

Eastspring Investments – Asia Low Volatility Equity Fund

eastspring
investments

A Prudential plc company 

Market review

Global equities continued to rise in January, following the 'almost everything rally' that characterised the final quarter of 2023. January brought new record highs to the S&P 500 index as optimism around a 'soft landing' scenario continued the rally in the 'Magnificent Seven' stocks. However, this optimism was slightly tempered at the end of the month when the US Federal Reserve ("Fed") struck a less dovish tone at its January meeting and held interest rates steady, dashing hopes for interest rate cut as soon as March. Over the month, growth stocks were the notable outperformer, compared to the relatively lacklustre performance of their value counterparts. Developed Markets equities were up 1.1%, while Emerging Markets ("EM") equities were down 4.7%, despite newly announced policy stimulus from the People's Bank of China.

Asia Pacific ex Japan markets returned -4.8% in USD terms in January. Chinese equities returned -10.6% in USD terms over the month. Despite its official manufacturing PMI slightly rose from 49.0 in December to 49.2 in January, China's factory activity remained in contraction for a fourth consecutive month, suggesting the broader economy was struggling to regain momentum at the start of 2024. MSCI Hong Kong returned -9.7% in USD terms during the month. Hong Kong's 4Q23 GDP grew 4.3% year-on-year, which was slower than the forecasted 4.7%, suggesting the tight financial conditions will continue to pose pressures on Hong Kong's exports of goods in 2024.

ASEAN markets outperformed both the broader Asian region and EM during the month, despite posting a negative absolute return on a USD basis. The Philippines outperformed, whilst Thailand was the worst performing market during January. Following the improvement in macroeconomic indicators, the Philippine Stock Exchange is also expecting the number of initial public offerings to double in 2024, after a sluggish year that witnessed more delistings than debuts. Meanwhile, Thailand's economy is expected to grow 2.8% this year, a sharp downgrade from an earlier forecast of 3.2%, bolstering the government's push for stimulus to boost growth.

Separately, India returned 2.4% on a USD basis, strongly outperforming the broader region. Based on the strong momentum of economic activity seen in the country, the Reserve Bank of India ("RBI") governor expects India's economy to grow about 7% in the coming fiscal year, while inflation will average around 4.5%. RBI is also likely to keep its key interest rate on hold at 6.5% until mid-2024, longer than some of the developed market central banks.

In other markets, Australia returned -1.6% on a USD basis in January.

Performance

In January, 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 Stock Specific component. Among Style factors, the overweight to Earnings Yield aided relative returns the most. Being underweight Volatility in a choppy market was also supportive.

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
CHINA	22.2	21.5	0.7	0.03	1.45	1.48
SOUTH KOREA	7.0	6.9	0.1	-0.01	0.44	0.43
INDIA	21.0	20.7	0.2	0.02	0.40	0.41
HONG KONG	4.5	6.7	-2.2	0.07	0.20	0.27
THAILAND	0.2	4.3	-4.1	0.00	0.16	0.16
SINGAPORE	2.5	6.1	-3.6	0.03	0.06	0.08
INDONESIA	6.7	1.8	4.9	0.10	-0.08	0.03
MALAYSIA	6.1	3.9	2.2	0.07	-0.05	0.03
NEW ZEALAND	-	0.7	-0.7	-0.02	0.02	0.00
PHILIPPINES	0.7	1.4	-0.7	-0.02	-0.03	-0.05
TAIWAN	15.2	14.8	0.4	-0.03	-0.05	-0.08
AUSTRALIA	11.8	11.2	0.6	0.00	-0.18	-0.18
CASH AND EQUIVALENTS	2.1	-	2.1	0.07	-0.01	0.07
Total	100.0	100.0	-	0.31	2.33	2.64

Sector attribution (one month)

Sector (%)	Average weights			Effects		
	Fund	Benchmark	Relative	Allocation	Selection	Total
FINANCIALS	23.8	22.4	1.4	0.00	0.79	0.80
ENERGY	7.6	2.6	5.0	0.66	0.01	0.67
INFORMATION TECHNOLOGY	13.7	15.9	-2.2	0.06	0.41	0.47
CONSUMER DISCRETIONARY	5.3	8.2	-2.9	-0.03	0.40	0.36
INDUSTRIALS	8.4	8.3	0.1	-0.01	0.30	0.29
UTILITIES	9.7	5.5	4.2	0.08	0.19	0.27
CONSUMER STAPLES	14.0	9.5	4.5	-0.17	0.32	0.15
MATERIALS	3.5	3.2	0.3	-0.03	0.04	0.01
REAL ESTATE	0.6	-	0.6	0.00	-0.01	-0.01
HEALTH CARE	3.1	10.3	-7.3	-0.21	0.09	-0.13
COMMUNICATION SERVICES	8.1	14.0	-5.9	-0.18	-0.12	-0.30
CASH AND EQUIVALENTS	2.1	-	2.1	0.07	-0.01	0.07
Total	100.0	100.0	-	0.24	2.40	2.64

Top 10 contributors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
OIL & NATURAL GAS CORP LTD	2.3	-	0.53
BAJAJ AUTO LTD	2.5	0.3	0.32
POWER GRID CORP OF INDIA LTD	1.9	-	0.22
AGRICULTURAL BANK OF CHINA (A-SHARES)	1.8	-	0.15
PETROCHINA CO LTD-H	1.7	0.6	0.14
INDIAN OIL CORP LTD	1.0	-	0.13
MTR CORP	0.3	1.0	0.12
HD HYUNDAI	0.9	-	0.11
INDOFOOD CBP SUKSES MAKMUR TBK PT	1.0	-	0.11
SAMSUNG SDS CO LTD	-	0.8	0.10
Total	13.5	2.7	1.92

Top 10 detractors (one month)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
BHARTI AIRTEL LTD	-	1.5	-0.22
INNER MONGOLIA YITAI COAL-B	-	0.5	-0.19
COROMANDEL INTERNATIONAL LTD	1.1	-	-0.15
SUN PHARMACEUTICAL INDUSTRIES	-	0.8	-0.11
CHICONY ELECTRONICS CO LTD	1.6	-	-0.10
ASTRA INTERNATIONAL TBK PT	0.9	-	-0.09
CIPLA LTD	-	0.8	-0.09
TORRENT PHARMACEUTICALS LTD	-	0.7	-0.09
MRF LTD	-	0.7	-0.08
CHINA SHENHUA ENERGY CO	-	0.7	-0.08
Total	3.7	5.6	-1.19

Top 10 contributors (year to date)

Holdings (%)	Average weights		Contribution to relative performance
	Fund	Benchmark	
OIL & NATURAL GAS CORP LTD	2.3	-	0.53
BAJAJ AUTO LTD	2.5	0.3	0.32
POWER GRID CORP OF INDIA LTD	1.9	-	0.22
AGRICULTURAL BANK OF CHINA (A-SHARES)	1.8	-	0.15
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INDIAN OIL CORP LTD	1.0	-	0.13
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HD HYUNDAI	0.9	-	0.11
INDOFOOD CBP SUKSES MAKMUR TBK PT	1.0	-	0.11
SAMSUNG SDS CO LTD	-	0.8	0.10
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ASTRA INTERNATIONAL TBK PT	0.9	-	-0.09
CIPLA LTD	-	0.8	-0.09
TORRENT PHARMACEUTICALS LTD	-	0.7	-0.09
MRF LTD	-	0.7	-0.08
CHINA SHENHUA ENERGY CO	-	0.7	-0.08
Total	3.7	5.6	-1.19

Statistics

Characteristics	Fund	Benchmark
Number of holdings	143	299
Price to earnings (number of times)	10.9	17.1
Price to book (number of times)	1.3	1.9
Forward 12-month dividend yield (%)	4.7	3.5
Active share (%)	73.4	N/A
Tracking error (%)	3.4	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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