

Eastspring Investments – Asia Low Volatility Equity Fund



A Prudential plc company 

Market review

Global equity markets rose in June, buoyed by robust corporate earnings, advancements in AI & Technology, and strengthening fundamentals. Information technology, communication services and healthcare emerged as the top-performing sectors. In the US, inflation cooled to a three-month low of 3.3% in May, coming in below market expectations. Conversely, the Eurozone (EU) saw inflation soar to 2.6% in May, marking a three-month peak, propelled by rising service sector input costs. Germany, France, and Spain recorded the steepest inflation increases within the region. Central banks in the EU, Canada, and Switzerland cut policy rates by 25 basis points, favouring economic expansion over inflation concerns. Meanwhile, the Bank of England maintained its bank rate at 5.25%, despite UK inflation hitting the 2% target. Emerging Markets (EM) outshone Developed Markets (DM) with a 3.9% rise in June, compared to the latter's 2.0% gains. China's stock market, however, suffered a downturn amid capital flight, fueled by economic and political instability.

In June, Asia Pacific ex Japan markets rose by 3.9% in USD terms. At the 15th Lujiazui Forum, People's Bank of China (PBOC) Governor Pan Gongsheng confirmed the persistence of supportive monetary policies, steering clear of Western quantitative easing methods. The PBOC considered buying treasury bonds from the secondary market, in coordination with the Finance Ministry, to manage liquidity. China's economy faced challenges from a sluggish property sector and trade sanctions imposed by the US and UK.

In contrast, India's market performance was buoyant, spurred by the RBI's revised GDP growth projections, robust FII inflows, favourable monsoon forecasts, and the expectation of policy stability following the formation of a coalition government. Indian equities soared in June, delivering a 7.0% return in USD terms and reaching new highs. The political climate, marked by stability and policy certainty, drew foreign investors, who helped recoup losses from the election-result correction. The Reserve Bank of India declared a current account surplus of USD 5.7 billion, or 0.6% of GDP, for the quarter ending March 2024 - the first in ten quarters. Despite May's election-triggered volatility, India's economic expansion continued unabated in June, with the currency also demonstrating resilience.

ASEAN markets ended in the green, however they underperformed the broader Asian region and EM in June. Singapore equities displayed a mixed performance but ultimately closed the month on a positive note. Investor sentiment was tested by a cooling property market and a climb in the inflation rate to 3.1% in May 2024, marking the highest point since previous December. Despite these concerns, Singapore's manufacturing sector showed resilience, expanding for the ninth straight month. Meanwhile, the Bank of Indonesia held its interest rate steady at 6.25% in its June 2024 meeting. This decision aimed to maintain inflation within target range for 2024 and 2025, stabilise the Rupiah, and encourage foreign capital inflows. Across the strait, Thailand grappled with political unrest and economic hurdles, including a surging inflation rate, which weighed on market sentiment.

In other markets, Australian equities yielded a modest 2.0% return in USD terms during June. Australia's performance came as the cash rate remained steady at 4.35%, meeting expectations and marking the fifth consecutive hold on borrowing costs since November 2023. Signs of impeded growth, a cooling labour market, and subdued wages indicated an inflationary downtrend. Nonetheless, the Reserve Bank of Australia maintained a hawkish stance on interest rates during its latest meeting, emphasizing that inflation remained above the target.

Performance

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

The major contributors to relative performance were Style factors, Stock Specific component as well as Country and Currency factors. Among Style factors, the overweight to Earnings Yield aided relative returns the most. Among Countries, the underweight to Hong Kong helped relative performance.

Against this, the key detractor from relative performance was Industry factors. The overweight to Oil, Gas & Consumable Fuels hampered 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 Federal Reserve'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. If the US economy continues to perform well, the higher-for-longer narrative could persist, and risk assets are likely to do well in the near term. However, there might be a shallow recession in the 6-12 months horizon, suggesting 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
THAILAND	3.1	3.9	-0.8	0.05	0.17	0.22
HONG KONG	0.6	4.5	-3.9	0.17	0.01	0.18
CHINA	21.2	20.8	0.3	-0.01	0.15	0.15
TAIWAN	17.9	15.7	2.3	-0.01	0.13	0.12
NEW ZEALAND	-	0.8	-0.8	0.04	0.01	0.05
INDONESIA	5.5	2.1	3.3	0.09	-0.06	0.03
PHILIPPINES	1.3	1.5	-0.2	0.00	0.00	0.01
AUSTRALIA	11.2	11.0	0.2	0.00	0.00	0.00
SINGAPORE	3.8	6.3	-2.5	0.06	-0.07	-0.01
MALAYSIA	6.2	4.0	2.2	-0.07	0.04	-0.03
SOUTH KOREA	6.5	6.3	0.2	0.01	-0.28	-0.26
INDIA	22.0	23.2	-1.2	-0.06	-0.27	-0.33
CASH AND EQUIVALENTS	0.9	-	0.9	-0.03	0.00	-0.03
Total	100.0	100.0	-	0.25	-0.16	0.09

Sector attribution (one month)

Sector (%)	Average weights			Effects		
	Fund	Benchmark	Relative	Allocation	Selection	Total
CASH AND EQUIVALENTS	0.9	-	0.9	-0.03	0.00	-0.03
INDUSTRIALS	7.0	8.4	-1.4	0.06	0.23	0.30
CONSUMER STAPLES	14.1	9.2	4.9	-0.07	0.36	0.28
UTILITIES	7.3	5.6	1.7	0.02	0.07	0.09
COMMUNICATION SERVICES	7.1	13.0	-6.0	0.01	0.05	0.06
MATERIALS	2.1	2.9	-0.8	0.01	0.04	0.04
REAL ESTATE	-	0.1	-0.1	0.01	0.00	0.01
HEALTH CARE	2.3	9.5	-7.2	-0.05	0.00	-0.05
ENERGY	8.3	3.4	4.9	-0.03	-0.03	-0.07
FINANCIALS	28.4	22.5	5.9	-0.05	-0.06	-0.12
CONSUMER DISCRETIONARY	6.7	7.9	-1.1	-0.01	-0.14	-0.16
INFORMATION TECHNOLOGY	15.8	17.4	-1.6	-0.05	-0.22	-0.27
Total	100.0	100.0	-	-0.19	0.28	0.09

Top 10 contributors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
AIRPORTS OF THAILAND	-	1.3	0.21
MEDIATEK INC	1.6	-	0.14
NONGFU SPRING CO LTD-H	-	0.6	0.09
POWER GRID CORP OF INDIA LTD	2.5	-	0.08
KING YUAN ELECTRONICS CO LTD	0.3	-	0.07
CHINA YANGTZE POWER CO LTD (A-SHARES)	2.6	0.9	0.07
SUN TV NETWORK LTD	0.7	-	0.07
COLGATE PALMOLIVE (INDIA)	2.1	0.2	0.07
SONIC HEALTHCARE LTD	1.3	-	0.06
POWER ASSETS HOLDINGS LTD	-	1.0	0.06
Total	11.0	4.0	0.93

Top 10 detractors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
SK HYNIX INC	-	0.8	-0.16
CGN POWER CO LTD-H	-	0.8	-0.11
TAIWAN SEMICONDUCTOR MANUFACTURING	-	0.8	-0.10
SAMSUNG CARD CO	1.1	-	-0.10
PICC PROPERTY & CASUALTY-H	1.3	0.3	-0.09
WIPRO LTD	-	0.6	-0.08
SINGAPORE TELECOMMUNICATIONS	-	1.1	-0.08
TRENT LTD	-	0.5	-0.08
OVERSEA-CHINESE BANKING CORP	2.4	0.8	-0.07
PEOPLE'S INSURANCE CO GROUP-H	1.7	0.4	-0.06
Total	6.5	6.0	-0.93

Top 10 contributors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
RADIANT OPTO-ELECTRONICS CORP	2.1	-	0.76
POWER GRID CORP OF INDIA LTD	2.3	-	0.71
PETROCHINA CO LTD-H	2.3	0.8	0.67
BAJAJ AUTO LTD	2.1	0.3	0.63
OIL & NATURAL GAS CORP LTD	2.4	-	0.62
STATE BANK OF INDIA	1.5	-	0.46
POWERTECH TECHNOLOGY INC	0.9	-	0.33
AGRICULTURAL BANK OF CHINA (A-SHARES)	2.1	-	0.33
MEDIATEK INC	0.7	-	0.28
CHICONY ELECTRONICS CO LTD	0.9	-	0.28
Total	17.4	1.1	5.07

Top 10 detractors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
BHARTI AIRTEL LTD	-	1.6	-0.46
TELKOM INDONESIA PERSERO TBK	1.4	0.4	-0.43
SK HYNIX INC	-	0.7	-0.31
CGN POWER CO LTD-H	0.1	0.6	-0.30
BANK RAKYAT INDONESIA PERSERO	1.1	-	-0.29
TAIWAN SEMICONDUCTOR MANUFACTURING	-	0.7	-0.28
SONIC HEALTHCARE LTD	1.2	0.2	-0.26
CHINA SHENHUA ENERGY CO	-	0.7	-0.24
TRENT LTD	-	0.4	-0.23
BANK NEGARA INDONESIA PERSERO	1.0	-	-0.23
Total	4.8	5.2	-3.04

Statistics

Characteristics	Fund	Benchmark
Number of holdings	121	292
Price to earnings (number of times)	12.2	18.5
Price to book (number of times)	1.5	2.0
Forward 12-month dividend yield (%)	4.8	3.4
Active share (%)	73.3	N/A
Tracking error (%)	3.1	N/A

Additional notes

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Facilities Agent for European Economic Area:

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Switzerland - Representative and Paying Agents

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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