



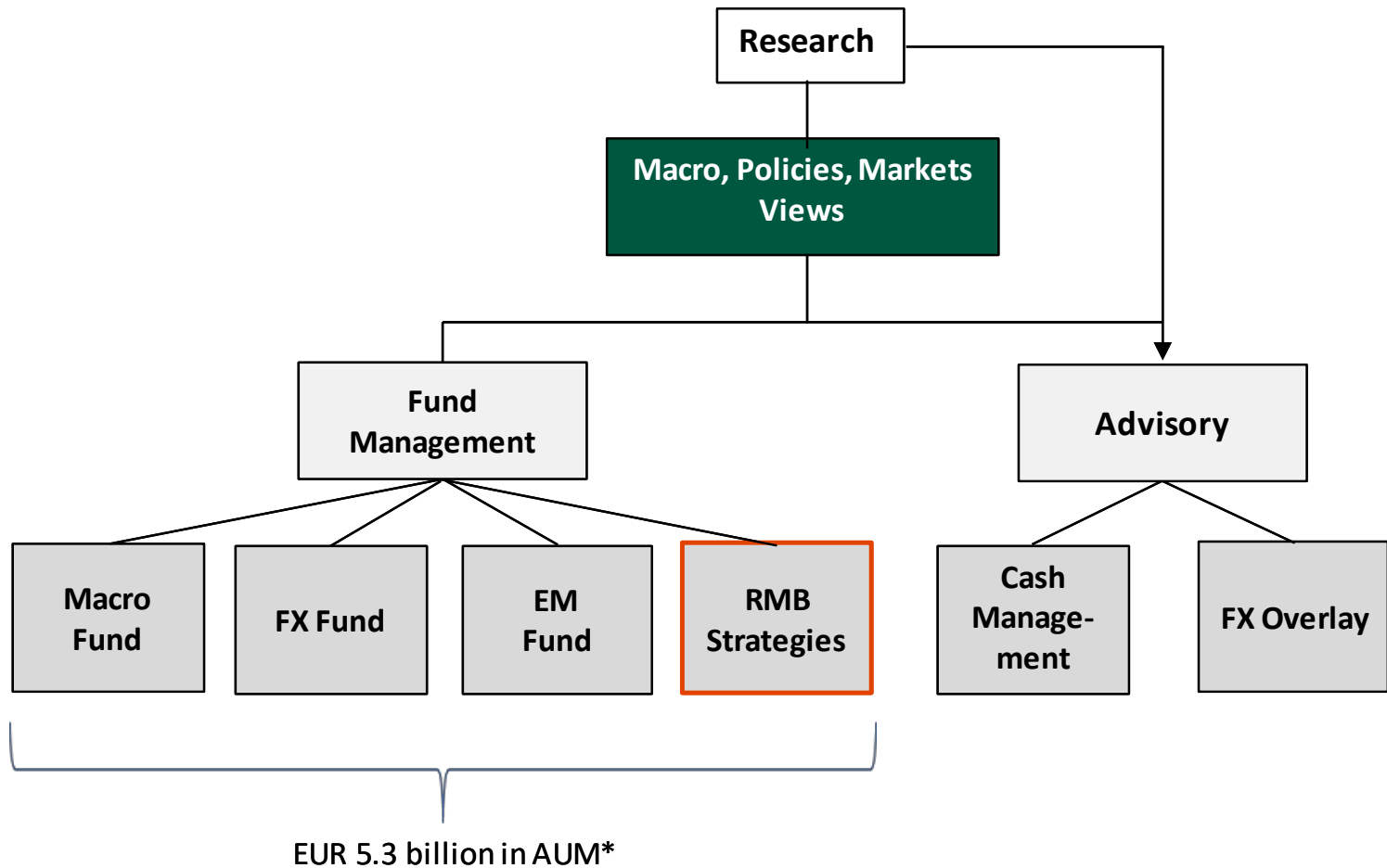
# **Eurizon Fund - Bond Aggregate RMB**

Web conference 3<sup>rd</sup> March 2022

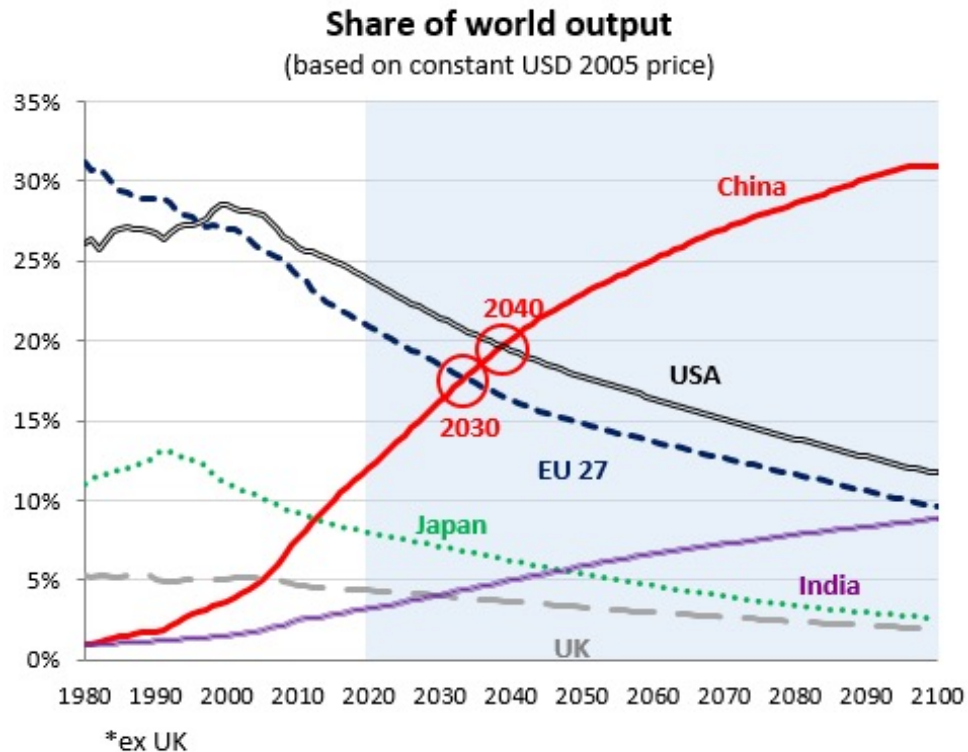
Presented by Monica Y Wang (Senior Portfolio Manager)

# Eurizon SLJ Capital Limited

Business structure and investment process



# The winner of 2020 was China



1. The winner of 2020 was China. The Pandemic has brought forward the 'crossover point' by 2-3 years.
2. The great policy divergences now, in contrast to the 2008-11 episode.
3. The prospective rise of China will probably be the most consequential event in our lives.

Sources: MaGE model data, CEPII, Datastream, Wind, Eurizon SLJ Capital Ltd, as of 31/01/2020

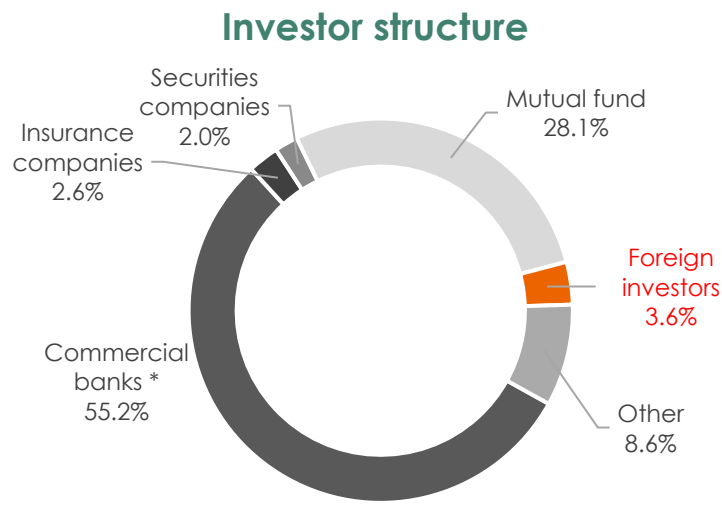
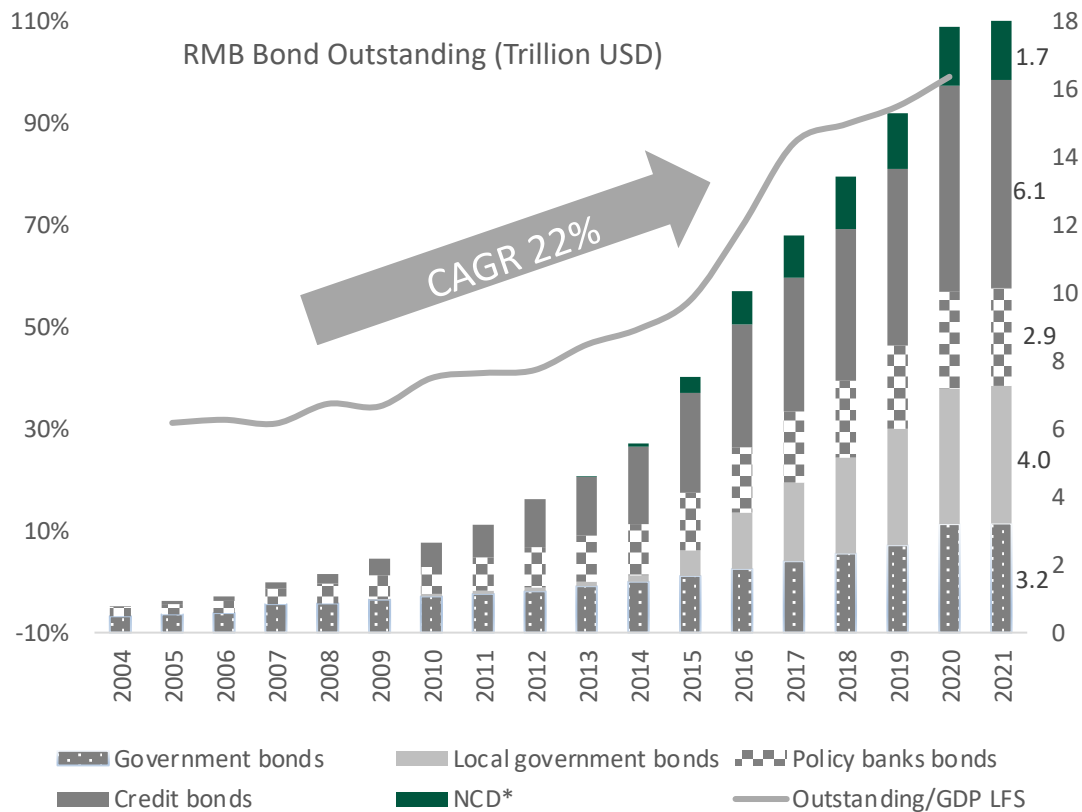
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# 1. Opening of the RMB bond market

## 2. RMB bonds offer precious beta

## 3. ESLJ's investment process

# The RMB Onshore Bond Market Structure: supply and demand



\* Includes credit cooperative

**20.1 Trillion USD**

**The 2nd Biggest**

**64, 190 Bonds**

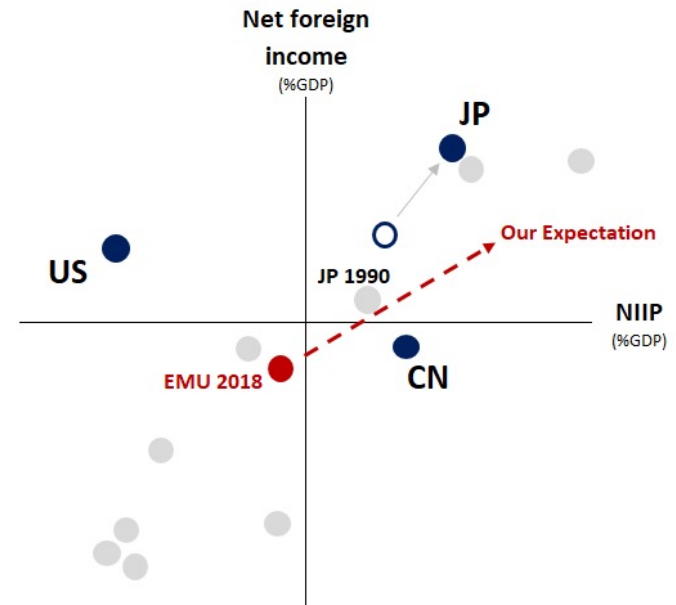
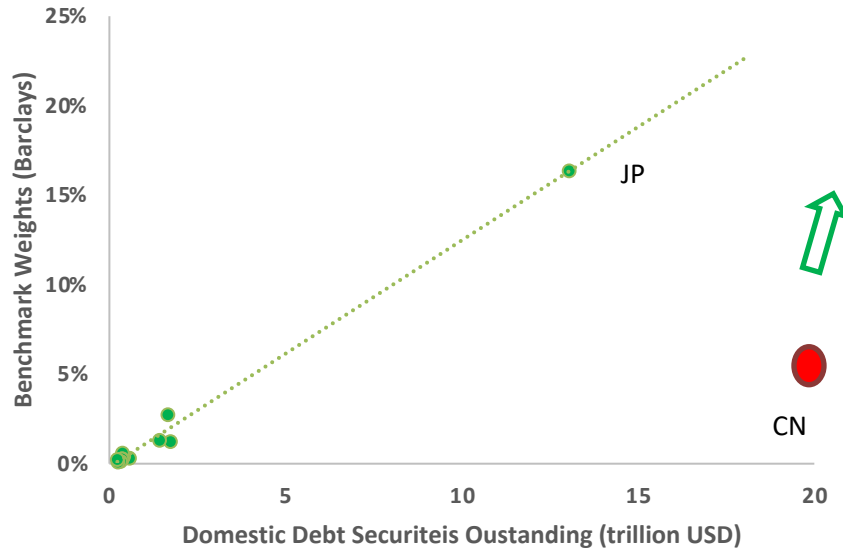
**3 Policy Banks**

**3.6% Foreign Investors**

\* NCD: (interbank) negotiable certificates of deposit  
 Source: Wind, Eurizon SLJ Capital. Data as of 31/11/2021

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# USD 2 trillion in inflows in five years



- Foreign ownership of onshore RMB bonds is too low
- RMB bonds are 1.5 times the aggregate of all of the existing EM bonds. Crowding out is certain.

- Impending capital outflows from Europe
- Capital outflows could overwhelm Europe's CA surplus
- EM and China could be the biggest beneficiaries.

Sources: BIS, BBG, CCDC, SHCH, Wind and Eurizon SLJ Capital, as of 31/12/2021

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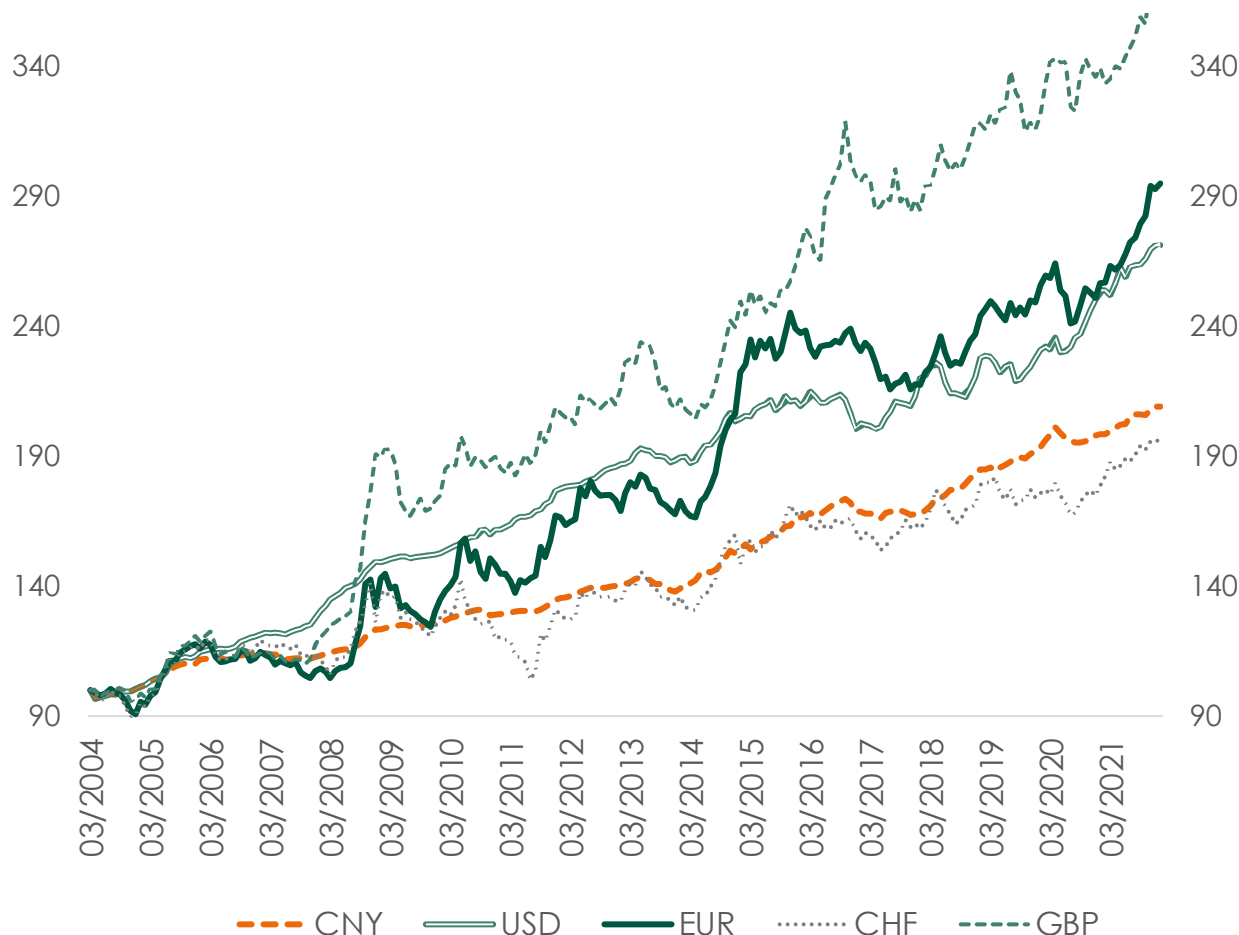
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# RMB bonds have generated robust returns

## China Benchmark Index (unhedged)



### Cumulative Return:

**2004-2021 Dec**  
**EUR Index: 195%**  
 USD Index: 171%  
 CHF Index: 97%  
 GBP Index: 270%  
 Local Index: 109%

### Annualized Return:

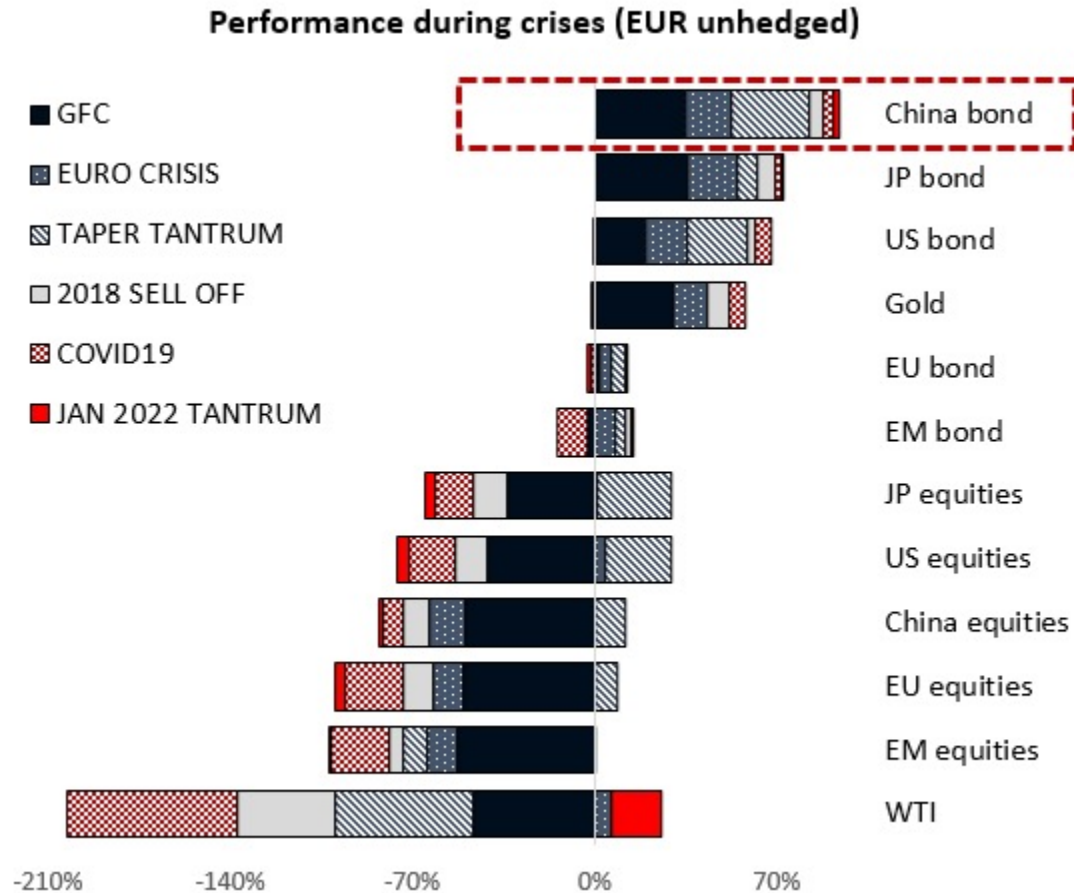
**2004-2021 Dec**  
**EUR Index: 6.3%**  
 USD Index: 5.7%  
 CHF Index: 3.9%  
 GBP Index: 7.7%  
 Local Index: 4.2%

China Benchmark Index refers to Bloomberg Barclays China Aggregate Total Return Index  
 Past performance is no guarantee of future returns  
 Sources: Bloomberg and Eurizon SLJ Capital Ltd, as of 31/12/2021

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# Why China? Safe-haven characteristics (EUR unhedged)

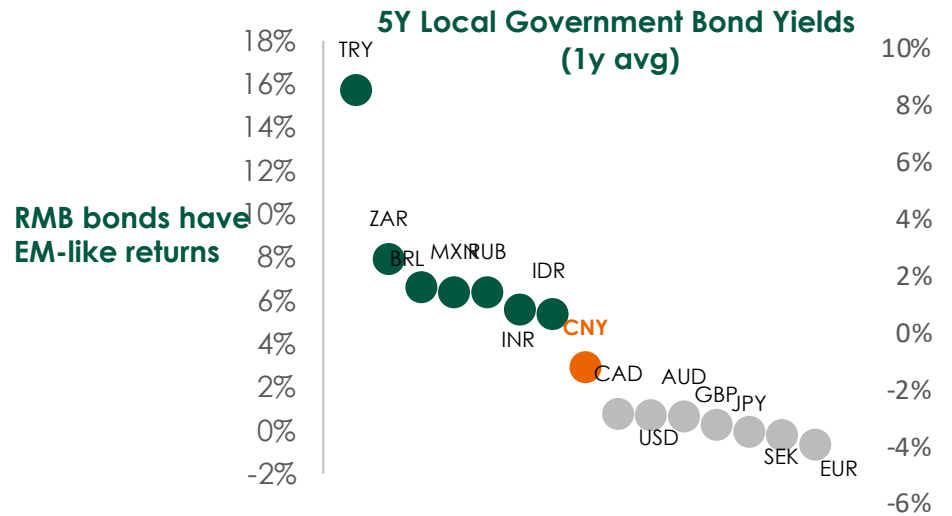


Performance as Euro unhedged

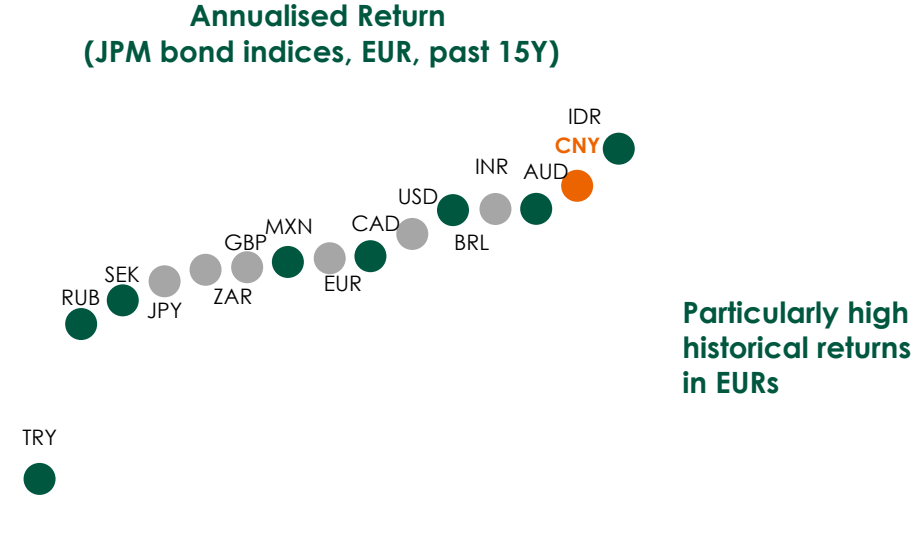
Sources: Datastream, Bloomberg and Eurizon SLJ Capital Ltd, as of 31/01/2022

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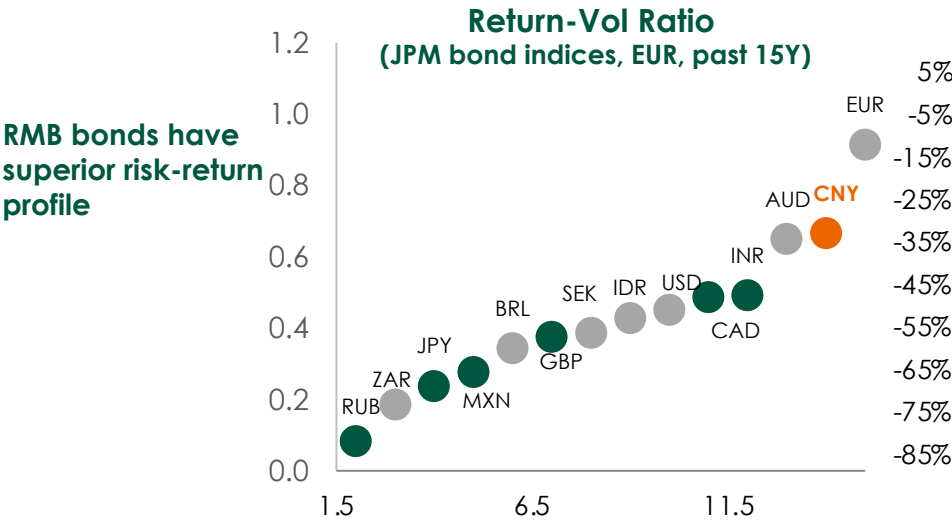
# Why China? EM-like returns but DM-like risks (EUR unhedged)



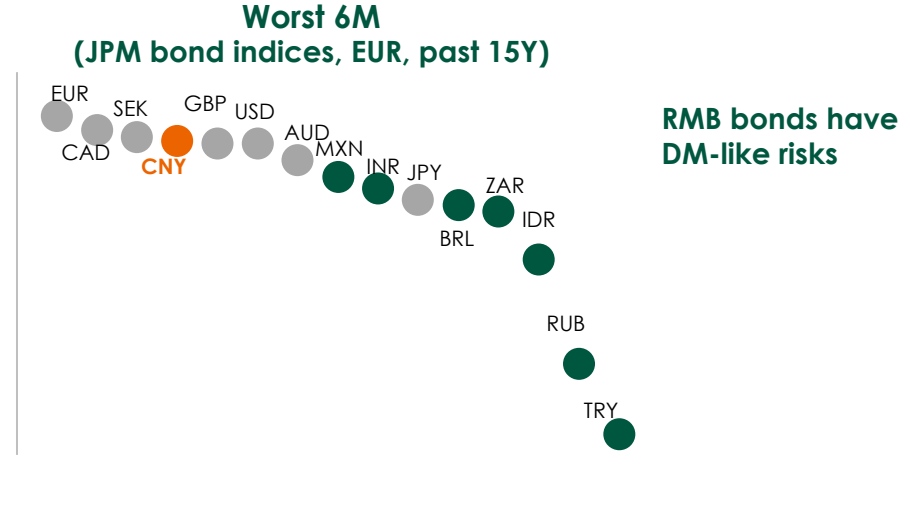
RMB bonds have EM-like returns



Particularly high historical returns in EURs



RMB bonds have superior risk-return profile



RMB bonds have DM-like risks

Past performance is no guarantee of future returns

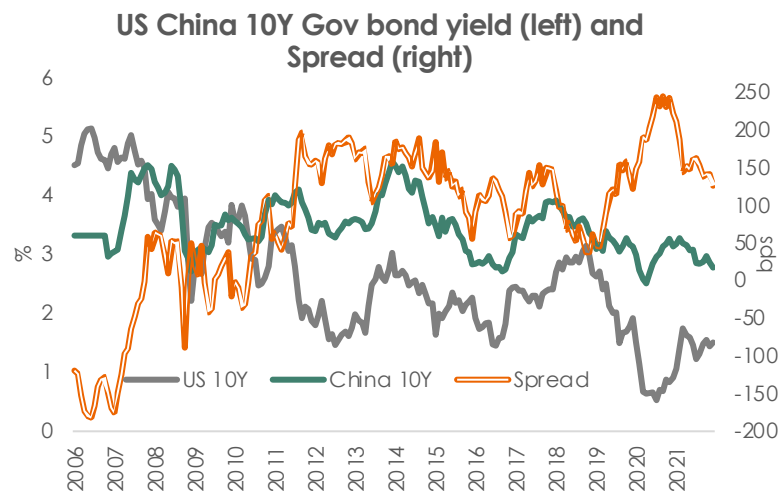
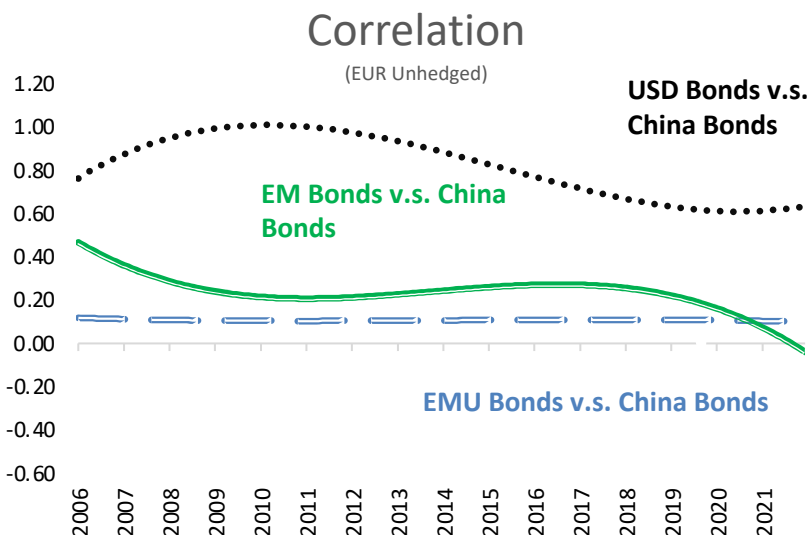
Sources: Datastream, Bloomberg and Eurizon SLJ Capital Ltd, as of 31/12/2021  
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# Why China? Diversification & superior Risk/Reward (EUR unhedged)

- Low or negative correlation with alternative strategies and other bond markets.

Correlation		US Bonds (local)	GlobalEM (local)	EMU Bond (EUR)	GlobaleM (EUR)	GlobalHY (EUR)	US Bonds (EUR)	MSCI Global Equity	Macro/CTA	European Equity
10Y	China Local	0.15	0.17	0.17				-0.16	-0.06	-0.14
	China EUR				0.19	0.36	0.78	-0.51	-0.11	-0.30

- In our view, it improves the risk profile of a global bond portfolio.



Past performance is no guarantee of future returns

Source: Bloomberg and Eurizon SLJ Capital Ltd, as of 31/12/2021

The global fixed income portfolio is proxied by Bloomberg Barclays global aggregate total return index (LEGATRUU Index) and it is converted back to EUR. It has more than 22 thousand constituencies from 24 DM and EM local currency markets, including treasury, government related corporate and securitized bonds. The RMB bond portfolio is proxied by Bloomberg Barclays China aggregate total return index (LACHTRUU Index) and it is converted back to EUR. It has more than 2 thousand constituencies that are listed on the China interbank market, including treasury, government-related (including policy banks) and corporate securities.

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**1. Opening of the RMB bond market**

**2. RMB bonds offer precious beta**

**3. ESLJ's investment process**

# A Chinese team in a global setting

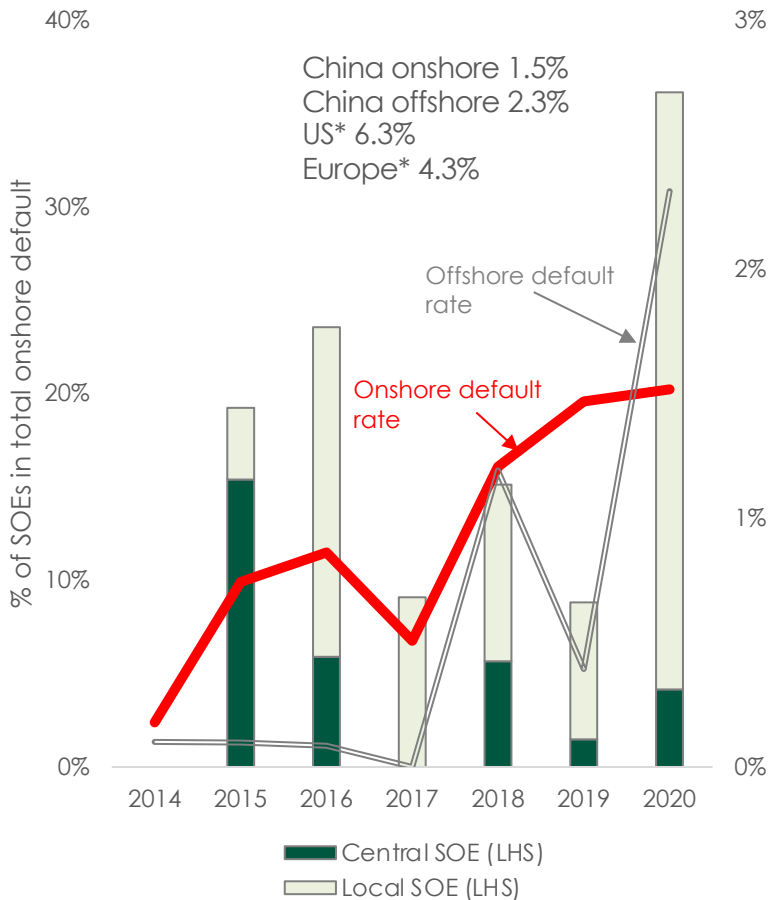


# Portfolio Philosophy



# Chinese Corporate Defaults

## Default rates



## Lessons

- Moral hazard, especially local SOEs;
- K-shaped growth; what's in store for other countries;
- Inflated local credit ratings in CN;
- Default resolution process in CN;
- **The need to do our homework!**

### Baoshang, May 2019

A regional bank; the first full write-off in China T2 bond market; Beijing could have avoided the default, but chose not to (only stepped in to protect the savings account);

### Yongmei, Nov 2020

Coal miner and energy company, one of the biggest local SOEs in Henan province; 50% paid to investors, the remaining 50% rolled over to 2021;

### Huarong, Apr 2021

The AMC that initially deals with ICBC's NPLs, but had been expanding aggressively, including into property investments; former president executed for corruption and bigamy; deleveraging and de-risking the business has severely dented revenues; tests Beijing's resolve to bail out SOEs' offshore debt.

### Evergrande, Jul 2021

The property company that expanded aggressively to several other irrelative sectors such as NEVs and financial services sectors. The company is confronting severe liquidity issues due to the disorderly expansion, poor debt structure with high costs and limitation of refinancing based on "three red line" regulation. Some banks have agreed to rollover their loans, and some suppliers agreed to accept houses as repayments of the commercial bills. It is hard for Evergrande to liquidate assets as most of them are limited.

Source: Wind, Bloomberg, PWC and Eurizon SLJ, as of 30/04/2021

\* 'US' and 'Europe' default rates are from S&P Global; 'Europe': equally weighted average change for Germany, France, Italy and UK

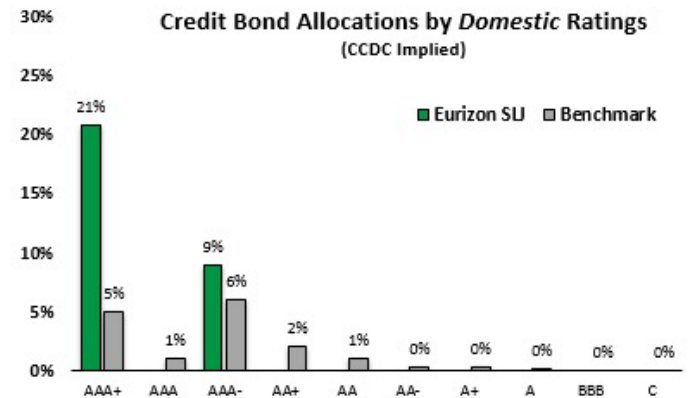
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# Portfolio Strategy

	Benchmark	Eurizon SLJ
<b>Duration</b>	5.41	<b>6.28</b>
<b>Average Yield</b>	2.78%	<b>2.92%</b>
<b>Coupon (%)</b>	3.55%	<b>3.47%</b>
<b>Number of Lines</b>	2023	<b>83</b>
<b>Total Bond Weights</b>	100%	<b>99%</b>

		Benchmark		Eurizon SLJ	
		Weight	Yield	Weight	Yield
Rates	Central Government	31%	2.6%	15%	2.9%
	Policy Banks	34%	2.7%	55%	2.8%
	Local Government	20%	2.8%	0%	0.0%
Credit	Corporates	15%	3.4%	30%	3.1%
<b>Average CCDC Implied Rating</b>		AAA-		AAA+	
<b>Average International Rating</b>		A+		A+	

- Overweight most liquid sectors
- Overweight AAA+ credit issuers



Past performance is no guarantee of future returns

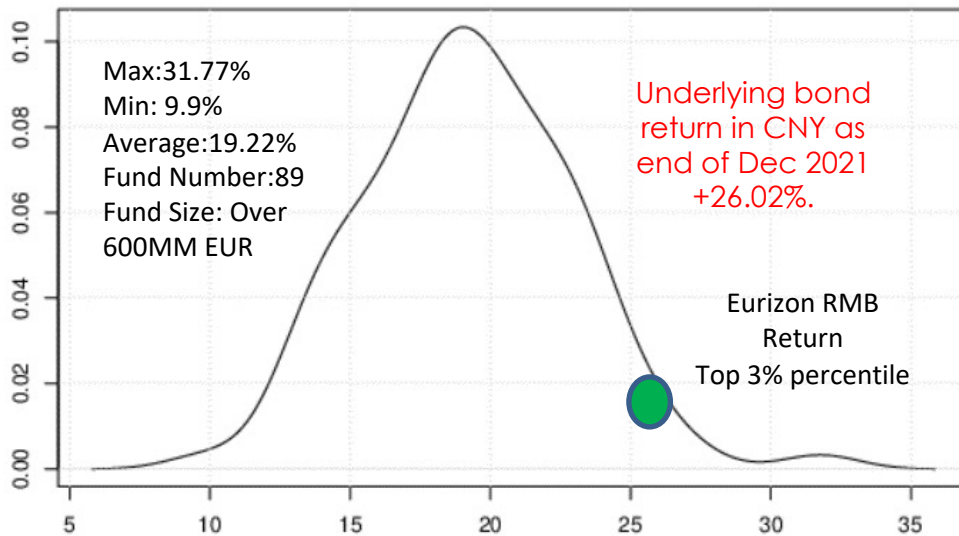
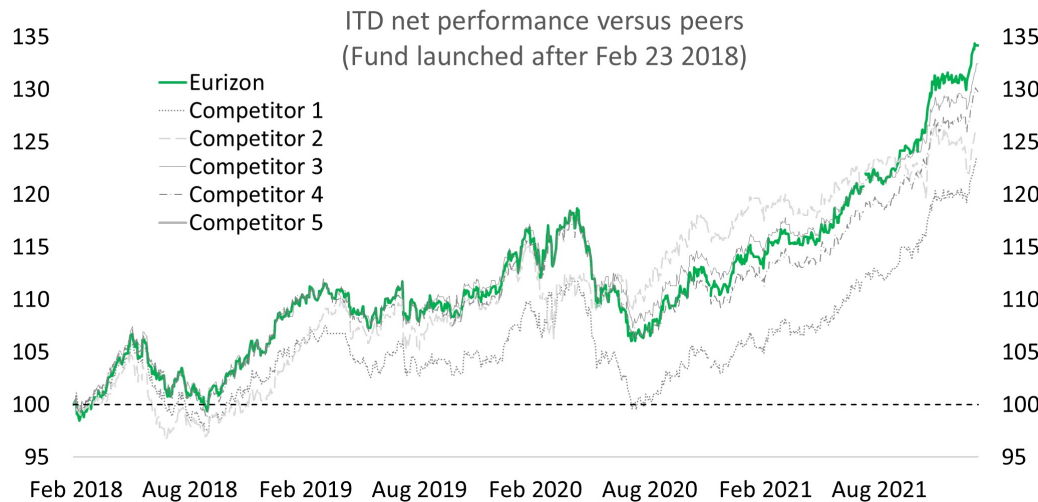
Benchmark Index refers to Bloomberg Barclays China Aggregate Total Return Index

Sources: Eurizon SLJ Capital Ltd, as of 31/1/2021. Front office data.

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# Eurizon Bond Aggregate RMB Fund: Top-tier performance



Return	Total Net	Bond
ITD	34.19%	27.10%
YTD	2.73%	0.86%
2021	17.34%	6.19%
2020	0.45%	4.16%
2019	4.64%	5.00%
2018	5.82%	8.51%

as of 27<sup>th</sup> Jan, 2022

- The AUM was 3292 **MM EUR** as of 27<sup>th</sup> Jan 2022, one of the largest EUR-denominated RMB bond funds managed in Europe.
- Since inception, the Fund has generated impressive performance among the Euro-denominated cohorts.
- As of Q42021, the bond performance for the Fund ranks in No.1 among all onshore funds over 1000MM EUR.

Onshore Bond Fund Return 23/02/2018-31/12/2021(%)

Past performance is no guarantee of future returns

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## Bottom Line

**This event is the most consequential change in the global financial markets since the introduction of the EUR in 1999.**

### **1. Opening of the RMB bond market**

**EM-like return, DM-like risks.**

### **2. RMB bonds offer precious beta**

**One of the largest outside China.**

### **3. ESLJ's investment process**

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# General Information - Bond Aggregate RMB



<b>Legal Status</b>	Fonds Commun de Placement (FCP) / UCITS
<b>Benchmark</b>	Bloomberg Barclays China Aggregate Bond Index
<b>Home jurisdiction of the Fund</b>	Luxemburg
<b>ISIN Code</b>	<b>LU1529955392</b> (Class Z – Institutional) <b>LU1559924920</b> (Class X - Institutional) <b>LU1529955046</b> (Class R – Retail)
<b>Class Unit Inception Date</b>	March 2018
<b>Valuation</b>	Daily
<b>Bloomberg Code</b>	EURBARZ LX
<b>Entry Charge</b>	-
<b>Exit Charge</b>	-
<b>Ongoing Charge</b>	0.57%
<b>Management Fees</b>	0.40%
<b>Performance Fee</b>	The performance fees are calculated in accordance with the methodology described in the prospectus using a participation rate of 20.00% of any returns, the Sub-Fund achieves above the highest fund's year-end value increased by the highest return between Bloomberg Barclays China Aggregate Bond Index. (absent for class X)
<b>Minimum initial subscription amount</b>	3,000,000 EUR (class Z); 500 EUR (class R)
<b>Taxes</b>	The tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. Please refer to your financial and tax advisor.
<b>Management Company</b>	Eurizon Capital S.A.
<b>Investment Manager of the Sub-fund</b>	Eurizon SLJ Capital
<b>Category</b>	RMB BOND

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