


Eastspring Investments – Asia Low Volatility Equity Fund

eastspring
investments

A Prudential plc company 

Market review

Global equities continued to rise in February, supported by both resilient earnings - notably from several of the 'Magnificent Seven' stocks - and as Chinese equities rose strongly over the month. Fixed income markets were under pressure over the month, however, as US inflation came in stronger-than-expected, pushing back expectations for the first US Federal Reserve ("Fed") rate cut. The US 10 Year Treasury yield rose from just under 4% at the start of the month to closer to 4.3% at the end. Despite this, global growth and US stocks outperformed, with five of the 'Magnificent Seven' meeting or exceeding earnings expectations, whilst US macro data continued to indicate a strong US economy. Asia (excluding Japan) also outperformed and was the best performing major region, supported by the snapback in China equities. Signs of improving macro data, as well as news of various measures to support the markets and sentiment - including a cut to mortgage rates, restrictions on short selling and buying by state-owned entities - buoyed the market over the period.

Asia Pacific ex Japan markets returned 4.5% in USD terms in February. Chinese equities rebounded strongly over the month, returning 8.4% in USD terms. Activity data over the Lunar New Year holiday period strengthened, coupled with several supportive interventions announced by the Chinese government. Despite that, China's manufacturing activity in February shrank for a fifth consecutive month, with its official manufacturing PMI slightly falling from 49.2 in January to 49.1 in February. The MSCI Hong Kong rebounded strongly in February, for the best monthly return since January 2023, approaching end-2023 levels. Drivers were better than-expected high-frequency data (e.g., Jan credit report, Lunar New Year consumption), a surprisingly large 25bps cut in the 5yr LPR, the "national team's" buying of key A share index-linked ETFs (CSI300, CSI500, CSI1000, ChiNext and A50), and a new reform-minded CSRC chairman.

ASEAN markets underperformed both the broader Asian region and Emerging Markets ("EM") during the month, but posted a positive absolute return on a USD basis. The Philippines again outperformed, whilst Thailand was the worst performing market during February. Philippines Q4 2023 GDP growth came in ahead of consensus at the end of January, whilst inflation came in lower than expected at 2.8% year-on-year, the first sub 3% reading since October 2020. Thailand recorded its fourth month of negative inflation, with headline CPI down -1.1% year-on-year in January, whilst a number of economic indicators continue to point to weakening growth momentum, despite the tourism recovery.

Separately, India underperformed the broader Asian region and EM during the month, but posted a positive absolute return on a USD basis. The Reserve Bank of India kept the policy repo rate unchanged at 6.5% for the sixth consecutive time at its latest Monetary Policy Committee during the month.

In other markets, Australia returned -0.6% on a USD basis in February.

Performance

In February, 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, Country and Currency factors as well as Industry factors. Among Countries, the underweight to Thailand aided relative returns the most. Among Industries, the overweight to Automobiles helped relative performance.

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 Federal Reserve's interest rate policy, along with tensions around US-China relations, labour shortages and commodity and goods inflation, which are contributing drivers of global volatility. There are also fears that corporate earnings are challenged, and that growth is slowing globally. Risk assets have further room to grow in the short-term given a still robust US economy and increasing market expectations of a soft landing. However, recession risk is higher over the next 6-12 months, especially on the back of tighter financial conditions. This mixed picture suggests choppiness in the near-term.

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
INDIA	21.4	21.2	0.2	0.01	0.49	0.50
SOUTH KOREA	7.4	7.0	0.4	0.01	0.39	0.40
TAIWAN	16.0	14.6	1.4	-0.03	0.36	0.33
SINGAPORE	2.6	6.0	-3.4	0.18	0.08	0.26
THAILAND	0.1	4.2	-4.1	0.16	0.05	0.21
NEW ZEALAND	-	0.7	-0.7	0.06	0.01	0.07
AUSTRALIA	11.8	11.0	0.8	-0.01	0.04	0.03
INDONESIA	6.8	1.8	5.0	-0.04	0.01	-0.03
MALAYSIA	6.1	3.8	2.3	-0.01	-0.07	-0.08
HONG KONG	3.5	6.6	-3.1	-0.01	-0.08	-0.09
PHILIPPINES	0.9	1.5	-0.5	-0.05	-0.07	-0.12
CHINA	21.3	21.7	-0.4	-0.05	-0.72	-0.76
CASH AND EQUIVALENTS	2.1	-	2.1	0.02	-0.05	-0.03
Total	100.0	100.0	-	0.24	0.45	0.69

Sector attribution (one month)

Sector (%)	Average weights			Effects		
	Fund	Benchmark	Relative	Allocation	Selection	Total
FINANCIALS	25.6	22.3	3.3	-0.02	0.90	0.87
COMMUNICATION SERVICES	6.8	13.8	-7.0	0.33	0.13	0.46
CONSUMER DISCRETIONARY	6.1	8.3	-2.2	-0.03	0.38	0.36
ENERGY	8.4	2.8	5.6	0.10	0.01	0.11
REAL ESTATE	0.3	-	0.3	0.00	0.00	0.00
UTILITIES	8.8	5.7	3.1	0.03	-0.04	-0.01
MATERIALS	2.9	3.0	-0.1	0.00	-0.04	-0.04
HEALTH CARE	2.7	10.6	-7.9	-0.01	-0.07	-0.09
INDUSTRIALS	8.8	8.3	0.5	0.01	-0.17	-0.16
INFORMATION TECHNOLOGY	13.6	16.0	-2.4	-0.05	-0.23	-0.29
CONSUMER STAPLES	13.9	9.2	4.7	-0.11	-0.40	-0.50
CASH AND EQUIVALENTS	2.1	-	2.1	0.02	-0.05	-0.03
Total	100.0	100.0	-	0.27	0.42	0.69

Top 10 contributors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
STATE BANK OF INDIA	1.8	-	0.27
HYUNDAI MOTOR CO	0.9	-	0.21
SAMSUNG LIFE INSURANCE CO LTD	0.6	-	0.19
POWER GRID CORP OF INDIA LTD	2.2	-	0.16
GENTING SINGAPORE LTD	-	1.0	0.15
CSL LTD	-	1.3	0.14
ADVANCED INFO SERVICES	-	1.2	0.14
CHICONY ELECTRONICS CO LTD	1.4	-	0.13
BHARTI AIRTEL LTD	-	1.5	0.12
TELSTRA GROUP LTD	-	1.3	0.12
Total	6.9	6.3	1.62

Top 10 detractors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
WOOLWORTHS GROUP LTD	2.4	1.3	-0.15
SONIC HEALTHCARE LTD	1.0	0.2	-0.10
HD HYUNDAI	1.2	-	-0.09
BRITANNIA INDUSTRIES LTD	1.5	0.4	-0.08
INTERNATIONAL CONTAINER TERMINAL SERVICES	0.1	0.6	-0.08
CHIPBOND TECHNOLOGY CORP	1.3	-	-0.08
ZHONGJI INNOLIGHT CO LTD (A-SHARES)	-	0.2	-0.07
SUN PHARMACEUTICAL INDUSTRIES	-	0.9	-0.07
TRENT LTD	-	0.4	-0.07
SK HYNIX INC	-	0.6	-0.07
Total	7.5	4.6	-0.86

Top 10 contributors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
OIL & NATURAL GAS CORP LTD	2.4	-	0.63
POWER GRID CORP OF INDIA LTD	2.0	-	0.39
STATE BANK OF INDIA	2.1	-	0.33
BAJAJ AUTO LTD	2.5	0.3	0.32
INDIAN OIL CORP LTD	1.2	-	0.24
AGRICULTURAL BANK OF CHINA (A-SHARES)	2.1	-	0.24
PETROCHINA CO LTD-H	1.9	0.7	0.20
SAMSUNG LIFE INSURANCE CO LTD	0.5	-	0.20
HYUNDAI MOTOR CO	0.8	-	0.18
ADVANCED INFO SERVICES	-	1.2	0.14
Total	15.5	2.2	2.90

Top 10 detractors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
INNER MONGOLIA YITAI COAL-B	-	0.5	-0.22
WOOLWORTHS GROUP LTD	2.4	1.4	-0.19
SUN PHARMACEUTICAL INDUSTRIES	-	0.8	-0.19
COROMANDEL INTERNATIONAL LTD	1.0	-	-0.16
CIPLA LTD	-	0.9	-0.14
TORRENT PHARMACEUTICALS LTD	-	0.8	-0.11
ASTRA INTERNATIONAL TBK PT	1.0	-	-0.11
BHARTI AIRTEL LTD	-	1.5	-0.11
SONIC HEALTHCARE LTD	1.0	0.2	-0.10
CHINA TOWER CORP LTD-H	-	0.7	-0.10
Total	5.2	6.7	-1.43

Statistics

Characteristics	Fund	Benchmark
Number of holdings	115	292
Price to earnings (number of times)	11.5	17.8
Price to book (number of times)	1.3	2.0
Forward 12-month dividend yield (%)	4.5	3.4
Active share (%)	73.0	N/A
Tracking error (%)	3.5	N/A

Additional notes

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Facilities Agent for European Economic Area:

Eastspring Investments (Luxembourg) SA, 26 Boulevard Royal, L-2449, Luxembourg

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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

Eastspring Investments (Luxembourg) S.A. - UK Branch, 1 Angel Court, London EC2R 7AG

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Eastspring Investments (Singapore) Limited (UEN. 199407631H)

7 Straits View
#09-01 Marina One East Tower
Singapore 018936
Tel: +65 6349 9711

Eastspring Investments (Luxembourg) S.A.

26 Boulevard Royal
L-2449 Luxembourg
Grand Duchy of Luxembourg
Tel: +352 22 99 99 5763

Eastspring Investments (Hong Kong) Limited

13/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong
Tel: (852) 2868 5330

UK Branch

1 Angel Court
London
EC2R 7AG
Email: info.europe@eastspring.com

eastspring.com