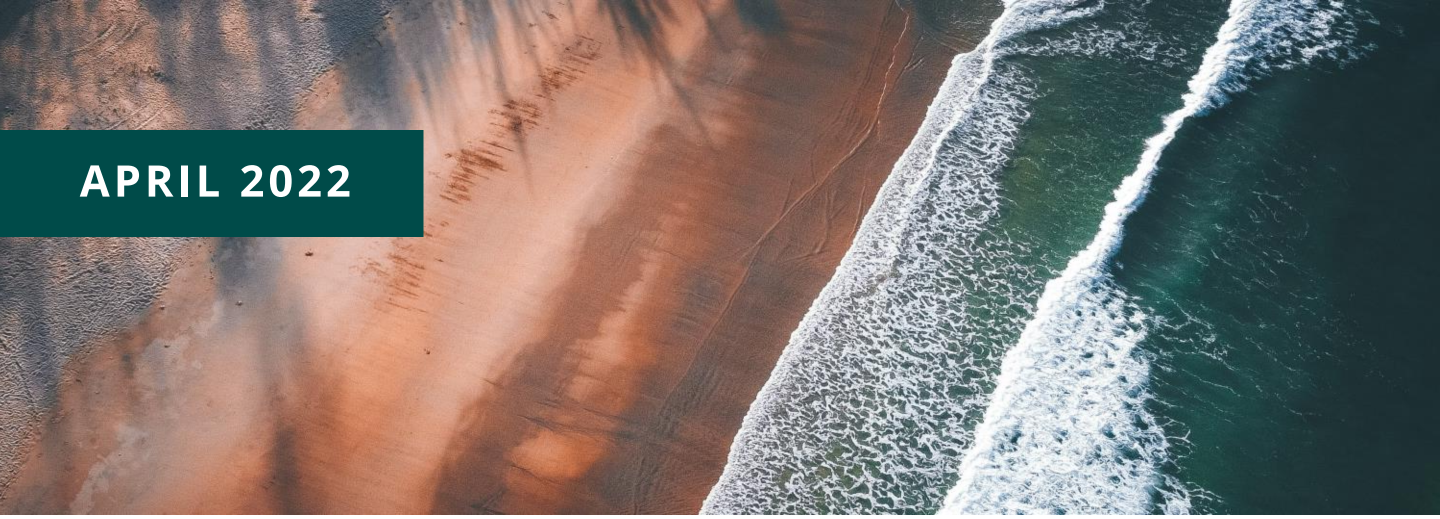


APRIL 2022

THINK DIFFERENTLY

TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Markets see-sawed in March as they sold off on news of conflict escalation and rallied on news of peace talks.

For the most part, equity markets were volatile as headline news labelling China and Russia “uninvestable” roiled weak hands into selling. Bonds presented investors with a different set of challenges having declined as much as equities but presenting the possibility of further price declines with interest rates set to rise. On the contrary, commodity prices rallied as demand is high and supply is tight.

Amid an environment of uncertainty and volatility, market participants were also focused on the inversion of the US 2-10 year yield curve - an infamous indicator of recession, However, investors should approach it knowing that it is just one of many recession indicators, and that stock markets have historically delivered positive returns after its inversion. Hence, investors should not be overly focused and concerned on its inversion.

A large part of market volatility is driven by uncertainty in markets. As evident in China, the Hang Seng China Enterprises index experienced its largest one-day fall last month (since November 2008) against the backdrop of several concerns such as ADR delisting, divestment out of China, Covid lockdowns etc. True diversification should serve investors well in such an environment.

On the same note, concerns continue to loom around Asian High Yield (AHY) markets with pressing questions on the soundness of it as an investment. While we remain positive and unwavering that AHY presents a good risk-to-reward investment opportunity, investors should be cognizant that to truly be better off than the rest, one has to battle their own aversion to loss.

Finexis Asset Management

MARKET REVIEW

Markets started March the same way February ended; on edge. Markets see-sawed as they sold off on news of conflict escalation, and rallied on news of peace talks.

Amid ongoing news coverage on Russia and China, "uninvestable" became a new buzzword. As Russia became uninvestable for political reasons, China was also dragged into the fray.

China tech rout: Hong Kong market sinks after JPMorgan calls sector 'uninvestable' as global funds shun macro, geopolitical risks

Published: 10:23am, 15 Mar, 2022

One would reasonably have sold their investments on seeing such reports. And many did.

15 March 2022

Relentless Selling in China Stocks Evokes Memories of 2008 Crash

- Alibaba, JD.com's ADRs tumble again in premarket trading
- JPMorgan calls some Chinese internet names "uninvestable"

Bloomberg

As we look back, 15th March signaled the capitulation of weak hands as it marked the market bottom. Alibaba, the whipping boy of China tech, went on to rally 65% over the next two weeks.

16 March 2022

Hong Kong's Hang Seng extends surge, rising 9% as Tencent, Alibaba jump more than 20%

CNBC

Asian equity markets were down 10.6% at the worst in mid March, but practically recovered by the end of the month. This V-shape pattern was mirrored across global markets. Imagine if an investor sold off their China Tech holdings on 15th March? It is a stark reminder that that **we should not invest on headlines or make investment decisions emotionally**. If one was oblivious to the intra-month volatility, perhaps ignorance is not a bad thing.

If things were volatile for equities, it was worse for bonds. We have argued that investors in classical multi-asset strategies are facing challenges not seen in decades. Investors in global bonds are presented with measly returns going forward, and have to deal with price declines due to rising interest rates. While we could not have predicted when this would unfold, this reality has manifested. The statistics are sobering: 8 month consecutive losing streak, only 3 out of last 15 months positive. Who would have thought that global bonds would decline as much as equities this year?

For many investors, they do not have better options. But those in the know will have other ways to address the challenges. Some of our portfolios allocate to alternatives in order to achieve **True Diversification**. What has this done for investors?

1. Because our alternative strategies do not just depend on markets going up to make profits, they have been able to benefit from the decline in global bonds.

2. Global equities and bonds are both down this year, while physical commodity prices have been rising. Our alternative strategies have benefited from active positioning in commodity markets, providing much needed diversification to equities and bonds.

Active positioning is essential instead of a passive allocation to commodities. Commodity **prices are highly cyclical**. Commodity prices are expected to be high in the current phase of the economic cycle when demand is high, and supply is tight. But prices are expected to tank when demand fades, and producers ramp up supply. By passively investing in commodities as an alternative asset class does not result in an alternative return source. To us, this is simply 'diworsification'*.

*Source: Bloomberg. Global equities: MSCI ACWI, Global bonds: Bloomberg Global Aggregate Index. *Investopedia.com 'What is Diworsification?'*

POSITIONING FOR ECONOMIC GROWTH

The US 2-10 year yield curve inverted in March, prompting many articles on the infamous recession indicator. We will not go into the technicalities of the inversion here (there are many good explainers online), but hope to reiterate the key takeaways for investors:

1. **Inversions are bad for market timing,** hence investors should not be overly worried. Since 1978, investors who had sold after yield curve inversions would have missed out on average gains of 11% one year later as shown in the following table:

Stock market performance after 2-10 year yield curve inversion

Data of yield inversion	1M Later	3M Later	6M Later	12M Later
Aug 1978	-2%	-11%	-6%	3%
Sep 1980	5	3	7	-4
Dec 1988	3	7	17	27
May 1998	4	-1	6	17
Feb 2000	0	0	2	-3
Dec 2005	2	4	-1	14
Aug 2019	4	9	4	21
Average	2	2	4	11

Source: Truist Advisory Services, study done on S&P 500.

2. **This is just one of many recession indicators.** When used in isolation, each one is prone to noise and ends up not being reliable for investment decisions. Things can also get confusing – for example, the New York Fed puts the probability of recession one-year out at less than 6% when a different part of yield curve is considered. Which is why we need to consider a wide range of FVT (Fundamental, Valuation, Technical) inputs to guide our positioning into areas with higher probability of gains.

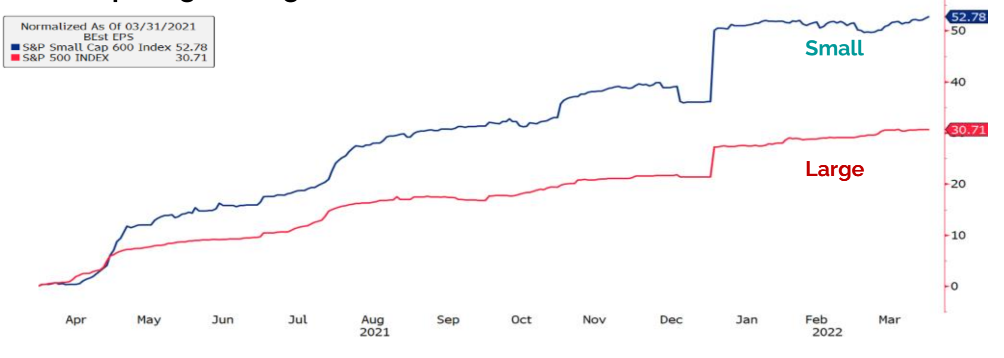
Given increased volatility and uncertainty in markets, we continue to invest where there is attractive risk/reward such as in US small-caps. At first glance, an investment in small-caps may not seem ideal in the face of current risks in the market, presumably as earnings are not as resilient as large-cap companies. Interestingly, the data tells us a different story (please refer to "Small-caps, Big Earnings chart below)

Not only have small-caps continued to grow earnings in face of a more challenging environment, they have been doing so at a faster rate. Furthermore, relative valuations are trading at their lowest in two decades and providing useful margin-of-safety.

Similarly, the longer-term outlook for Emerging Market and China 'A' equities remain more positive on a valuation standpoint. While the near-term outlook has deteriorated due to current Covid restrictions across the country, China's policy and economic cycle is set to turn more favourable in the coming quarters – the Chinese government recently vowed to boost support and confidence in the economy and markets.

A quick note on Europe equities, where we have maintained a neutral allocation. Despite near-term risks over Europe's energy dependence on Russia, current washed out investor sentiment today sets Europe equities up for a potential rebound on the back of lower valuations going forward.

Small-caps, Big Earnings



Source: Bloomberg, 1 year growth in consensus earnings per share estimate till 5 April 2022.

STABILITY AMID VUCA

VUCA is used to describe environments with **Volatility, Uncertainty, Complexity and Ambiguity**

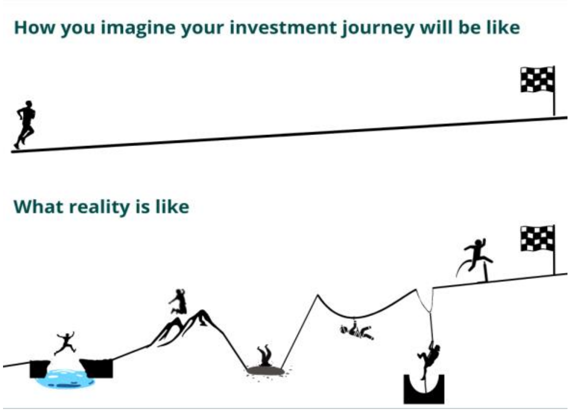
"Uncertainty is the only certainty there is"; this is particularly true for investments.

Investors like to know what will happen next. When they don't, uncertainty builds up. This uncertainty then becomes the fuel for volatility. We saw this play out last month in China as a confluence of worries resulted in the Hang Seng China Enterprises index having its largest one-day fall since November 2008.

Here are some concerns that drove volatility in China recently.

- Cancel China: global investors would divest out of Chinese investments due to China's ambiguous stance on Russia.
- Covid lockdowns stemming from rise in cases and zero covid policy. The fact is the Chinese population is 88% fully vaccinated.
- ADR delisting: The fact is major ADRs already have alternative listings in Hong Kong which investors can convert their shares into.
- Adverse policy: Policy stance is now supportive with interest rate and RRR cuts, fiscal spending, greater credit availability.

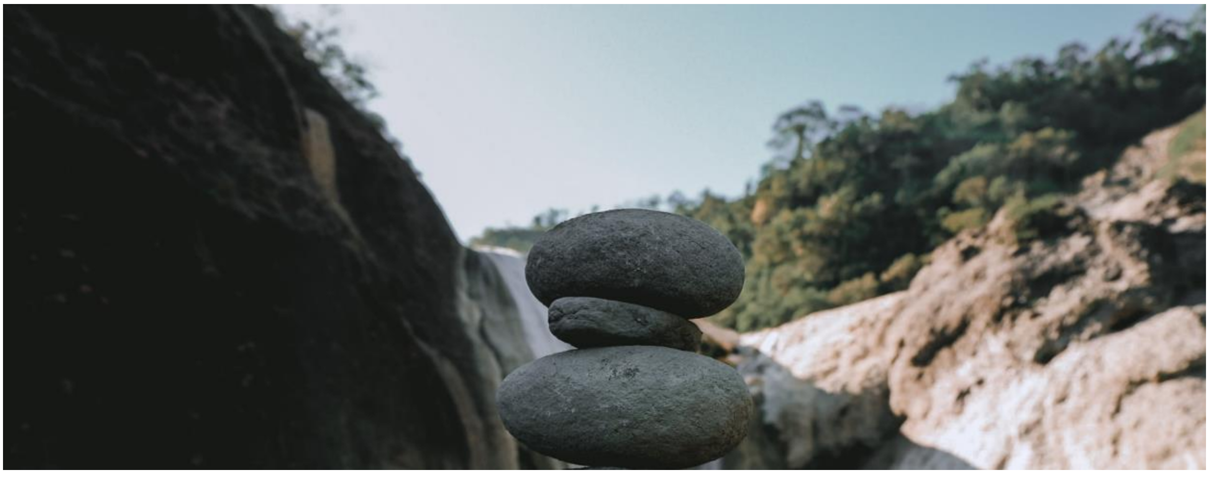
As much as we have conviction that our themes will play out, things can happen to delay the fruition of those themes. That is why our portfolios are structured to have different themes that provide True Diversification.



True Diversification is not just about adding more positions to spread out the risk. True Diversification entails

- Knowing the underlying risks of each position;
- Knowing how each position will respond under certain market conditions;
- Finding differentiated positions that are not susceptible to the same risks, and even mitigate when other positions are challenged.

This is how we came up with healthcare and quality value for our stability exposures. We would not be able to predict **when** the stability exposures will perform, but we expect them to complement to the growth theme. This showed amid the volatility in March when healthcare and quality value were up 6.1% and 5.4% respectively.



SEARCH FOR YIELD

"Why are we in this investment? Should I cut?"

These are questions we find being asked whenever there is a market drop.

"Why are we adding here when the whole world is selling?"

These were questions we were asked as we added more exposure to Asian High Yield (AHY) when it sold off.

We explained with our FVT framework, stating that Asian credit fundamentals were intact, that valuations were pricing so much bad news, and sentiment had turned for the better. We also provided evidence that starting yields were a good predictor of future return.

Let's try a simpler approach. We have three investors who started by investing 50% of their portfolios into Asian High Yield. Their strategies are straightforward, adjusting allocations based on past performance.

1. HODL is the buy & hold type who is not stirred even when AHY markets are up 27% or down -16% in any 12 months.

2. Whenever AHY market have a drawdown of 10%, BTFD doubles down for a year.

3. FUD does not like volatility, whenever AHY markets have a drawdown of 10%, FUD goes to cash for a year.

The three investors invest in their own way, in a disciplined manner from 1997 to 2022. During this period, AHY markets go through multiple market cycles, including the Asian Financial crisis (AFC), dot.com, Global Financial crisis (GFC), and covid crisis.

BTFD

HODL

FUD

Investor Type[1]	BTFD	HODL	FUD
Action on 10% drawdown	Double down	Hold	Go to cash
Average cash holding	39%	50%	61%
Value of initial $100 capital	$292	$222	$157
Feeling	Lonesome	Steadfast	Shared misery

Source: Bloomberg, FAM. ICE BofA Asian Dollar High Yield Corporate Constrained Index from 31/12/1996 to 31 Mar 2022.. [1]Nasdaq.com Top 25 Crypto Terms You Need to Know

The table shows the total wealth accumulated by each investor. Note that we have assumed only half the capital is put to work most of the time to reflect a typical investor

HODL is the easiest for the brain but hard for the stomach. Investors today are inundated with a lot of noise; the once popular strategy has become more and more difficult to implement. Assume one can ignore the newspaper headlines and make money through buy & hold, they are still not truly better off than others.

If you want to truly be better off than the rest, one has to invest in a different way. The table shows that BTFD is a better strategy. However, BTFD is even harder to be than HODL. BTFD means going against one's natural aversion to loss, going against consensus. For many, the pain of sticking out and seeming wrong far outweighs the gain of being right in the end.

Many end up being FUD. Cutting losses will relieve the emotional pain; at least for FUD, there was a disciplined process to reinvest after a timeout of one year. In reality, many who cut losses never reinvest, ending up with less than their initial capital.

AHY markets are currently at a drawdown rivaling that during AFC and GFC. Which investor do you want to be?

HOW ARE WE POSITIONED?

Positioning for Economic Growth	Stability Amid VUCA	Search for Yield
China 'A' Equities	Healthcare Equities	Asian High-Yield Bonds
Emerging Markets Equities	Quality Value	Emerging Markets Short Duration Bonds
US Small-Cap Equities		
Europe Equities		

ASSET ALLOCATION STRATEGY

-- Underweight | – Slight Underweight | = Neutral | + Slight Overweight | ++ Overweight

Equity: Regions

United States

US Small-caps as relative valuations attractive and are expected to benefit as economies recover. **Healthcare** as earnings are more stable and less dependent on broader economic cycle. **Quality Value** as valuations attractive, and expected to benefit as economies recover. Quality bias to avoid potential 'value traps'.

Europe

Relative valuations are attractive, and expected to benefit as economies recover

Japan

Maintaining no exposure as they are less attractive compared to other opportunities

Asia Pacific ex Japan

Maintain **China 'A'** slight overweight as deleveraging cycle has taken its course, with credit conditions expected to improve.

Emerging Markets

Neutral as valuations attractive relative to developed markets, but where earnings tend to be less resilient

Fixed Income

Global

Focus on currency-hedged government bonds and unconstrained credit to buffer portfolio volatility during periods of stress.

Investment Grade Corporate

Maintaining no exposure as low incremental yield and long duration credit exposure are less attractive than other segments

US High Yield

Maintaining no exposure due to relative poorer valuations.

Asia

Attractive yield across major fixed income markets with room for capital appreciation and better fundamentals.

Emerging Markets Debt

Hard currency short duration focus as a more defensive credit investment amid low rates.

MARKET INDEX RETURNS

Equity Regional	MTD	YTD	10Y	20Y
Global	2.22	-5.26	10.60	8.23
United States	3.71	-4.60	14.63	9.25
Europe	1.13	-5.87	9.26	5.56
Japan	4.19	-1.29	10.96	5.03
Asia Pacific ex Japan	-0.64	-5.68	5.83	8.96
Emerging Markets	-2.25	-6.99	3.72	8.95

Equity Markets	MTD	YTD	10Y	20Y
Australia	7.01	2.78	11.68	9.98
Brazil	6.06	14.48	6.40	11.65
China “A”	-7.83	-14.53	7.85	7.70
China “H”	-6.20	-8.61	0.31	10.35
Hong Kong	-2.82	-5.66	4.26	7.11
India	4.13	0.71	14.46	16.93
Indonesia	3.50	8.36	7.94	17.39
Korea	2.17	-7.39	5.00	7.74
Malaysia	0.09	2.81	3.38	7.61
Russia	9.43	-28.24	11.78	15.64
Singapore	5.37	9.57	4.82	5.67
Taiwan	0.43	-2.69	12.24	9.15
Thailand	1.12	3.19	6.87	11.84

Equity Sectors	MTD	YTD	10Y	20Y
Gold	11.37	19.99	-1.36	3.05
Energy	8.93	38.99	4.17	7.60
Technology	3.01	-10.11	19.01	11.27
Healthcare	4.94	-3.20	13.85	9.05
Financials	-0.19	-1.48	13.81	5.05

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	-3.05	-6.16	1.04	4.14
Global Aggregate (H)	-2.16	-4.97	2.84	3.99
High Yield	-1.15	-4.82	5.24	7.27
Asia	-2.36	-6.29	3.72	5.82
Emerging Markets	-2.34	-9.23	3.56	7.24

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
USD/SGD	-0.03	0.41	0.74	-1.53
EUR/SGD	-1.36	-2.29	-1.12	-0.35
JPY/SGD	5.83	5.75	3.92	-0.43

Commodities	MTD	YTD	10Y	20Y
Gold	1.49	5.92	1.51	9.73
Energy	4.76	33.33	-0.27	6.92

*As of **31 Mar 2022**. Source: Bloomberg. Total return in index local currency terms. 10 and 20 year returns are annualized.*

“In the short run, the market is a voting machine but in the long run, it is a weighing machine.”

Benjamin Graham

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