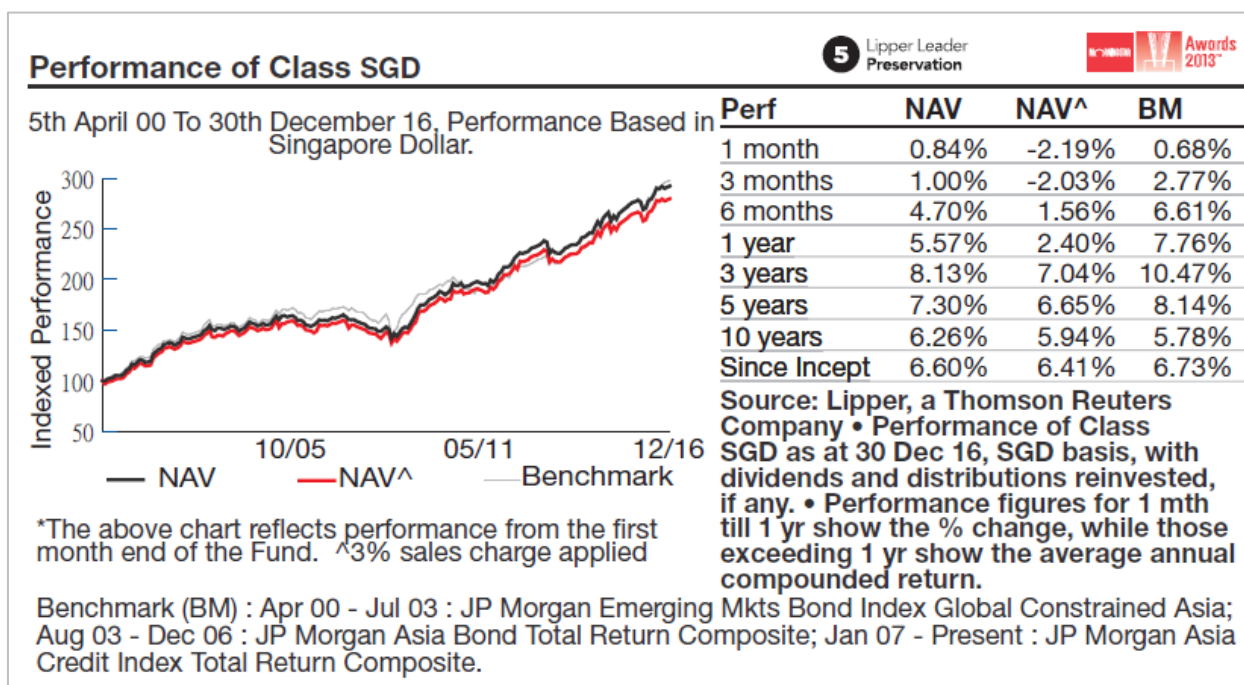


## United Asian Bond Fund

### Fund Performance

The performance of the United Asian Bond Fund (the Fund) gained 0.84%<sup>1</sup> in December 2016 while its benchmark, the JP Morgan Asia Credit Index Total Return Composite (JACI), rose 0.68%<sup>2</sup> in SGD terms. During the period under review, the Fund had outperformed the benchmark by 16 basis points (bps).



### Performance Attribution

For the month of December, the outperformance came mainly from unwinding of our FX hedges from USD to Fund's base currency, SGD. For the month of December, USD had strengthened by another 1.0% against the SGD. In addition, our defensive carry strategy from being slightly overweight in non-investment grade had added to the outperformance.

In a widely anticipated move, the Federal Reserve (Fed) raised the policy rate by 25 bps to 0.5-0.75% in December in an unanimous decision. Although the market had fully priced in this the rate hike, many were surprised by the hawkishness of US Fed committee as depicted by the upward shift in the "forward dots". This led the 10-year US treasury yield to a new record intra-day high of 2.60% before easing off to end the year at 2.44%. Recent episodes on the political front involving US, China, Taiwan and Russia had also brought about heightened concerns for investors. On the Asian credit front, activities were relatively muted due to the festive period. For the month of December, the ten-year US treasury yield rose by 6 bps to 2.44% while the JP Morgan Asia credit composite (JACI) spread tightened by a mere 2 bps to 237bps.

As at end December, the weighted average duration of our underlying bonds within our Fund was 5.1 years, compared to 5.3 years for the benchmark. In terms of allocation, the Fund has 70.4% in investment grade (IG)

<sup>1</sup> Source: Lipper, Performance 30<sup>th</sup> November 2016 to 30<sup>th</sup> December 2016 in SGD terms, on a NAV (Net Asset Value) basis, with dividends and distributions reinvested (if any).

<sup>2</sup> Source: Lipper, Performance from 30<sup>th</sup> November 2016 to 30<sup>th</sup> December 2016 in SGD terms.

All statistics quoted in the write-up are sourced from Bloomberg as at 30<sup>th</sup> December 2016 unless otherwise stated.

## United Asian Bond Fund

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credits, 13.8% in non-IG credits and 9.1% in unit trust funds (the Fund started the month with 67.9% in IG credits, 14.9% in non-IG credits, and 9.0% in unit trust funds). By comparison, the benchmark has a weight of 79.3% in IG credits and 20.7% in non-IG credits.

### Outlook and Strategy

Moving ahead, we are inclined to maintain our slightly negative stance due mainly to the stretched valuations. As at end December, the average Asian credit spread stood at about 237 bps, which is about 29 bps narrower than its 3-year historical average of 266 bps. On a longer historical basis, current spread is just 22 bps wide from its 2010's low. Nonetheless, we remain convicted in gathering defensive carry by staying invested. We prefer to turn towards neutral weighting in non-investment grade segment as the risk premium for the high yield exposure had eroded substantially. Any aggressive chase for yield may likely be largely undermined as global interest rate rose. In such an environment, the consistent focus on credit differentiation remains paramount for us while on the duration strategy, we will be more inclined to be broadly neutral on duration. Nevertheless, tactical positioning in cash level (to high single digit) and duration will be employed to gather more returns for the Fund.

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