysia and Singapore registered GDP growths of 3.4%, 3.9% and 2.7%, respectively, in the first quarter of 2024, outpacing their expansion rates in the previous quarter. Indonesia spreads widened slightly, as the weaker rupiah and rate hike by Bank Indonesia weighed on sentiment. Hong Kong property credits also pulled back, with profit taking following strong performance in March.

In April, concerns about a potential delay in the US Federal Reserve's (Fed) easing cycle led to a sell-off in UST bonds. This was driven by the strong performance of the labour market, with 303,000 jobs added in March and a decrease in the unemployment rate to 3.8%. Subsequently, higher-than-expected US headline and core Consumer Price Index (CPI) prints raised doubts about the Fed's ability to begin lowering the Fed Funds rate by the middle of the year. Although tensions between Israel and Iran increased demand for perceived 'safe-haven' assets, partially offsetting the rise in yields, hawkish statements from Fed officials, coupled with additional strong economic data, led markets to further push back their rate cut expectations. At end-April, the benchmark 2-year and 10-year UST yields settled at 5.04% and 4.68% respectively, 41.5 bps and 48 bps higher compared to end-March.

Investment Review and Outlook

The Fund returned -1.38% on gross basis in April, underperforming the benchmark return by 12 bps. The underperformance was due to negative Selection effect, mainly from within Thailand, China, and Hong Kong. Yield curve positioning contributed positively, providing a partial offset, while contribution from Allocation effect was negligible.

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 stronger-than-expected GDP growth in the first quarter of 2024 and a recent recovery in China's 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.

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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 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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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 30 April 2024.

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