

Investing in Chinese Onshore Bonds

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Frankfurt, IMK



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1. Why invest in Chinese onshore bonds?

WHY INVEST IN CHINA'S ONSHORE BOND MARKET?

An emerging asset class of global significance

Attractive yields & returns

A+ rated Chinese 5yr govt bonds yielding 2.9% ¹

Long-term appreciation potential of RMB

¹ As at 31 Jan 2019

Diversification benefits

Low correlation with other asset classes

Too big to ignore

2nd largest economy in the world

3rd largest bond market in the world

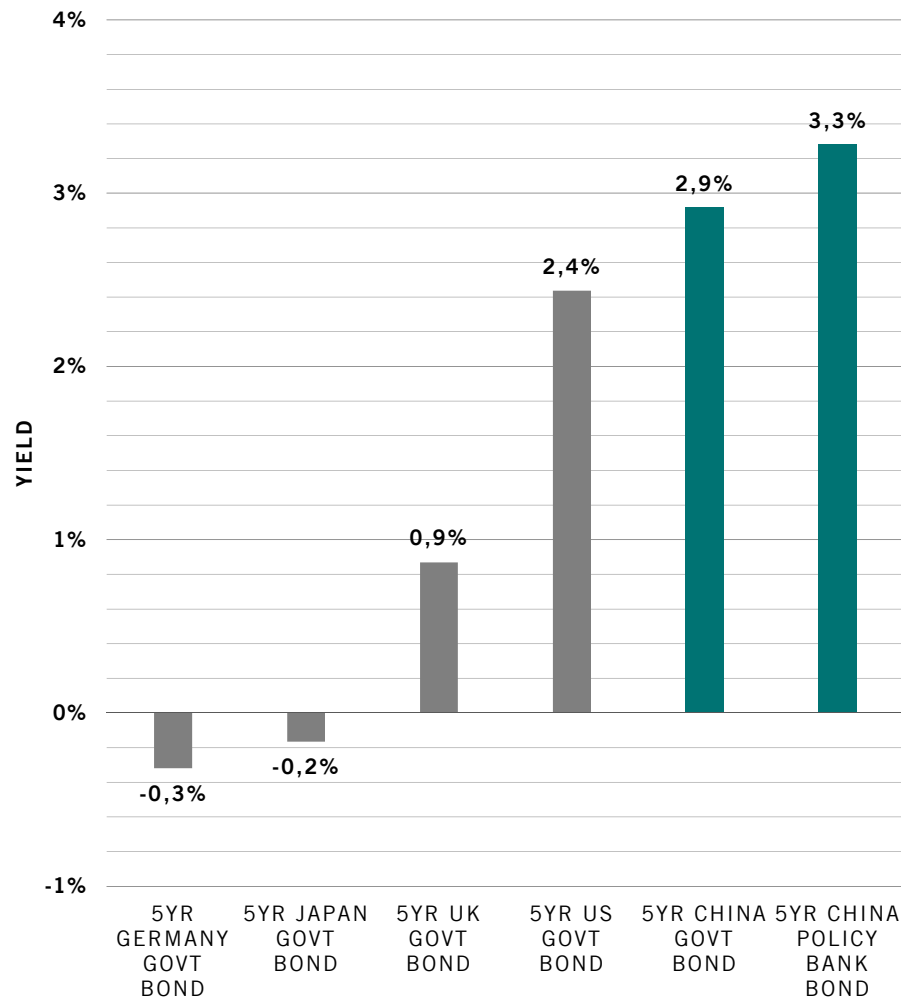
Increasing global recognition

China onshore bonds waiting to be included in major global bond indices



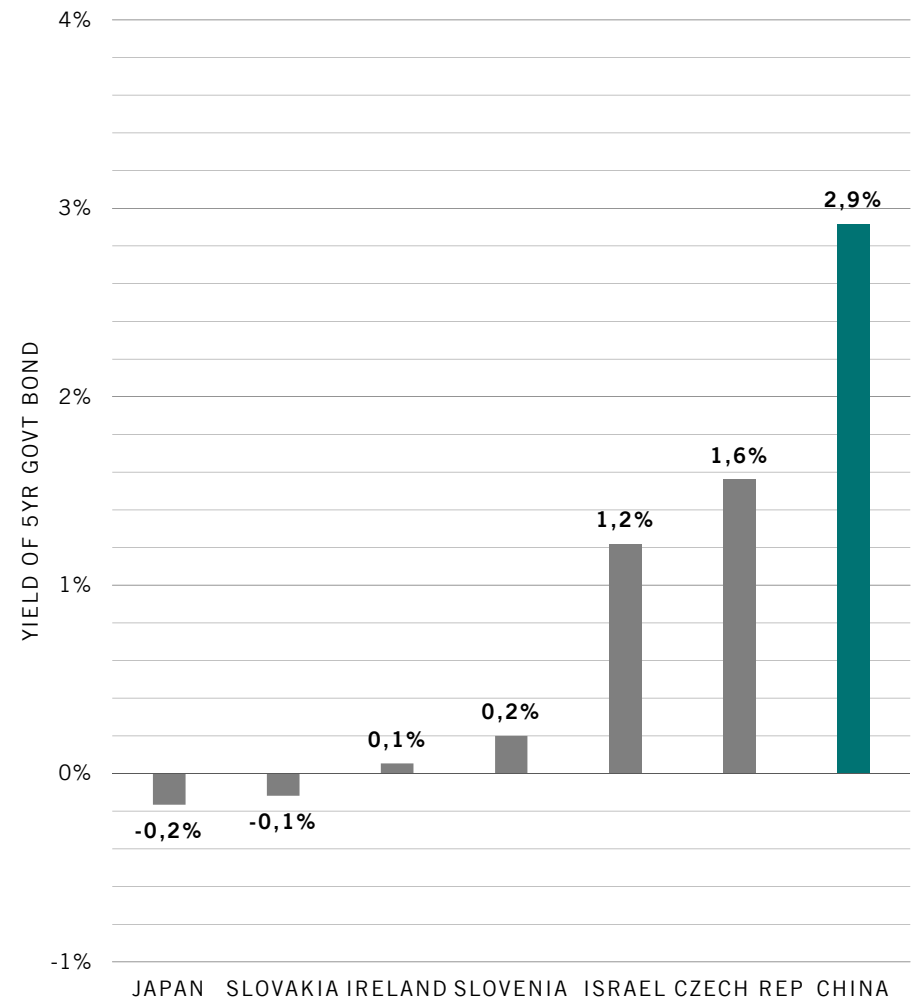
ATTRACTIVE YIELDS IN LOCAL CURRENCY

Chinese onshore bonds yield double vs developed govt bonds



Source: Bloomberg; as at 31 Jan 2019

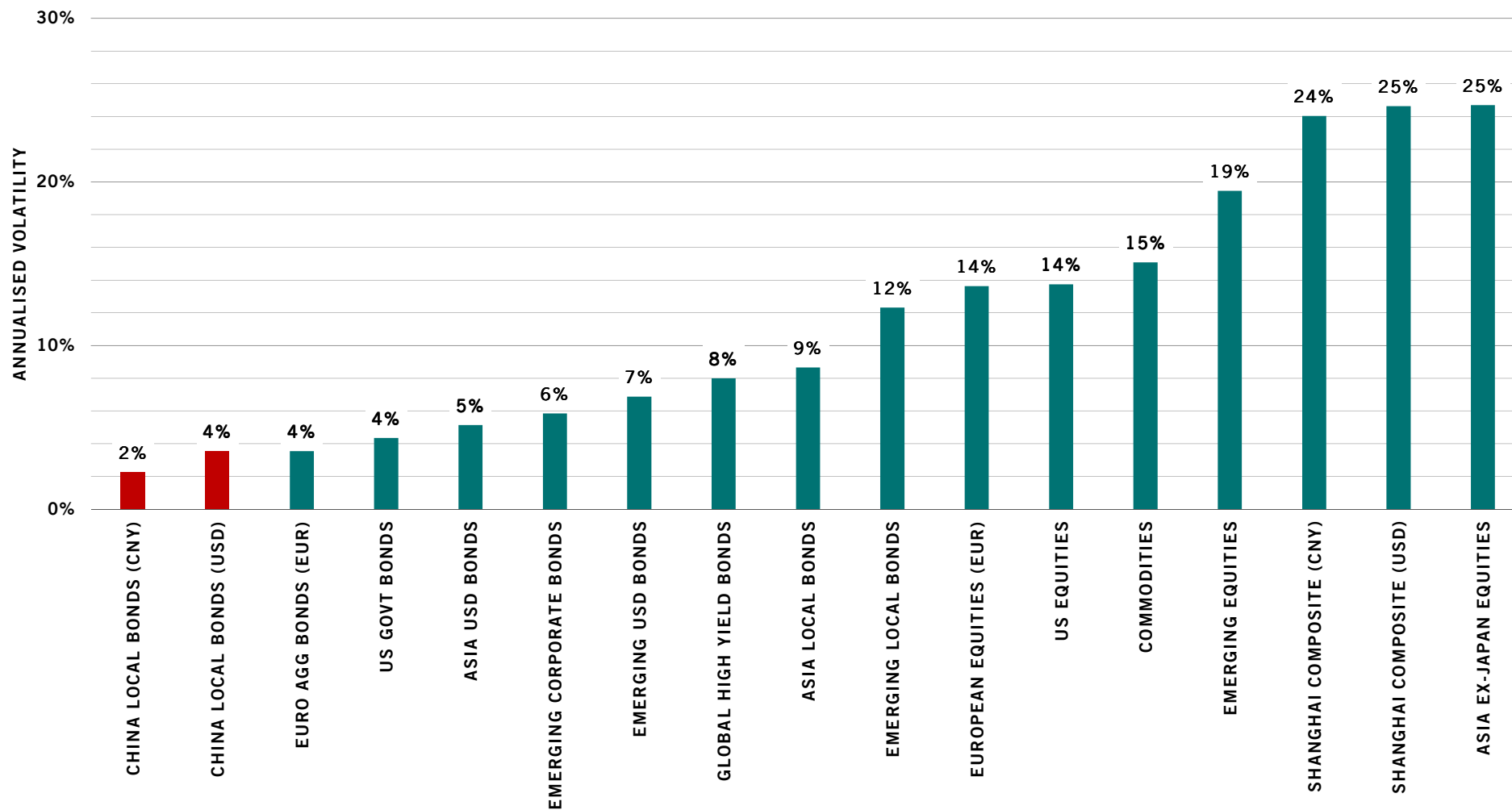
China govt bonds yield more than similar rated countries (A+/A1)



Source: Bloomberg; as at 31 Jan 2019

LOW VOLATILITY

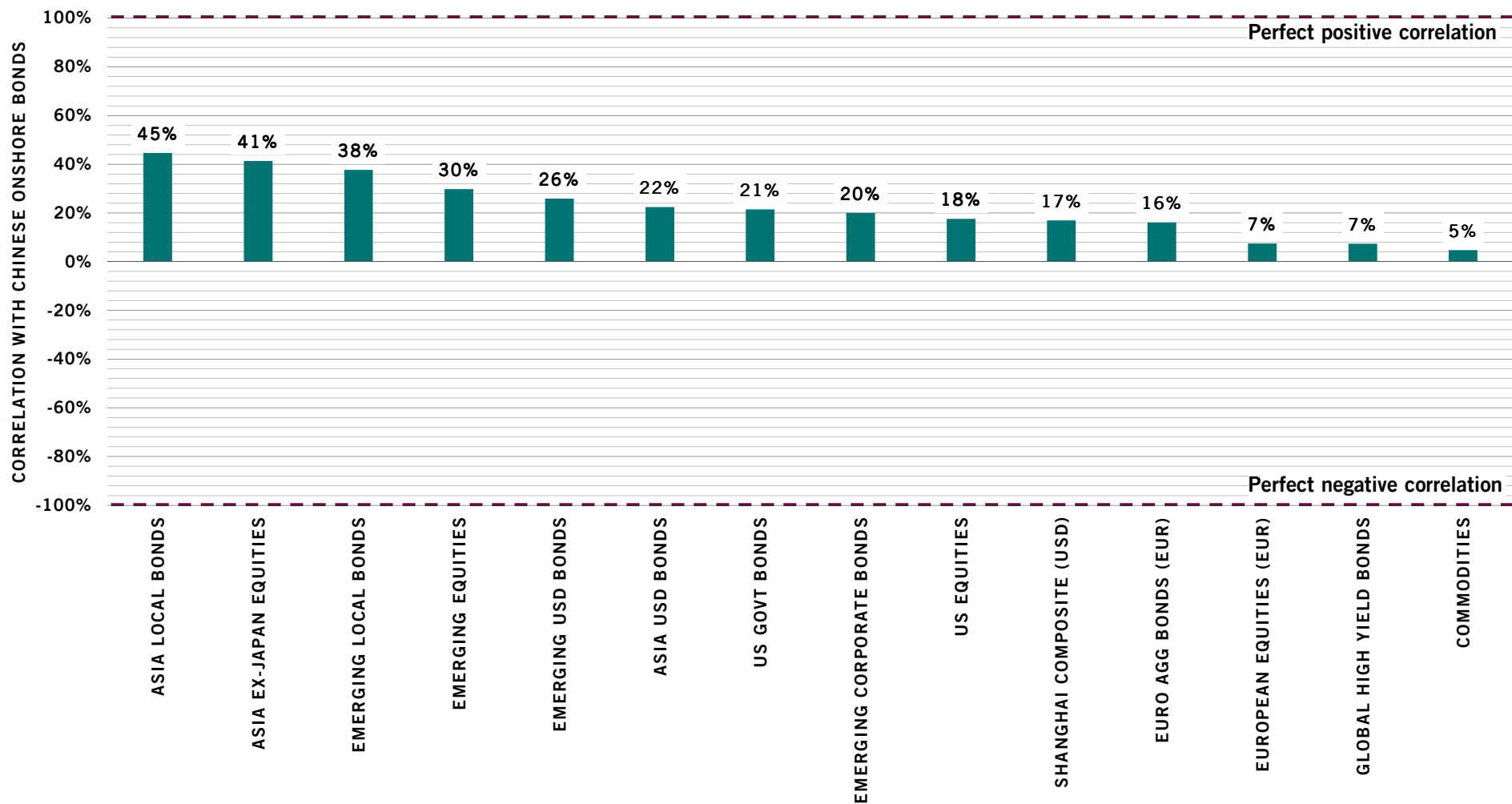
Low volatility compared to developed fixed income, emerging fixed income, developed equities and Chinese equities



Source: Chinabond, JP Morgan, HSBC, Bloomberg. All indices are total return and in USD unless indicated. Based on monthly data from 31 Oct 2008 – 31 Dec 2018

DIVERSIFICATION BENEFITS

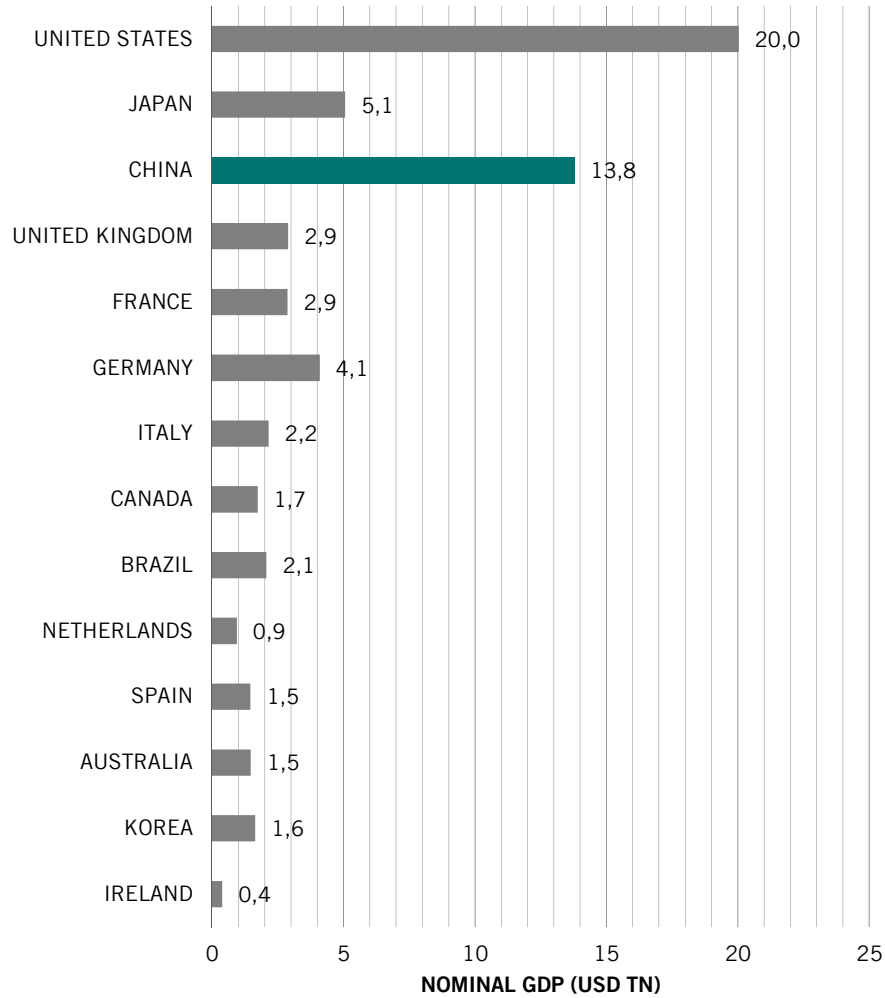
Low correlation with other asset classes



Source: Chinabond, JP Morgan, HSBC, Bloomberg. All indices are total return and in USD unless indicated. Based on monthly data from 31 Oct 2008 – 31 Dec 2018

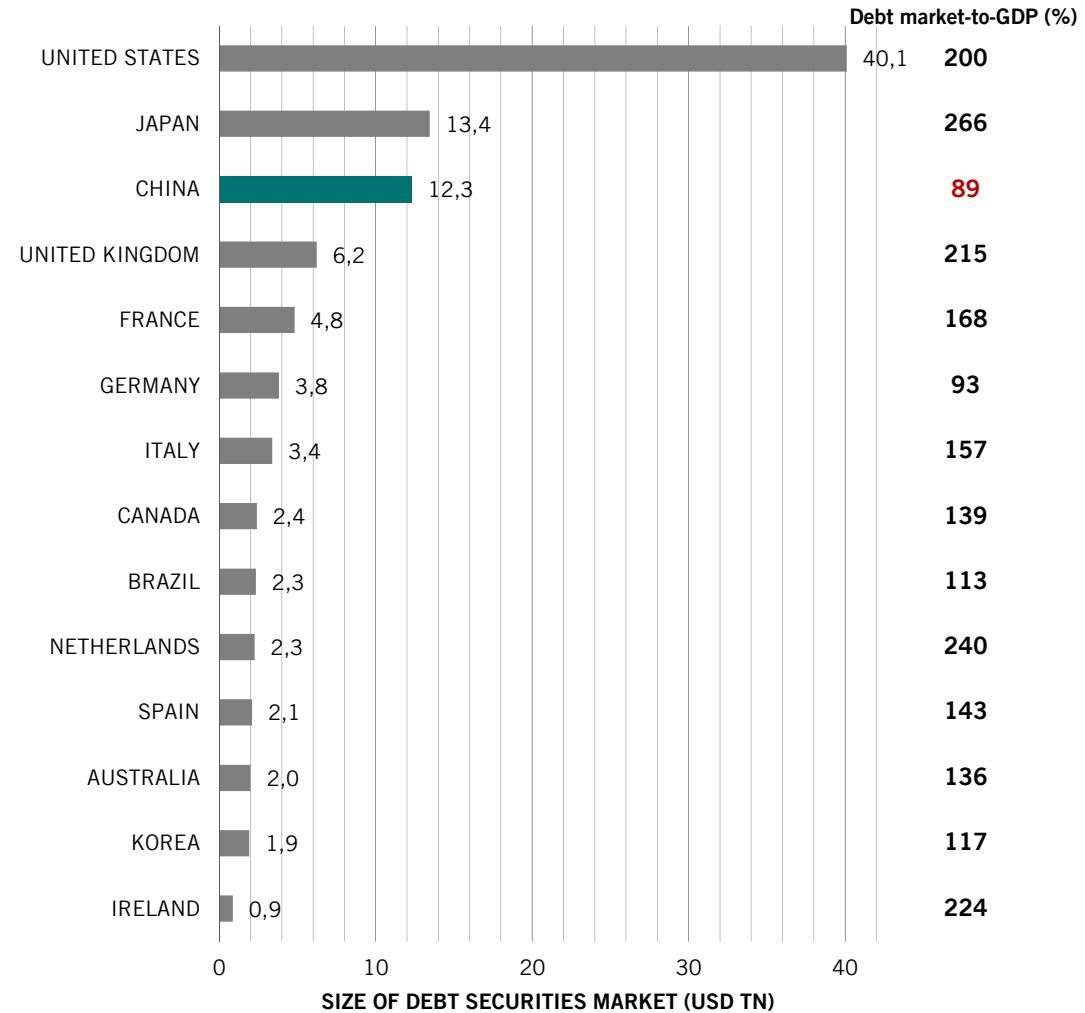
TOO BIG TO IGNORE

Second largest economy in the world



Source: Pictet Asset Management, BIS, CEIC, Datastream; as at Dec 2018

Third largest bond market in the world



Source: Pictet Asset Management, BIS, CEIC, Datastream; as at Dec 2018

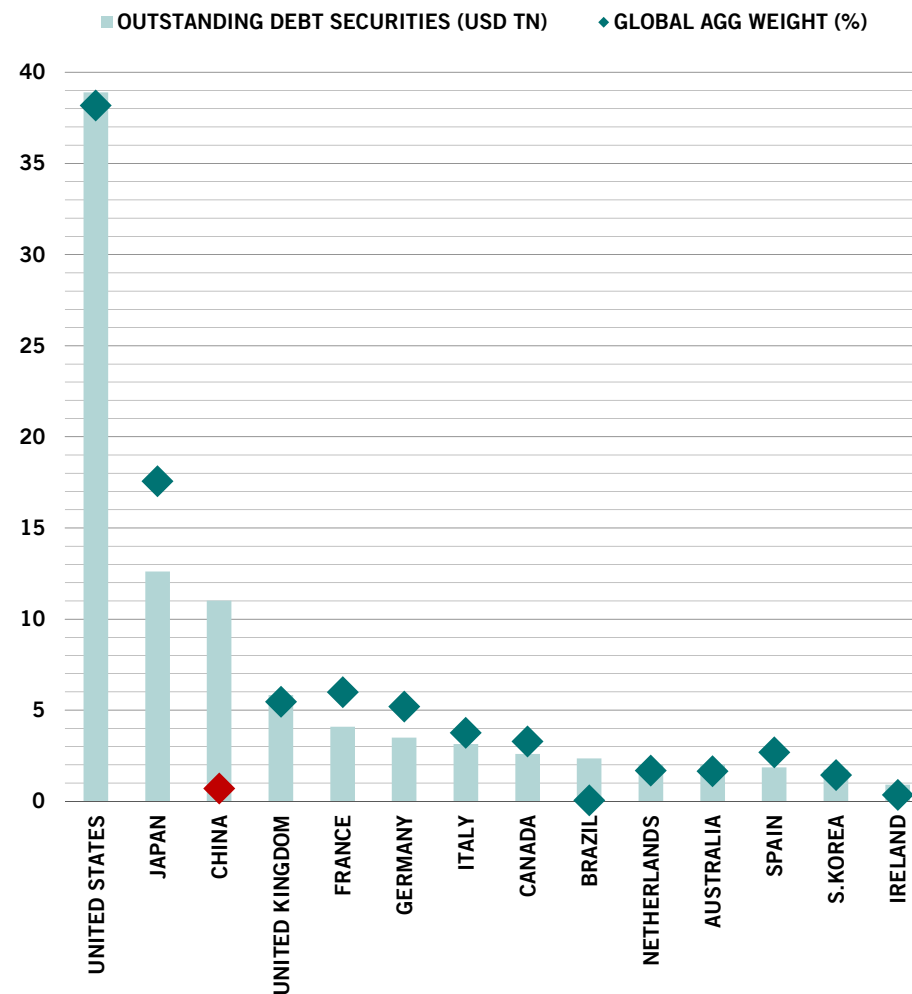
INCREASING GLOBAL RECOGNITION

RMB recognised as IMF reserve currency in December 2015

| SDR WEIGHTINGS | | |
|---------------------|------------|---------------|
| | Old (2010) | New (2016) |
| U.S. dollar | 41.9% | 41.73% |
| Euro | 37.4% | 30.93% |
| Chinese yuan | n/a | 10.92% |
| Japanese yen | 9.4% | 8.33% |
| Pound sterling | 11.3% | 8.09% |

Source: IMF; as at Jan 2016

China weight set to increase in global indices

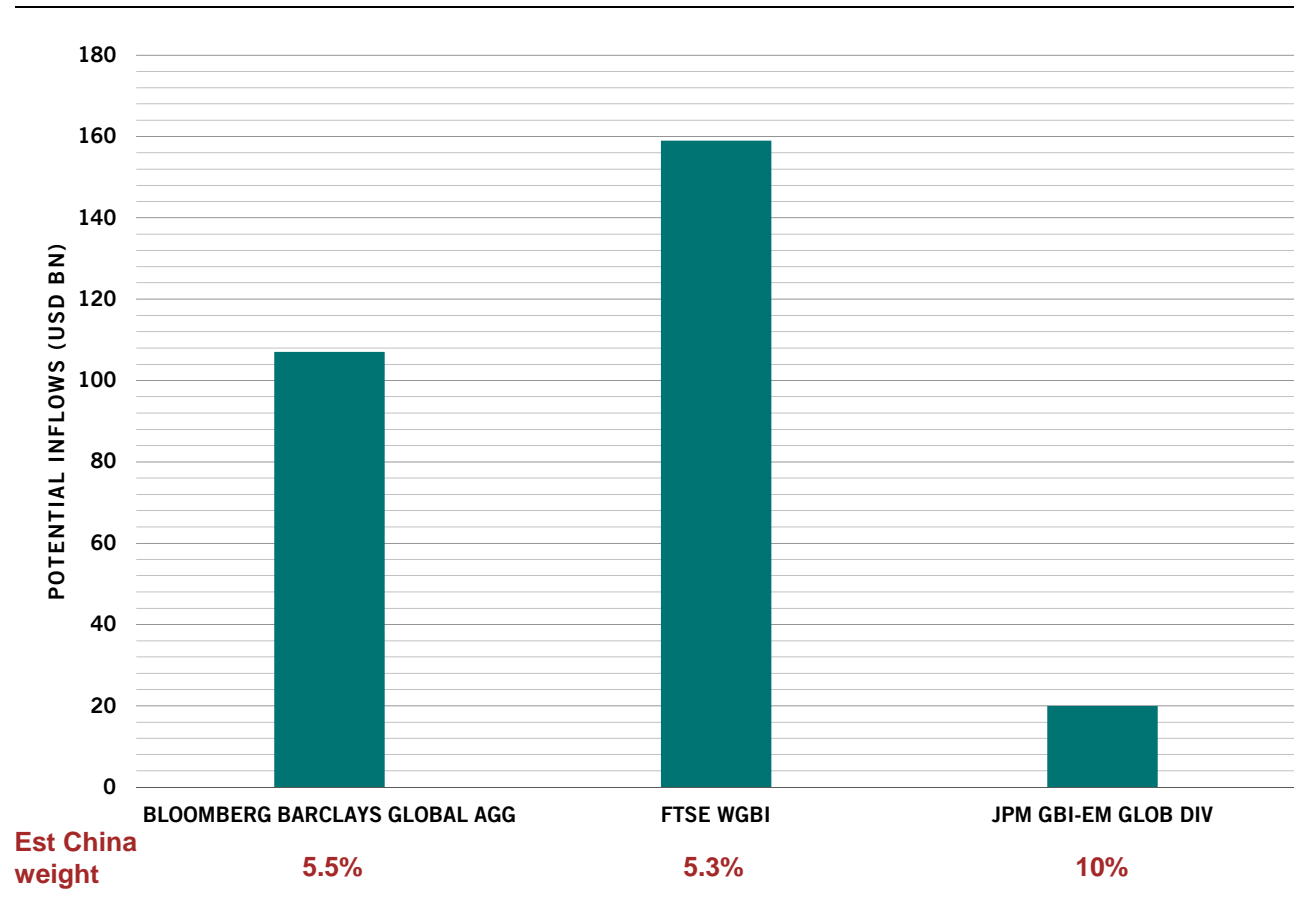


Source: Bloomberg Barclays Global Agg, CEIC, Datastream, Pictet Asset Management; as at 31 May 2018

CHINA ONSHORE BONDS SOON TO BE ADDED TO MAJOR BOND INDICES

- In March 2018, Bloomberg announced the addition of China sovereign and quasi-sovereign bonds to its flagship fixed income index, the Global Aggregate
- Inclusion will begin in April 2019 and will be gradual, with China reaching an estimated final weight of 5.5% representing potential inflow of approx USD100bn
- A milestone recognising the asset class; other index providers may follow
- China bond index inclusion could result in inflows of up to USD286bn

Potential inflows driven by index inclusion



Source: Standard Chartered Research; as at Mar 2018



CHINESE ONSHORE BONDS ARE DISTINCT FROM EMERGING MARKET DEBT

Chinese onshore debt is large with attractive characteristics

| | CHINESE ONSHORE DEBT | EMERGING LOCAL DEBT | ASIA LOCAL DEBT | ASIA USD DEBT | LATAM LOCAL DEBT |
|---------------------|----------------------|---------------------|-----------------|---------------|------------------|
| Market val (USD bn) | 4,900 | 1,200 | 610 | 900 | 510 |
| Yield (%) | 3.5 | 6.2 | 4.2 | 5.3 | 7.4 |
| Duration (yrs) | 4.0 | 5.2 | 6.5 | 4.4 | 4.3 |
| Average rating | BBB* (A)** | Baa2/ BBB | A2/A | Baa1/ BBB+ | Baa3/ BBB- |

Source: Bloomberg Barclays, JP Morgan; as at 31 Jan 2019

Market cap, yield, duration and average rating are shown for the following indices:

Chinese Onshore Debt: Bloomberg Barclays China Composite

Emerging Local Debt: JPM GBI-EM Global for market val, Global Div for yield, duration and rating

Asia Local Debt: JPM JADE Broad

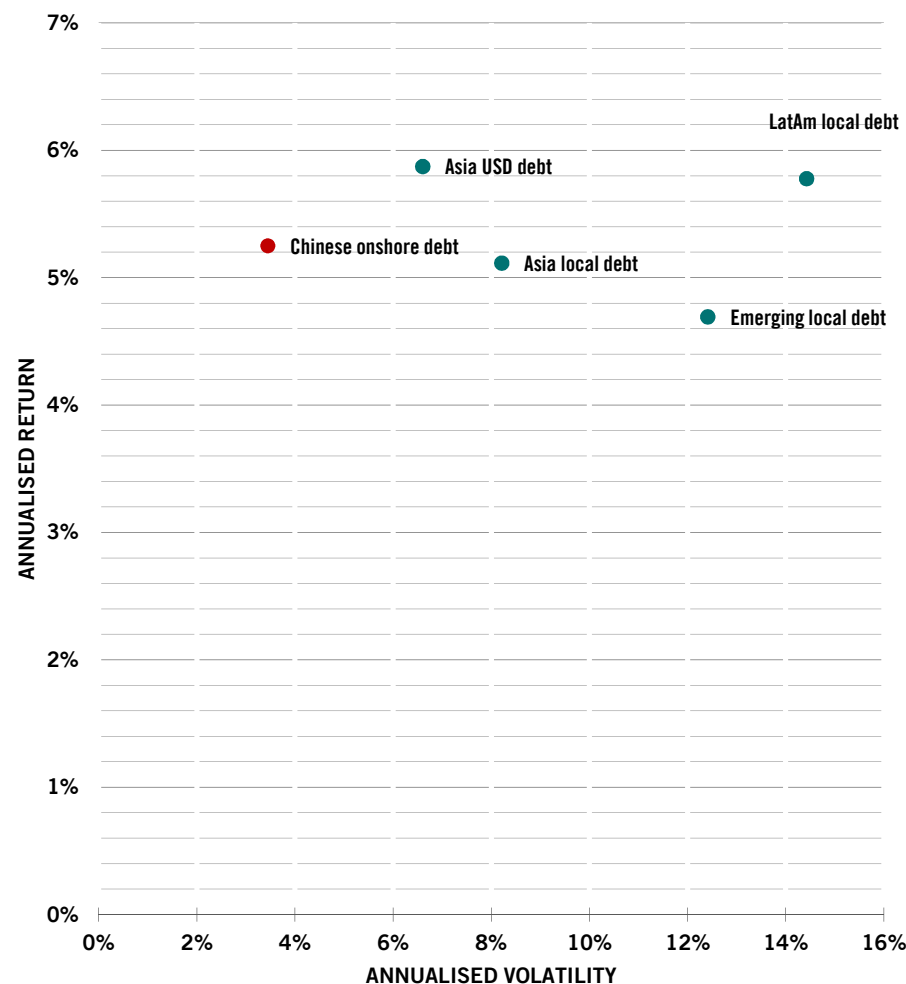
Asia USD Debt: JPM Asia Credit Index

LatAm Local Debt: JPM GBI-EM Global Latin America

* Estimated internal rating for Bloomberg Barclays China Composite; Source: Pictet Asset Management

** Average rating of portfolio; Source: Pictet Asset Management

China onshore debt has a favourable risk-return profile

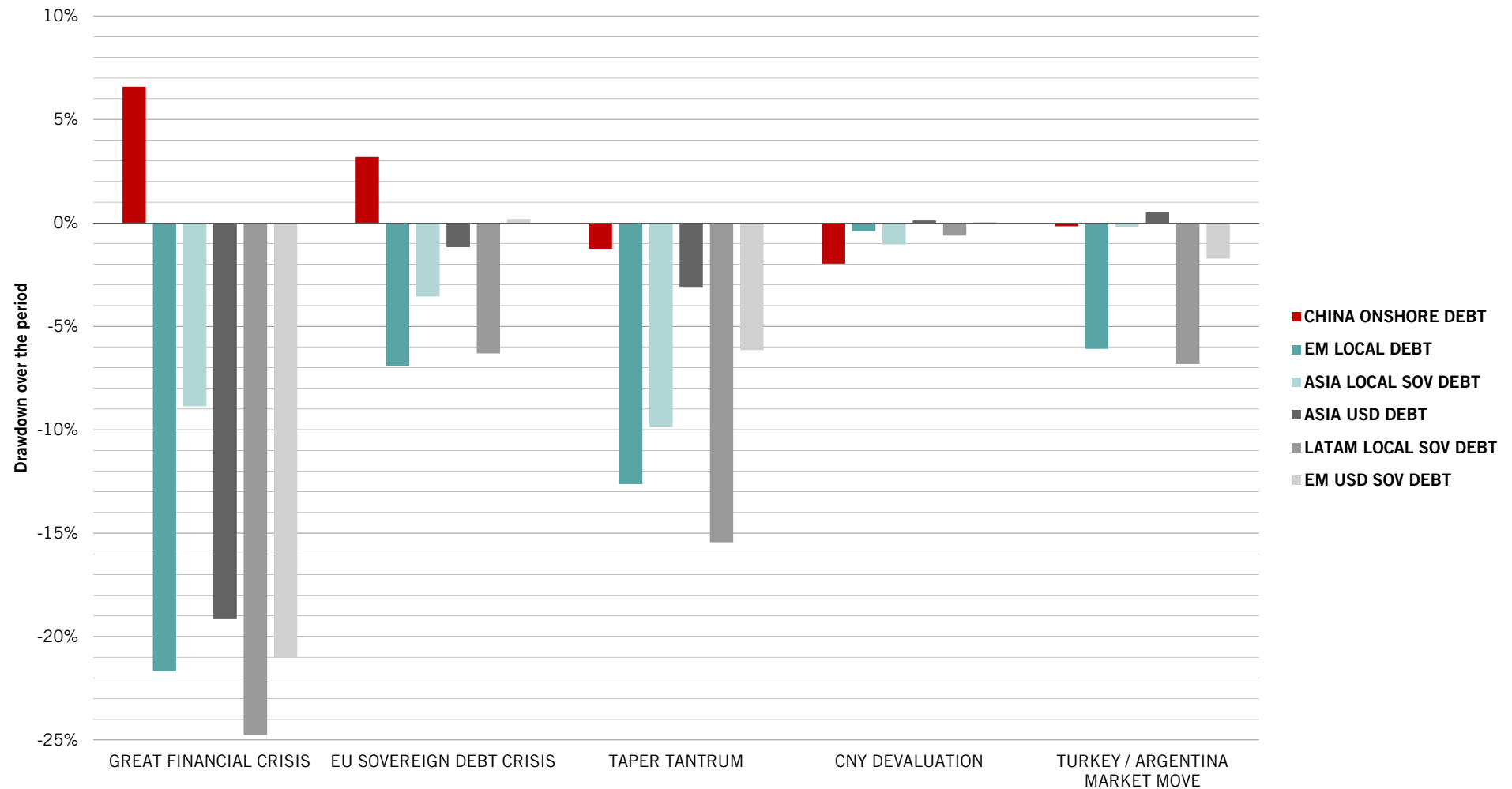


Source: ChinaBond, JP Morgan; based on monthly data from 30 Sep 2005 to 31 Dec 2018
All indices are total return and in USD



CHINESE ONSHORE BONDS HAVE BEEN STABLE THROUGH SOME TURBULENT TIMES

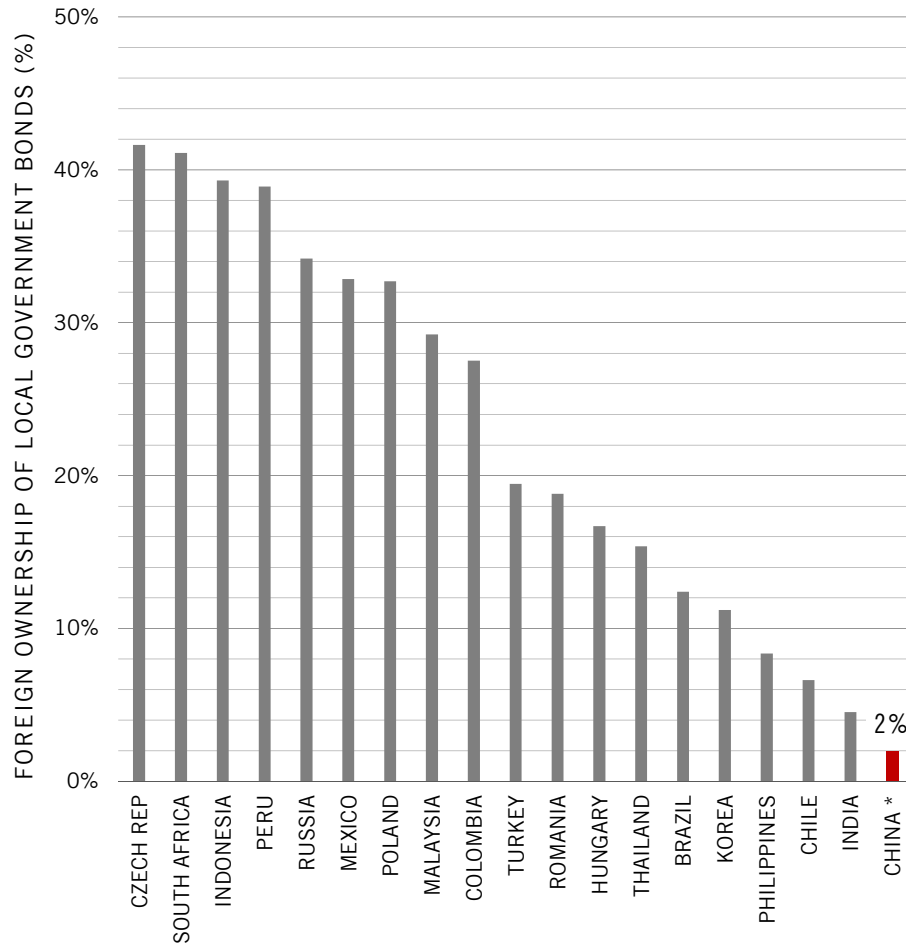
Low / no drawdowns compared to EM local debt, Asia local debt, Asia USD debt, LatAm local debt & EM USD debt



Source: Chinabond, JP Morgan. All indices are total return and in USD. Based on the following periods: Great Financial Crisis (Aug-Oct-2008); EU sovereign debt crisis (Aug-Nov 2011); Taper tantrum (8May – end 2013); CNY devaluation (10 Aug 2015); Turkey / Argentina move (Aug 2018)

FOREIGN PARTICIPATION LOW BUT INCREASING

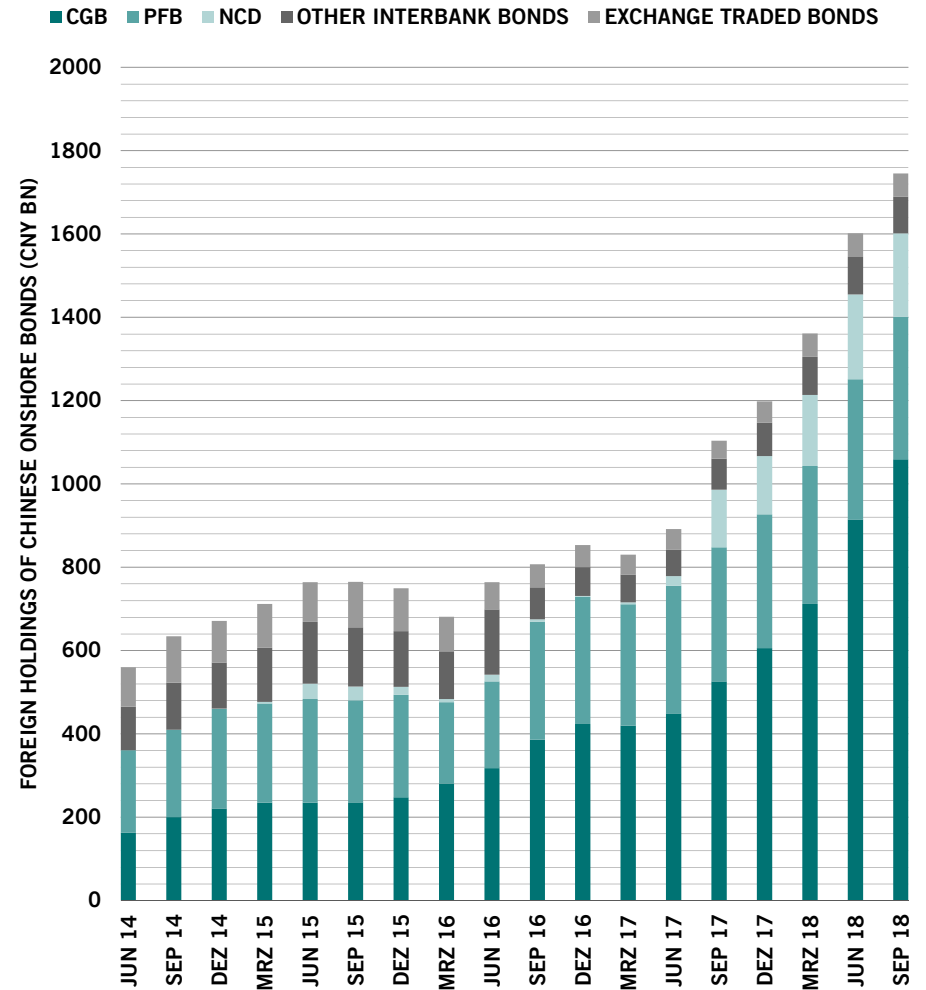
Foreign participation in China onshore bond markets is very low



Source: Standard Chartered for China, Haver Analytics, IMF, Asian Development Bank, Reserve Bank of India, Goldman Sachs Global Investment Research; as at May 2018

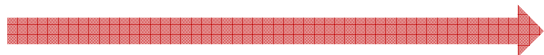
* Foreign ownership for China onshore bond market overall

But foreign ownership is on an increasing trend



Source: Wind, Standard Chartered Research; as at Oct 2018

Improving ease of access



| | QFII / RQFII | CIBM | BOND CONNECT |
|---------------------------|--|---|-------------------------|
| Key date | 2002 | Feb 2016 | Jul 2017 |
| Regulatory approval | CSRC for license SAFE for quota | Pre-filing with PBOC | Pre-filing with PBOC |
| Quota | Yes | No | No |
| Eligible FI products | All cash bonds | All cash bonds and onshore IR derivatives | All cash bonds |
| Custody | China | China | Hong Kong |
| Repatriation restrictions | 3 months but no restriction for open-ended funds | No restriction | No restriction |

Source: CSRC, SAFE, PBOC, JP Morgan research; as at Jul 2017

- Successive schemes have improved ease of access
- From QFII / RQFII to CIBM to Bond Connect, we have seen
 - Shift from quota-based to filing system
 - Ease of custody arrangement (from China to Hong Kong)
 - End of repatriation restrictions
- With Bond Connect, the market is now effectively open to foreign investors

2. How does Pictet AM invest in the asset class?



CHINESE LOCAL CURRENCY DEBT INVESTMENT TEAM AND RESOURCES

Investment team based in Hong Kong

Fluent in Mandarin, Chinese and English:

- Trading and communication with brokers are conducted in Mandarin while research materials, newspapers and financial information are in Chinese

Cary Yeung

Head of Greater China Debt

Jennifer Chang

Senior Credit Analyst

Echo Chen

Specialist Trader Chinese Debt

INVESTMENT TEAM

In Hong Kong:

- Greater China Equities
- Multi Asset Asia

In Singapore:

- Emerging Debt
- Asian Credit Research (3 senior credit analysts)

In Geneva and London:

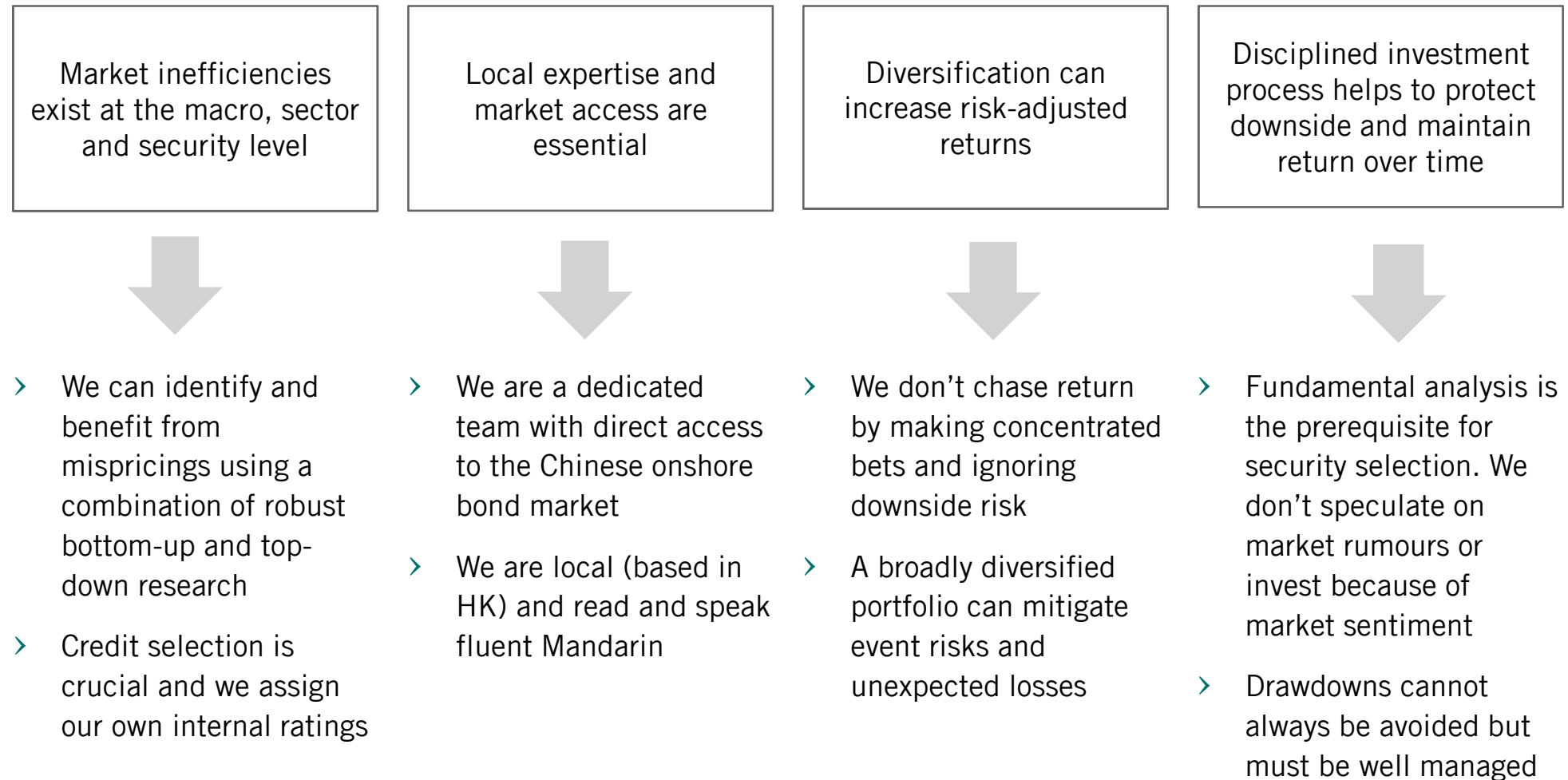
- Economic Analysis
- Emerging Corporates
- Emerging Debt
- Emerging Equities
- Global Bonds
- Investment Grade & High Yield
- Credit Long / Short
- EM Long / Short

Pictet Asset Management Strategy Unit

INPUT

INVESTMENT PHILOSOPHY & APPROACH

We are a dedicated team with **global fixed income experience**, **local expertise** and **bilingual language skills**



INVESTMENT PROCESS OVERVIEW

Greater China Bonds Investment Universe

CNY bonds (onshore)

- > High quality names provide higher yields
- > Large universe
- > Credit premium is still lacking for HY credits
- > International ratings are lacking

CNH bonds (offshore)

- > Unique dynamics
- > Short duration

USD bonds

- > International ratings
- > More sensitive to US treasury
- > Higher volatility

Investment Research

Fundamentals

- > Financial and business profiles (including companies' policies on environmental protection and stance on social risks)
- > Corporate governance including credibility of management and ownership structure
- > Internal ratings assigned

Technical

- > Supply/Demand
- > Liquidity
- > Market positioning

Valuation

- > Peer comparison
- > Relative value

PORTFOLIO CONSTRUCTION & MONITORING

Implementation

- > Integrate market views with investment guidelines and execution constraints
- > Diversification by issuer and maturity bucket
- > Incorporate duration views and yield curve positioning

Continuous monitoring

- > Credit news
- > Industry news and policy changes
- > Communication with company management
- > Analyse earnings and reassess credit risks
- > Reassess internal ratings

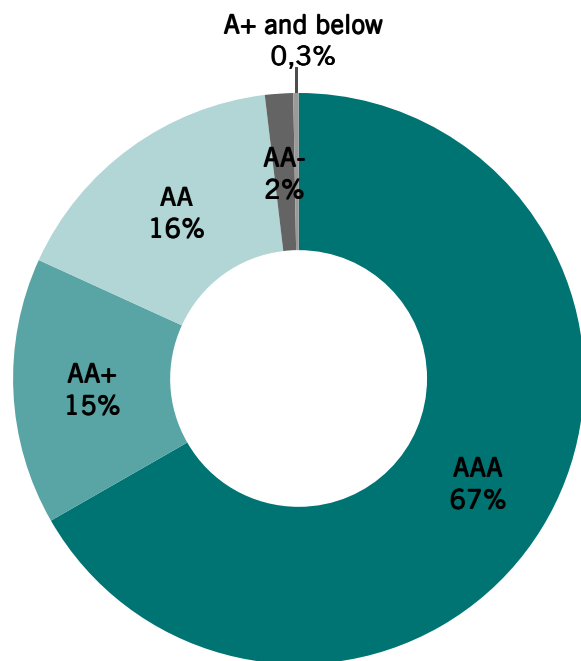
RISK MANAGEMENT



WE ASSIGN OUR OWN INTERNAL RATINGS

- Criteria and methodology of local rating agencies are different
- Local ratings need to be converted into international ratings

Breakdown of Chinese onshore bond market by local rating



Source: Wind, BNP Paribas; as at July 2017

| LOCAL RATING | INTERNATIONAL RATING | | |
|--------------|----------------------|-----|---------------------------------|
| | AAA | | |
| | AA+ | | |
| | AA | | |
| | AA- | | |
| | AAA | A+ | Sovereign rating |
| | AAA | A | e.g. Zhejiang Provincial Energy |
| | AAA | A- | e.g. China Longyuan Power |
| | AA+ | AAA | BBB+ |
| | AA+ | AAA | BBB e.g. Haitong Securities |
| | AA+ | AAA | BBB- e.g. Beijing Capital |
| | AA+ | BB+ | |
| | AA+ | BB | |
| | AA | BB- | |
| | AA | B+ | |
| | A+* | AA | B |
| | A+ | AA | B- |
| | A+ | CCC | |

The table is provided for discussion purposes only. There is no official mapping to convert local ratings into international ratings. The rating criteria and methodology used by Chinese local rating agencies may differ from those adopted by established international credit rating agencies. Therefore, the Chinese local credit rating system may not provide an equivalent standard for comparison with securities rated by international credit rating agencies. *A+ and below.

Defaulted Issuers in 2017 and 2018

| Company | AOS at time of default (RMB mn) | Date of first default | Industry | Company type | Resolution |
|---|---------------------------------|-----------------------|----------------------------|--------------------|-----------------------------|
| Huasheng Jiangquan Group | 1,400 | 12-Mar-17 | Metals & Mining | Private Enterprise | Full principal repayment |
| Zhuhai Zhongfu | 590 | 28-Mar-17 | Manufacturing | Private Enterprise | Full principal repayment |
| Kinyang Hongchang Pipe Gas Project | 700 | 20-Jun-17 | Oil & Gas | Private Enterprise | Partial principal repayment |
| Wuyang Construction Group | 1,610 | 14-Aug-17 | Construction & Engineering | Private Enterprise | Unresolved |
| Dandong Port Group | 7,950 | 30-Oct-17 | Transportation & Logistics | Private Enterprise | Unresolved |
| Bright Oceans Corporation | 4,000 | 8-Nov-17 | Software & Services | Private Enterprise | Unresolved |
| Jiangsu Protruly Vision Technology Group | 1,200 | 1-Dec-17 | Software & Services | Private Enterprise | Unresolved |
| Liuzhou Chemical Industry | 6 | 31-Jan-18 | Chemicals | Regional SOE | Unresolved |
| Shenwu Technology Group | 2,949 | 14-Mar-18 | Environmental Control | Private Enterprise | Unresolved |
| Fuguiniao | 2,100 | 24-Apr-18 | Apparel | Private Enterprise | Unresolved |
| China Security & Fire | 1,191 | 30-Apr-18 | Electronics | Private Enterprise | Full principal repayment |
| Kaidi Ecology & Environmental Tech | 3,437 | 7-May-18 | Coal | Private Enterprise | Unresolved |
| CEFC Shanghai International Group | 30,624 | 21-May-18 | Oil & Gas | Private Enterprise | Unresolved |
| Xinjiang Jinte Iron & Steel | 550 | 23-May-18 | Metals & Mining | Central SOE | Partial principal repayment |
| Zhong Rong Shuang Chuang Tech | 1,200 | 13-Jun-18 | Electronics | Private Enterprise | Unresolved |
| Wuzhou International | 2,880 | 4-Jul-18 | Real Estate | Private Enterprise | Unresolved |
| Wintime Energy | 22,120 | 5-Jul-18 | Coal | Private Enterprise | Unresolved |
| Zhonghong | 2,570 | 31-Jul-18 | Real Estate | Private Enterprise | Unresolved |
| Leshi | 73 | 3-Aug-18 | Internet Media | Private Enterprise | Unresolved |
| Xinjiang Production and Construction Corp's 6th state-owned AMC | 2,500 | 13-Aug-18 | Conglomerate (agriculture) | Regional SOE | Full principal repayment |
| Sixth Engineering Bureau of China City Investment Construction | 1,350 | 13-Aug-18 | Industrials | Central SOE | Unresolved |
| Jinhong Holding Group | 1,600 | 27-Aug-18 | Oil & Gas | Private Enterprise | Unresolved |
| DMG Entertainment and Media | 800 | 10-Sep-18 | Media | Private Enterprise | Unresolved |
| Neoglogy | 12,752 | 25-Sep-18 | Conglomerate | Private Enterprise | Unresolved |
| Jilin Liyuan Precision Manufacturing | 740 | 25-Sep-18 | Metal Fabricate/Hardware | Private Enterprise | Unresolved |
| Gangtai Group | 2,000 | 26-Sep-18 | Conglomerate (retail) | Private Enterprise | Unresolved |
| Henan Zhongpin Food | 516 | 26-Sep-18 | Food & Beverage | Private Enterprise | Unresolved |
| Feima Investment Holdings | 2,000 | 28-Sep-18 | Investment Company | Private Enterprise | Unresolved |
| China Huayang Economic and Trade Group | 9,433 | 30-Sep-18 | Distribution/Wholesale | Central SOE | Unresolved |
| Anhui Shengyun Environment Protection Group | 1,155 | 9-Oct-18 | Machinery Manufacturing | Private Enterprise | Unresolved |
| Dalian Jinma Shopping Mall Enterprise Group | 2,000 | 12-Oct-18 | Retail | Private Enterprise | Unresolved |
| Ningxia Shangling Industrial Group | 500 | 15-Oct-18 | Distribution/Wholesale | Private Enterprise | Unresolved |
| Beijing Huaye Capital | 2,416 | 15-Oct-18 | Real Estate | Private Enterprise | Unresolved |
| Tongyi Industry Group | 1,750 | 22-Oct-18 | Chemicals | Private Enterprise | Unresolved |
| Shenzhen Gionee Communication Equipment | 1,000 | 29-Oct-18 | Telecommunications | Private Enterprise | Unresolved |
| Chuying Agro-Pastoral Group | 3,538 | 5-Nov-18 | Agriculture | Private Enterprise | Unresolved |
| Zhongke Construction and Development | 5,000 | 19-Nov-18 | Construction & Engineering | Central SOE | Unresolved |
| Jiangsu Hongtu High Technology | 2,050 | 26-Nov-18 | Computers | Private Enterprise | Unresolved |
| Shandong Jinmao Textile Chemicals | 1,625 | 26-Nov-18 | Metals & Mining | Private Enterprise | Unresolved |
| Shandong Dahai Group | 500 | 26-Nov-18 | Distribution/Wholesale | Private Enterprise | Unresolved |
| Foshan Zhongji Investment | 985 | 28-Nov-18 | Investment Companies | Private Enterprise | Unresolved |
| Shenzhen ET Investment Holding Group | 1,000 | 29-Nov-18 | Investment Companies | Private Enterprise | Unresolved |
| Reward Science and Technological Industry Group | 4,750 | 6-Dec-18 | Conglomerate (chemicals) | Private Enterprise | Unresolved |
| Loong Flying Group | 1,500 | 6-Dec-18 | Investment Companies | Private Enterprise | Unresolved |
| Yinyi | 1,800 | 24-Dec-18 | Auto Parts & Equipment | Private Enterprise | Unresolved |

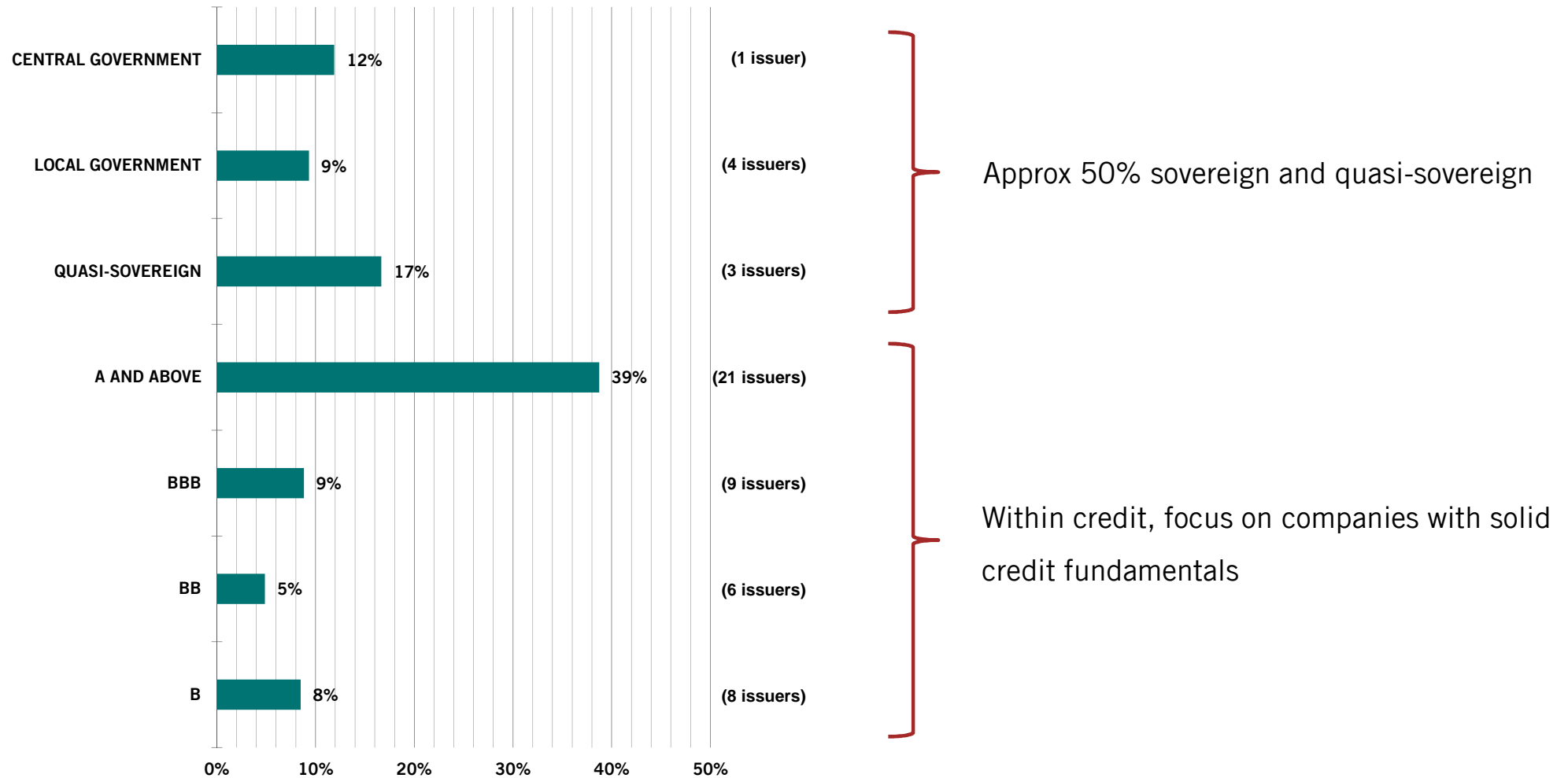
- The market saw more bond defaults in 2017 and 2018
- However with our focus on in-depth credit research, we stayed clear of these bonds and never held them in our portfolio

Source: Wind, Bloomberg, Company announcements, Goldman Sachs Global Investment Research; as at 10 Jan 2019



WE FOCUS ON THE HIGHEST QUALITY PORTIONS OF THE UNIVERSE

Diversified portfolio with a bias for high quality issuers



Source: Pictet Asset Management, as at 31 Jan 2019
*Based on internal ratings from Pictet Asset Management



CREDIT EXAMPLE: CHINA STATE GRID VERSUS BRIGHTFOOD

CHGRID 3.79% due 21/10/2020

China State Grid is one of two power grid companies in China, providing over 80% of the country's power consumption.

Key figures, in RMB (as of 2017 year-end)

- > Revenues: 2,358 billion
- > EBITDA: 405 billion
- > Total assets: 3,811 billion
- > Gross leverage: 2.0x

Ownership analysis

China State Grid is wholly owned by Central SASAC (State-owned Assets Supervision and Administration Commission)

Issuer onshore rating: AAA

Issuer international ratings: A1/A+

Bond valuation

CHGRID 3.79% 2020 yielding 3.5%

BRTFOD 4.72% due 28/04/2020

Bright Food sells food products, including meat, dairy, sugar, cereals, oils, wine, and canned foods.

Key figures, in RMB (as of 2017 year-end)

- > Revenues: 160 billion
- > EBITDA: 9 billion
- > Total assets: 246 billion
- > Gross leverage: 8.8X

Ownership analysis

Bright Food is wholly owned by Shanghai SASAC

Issuer onshore rating: AAA

Issuer international ratings: Baa3/BBB

Bond valuation

BRTFOD 4.72% 2020 yielding 3.5%

China State Grid is a stronger State-Owned Enterprise than Bright Food:

- > Wholly owned by central government
- > Much larger asset size
- > Lower leverage

} **Similar tenor/yields but better risk-reward**

Source: Wind, Bloomberg, Pictet Asset Management; as at Dec 2018 unless otherwise indicated

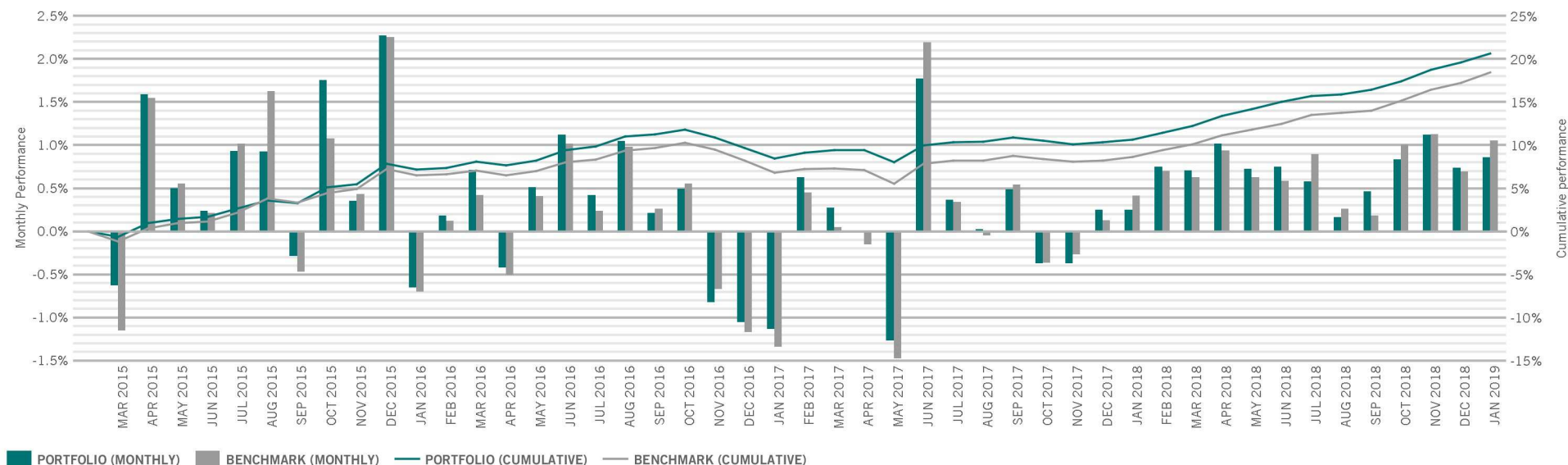
3. Performance & positioning

STRATEGY PERFORMANCE IN CNH (GROSS)

One of the first UCITS vehicles to offer clients access to the Chinese onshore bond market

Performance since inception on 3 March 2015

(Gross of Fees)



Performance % (annualised beyond 1 year)

| | PORTFOLIO | BENCHMARK | EXCESS RETURN |
|------------------------------|-----------|-----------|---------------|
| 1M | 0.86 | 1.05 | -0.19 |
| 3M | 2.73 | 2.89 | -0.16 |
| YTD | 0.86 | 1.05 | -0.19 |
| 1Y | 9.02 | 9.02 | 0.00 |
| 3Y (annualised) | 4.01 | 3.60 | 0.41 |
| Since inception (annualised) | 4.90 | 4.42 | 0.48 |

Risk statistics ex-post - since inception

| | PORTFOLIO | BENCHMARK |
|---------------------------|-----------|-----------|
| Annualised volatility (%) | 2.57 | 2.73 |
| Tracking error (%) | 0.71 | - |
| Information ratio | 0.47 | - |

Pictet-Chinese Local Currency Debt-I USD in CNH, Gross of fees
 Benchmark: Bloomberg Barclays China Composite. From inception to 31.12.2018 ChinaBond Composite Index
 Source: Pictet Asset Management, data as at 31.01.2019

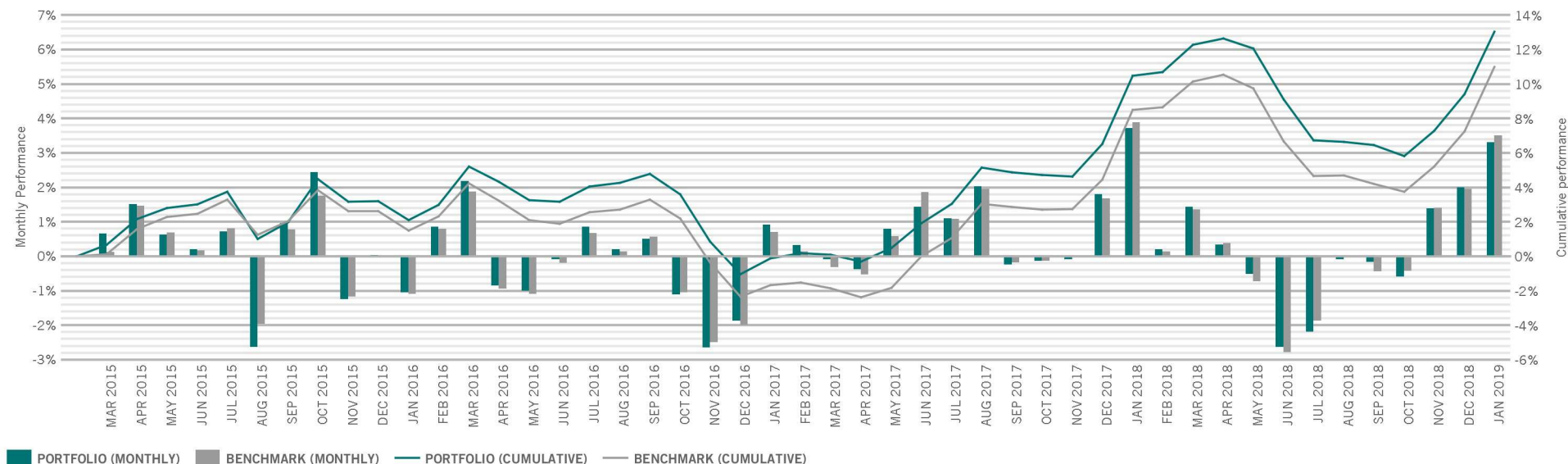
Past performance is not a guarantee or a reliable indicator of future performance. Performance data does not include the commissions and fees charged at the time of subscribing for or redeeming shares. The client's returns will be reduced by the management fees and other expenses. Please note that the strategy is benchmark agnostic; the ChinaBond Composite Total Return Index is not a benchmark but a reference index which serves as a proxy for Chinese Local Currency Debt. Reference indices do not influence the portfolio construction process.

STRATEGY PERFORMANCE IN USD (GROSS)

One of the first UCITS vehicles to offer clients access to the Chinese onshore bond market

Performance since inception on 3 March 2015

(Gross of Fees)



Performance % (annualised beyond 1 year)

| | PORTFOLIO | BENCHMARK | EXCESS RETURN |
|------------------------------|-----------|-----------|---------------|
| 1M | 3.30 | 3.50 | -0.20 |
| 3M | 6.82 | 6.99 | -0.17 |
| YTD | 3.30 | 3.50 | -0.20 |
| 1Y | 2.30 | 2.30 | 0.00 |
| 3Y (annualised) | 3.43 | 3.02 | 0.41 |
| Since inception (annualised) | 3.17 | 2.70 | 0.47 |

Risk statistics ex-post - since inception

| | PORTFOLIO | BENCHMARK |
|---------------------------|-----------|-----------|
| Annualised volatility (%) | 5.00 | 4.86 |
| Tracking error (%) | 0.71 | - |
| Information ratio | 0.47 | - |

Pictet-Chinese Local Currency Debt-I USD in USD, Gross of fees
 Benchmark: Bloomberg Barclays China Composite. From inception to 31.12.2018 ChinaBond Composite Index
 Source: Pictet Asset Management, data as at 31.01.2019

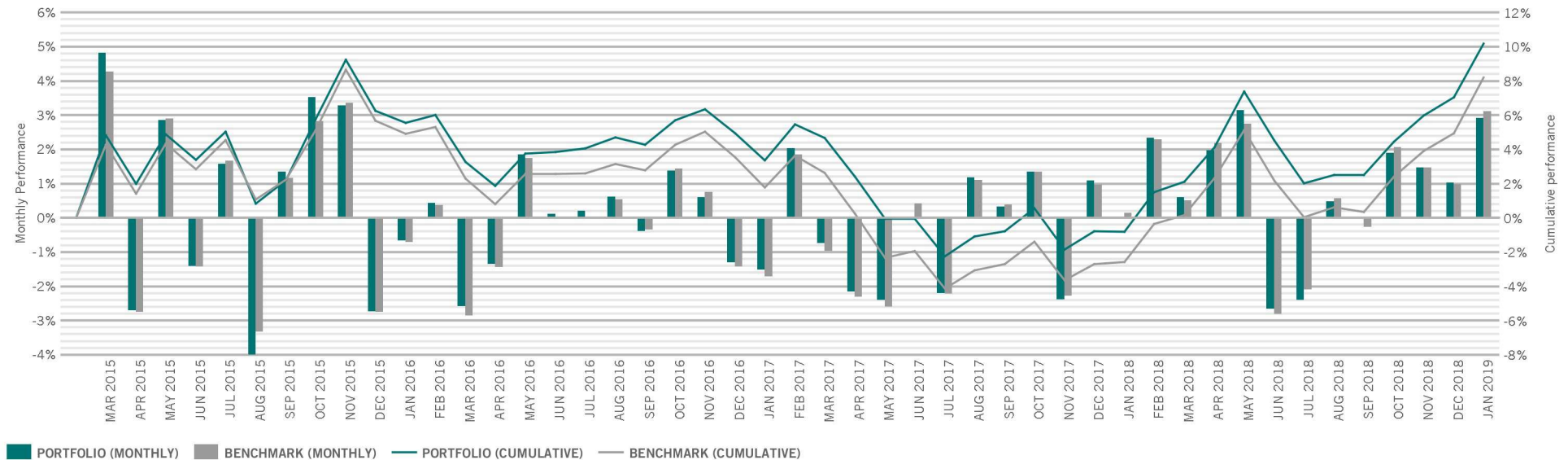
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STRATEGY PERFORMANCE IN EUR (GROSS)

One of the first UCITS vehicles to offer clients access to the Chinese onshore bond market

Performance since inception on 3 March 2015

(Gross of Fees)



Performance % (annualised beyond 1 year)

| | PORTFOLIO | BENCHMARK | EXCESS RETURN |
|------------------------------|-----------|-----------|---------------|
| 1M | 2.91 | 3.11 | -0.20 |
| 3M | 5.48 | 5.64 | -0.16 |
| YTD | 2.91 | 3.11 | -0.20 |
| 1Y | 11.07 | 11.06 | 0.01 |
| 3Y (annualised) | 1.43 | 1.03 | 0.40 |
| Since inception (annualised) | 2.50 | 2.03 | 0.47 |

Risk statistics ex-post - since inception

| | PORTFOLIO | BENCHMARK |
|---------------------------|-----------|-----------|
| Annualised volatility (%) | 6.63 | 6.54 |
| Tracking error (%) | 0.74 | - |
| Information ratio | 0.45 | - |

Pictet-Chinese Local Currency Debt-I USD in EUR, Gross of fees
 Benchmark: Bloomberg Barclays China Composite. From inception to 31.12.2018 ChinaBond Composite Index
 Source: Pictet Asset Management, data as at 31.01.2019

Past performance is not a guarantee or a reliable indicator of future performance. Performance data does not include the commissions and fees charged at the time of subscribing for or redeeming shares. The client's returns will be reduced by the management fees and other expenses. Please note that the strategy is benchmark agnostic; the ChinaBond Composite Total Return Index is not a benchmark but a reference index which serves as a proxy for Chinese Local Currency Debt. Reference indices do not influence the portfolio construction process.

PORTFOLIO POSITIONING

Portfolio Statistics

| | | | |
|----------|--------|-----------|----|
| Yield | 3.9% | # issuers | 52 |
| Duration | 4.0yrs | # issues | 86 |

Asset class breakdown

| | |
|--|-------|
| CNY bond (onshore) | 83.0% |
| CNH bond (offshore) | 1.3% |
| USD bond (offshore, hedged to CNY using NDF) | 14.5% |

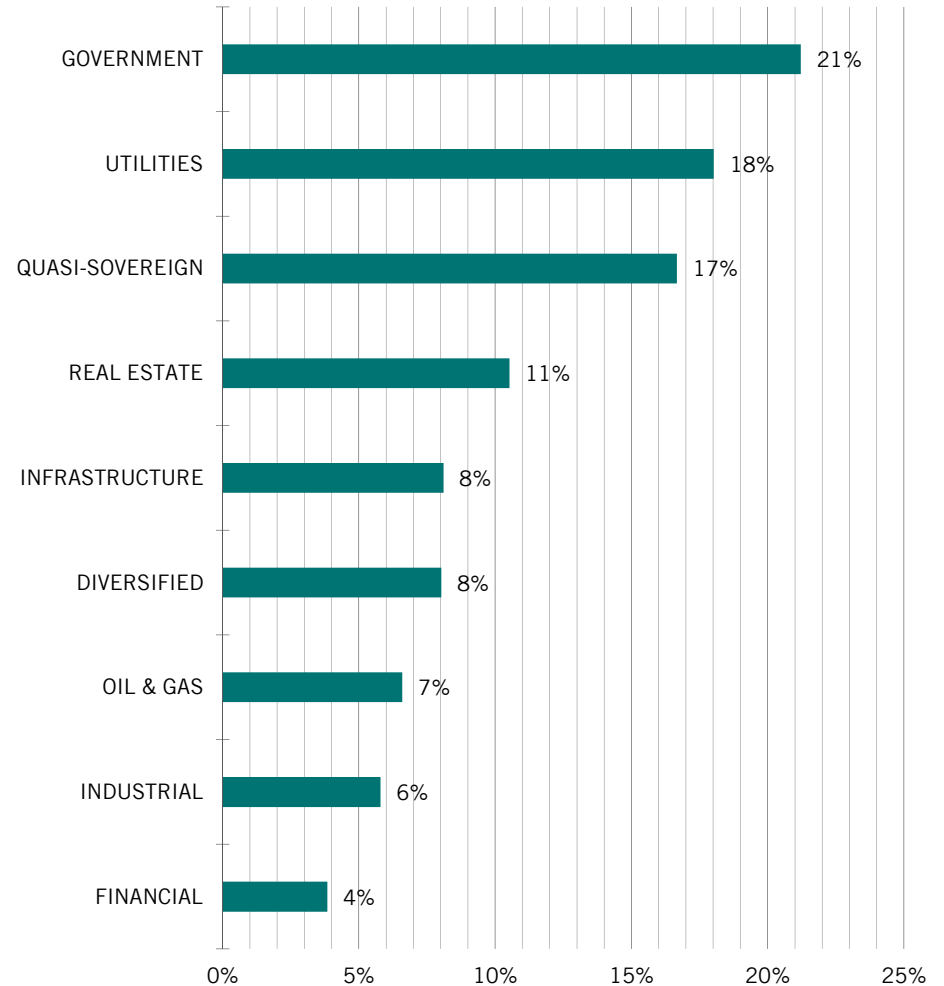
Invested Segment Credit Rating Breakdown*

| | | | |
|------------------|-------|------------|-------|
| Investment Grade | 86.5% | High Yield | 13.5% |
|------------------|-------|------------|-------|

Top 10 Credit Holdings

| ISSUER NAME | INTERNAL RATING | ONSHORE RATING | MOODY'S / S&P RATING |
|--------------------------|-----------------|----------------|----------------------|
| CHINA NATL PETROLEUM CO | A+ | AAA | A1 / A+ |
| CHINA THREE GORGES CORP | A | AAA | A1 / A |
| CHINA SOUTHERN POWER | A+ | AAA | A1 / A+ |
| CHINA PETROLEUM CORP | A+ | AAA | A1 / A+ |
| ZHEJIANG PROVINCIAL ENER | A- | AAA | A2 / - |
| CHINA RAILWAY CORP | A+ | AAA | NR |
| STATE POWER INVESTMENT | A- | AAA | A2 / A- |
| GUANGZHOU METRO GR | BBB+ | AAA | A1 / - |
| CHINA CONSTRUCT ENG LTD | A | AAA | A2 / A |
| BEIJING STATE CAP CENTER | A+ | AAA | A1 / A+ |

Sector breakdown with 87% of the portfolio in govt-related issuers



Source: Pictet Asset Management, as at 31 Jan 2019
 *Based on internal ratings from Pictet Asset Management

4. Outlook

OUTLOOK

Economic Fundamentals

- Slower growth so far is primarily attributable to domestic factors, arising from a series of tightening measures on local government debt, shadow banking and other financial deleveraging that were introduced in 2017
- The trade tension between China and the U.S has eased with more positive news flows on their respective trade discussion. We expect low likelihood of escalation of US-China trade conflicts although restrictions on China's business activities in the global market, especially in the high-tech sector, will remain
- We expect deleveraging policies to be more gentle going forward while accommodative monetary policy will continue to support the economy
- Fiscal policies (e.g. tax cut, infrastructure spending) will partially offset the impact from tariffs and buffer the economy from a sharp slowdown
- Expect more credit events and defaults to happen especially for credits with poorer credit fundamentals

Currency

- We are constructive on RMB
 1. More balanced capital flows with the banning of irrational buying of overseas assets by Chinese corporates
 2. Continuous opening up of financial markets that attract foreign inflows
 3. Lower likelihood of escalation of China-US trade tensions
 4. Solid consumption, accommodative monetary policy and expansive fiscal spending to keep the economy growing above 6%
 5. Potential moderation of Fed tightening may alleviate pressure on the CNY

5. Appendix



RAYMOND SAGAYAM

Chief Investment Officer- Fixed Income

Fixed Income team

Raymond Sagayam joined Pictet Asset Management in 2010 as Head of Total Return Fixed Income. In January 2017 he was appointed Chief Investment Officer of Fixed Income.

Before joining Pictet, Raymond was a Managing Director with Swiss Re Asset Management, head of dollar and euro investments, focusing on credit relative value strategies. Before that, he worked for Bank Brussels Lambert (ING) trading US Credit. He has traded credit across all major geographies and began his career at ING Barings in Emerging Markets in 1997.

Raymond holds a Bachelor's in Economics from the London School of Economics & Political Science (LSE) and Master's in Contemporary Theology in the Catholic Tradition from Heythrop College, University of London. He is also a Chartered Financial Analyst (CFA) charterholder.

BIOGRAPHIES

CARY YEUNG



Head of Greater China Debt

Cary Yeung joined Pictet Asset Management in 2014 as Head of Greater China Debt.

Previously, Cary was working at Taikang Asset Management Hong Kong where he was Head of Fixed Income and the portfolio manager of a range of Asian fixed income products. Prior to Taikang Asset Management, he worked at UBS Global Asset Management Hong Kong and Prudential Asset Management Singapore as a senior portfolio manager for various Asian fixed income portfolios. Cary started his career with PWC and subsequently KPMG before moving to First State Investments where he took responsibility as Credit Analyst.

Cary graduated with a Bachelor of Business Administration (Finance and Accounting) from Simon Fraser University, Canada. He is a CFA Charterholder and a Certified Public Accountant. Cary is fluent in English, Mandarin and Cantonese.

ECHO CHEN



Specialist Trader Chinese Debt

Echo Chen joined Pictet Asset Management in September 2014 as a specialist trader for Chinese bonds.

Prior to joining Pictet Asset Management, Echo was a Trader for onshore RMB credits, government bonds and ETF products at Taikang Asset Management Hong Kong. Her role included the market analysis and daily updates on market liquidity, yield curve and credit yield levels. In addition she managed daily trading for USD and CNH portfolios.

Echo holds a Bachelor of Economics and a Bachelor of Law from Peking University. She graduated from the Hong Kong Polytechnic University with a Master of Finance in Investment Management. She has completed CFA Level III examination.

Echo is a native Mandarin speaker and fluent in English.

JENNIFER CHANG



Senior Credit Analyst

Jennifer Chang joined Pictet Asset Management in January 2015 as a Senior Credit Analyst specialised in Chinese credits.

Prior to joining Pictet Asset Management, Jennifer was working at HSBC Global Asset Management (HK) where she was a senior credit analyst. Her role included fundamental and relative value analysis on investment-grade and high-yield credits from Chinese state-owned enterprises and industrials. Prior to HSBC she worked at Western Asset Management Company where she was responsible for high yield credit research.

Jennifer graduated with a Bachelor of Arts in Economics from University of California, Irvine and a Master of Business Administration from University of Southern California. She is a CFA Charterholder and a Financial Risk Manager.

Jennifer is a native Mandarin speaker and fluent in English and Taiwanese.



SHIN LEE

Senior Client Portfolio Manager

Shin Lee joined Pictet Asset Management in 2009 and was appointed Chief Executive Officer of Pictet Asset Management (Singapore) Pte Ltd on November 1st 2017. She oversees PAM Singapore's activities and is PAM's representative in all dealings with local authorities, regulators and suppliers. Shin is also a Senior Client Portfolio Manager within the Fixed Income team based in Singapore where she had been transferred in November 2010 to support business in Asia Pacific with her specialty in fixed income products. Previously, Shin was working in London as a Product Specialist for Emerging Market Debt since 2009.

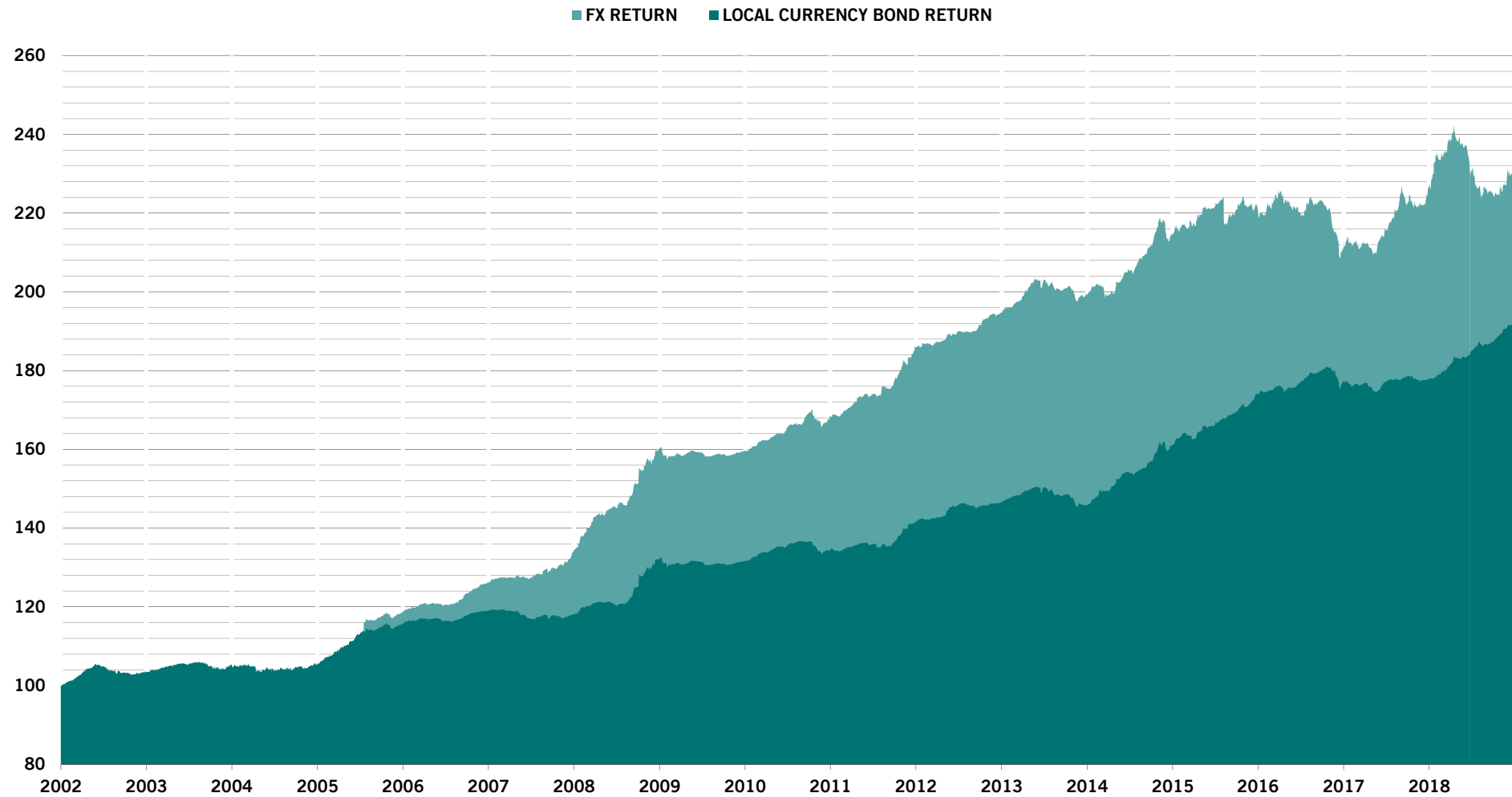
Before joining Pictet, Shin worked at UBS in the UBS Delta team, which provides portfolio advisory services to institutional clients. After a year in London covering UK and European clients, she was transferred to Singapore as the team's first representative in the Asia-Pacific region. Before joining Pictet Asset Management she spent a year with SEO London, a non-profit organisation.

Shin holds an MEng degree from Imperial College London in Chemical Engineering.



FAVOURABLE RISK-REWARD PROFILE

Total return of asset class has been driven by stable bond component, with additional return from FX



Source: ChinaBond Composite, Bloomberg; as at 31 Dec 2018



PICTET AM'S COMMITMENT TO RESPONSIBLE INVESTMENT

We are convinced that Environmental, Social and Governance (ESG) considerations can help us make better long-term investment decisions for our clients.

For decades, sustainability has been central to our way of thinking. Since the Pictet Group was founded in 1805, we have aimed to ensure the prosperity of our clients over the long term. In doing so, we have instinctively considered the interests of future generations.

Pictet Asset Management believes in responsible capitalism and takes an enlarged view of the economy and its interactions with civil society and the natural environment.

Consistent with our fiduciary duty to act in the best interests of our clients and our adherence to the UN Principles for Responsible Investment (UN PRI), we are committed to integrating material ESG criteria in our investment processes and ownership practices with a view to enhance returns and/or mitigate risks. We also aim to embed ESG in our risk management and reporting tools in order to maintain high standards of transparency and accountability.

Supported by six working principles

1.
Investment
process

2.
Active
ownership

3.
Exclusion
toolbox

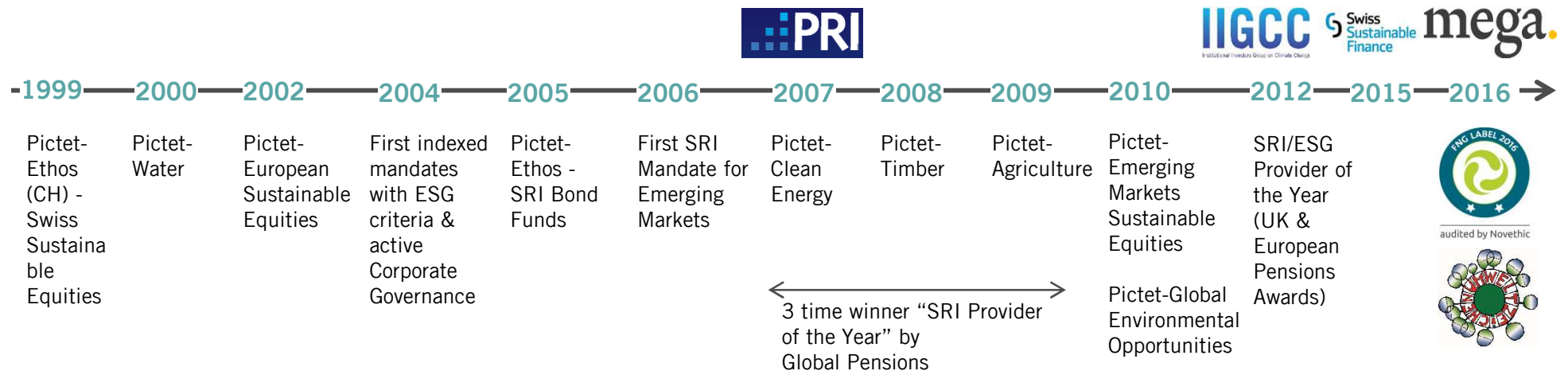
4.
Risk
management

5.
Portfolio
reporting

6.
Marketing &
Communication

A LONG-TERM COMMITMENT

- Over 15 years' experience in responsible investment
- Early signatory to the UNPRI
- Actively involved in industry initiatives and thought leadership
- Sustainability deeply rooted within the culture of the Pictet Group



Source: Pictet Asset Management, as at 31.12.2016


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CONTROVERSIAL WEAPONS EXCLUSION

- The Pictet Group has implemented a ban on cluster munitions and anti-personnel mines since 2011
 - Extended to biological and chemical weapons in 2014 and to nuclear weapons of non-NPT signatories in 2017

- The exclusion list is revised twice a year and approved by Pictet's Sustainability Board
 - 61 companies are currently excluded
 - Covers equities *as well as* other securities such as bonds, futures, certificates, etc.
 - Short positions are allowed


- Pre-trade checks are enforced by compliance in front office tools
 - Applicable to all actively managed strategies
 - Extended on a case-by-case basis to passive strategies



| | | |
|---------------------------|------------------------------|-------------|
| Internal Directive | Controversial weapons | D-60 |
| Group | 1 st October 2014 | |

Contents

1. LEGAL BASIS
2. PURPOSE OF THE DIRECTIVE
3. SCOPE OF APPLICATION
4. DEFINITIONS
5. GENERAL PROVISIONS



| | | |
|----------------|------------------------------|-------------|
| Annex 1 | List of forbidden companies | D-60 |
| Group | 1 st October 2014 | |

| Name | ISIN * | Country | Public/Private | Rational for exclusion | No of Pictet companies |
|--------------------------|---------------|----------------------------|----------------|---|------------------------|
| Aerotech S.A. | ROAR08ACHOR1 | Romania | Public | Cluster weapons | 715229 |
| Alliant Techsystems Inc. | US01188041042 | United States | Public | Cluster weapons | 615482 |
| Aryt Industries Ltd. | IL0005670147 | Israel | Public | Majority shareholder of Reshet Technologies | 775458 |
| Ashot Ashkelon | IL0003120172 | Israel | Public | Majority-owned subsidiary of IMI | 696967 |
| BAE Systems Plc | GB0002634946 | United Kingdom | Public | White phosphorus | 77318 |
| Chemring | GB00B45C9X44 | United Kingdom | Public | White phosphorus (though wholly-owned subsidiary Mecan) | 378265 |
| China Spaceat | CNE000000SM3 | China, Peoples Republic of | Public | Majority-owned subsidiary of CASIC | 682499 |
| Elbit Systems Ltd. | | | | | |
| Esterline Technologies | | | | | |
| General Dynamics Cor | | | | | |
| Hanwha Corporation | | | | | |

P&A – September 2014 – For Internal Use

Exclusion of controversial weapons

Since 2011, the Pictet Group has applied a ban on investments in companies active in cluster munitions and anti-personnel landmines. This ban applies to all actively managed portfolios across all entities and covered so far 14 listed entities.

In June 2014, the Sustainable Investment Board¹ agreed to strengthen our commitment by expanding the ban already in place to chemical and biological weapons, and provide further clarification on scope and definitions.

Key features of our exclusion policy and companies impacted are provided below:

- 1. What do we mean by "Controversial Weapons"?**
Controversial weapons have indiscriminate effects, cause undue harm and are incapable of distinguishing between civilian and military targets. Based on applicable international conventions, Pictet considers the following as "controversial weapons":
 - Anti-personnel mines
 - Cluster weapons
 - Biological and chemical weapons (including white phosphorus)
- 2. Which companies are deemed to be involved?**
A company is deemed to be involved in controversial weapons when
 - it produces, trades, or stores controversial weapons or components that are specifically designed for the weapon (dedicated component) and that represent a significant building block in the functioning of the weapon (key component) and/or
 - it provides assistance, technology or services dedicated to controversial weapons.

If one of the above activities takes place within a subsidiary, the direct parent company is considered to be involved in controversial weapons as well if the parent company has an equity stake of at least 50%. Likewise, any subsidiaries of a parent company involved in controversial weapons are also deemed to be involved provided that the parent company has an equity stake of at least 50%.

¹ The SIB co-operates and provides guidance on sustainability issues and their implications for the Pictet Group. It is composed of representatives from P&A, P&S, P&I and corporate functions.

3. How is the exclusion list defined?
The list of companies involved in controversial weapons is based on reliable sources gathered by a reputable third-party research provider. Assessment results are presented to Pictet's Sustainable Investment Board which validates the list of companies involved in controversial weapons. The list is updated twice a year.

4. Is the exclusion list publicly available?
No. The exclusion list is for internal use only and should not be circulated to third-parties. The Group will, however, provide information on an aggregate basis on companies excluded (ag total no. of companies, sector and geographic breakdown).

5. Which accounts and portfolios are impacted?
This exclusion list applies to:

- actively managed funds, certificates, discretionary mandates, investment recommendations and proprietary investments
- Pictet products delegated to external asset managers subject to amendment of relevant Investment Management Agreements or Investment Guidelines

The exclusion list does not apply to:

- passive strategies that replicate market indices
- accounts under custody (with or without advisory mandate)
- open-ended funds managed by external asset managers in which we invest on behalf of our clients through discretionary mandates
- third party funds without management mandate given to Pictet

6. When is the new exclusion list applicable?
Investment teams should not initiate new investments in excluded companies with immediate effect. Existing investments should be divested from relevant portfolios based on market conditions but in principle not later than one month after entry into force.

7. Does it only concern equities?
No. The exclusion list also applies to bonds and convertible bonds issued by excluded companies, as well as bonds issued by related financial vehicles. It also applies to participation notes and derivatives issued by third parties on such securities. Exclusions apply to securities negotiated on primary and secondary markets, as well as OTC instruments. Short positions (direct or indirect) are allowed.

37 | Investing in Chinese Onshore Bonds
Pictet Asset Management
For professional investors only



INVESTMENT GUIDELINES & CURRENCY EXPOSURE

| | GENERAL LIMITS | QUALITY LIMITS |
|------------------------------|---|---|
| Investment guidelines | <ul style="list-style-type: none">> Investments in:<ul style="list-style-type: none">— China Government bonds, China Quasi-sovereign Policy Bank bonds, Local Government bonds, People's Bank of China bills— Credit bonds— Currency forwards— Money market instruments | <ul style="list-style-type: none">> Max 50% exposure to internal rating of BB+ or below> Max 5% per issuer with local rating of AA+ or below |
| Currency exposure | <ul style="list-style-type: none">> Investment in debt securities and money-market instruments in RMB may be conducted in CNY (onshore Renminbi, the Chinese currency only used in mainland China), or in CNH (offshore Renminbi, generally available in Hong Kong)> Exposure to non-RMB denominated assets may be hedged to help maintain a currency exposure in RMB> The compartment will be primarily exposed to CNY and/or CNH, directly or indirectly | |

Note: These investment guidelines are internal guidelines which are subject to changes at any time and without any notice
For complete investments rules & limits, please refer to Fund's prospectus

PICTET-CHINESE LOCAL CURRENCY DEBT

General information

| | |
|---------------------|---|
| Name | Pictet-Chinese Local Currency Debt |
| Fund manager | Cary Yeung |
| Reference index | ChinaBond Composite Total Return Index |
| Legal status | Compartment of the Pictet Luxembourg SICAV, UCITS compliant |
| EU saving directive | In scope |
| Reference currency | CNH |
| Trading frequency | Daily |
| Settlement date | Subscriptions T+2, Redemptions T+4 |
| Launch date | 3 March 2015 |

Unhedged share classes

| SHARE CLASS | ISIN | MANAGEMENT FEE | EXPECTED TER | ONGOING CHARGES |
|-------------|--------------|----------------|--------------|-----------------|
| P RMB | LU1164802982 | 1.30% | 1.68% | 1.71% |
| I USD | LU1164800770 | 0.65% | 1.04% | 1.06% |
| P USD | LU1164800853 | 1.30% | 1.69% | 1.71% |
| R USD | LU1164800937 | 1.90% | 2.28% | 2.31% |
| I EUR | LU1164801158 | 0.65% | 1.04% | 1.06% |
| P EUR | LU1164801661 | 1.30% | 1.68% | 1.71% |
| R EUR | LU1164802040 | 1.90% | 2.28% | 2.30% |

Hedged share classes

| SHARE CLASS | ISIN | MANAGEMENT FEE | EXPECTED TER | ONGOING CHARGES |
|-------------|--------------|----------------|--------------|-----------------|
| HI USD | LU1676181206 | 0.65% | 1.10% | 1.12% |
| HP USD | LU1676181461 | 1.30% | 1.70% | 1.73% |
| HI EUR | LU1676180810 | 0.65% | 1.09% | 1.11% |
| HP EUR | LU1676181032 | 1.30% | 1.72% | 1.75% |
| HI CHF | LU1676181628 | 0.65% | 1.10% | 1.12% |
| HP CHF | LU1676181974 | 1.30% | 1.75% | 1.77% |

Source: Pictet Asset Management, I-Share: minimum investment USD 1'000'000 or equivalent, Risk and Reward profile of 3 for all share classes, except I EUR and P EUR with a SRRI of 4. An entry charge of up to 5% and an exit charge of up to 3%, as well as a conversion charge of up to 2% might be taken out of your capital (in favour of the distributor) before it is invested and before the proceeds of your investment are paid out. The compartment is designed for investors who plan to invest for 3 years or more.

Risk and reward profile



The Share Class is assigned to this risk category because of the price variations resulting from its currency and the nature of the Compartment's investments and strategy. The risk category shown is based on historical data and may not be a reliable indication for the future risk profile of the Share Class. It is not a target or a guarantee and may change over time. The lowest category does not mean a risk-free investment. The Compartment offers no capital guarantee or asset protection measures. The Compartment may be exposed to the following risks which are not adequately captured by the synthetic risk indicator and may negatively impact its value:

- **Financial Derivatives risk:** the leverage resulting from derivatives amplifies losses in certain market conditions.
- **Liquidity risk:** markets with low volumes result in difficulties valuing and/or trading some assets.
- **Counterparty risk:** losses occur when a counterparty does not honour its obligations related to contracts such as over-the-counter derivatives.
- **Credit risk:** sudden losses may occur when issuers of debt securities default on their payment obligations.
- **Investments in emerging markets** are generally more sensitive to risk events, such as changes in the economic, political, fiscal and legal environment, as well as fraud.
- **Investments in Mainland China** may be subject to capital restrictions and trading quotas (e.g. QFII and RQFII regimes). The Compartment may encounter difficulties or delays in enforcing its rights in the event of disputes.
- **Operational risk:** losses resulting from human errors, system failures, incorrect valuation and safekeeping of assets.

Further information can be found in the prospectus.

For more information, please refer to the section «Risk Considerations» in the prospectus.



For more information, please visit our websites

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