T. Rowe Price®

ASIA CREDIT BOND STRATEGY

Seeking the best opportunities in a high-growth region

Asian credit markets are often overlooked by global asset allocators, but they are a rapidly growing and increasingly important segment of the global fixed income universe. T. Rowe Price's Asia Credit Bond Strategy seeks to uncover the best credit opportunities in this region of high economic growth and positive demographic trends.

A booming market

The Asian US dollar-denominated bond market has grown dramatically over the last decade. This reflects a secular shift in the way Asian borrowers finance themselves. Since the 2008 crisis, many borrowers have replaced short-term bank loan facilities with longer-term, market-based financing.

The capitalisation of J.P. Morgan's Asia Credit Index (JACI) Diversified has grown roughly eightfold since the Global Financial Crisis, from US$141 billion in 2008 to more than US$1.1 trillion by the end of 2020 – broadly comparable with the US high-yield bond market.

Today, Asian credit markets are much less dependent on foreign investors than in the past. A reliance on hot money inflows was widely seen as a factor in the region's 1997 currency crisis. Now local investors buy roughly three-quarters of the region's dollar bond issuance, compared with about 50% a decade ago.

Robust economic growth in Asia ex-Japan has created a powerful tailwind for the region's bond issuers, helping them to develop new markets at home and abroad. In the span of just a decade, China has eclipsed Japan as the world's second-largest economy and is now more than double its size. The entire region accounts for about 27% of the global economy, up from 10% in 2000. Asia ex-Japan now accounts for two out of every five people in the world, with particularly favourable (i.e. younger) demographics in countries like India, Indonesia, Bangladesh and the Philippines.[1]

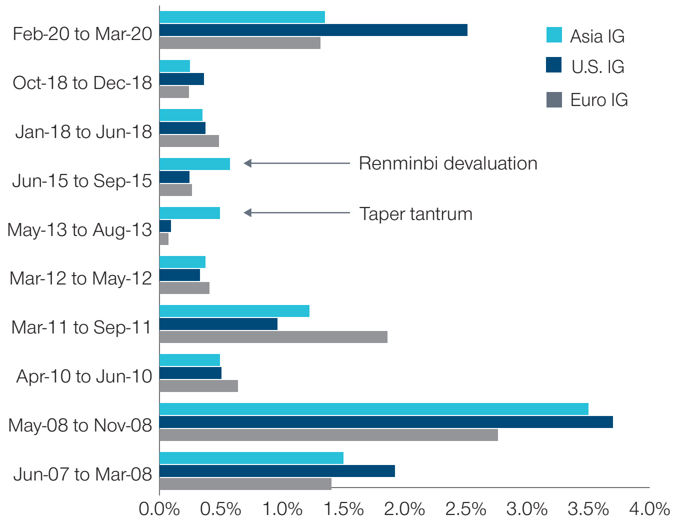
Diversification and resilience

Asia credit spans a diverse set of countries and issuer types, with an emphasis on strong credit quality. By December 2020, more than 75% of the index consisted of investment-grade (IG) issues. This helps explain why Asia credit has been relatively resilient to market setbacks (**see chart**). The high-yield segment of the market also has a higher-quality bias. Only about 2% is rated CCC or below, compared with about 14% for the broad emerging market (EM) high yield market. As a result, Asia has historically averaged lower default rates than other EM regions.

Asia credit has an imperfect positive correlation with Asia ex-Japan equities, with a more stable return profile, so it can act as a lower-volatility diversifier. Asia credit also has relatively lower duration (interest-rate risk) than US and European IG, offering higher yield on shorter-dated issues.

Spread changes during sell-offs

31 December 2002 to 31 December 2020



Sources: Asia IG – J.P. Morgan Asia Credit Index Diversified, z spread; US IG – Bloomberg Barclays US Aggregate Corporate Investment Grade Index, OAS; Euro IG – Bloomberg Barclays Euro-Aggregate Index, OAS.
Source: J.P. Morgan Chase & Co. and Bloomberg Index Services Ltd.
For sourcing information, please see Additional Disclosures.

[1] World Bank and IMF data, data analysis by T. Rowe Price.

Asia Credit Bond Strategy - investment approach

We seek to identify evolving, long-term investment opportunities across the growing Asian credit asset class and to take advantage of pricing anomalies and dislocations in the market. We expect to add the most value through individual credit selection, which is guided by our analysts' fundamental credit research. To the extent that top-down themes are pursued, they typically seek to identify sectors that benefit from long-term structural tailwinds.

We believe our bottom-up research process—integrating our proprietary corporate, equity, sovereign, and ESG analysis—allows for early identification of high-quality businesses, as well as those with long-term potential for external market rerating. We focus on building a long-term portfolio of 80 to 120 undervalued companies with strong corporate governance and business fundamentals.

Overall, our investment approach emphasizes in-depth, fundamental research, diversification, and strict risk management. Our goal is to generate consistent long-term returns with reduced volatility. We would expect our approach to add the most value at times when market returns are driven by company-specific fundamentals. In heavily 'risk on' markets where buying is indiscriminate (i.e. a 'rising tide lifts all boats' scenario) we would expect our upside capture to be less than that of higher-beta managers.

Strategy Profile	
Indicative Benchmark	J.P. Morgan Asia Credit Index Diversified
Typical number of issuers	80-120
Expected Value Added	
Security selection	80%
Sector allocation	20%
Investment Parameters	
Country	Country ±20% relative to index weight
Industry	±20% relative to index weight
Rating category	±20% relative to index weight
Corporate issuer	Max 3%
Non-USD allocation	Max 10%
Duration	±1 year relative to benchmark

Five-step investment process

1 Investment Screening

We narrow the investment universe to around 700 issues rated from B to BBB, based on liquidity (issues over US$250 million), market inefficiency, and strong corporate governance records.

2 Fundamental Analysis

We meet managements and collaborate with our equity team during our evaluation of an issuer's business and its financial strength.

3 Relative Value Analysis

We evaluate the risk-adjusted absolute return potential of a bond against its peers and based on company fundamentals.

4 Position Sizing

To ensure that no position adds disproportionate risk to the portfolio, position sizes range from 50 to 300 basis points, based on relative value, the domestic backdrop, issuer history and tail risk.

5 Risk Management

We employ ongoing risk management at four levels. Credit analysts focus on fundamental credit risk and corporate governance. Portfolio managers and quantitative analysts measure sources of systematic risk and assess liquidity. Our in-house ESG team assigns every issuer an ESG risk score. Enterprise risk management reviews portfolio positioning, risk levels, and issues such as counterparty risk.

"Economic growth in Asia will remain a key driver of global growth."

Sheldon Chan | Portfolio Manager

Why T. Rowe Price for Asia credit?

Extensive asset class experience

With more than 25 years of experience in emerging markets (EM) debt, T. Rowe Price has invested in EM companies since the infancy of the asset class. As the market has evolved, we have gained firsthand knowledge of and perspective on, a wide range of economic, political and commodity cycles.

Growing Asia presence

With a presence in Asia that dates back to 1982, we have the people, processes, and platforms in place to understand the fundamental factors that drive performance in this fast-growing region. We maintain six offices across the region, and there is a genuine commitment to strengthening further our locally based research capabilities and investment offerings.

Culture of collaboration

Our investment approach emphasizes the integration of fundamental research and communication across corporate, sovereign, and equity markets. Sharing of analysis and joint on-site research trips allow for a more comprehensive investment view in less transparent markets and improve access to corporate management teams.

A disciplined approach to risk

Diversifying and mitigating risk is integral to the active management of our strategy. A significant part of our effort is dedicated to understanding the underlying financial and nonfinancial risk factors of each active investment position as well as the overall level of risk borne by our portfolios.

Focus on market inefficiencies

As a nascent asset class, we believe Asia corporate debt carries structural characteristics that can be exploited with an active management approach. A long-term fundamental investment focus combined with collaboration across our global research platform can help identify informational, liquidity, and other market-related inefficiencies within the most attractively priced segments of the opportunity set.

High-quality research platform with a global presence

Fundamental, bottom-up research is the core of our investment process. Over the years, we have grown our platform to include 69 emerging markets debt and equity professionals, representing 23 nationalities and speaking 27 languages. The team evaluates more than 75 countries across the opportunity set.[1] Each emerging markets corporate analyst conducts proprietary research within a strict framework that focuses on both long-term fundamental trends and relative value.

Dedicated responsible investing and governance teams

Full-time specialists in responsible investing, global corporate governance, and legislative affairs work with our analysts and portfolio managers to delve into situations where environmental, social, and governance factors or regulatory risk are particularly significant. Our proprietary, in-house Responsible Investing Indicator Model measures a company's environmental, social, and ethical profile and flags those with elevated risks and/or opportunities.

T. Rowe Price at a glance[1]

- Founded in 1937
- US$1,470 billion in assets under management[1]
- 724 investment professionals worldwide
- 336 research analysts collaborating across asset classes and industries
- Offices in 16 countries, research analysts in 9 different locations
- Clients in 51 countries

T. Rowe Price Asia Credit Bond Strategy

Portfolio manager	Sheldon Chan
Strategy inception date	April 2018
Indicative benchmark	J.P. Morgan Asia Credit Index Diversified

[1] All figures as at 31 December 2020. Firmwide AUM includes assets managed by T. Rowe Price Associates, Inc. and its investment advisory affiliates.

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