Pillar 2 - Portfolio Management

1. Portfolio Limits: does the fund have explicit portfolio limits such as, but not limited to, single country, single sector, single security, single asset class, the correlation between securities, or other spelled-out limits.

We are a Constrained Fund

Constrained Fund - the portfolio manager can deviate from the explicit limits by:

By a maximum of 5 percentage points

2. Portfolio level ESG characteristics [iv]: We have decided ESG criteria to be used as our portfolio characteristics that include:

exposure to specific industries, sectors, and geographies with adverse impacts on

3. ESG based Securities Selection criteria[iv]: We take steps to incorporate financially material ESG information alongside traditional financial information in financial analysis and valuation of the investment product's investments:

We do not have an established security selection criterion that is based on ESG information or ESG issues

4. Security weight: What determines the weight of each security?

Liquidity at the security level

Liquidity at the portfolio level

Correlation with other securities in the portfolio

Potential to produce alpha

Portfolio limits (explicit limits or soft guidelines) such as single issuer, single security, etc.

5. Portfolio liquidity in normal markets: When we construct the portfolio, we account for short-to-medium liquidity at the portfolio level under normal market conditions.

Our liquidity targets are better than the above (please specify in maximum 250 words)

Please specify the liquidity targets in maximum 250 words.

We strive to have the capability to churn the entire Portfolio within 5 business days with minimal friction cost.

6. Portfolio liquidity in stressed markets: One key factor we consider when we construct the portfolio level is liquidity at the portfolio level under stressed market conditions.

Our liquidity targets are better than the above (please specify in maximum 250 words)

Please specify the liquidity targets in maximum 250 words.

We strive to have the capability to churn the entire Portfolio within 5 business days with minimal friction cost.

7a. Investment Bases: Our investment decisions are substantively based on the following.

Security's liquidity in the secondary market

Valuation

Target price

Investee's cash flow

Investee's ability to meet liabilities promptly/ credit quality

The ability of investee to benefit from structural changes in its industry

Investee's key management's track record

Downgrade/upgrade of the investee by our analysts

Downgrade/upgrade of the investee by sell-side analysts

ESG factors improving
Market timing
Governance factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. In the case of investing, the material impact is positive.

Additional Remarks, if any (maximum 250 words)

We adopt a consistent and systematic fundamental approach for security selection.

1) Portfolio Manager and Trader perform Relative Valuation (RV) analysis on each security in the short list to further screen for actionable securities and identify credits of interest for Analysts to conduct Fundamental analysis.

We view RV of a security from three perspectives:
Range Relative Value –Chart its spread history
Structure Relative Value –Analyze its term structure and capital structure
Peer Relative Value –Compare its value within respective country, industry and rating

2) On any credit of interest, the responsible Credit Analyst conducts bottom-up fundamental research.

Our Corporate Research is based upon 5Cs and 2Ps, namely: Character, Capacity, Conditions, Capital and Collateral; Payment Willingness and Payment Ability. We adopt CAMEL analysis for Bank Research: Capital Adequacy, Asset Quality, Management Competency, Earnings Stability and Liability Manageability.

3) For high yield and distressed credits, responsible Credit Analysts perform deep-dives, forward-looking financial modelling and scenario analysis to ascertain risk versus reward.

Upside and downside of a trade is framed by its NPV upon exit yield and recovery analysis.

Output at this stage are an Internal Credit Rating, a Buy or Sell Recommendation and its accompanying Conviction Level.

7b. Divestment Bases: Our divestment decisions are substantively based on the following.

Security's liquidity in the secondary market
Valuation
Target price
Investee's ability to meet liabilities promptly/ credit quality
Downgrade/upgrade of the investee by our own analysts
Downgrade/upgrade of the investee by sell-side analysts
Market timing

Additional Remarks, if any (maximum 250 words)

As stated in 7a, we adopt a consistent and systematic fundamental approach for security selection, based upon complexity and high conviction.

8. Research resources: How many securities does each analyst responsible for this fund cover on average?

130 or more

9. Research depth: What types of research do you rely on to make investment decisions?

Our proprietary financial models

Site visits to investees' facilities: We observe operational employees' effectiveness, productivity, attitude, initiative

Site visits to investees: We observe the key processes or production of items that are salient to the investees' competitiveness

One-to-one conversations with investees' management outside of scheduled conferences for all investment analysts

We verify investees' claims with informed third parties, including but not limited to suppliers, customers, distributors, competitors, and industry specialists

Earnings conference calls or meetings with investees' management which are scheduled for all investment analysts

Independent consultants specializing in specific sectors, technologies, geographies, economies, factors, etc.

Sell-side brokers' research

10. Actual Example - Please provide an ACTUAL example of how you executed ONE of the following, in a maximum of 500 words.

What was your thought process behind security weight/investment/divestment into specific securities

Please briefly describe the critical challenge/s, actions taken, results and lessons learned:

Investment Case: Successfully Tapping Opportunities of China Property amid Heightened Scrutiny and Panic Selloff

We used to love China property and were positioned strategically long as the sector has an excellent track record of low delinquency that there have been only 3 incidents of default from 2006 until last year, which is extremely low. Moreover, the valuations in the sector are compelling compared to its peer group. While rigorously examining the reasons behind, we discover that the sector has been primarily policy driven; since 2008, spreads have always tightened during dovish period and widened during hawkish periods. Regulators have only a singular agenda which is housing price stability, and policies targeting the sector are elastic and cycle is relatively short, averaging only 2 years. Hence, for a property bond issued averaging 3-year maturity, there is always a window to refinance.

However, we turned tactical towards investing in China Property since beginning of this year. Indeed, the sector has experienced the longest spell of tightening since 2017. Our discussions with many real estate tycoons led to grim outlook for the next 2 years. Regulators now have a secondary agenda, which is targeting the “super corporates” including some China Property companies that have made use of cheap financing to lever up a lot over the decade, becoming mammoth conglomerates investing in many industries outside their main areas of competence. This is not consistent with Beijing’s agenda.

Most significantly, recent defaults in the sector are highly troubling that the spillover effect may cause many more defaults. This is especially true as most USD bond issuers in the offshore market are top-100 developers in China, and with capital markets now essentially closed, their ability to refinance is vastly impaired. Furthermore, credit selection couldn't be harder now with the willingness-to-pay risk magnified by Fantasia's non-payment. We could see more strategic NPL emerging over the course of this year.

September has seen the worst historical selloff in China HY property bonds where iBoxx index crashed 10.9%. However, we differentiated ourselves that our tactical approach was impressively successful as it contributed +1.46% to performance. We covered some shorts as they hit our price targets, resulting in lower gross exposure, but with a higher PV10% compared with August.

Value has definitely emerged in Asia HY, but market entry is tricky considering volatility has yet to subside. We expect more defaults among China property issuers, and Evergrande will likely have to establish a price floor from a restructuring proposal before investors feel comfortable legging in on other risky names. From our position perspective, we have been covering our shorts in the sector into recent sell-off and establishing longs in oversold names at the same time. We still retain shorts in default candidates and overpriced credits (source: GaoTeng).