

ASIAN CREDIT INVESTMENT RETURNS

BLOOMBERG: CHIM<go>

June 2013

- US treasury yields rose aggressively across the curve in June triggering a massive Asian and emerging market carry trade unwind, heavy selling reported across the Asian sovereign bond and credit spectrum. The longer duration characteristics particularly in the investment grade segment caused further underperformance versus Australian comparables from May. Cash credit spreads widened across Asian IG and HY sectors and remained highly volatile as investor sentiment oscillated on QE3 developments. Fully A\$ Hedged returns for Asian Investment grade issuers gave up any year to date gains, ending the month lower by 3.36%. The High Yield segment performed worse still falling by 4.28% in A\$ hedged terms.
- Across the various Asian country segments, worst hit markets included Indonesian sovereign bonds and credit which ended the month 30bp wider (cash basis) recovering from intra month wides of 87bp versus UST. China (+32bp versus UST) and the Philippines at +22bp were also notably weak. Credit spreads measured by industry group were all sharply wider during June.

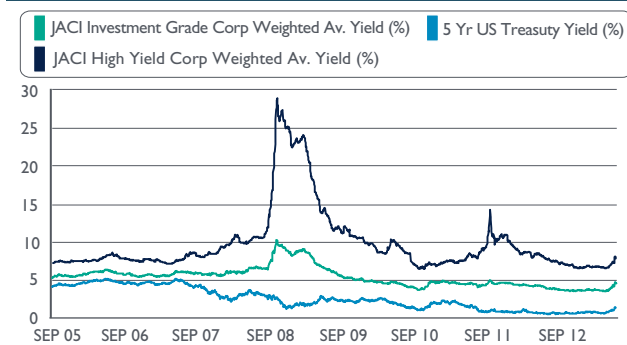
- In the Asian investment grade segment, yield levels in USD terms ended June at around 4.5% across the basket of Asian sovereigns, quasi-sovereigns and corporate securities. The corresponding yield for comparable Australian bonds as measured by the UBS Composite Bond Index remained around 3.7% in AUD terms, highlighting the considerable risk/liquidity premium present in Asian bond markets at present.
- The RBA left official cash rates unchanged 2.75% at its June meeting, leaving the door open for additional easing later in the year. Despite this outcome being largely anticipated, selling of AUD crosses continued during June as risk aversion swept through various forms of carry trade strategies, the AUD front and centre in this regard. With the AUD/USD spot rate falling to \$0.925 as at the end of June, forward FX differentials had narrowed only marginally as a proportion of the AUD spot rate, the current 1yr forward points at -226 or 2.4% below the month end AUD spot levels.

Asian Credit Investment Returns										Annualised Returns				
28/06/2013			1 Month %	3 Month %	YTD %	1 Year %	3 Year %	5 Year %	7 Year %	Since 30/09/2005	3 Year AGR %	5 Year AGR %	7 Year AGR %	30/09/2005 AGR %
Asian High Yield	Total Return	USD	-4.23%	-4.05%	-1.74%	9.94%	29.16%	67.38%	86.37%	91.38%	8.90%	10.86%	9.29%	8.74%
	Unhedged	AUD	0.30%	9.32%	11.62%	20.53%	20.68%	75.23%	48.61%	59.91%	6.47%	11.88%	5.82%	6.25%
	AUD Hedge Performance	AUD	-4.58%	-12.04%	-11.26%	-6.90%	15.44%	-1.10%	31.88%	26.14%	4.90%	-0.22%	4.03%	3.04%
	AUD Hedged Return	AUD	-4.28%	-2.72%	0.36%	13.64%	36.12%	74.13%	80.49%	86.05%	10.83%	11.74%	8.79%	8.34%
Asian Investment Grade	Total Return	USD	-3.36%	-4.10%	-3.26%	2.54%	16.87%	41.85%	58.63%	56.14%	5.33%	7.25%	6.81%	5.92%
	Unhedged	AUD	1.22%	9.26%	9.90%	12.42%	9.20%	48.51%	26.49%	30.47%	2.98%	8.24%	3.41%	3.49%
	AUD Hedge Performance	AUD	-4.58%	-12.04%	-11.26%	-6.90%	15.44%	-1.10%	31.88%	26.14%	4.90%	-0.22%	4.03%	3.04%
	AUD Hedged Return	AUD	-3.36%	-2.78%	-1.36%	5.52%	24.64%	47.41%	58.37%	56.60%	7.62%	8.07%	6.78%	5.96%
Australian Investment Grade	UBS Composite Bond Index	AUD	-1.07%	0.41%	0.55%	2.60%	22.22%	45.72%	58.58%	62.57%	6.92%	7.83%	6.80%	6.47%
	UBS Australian Credit Index	AUD	-0.63%	0.95%	1.73%	6.05%	25.35%	50.63%	62.48%	67.43%	7.82%	8.54%	7.17%	6.88%

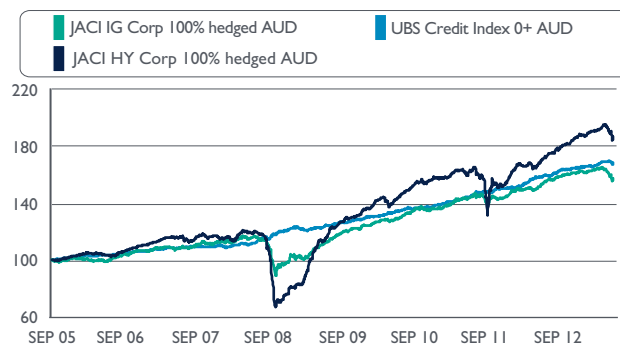
	Weight %	Yield % (USD)	Est. Hedged Yield % (AUD)*	Duration (yrs)	Spread v UST. (bp)
Asian Credit Market Statistics					
Asian Investment Grade Corporate	66.7%	4.57%	6.95%	5.14	249
Asian High Yield Corporate	33.3%	7.91%	10.29%	4.47	560
Blended IG/HY Asian Corporate	100.0%	5.7%	8.1%	4.91	353

* USD Yield + USD/ AUD 12mth forward pickup
Source: UBSAustralia, JP Morgan, Chimaera Index Advisors, Bloomberg

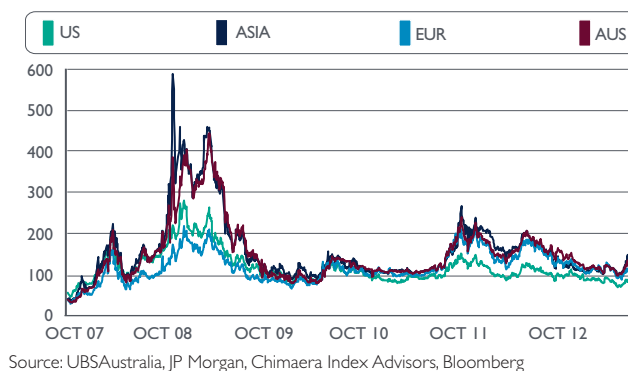
Asian Corporate Yields vs US Treasuries (USD)



UBS 0+ Credit Index vs Asian Credit Indices (% returns - AUD Hedged)



iboxx / iTraxx CDS Index Spreads



This publication has been prepared by the Chimaera Index Advisors. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Further information can be obtained by visiting www.chimaeraindexseries.com.

Melbourne
Telephone: +61 3 8614 8400
Facsimile: +61 3 8614 8410

Hong Kong
Telephone: +852 2166 9500
Facsimile: +852 2166 9510

Singapore
Telephone: +65 6594 3800
Facsimile: +65 6594 3810

