

# China's fast-growing onshore bond market – too big to ignore

UBS China **Fixed** Income

China Fixed Income is an actively managed strategy run by an experienced team of China investors and offers direct access to attractive yields in China's fast-growing onshore fixed income market.

## China Fixed Income: Why now?

Now China's onshore fixed income markets are fully accessible, investors benefit from a set of opportunities that bring bond and currency diversification benefits to global portfolios.

More than that, China onshore bonds offer strong relative value because nominal and real yields are very attractive compared to those in developed markets.

At close to USD 17.5 trillion, China's onshore bond market is also too big to ignore, it is now the second largest bond market.

Ongoing Index inclusion will accelerate this process and investors need to position accordingly.

The RMB is likely to become an additional FX bloc and reserve currency over the longer term, driven by trends such as Petro Yuan and export invoicing in RMB.



## Why UBS-AM for China Fixed Income?

We are the leading foreign asset manager operating in China, as voted by both Z-Ben Advisors, a China-based consultancy and advisory company, and Broadridge, a US-based research company.

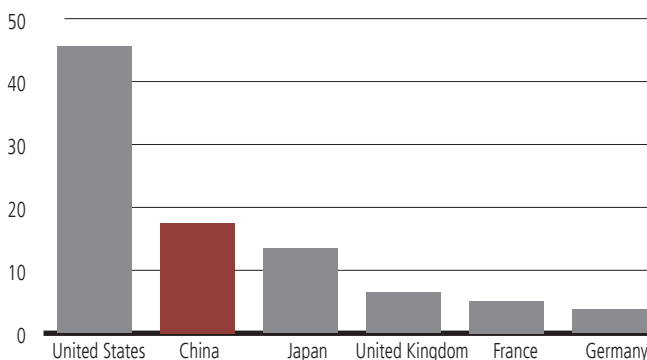
We are an established asset manager and our active approach to investing in China allows us to take advantage of periodic episodes of volatility in China and identify idiosyncratic opportunities.

Our operational capabilities are backed up by a well-established team of fixed income specialists and investors all of whom have deep experience of investing in China's onshore fixed income markets.

UBS Asset Management is currently one of the few companies with the capability to offer direct access via either Bond Connect or CIBM Direct and we can also offer CNY funding, not just CNH, which is a capability that very few of our competitors offer.

## China's onshore bond market is huge

Size of Bond Market, USD Trn

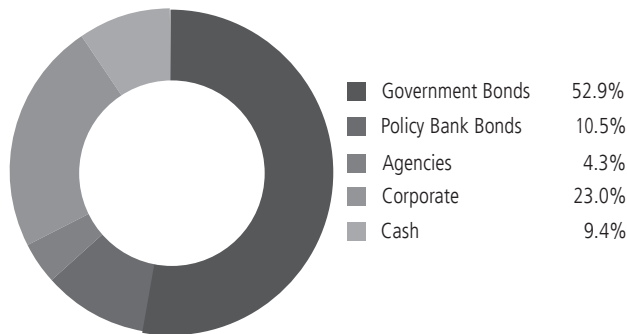


## Strategy

China Fixed Income is an actively managed portfolio that gives investors access to the best opportunities in China's onshore fixed income markets.

The strategy seeks attractive returns by investing in RMB-denominated fixed income instruments that are primarily issued by, but not limited to, the central government or local governments, government-related entities, banks and other financial institutions or corporate entities.

### Indicative portfolio positioning



Source: UBS Asset Management, data as at 31 January 2021

Note: This information should not be considered as a recommendation to purchase or sell any security. Past performance is not a reliable indicator of future results.

## Philosophy

We believe in active management and that markets are ultimately driven by fundamentals. Consistent investment returns over the cycle are the result of a focus on diversified sources of excess return and integrated risk management.

### Process

Our process rests on three key steps:

- firstly, a top-down analysis of China's macroeconomic trends;
- secondly, translation of market views into investment ideas and positions;
- and finally, the implementation of the strategy and management of portfolio risk.

### Why UBS-AM?

UBS Asset Management is a large-scale, global asset manager, with a long-established presence in China.

We have extensive onshore knowledge and expertise, leveraged through UBS SDIC our onshore joint venture.

Our Fixed Income team has over 20 years' experience of managing fixed income in Asia and China.

**Hayden Briscoe** has overall responsibility for all Asia Pacific fixed income activities at UBS Asset Management. This includes fixed income investment capabilities in Hong Kong, Singapore, Japan, Australia, and China.



### Opportunities

- This diversified bond portfolio can be used to participate in the opportunities in the China fixed income market, as well as exposure to Chinese Yuan
- The strategy is actively managed across duration, yield curve, sector and security selection in accordance with market conditions. This allows the portfolio to be dynamically adjusted throughout market cycles



### Risks

- The strategy offers higher return potential than a developed market bond portfolio and therefore bears a higher risk
- In addition, emerging markets are at an early stage of development which can typically involve a high level of price volatility and other specific risks such as lower market transparency, regulatory hurdles, corporate governance and political and social challenges. Corresponding risk tolerance and capacity are required. All investments are subject to market fluctuations
- The strategy can invest in less liquid assets
- that may be difficult to sell in the case of distressed markets
- Every strategy has specific risks, which can significantly increase under unusual market conditions. The strategy can use derivatives, which may result in additional risks (particularly counterparty risk)

## Glossary

### Bond Connect

Bond Connect is a cross-border bond trading and settlement scheme that provides a link between China Central Depository & Clearing Co. and Shanghai Clearing House, and the Central Money markets Unit in Hong Kong. Bond Connect is a mutual market access scheme that allows investors from Mainland China and overseas to trade in each other's bond markets.

### China Interbank Bond Market (CIBM)

The China Interbank Bond Market (CIBM) is an OTC market outside the Shanghai and Shenzhen stock exchanges. Formed in June 1997, major debt instruments traded in the CIBM are government bonds, PBOC bills, and other financial debts.

### Chinese yuan (CNY)

The official abbreviation for the Chinese yuan, which is the unit of account for the Chinese currency. The currency is also formally called the renminbi. The terms "yuan" and "renminbi" are often used interchangeably.

### CNH

Refers to the Chinese yuan traded in the offshore market, which is outside of Mainland China (the onshore market).

### Qualified Domestic Institutional Investor (QDII)

Qualified Domestic Institutional Investor is a scheme set up to allow financial institutions to invest in offshore markets such as securities and bonds.

### Qualified Domestic Investment Partnership (QDLP)

The Qualified Domestic Investment Partnership is a pilot program developed by Chinese local authorities. It allows foreign asset managers to raise RMB from wealthy and institutional investors in China for overseas investment.

### Qualified Foreign Institutional Investor (QFII)

Qualified Foreign Institutional Investor is a program that allows specified licensed international investors to participate in mainland China's stock exchanges.

### Renminbi Qualified Foreign Institutional Investor (RQFII)

The renminbi qualified foreign institutional investor scheme. Launched in December 2011 it allowed a small number of Chinese financial firms to establish renminbi-denominated funds in Hong Kong for investment in the mainland.

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