Investment Update

March 2022

Market Review

February was a month where VUCA came to the forefront with Russia's invasion of Ukraine.

For those who can, we should support and rebuild lives during this humanitarian crisis where displaced families are in need of water, food, and shelter. As investors, we are monitoring markets and working with clients on managing the challenges in time of war.

Amid the gloomy news coverage, investors were asking "should I sell?". Here we have to appreciate that the media's role is to report on what is happening, not tell us what is going to happen to our portfolios. At the same time, other channels more focused on investments were showing that **general market response to wars was initially volatile, but positive within 12 months** (refer to our recent flash update). It is not mass media's responsibility to publish such content, yet the unintended consequence of reporting war news alone may prompt investors to liquidate when portfolios are poised for upside going forward.

Accordingly, market volatility meant that global equities were down 2.55%. Note that Russian equities were down 74% in USD terms, which tells us that:

1. It pays to be diversified.
2. The market fallout from the war is very much contained.

Global bonds were also down with declines of -1.19%. One could argue that the equity stress was not large enough for bonds to take on the role of a flight to quality asset, but such are the general headwinds facing global bond investors today where even if they stand still, they are moving backward.

Source: Bloomberg. Global equities: MSCI ACWI, Global bonds: Bloomberg Global Aggregate Index, Russian equities: Russian Depositary Index.

Despite the volatility in major markets, there were some relative oases of calm that stood out. Our portfolios benefitted from exposures in some of these areas, demonstrating **True Diversification at work**. Commodity-related sectors had strong gains on the back of commodity prices rallying on geopolitical tensions. While major equity and bond markets declined, our alternative strategies gained from active positioning in commodities.

Small caps were also positive amid declines in major markets. This contrasts against the technology sector which had the largest declines among major market segments in February and year to date. Stocks such Sea Limited (Shopee, Garena) declined 70% in recent months, with corporate losses being cited as reasons for the sell-off. But Sea has always had losses, even when the stock was rallying as investors were happy to pay high prices for high expectations. Is the sell-off really because of losses or were markets just looking for a reason to dump overvalued securities? This shows that **when confronted with a crisis, segments with margin of safety are more resilient compared to overvalued ones**. This is why valuation is a key component of our process, as "only when the tide goes out do you discover who's been swimming naked".

Valuation is one of the tools we use to look below the surface and achieve True Diversification. So that when crisis hits, we truly appreciate why we should diversify.

If there is a good thing out of this crisis, it should be a catalyst to prompt investors to ask

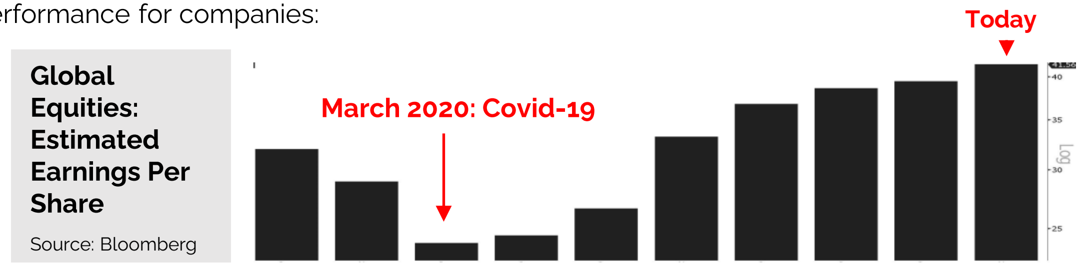
- Is their portfolio structured to ride through VUCA?
- Are there exposures that are underpinned by stronger effects such as attractive valuations and fundamentals?

Key Themes: Positioning For Economic Growth

Investors are increasingly worried about the potential economic and market fallout from Russia's invasion. Even though our portfolios have insignificant (less than 0.2%) direct exposures to Russia, we are keenly evaluating second-order effects which could turn out to be more problematic. This can be summed up as:

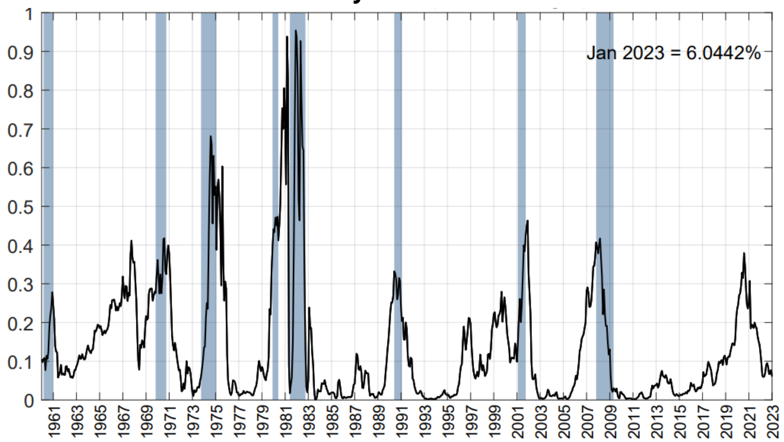
- Increased uncertainty leading to lower equity prices as investors want to be compensated for the extra 'risk'.
- Rising energy costs and/or supply disruptions leading to tighter financial conditions for businesses and consumers.

Yet, we must also consider the more positive state of economic fundamentals that we find ourselves in. After all, markets are infamous for being able to climb a 'wall of worry' on its way to making new highs. In general, major economies have continued to grow in spite of supply bottlenecks and covid-19 restrictions – both of which should gradually improve going forward. Importantly, we have also observed continued strong fundamental performance for companies:



The New York Fed's recession probability model is perhaps a succinct representation of situation today. The recession model is currently assigning a 6.3% probability of US entering a recession one year from now (refer to following chart). On balance, the negative economic impacts still seem to be manageable for now.

New York Fed's Probability of Recession 12 Months from now



Source: New York Fed

Here we update on our recovery opportunities given recent market developments:

US: **Positioned within highly diversified small-cap exposures**, effectively avoiding the pricey large-cap S&P 500 Index. Small-cap relative valuations are at 20 year lows, with stronger earnings growth expected to be supported by robust consumer demand. Any direct impact from Russia is expected to be low, as the US has minimal direct trade exposures there.

Europe: **Keeping a neutral allocation**, for now. While it is widely known that Europe is highly reliant on Russian gas, the average company has less than 1% sales exposure to Russia (Goldman Sachs report on STOXX Europe 600). Over the past year, positive earnings revision in Europe were even stronger than the US, which is no mean feat.

Emerging Market and China: Our positive view here is reflected through our **slight overweight to China 'A' equities**. In contrast to most Developed Markets, China is slowly but surely embarking on more pro-growth policies which are expected to support the economy and the region. China's economy surprised to the upside in February, with both manufacturing and services sectors expanding.

Key Themes: Stability Amid *VUCA*

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

Some investors have asked 'with all of the concerns today, should we just sell everything and get back at a later date when there is more clarity?'.

During a recent client seminar, we walked through an investment case study. A key takeaway was that an investor had to be right in making two important decisions:

1. Know when to sell.
2. Know when to buy.

Ultimately, we showed that market timing is hard to do consistently. In fact, the optimal choice for most investors would be just to hold on (💎🤲 providing they were invested in the right places). The following chart shows why it is almost never a good idea to sell after a market decline:

Intra-year declines (red) vs calendar year returns (grey)

The past week saw many reports detailing 'strategies' for managing investments during this tumultuous period. Interestingly, few if any advocated exiting investments entirely. Hopefully this sheds light on why this is so.

Instead, investors should ensure that their portfolios are underpinned by stronger effects such as attractive fundamentals and valuations - these investments are good to hold through volatile periods. When it comes down to it, the objective of our *VUCA* strategy is to maintain strong recovery potential within the portfolios, at the same time minimizing risks of larger declines or even permanent loss of capital. We do this by using 'FVT' (Fundamental, Valuation, Technical) to invest where there is a margin of safety, and also ensure that we are properly diversified across performance drivers.

To put our diversification strategy across more simply; while the recovery positions described on the previous page play mostly 'offense', we also round off our team with strong 'supports' in the form of Healthcare and Quality Value equities.

With this in mind, Healthcare came through largely unscathed with a -0.4% decline in February and offsetting larger declines from other parts of the portfolio. Through effective diversification, investors can minimize the stresses of investing and then enjoying the good times when (not if) markets eventually recover, We think this is a better way to invest.

Source: J.P. Morgan Guide to the Markets as of Feb 28 2022

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Key Themes: Search For Yield

"How can I be sure?"

It is probably the most common question asked as it applies to any investment. Investors questioned the viability of Asia during the 1997 crisis. They practically gave up on tech during the dot.com bust. The same question is being asked of Asian high yield markets and emerging market debt, due to concerns on China and geopolitics in Europe respectively. First, our emerging market debt portfolios are well diversified across regions, with focus on Asia and Latin America.

We are confident on Asian high yield not just because we studied the current environment and found that the FVT was good, but also because time and again, credit markets have a track record of rewarding investors who buy in at favourable valuations. To provide confidence to investors, we highlighted research that shows investing at better valuations leads to higher return going forward.

However, when this return does not materialize on cue, a waiting game ensues. This wait can cause investors anxiety as they have a vested interest to see that Asian high yield markets recover, so that they can make some money. The pain of this waiting game worsens when markets encounter further volatility. This leads to seeds of doubt being planted, prompting investors to ignore evidence that works over time and market cycles, and ask "is this time different?"

While we are confident our yield investments will pay off, let's take a look at what some of the smart money is doing.

Chinese developers, who are at the epicentre of the stressed Asian high yield markets, have been buying back their bonds at discounts*. One might argue that the developers are just trying to shore up confidence. But if you were a Chinese developer who was strapped for cash, would you want to put good money after bad? Remember, these developers did not get to where they were by making bad capital allocation decisions.

Let's say the developers don't know what they are doing. Let's look at other investors who should be on our side of the table. Howard Marks is one of the most prominent distressed debt investors out there, having gone through multiple boom-bust cycles. One thing that he is less known for is that he is incredibly patient. He said that "Patient opportunism – waiting for bargains – is often your best strategy." Patient opportunism is so important that he dedicated a whole chapter to it in his book "The Most Important Thing"#.

So what is Mr Patient Opportunism doing? He has been busy investing in China's struggling real estate companies^. "If China was a person, it would be someone in their youth," he said. "While the young experience ups and downs, the future is bright." .

Investing is as much about psychology as it is about technical insights because it requires us to challenge our natural instincts. If investments are about buying low and selling high, now is certainly a better time to be buying low in order to be able to sell high subsequently.

*https://www.bloomberg.com/news/articles/2022-03-01/chinese-developers-are-buying-back-their-bonds-as-market-swoons?

#https://www.universitypressscholarship.com/view/10.7312/columbia/9780231153683.001.0001/upso-9780231153683-chapter-013

^https://www.bloomberg.com/news/articles/2022-03-04/howard-marks-calls-china-market-a-buy-in-oaktree-wechat-debut?

Key Themes: How Are We Positioned?

Positioning for Economic Growth	Stability Amid *VUCA*	Search for Yield
China 'A' equities	Health Care equities	Asian High-yield bonds
Emerging Market equities	Quality Value	Emerging Market Short Duration bonds
US Small-cap equities		
Europe equities		

Asset Allocation Strategy

Equity: Regions	--	-	=	+	++	Allocation strategy
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		0%				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	--	-	=	+	++	Allocation strategy
Global		■				Focus on currency-hedged government bonds and unconstrained credit to buffer portfolio volatility during periods of stress.
Investment Grade Corporate	0%					Maintaining no exposure as low incremental yield and long duration credit exposure are less attractive than other segments.
US High Yield		0%				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 Market Debt					■	Hard currency short duration focus as a more defensive credit investment amid low rates.

Notes: - - Underweight - Slight Underweight = Neutral + Slight Overweight + + Overweight

Current Previous

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Market Index Returns

Equity Regional	MTD	QTD	YTD
Global	-2.55%	-7.32%	-7.32%
United States	-3.00%	-8.02%	-8.02%
Europe	-3.23%	-6.92%	-6.92%
Japan	-0.45%	-5.26%	-5.26%
Asia Pacific ex Japan	-1.13%	-5.07%	-5.07%
Emerging Markets	-3.01%	-4.85%	-4.85%

Fixed Income	MTD	QTD	YTD
Global Aggregate (Unhedged)	-1.19%	-3.21%	-3.21%
Global Aggregate (Hedged)	-1.33%	-2.88%	-2.88%
High Yield	-0.87%	-3.72%	-3.72%
Asia	-1.96%	-4.10%	-4.10%
Emerging Market Debt	-4.54%	-7.06%	-7.06%

Currencies	MTD	QTD	YTD
USD/SGD	0.27%	0.44%	0.44%
EUR/SGD	0.07%	-0.95%	-0.95%
JPY/SGD	-0.10%	-0.07%	-0.07%

Commodity	MTD	QTD	YTD
Gold	6.22%	4.36%	4.36%
Oil (WTI Crude)	8.59%	27.27%	27.27%

Equity Markets	MTD	QTD	YTD
Australia	2.56%	-3.96%	-3.96%
Brazil	0.89%	7.94%	7.94%
China "A"	0.39%	-7.26%	-7.26%
China "H"	-3.90%	-2.57%	-2.57%
Hong Kong	-4.58%	-2.92%	-2.92%
India	-2.91%	-3.28%	-3.28%
Indonesia	3.88%	4.69%	4.69%
Korea	1.35%	-9.35%	-9.35%
Malaysia	6.47%	2.72%	2.72%
Russia	-30.02%	-34.42%	-34.42%
Singapore	-0.05%	3.99%	3.99%
Taiwan	-0.13%	-3.10%	-3.10%
Thailand	2.58%	2.04%	2.04%

Equity Sectors	MTD	QTD	YTD
Gold	14.21%	7.74%	7.74%
Energy	7.14%	27.61%	27.61%
Technology	-4.65%	-12.73%	-12.73%
Healthcare	-0.42%	-7.75%	-7.75%
Financials	-1.35%	-1.30%	-1.30%

Total return in local currency terms as of **28 February 2022**
Source: Bloomberg

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