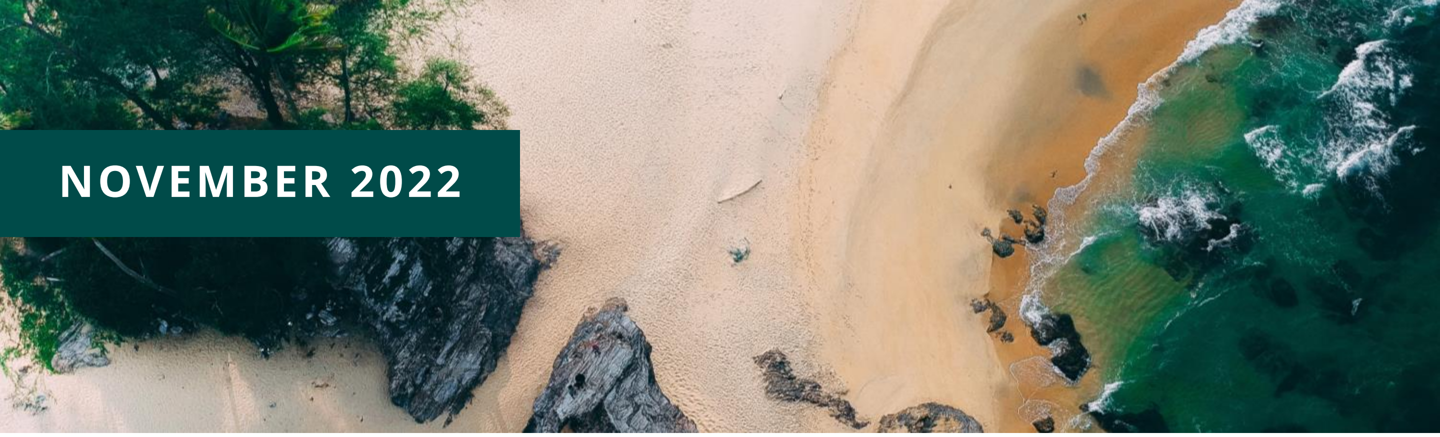


THINK DIFFERENTLY
TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Executive Summary

October came as a relief after two consecutive months of market declines. Global equities rallied, while global bonds fell marginally. However, for most investors, the narrative continues to be tougher and more volatile times ahead; with news of slower growth and additional rate hikes making headlines.

When markets are volatile, as they are now, it is easy to confuse volatility with risk, but the two are not synonymous. Volatility refers to price swings, whereas risk refers to the possibility of permanent losses as a result of poor investment decisions (such as buying bad investments and/or panic selling).

While volatility can be unpleasant to sit through, investors can use it to their advantage. Buying good investments at below-average prices, especially during periods of market declines, allows investors to achieve higher-than-average returns over the long term. The current environment is in fact a good opportunity to accumulate units at attractive prices. Such areas include Asian High Yield (AHY) within fixed income, and US Small-Caps or Emerging Markets within equities.

Arguably, one can choose to stay out of markets completely, but as aforementioned, that would mean giving up on the chance for a better return. A better way is to increase our resilience in a market downturn; by investing in Healthcare whose earnings and performance have proven to be defensive in such periods. Overall, the sector reported better-than-expected earnings at a time when earnings across markets have fallen; and on average responded with an outperformance of 2.99% to the broader markets.

As humans, we tend to exaggerate the impact of "losses" even if we recognize them as temporary and part of the investment journey. For this reason, it is important to establish and stick to sound investment principles so that one remains level-headed and invested with the confidence of realizing an investment’s potential returns. For us, this means investing in opportunities with attractive Fundamentals, Valuations, and Technicals.

Finexis Asset Management

MARKET REVIEW

Global equities were up 6% in October. Normally, such a monthly gain might generate a lot of excitement. Some investors might wonder why they did not invest in September to participate in October's gains. Others might also consider investing in November in the anticipation of more gains.

However, investors are not likely to be so excited as prior to October, they have only seen declines in 2022. In fact, 2022 has already seen seven down months. This number of down months is not common; over the past 35 years, there have been only 7 years with at least seven down months.

Yet there is some silver lining. What might be interesting for some investors is that in 5 of those 7 years, the following year registered higher-than-average gains of 19.83%.

Number of years with at least 7 down months	Number of years where following year was positive	Average return where following year was positive
7	5	19.83%

y
World Index from 31/12/1987 to 31/10/2022.

Nevertheless, with so much bad news around, investors might find it hard to accept that the returns ahead are better than average. They may even worry about a subsequent market crash. One thing is true, markets have a way of playing with our minds; **any future market crash looks like a threat, but all past crashes look like opportunities.**

But one thing everyone can agree on is that with the swings seen this year, markets are volatile whether one looks at returns on a monthly or yearly basis.

Volatility is necessary for return
Last month, we mentioned that volatility is not risk. Here we extend that further by saying that volatility is necessary in order to have return.

The following table shows that bond investors have been able to compound their wealth by taking on volatility, experiencing maximum monthly gains and losses of about 3% along the way.

Market	Value of $100	Max monthly gain	Max monthly loss
Global bonds	$525	3.49%	-3.21%
Global equities	$841	12.21%	-19.91%

Source: Bloomberg, Global equities: MSCI All Country World index, Global bonds: Bloomberg Global Aggregate index from 31/1/1990 to 31/10/2022

The table also shows that greater volatility is necessary for investors seeking even higher return through equities.

Volatility works both ways
While October was a huge gain by most standards, the table shows that equities can have even larger monthly gains. However, few pay attention to gains as they are readily acceptable (or even assumed) as part and parcel of investing.

Conversely, many pay attention to volatility only when markets are down as these are the ones they struggle to accept as part and parcel of investing.

This human tendency to magnify the impact of losses works against investors. If they do not pay attention to the fact that volatility works both ways, an investor will sell on declines and create permanent capital loss.

Volatility creates opportunity
Volatility will always trigger the urge to do something: Sell, Hold, or Buy.

Because many investors don't have the patience and feel the urge to sell, one already has a competitive advantage if they decide to hold. Some other investors decide to buy as they can get above average return by buying at below average prices. Of course, investors need to be sure that they are holding/buying into something of value over the longer term, then volatility will play to their benefit; it is a multiplier, not just a plus.

That is why, as counterintuitive as it seems, investors should be happy when markets drop. Which type of investor would you rather be?

POSITIONING FOR RECOVERY

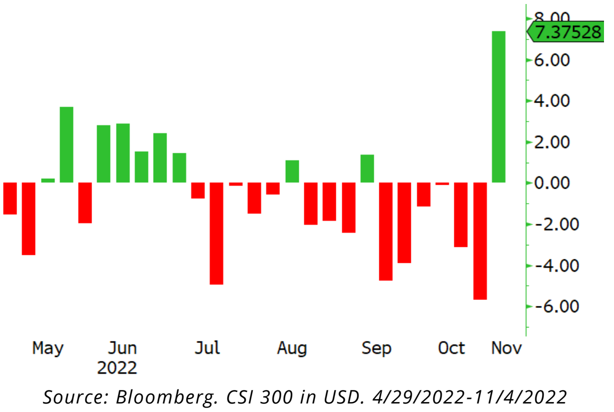
Last month, we offered a few simple ways for long-term investors to do better than average:

1. **Volatility ≠ Risk**. Investors can embrace volatility to take advantage of emotional buying and selling in the short term.
2. **Buying the winner (or selling the loser) does not necessarily make you a winner.** Buying into past performance means buying into returns that have *already* been realized.
3. **Invest in tennis balls, not bowling balls.** Some investments bounce back, while others crash into the ground – we utilize our Fundamental, Valuation, Technical (FVT) framework to differentiate the two.

These 'principles' have served investors well throughout history; and are certain to continue to do so going forward. The recent market performance also shows that they remain useful signposts for investors to navigate today's markets.

We earlier said that volatility is necessary for returns. With that in mind, what can we make of the recent volatility in China equities?

China Equities: Weekly Decline & Gains



Source: Bloomberg. CSI 300 in USD. 4/29/2022-11/4/2022

The above clearly shows that volatility works both on the downside *and* upside. Herein also lies the opportunity. A recent Goldman Sachs report estimated that in event of a full re-opening of the China economy, equities are expected to respond with a gain of about 20%[1].

Why not wait until after the re-opening is announced to buy? It is for the simple fact that markets are forward-looking and expected to rally before actual news of re-opening. If anything, recent rallies are perhaps pricing in a glimmer of a recovery scenario playing out going forward[2].

Another noteworthy observation is the encouraging year-to-date performance of US small-caps amid recessionary concerns – some would be surprised to know that 'volatile and riskier' small-caps are doing better than the 'blue-chip' large-caps (Year-to-date: S&P Small-Cap 600 Index -13.7%, S&P 500 -17.7%). Could this be the start of a new cycle of small-cap leadership?

"The market is starting to move from areas where there is still risk to be priced in and into the areas where a lot of risks have already been baked in."

- Lori Calvasina,
Head of US equity strategy at RBC Capital Markets

Interestingly, October also saw a few mega-cap tech stocks declining sharply even as markets were generally positive (e.g. Meta, Amazon, and Microsoft all saw outsized declines after reporting their earnings); helping to reiterate the point that past winners are not always expected to be future winners.

Of course, we cannot just invest in areas that are the most volatile or have experienced the largest declines (If only it were that simple!). Instead, our FVT process helps us to identify good investments with better margin-of-safety that can offer investors less of the downside and more of the upside.

We understand that in a market decline, recovery is always the last thing on investors' minds – with all the doom and gloom in news headlines, it is no wonder. That said, history teaches us that the strongest recoveries also come after such periods, making it important for investors to remain invested. We hope that by providing another perspective our investors may gather the confidence to ride through the volatility and enjoy the subsequent recovery.

[1] https://www.bloomberg.com/news/articles/2022-11-07/china-stocks-may-rally-20-on-a-full-reopening-goldman-says

[2] https://www.bloomberg.com/news/articles/2022-11-07/chinese-stocks-trade-volatile-at-open-as-covid-zero-reaffirmed

STABILITY AMID VUCA

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

Volatility in economies and markets persist, highlighting the importance of our 'stability' position via Healthcare equities. As economies slowed, we have increasingly allocated more to Healthcare where we have higher confidence that it will outperform in the event of a prolonged downturn.

Here we elaborate on why healthcare fundamentals are suitable as a resilient part of a portfolio, how valuations provide a margin of safety, and how markets have been responding well to healthcare fundamentals and valuations.

Biotech is not as risky as thought

We recently added specific biotech exposure as part of the healthcare theme. The word "biotech" may lead some to think of risky companies that burn cash trying to develop experimental drugs.

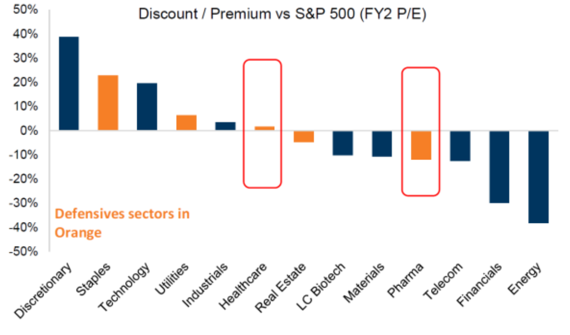
Our biotech exposures focus on established biotech firms with profit and cash flow. These are durable franchises with an established portfolio of drugs, coupled with a visible pipeline of drugs in development.

The drug pipeline provides growth upside and margin expansion potential, while reducing dependence on any single drug.

At the same time, these biotech firms have similar earnings and performance resilience as the broader healthcare sector, allowing them to benefit from economic slowdown.

Healthcare has the best valuation among defensive sectors

The orange bars show the defensive sectors, sectors whose fundamentals allow them to be more resilient than other sectors during economic and market downturns. The chart also shows that healthcare and biotech have the best valuations among defensive sectors, making them better choices to improve the stability of a portfolio.



Source: Goldman Sachs Global Investment Research, FactSet

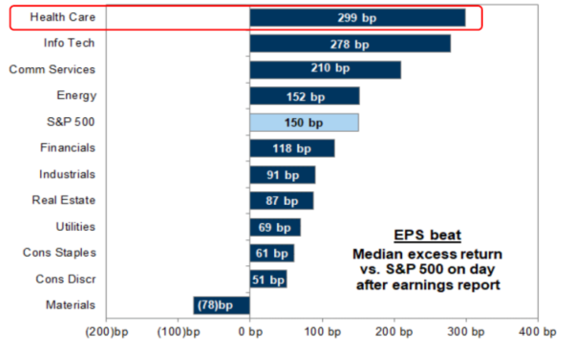
Markets are responding well to healthcare's fundamentals and valuations

As the earnings season is underway, it is a good exercise to review price action in the context of healthcare sector fundamentals.

Overall, earnings across the market excluding the volatile energy sector have declined 4%, which is in line with our view of a slowing economy.

In such an environment, healthcare equities continue to be resilient amid the uncertain economic environment, consistent with their more defensive nature. According to Goldman Sachs, more than half (52%) of Healthcare companies have reported earnings that were better than expected; slightly better than the market average (47%). Investors would be pleased to know that such earnings beat led to an outperformance of 2.99% vs the broader market as shown in the chart below.

<u>Earnings Beats in Healthcare rewarded more than any other sectors</u>



Source: Goldman Sachs Global Investment Research, FactSet

It is important to emphasize that the outperformance happens because of the positive fundamentals and attractive valuations. **If valuations were poor, it would be hard to outperform even with better-than-expected earnings.**

SEARCH FOR YIELD

As investors ask "where can I get more return from fixed income?", the answer is obvious: With yields exceeding 15%, Asian high yield (AHY) stands out as having the highest yield among major fixed income segments globally as shown in the chart. Yet AHY is also the "obvious" segment that investors are avoiding today. Here we take the chance to address some questions investors may have.

How will my existing exposure fare?

The **chances of winning in Asian high yield have not changed despite the declines**. Fixed income markets have shown throughout history that starting yield is a good predictor of performance. Investors who have exposure to AHY at the start of the year have experienced declines, but should expect to compound just under 9% p.a. going forward based on the starting yield indicated by the diamond. **The chances of winning only go away the moment one sells**.

What do I do going forward?

It is natural to be nervous about existing investments during periods of heightened volatility. As mentioned above, the chances of winning do not change despite the volatility. **Volatility creates opportunity**; as one reviews the portfolio, also focus on what can be added. The chart shows that AHY yields at 15% are even higher today compared to 9% at the start of the year, meaning those with capital should be deploying instead of staying on the sidelines.

What about all the bad news on Evergrande, Longfor etc.?

Any crisis is a good opportunity to flush out the over-leveraged players. Single companies will indeed go bust, but we are not betting on a single name. It is important to emphasize that the **AHY investment is a diversified exposure** to a segment that has the highest return among all fixed income segments globally.

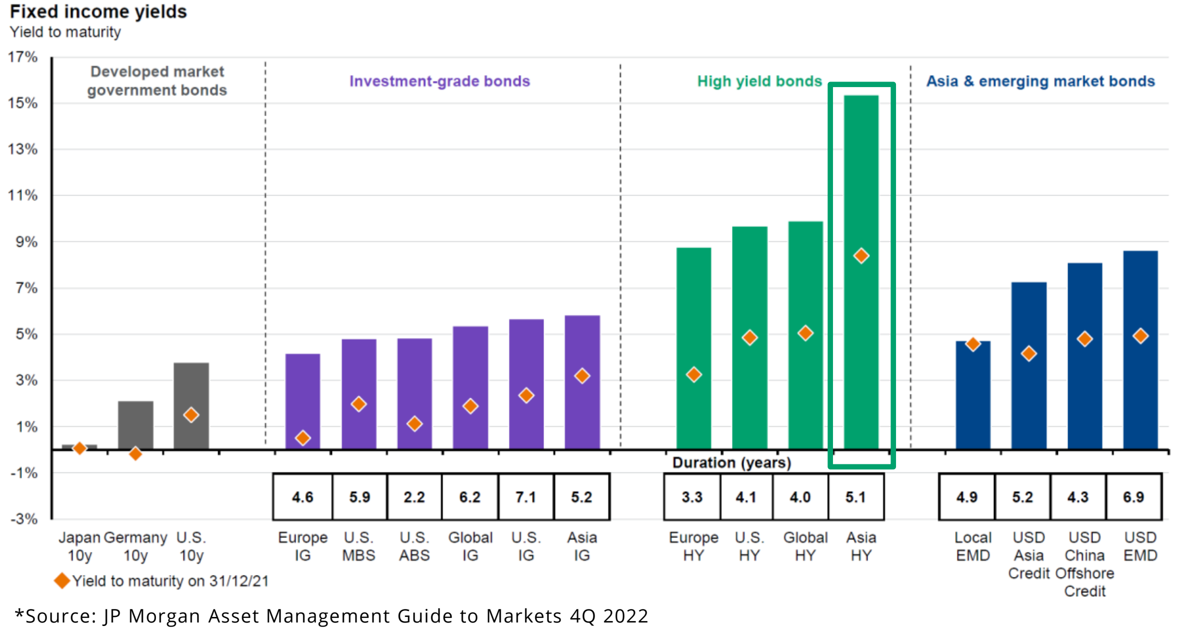
Investors who can sit through a crisis not only get the subsequent return, they also are **invested in even better fundamentals as the remaining players are crisis-proven.**

What if China takes more time to turn around?

While a lot of the discussion (and attention) on AHY has been about China, one needs to remember that AHY is **not just about China;** China & Hong Kong comprise 38% of AHY exposures. AHY is also **not just about real estate**, with the sector making up 21% of exposures*.

Today, **AHY is diversified outside of China and real estate without compromising on the upside**. In fact, exposures to other high growth Asian economies such as India and South East Asia make up majority of the exposures. Even if China takes more time to turn around, the AHY investments are able to derive yield from other sources.

*Source: Blackrock Global Funds as at 30/9/2022



*Source: JP Morgan Asset Management Guide to Markets 4Q 2022

HOW ARE WE POSITIONED?

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

The 'Positioning for Recovery' positions are expected to do well as the economy and markets gradually work through current shorter-term volatility, while the complementary Stability and Yield positions provide effective diversification to the rest of the portfolios.

Including 'Government Bonds' under Stability Amid VUCA' for better clarity of portfolio positioning.

ASSET ALLOCATION STRATEGY

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

Equity: Regions

United States

US Small-caps as relative valuations are attractive and expected to benefit as economies recover. **Healthcare** as earnings are more stable and less dependent on broader economic cycle.

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 are attractive relative to developed markets, but where earnings tend to be less resilient

Fixed Income

Global

Focus on currency-hedged government bonds 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 to focus on return from credit while limiting exposure to emerging market currencies and interest rate risk.

MARKET INDEX RETURNS

Equity Regional	MTD	YTD	10Y	20Y
Global	6.06	-20.80	8.58	8.47
United States	8.10	-17.72	12.77	9.80
Europe	7.42	-24.31	4.95	6.92
Japan	2.33	-23.09	5.69	5.11
Asia Pacific ex Japan	-4.21	-29.48	2.49	8.16
Emerging Markets	-3.09	-29.22	1.15	8.57

Equity Markets	MTD	YTD	10Y	20Y
Australia	5.49	-14.54	5.03	10.94
Brazil	10.38	19.09	-2.22	10.96
China "A"	-10.11	-36.89	5.11	7.87
China "H"	-16.47	-38.29	-3.94	8.54
Hong Kong	-14.71	-35.60	-0.54	5.81
India	4.07	-5.07	9.32	14.91
Indonesia	-1.64	0.77	2.24	15.80
Korea	7.06	-35.33	0.92	7.58
Malaysia	2.75	-15.10	-2.37	6.73
Russia	12.83	-25.60	3.15	10.86
Singapore	0.29	-2.29	2.26	7.78
Taiwan	-5.08	-36.35	8.88	9.60
Thailand	0.64	-12.75	3.13	12.52

Equity Sectors	MTD	YTD	10Y	20Y
Gold	0.92	-24.09	-6.43	0.71
Energy	24.96	68.05	6.01	9.96
Technology	7.62	-28.98	17.16	12.29
Healthcare	8.43	-9.00	12.25	9.69
Financials	11.99	-11.81	12.38	5.41

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	-0.69	-20.44	-0.98	2.67
Global Aggregate (H)	-0.34	-12.39	1.62	3.24
High Yield	3.02	-12.99	3.61	7.76
Asia	-3.26	-16.89	1.66	4.70
Emerging Markets	-0.88	-21.20	1.17	6.50

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	1.33	-4.79	-1.48	1.11
EUR/USD	0.82	-13.09	-2.68	-0.01
JPY/USD	-2.68	-22.60	-6.04	-0.96

Commodities	MTD	YTD	10Y	20Y
Gold	-1.63	-10.70	-0.52	8.53
Energy	8.86	15.05	0.03	5.95

As of 31 Oct 2022. Source: Bloomberg. ***Total return in USD****.*
10 and 20 year returns are annualized.

"In investing, what is comfortable is rarely profitable."

Rob Arnott

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