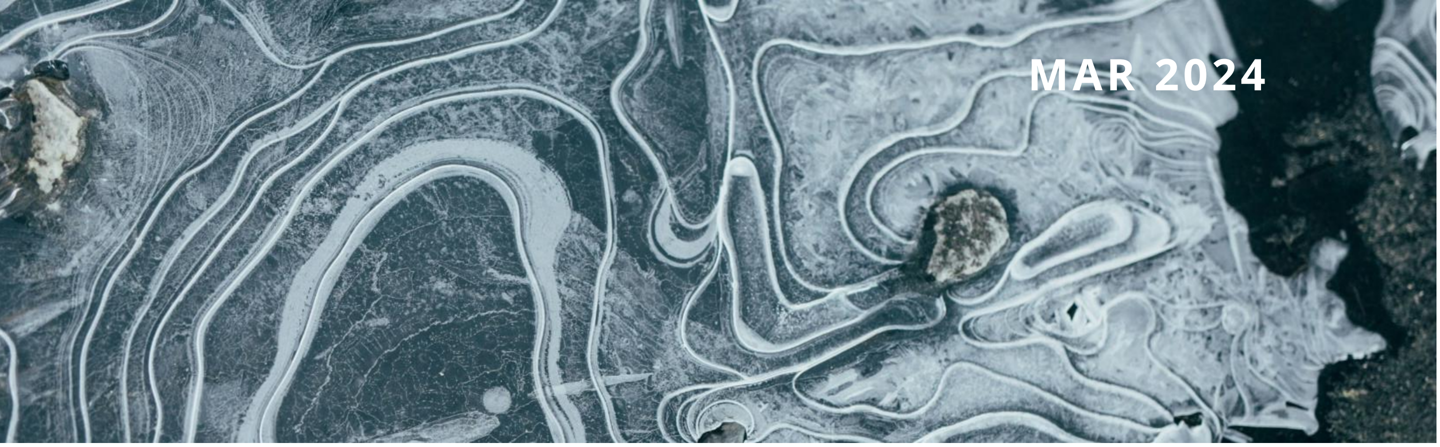


THINK DIFFERENTLY
TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Executive Summary

‘Past performance is not indicative of future results.’

Despite the usual disclaimers, historical performance when interpreted in the right context can offer insights into future performance. In February, small caps outperformed even though interest rates went up as the growth prospects that drive long-term small-cap performance asserted themselves. Strong gains in pro-cyclical segments in Europe also align with our assessment that economic data has trough and is now improving.

Even with more data and news, market noise has not reduced, and in fact has increased due to the likes of social media. More so than ever, it is crucial to focus on long-term return drivers and filter out the noise.

The bulk of investment returns is explained by changes in valuation and fundamentals. The gains in global equities in 2023 were propelled by rising valuations, with investors willing to pay higher prices for equities. This leaves fundamentals to pull its weight in 2024 with markets rewarding companies that exceed revenue or earnings expectations while penalizing those that fall short. Hence, strategies focusing on segments with potential for earnings growth and a safe margin are expected to benefit.

Diversification is commonly viewed as a defensive measure by spreading investments out to mitigate concentration risk. The huge overlap in popular ETFs across US and tech sectors leads to 'Diworsification' rather than true market diversification. History shows that during periods like the US 'lost decade,' diversifying into different market segments, such as small caps or emerging markets, offered better returns. Effective diversification involves identifying markets with high growth potential and favorable valuations to mitigate periods of low returns that face broad-based markets.

Fixed Income: while it is known that Money Market Funds (MMFs) have seen massive inflows, what is less known is that investors were slow to allocate to MMFs even though yields had already risen. Today, some investors are quicker to move; coming out of MMFs as rates peaked. These investors would have benefitted with much higher returns if they had gone into other income segments. As returns drive flows, more MMF investors will likely start rotating out, leading to capital gain potential alongside income returns for those already positioned across other income opportunities.

MARKET REVIEW

We always see the disclaimer "Past performance is not an indication of future performance". Indeed, the disclaimer is there because past performance has been misused, leading to investor losses. But **past performance analyzed in certain ways can provide insights on how to benefit for future outcomes.**

The yellow shaded area in the below chart shows the markets that did better than the S&P 500 in February. While we never encourage anyone to make a conclusion based on one month's performance comparison, combining it with performance analysis of the end-2023 rally provides a glimpse of what to expect after the era of cheap money.

The red box shows the markets that outperformed in both February and at the end-2023 rally. Small caps (Russell 2000) stand out in that they outperformed in both periods. What was interesting is that interest rates rose in February on strong CPI data, whereas the end 2023 rally saw interest rates drop on signs that the war on inflation was won. This "inconsistency" arises because while interest rates can influence small cap performance in the short term, they are not the key driver in the long run. The common factor was improved growth expectations for small caps which is a more persistent driver.

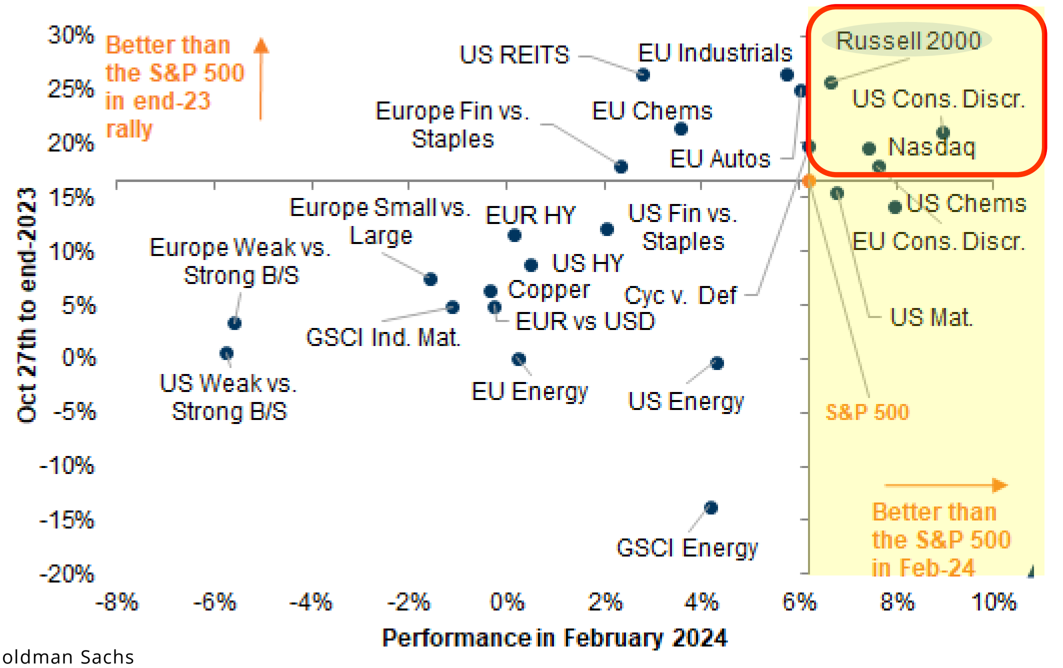
Certain segments of Europe that are more cyclically sensitive also did well, supporting our observations that Europe stood to benefit from economic data that had troughed.

This is a reminder for all of us to **focus on the key factors that drive asset returns in the long run**. This is more crucial than ever because with the proliferation of social media, investors are subject to an ongoing onslaught of "why so and so market did this" which may make sense when viewed in the moment, but spurious if they zoom out.

With gains of 7.61%, Vietnam is another market that beat the S&P but is not part of the study by Goldman. Despite being quite investable, Vietnam remains under the radar for most investors and are not part their investment portfolios. This means **more opportunities for those who invest meaningfully outside the usual market benchmarks**.

In the fixed income complex, it was a case of higher yield, higher return. Asian High Yield continued to bang out above-trend performance which shows that even poor sentiment cannot stop an undervalued market from rising.

Vietnam: Vietnam Ho Chi Minh Index



Source: Goldman Sachs

GETTING A JUMP ON INCOME

Interest rates influence behaviour
It comes as no surprise that money market funds (MMF) have attracted a lot of inflows in recent years. The math is simple: When yields were less than 1%; no thank you MMF. When yields were over 4%; yes to MMF. This behaviour makes perfect sense, and is how central banks want investors to react so that liquidity is drained from the system.

Behaviour tends to lag…
What is surprising is even for money market funds where the decision to re-allocate should be obvious, investors are pretty slow to act. The below chart shows how rates went up in 2022, but it took the better part of two years for flows to catch up.

…and will continue to lag
As the Investment Company Institute (ICI) noted, money market funds continue to draw inflows from retail investors.

> "Retail investors have been extremely attracted to the 5 per cent yield that they can get on a money-market fund and are putting more and more money into them,"

Some have already re-allocated
Amid the flood of inflows to money market funds, there was a relatively unnoticed event: 18 October 2023 saw the largest weekly outflow on record*.

*Source: Financial Times, "Money market funds spring a leak after year of record inflows"

This outflow coincided with peak rates, and on hindsight whoever did it would have done really well if they redeployed into other fixed income segments.

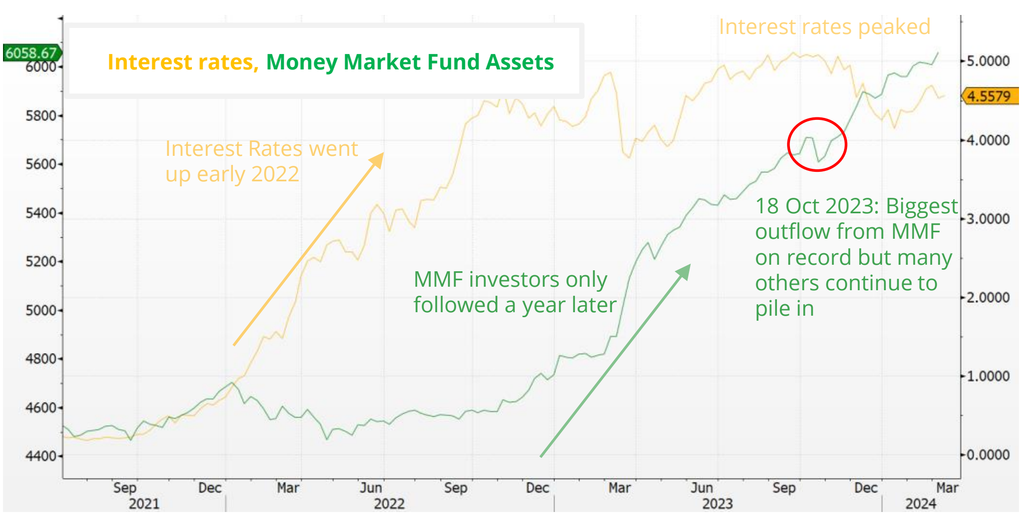
The table shows the performance of various income markets since that largest weekly outflow on 18 Oct 2023 to 29 Feb 2024…not shabby returns in just over 4 months.

MMF	DM IG	DM HY	EM IG	EM HY
1.96%	7.78%	10.35%	9.81%	13.54%

Returns influence behaviour
There is still a lot of capital in money market funds. As more and more investors start to realize the performance gap between MMF and other income segments, they will also decide to sell their MMF and rotate into other income assets.

We expect most of the return from our income investments to come from (what else?) income. But we are also happy to get any additional return that comes from capital appreciation when other investors rush in to bid up prices.

Source: Bloomberg. MMF: Vanguard Federal Money Market Fund, DM IG: Bloomberg Global Aggregate Corporate Index, DM HY: Bloomberg Global High Yield Index, EM IG: Bloomberg Emerging Markets Hard Currency Aggregate Index, EM HY: Bloomberg Emerging Markets High Yield Total Return Index Value



Source: Bloomberg

UP NEXT…FUNDAMENTALS

Long-term investment returns depend on two key ingredients: 1. valuation, and 2. fundamental. By investing through this lens, investors can be confident that they are positioned in the right segments through the market's ups, downs (and ups).

Higher valuations carried markets in 2023:

In 2023, the rally in global equities was driven by valuations going up. Simply put, it was a year where investors were willing to ‘pay more’ to own the same equities. By the end of the year, investors were paying 21 times earnings at the end of 2023 compared to 17 times at the start of the year.

Side note: it is dangerous to expect valuations to continue to go up indefinitely; as they tend to go back to their average ‘fair value’ over time as shown in the below chart.

2023 was a period of uncertainty driven by high interest rates and slowing economies. Alongside that, global equity earnings remained largely stagnant for the year. Why then would investors be willing to pay a premium?

Counting on **Better Fundamentals** in 2024:

The fact is that investor will be willing to pay more if they expect earnings to be better down the road. Indeed, this is what investors are hoping for. As a reference, **J.P. Morgan’s equity research team sees 10% earnings growth in 2024 on the back of a resilient economy.**

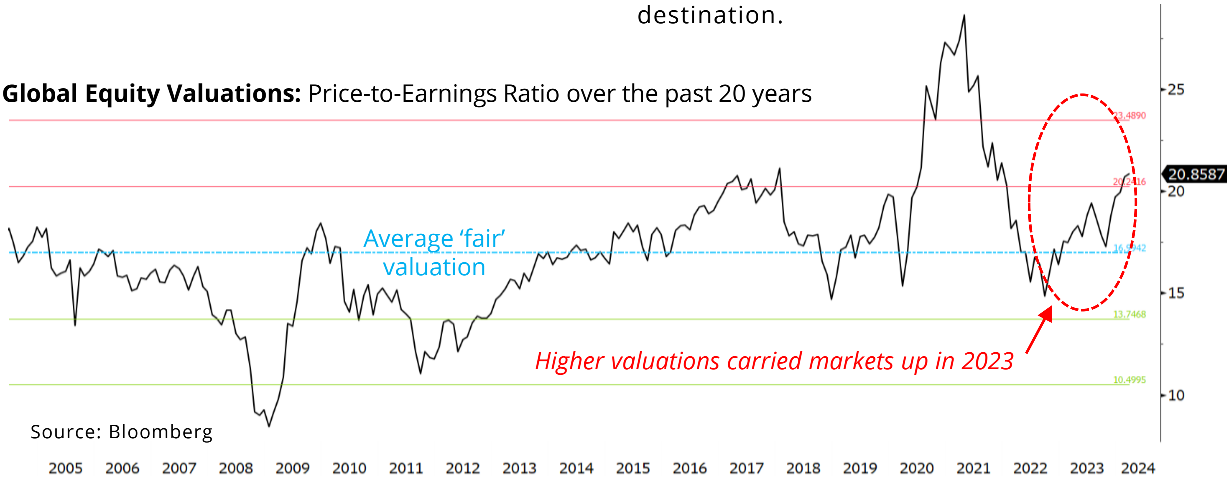
This year will likely be a ‘show me the numbers’ market. Companies that delivers better-than-expected revenue or earnings will be rewarded by higher share prices, while those that disappoints facing the harsh judgement of markets.

Nvidia (the current poster child of AI) is an example of a stock with high valuations but has been rewarded for their high earnings growth. We do not dismiss the strong trends in AI and earnings growth - the stock will continue to do well as long as the increasingly lofty earnings expectations are met. But investors should also ask what if it does not pan out? History is littered with stocks that ended up ‘dead money’ when such high expectations are not met – Cisco Systems, the poster child of the dot-com era, crashed 89.2% and has still not recovered back to the previous high (24 years later!). The ‘what if’ question is one that we consider when constructing our portfolios.

The past month saw good signs of the market rally broadening out beyond AI. Despite the high interest rate environment, companies have generally met their earnings expectations. Subsequently, US small-caps also did well; gaining 5.7% in February, and 14% over the past 3 months. It helps that investors have a relatively undemanding expectations on small-caps, providing us with an opportunity to get in before the ‘story’.

The bar for equities to perform is set higher for 2024. While we cannot predict every twist and turn, we can rely on recovery segments with better margin-of-safety and earnings growth potential to bring us to our destination.

Global Equity Valuations: Price-to-Earnings Ratio over the past 20 years



Source: Bloomberg

EMERGING OPPORTUNITIES

Diversification is usually thought of as a *defensive* strategy; spreading your 'bets' across different areas of the market to avoid outsized risk in any one investment. The phrase 'don't put your eggs into one basket' comes to mind'.

~~Diversification~~ Diworsification

The following shows the top 5 holdings of three ETFs that invests in 1. World equities, 2. S&P 500, and 3. the tech-heavy NASDAQ market. Given their popularity, It would not be so surprising to see 2 or even all 3 funds in an investor portfolio today.

	World 'ACWI'	S&P 500 'SPY'	Nasdaq 'QQQ'
1.	Microsoft	Microsoft	Microsoft
2.	Apple	Apple	Apple
3.	NVIDIA	NVIDIA	NVIDIA
4.	Amazon	Amazon	Amazon
5.	Meta	Meta	Meta
Sum	**14.7%**	**24.3%**	**32.7%**

Source: 'ACWI', 'SPY', 'QQQ' ETFs as of 4 Mar 2024

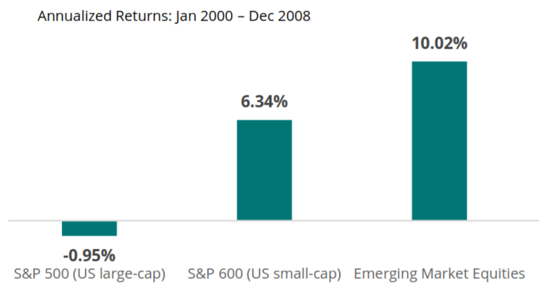
Diversification or Diworsification?

Unlike a jackpot machine at the casino, getting three in a row is not something to be excited over. Besides the concentration in just a handful of names, the overlap also hints at an outsized bet in the US and Tech. Rather than diversification, investing across the 3 funds offers false comfort at best.

The party in the US and tech may very well continue and benefitting this concentrated approach. Importantly, investors need to be aware of the risks such a portfolio is exposed to and to ask if they are comfortable for their eggs to be in invested in such a basket.

Diversification can also be seen as an *offensive* strategy. Apart from protecting against the risk of large losses, it can also help to capture returns from other market segments.

During the US lost decade from 2000 to 2008, diversifying into Small-caps or Emerging Market equities would have helped investors avoid the lost decade and still compound strong performance.



Source: Bloomberg

Unsurprisingly, high equity valuations tend to precede lost decades. Today, broad-based markets are similarly facing high valuations (as discussed in the previous section), setting passive investors up for disappointment if the past decade's strong returns do not come into fruition over the next 10 years. With such a backdrop, it is an opportune time for investors to consider more meaningful diversification in their portfolios.

How to diversify the right way?

Our preferred way is into emerging opportunities that has high-growth and driven by their own distinctive economic trajectories and policies. What's more, they are particularly attractive today due to their undemanding valuations compared to the broad-based developed markets

Equity Markets	10Y Avg. Valuation	Current Valuation
Global (Passive Index)	18.6	20.1
Vietnam	16.7	16.2
China 'A'	14.9	12.8

Diversification is said to be the only free lunch in investing: it can reduce the risk of disappointment without sacrificing returns.

HOW ARE WE POSITIONED?

Equity (Green) **Bonds (Blue)**

Key Themes	
Positioning for Recovery With the end of the rate tightening cycle and soft-landing as the current base case; there is a good window of opportunity for undervalued markets to lead the recovery. Maintain a preference for higher quality segments that still offers strong recovery potential.	**US small-cap equities** **Europe equities**
Emerging Opportunities Financial markets operate in cycles. The end of the easy money era means looking beyond popular markets that did well during the previous broad-based growth to find tomorrow's winners. Focus on high-growth markets driven by their own distinctive economic trajectories and coupled with attractive valuations.	**China 'A' equities** **Emerging Market, and Vietnam equities**
Late Cycle Stability With interest rates remaining at higher levels compared to the past decade, there continue to be signs that economies and businesses are adjusting to the new regime. e.g. tight labour markets and slower growth.	**Healthcare equities** **Government Bonds**
Capturing High Yields The combination of high interest rates with the end of the Fed interest rate tightening cycle means that bonds should place prominently on investors radars. Position in higher yielding markets that can provide a good buffer to their higher volatility profile.	**Asian High-Yield bonds** **Emerging Market bonds** **US High Yield Bonds**

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

Europe's pro-cyclical industrial base to benefit from economic recovery as it becomes clearer a severe recession is not on the cards.

Japan

Maintaining no exposure as they are less attractive compared to other opportunities. Valuations have also become less attractive, with the prospect of a stronger JPY posing a risk to Japanese equities.

Asia Pacific ex Japan

Slight China 'A' overweight as the deleveraging cycle has taken its course. Tailwinds steadily building up in the form of improving credit conditions and economic activity.

Emerging Markets

Preference for high-growth markets at attractive valuations i.e. Vietnam

Fixed Income

Global

Focus on currency-hedged government bonds to buffer portfolio volatility during periods of stress.

Investment Grade Corporate

Maintaining no exposure as we run a barbell strategy combining defensive government bonds and high income credit.

US High Yield

Maintaining no exposure due to relative poorer valuations and risk of defaults as economies remain late-cycle.

Asia

Attractive yield across major fixed income markets with room for capital appreciation and better fundamentals.

Emerging Markets Debt

Hard currency bias to focus on return from credit while limiting exposure to emerging market currencies.

MARKET INDEX RETURNS

Equity Regional	MTD	YTD	10Y	20Y
Global	4.33	4.97	8.96	8.21
United States	5.34	7.11	12.68	9.89
Europe	1.53	1.05	4.81	6.57
Japan	2.37	6.21	6.54	5.06
Asia Pacific ex Japan	4.50	-0.50	3.97	6.89
Emerging Markets	4.78	-0.08	3.38	6.76

Equity Markets	MTD	YTD	10Y	20Y
Australia	-0.56	-2.91	5.99	9.28
Brazil	0.23	-6.09	2.55	6.43
China “A”	9.05	1.23	5.53	7.58
China “H”	9.16	-1.80	-1.93	3.81
Hong Kong	6.48	-3.37	0.16	4.34
India	1.29	0.91	11.28	11.76
Indonesia	1.80	-1.34	4.08	11.36
Korea	5.61	-3.85	2.59	6.85
Malaysia	2.24	3.23	-1.96	5.53
Russia	-0.17	3.75	5.16	7.25
Singapore	-0.69	-4.70	3.34	6.87
Taiwan	4.98	2.43	11.76	9.53
Thailand	-0.16	-7.12	2.51	7.56
Vietnam	6.63	9.30	8.79	8.34

Equity Sectors	MTD	YTD	10Y	20Y
Gold	-6.10	-15.33	1.45	1.32
Energy	3.18	2.79	3.89	8.20
Technology	6.18	10.46	19.58	12.78
Healthcare	2.28	5.06	9.28	9.36
Financials	4.16	7.32	10.85	4.81

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	-1.26	-2.62	-0.13	2.22
Global Aggregate (H)	-0.69	-0.88	2.13	3.29
High Yield	0.23	0.07	3.86	6.36
Asia	-0.52	-0.52	3.05	2.97
Emerging Markets	0.38	-0.19	2.80	5.69

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
SGD/USD	-0.36	-1.89	-0.60	1.17
EUR/USD	-0.12	-2.12	-2.42	-0.72
JPY/USD	-2.03	-5.95	-3.80	-1.58

Commodities	MTD	YTD	10Y	20Y
Gold	0.23	-0.91	4.42	8.55
Oil	3.18	9.23	-2.67	3.94

*As of 29 Feb 2024. 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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