Investment Update
March 2020

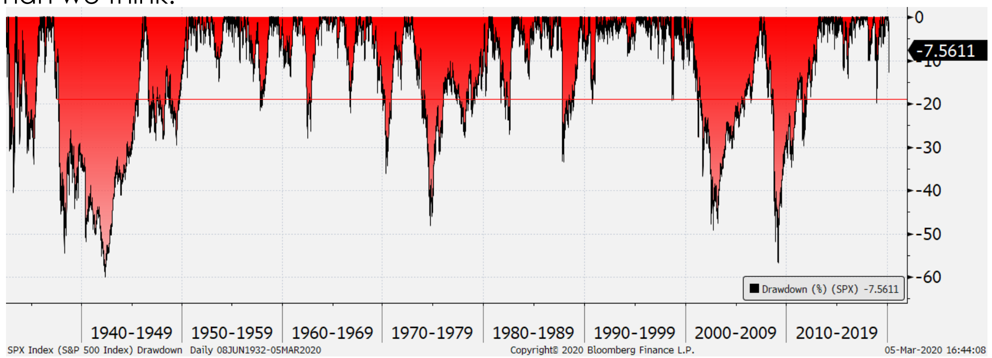
finexis
ASSET MANAGEMENT
汇信资产管理有限公司

Market Review

Global markets took a turn for the worse in February as concerns over the potential impact of a global pandemic spooked investors.

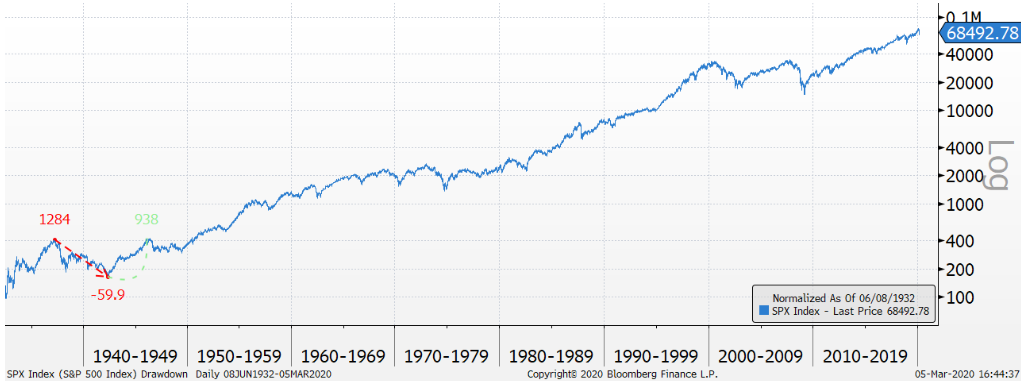
It is natural for an investor to be uncomfortable during market drops. It is also a natural human response to feel double the pain for a loss compared to the joy from a similar amount of gain.

It is also natural and inevitable that markets drop during the investment journey. The chart below shows that in reality, such drops are more frequent than we think.



Source: Bloomberg, Peak to trough declines and recovery of the S&P 500 since 1932.

So why should investors go through this repeated cycle of drops? For the very reason why they wanted to invest in the first place; to profit off their capital. The following chart shows how much $100 can compound as it goes through this cycle of drops on the long march upwards. And this is just price return without dividends. Factoring in dividends would increase the annual return by more than 2%. Please read our 2019 Q2 investor letter to see how a small improvement can matter. https://finexisam.com/letterstoinvestors.html



Source: Bloomberg, S&P 500 performance since 1932

As of February year-to-date, global equities dropped 9.09%, while our multi-asset balanced and aggressive portfolios had more modest declines between -2.40% to -4.95%. Everyone is unique in how much risk they can take in their investment portfolios. **This is why each portfolio is designed structurally to provide gains & losses suitable for each investor's risk tolerance** (there is a difference between tolerance and appetite).

Amid the volatility, **currency-hedged fixed income** exposures rose 1.22% while unhedged investment grade bonds lagged with 0.67%*. Our USD centric positioning in "shield" assets continues to play out.

In credit markets, our active exposures in **Asian high yield bonds stood out** with modest gains while other credit segments were in the red. US high yield where we removed exposures earlier in January were the worst performing major credit segments. Generally, shorter duration credit outperformed their longer duration counterparts, in line with our expectations during a sell-off.

*Source: Bloomberg, Month-to-date returns Bloomberg Barclays Global Aggregate, As of 28/02/2020

Market Review

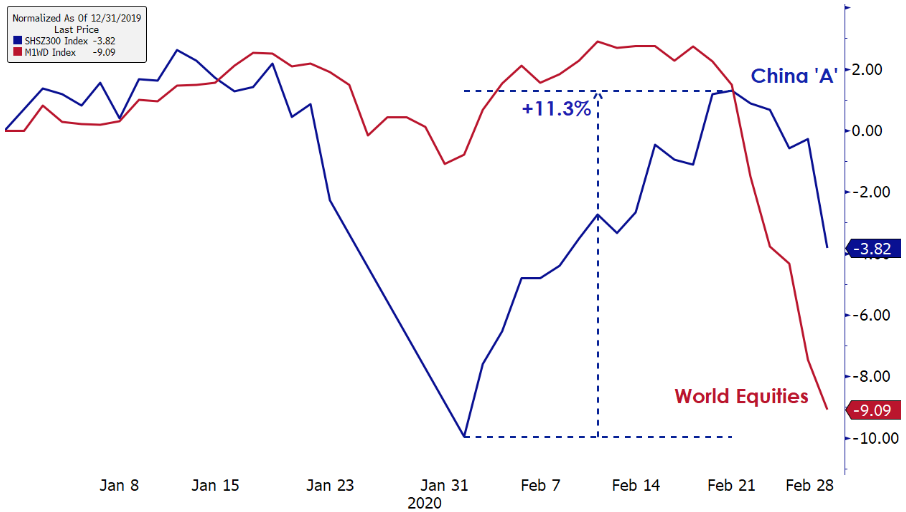
As expected in a risk-off environment, equity markets experienced the most pain in February. While developed market equities outperformed in January, they caught down sharply over the past month as cases of COVID-19 escalated globally.

In general, growth-stocks (such as Technology or Healthcare companies) continued to outperform economically-sensitive value-stocks (currently represented by Financials and Energy companies) over the past month. Looking across our portfolio allocations, our US Quality Growth and Healthcare exposures benefitted, while Japan detracted the most.

It may come as a surprise to most investors that the China 'A' share market is the best performing major market YTD, even as it is the epicenter of the coronavirus outbreak. Consequently, Emerging Markets and Asia (where China is a large component) also fared better than developed market equities in the past month. When we increased our China 'A' overweight at the start of the year, we could not forecast how effective China's virus measures would be, how it would spread to other countries, or any impact on markets. But our 'FVT' approach has paid off so far this year, and indeed in the longer run.

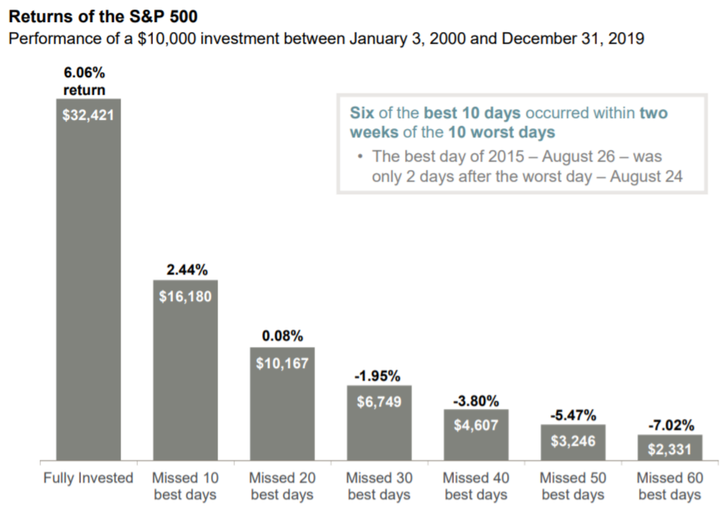
The swift 'V-shaped' recovery in China 'A' shares once again reminded investors that it can be painful to try and time the market. Those who had exited out of fear at the end of January would have watched in despair as prices rebounded more than 11% over the next three weeks. Indeed, missing the best days in the market has disastrous implications for successful long-term investing as shown on the bottom-right chart.

China 'A' is the best performing major market YTD



Source: Bloomberg

Extremely costly to miss the best days in the market



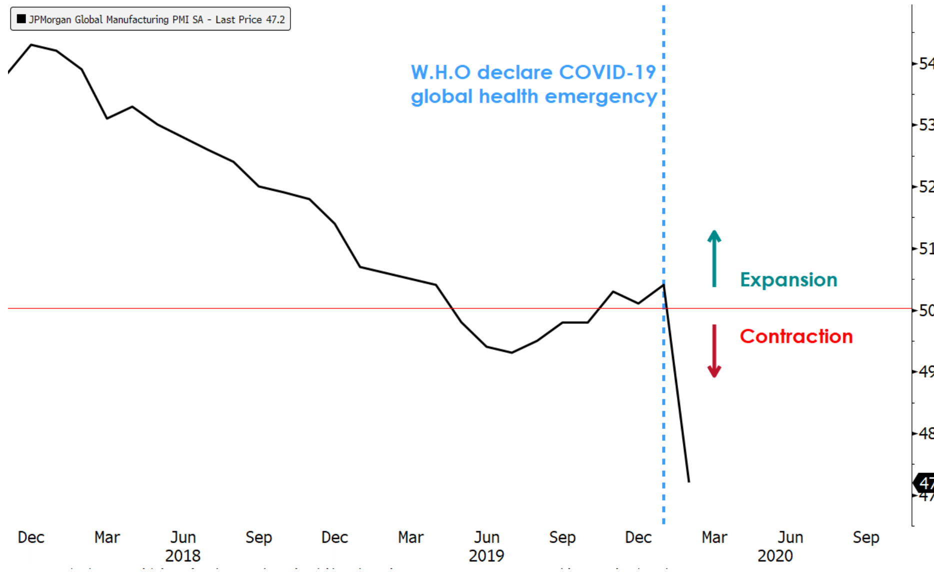
Source: J.P. Morgan Asset Management

Key Themes: Late-Cycle Extension

We entered 2020 cautious and well aware that economies were in the late part of their economic cycles and due for a contraction. At the same time, we entertained a scenario where accommodative policies may prolong the current economic expansion. For awhile, it looked like a growth recovery may be taking hold; with indicators such as the global manufacturing activity pointing up... but that was before the coronavirus threw a spanner into the global growth engine (see right-side chart).

The good news is that even before the virus outbreak, central banks have been hard at work to try and stimulate the economy. With recent developments, they are likely to step up efforts to try and prevent a global recession. No one can know for sure the implications of the virus (will it be temporary like previous outbreaks, or will it be something different completely?), or if central bankers are able to prevent an economic slump. Instead of trying to guess, what we can do is to ensure that our portfolios are well positioned for either outcomes – by investing into areas with favourable risk/reward .

Temporary setback (?) in global economic recovery



Source: Bloomberg

	YTD Returns
World Equities	-9.1%
Preferred Markets	
US Growth	-5.0%
Healthcare	-8.0%
Japan	-10.9%
China 'A'	-4.3%

Total Return Indices measured in USD. Source: Bloomberg

In such a uncertain environment our strategy continues to favour areas where earnings are more resilient in a growth slowdown, or where attractive valuations provide a more favourable risk/reward:

US Quality Growth and Healthcare: Their more predictable and durable earnings profile are expected to be more resilient in a general growth slowdown. We are also underweight the US where valuations are rich. **China 'A':** As one of our top performers in 2019 and YTD, China 'A' continues to provide investors access to a high growth market without overpaying. China is also expected to continue with more stimulus measures to support the economy. **Japan:** Japan was expected to outperform on attractive valuations, and on growth picking up. However, they have underperformed YTD as the growth thesis is challenged. We maintain a slight overweight for now, but would look to adjust our allocation on any further deterioration in fundamentals.

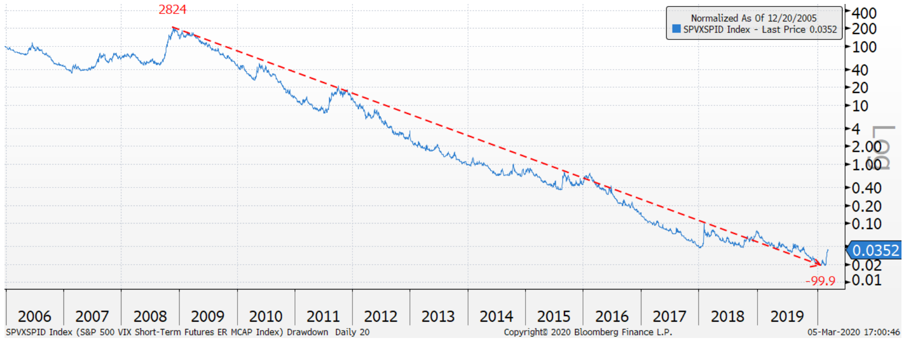
While we do not expect to get things right all of the time, especially in shorter time periods, our preferred equity markets have generally worked out well for our investors YTD (refer to left-side table).

Key Themes: Central Bank Policy

Investors asked, how can we hedge against this drop? Amid this chaos, something did go up; which was volatility. So one could have hedged and profited by buying options which benefit from rising volatility.

What is the price of this hedge? If one had a crystal ball to buy put protection against a 10% drop at the height of the market on 19th Feb, it would have cost about 4% per annum.

Clearly, it is hard to put on a hedge at the top (it is probably easier to buy an insurance policy a day before death). Let's make it more realistic by deciding to buy after a 6% drop (markets did drop 6% in 2019 while ending the year up 29%). At that point, the puts would have cost about 7.4% per annum (an 85% increase over 5 days). Bear in mind this cost of protection eats away at portfolio returns if the drops don't happen. The chart below shows the return of an investor who constantly buys options with the intent of hedging against unexpected losses.



Source: Bloomberg, Performance of ongoing portfolio hedge via VIX Short-Term ETF

Are there better ways to manage the drops? **We prefer to set up the portfolios to be resilient by applying the appropriate level of risk and deploying into strategies that benefit from bullish, range-bound, and bearish markets.** This is what we mean by true diversification.

In the past few months, we have been mentioning deployment to opportunities that are less dependent on macro-economic conditions or don't require rising markets to profit. One such strategy is trend following which varies exposure to various asset classes based on extensive study of markets. For example, the strategy we use was able to benefit from the equity rally in January and mitigated the drop by being long equities and short bonds at the start of the year, and being short equities and long bonds at the end of February.

While we remain cognizant of the long term headwinds for bonds, we do not stubbornly hold on to existing views and positions when new significant information presents itself. **It was fortuitous that we manage to add duration to portfolios where duration was lacking just before the Fed applied its Emergency Rate cut on 3rd March.** We also added fixed income steepener strategies that are less dependent on the rise and fall of bond markets but have also benefitted from the recent rate cut. **Perhaps luck indeed favours the prepared.**

As we speak, central banks around the world are trying to support the economy by cutting rates. When you see a store cutting prices, is it trying to promote and grow, or is it clearing stock to cater for insolvency? Indeed, it is a fine balance where rate cuts can either instil confidence or capitulation. We just try to make sure the portfolios are robust to either outcome.

Key Themes: Search for Yield

Yield of major credit markets

	28 Feb 2020
Asia HY	6.6%
US HY short dur. bonds	6.9%
US HY bonds	6.2%
EM short dur. bonds	5.0%
EM bonds	4.8%
Global investment grade corporate	1.9%

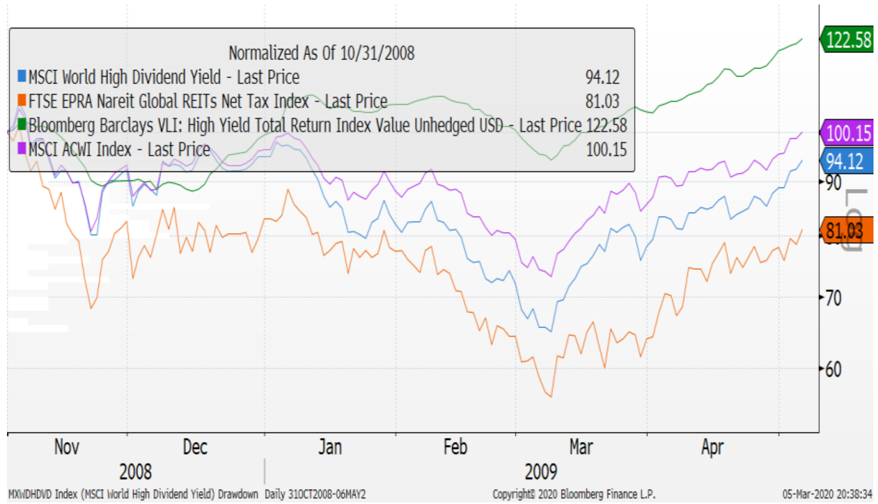
Much more attractive than what bank deposits offer today

SGD 1Y deposit	1.3%
USD 1Y deposit	1.4%

Source: Bloomberg

For some investors, REITs and dividend stocks come to mind when they think about yield investments. **We prefer not to include REITs and dividend stocks in our range of yield opportunities as they possess equity-like characteristics** (what we call high correlation) **and do not to diversify the portfolio as much.** The chart shows the performance of dividend stocks, REITs, high yield bonds and equities during the market drop and recovery from 2008 to 2009. REITs actually declined more than equities, and together with dividend stocks were slower to recover compared to the general equity market.

REITs declined more than equities in 2008-2009



Source: Bloomberg, Performance of dividend stocks, REITs, high yield bonds, equities

REITs can be more defensive compared to other stock sectors but are different from multi asset portfolios. REITs are a concentrated bet on real estate, and can have equity-like drawdowns. Finexis multi asset portfolios are truly diversified and it would be a stretch of the imagination for them to drop like equities.

During the sell-off, the risk/reward across major credit segments generally improved due to better valuations, but in a uniform manner. Hence there was no compelling opportunity across them. New opportunities did arise but outside the major credit segments. **We added exposures to relative value fixed income strategies where the risk/reward improved following the sell-off. These have higher yield expectations than the major credit markets and have the benefit of being less correlated to equity markets.**

Key Themes: How Are We Positioned?

Late-Cycle Extension	Central Bank Policy	Search for Yield
US Quality Growth equities	Currency-hedged government securities	Asian High-yield bonds
Health Care equities	Short Duration credit	Emerging Market short duration bonds
Japan equities		
China 'A' equities		

finexis
ASSET MANAGEMENT
汇信资产管理有限公司

Asset Allocation Strategy

Equity Region	--	-	=	+	++	Allocation strategy
United States		■				Large cap quality growth to capture late business cycle growth, and where large caps are more resilient to rising financing and wage costs. Healthcare as earnings are less dependent on broader economic cycle.
Europe	■					Maintaining no exposure as economic activity lags other regions, and as valuations are rich.
Japan				■		Slight overweight as economy is supported by corporate reforms, and equities at attractive valuations.
Asia Pacific ex Japan					■	Overweight to China 'A' as valuations are attractive and supported by earnings growth.
Emerging Markets			■			Neutral as valuations attractive relative to developed markets, but where earnings have moderated.
Fixed Income	**--**	**-**	**=**	**+**	**++**	**Allocation strategy**
Government			■			Focus on currency-hedged global government fixed income to buffer portfolio volatility during periods of stress.
Investment Grade Corporate	■					Maintaining no exposure as low incremental yield and long duration exposure are less attractive than other segments.
High Yield	■					Maintaining no exposure due to relative poorer fundamentals.
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 for the late-stage economic cycle.

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

Current **Previous**

Market Index Returns

Equity Regional	MTD	QTD	YTD
Global	-8.03%	-9.02%	-9.02%
United States	-8.23%	-8.27%	-8.27%
Europe	-8.32%	-9.38%	-9.38%
Japan	-10.27%	-12.19%	-12.19%
Asia Pacific ex Japan	-4.18%	-7.73%	-7.73%
Emerging Markets	-5.26%	-9.68%	-9.68%

Fixed Income	MTD	QTD	YTD
Global Aggregate (Unhedged)	0.67%	1.96%	1.96%
High Yield	-1.81%	-2.02%	-2.02%
Asia	1.00%	2.51%	2.51%
Emerging Market Debt	-0.20%	1.34%	1.34%

Currencies	MTD	QTD	YTD
USD/SGD	2.08%	3.51%	3.51%
EUR/SGD	1.47%	1.80%	1.80%
JPY/SGD	-0.42%	-0.66%	-0.66%

Commodity	MTD	QTD	YTD
Gold	-0.22%	4.51%	4.51%
Oil (WTI Crude)	-13.19%	-26.70%	-26.70%

Equity Markets	MTD	QTD	YTD
Australia	-7.52%	-2.92%	-2.92%
Brazil	-8.43%	-9.92%	-9.92%
China "A"	-1.59%	-3.82%	-3.82%
China "H"	0.60%	-7.75%	-7.75%
Hong Kong	-0.39%	-7.02%	-7.02%
India	-5.93%	-7.13%	-7.13%
Indonesia	-7.65%	-12.89%	-12.89%
Korea	-6.23%	-9.59%	-9.59%
Malaysia	-3.13%	-6.62%	-6.62%
Russia	-9.44%	-8.29%	-8.29%
Singapore	-4.44%	-6.39%	-6.39%
Taiwan	-1.76%	-5.87%	-5.87%
Thailand	-11.12%	-14.77%	-14.77%

Equity Sectors	MTD	QTD	YTD
Gold	-8.13%	-9.45%	-9.45%
Energy	-15.27%	-24.74%	-24.74%
Technology	-7.47%	-4.41%	-4.41%
Healthcare	-6.96%	-8.35%	-8.35%
Financials	-11.35%	-13.82%	-13.82%

Total return in index currency terms as of 28 Feb 2020. Source: Bloomberg

Disclaimer

To the best of its knowledge and belief, Finexis Asset Management Pte. Ltd. (Finexis Asset Management) considers the information contained in this material as accurate only as at the date of publication. All information and opinions in this material are subject to change without notice. No representation or warranty is given, whether express or implied, on the accuracy, adequacy or completeness of information provided in the material or by third parties. The materials on this material could include technical inaccuracies or typographical errors, and could become inaccurate as a result of subsequent developments. Finexis Asset Management undertakes no obligation to maintain updates of this material.

Neither Finexis Asset Management nor its affiliates and their respective shareholders, directors, officers and employees assume any liabilities in respect of any errors or omissions in this material, or any and all responsibility for any direct or consequential loss or damage of any kind resulting directly or indirectly from the use of this material. Unless otherwise agreed with Finexis Asset Management, any use, disclosure, reproduction, modification or distribution of the contents of this material, or any part thereof, is strictly prohibited. Finexis Asset Management expressly disclaims any liability, whether in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential, punitive or special damages arising out of, or in any way connected with, your access to or use of this material.

This material is not an advertisement and is not intended for public use or distribution. This material has been prepared for the purpose of providing general information only without taking account of any particular investor's objectives, financial situation or needs and does not amount to an investment recommendation.

The information contained in this material does not constitute financial, investment, legal, accounting, tax or other professional advice or a solicitation for investment in funds managed by Finexis Asset Management, nor does it constitute an offer for sale of interests issued by funds that are managed or advised by Finexis Asset Management. Any offer can only be made by the relevant offering documents, together with the relevant subscription agreement, all of which must be read and understood in their entirety, and only in jurisdictions where such an offer is in compliance with relevant laws and regulatory requirements.

Simulations, past and projected performance may not necessarily be indicative of future results. While there is an opportunity for gain, any investor is at risk of loss of 100% of its investment when investing in funds managed or advised by Finexis Asset Management.

The information on this material is not intended for persons located or resident in jurisdictions where the distribution of such information is restricted or unauthorized. No action has been taken to authorize, register or qualify any of the Finexis Asset Management funds or otherwise permit a public offering of any Finexis Asset Management fund in any jurisdiction, or to permit the distribution of information in relation to any of the Finexis Asset Management fund in any jurisdiction.