THINK DIFFERENTLY

TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Executive Summary

November saw a strong rebound from October's low. Global equities and bonds rose on expectations that US inflation has peaked, allowing for a slower pace of rate hikes. Loosening COVID restrictions in China provided further support, signaling that a recovery in Chinese demand is not far off. More impressively, emerging markets in which we have positions outperformed global equities and developed market counterparts by a wide margin.

Investing decisions are frequently influenced by narratives. Most investors buy and sell investments based on what they see in the news. However, such an investment "strategy" is motivated by emotions rather than logic. Investors who sold in recent months, fearing more aggressive central bank rate hikes and weakening global economic activity, would have seen how a shift to the current narrative - one of softer inflation, slower interest rate hikes, and a potential pickup of economic activity in China - would have worked against them. This is why investing requires an evidence-based, repeatable approach; history has shown that investors who do so are the most successful.

Investors will recall the recent flight to cash investments, which now provides returns of more than 3% per year compared to near zero previously. For the majority, this is appealing given how volatile markets have been. But cash investments give negative real returns due to higher inflation. Investors can instead get a much higher return from credit markets and one area that has delivered remarkable monthly gains is Asia high-yield bonds. They have returned 15.42% last month, but it takes patience and restraint on the part of investors to realize such returns as the past few months have shown that headwinds can force investors to exit.

While the recent uptick has been encouraging, we advice against prematurely calling for all-clear going forward. Headwinds from higher interest rates are still prevalent with volatility likely to remain elevated even as market are expected to march higher eventually. Nonetheless, our long-term investors can rest assured that they have been accumulating attractive positions (i.e. recovery, stability, or yield-seeking) that are expected to perform better than broader markets over time.

Finexis Asset Management

MARKET REVIEW

In November, it was the same theme of "nowhere to hide" that has been playing out this year…but in reverse. This time, just about every major market made money. The question was which ones made more.

Equity Regional	Nov 2022
Global	7.81%
United States	5.59%
Europe	11.54%
Japan	9.75%
Asia Pacific ex Japan	17.60%
Emerging Markets	14.85%

Market commentators cited more benign CPI numbers which might lead the Fed to moderate its pace of rate hikes, and in turn, put less pressure on the economy. The S&P responded by rallying over 5%, the biggest response to inflation data in 20 years.

We have mentioned that when markets rebound, our positions such as Asia and Emerging Markets are expected to do better. This is because they have been underperforming for over a decade. When the time is right, they will regain momentum.

They did not disappoint during the recent rally. On the back of loosening covid restrictions in China, the mood of China's investors swung from extreme pessimism to exuberance.

[FOMO Grips China Traders in World's Wildest Stock Market – Bloomberg]

Even this year, there have been numerous occasions when investors asked, "why should I invest in emerging market equity if the S&P has done better in the past decade?" This was typically driven by rearview mirror investing, finding reasons to invest in what has done well, rather than what is going to do well.

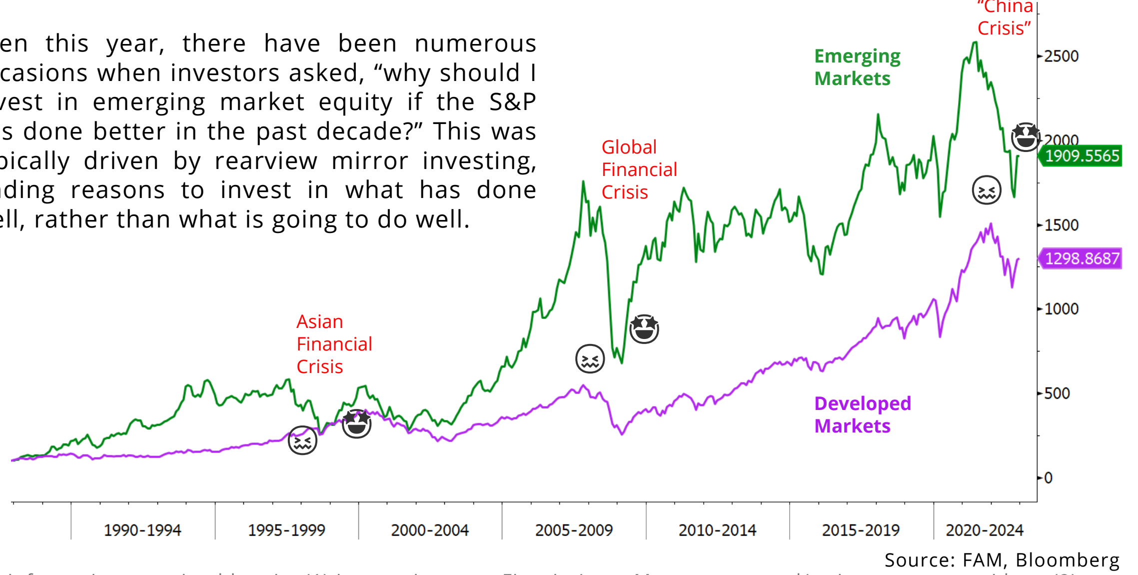
Why do we have confidence Emerging Markets can do better? By zooming out. The chart shows that over the long term (since data is available), **$100 invested into emerging markets would have turned into $1909 vs $1299 for developed markets**. This is true even after Emerging Markets gave back their gains in recent years.

Have Emerging Markets bottomed? If history is any guide, the cycles of pessimism 😖 and exuberance 🤩 shown in the chart indicate that we are certainly closer to the bottom.

As mentioned last month, markets have a way of playing with our minds; **any future market crash looks like a threat, but all past crashes look like opportunities.** Don't let the current market become another past opportunity.

Amid such tectonic shifts across markets, our strategies are positioned to benefit from Emerging Markets exposures. The chart shows the thesis will play out without having to predict when. Nevertheless, it is important not to bet the farm on a single segment but maintain a truly diversified portfolio.

Source: Bloomberg, Global equities: MSCI All Country World index, Global bonds: Bloomberg Global Aggregate index from 31/10/1987 to 30/11/2022



Source: FAM, Bloomberg

POSITIONING FOR RECOVERY

Investors Risk Being Stuck in Past Market Narratives!

What Investors Remember From Before…	…Today's Outcome
Wall Street drops as Powell signals Fed not close to done Nov 3, 2022	Wall Street rises as Fed signals slowdown in rate hikes Nov 24, 2022
China Market Revival Hopes in Tatters as Congress Disappoints Oct 21, 2022	China Stocks Climb, Yuan Rises Past Key Level on Reopening Shift Dec 5, 2022
Europe Stocks End Worst Half-Year Since 2008 on Growth Concerns Jun 30, 2022	European Stocks Cap Sixth Weekly Gain, Longest Streak in a Year Nov 25, 2022

Source: Bloomberg.com (row 1, 3), Reuters (row 2). Retrieved on 5 Dec 2022.

As humans, we tend to follow narratives. They help us make sense of the world we live in, and let's be honest, *who doesn't love a good story*?

The problem arises when we use narratives to invest. Not only do narratives change frequently and often suddenly, but they seldom if at all offer insights that are helpful for long-term investing. Being stuck on a narrative can prevent investors from making good and logical decisions.

There are many examples of market narratives that dominate both news headlines and the minds of investors. As highlighted in the above table, we look at three narratives that are perhaps more related to our recovery positions (refer to 'How are we positioned?' at the back of this report):

Firstly, we have the market's ongoing obsession with the **US Fed's interest rate hikes.** This obsession is not surprising, given that much of the market decline and volatility earlier this year has been attributed to the Fed's decision to raise interest rates in the face of high inflation. Fearing further rate hikes, however, some investors may have thought to hide in cash to avoid the prospect of further losses. But by doing so, they lock in losses and are also likely to miss out on subsequent strong gains that come after every market decline. Already, markets have rallied strongly as the narrative evolved to expecting 'slower' rate hikes going forward.

As recent as a month ago, the media's consensus was that **China's reopening and subsequent market recovery** was far ahead. In the aftermath of China's 20th National Congress, markets became concerned about president Xi Jinping's consolidation of power, as well as the lack of any major policy announcements to support the economy. Just last week, news coverage of protests in China also seemed to add to the list of worries. Rather than experiencing further declines, China equities instead recorded one of their strongest performance in recent memory as a new narrative emerged – that China is now on a quicker path to fully re-opening.

The changing narrative around European equities is also worth a mention. Earlier in the year, Russia's invasion of Ukraine sparked concerns over high inflation (particularly high energy prices), rising interest rates, and a slowing economy. Today, such concerns are largely deemed to be overly pessimistic; with Europe's business leaders even admitting that they were 'too gloomy'[1]. The rebound in sentiment amid a decline in energy prices has also led to a strong rebound in European equities. Their year-to-date performance is now roughly on par with global equities, with undervalued European equities doing even better. [1]ft.com 'We were too gloomy'

Investing based on today's 'fad' means buying into yesterday's story. When they turn out not to be true, you are likely to lose money. Even if they turn out to be true, you still need markets to react in the way you want to make money. The takeaway is this: invest based on evidence in a way that is repeatable over time; such as investing in markets with good fundamentals at good prices. History has shown that investors who do so are the most successful.

STABILITY AMID VUCA

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

In just a short span of a few weeks, it almost feels like a few of the key market concerns are slowly starting to fade away. The recent strong market performance and positive news headlines also seem to be collaborating with this view.

While we are encouraged by the strong performance of our recovery positions amid a risk-on environment, we would also advise against prematurely calling for the end of volatile markets at this time (remember that we do not want to invest purely in narratives!). As mentioned in prior months, the effects of higher interest rates are expected to result in slowing economies and potential recessions in parts of the world - it is probably too early to think that we are out of the woods here.

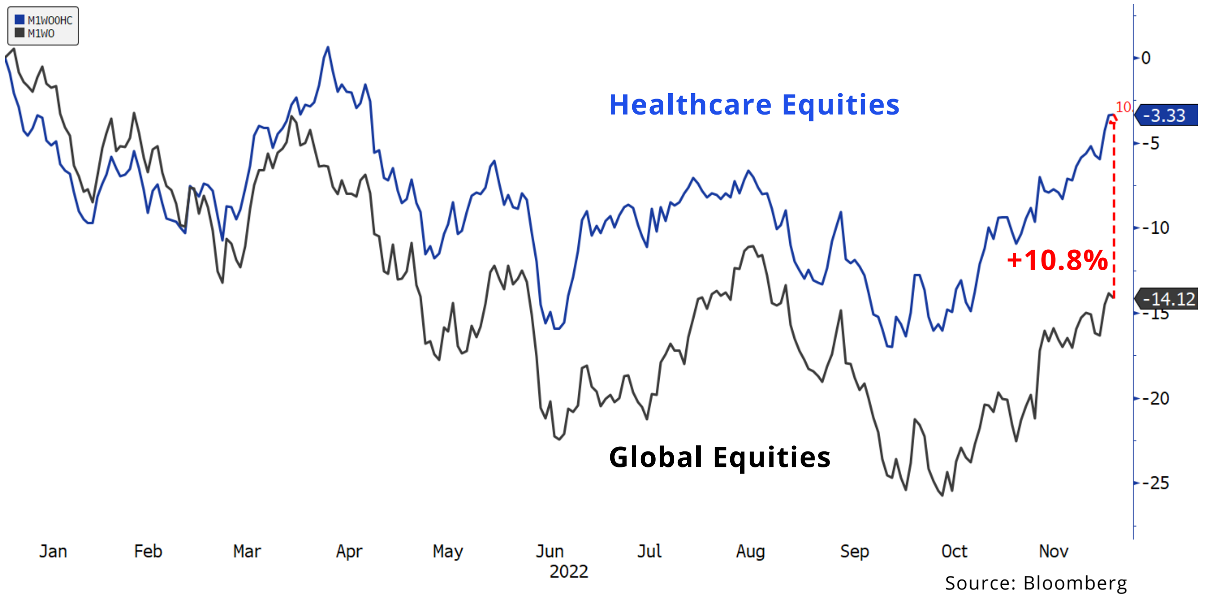
At the same time, we know from history that markets can continue to go up over a recession, albeit with higher volatility. Furthermore, earlier declines also mean that markets are offering long-term investors higher expected returns going forward. **Taken together, the evidence suggests that long-term investors should continue to stay invested for the best outcome. The recent positive market performance has only helped to reinforce this point.**

It is fair to say that we are cautiously optimistic about markets going forward. On one hand, we have 'recovery' positions that are expected to do well in the eventual recovery. In the meantime, 'stability' positions provide useful diversification and resilience to our portfolio in the face of current headwinds.

Our investors would know that 'stability' positions in Healthcare (and Biotech) have done well during market declines earlier this year as expected of their defensive profile. But how have they fared during recent market rallies? Surprise! They also delivered good returns similar to even the S&P 500. Of course, Healthcare equities did not perform as strongly as our other recovery positions but have still managed to maintain their sizeable outperformance of more than 10% vs global equities year-to-date (see the below chart).

Last month showed that having defensive positions in our portfolio does not mean we cannot participate in up markets. A big reason for this is that our Fundamental, Valuation, and Technical (FVT) discipline ensures that all portfolio positions (i.e. recovery, stability, or yield-seeking) have positive expected returns and together they are expected to perform better than broader markets over time.

Healthcare have maintained their sizeable lead in 2022



Source: Bloomberg

SEARCH FOR YIELD

Finally, Asian High Yield has started to run. The table below shows the November performance for selected fixed income markets. You are not seeing a typo; the 15.42% gain for Asian High Yield (AHY) is a monthly, not annual, number.

Fixed Income investments	Nov 2022
Money market fund	0.29%
Global investment grade	2.55%
Asian High Yield	15.42%

When most people are "see to believe", let's take this opportunity to recap a few timeless observations for fixed income investments.

#1: Anytime one invests when yields are higher than average, the return is higher than average
At the end of October, AHY had sold off so much that yields were 21%. Even though we felt the pain, we continuously bought as markets went lower. Because the prior declines created such a margin of safety, it did not take much for AHY markets to deliver a 15.42% monthly return when the time is right. And this is only the beginning.

In real life, most people only pay attention to what cash can give us: over 3% per annum now compared to practically zero before. No wonder you see long queues outside the major banks. Certainly, cash is no longer as trashy as it used to be, but one should not forget that the real return for cash now is negative due to the much higher inflation rate.

#2: There is a higher return from investing in credit vs cash
The table above shows that one can get a much higher return from credit markets compared to cash in the very short term. The table below shows what a credit investor can get over the longer term.

Fixed Income investments	Value of $100 invested from 31/12/1996
Money market fund	$167
Global investment grade	$298
Asian High Yield	$392

For anyone who feels that the extra wealth generated from AHY is good, bear in mind that AHY markets have experienced their worst bottoming process and are just starting to run.

So instead of being **caught up in the moment and focusing just on cash investments, zoom out and see that other fixed income markets are also offering higher returns**. Just don't expect them to do 15% every month.

#3: It is very hard for most to invest when yields are higher than average to get an above-average return
It is not without irony that a month ago, we were fielding questions such as "will China ever be the same?", "is China property even investable?" Investor patience was wearing thin, to the point of exasperation and for some, capitulation.

Unfortunately, not many will participate in the strong returns that come with a rebound in credit markets. Last month, we mentioned how the weaker property companies will get flushed out during a down cycle. Similarly, **investors with weaker hands will get flushed out during a down cycle.**

These three observations show that the **key to having the last laugh is to be able to stick to our convictions and not be swung by emotions.** If we have gotten in at a good enough yield, we will get that return over time even if we go through declines that test our patience.

The chances of winning in Asian high yield have not changed despite the volatility. **The chances of winning only go away the moment one sells.**

*Source: Bloomberg. Global investment grade: Bloomberg GlobalAgg Index Hedged, Money market fund: Vanguard Federal Money Market Fund, Asian high yield: Bloomberg Asia USD High Yield Bond Index TR Index Unhedged USD as at 30/11/2022

Below are a couple of positive catalysts for the China property sector.

9 Nov: China Developers Soar as State Help Fuels Bets on Market Bottom - Bloomberg

2 Dec: Exclusive: China's top banks to issue offshore loans to help developers repay debt | Reuters

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	7.81	-14.62	9.25	8.59
United States	5.59	-13.12	13.32	9.78
Europe	11.54	-15.57	5.84	7.24
Japan	9.75	-15.56	6.48	5.42
Asia Pacific ex Japan	17.60	-17.07	3.92	8.81
Emerging Markets	14.85	-18.71	2.43	8.96

Equity Markets	MTD	YTD	10Y	20Y
Australia	12.01	-4.28	6.10	11.44
Brazil	-4.58	13.64	-2.30	10.57
China “A”	13.12	-28.61	6.96	8.81
China “H”	29.81	-19.90	-1.44	9.74
Hong Kong	27.48	-17.91	1.71	6.74
India	5.62	0.27	9.54	14.70
Indonesia	-0.43	0.34	2.36	15.28
Korea	16.77	-24.48	2.32	7.85
Malaysia	8.73	-7.69	-1.23	7.42
Russia	1.73	-24.32	3.27	10.79
Singapore	10.42	7.89	3.18	8.59
Taiwan	20.34	-23.40	10.24	10.54
Thailand	9.81	-4.19	3.91	12.95

Equity Sectors	MTD	YTD	10Y	20Y
Gold	19.03	-9.65	-3.78	1.60
Energy	1.26	70.17	6.29	9.83
Technology	6.21	-24.57	17.64	11.77
Healthcare	5.65	-3.86	12.77	9.92
Financials	7.04	-5.59	13.24	5.55

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	4.71	-16.70	-0.53	2.89
Global Aggregate (H)	2.55	-10.16	1.83	3.37
High Yield	2.17	-11.10	3.73	7.40
Asia	5.45	-12.37	2.12	5.00
Emerging Markets	6.63	-15.98	1.72	6.65

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	4.04	-0.94	-1.09	1.31
EUR/USD	5.30	-8.48	-2.19	0.23
JPY/USD	7.72	-16.62	-5.02	-0.59

Commodities	MTD	YTD	10Y	20Y
Gold	8.26	-3.32	0.31	8.96
Energy	-6.91	7.10	-0.98	5.64

As of 30 Nov 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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