

Eastspring Investments – Asia Low Volatility Equity Fund



A Prudential plc company 

Market review

Global equity markets surged as robust corporate earnings reports throughout the month propelled overall performance. The information technology, communication services, and utilities sectors stood out as the top performers. In the US, April's inflation figures aligned with consensus expectations, halting a three-month trend of unexpectedly high readings. Headline inflation in the Eurozone is projected to climb to 2.6% in May, representing the first uptick in five months. Central bank interest rate decisions continued to be a key driver of investor sentiment, with no rate reductions announced during the month. The Bank of England maintained its benchmark interest rate at 5.25%, meeting market predictions. Emerging Markets (EM) saw a 0.6% increase, trailing behind the 4.5% gains of Developed Markets (DM) in May. In China, authorities implemented policy measures to tackle the challenge of unsold housing inventory, which had climbed to its highest level in eight years.

In May, the Asia Pacific ex Japan markets rose by 1.9% in USD terms. China introduced policy measures to tackle the glut of unsold homes, with inventories hitting an eight-year peak. As a form of economic stimulus, the People's Bank of China declared it would allocate RMB 300 billion in low-cost funds to a select group of state-owned banks. These funds are earmarked for loans to local state-owned enterprises to facilitate the purchase of these unsold properties. Additionally, the central bank kept the one-year medium-term lending facility rate steady at 2.50%.

ASEAN markets underperformed compared to the broader Asian region and EM in May. Singapore equities sustained their upward trend that began in February 2024. The nation's 2.7% annual GDP growth in the first quarter of 2024, along with a steady inflation rate of 2.7%, bolstered investor confidence throughout the month. Nonetheless, Singapore's manufacturing activity contracted for the second consecutive month, albeit at a slower rate than in April. The Bank of Indonesia maintained its interest rate at a record high of 6.25% during its May meeting, aiming to keep headline inflation within the target range of 2.5 (±) 1% for 2024 and 2025. In Thailand, the GDP grew by 1.5% year-on-year in the first quarter, while consumer prices increased in April for the first time in seven months.

Indian equities delivered positive absolute returns of 0.7% in USD terms during May. The Reserve Bank of India approved a record surplus transfer of 2.11 trillion rupees (US\$25.3 billion) to the government for the fiscal year that ended in March, surpassing analysts' expectations. Nonetheless, election-related uncertainties prompted the most significant outflow of foreign funds from emerging markets in May, as foreign investors divested from domestic stocks. Despite the election-induced volatility, India's economy maintained its growth trajectory, and the currency held steady.

In other markets, Australian equities yielded a 3.6% return in USD terms during May. The Reserve Bank of Australia held its cash rate steady at 4.35% during the May meeting, aligning with market expectations. This decision marked the fourth consecutive hold on borrowing costs since the last hike in November 2023. The central bank acknowledged the challenges of meeting its inflation target and recognized potential hurdles in reaching this goal.

Performance

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

The major contributors to relative performance were Style factors and Industry factors. Among Style factors, the overweight to Dividend Yield aided relative returns the most. Among Industries, the overweight to Marine helped relative performance.

Against this, the major detractors from relative performance were Stock Specific component as well as Country and Currency factors. Among Countries, the underweight to Hong Kong 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
CHINA	22.1	23.4	-1.3	-0.02	0.47	0.45
INDIA	21.3	20.5	0.8	-0.01	0.26	0.24
SOUTH KOREA	6.9	6.6	0.4	-0.01	0.19	0.18
MALAYSIA	6.3	4.0	2.4	-0.02	0.18	0.16
TAIWAN	17.2	14.7	2.5	0.04	0.08	0.12
NEW ZEALAND	-	0.6	-0.6	0.07	-0.02	0.05
THAILAND	2.5	4.0	-1.4	0.01	0.01	0.02
PHILIPPINES	1.5	1.5	0.0	0.00	-0.01	-0.01
SINGAPORE	3.5	6.0	-2.5	-0.06	0.02	-0.05
HONG KONG	0.6	6.7	-6.2	-0.14	-0.01	-0.16
AUSTRALIA	11.1	10.6	0.5	-0.01	-0.17	-0.18
INDONESIA	6.3	1.5	4.8	-0.30	-0.28	-0.59
CASH AND EQUIVALENTS	0.7	-	0.7	-0.02	-0.01	-0.03
Total	100.0	100.0	-	-0.47	0.69	0.22

Sector attribution (one month)

Sector (%)	Average weights			Effects		
	Fund	Benchmark	Relative	Allocation	Selection	Total
INFORMATION TECHNOLOGY	14.4	15.4	-0.9	-0.01	0.48	0.48
CONSUMER STAPLES	14.2	9.1	5.1	-0.05	0.32	0.28
HEALTH CARE	2.1	10.1	-8.0	0.23	-0.05	0.18
MATERIALS	2.2	3.2	-0.9	0.02	0.09	0.11
CONSUMER DISCRETIONARY	6.5	8.0	-1.5	0.03	0.00	0.03
INDUSTRIALS	8.3	8.6	-0.3	-0.02	0.03	0.01
UTILITIES	7.3	5.7	1.6	0.03	-0.08	-0.05
ENERGY	8.4	3.2	5.3	0.24	-0.46	-0.22
COMMUNICATION SERVICES	6.7	13.4	-6.7	-0.03	-0.21	-0.24
FINANCIALS	29.2	23.5	5.6	0.07	-0.37	-0.31
CASH AND EQUIVALENTS	0.7	-	0.7	-0.02	-0.01	-0.03
Total	100.0	100.0	-	0.49	-0.28	0.22

Top 10 contributors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
MEDIATEK INC	1.1	-	0.21
PEGATRON CORP	2.1	-	0.16
HINDUSTAN ZINC LTD	0.3	-	0.14
BRITANNIA INDUSTRIES LTD	2.3	0.4	0.13
COSCO SHIPPING HOLDINGS CO (A-SHARES)	0.6	0.1	0.13
PETROCHINA CO LTD-H	2.6	0.9	0.11
MISC BHD	2.1	-	0.10
BANK CENTRAL ASIA TBK PT	-	1.2	0.08
SAMSUNG ELECTRONICS CO LTD	0.0	1.3	0.08
OVERSEA-CHINESE BANKING CORP	2.5	0.8	0.08
Total	13.6	4.7	1.24

Top 10 detractors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
BANK MANDIRI PERSERO TBK PT	1.3	-	-0.22
OIL & NATURAL GAS CORP LTD	2.5	-	-0.20
BANK NEGARA INDONESIA PERSERO	0.9	-	-0.17
BANK RAKYAT INDONESIA PERSERO	0.9	-	-0.13
COLGATE PALMOLIVE (INDIA)	2.1	0.1	-0.12
CHINA SHENHUA ENERGY CO	-	0.8	-0.11
ASIA CEMENT CORP	1.9	-	-0.10
SONIC HEALTHCARE LTD	1.3	0.2	-0.10
CGN POWER CO LTD-H	-	0.7	-0.08
INDIAN OIL CORP LTD	1.4	-	-0.07
Total	12.3	1.7	-1.30

Top 10 contributors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
RADIANT OPTO-ELECTRONICS CORP	2.1	-	0.78
PETROCHINA CO LTD-H	2.3	0.8	0.67
POWER GRID CORP OF INDIA LTD	2.3	-	0.61
BAJAJ AUTO LTD	2.3	0.3	0.60
OIL & NATURAL GAS CORP LTD	2.5	-	0.60
STATE BANK OF INDIA	1.6	-	0.46
AGRICULTURAL BANK OF CHINA (A-SHARES)	2.2	-	0.31
POWERTECH TECHNOLOGY INC	0.9	-	0.30
PEGATRON CORP	1.6	-	0.29
CHICONY ELECTRONICS CO LTD	1.0	-	0.28
Total	18.8	1.1	4.89

Top 10 detractors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
TELKOM INDONESIA PERSERO TBK	1.4	0.4	-0.46
BHARTI AIRTEL LTD	-	1.6	-0.42
SONIC HEALTHCARE LTD	1.2	0.2	-0.32
BANK RAKYAT INDONESIA PERSERO	1.1	-	-0.30
CHINA SHENHUA ENERGY CO	-	0.7	-0.25
BANK NEGARA INDONESIA PERSERO	1.0	-	-0.24
WOOLWORTHS GROUP LTD	2.2	1.3	-0.22
AGRICULTURAL BANK OF CHINA -H	-	1.5	-0.20
ASTRA INTERNATIONAL TBK PT	0.7	-	-0.20
BANK MANDIRI PERSERO TBK PT	0.9	-	-0.18
Total	8.6	5.6	-2.79

Statistics

Characteristics	Fund	Benchmark
Number of holdings	121	292
Price to earnings (number of times)	11.7	17.9
Price to book (number of times)	1.4	2.0
Forward 12-month dividend yield (%)	4.9	3.5
Active share (%)	73.9	N/A
Tracking error (%)	3.1	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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