BlackRock®

Target to capture yield and growth opportunities in the evolution of China bond market

BlackRock China Bond Fund

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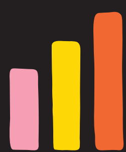
Why China bonds for income investors?

The rise of China's bond market to become the world's second largest[1] has been driven primarily by local investors. The next stage of its growth should see more foreign ownership with ongoing inflows to the market, as Chinese securities are increasingly represented in flagship global bond benchmarks.

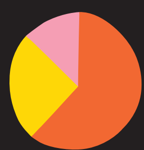
For income-seeking investors, Chinese bonds bring potential yield opportunities and diversification benefits to a global portfolio because they offer comparatively **higher yields**, and have relatively **lower correlations** to global risk assets.

>US$16T
in size[1]

2nd
largest in the world[1]



15%
annualized growth rate[2]



<3%
foreign ownership[2]

For illustrative purpose only. Subject to change. There is no guarantee that any forecast will come to pass.

[1] Source: Wind, November 2020.
[2] Source: JP Morgan, Wind, November 2020.

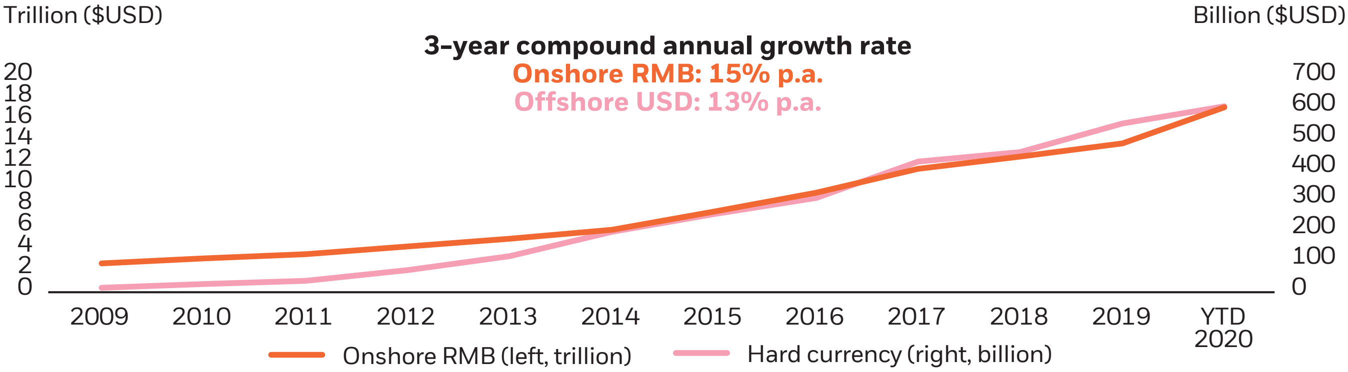
Development of the China bond markets

With increased acceptance of bonds as a building block for global fixed income portfolios, investors are now actively allocating funds to China. The growth of the China bond market, in size and complexity, is providing a wealth of opportunities for investors.

Its increasing international recognition, highlighted by the gradual inclusion into world bond indexes, not only reassures investors of its regulatory standards but also signals a potential inflow of foreign money in the years to come.

Global investors are expected to continue to pile into strategies with exposure to Chinese onshore bonds amid onging heightened uncertainties across global assets.

The Renminbi Bond Market has developed significantly over the past decade, however foreign ownership still remains lower than 3%.



Source: JP Morgan, Wind November 2020.
JP Morgan Asia Credit Bond Index – China is used in the graph for hard currency China Bond markets. For illustrative purposes only. Indexes are unmanaged and one cannot invest directly in an index.

What makes China bonds a compelling asset class for income investors?

In this low for longer interest rate environment across developed markets, income-seeking investors can look outside of core markets and consider China bonds, which deliver potential yield opportunities and diversification benefits, and add resilience to a global portfolio. China bonds offer comparatively **higher yields** with **muted volatility**, and have **lower correlations** to global risk assets. This is especially important during times of market uncertainties.

1. Attractive income opportunity

With real yields still high onshore, Chinese bonds make up more than 60% of the global bond universe yielding more than 2.5%. Today's unique environment of ultra-low bond yields and sky-high equity market volatility is another good reminder that no single bond investment can achieve diversification. A China bond strategy allows us to build a portfolio with high yields while at the same time achieve issuer diversification by accessing a 6 trillion USD onshore credit market with more than 4,000 issuers.

Chinese bonds make up more than 60% of the global bond universe yielding more than 2.5%

Past Performance is not a reliable indicator of current or future result. Indexes are unmanaged and one cannot invest directly in an index. Source: BlackRock, Wind end November 2020. For illustrative purpose only. Based on the Bloomberg Barclays Multiverse and all eligible China onshore bonds – both rates and credit bonds (>1.5 billion CNY size, >1 year maturity)

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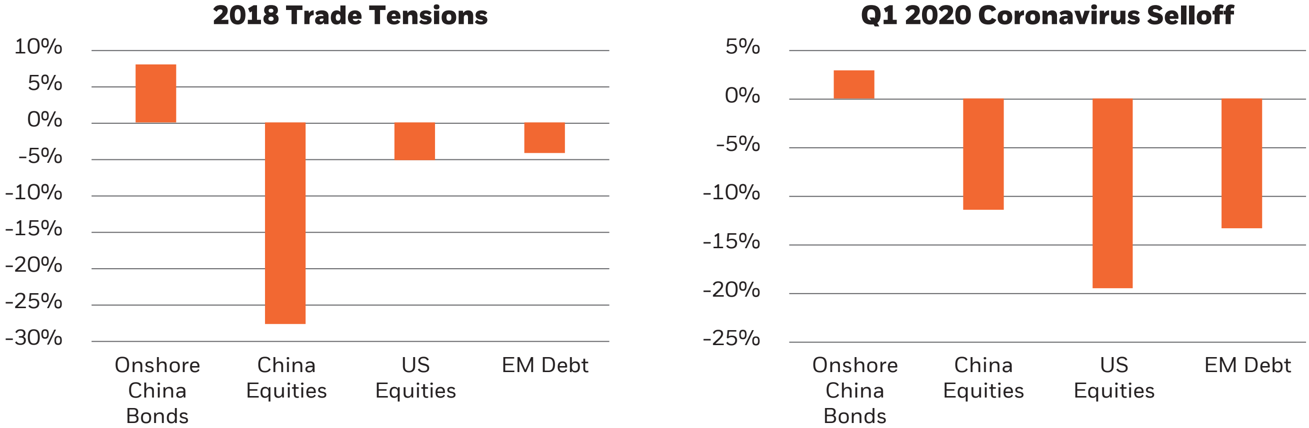
2. Chinese bonds have been resilient and exhibited low drawdowns amidst the volatility

The onshore bond market behaves quite differently from the rest of the world. It exhibits lower volatility and have lower correlation with other global risk assets, which is highlighted in its resilience to the pandemic-induced global market rout, finishing the first quarter of 2020 with positive returns despite the deep market sell-off. Chinese bonds, in particular the onshore bonds, provide an opportunity for investors to diversify risks at a time of market uncertainty.

Returns on Onshore China Bonds in period of uncertainty



Source: BlackRock, Bloomberg, end December 2020. Onshore Bonds: Bloomberg Barclays China Aggregated (USD-H). China Equities: CSI 300 Index. US Equities: S&P 500 Index. EM Debt: JPM Emerging Markets Bond Index Global Diversified. Index performance is for illustrative purpose only. Investors cannot directly invest into an index.

3. Low correlation and greater diversification

The Chinese bond market can be divided into the onshore renminbi bond market and the offshore USD-denominated Chinese credit market. Their participants, however, are starkly different. The onshore market is driven mostly by local investors and subject to local sentiment and perceived risks, while the offshore market is dominated by foreign investors and international money. Chinese onshore bonds have low levels of correlation with the global risk assets, helping provide diversification within an investor's portfolio.

Low correlation of onshore credit to global risk assets (5-year as of end November 2020)

	Asian High Yield Credit	Asian USD Credit	Global IG Corp (USD Hedged)	Global HY Corp (USD Hedged)	EM USD Sov/Quasi Credit	EM Local Currency Bonds	US Equities	Asian Equities
China Onshore Credit	-5%	10%	13%	-8%	-4%	-1%	-14%	-17%

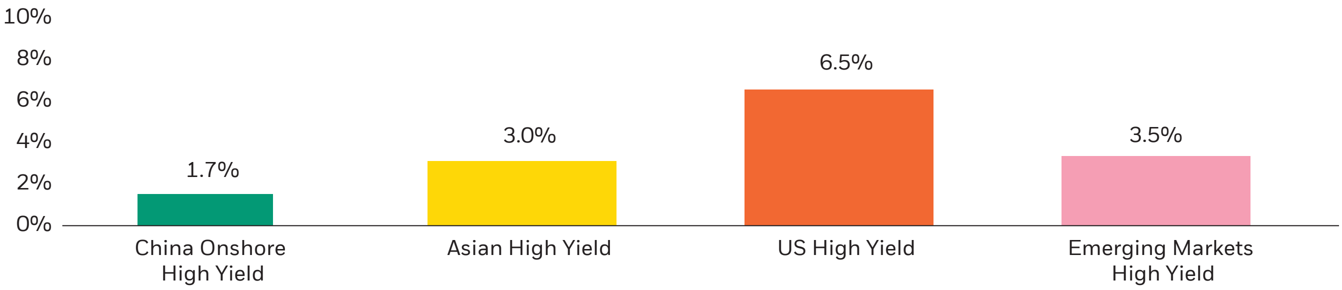
Source: BlackRock, WIND, Bloomberg, end November 2020. China Onshore Credit: China Bond Credit Bond Index; Asian High Yield Credit: JP Morgan Asian non-Investment Grade Index; Asian USD Credit: JP Morgan Asian Credit Index;; Global IG Corp (USD Hedged): Bloomberg Barclays Global Corporate Index; Global HY Corp (USD Hedged): Bloomberg Barclays Global HY Corporate Index; EM USD Sov/Quasi Credit: JP Morgan Emerging Markets Bond Index; EM Local Currency Bonds: JP Morgan GBI-EM Index; US Equities: S&P 500; Asian Equities: MSCI AxJ. Index performance is for illustrative purpose only. Investors cannot directly invest into an index.

4. China default rates remain low compared to global averages

Despite recent individual credit events, the risk of defaults appears to be lower in China bonds than those in other areas such as the US and the broader emerging markets, thanks to a more advanced stage of recovery of China from the pandemic and its deleveraging efforts before Covid-19.

We believe the latest series of defaults seen in China is an integral part of the credit cycle, not a systemic risk. The default rate in the onshore market is of similar level to that of 2019 and we believe the default rates are going to remain at around the same level in 2021.

Default rate



For illustrative purpose only and there is no guarantee that the forecast will be realized. Source: JP Morgan, Wind, BlackRock, end November 2020 data and forecasts. The projected default rate for emerging markets in 2021 is expected to be 19%. Any opinions and/or forecasts represent comments on the market environment at a specific time Estimates are not intended as predictions, guarantee of future events or future results.

Why BlackRock China Bond Fund?

- Ranked **1st quartile** in 3 and 5-year period returns[3]
- Annualized default rate 0.7% and recovery rate 80% since inception

Allocates at least 70% to RMB denominated fixed income and non-RMB denominated securities issued by entities undertaking most of their economic activity in China

Invests tactically across ALL China bond markets, including the onshore RMB bond market, the offshore RMB market and the offshore hard currency market

[3] Source: Morningstar as at end November 2020. Peer group refers to Hong Kong Securities and Futures Commission (SFC) authorised funds in Asia Bonds categorised by Morningstar. SFC authorization does not imply official recommendation. Investment involves risk. Past performance is not necessarily a guide to future performance or returns.

Key facts

BlackRock China Bond Fund	
Investment Objective	The China Bond Fund seeks to maximise total return. The Fund invests at least 70% of its total assets in fixed income transferable securities denominated in Renminbi or other non-Chinese domestic currencies issued by entities exercising the predominant part of their economic activity in the PRC through recognised mechanisms including but not limited to the Chinese Interbank Bond Market, the exchange bond market, quota system and/or through onshore or offshore issuances and/or any future developed channels. The Fund is a RQFII Access Fund and a CIBM Fund and may invest without limit in the PRC via RQFII Quota and in the CIBM via the Foreign Access Regime and/or Bond Connect and/or other means as may be permitted by the relevant regulations from time to time.
AUM as of 31 December 2020	RMB 34,849m
Launch date	11 Nov 2011
Avg. Credit Rating[4]	BBB-
Morningstar Rating[5]	★★★★★
Annual Management Fee (Including Distribution fee, if any)[6]	0.75%
Initial Charge	5%
ISIN	LU0679940949
Bloomberg Ticker	BGRBA2C LX
Share Classes	**Unhedged:** A2 CHF, A2 RMB, A2 USD, A3 HKD, A3 RMB, A3 USD, A6 RMB **Hedged:** A2 USD, A6 AUD, A6 CAD, A6 EUR, A6 GBP, A6 HKD, A6 NZD, A6 SGD, A6 USD
Key Features	• Access to **ALL Chinese bond markets (CNH, CHY and USD)** • No bias between **sovereign** and **credit** • Highly diversified with **663 holdings[7]**

Source: BlackRock as of end November 2020, unless otherwise specify.

Distribution Information

Ex-dividend date: 31.12.2020

Currency	Share Class	Frequency	Dividend	Inception Date
RMB	A6 Distributing (S)	Monthly	0.528000	11 Jul 2018
AUD hedged	A6 Distributing (S)	Monthly	0.048000	25 Jul 2018
CAD hedged	A6 Distributing (S)	Monthly	0.046000	27 Nov 2019
EUR hedged	A6 Distributing (S)	Monthly	0.046500	4 Jul 2018
GBP hedged	A6 Distributing (S)	Monthly	0.046000	27 Nov 2019
HKD hedged	A6 Distributing (S)	Monthly	0.462000	17 Apr 2019
NZD hedged	A6 Distributing (S)	Monthly	0.046000	27 Nov 2019
SGD hedged	A6 Distributing (S)	Monthly	0.048500	18 Jul 2018
USD hedged	A6 Distributing (S)	Monthly	0.048000	4 Jul 2018
HKD	A3 Distributing (M)	Monthly	0.250390	20 Mar 2013
RMB	A3 Distributing (M)	Monthly	0.209928	13 Mar 2013
USD	A3 Distributing (M)	Monthly	0.032292	11 Nov 2011

[4] The fund itself has not been rated by an independent rating agency. Credit quality ratings on underlying securities of the fund are received from S&P, Moody's and Fitch. Ratings and portfolio credit quality may change over time.
[5] Source: Morningstar, as of end November 2020. Rating is not indicative of the Fund's future performance.
[6] For Fee details, please refer to the Fund Prospectus.
[7] The no. of holdings is for reference only. The actual no. of holdings may exceed the stated amount.

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Frequently asked questions

1. Why should investors consider to add Chinese bonds to their portfolios?

The relatively low correlation of onshore Chinese bonds with global risk assets adds an extra layer of diversification to an investment portfolio. Chinese bonds are also not subject to US 10-year Treasury yield movements.

Source: BlackRock, as of end November 2020.

2. Are Chinese bonds riskier than their global peers?

Historically, Chinese bonds have displayed less volatility than broader global bonds. Default rates are lower than global counterparts.

Source: Bloomberg, as of end November 2020.

3. Should I invest in Chinese bonds during uncertain global environment?

We see onshore Chinese bonds as a good building block in portfolios amidst risk off environments. With real yields still high onshore and with the onshore market relatively insulated against global risk sentiment, we see it attractive especially during uncertain global environment. However, this does not take into account an individual's financial circumstances. An assessment should be made as to whether the information is appropriate in individual circumstances and consideration should be given to talking to a professional adviser before making an investment decision.

4. Are there liquidity constraints when investing in Chinese bonds?

In general, the Chinese bond market is relatively large and liquid. As with any other asset class, some issuances will be less liquid than others, and this is considered as part of our investment process.

5. What is the difference between onshore and hard currency bonds?

	Onshore	Hard currency
Description	• Bonds sold onshore and issued in CNY	• Bond sold in offshore market and issued in hard currency
Driver	• Endogenous factors such as Chinese economic growth, China monetary/ fiscal policies and onshore technical	• Exogenous factors such as global economic growth, risk sentiment, global policies, technical
Risk	• Chinese economic Growth decelerating faster than expected; • Default and credit events onshore; • Weaker RMB and capital outflows	• Slowdown in global economic momentum; • Risk sentiment; • Global technicals

For illustrative purposes only. It serves as a general summary and is not exclusive.

6. How does the inclusion of Chinese onshore bonds into the FTSE index mean for investors?

The inclusion of Chinese onshore bonds into the FTSE World Government Bond Index scheduled in October 2021 marks the further opening-up of Chinese markets to international investors. Most analysts expect other global index providers to follow suit, bringing significant inflows to the domestic bond markets. The BlackRock China Bond Fund will benefit from it. The Chinese onshore bonds not only provide higher real yields but also serve as a hedge to volatility in the offshore USD space since the two markets have a low correlation.

Projections and targets contained herein are estimates only. No assurance can be given that either the projections or the assumptions will prove to be accurate, and an investor could experience losses from investment in a BlackRock product.

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Want to know more?

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BLACKROCK GLOBAL FUNDS

BGF China Bond Fund A2 RMB

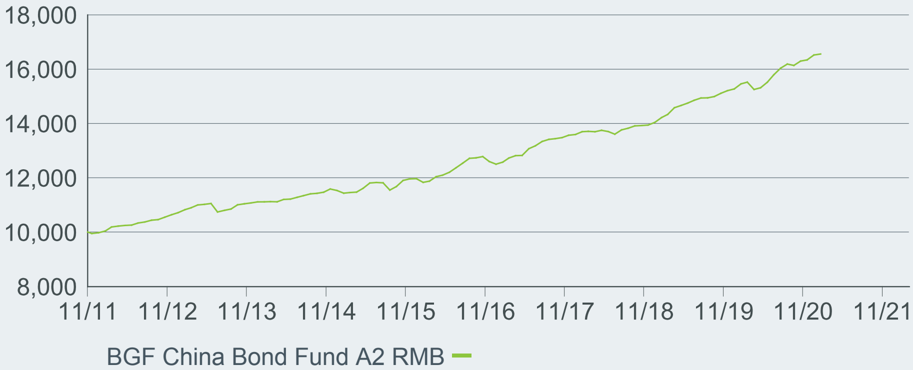
JANUARY 2021 FACTSHEET

Unless otherwise stated, Performance, Portfolio Breakdowns and Net Asset information as at: 31-Jan-2021. All other data as at 15-Feb-2021.

INVESTMENT OBJECTIVE

The China Bond Fund seeks to maximise total return. The Fund invests at least 70 % of its total assets in fixed income transferable securities denominated in Renminbi or other non-Chinese domestic currencies issued by entities exercising the predominant part of their economic activity in the PRC through recognised mechanisms including but not limited to the Chinese Interbank Bond Market, the on exchange bond market, quota system and/or through onshore or offshore issuances and/or any future developed channels. The Fund may invest without limit in the PRC. The Fund may invest in the full spectrum of permitted fixed income transferable securities and fixed income related securities, including non-investment grade (limited to 50% of total assets). Currency exposure is flexibly managed.

GROWTH OF 10,000 SINCE LAUNCH



CUMULATIVE & ANNUALISED PERFORMANCE

	Cumulative (%)				Annualised (% p.a.)			
	1 mth	3 mths	6 mths	YTD	1 Year	3 Years	5 years	Since Launch
Share Class	0.23	1.60	3.27	0.23	7.12	6.53	6.96	5.62
Share Class [Max. IC applied]	-4.78	-3.48	-1.90	-4.78	1.77	4.73	5.87	5.04

The share class currency is as indicated in the “Key Facts” section. For currency hedged share classes only, the benchmark reflected is in the fund base currency.

CALENDAR YEAR PERFORMANCE (%)

	2020	2019	2018	2017	2016
Share Class	8.18	8.78	3.29	8.75	4.47

*Performance shown from share class launch date to calendar year end.

KEY FACTS

Asset Class	Fixed Income
Fund Launch	11-Nov-2011
Share Class Launch	11-Nov-2011
Fund Base CCY	RMB
Share Class CCY	RMB
Fund Size (mil)	42,187.42 RMB
Domicile	Luxembourg
Fund Type	UCITS
ISIN	LU0679940949
Bloomberg Ticker	BGRBA2C
Distribution Frequency	N/A

PORTFOLIO MANAGERS

Artur Piasecki
Eric Liu

TOP HOLDINGS (%)

CHINA NATIONAL PETROLEUM CORP MTN 2.99 03/23/2025	2.83
CHINA DEVELOPMENT BANK 3.48 01/08/2029	1.27
CHINA DEVELOPMENT BANK 3.65 05/21/2029	1.20
CHINA PETROLEUM & CHEMICAL CORP MTN 2.2 05/28/2023	1.09
TENCENT HOLDINGS LTD MTN RegS 3.975 04/11/2029	1.03
SINOPEC GROUP OVERSEAS DEVELOPMENT RegS 2.7 05/13/2030	1.00
CHINA PEOPLES REPUBLIC OF (GOVERNM 3.02 10/22/2025	0.94
CHINA SOUTHERN POWER GRID CO LTD MTN 2.7 05/27/2025	0.69
YINCHUAN TONGLIAN CAPITAL INVESTME RegS 4.45 06/10/2023	0.64
COASTAL EMERALD LTD RegS 4.3 12/31/2049	0.64
Total	**11.33**

SECTOR BREAKDOWN (%)

	Fund
Real Estate	28.85%
Central Government Related	18.90%
Local Government Related	12.26%
Financial	8.64%
Sovereign	7.02%
Cash and/or Derivatives	5.38%
Other	4.94%
Non-China	4.66%
Basic Industry	4.24%
Technology	3.10%
Retail	1.34%
Energy	0.67%

PORTFOLIO CHARACTERISTICS

Yield to Worst (%)	4.68
Effective Duration (years)	3.21
3 Years Volatility	2.38
5 Years Volatility	2.42
3 Years Beta	-1.11
5 Years Beta	0.64

FEES AND CHARGES

Max Initial Charge (IC)	5.00%
Management Fee	0.75%
Performance Fee	0.00%

CREDIT RATINGS (%)

	Fund
Cash and/or Derivatives	5.38%
AA	1.10%
A	29.14%
BBB	32.05%
BB	9.97%
B	19.30%
CCC	0.65%
CC	0.00%
D	0.02%
N Rated	2.37%

Regional Exposure (%)

	Fund
Offshore	56.84
Onshore	37.78
Cash and/or Derivatives	5.38

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