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FUND COMMENTARY – JULY 2025

CT (LUX) FLEXIBLE ASIAN BOND



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Summary

- Gross of fees, the fund returned 1.11% in US dollars in July, beating its benchmark by 42 basis points (bps)¹.
- Security selection drove the relative outperformance.

Market Background

Asian investment-grade (IG) credit enjoyed a second consecutive month of positive returns in July, with the fund's benchmark returning 0.69% in US dollars. The positive return was driven by coupon income and tightening spreads, which offset the impact of rising US Treasury yields.

Early in the month, some stronger-than-expected US economic data pushed up the dollar and Treasury yields, posing a headwind for Asian IG credit. However, yields subsequently fell back and investors were encouraged as the US signed trade deals with several countries, including South Korea, Indonesia, the Philippines and Vietnam, though India and Brazil were notable exceptions.

Sentiment towards Chinese assets was buoyed as Washington and Beijing agreed to extend their previous tariff truce while negotiations continue. In addition, the Trump administration lifted a ban on the export of advanced US chip design software to China. In terms of economic data, GDP growth for the first half of 2025 beat expectations, as did industrial production in June. However, producer price deflation continued, due to weak domestic consumption and falling external demand. At July's Politburo meeting, policymakers did not announce further stimulus measures but reiterated their pledge to tackle economic involution (the negative dynamics of excessive competition, overcapacity and aggressive price wars among companies).

Elsewhere in Asia, sentiment towards technology-sector issuers in Taiwan and Korea was positive, as major US companies released better-than-expected earnings and reaffirmed their commitments to AI capital spending. However, the US imposed levies of 20% on Taiwanese exports. In terms of economic data, Taiwan's trade surplus widened again in June, driven by semiconductor and computer exports. Meanwhile, in Korea, the legislature passed a stimulus programme designed to promote domestic consumption and invest in AI infrastructure. The Bank of Korea kept rates steady in its July meeting, but four of the seven board members signalled that interest rates could be cut within the next three months.

In India, sentiment was hurt by some disappointing corporate earnings, higher oil prices and the rupee's weakness against the dollar. Tariff-related uncertainty was also a factor as India was unexpectedly hit by a 25% levy on exports to the US. President Trump threatened even steeper measures should India continue trading energy goods with Russia.

Turning to Indonesia, according to its trade deal with the US, the tariff rate on Indonesian exports will fall to 19% from 32%, in exchange for a lower Indonesian levy on American exports and the purchase of American energy, agricultural and aviation goods. Indonesia's central bank lowered rates by 25 basis points (bps) to 5.25%, as expected.

Sovereigns

Asian hard-currency government bond yields mostly rose in July. In China, 10-year yields ended the month up 11 bps, while in South Korea and India, benchmark yields ended the month 7 bps and 3 bps higher. Indonesia and the Philippines outperformed; 10-year yields ended the month unchanged and 3 bps lower, respectively.

Corporate Credit

In China, competition in the e-commerce services and food-delivery sector remains intense, with companies focused on cross-selling products and gaining new users. According to shopping platform Meituan, daily orders of food and retail on its instant delivery service exceeded 120 million on 5 July, with food orders accounting for 83% – an all-time high. Delivery services were actually disrupted by technical glitches in certain areas due to the overwhelming demand. In early July, Alibaba launched a CNY50 billion (US\$7 billion) subsidy program for its one-hour delivery service for products bought on the platform. Over the next 12 months, it will incentivise customers via vouchers and subsidised products, and merchants via store subsidies and commission-waivers. Meanwhile, rival JD.com is investing aggressively in its food delivery service, waiving commissions for the first year for merchants who signed up early to its platform. It is also providing comprehensive insurance benefits (medical and accident) for both full-time and part-time riders, to build up its rider base.

In results news, semiconductor firm TSMC's Q2 net revenue rose by 44% year on year, ahead of management guidance. Gross profit also increased 53% year on year, which was ahead of company guidance. Strong demand for AI chips and advanced technology nodes was the key driver of the robust results. The company raised its outlook for fiscal year 2025 revenue growth to 30% year-on-year in US dollar terms.

LG Energy Solutions also posted good Q2 results, with operating profit growth of 15% year on year. The company continues to benefit from the advanced manufacturing production credit, a US federal tax credit aimed at stimulating the manufacturing of eligible clean energy components within the US. In the second half of the year, the company expects more growth in energy-storage solutions, which will compensate for the challenges facing its electric vehicle (EV) business. The firm has been shifting more capacity in the US away from EV batteries towards energy-storage, due to growing demand from renewable energy and grid networks.

SK Hynix reported positive Q2 results, primarily driven by strong sales of memory chips for AI applications. The company experienced accelerated demand as customers built inventory buffers amid tariff uncertainties. Management announced that 2025 capital expenditure will exceed initial projections.

Freeport McMoRan (FCX), the US parent company of PT Freeport Indonesia (PTFI), also presented its Q2 results and responded to tariff-related questions as to whether PTFI would export copper to the US. Management clarified that minimal copper exports have flowed from Indonesia to the US, with most copper concentrates being sold to Asian markets. However, PTFI maintains the flexibility to export to any market where economic conditions prove favourable.

In other company-specific news, Adani Ports & SEZ launched a tender offer to repurchase up to US\$450 million of outstanding bonds with maturities in 2027 and 2029.

Malaysia's Genting Berhad submitted an initial \$5.5 billion bid for a license to operate a casino with full-scale gaming tables in New York through its US business, Resorts World NYC. There are eight bidders for the three available casinos, with Genting Berhad and MGM regarded as the frontrunners.

A 145-day period for Hutchinson Ports to discuss selling its global ports business exclusively to the Blackrock-TiL (Terminal Investment Limited) consortium expired on 27 July; however, the talks will continue beyond the deadline. There is a possibility that China Cosco could be the next strategic investor in the consortium, in order to gain the necessary regulatory approval from China. The geopolitically contentious transaction includes 43 port terminals (including two in Panama) across 23 countries, and China is keen to position itself strategically.

In ratings news, S&P upgraded Pakistan to B- from CCC+, reflecting the government's successful efforts to expand revenue, and the more benign inflationary backdrop, which is helping the pace of fiscal consolidation.

Primary Market

Gross issuance in August totaled US\$11 billion, down around 31% month on month and 34% year over year. Most new bonds were issued by quasi-sovereigns or financials, but Indonesia issued US\$2.2 billion in new sovereign 5- and 10-year bonds. Additionally, SM Global Power issued a US\$400 million perpetual (non-call 5-year) bond, which included US\$223.2 million in an exchange offer.

Performance

Gross of fees, the fund returned 1.11% in US dollars in July, beating its benchmark by 42 bps¹.

Security selection drove the outperformance. At the issuer level, key contributors included our holdings in Hong Kong property company Goodman Group, and the small off-benchmark positions in Chinese property companies Logan Group and CIFI. On the other side, slight detractors included the lack of exposure to Philippine sukuk sovereigns and property development conglomerate Far East Consortium (FEC), together with the underweight in banking group Standard Chartered. Country positioning was broadly neutral for relative returns.

Curve positioning was slightly unhelpful in aggregate but the effect was fully offset by a small contribution from duration positioning.

Outlook

Within emerging market Asia, China remains our primary focus due to several credit concerns. Macro fundamentals appear increasingly challenging in the second half (H2) of 2025, with recent data showing weakening momentum in consumption and rising youth unemployment. While this year's trade-in programme provided initial support to consumption, questions remain about potential drags going forward. Additional fiscal stimulus in H2 2025 seems unlikely at present, though we are carefully monitoring for conditions that might trigger further government action. Even with the current tariff truce, higher levies will continue to pressure Chinese exports, and export growth is projected to slow in H2. One positive is the ongoing US-China dialogue during the extended trade truce, but significant issues remain unresolved, including China's soybean purchases and the 20% fentanyl-related tariff.

Turning to India, together with the 25% of reciprocal tariff, the aggregate tariff has increased to 50% for exports to the US, with around 60% of Indian exports currently subject to this level of tariff. However, some categories, including semiconductors, electronics, pharmaceuticals, energy and lumber, are not impacted by any tariffs yet. The impact on the Indian economy could materialise through the rest of the year. For now, the RBI holds a growth forecast of 6.5% for financial year-end March 2026.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The fund invests in securities whose value would be significantly affected if the issuer refused, was unable to or was perceived to be unable to pay.

The fund invests in markets where economic and regulatory risk can be significant. These factors can affect liquidity, settlement and asset values. Any such event can have a negative effect on the value of your investment.

The fund holds assets which could prove difficult to sell. The fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities.

Changes in interest rates are likely to affect the fund's value. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

The fund's assets may sometimes be difficult to value objectively and the actual value may not be recognised until assets are sold.

The fund may invest materially in derivatives (complex instruments linked to the rise and fall of the value of other assets). A relatively small change in the value of the underlying investment may have a much larger positive or negative impact on the value of the derivative.

Leverage occurs when economic exposure through derivatives is greater than the amount invested. Such exposure, and the use of short selling techniques, may lead to the fund suffering losses in excess of the amount it initially invested.

The fund may invest in the China Interbank Bond Market (CIBM) via Hong Kong Bond Connect which is subject to regulatory, volatility and liquidity risk, as well as risks associated with settlement, default of counterparties and market suspension. Furthermore, the fund may incur significant trading, taxation and realisation costs.

The fund may exhibit significant price volatility.

¹ Past performance does not predict future returns. Please refer to the KIID document found on our website for further information on the fund performance.

The risks currently identified as applying to the fund are set out in the "Risk Factors" section of the prospectus.

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