

Eastspring Investments – Asia Low Volatility Equity Fund



A Prudential plc company 

Market review

In September, global stock markets rebounded after an initial sell-off, buoyed by the Federal Reserve (Fed)'s 50 basis point rate cut. The consumer discretionary, materials, and utilities sectors made positive contributions, while the energy and healthcare sectors detracted from overall market performance. Inflation rates in the United States (US) and Europe decreased to 2.5% and 2.2%, respectively. European markets initially fell due to slowing Chinese demand, a contracting manufacturing sector, and weakness in the automobile industry. However, the European Central Bank (ECB)'s 25 basis point rate cut and the People's Bank of China (PBOC)'s stimulus package supported a recovery in European equities. Japanese equities declined due to weak domestic spending and a strengthening yen. Developed Market (DM) stocks underperformed Emerging Markets (EM) over the month.

In September, the Asia Pacific ex Japan markets delivered 7.9% return in USD. The Fed's interest rate reduction positively impacted EM, with China's market benefiting significantly. The PBOC cut its one-year medium-term lending facility rate by 30bps to 2% and the seven-day reverse repurchase rate to a ten-year low of 1.5% in September, while maintaining the one-year and five-year loan prime rates at 3.35% and 3.85%, respectively. China's market benefited from domestic stimulus measures, the US rate cuts, and a depreciating dollar, which collectively enhanced investor confidence.

ASEAN markets outperformed the broader Asian Market but lagged behind the EM during the month. Following the US Fed's 50bps rate cut, Singapore's equities rose, with banking stocks hitting historical highs. Concurrently, Singapore's inflation rate moderated to 2.2% in August, while the Singapore Manufacturing Purchasing Managers' Index climbed to 50.9. The Bank of Indonesia unexpectedly trimmed its interest rate by 25bps to 6%, whilst Thailand posted stronger-than-expected economic growth and robust Q2 earnings from listed companies.

Meanwhile, India's shares rose by 2.1% in USD terms in September, buoyed by China's fiscal measures and a more dovish US monetary stance. Amidst this, the Indian rupee experienced fluctuations, reflecting the contrasting monetary stances of the Reserve Bank of India (RBI) and the Fed. The RBI Governor expressed reluctance to lower interest rates soon, pointing to potential inflationary pressures despite recent data suggesting easing prices.

In other markets, Australian equities returned 5.2% in USD in September. The Australian market was buoyed by gains in mining and energy sectors, following the Federal Open Market Committee's rate cut and China's economic stimulus. Australia's annual inflation rate softened to 2.7% in August from July's 3.5%. The Reserve Bank of Australia (RBA) held the cash rate at 4.35% for the seventh consecutive meeting in September. The RBA noted that despite a reduction in annual headline inflation, underlying inflation rates remained concerningly high.

Performance

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

The major detractors from relative performance were Stock Specific component, Industry factors and Style factors. Among Industries, the overweight to Oil, Gas & Consumable Fuels hampered relative returns. Among Style factors, the underweight to Market Sensitivity weighed on relative performance. Being underweight Volatility in a choppy market was supportive though.

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
HONG KONG	1.2	4.8	-3.6	0.14	0.02	0.16
KOREA	5.3	6.2	-0.9	0.06	0.02	0.09
NEW ZEALAND	0.1	0.7	-0.6	0.06	0.00	0.06
LUXEMBOURG	0.4	-	0.4	-0.01	-0.01	-0.01
PHILIPPINES	1.8	1.7	0.1	0.00	-0.03	-0.03
SOUTH KOREA	0.6	-	0.6	-0.05	0.00	-0.05
SINGAPORE	4.7	6.7	-2.0	-0.04	-0.03	-0.07
INDONESIA	6.8	2.4	4.4	-0.10	0.03	-0.07
AUSTRALIA	11.4	11.2	0.1	0.00	-0.07	-0.08
THAILAND	3.7	4.5	-0.8	-0.03	-0.09	-0.12
TAIWAN	14.1	14.9	-0.7	0.01	-0.13	-0.13
MALAYSIA	6.4	4.3	2.1	-0.01	-0.19	-0.21
INDIA	23.8	24.7	-0.9	0.00	-0.25	-0.25
CHINA	19.0	18.0	1.0	0.09	-0.37	-0.28
CASH	0.7	-	0.7	-0.02	0.01	-0.01
Total	100.0	100.0	-	0.08	-1.09	-1.00

Sector attribution (one month)

Sector (%)	Average weights			Effects		
	Fund	Benchmark	Relative	Allocation	Selection	Total
FINANCIALS	29.0	22.5	6.5	0.02	0.19	0.21
HEALTH CARE	1.6	10.3	-8.7	0.08	0.08	0.16
UTILITIES	7.1	5.6	1.5	-0.07	0.22	0.15
CONSUMER DISCRETIONARY	5.0	7.9	-2.9	-0.05	0.12	0.07
COMMUNICATION SERVICES	9.6	13.9	-4.4	0.01	0.04	0.05
REAL ESTATE	0.3	0.0	0.2	0.03	-0.04	-0.01
OTHERS	0.4	-	0.4	-0.01	-0.01	-0.01
CONSUMER STAPLES	14.1	9.0	5.1	0.13	-0.15	-0.02
MATERIALS	0.7	2.8	-2.1	-0.08	0.02	-0.06
INDUSTRIALS	8.4	8.4	-0.1	0.00	-0.27	-0.27
ENERGY	8.1	2.7	5.4	-0.27	-0.25	-0.52
INFORMATION TECHNOLOGY	15.0	16.8	-1.8	0.01	-0.74	-0.73
CASH	0.7	-	0.7	-0.02	0.01	-0.01
Total	100.0	100.0	-	-0.24	-0.76	-1.00

Top 10 contributors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
PEOPLE'S INSURANCE CO. (GROUP) OF CHINA LTD CLASS H	1.6	0.4	0.26
SAMSUNG ELECTRONICS CO LTD	0.1	0.9	0.18
POWER ASSETS HOLDINGS LIMITED	-	1.2	0.13
GREE ELECTRIC APPLIANCES INC OF ZHUHAI CLASS A	0.8	0.1	0.13
COSCO SHIPPING HOLDINGS CO (A-SHARES)	0.5	0.1	0.11
CSL LIMITED	-	1.2	0.10
PICC PROPERTY & CASUALTY CO LTD CLASS H	1.3	0.3	0.10
BRITANNIA INDUSTRIES LTD	2.4	0.5	0.08
CGN POWER CO LTD CLASS H	-	0.7	0.07
DR. REDDY'S LABORATORIES LTD	-	0.8	0.07
Total	6.8	6.0	1.23

Top 10 detractors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
OIL & NATURAL GAS CORP LTD	2.2	-	-0.35
COMPUTERSHARE LIMITED	1.5	0.3	-0.17
PETROCHINA COMPANY LIMITED CLASS H	1.7	0.6	-0.13
MISC BHD	2.0	-	-0.12
AIRPORTS OF THAILAND	-	1.4	-0.11
MEDIATEK INC	1.2	-	-0.11
IHH HEALTHCARE BHD	-	0.7	-0.10
STATE BANK OF INDIA	1.3	-	-0.10
RADIANT OPTO-ELECTRONICS CORP	2.1	-	-0.10
SAMSUNG CARD CO LTD	1.2	-	-0.09
Total	13.2	3.0	-1.39

Top 10 contributors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
RADIANT OPTO-ELECTRONICS CORP	4.2	-	1.37
POWER GRID CORPORATION OF INDIA LIMITED	4.7	-	1.34
OIL & NATURAL GAS CORP LTD	4.9	-	1.30
BAJAJ AUTO LIMITED	2.7	0.7	1.24
COLGATE-PALMOLIVE (INDIA) LIMITED	3.9	0.3	1.18
SAMSUNG ELECTRONICS CO LTD	0.4	2.3	0.92
PEOPLE'S INSURANCE CO. (GROUP) OF CHINA LTD CLASS H	2.9	1.1	0.87
AGRICULTURAL BANK OF CHINA (A-SHARES)	3.1	-	0.83
BRAMBLES LIMITED	3.2	0.9	0.77
SPARK NEW ZEALAND LIMITED	-	0.9	0.66
Total	29.9	6.3	10.48

Top 10 detractors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
BHARTI AIRTEL LIMITED	-	3.2	-1.28
TELKOM INDONESIA PERSERO TBK	2.9	0.7	-1.20
TRENT LIMITED	-	0.9	-0.83
SONIC HEALTHCARE LIMITED	2.1	0.2	-0.66
PT BANK RAKYAT INDONESIA (PERSERO) TBK CLASS B	1.6	-	-0.65
WOOLWORTHS GROUP LTD	4.2	2.3	-0.59
SUN PHARMACEUTICAL INDUSTRIES LIMITED	-	1.7	-0.52
SINGAPORE TELECOMMUNICATIONS LIMITED	-	2.3	-0.48
CHEIL WORLDWIDE INC	1.9	-	-0.46
COMPAL ELECTRONICS INC	2.1	1.1	-0.45
Total	14.7	12.4	-7.11

Statistics

Characteristics	Fund	Benchmark
Number of holdings	136	288
Price to earnings (number of times)	13.1	19.7
Price to book (number of times)	1.6	2.2
Forward 12-month dividend yield (%)	4.4	3.1
Active share (%)	70.5	N/A
Tracking error (%)	2.8	N/A

Additional notes

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Facilities Agent for European Economic Area:

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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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