Investment Update
March 2021

ASSET MANAGEMENT
汇信资产管理有限公司

Market Review

Global equity markets continued to rally with gains of 2.35%. Beneath the surface, it was the dispersion between sectors that hints at what is happening. The figure below shows that the recovery play is taking hold, with the energy sector leading with gains of 13%. Our targeted exposure to the energy exploration industry did even better with gains of 27%.

Total return of MSCI AC World Index sectors from 31 Jan 2021 to 28 Feb 2021. Source: Bloomberg

After lagging large cap stocks going into the current recession, small cap stocks experienced their first meaningful run of outperformance. Barring any unforeseen circumstances that derail the recovery, we expect that the small cap opportunity is still in its early innings.

Our investment style is like fishing; we need to be patient and wait for the right environment to cast the bait and reel in the fish. As economic growth was slowing in 2019, we allocated out of high growth to quality growth sectors to be more defensive. With the subsequent onset of recession, **we allocated from quality growth to small caps at the end of 2020 on the expectation of recovery and attractive valuations**.

Global investment grade bonds were down last month, continuing from the declines in January. The bond bears are having their day in the sun as years of low interest rates look to be unravelling.

Just as there was dispersion in equities, there was also dispersion in credit markets. Investment grade corporate bonds were down while high yield bonds were up, mainly from the high coupons they are paying. **This benefitted our exposures to developed and emerging market high yield bonds**, and where we have no exposure to investment grade corporate bonds.

Some investors might have noticed our portfolios doing particularly well recently. **Did we do anything different recently to ramp up the performance? The answer is NO**; the recent strong gains were the result of positions we had put on in accordance with our process during the market volatility in the first half of 2020.

First, we doubled down on China 'A' equities at the beginning of 2020 as a result of our FVT process. We were certainly not able to predict that within weeks covid would change the world. Similarly, after our allocation to energy in April 2020, no one would have expected that oil prices would go negative.

While these were not the easiest positions to hold, the patience has paid off. China 'A' declined the least as global markets were falling off the cliff. Since putting on the energy position, it struggled for most of the year before outperforming even the technology sector at the end of February.

We try to get into positions when the odds are good, but we do not expect to be spot-on in timing. That is why we have differentiated themes in our portfolios that take turns to work out. **We thank our investors for their patience.**

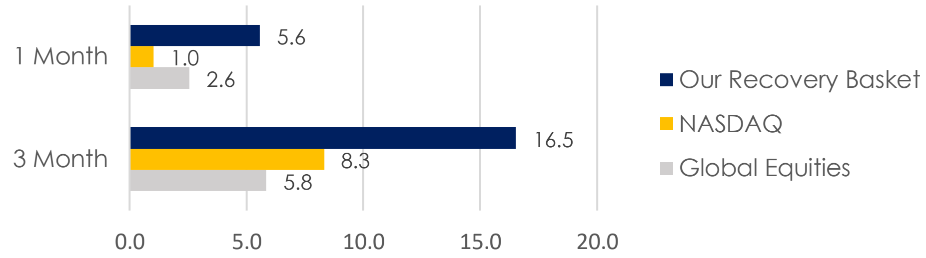
References: Global equities: MSCI All Country World Index, Global investment grade bonds: Bloomberg Barclays Global Aggregate Index, Energy equity: MSCI ACWI Energy Sector Index, Energy Exploration equity: Dow Jones U.S. Select Oil Exploration & Productions Index

Key Themes: Positioning For Recovery

Just by looking at the Market Return table (on page 8) you wouldn't think that February was a particularly exciting month for markets. Major market indices across US, Europe, and Asia recorded low single digit returns of 1-3%...not too shabby, but also nothing out of ordinary. What was more interesting is the powerful rotation away from pandemic-era winners into recovery plays:

A rout in pricey technology names in the middle of the month sent the Nasdaq Index close to correction territory. Tesla, one of the more *electrifying* stocks in 2020, had drawdowns of more than 20% during the month. Investors were quick to point to rising bond yields as the main culprit, as low rates were seen as an important tailwind for high-growth stocks to outperform before.

As mentioned earlier, **we did not have to scramble as the rotation accelerated, having gradually built up our arsenal of recovery assets when their risk/reward was attractive.** Our patient (and what might seem contrarian) approach has been bearing fruit for our portfolios over the past few months, with our recovery basket outperforming strongly in this environment:



Source: FAM. Recovery Basket consist of CSI 300, MSCI EM, MSCI World Energy, Russell 2000 equally weighted NR USD. Global Equities: MSCI World NR USD. NASDAQ Composite TR USD. Data calculated till 28/2/2021.

Our Recovery Basket	Commentary
Energy	The top performing sector in 2021, so far. Our portfolios benefitted strongly as our overweight allocation to energy rallied alongside oil prices, which broke above $60 in the past month. Oil supply and demand dynamics continued to improve, supported by OPEC's latest decision to keep supply in check. We are paying close attention to developments and expect to adjust allocations as energy and oil prices become more fairly-valued.
US Small-cap	Small (Russell 2000) extended its year-to-date outperformance vs Large (S&P 500) despite a volatile month, as undervalued cyclical names contributed positively to performance. We believe that small-caps will continue to do well as economies re-open, especially as Small currently trades at more than a 20% discount to Large vs a 20-year average premium of about 2%.
China 'A'	The modest year-to-date performance (2.4%) vs our other recovery positions is perhaps not so surprising as China 'A' markets took a breather after a stellar performance in 2020. We maintain that the relatively stronger economy is supportive for corporate earnings, though policy is expected to be less of a tailwind going forward.
Emerging Market	Analysts have raised earnings estimates for EM faster than DM companies as cyclical EM equities are expected to do better as economies rebound. We continue to maintain a neutral allocation as relative valuations continue to remain attractive vs DM.

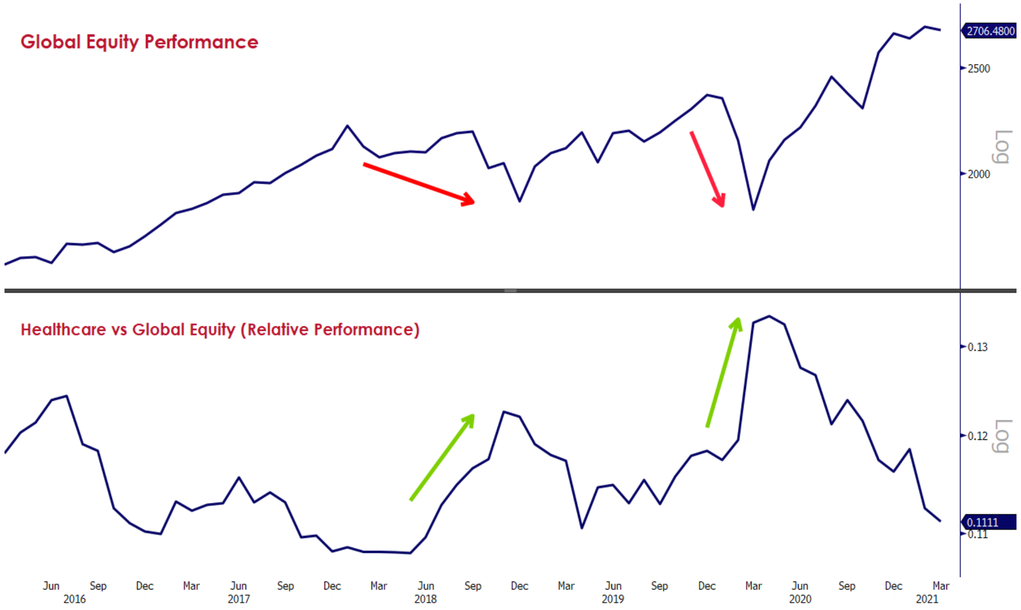
Key Themes: Stability Amid *VUCA*

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

Astute readers may have noticed from the earlier performance chart (on page 1) that Healthcare has underperformed recently. 'Healthcare continuing to struggle in no man's land amidst an ongoing broader market repricing of higher rates/reflation', Goldman Sachs said in a recent research report. To put it simply: investors have not been warming up to Healthcare investments recently.

Does that mean that Healthcare has outlived its usefulness in our portfolios? We think that **Healthcare continues to play a useful role in our portfolios as part of the 'Stability' theme.** As shown before, their stable earnings profile regardless of economic growth makes Healthcare a traditionally defensive sector and a useful portfolio diversifier. **This is increasingly important as assets like safe-haven government bonds** - historically an effective diversifier - **are becoming not much of a haven**[1] with interest rates more likely to go up than down - we discuss this further in the 'Search for Yield' section on the next page.

Healthcare's combination of steady, above average earnings growth at attractive valuations makes for a compelling investment in a VUCA environment. Additionally, Healthcare provides useful diversification for our recovery positions given that it is more defensive and less dependent on a strong economic recovery to do well. The following chart shows some of these characteristics at play:

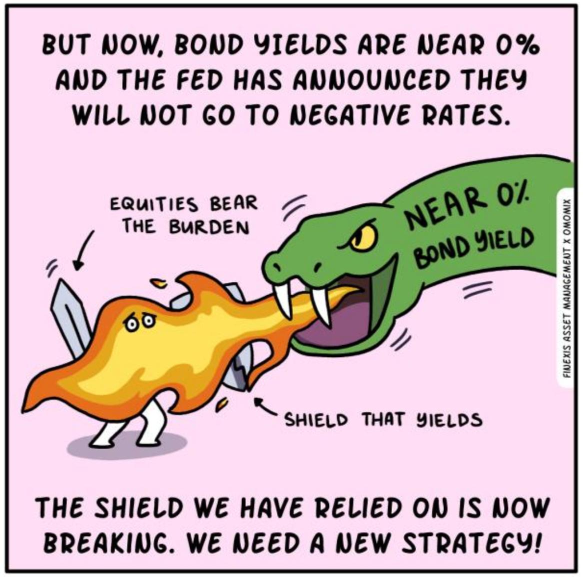


Source: Bloomberg, FAM. Global Equity: MSCI World NR USD, Healthcare: MSCI World Healthcare NR USD.

References:
[1]https://www.bloomberg.com/opinion/articles/2020-10-15/markets-without-havens-are-becoming-all-too-real?sref=EnJawTd3

Key Themes: Search for Yield

This month's topic du jour is rising bond yields, something less excitable compared to Gamestop. But rising bonds yields affect a much wider audience than stock traders. Why? A lot more people have invested in bonds than Gamestop.



The panel from our comic series published last year illustrates how classical safe haven bonds may not work as well going forward. The table below shows how low yielding investment grade bonds have performed.

Fixed Income	MTD	QTD	YTD
Global Aggregate (Unhedged)	-1.72%	-2.59%	-2.59%
Global Aggregate (Hedged)	-1.56%	-2.08%	-2.08%

Here is the math: As yields rise, bond prices drop. What happened is long term interest rates have been rising since August, and the pace has quickened in recent months, causing bond prices to fall.

We mentioned above that bond bears are having their day in the sun. Prior to the current bond sell-off, there have been two others in the past five years. Is this yet another correction? Or is it the beginning of a multi-decade bear market for bonds like the 1950s to 1980s? Only time will tell.

Market participants have been aware of the low rate situation arising from QE since the 2008 GFC. Portfolios globally have responded differently; some managers have shorted low yielding government bonds for a long while and had to endure bond prices continuing to rise. Many other portfolios continue to invest in low or negative yielding bonds. **The risk of investing in a low yield environment is taking a hit on the principle when yields rise.** The recent rise in yields are showing that the classical shield might really be yielding. **We positioned for this risk earlier by focusing on short duration credit** over the past years so that any rise in yields will have lower impact on the price of our bond holdings. More recently, we have allocated into other portfolio diversifiers in place of traditional government bonds.

We are meaningfully invested in the high yield markets as we search for yield. But we do it our way: being aware of the risks involved, and trying to manage what we don't like. As credit spreads have become tighter recently, i.e. the risk/reward for credit investments is not as favourable, **we have initiated exposures to unconstrained credit strategies that allow us to engage the markets with sword and shield in place**.

Key Themes: How Are We Positioned?

Positioning for Recovery	Stability Amid *VUCA*	Search for Yield
China 'A' equities	Health Care equities	Asian High-yield bonds
Energy equities		Emerging Market Short Duration bonds
Emerging Market equities		
US Small-caps		

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Asset Allocation Strategy

Equity: Regions	--	-	=	+	++	Allocation strategy
United States					■	**Healthcare** as earnings are more stable and less dependent on broader economic cycle. **Energy** where relative valuations attractive and are expected to benefit as economies recover. **Small-caps** as relative valuations attractive and are expected to benefit as economies recover. *Overweight in US as a result of allocations to Global Healthcare and Energy, which are US-heavy.*
Europe	0%					Maintaining no exposure as they are less attractive compared to other opportunities.
Japan	0%					
Asia Pacific ex Japan					■	**China 'A'** overweight as valuations continue to be reasonable and supported by a stronger economy.
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 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 a recessionary environment.

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

Current Previous

Market Index Returns

Equity Regional	MTD	QTD	YTD
Global	2.35%	1.90%	1.90%
United States	2.76%	1.71%	1.71%
Europe	2.52%	1.79%	1.79%
Japan	3.11%	3.35%	3.35%
Asia Pacific ex Japan	1.36%	4.92%	4.92%
Emerging Markets	0.77%	3.78%	3.78%

Fixed Income	MTD	QTD	YTD
Global Aggregate (Unhedged)	-1.72%	-2.59%	-2.59%
Global Aggregate (Hedged)	-1.56%	-2.08%	-2.08%
High Yield	0.19%	0.30%	0.30%
Asia	-0.49%	-0.51%	-0.51%
Emerging Market Debt	-1.42%	-2.26%	-2.26%

Currencies	MTD	QTD	YTD
USD/SGD	0.27%	0.79%	0.79%
EUR/SGD	-0.25%	-0.37%	-0.37%
JPY/SGD	1.81%	3.22%	3.22%

Commodity	MTD	QTD	YTD
Gold	-6.15%	-8.66%	-8.66%
Oil (WTI Crude)	17.82%	26.75%	26.75%

Equity Markets	MTD	QTD	YTD
Australia	1.59%	1.90%	1.90%
Brazil	-4.37%	-7.55%	-7.55%
China "A"	-0.28%	2.41%	2.41%
China "H"	0.34%	4.74%	4.74%
Hong Kong	2.46%	6.42%	6.42%
India	6.22%	2.98%	2.98%
Indonesia	6.47%	4.40%	4.40%
Korea	1.23%	4.85%	4.85%
Malaysia	0.82%	-2.91%	-2.91%
Russia	2.12%	1.88%	1.88%
Singapore	1.73%	3.89%	3.89%
Taiwan	5.39%	8.29%	8.29%
Thailand	2.27%	3.54%	3.54%

Equity Sectors	MTD	QTD	YTD
Gold	-9.62%	-13.07%	-13.07%
Energy	21.47%	25.88%	25.88%
Technology	1.12%	0.53%	0.53%
Healthcare	-2.83%	-1.86%	-1.86%
Financials	11.36%	9.22%	9.22%

Total return in index currency terms as of 26 February 2021.
Source: Bloomberg

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