Investment Update

October 2021

finexis
ASSET MANAGEMENT
汇信资产管理有限公司

Market Review

Market participants found all sorts of reasons to explain why markets sold off in September: Evergrande, Supply chain, Debt ceiling and so on.

The sharp sell-off in global investment grade bonds was reminiscent of Q1 when yields spiked from multi-year lows on inflation concerns. And it was not confined to bond markets; major equity markets sold off in sentiment, in particular interest-rate sensitive areas such as growth and tech. For many investors, there was seemingly nowhere to hide.

Our portfolios fared better as the Recovery and Stability themes are less stretched with considerable margin of safety. At the end of the day, markets need to go back to fundamentals and headlines might just be excuses for stretched positions to unwind.

Interesting enough, China 'A' markets were positive, which is counterintuitive given the ongoing concerns on regulatory clampdown. This illustrates how a low rate world can cause markets to turn on a dime, and how important it is to be effectively diversified.

We have always mentioned FVT as a core part of how we identify opportunities. Another crucial aspect is diversification. This is why we have differentiated positions in our portfolios that complement each other. Imagine different fish swimming in the ocean; some swim near the surface and some near the seabed. Both groups will encounter choppy currents in their own time, but both groups ultimately cross the ocean.

We have multiple levels of diversification in our portfolios: intra-asset class e.g. Recovery and Stability, and inter-asset class e.g. equities and fixed income. Yet in the current new world order, more effective diversification is needed.

There have been two months this year when global equities were down. Conventional wisdom dictates that investment grade bonds are supposed to mitigate equity losses in a portfolio. **Readers who have followed our views (and comics) from prior years will know that we are not counting on the bond shield to work as well as before.** Invariably, when equities were down this year, bonds were also down. What stood out was alternatives which were positive when both equities and bonds were down.

Month	Global equities	Global investment grade bonds	Alternatives
Jan 2021	-0.45%	-0.88%	2.38%
Sep 2021	-4.13%	-1.78%	0.69%

Indeed, this is effective diversification at work: different parts of the portfolio taking turns to perform, complementing each other.

We are not able to predict which months equities and bonds will go up or down. But we are confident that alternative strategies structurally behave in ways that complement traditional asset classes, which is why we always recommend having alternative strategies in our multi-asset portfolios.

September was a month where we again are reminded that we live and invest amid VUCA. How much of that is Ambiguity that we cannot figure out? How much is Uncertainty that we can pin down with some understanding? How much is Volatility that we can harness?

Source: *Bloomberg. Global equities: MSCI ACWI Index, Global Investment grade bonds: Bloomberg Global Aggregate Index, Alternatives: Winton Trend Fund.*

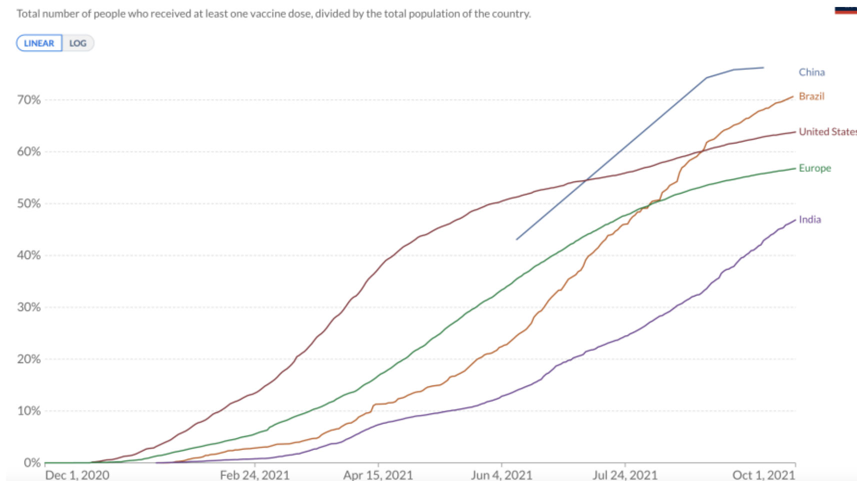
The information contained herein: (1) is proprietary to Finexis Asset Management and/or its content providers; (2) may not be copied or reproduced; and (3) is not warranted to be accurate, complete or timely. Neither Finexis Asset Management nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

finexis ASSET MANAGEMENT 汇信资产管理有限公司

Key Themes: Positioning For Recovery

Perhaps the most frequently cited reason for market volatility for the most part of 2020 and 2021: COVID-19. The pandemic has been an unequivocal disaster for the global economy and financial markets. Closer to home, Singaporeans have thus far had the fortune of witnessing the crisis unfold from a safe-haven. This situation seems to have changed over the course of September, with the total number of COVID-19 cases breaking the 100,000 ceiling by early October. This has prompted some investors to ask the question "is the recovery facing a rout?". Let us examine the reasoning behind this question.

At first glance, the health of the economy seems to be at stake once more and investors are justified in their newfound fear and anxiety regarding the markets. Of course, the first point of rebuttal would be that the sudden spike in cases is limited to the shores of Singapore and that the situation abroad is wholly different. Major populations including the United States, Europe and China have seen case numbers remaining stable over the past two months, indicating that we cannot simply extrapolate what is happening in Singapore. What is happening locally may not always be representative of the global situation.



Furthermore, we are living in an increasingly vaccinated world. As seen in the graph from Our World In Data, major populations have seen vaccination rates climb steadily over the course of the year. As a result of higher vaccination rates, less patients will experience severe symptoms and more patients will be asymptomatic or have mild symptoms. Simply put, case numbers in a vaccinated population does not have the same gravity as within an unvaccinated population. **Case numbers these days constitute "headline news" and need to looked at with a new set of lenses, rather than just another convenient reason for explaining the next market decline.**

Thirdly, there is a growing body of evidence that with the right fiscal and monetary policies, an economic recovery can co-exist with the medical strain of COVID-19. Despite being in the throes of the pandemic, the US economy managed to record consecutive quarters of GDP growth since 3Q2020 (Bureau of Economic Analysis, USA). In fact, in the second quarter of 2021, real GDP in the USA exceeded its pre-pandemic level (Brookings). As mentioned in last month's commentary, **the economy can continue to heal even in the face of a lingering COVID-19 situation.**

All in, the evidence continues to point towards a recovery; albeit at an uneven pace. This is why we have continued to maintain our recovery positions despite a more challenging Q2-Q3 period – we expect they still have ways to go. Every investment experience moments where performance pauses or even reverses for awhile, and should even be expected. **It is more important to be able to stick to them as long as the risk/reward remains favourable; which is what our process gets us into.** In fact, some of our recovery positions have gotten more attractive over the past few months i.e. US small-caps. Subsequently, we have incrementally added on to some of these recovery positions as they were stressed, giving investors who missed out before another chance to hop onto the bus.

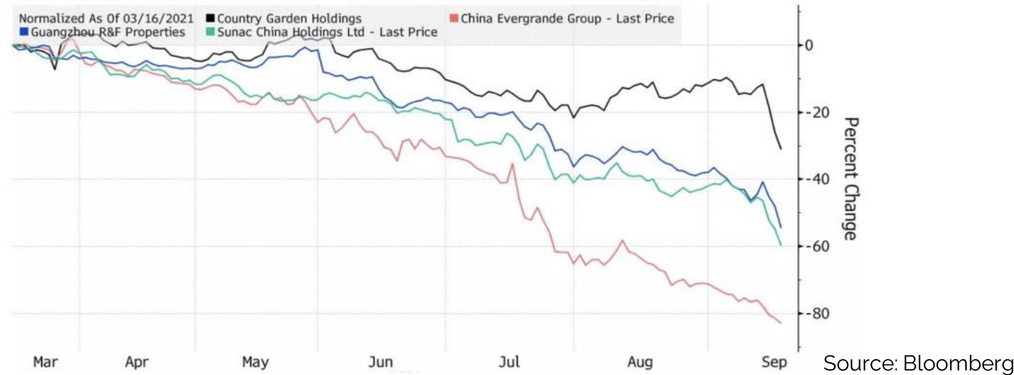
The information contained herein: (1) is proprietary to Finexis Asset Management and/or its content providers; (2) may not be copied or reproduced; and (3) is not warranted to be accurate, complete or timely. Neither Finexis Asset Management nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

finexis
ASSET MANAGEMENT
汇信资产管理有限公司

Key Themes: Stability Amid *VUCA*

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

Without question, *the* VUCA event on everyone's mind this September would be the Evergrande debt crisis that has embroiled the Chinese real estate sector and regional financial markets. With an 88.5 billion USD debt burden and total liabilities in excess of 300 billion USD, the potential failing of Evergrande can send shockwaves across the Chinese financial system and its lenders, which will reverberate across the world.



Source: Bloomberg

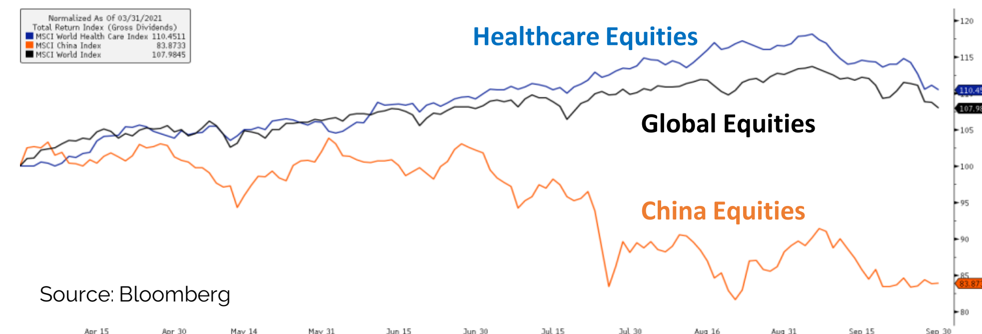
Already, the beleaguered developer has missed two interest payments, once on the 23rd of September when 83.5 million USD were due, and the next occasion on the 29th of the same month, when 47.5 million USD was due. There is also no reason to think that the company will do any better when it comes to servicing its subsequent debt obligations.

The sheer size of Evergrande's liabilities and the hitherto lack of clarity on how far the Chinese central bank is willing to intervene has already led to market jitters. Chinese real estate developers have seen their share prices fall sharply and a broader sell-off of the Hang Seng index has also taken place. Pessimistic commentators are forecasting this as the beginning of a global contagion event where the entire house of cards crumbles, likening the situation to the Lehman crisis in 2007-2008.

Of course, a more balanced view might find a comparison to the Lehman crisis an exaggeration, given several crucial differences (see [Flash Update: China, Evergrande Contagion?]). Nonetheless, in either case, it is clear that the Evergrande saga has exacerbated the VUCA conditions. In such unstable times, having a sound investment philosophy and practicing independent thinking becomes vital. Such an approach grounds our investing and prevents us from panicking and giving in to market sentiment. **Investors can be confident that our investment decisions continue to be driven by due process that cuts through the noise and secure returns over the long term.**

The escalation of VUCA also underscores the **need for maintaining a diversified set of positions that respond to different drivers**.. In other words, capital is allocated across different themes, allowing different parts of one's portfolio to take turns to shine at different times.

By not putting all our eggs in one basket, we are able to mitigate the impact of a single theme not playing out as expected. The result is a more resilient portfolio. In this case, our portfolio diversification takes the form of an exposure to healthcare, whose performance is more dependent on secular trends and not economic activity. Whether the Evergrande saga precipitates a minor or major systemic shock, our healthcare positions are likely to emerge relatively unscathed, preventing more painful declines of the portfolio.



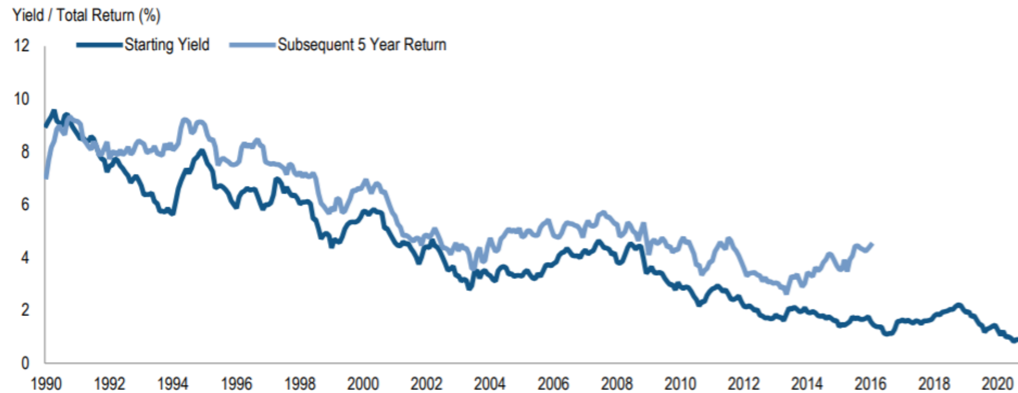
Source: Bloomberg

The information contained herein: (1) is proprietary to Finexis Asset Management and/or its content providers; (2) may not be copied or reproduced; and (3) is not warranted to be accurate, complete or timely. Neither Finexis Asset Management nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

finexis ASSET MANAGEMENT 汇信资产管理有限公司

Key Themes: Search for Yield

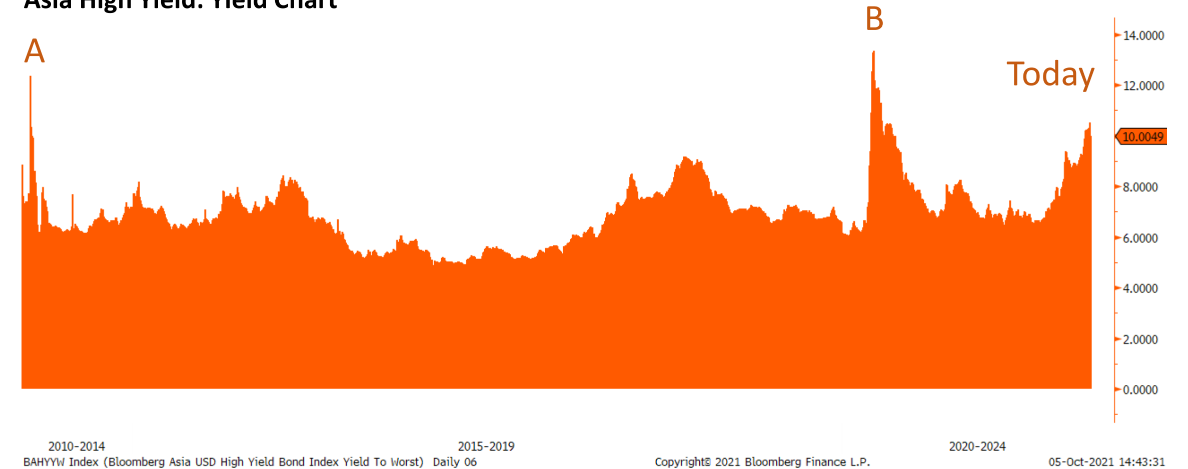
Last month we showed that starting yields are a good way to set one up for higher future return. This could just be the recipe for success in the search for yield: Invest at higher yields for better future returns.



Yet, as in cuisine, the same recipe in the hands of different people can have vastly varying outcomes. A master chef would face off against a stove that is spitting out sky high flames, and use the heat energy to create a dish full of flavour. An amateur who is not able to manage or even fears the flames would not be able to get a similar result.

Investors searching for yield face a similar situation; the best environment for them to get better outcomes are typically when they have to face off against the biggest dangers.

The next chart shows the yields of the Asian High Yield bond market. The annual return for a passive investor through the whole period would be 6.14%*.



What was the return for an investor who went in when yields were high? An investor at point A would have annualized 30% in 1 year and 11% over 5 years. An investor at point B would have annualized 21% in 1 year*. Seems like a pretty foolproof way to outperform passive investments. But the headlines then include "India Bond Yields May Reach 3-Year High on Debt Plan 'Shock'" and "Moody's downgrades CNLP to Caa1; outlook negative". In that moment, one needs to cut through the noise, assess the fundamentals, and take calculated risks.

Is it so easy to have the conviction to invest when yields are like leaping flames? If you are not trained or doing it everyday, one should settle for an average result rather than risk getting burnt.

In that moment, do you see ambiguity that causes fear and paralysis, or volatility that creates opportunities? Where others see fear, we see opportunity.

*Source: Bloomberg. Asia HY: Bloomberg Asia USD High Yield Bond Index from 30/6/10-30/9/21.

The information contained herein: (1) is proprietary to Finexis Asset Management and/or its content providers; (2) may not be copied or reproduced; and (3) is not warranted to be accurate, complete or timely. Neither Finexis Asset Management nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

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
Emerging Market equities		Emerging Market Short Duration bonds
US Small-cap equities		
Europe equities		
Quality Value		

The information contained herein: (1) is proprietary to Finexis Asset Management and/or its content providers; (2) may not be copied or reproduced; and (3) is not warranted to be accurate, complete or timely. Neither Finexis Asset Management nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

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 relative valuations continue to be reasonable, and supported by a recovering 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 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

The information contained herein: (1) is proprietary to Finexis Asset Management and/or its content providers; (2) may not be copied or reproduced; and (3) is not warranted to be accurate, complete or timely. Neither Finexis Asset Management nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

finexis ASSET MANAGEMENT 汇信资产管理有限公司

Market Index Returns

Equity Regional	MTD	QTD	YTD
Global	-4.09%	-0.95%	11.48%
United States	-4.65%	0.58%	15.91%
Europe	-3.25%	0.96%	16.90%
Japan	4.27%	5.22%	14.59%
Asia Pacific ex Japan	-4.02%	-8.41%	-2.14%
Emerging Markets	-3.96%	-8.03%	-1.16%

Fixed Income	MTD	QTD	YTD
Global Aggregate (Unhedged)	-1.78%	-0.88%	-4.06%
Global Aggregate (Hedged)	-0.94%	0.09%	-1.43%
High Yield	-0.07%	0.74%	3.79%
Asia	-1.44%	-0.75%	-0.81%
Emerging Market Debt	-1.66%	-0.55%	-1.14%

Currencies	MTD	QTD	YTD
USD/SGD	0.95%	0.91%	2.69%
EUR/SGD	-1.00%	-1.44%	-2.62%
JPY/SGD	1.15%	0.16%	7.79%

Commodity	MTD	QTD	YTD
Gold	-3.12%	-0.74%	-7.45%
Oil (WTI Crude)	9.53%	2.12%	54.64%

Equity Markets	MTD	QTD	YTD
Australia	-1.53%	2.23%	16.03%
Brazil	-6.57%	-12.48%	-6.75%
China "A"	1.28%	-5.99%	-5.04%
China "H"	-4.68%	-17.12%	-16.57%
Hong Kong	-4.71%	-13.88%	-7.49%
India	2.78%	12.91%	24.87%
Indonesia	2.34%	5.38%	7.10%
Korea	-4.08%	-6.91%	7.16%
Malaysia	-2.68%	1.76%	-2.07%
Russia	5.04%	9.02%	30.22%
Singapore	1.06%	-0.21%	11.60%
Taiwan	-2.87%	-2.71%	17.80%
Thailand	-1.62%	2.13%	13.83%

Equity Sectors	MTD	QTD	YTD
Gold	-9.78%	-13.18%	-18.04%
Energy	9.28%	-2.82%	38.35%
Technology	-5.76%	1.28%	14.13%
Healthcare	-5.35%	0.73%	9.85%
Financials	-1.99%	2.29%	27.36%

Total return in local currency terms as of **30 September 2021**
Source: Bloomberg

The information contained herein: (1) is proprietary to Finexis Asset Management and/or its content providers; (2) may not be copied or reproduced; and (3) is not warranted to be accurate, complete or timely. Neither Finexis Asset Management nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

finexis
ASSET MANAGEMENT
汇信资产管理有限公司

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.

The information contained herein: (1) is proprietary to Finexis Asset Management and/or its content providers; (2) may not be copied or reproduced; and (3) is not warranted to be accurate, complete or timely. Neither Finexis Asset Management nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

finexis
ASSET MANAGEMENT
汇信资产管理有限公司