


Eastspring Investments – Asia Low Volatility Equity Fund



A Prudential plc company 

Market review

In August, global stock markets finished on a positive note. Early on, poor US manufacturing data, the unwinding of yen carry trades, and worldwide political unrest led to sharp declines. Yet, as the month went on, encouraging US job figures and upbeat remarks from the US Federal Reserve (Fed) and the Bank of Japan spurred a rebound. Real estate, consumer goods, and healthcare led gains. Looking to September, there's speculation that key central banks may reduce interest rates. Jerome Powell hinted at a possible easing of US monetary policy at the Jackson Hole symposium to sustain economic growth. This follows a five-month decline in US inflation, now at 2.9%. EU inflation also fell to 2.2% in August. China's central bank injected USD 42 billion into its economy to combat unemployment and sluggish growth, without altering loan rates. Developed Market (DM) stocks rose, outperforming Emerging Markets (EM).

In August, the Asia Pacific ex Japan markets delivered a 2.3% return in USD terms. The People's Bank of China held its one-year medium-term lending rate steady and kept the one-year and five-year loan prime rates unchanged at 3.35% and 3.85%, respectively. Retail sales climbed by 2.7% year-on-year (YoY) in July, marking eighteen months of growth. China's industrial output grew by 5.1% YoY in July, falling short of the expected 5.2% YoY and dipping from 5.3% YoY the previous month, as manufacturing slowed and the economic recovery remained fragile. The unemployment rate edged up to 5.2% in July from 5% in June, surpassing the anticipated 5.1% and sparking worries about the labour market's future.

ASEAN markets advanced in August, surpassing both the broader Asian region and EM. Singapore's stocks initially dipped following Japan's interest rate hike and worrisome economic signals from the US. However, they recovered after the trade ministry modestly increased growth forecasts, citing strong external demand, solid corporate profits, and potential US Fed rate cuts. Singapore also formed a task force to rejuvenate its stock market. Inflation held at 2.4% in July, while the Singapore Manufacturing Purchasing Managers' Index (PMI) rose to 50.9 in August, indicating a year-long expansion. The Bank of Indonesia held its benchmark 7-day reverse repurchase rate at 6.25%, aiming to stabilise the Rupiah and control inflation around target for 2024 and 2025. Thailand's stocks climbed, mirroring gains in most Asian markets, as investors looked beyond political uncertainties, focusing on a thriving shipping sector and economic growth, even as they awaited developments regarding Prime Minister Srettha Thavisin's leadership.

Meanwhile, Indian markets gained and delivered a 1.1% return in USD terms in August, buoyed by sustained economic growth, a thriving services sector, and a 6.1% YoY increase in infrastructure output in July. The market faced a notable correction due to Middle Eastern geopolitical tensions and the impact on exports from falling Japanese stocks. The Indian rupee neared its all-time low of 83.86 against the USD, despite a weaker dollar, as investors considered the Reserve Bank of India's approach to exchange rate fluctuations and monetary policy. Economic indicators showed a dip in the HSBC India Manufacturing PMI, while the HSBC India Services PMI experienced a slight rise in August. Nevertheless, the markets recovered in the latter half of the month, buoyed by the US economic rebound and a global upswing.

In other markets, Australian equities were robust in August, delivering a 4.3% return. The Australian market benefited from the Fed's hints at upcoming interest rate cuts. A stronger labour market and a firm policy stance lifted the Australian Dollar against the USD. The highlight of the month was the Reserve Bank of Australia's meeting minutes, which highlighted concerns over persistent inflation, even as the monthly Consumer Price Index fell to 3.5%, helped by energy rebates.

Performance

In August, the Fund outperformed its benchmark, the MSCI AC Asia Pacific ex Japan Minimum Volatility index.

The major contributors to relative performance were Stock Specific component and Style factors. Among Style factors, the overweight to Value aided relative returns the most.

Against this, the key detractor from relative performance was Industry factors. The underweight to Pharmaceuticals hampered relative returns.

Strategy and outlook

Global share prices remain volatile with continued uncertainties around the conflict between 1) Russia and Ukraine and 2) Israel and Palestine, as well as lingering concerns around inflation given disruption in the oil and broader commodities supply chains. Though Asian valuations remain cheap relative to other regional markets, we remain cognisant of the impact of the US Fed's interest rate policy, along with tensions around US-China relations, slowing US labour market and commodity and goods inflation, which are contributing drivers of global volatility. Moderating inflation, decelerating growth, and an easier monetary policy is expected in the second half of 2024, paving the way for a Fed pivot.

We continue to construct a portfolio targeting lower volatility and drawdown, which could provide protection against choppy markets. We also consider valuation as an input for the process to avoid investing in overvalued and overcrowded stocks, along with other measures to avoid stocks with weaker characteristics.

The Fund adopts a systematic equity strategy that aims to generate total returns in line with Asia Pacific ex Japan equity markets via a combination of capital growth and income, but with lower volatility.

Market attribution (one month)

Market (%)	Average weights			Effects		
	Fund	Benchmark	Relative	Allocation	Selection	Total
CHINA	19.7	19.2	0.5	-0.02	0.46	0.44
INDONESIA	6.4	2.3	4.1	0.00	0.44	0.44
TAIWAN	15.3	15.0	0.3	0.00	0.31	0.31
AUSTRALIA	11.6	11.3	0.3	0.00	0.14	0.14
NEW ZEALAND	-	0.8	-0.8	0.09	-0.04	0.05
MALAYSIA	6.4	4.1	2.3	0.03	0.02	0.05
PHILIPPINES	1.5	1.6	-0.1	-0.01	0.03	0.03
THAILAND	3.5	4.1	-0.6	-0.02	0.03	0.01
SOUTH KOREA	6.2	6.3	0.0	-0.01	-0.08	-0.09
SINGAPORE	4.4	6.3	-1.9	0.00	-0.13	-0.13
HONG KONG	0.6	4.9	-4.2	-0.20	-0.02	-0.22
INDIA	23.3	24.2	-0.9	-0.02	-0.74	-0.76
CASH AND EQUIVALENTS	1.1	-	1.1	0.00	-0.01	-0.01
Total	100.0	100.0	-	-0.17	0.41	0.24

Sector attribution (one month)

Sector (%)	Average weights			Effects		
	Fund	Benchmark	Relative	Allocation	Selection	Total
INFORMATION TECHNOLOGY	15.2	17.0	-1.8	0.01	0.49	0.50
FINANCIALS	28.2	22.4	5.9	-0.04	0.29	0.24
MATERIALS	1.4	2.8	-1.4	0.07	0.12	0.19
CONSUMER STAPLES	13.9	9.0	4.9	0.00	0.18	0.18
INDUSTRIALS	8.0	8.3	-0.3	0.00	0.10	0.10
REAL ESTATE	0.0	0.1	0.0	0.01	0.00	0.00
ENERGY	8.5	3.0	5.5	0.08	-0.09	-0.01
UTILITIES	7.3	5.9	1.4	0.04	-0.14	-0.10
CONSUMER DISCRETIONARY	5.9	7.7	-1.8	0.00	-0.16	-0.16
COMMUNICATION SERVICES	8.6	13.5	-4.9	-0.12	-0.13	-0.25
HEALTH CARE	1.6	10.2	-8.6	-0.23	-0.21	-0.44
CASH AND EQUIVALENTS	1.1	-	1.1	0.00	-0.01	-0.01
Total	100.0	100.0	-	-0.19	0.43	0.24

Top 10 contributors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
RADIANT OPTO-ELECTRONICS CORP	2.0	-	0.19
BRAMBLES LTD	1.4	0.5	0.18
BANK MANDIRI PERSERO TBK PT	1.5	0.1	0.17
SAMSUNG ELECTRONICS CO LTD	0.3	1.5	0.12
MANILA ELECTRIC COMPANY	0.9	-	0.10
MALAYAN BANKING BHD	2.5	1.3	0.10
PEOPLE'S INSURANCE CO GROUP-H	1.5	0.3	0.09
TELKOM INDONESIA PERSERO TBK	1.5	0.3	0.09
ASIA CEMENT CORP	1.2	-	0.09
SK HYNIX INC	-	0.6	0.08
Total	12.8	4.6	1.20

Top 10 detractors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
STATE BANK OF INDIA	1.4	-	-0.16
POWER GRID CORP OF INDIA LTD	2.4	-	-0.16
OIL & NATURAL GAS CORP LTD	2.5	-	-0.13
YUHAN CORP	-	0.3	-0.12
SUN TV NETWORK LTD	0.8	-	-0.11
TRENT LTD	-	0.6	-0.10
SINGAPORE EXCHANGE LTD	-	1.2	-0.10
INDIAN OIL CORP LTD	1.3	-	-0.09
AIRPORTS OF THAILAND	-	1.3	-0.09
POWERTECH TECHNOLOGY INC	0.8	-	-0.08
Total	9.2	3.2	-1.13

Top 10 contributors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
OIL & NATURAL GAS CORP LTD	2.5	-	1.02
RADIANT OPTO-ELECTRONICS CORP	2.1	-	0.77
BAJAJ AUTO LTD	1.5	0.3	0.64
POWER GRID CORP OF INDIA LTD	2.4	-	0.63
COLGATE PALMOLIVE (INDIA)	1.9	0.1	0.56
PETROCHINA CO LTD-H	2.3	0.8	0.42
AGRICULTURAL BANK OF CHINA (A-SHARES)	1.7	-	0.37
NONGFU SPRING CO LTD-H	-	0.6	0.34
BRAMBLES LTD	1.6	0.5	0.32
STATE BANK OF INDIA	1.5	-	0.29
Total	17.4	2.3	5.37

Top 10 detractors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
BHARTI AIRTEL LTD	-	1.6	-0.55
TELKOM INDONESIA PERSERO TBK	1.5	0.4	-0.51
TRENT LTD	-	0.4	-0.38
SONIC HEALTHCARE LTD	1.1	0.1	-0.30
BANK RAKYAT INDONESIA PERSERO	0.8	-	-0.29
TORRENT PHARMACEUTICALS LTD	-	0.8	-0.27
SUN PHARMACEUTICAL INDUSTRIES	-	0.9	-0.23
TAIWAN SEMICONDUCTOR MANUFACTURING	-	0.7	-0.22
POWER ASSETS HOLDINGS LTD	1.0	1.3	-0.22
SINGAPORE TELECOMMUNICATIONS	-	1.1	-0.22
Total	4.4	7.2	-3.20

Statistics

Characteristics	Fund	Benchmark
Number of holdings	131	288
Price to earnings (number of times)	13.0	19.2
Price to book (number of times)	1.6	2.1
Forward 12-month dividend yield (%)	4.4	3.2
Active share (%)	71.8	N/A
Tracking error (%)	2.9	N/A

Additional notes

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Facilities Agent for European Economic Area:

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The above-mentioned documents are available free of charge from the Representative Agent.

Representative Agent: First Independent Fund Services Ltd, Klausstrasse 33, 8008 Zurich

Paying Agent: NPB-New Private Bank Ltd, Limmatquai 1/am Bellevue, 8024 Zurich

United Kingdom - Facility Agent

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