


Eastspring Investments – Asia Low Volatility Equity Fund



A Prudential plc company 

Market review

Global equity markets experienced volatility in July but concluded the month on a positive note. The market's momentum was hampered by a downturn in technology shares, a widespread cyber disruption, a pivot by investors towards smaller companies, and restrictions on tech sales to China. Real estate, utilities, and financials emerged as the month's strongest performers. Global markets were poised for major central banks to initiate a cycle of rate reductions in September. Subdued inflation figures for June, with the US at 3% and the EU at 2.5%, afforded policymakers the leeway to reduce policy rates and stimulate sluggish economies. Inflation also receded in other major countries, except for India, where it climbed to 5.08% in June following six months of decline. In response to its delicate economic state, exacerbated by feeble domestic demand and a beleaguered property market, China trimmed one-year loan prime rates by 10 basis points in July. Developed Markets (DM) outperformed with a rise of 1.8%, overshadowing Emerging Markets (EM), which saw a marginal decline from last month and returned 0.3% due to falling markets in Taiwan, China, and South Korea.

In July, Asia Pacific ex Japan markets returned 0.2% in USD terms. The People's Bank of China (PBOC) stunned markets, reducing the medium-term lending facility (MLF) rate by 20 basis points, lowering it from 2.5% to 2.3%. This decision followed an earlier adjustment in July, where the PBOC decreased the one-year loan prime rate (LPR) - the benchmark for most corporate and household loans - by 10 basis points to 3.35%. The five-year rate, which influences property mortgages, was similarly trimmed to 3.85%. China faced domestic challenges such as extreme weather, weak consumer spending, high local government debt, and a sluggish property market, alongside growing tensions with the US and its allies.

In contrast, Indian markets enjoyed robust gains (4.0% in USD terms), propelled by strong foreign portfolio investment, positive sentiment from the Union Budget, and impressive Q2 earnings. The focal points of the month were the economic survey and the keenly anticipated budget following May's elections. A prudent economic growth projection for FY25, coupled with unfavourable tax announcements concerning capital gains, sparked volatility in the capital markets in the latter half of the month. The Indian rupee weakened towards July's end, reaching an all-time low, influenced by the union budget's plans for a reduced deficit and a cutback in borrowing. Regarding economic indicators, both the manufacturing and services PMI witnessed an uptick in July, signalling an expansion in activities across both domains.

ASEAN markets surged in July, outperforming both the broader Asian region and EM. Singapore's stock market experienced a varied month but concluded with gains. Investor confidence was bolstered by strong earnings growth among leading index constituents, the attractiveness of dividend-paying stocks, and the prospect of a rate reduction in September, although persistent trade frictions between the US and China introduced a measure of volatility. Singapore's inflation rate cooled to 2.4% in June, the lowest since August 2021. The manufacturing sector marked its tenth consecutive month of expansion, despite a deceleration in June. Concurrently, the Bank of Indonesia maintained its interest rate at 6.25%, with the intention of keeping inflation within the 2.5 (±) 1% range for 2024 and 2025, securing the Rupiah's stability, and bolstering foreign investment. Thailand's market dynamics were shaped by regional trends, speculative investment in banking equities, easing inflation in the US, and positive sentiment fuelled by the expected accommodative shift by the US Federal Reserve (Fed).

In other markets, Australian equities delivered a modest 1.7% return in USD terms during June. Australia experienced a varied performance in July, with shares initially declining due to negative sentiment spurred by disappointing results from US tech giants. Additionally, a mixed employment report, which showed job creation alongside a continued rise in the unemployment rate, stoked concerns over potential future interest rate hikes. Nevertheless, markets experienced a slight recovery towards the month's end, especially within the banking sector, in anticipation of the Reserve Bank of Australia's decision regarding the cash rate.

Performance

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

The key detractor from relative performance was Industry factors. The overweight to Semiconductors & Semiconductor Equipment hampered relative returns.

Against this, the major contributor to relative performance was Style factors. The overweight to Value aided relative returns the most.

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
INDIA	23.4	23.9	-0.5	-0.01	1.00	0.99
CHINA	20.1	19.8	0.3	-0.01	0.16	0.15
MALAYSIA	6.3	3.9	2.3	-0.05	0.16	0.11
THAILAND	3.2	3.9	-0.7	-0.01	0.12	0.11
NEW ZEALAND	-	0.8	-0.8	0.02	0.02	0.04
PHILIPPINES	1.3	1.5	-0.3	0.00	0.02	0.02
AUSTRALIA	11.1	11.2	-0.1	-0.01	-0.02	-0.03
INDONESIA	4.5	2.2	2.2	-0.04	-0.03	-0.07
SINGAPORE	4.4	6.5	-2.1	-0.01	-0.09	-0.11
SOUTH KOREA	6.7	6.4	0.3	0.00	-0.14	-0.14
HONG KONG	0.6	4.6	-4.0	-0.21	-0.01	-0.22
TAIWAN	17.4	15.4	2.0	-0.05	-0.87	-0.92
CASH AND EQUIVALENTS	1.1	-	1.1	-0.03	-0.01	-0.04
Total	100.0	100.0	-	-0.41	0.29	-0.12

Sector attribution (one month)

Sector (%)	Average weights			Effects		
	Fund	Benchmark	Relative	Allocation	Selection	Total
CONSUMER STAPLES	14.2	9.1	5.1	-0.09	0.69	0.60
ENERGY	8.6	3.2	5.5	-0.57	1.07	0.50
FINANCIALS	28.2	22.5	5.7	-0.02	0.19	0.16
INDUSTRIALS	7.4	8.3	-0.9	0.02	0.06	0.08
UTILITIES	7.5	5.7	1.8	0.04	0.04	0.08
REAL ESTATE	-	0.1	-0.1	0.00	0.00	0.00
MATERIALS	1.6	2.9	-1.3	0.00	-0.07	-0.07
COMMUNICATION SERVICES	7.3	13.1	-5.8	-0.14	-0.02	-0.16
CONSUMER DISCRETIONARY	6.1	7.7	-1.5	-0.04	-0.17	-0.20
INFORMATION TECHNOLOGY	16.5	17.7	-1.2	0.01	-0.53	-0.51
HEALTH CARE	1.5	9.8	-8.3	-0.41	-0.16	-0.57
CASH AND EQUIVALENTS	1.1	-	1.1	-0.03	-0.01	-0.04
Total	100.0	100.0	-	-1.22	1.10	-0.12

Top 10 contributors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
OIL & NATURAL GAS CORP LTD	2.6	-	0.43
COLGATE PALMOLIVE (INDIA)	2.2	0.2	0.32
SK HYNIX INC	-	0.8	0.18
INDIAN OIL CORP LTD	1.4	-	0.14
SUN TV NETWORK LTD	0.8	-	0.12
INFOSYS LTD	1.7	1.0	0.11
NONGFU SPRING CO LTD-H	-	0.5	0.11
CHINA SHENHUA ENERGY CO	-	0.7	0.10
CGN POWER CO LTD-H	-	0.8	0.09
CATCHER TECHNOLOGY CO LTD	-	0.7	0.08
Total	8.6	4.7	1.67

Top 10 detractors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
PETROCHINA CO LTD-H	2.3	0.8	-0.26
MEDIATEK INC	1.5	-	-0.24
RADIANT OPTO-ELECTRONICS CORP	2.1	-	-0.23
POWERTECH TECHNOLOGY INC	1.1	-	-0.18
SAMSUNG BIOLOGICS CO LTD	-	0.7	-0.16
PEGATRON CORP	2.0	0.1	-0.16
POWER ASSETS HOLDINGS LTD	-	1.1	-0.15
TELKOM INDONESIA PERSERO TBK	1.5	0.3	-0.13
SINGAPORE TELECOMMUNICATIONS	-	1.2	-0.12
COSCO SHIPPING HOLDINGS CO (A-SHARES)	0.6	0.1	-0.11
Total	11.1	4.3	-1.73

Top 10 contributors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
OIL & NATURAL GAS CORP LTD	2.5	-	1.12
POWER GRID CORP OF INDIA LTD	2.4	-	0.78
BAJAJ AUTO LTD	1.8	0.3	0.65
RADIANT OPTO-ELECTRONICS CORP	2.1	-	0.53
COLGATE PALMOLIVE (INDIA)	1.8	0.1	0.48
STATE BANK OF INDIA	1.5	-	0.46
PETROCHINA CO LTD-H	2.3	0.8	0.41
AGRICULTURAL BANK OF CHINA (A-SHARES)	1.8	-	0.38
INDIAN OIL CORP LTD	1.3	-	0.34
CHINA YANGTZE POWER CO LTD (A-SHARES)	2.5	0.9	0.30
Total	20.0	2.1	5.45

Top 10 detractors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
TELKOM INDONESIA PERSERO TBK	1.4	0.4	-0.59
BHARTI AIRTEL LTD	-	1.6	-0.48
BANK RAKYAT INDONESIA PERSERO	0.9	-	-0.31
SONIC HEALTHCARE LTD	1.1	0.1	-0.29
TRENT LTD	-	0.4	-0.26
WOOLWORTHS GROUP LTD	2.1	1.2	-0.24
AGRICULTURAL BANK OF CHINA -H	-	1.4	-0.22
CHEIL WORLDWIDE INC	0.8	-	-0.22
CGN POWER CO LTD-H	0.1	0.7	-0.22
TAIWAN SEMICONDUCTOR MANUFACTURING	-	0.7	-0.22
Total	6.6	6.4	-3.03

Statistics

Characteristics	Fund	Benchmark
Number of holdings	122	291
Price to earnings (number of times)	12.8	19.2
Price to book (number of times)	1.6	2.1
Forward 12-month dividend yield (%)	4.7	3.3
Active share (%)	72.3	N/A
Tracking error (%)	3.1	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