DBS Solutions Q2 2020: Fund Insights

# Multi-Asset Strategy

Fund Selection Team
Pierre DeGagné, CFA
Kenneth Teow, CFA
Ting Hock Kiat, CFA
Dharit Shah

## Overview

We are in unprecedented times with global economies undergoing lockdowns and central banks fighting them with co-ordinated monetary easing. This has resulted in extreme uncertainty making it is very difficult to time the market.

In such uncertain market environment, multi-asset funds can provide a strategy to help to ease into markets in a disciplined way. Investors can benefit from dynamically allocating to a diversified mix of assets, that are managed by professionals with the skill, and more importantly, the temperament to wisely invest over the market cycle.

So what would be one of our top convictions in the global multi-asset fund space?

## Investec Global Multi-Asset Income ++++

### What are the Key Characteristics of this fund?

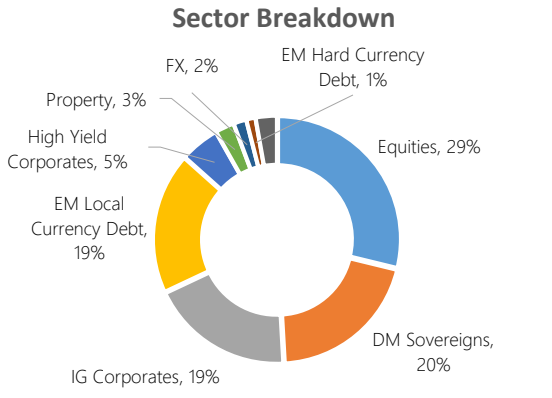
- Team has a focus on managing downside risks and having lower relative volatility versus its sector average.
- Core, defensive total return investment approach with a resilient portfolio built from bottom up selection. Aims to provide income with opportunity for long-term capital growth.
- Seeks to offer attractive, sustainable yield.

### Why this Fund? 3 Reasons:

1. The Team: Co-PMs John Stopford and Jason Borbora are supported by strong research groups covering areas such as Macro, Rates, Credit, Equity and Alternatives.
2. Sustainable: The Fund seeks to offer attractive and sustainable yield by aiming to make payments on a monthly basis.
3. Time-Tested: Since inception the fund's defensive strategy has shown resilience to market downturns with strong equity hedging limiting downside capture.

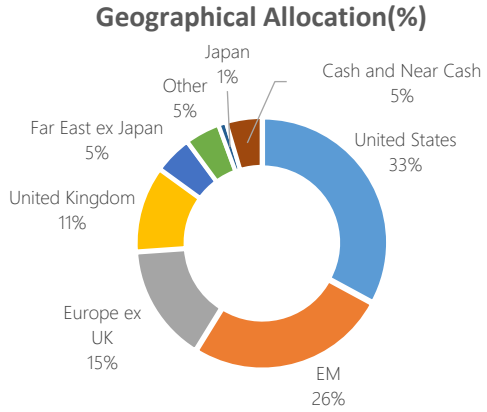
### How is this fund positioned**?

- The fund's gross exposure remains largely unchanged with c.30% invested in Equities, c.65% invested in Fixed Income, and 3% in REITs/Listed infrastructure.
- They hedged away about 50% of their equity beta, resulting in net equity exposure of c.15%.




Source: Investec as of 29th Febuary 2020

- The fund is well diversified across regions with the bulk being in the United States followed by Emerging Markets.




Source: Investec as of 29th Febuary 2020

- The team targets income resilient, high dividend paying equities to place in the fund and is currently O/W Consumer Staples, Real Estate & Industrials, while being U/W Telecoms & Communication Services.
- In Fixed Income, the fund is currently O/W high yield credits, however, maintains a defensive stance with an average credit rating of A.

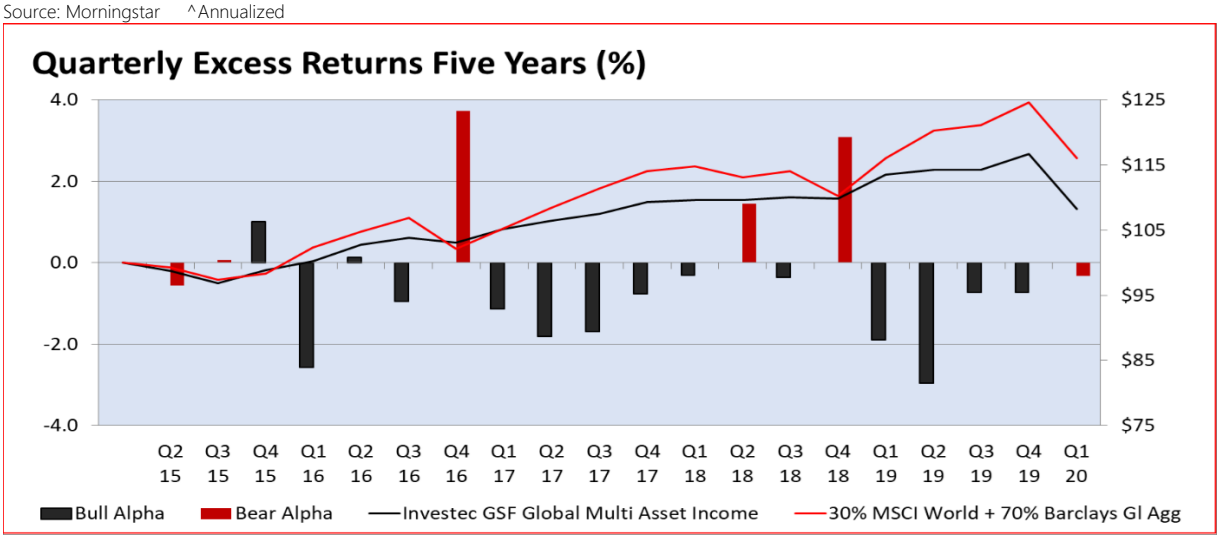
**Funds are actively managed, positions may change.

## How has the fund Performed?

- In these highly volatile markets, the fund has provided good downside protection while outperforming the peer group. The fund's conservative profile with active use of hedges provides defensive and prudent exposure to the multi-asset space.

| Performance as of March 31st, 2020 in US$ | 1M | 3M | 6M | 1YR | 3YR^ | 5YR^ |
|---|---|---|---|---|---|---|
| Investec GSF Global Multi-Asset Income | -5.86 | -7.15 | -5.18 | -4.60 | 0.98 | 1.61 |
| 30% MSCI World + 70% Barclays Global Agg | -5.54 | -6.83 | -4.16 | -0.03 | 3.29 | 3.02 |

Source: Morningstar ^Annualized




Source: Morningstar / DBS. As of March 31st, 2020

## What are the Key Risks of this fund?

- In the Fixed Income portion of the fund, the portfolio manager has discretion to invest in non-traditional asset classes which have both higher expected yield and higher potential credit risk.
- In the Equity portion of the fund, the portfolio manager has discretion to invest in Emerging Market Equities. These have higher potential risks compared to investing in Developed Market Equities.
- The fund is risk rated 3 on a 5-point scale. Risk rating 1-5 indicates the relative rating of potential loss; "1" being the lowest and "5" being the highest.
- For a comprehensive list of the fund's risks, please consult your RM or the fund's prospectus.

### DBS Fund Selection Proposition

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### DBS FST Fund Ratings

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| Conviction Level | Rating |
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| Positive | +++ |
| Neutral | ++ |
| Low Conviction | + |

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DBS Solutions Q2 2020: Fund Insights

# Asian Balanced Strategy

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Dharit Shah

## Overview

On the backdrop of COVID-19, Asian equity index was down 19% while the ASEAN market plunged by close to 40%. To mitigate the downside to domestic economy, governments have stepped up policy support. Going forward, we believe sectors with better structural fundamental as well as stocks with higher yields will experience a sharper recovery. On the fixed income front, we are constructive on Asian bonds over DM bonds for the attractive yield pick-up. That said, caution should be taken in credit selection given the potential of increasing credit stress. To stay confidently engaged in this asset class in volatile times, we appreciate a balanced approach to diversify risks.

## Schroder Asian Income ++++

### What are the Key Characteristics of this fund?

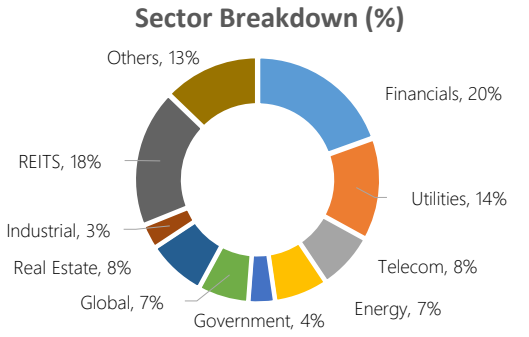
- Income-oriented, APxJ balanced strategy with an explicit focus to generate a sustainable income stream of around 4-5%.
- Flexible mandate allows the divergence from a 50-50 allocation between bonds and equities, allowing up to a 70% allocation in equities.
- Active risk management via index options and futures for downside protection.
- Some flexibility to invest outside of Asia via Schroder's Global or Emerging Multi-Asset strategies based on relative valuations.

### Why this Fund? 3 Reasons:

1. Diversified access point to Asian Assets: Investing broadly into Asian equities and fixed income, the fund provides a high quality and diversified access to the asset class.
2. The People: Managed by an experienced PM who is supported by a well-established Asian Equity and Fixed income team to generate alpha.
3. Attractive and Stable Income: The fund focuses on delivering a stable income with a robust risk management system to manage the volatility and downside risks of the portfolio.

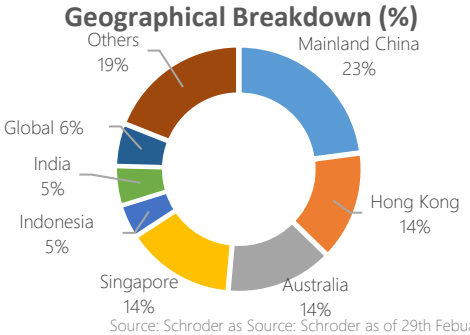
### How is this fund positioned**?

- As of end-Mar, the net equity exposure is around 52%. They have reduced physical stock holding and have used index hedges to protect the fund from recent market volatility.
- Favours stocks which generate stable dividend backed by the company's strong cash-flows and solid earnings. This results in a heavy tilt towards Financial and REITs.




Source: Schroder as of 29th Febuary 2020

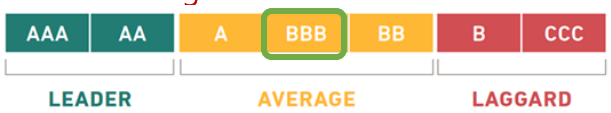
- PM has continued to trim high yield in the bond sleeve, resulting in 70%+ in IG bonds. Modified duration is around 4.7 years with a preference on corporates over sovereigns/ quasi-sov.




Source: Schroder as Source: Schroder as of 29th Febuary 2020

- The income-centric fund structure has resulted in overweight in Singapore and Hong Kong (though trimmed) and an underweight in mainland China vs. the benchmark. There is also ~8% in non-Asia EM assets which were detractors to performance in Q1 20.

### MSCI ESG Rating:




Source: Factset, MSCI as of 8th April 2020

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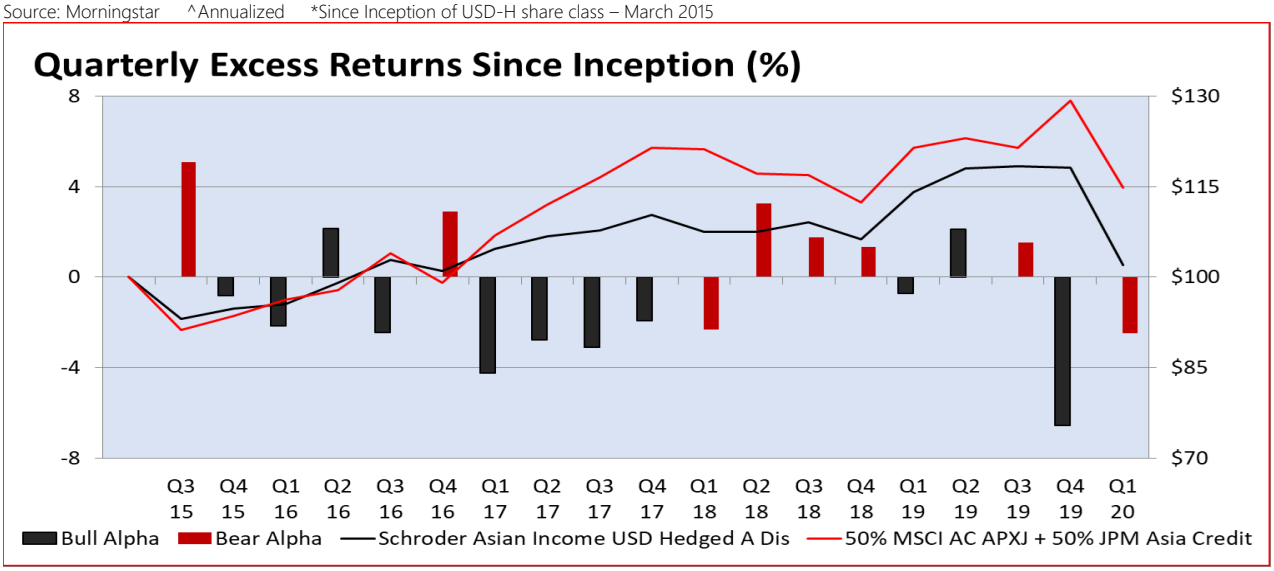
## How has the fund Performed?

- Historically, the quality portfolio and tactical use of options have provided downside protection in volatile markets. Unfortunately, REITs did not hold up too well in Q1 amidst virus concerns. In a longer horizon, as market recovers, we think the fund provides broad access to Asia with dampened volatility.

| Performance as of March 31st, 2020 - US$ | 1M | 3M | 6M | 1YR | 3YR^ | SI*^ |
|---|---|---|---|---|---|---|
| Schroder Asian Income USD Hedged A Dis | -12.04 | -13.67 | -13.80 | -10.64 | -0.87 | 0.53 |
| 50% MSCI AC APXJ + 50% JPM Asia Credit | -8.94 | -11.19 | -5.50 | -5.51 | 2.40 | 3.16 |

Source: Morningstar ^Annualized *Since Inception of USD-H share class – March 2015




Source: Morningstar / DBS. As of March 31st, 2020

## What are some Key Risks of this fund?

- Despite attractive past returns, Asia Pacific ex-Japan equities have historically been volatile (average standard deviation of 15%). Geopolitical risks like trade tensions as well as general economic slowdowns globally or even in Chinese economy could create headwinds.
- The fund is risk rated 3 on a five-point scale. Risk rating 1-5 indicates the relative rating of potential loss; "1" being the lowest and "5" being the highest.
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# Sector Global Aggregate Bonds

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Dharit Shah

## Overview

For many investors, income continues to be sought-after. The income portion of the DBS Barbell strategy advocates allocations to income-generating assets that can provide stability to portfolios, particularly so in a low-yielding environment that is expected to persist.

Notwithstanding, a double whammy of the COVID-19 and oil shocks has led to extreme levels of fear being priced into asset prices. That said, pockets of opportunities are starting to emerge.

In these uncertain times, fixed income investors may be better served by a seasoned manager allocating in a diversified, flexible manner.

## PIMCO Income Fund ++++

### What are the Key Characteristics of this fund?

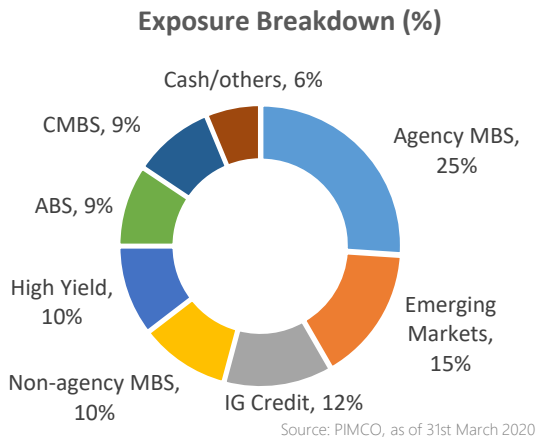
- Global fixed income fund with a broad mandate. Seeks to provide a stable c.4% p.a. income.
- Anchored in US Securitized credits. Historically, the fund has c.50-60% securitized exposure, with a bias towards residential mortgages.
- Relatively higher quality portfolio (average credit rating is investment grade) with desirable drawdown characteristics.

### Why this Fund? 3 Reasons:

1. Sustainable and Steady Income: Designed for investors who need steady income, the fund takes a broad-based approach to investing in income-generating bonds via a "bend but don't break" philosophy to protect capital.
2. Unconstrained and Flexible: The fund offers a core bond solution. The portfolio can also tap on non-traditional assets like non-Agency MBS, EMD and credit derivatives as various levers of return.
3. PIMCO's Fixed Income Capabilities: The fund leverages on PIMCO's unparalleled securitized and credit expertise to flexibly and tactically access the broad global credit opportunity set.

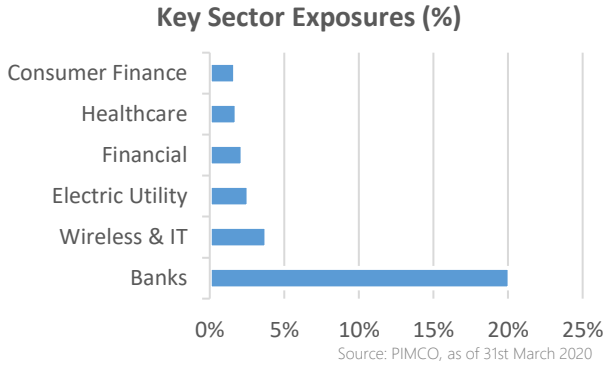
### How is this fund positioned**?

- The portfolio typically allocates c.50-60% to Securitized Credits such as mortgage-backed securities (MBS), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS). Current exposure is c.53%.
- The fund is now positioned conservatively, with 25% in Agency MBS and AAA tranches of CMBS.




- While anchored in the US, fund invests globally.
- Current portfolio's duration is 0.9 years and has a yield of 6.4%.

### Some of the key investment themes**?




- Positive on Banks / Financials: Since 2008, banks have de-levered and balance sheets quality has improved significantly.
- High-quality spreads: Favour high quality agency MBS that are now valued attractively. Fundamentals for legacy non-agency MBS remain strong.

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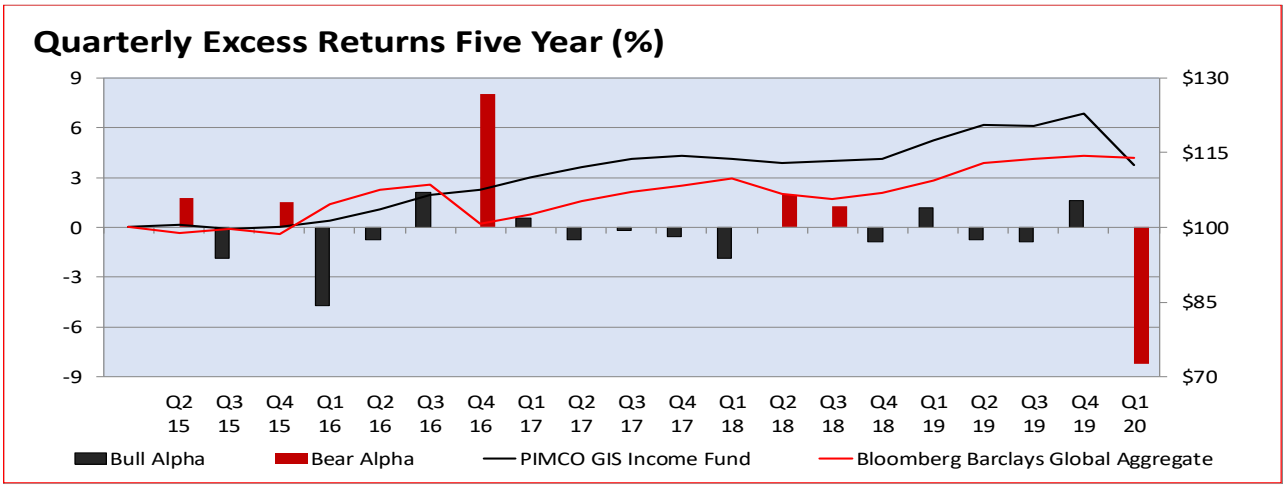
## How has the fund Performed?

- With a lower volatility profile, the fund has historically managed to generate good risk-adjusted returns. The past quarter has been challenging as the fund held more securitized credit.
- We view this a blip and remain confident that PIMCO is a superior manager for such a strategy.

| Performance as of March 31st, 2020 in US$ | 1M | 3M | 6M | 1YR | 3YR^ | 5YR^ |
|---|---|---|---|---|---|---|
| PIMCO GIS Income Fund | -8.21 | -8.52 | -6.61 | -4.35 | 0.71 | 2.36 |
| Bloomberg Barclays Global Aggregate | -2.24 | -0.33 | 0.16 | 4.20 | 3.55 | 2.64 |

Source: Morningstar ^Annualized




Source: Morningstar / DBS. As of March 31st, 2020

## What are the Key Risks of this fund?

- Fixed-income securities are subject, among other things, to the risk of the issuers or a guarantor's inability to meet principal and interest payments on its obligations as well as to price volatility.
- The Fund may invest in EM, securitized and global debt securities issued by governments, government-related or corporate entities and may use derivatives. These have historically been subject to price movements, generally due to interest rates, currency and/or bond markets.
- The fund is risk rated 3 on a 5-point scale. Risk rating 1-5 indicates the relative loss potential; "1" being the lowest and "5" being the highest.
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# Asian Bond Strategy

## Overview

With global COVID-19 outbreak and declining oil prices, the Fed has taken the emergency measures and monetary policy is most supportive of the credit environment since post-2008 crisis. CIO continues to advocate an overweight stance in Asia bonds as the region shows the best record in terms declining new cases and rising recoveries. Across the risk rating spectrum, BB-rated bonds with 1 to 5 years tenor and A/BBB-rated with a 10 years tenor, offer best value considering the relative default rates. With UST yields continuing to reach record lows, it is difficult for investors to justify taking duration risk. CIO recommends shortening the duration in the bond strategy.

So, what would be one of our top convictions in the Asian fixed income space?

## Fullerton USD Income ++++

### What are the Key Characteristics of this fund?

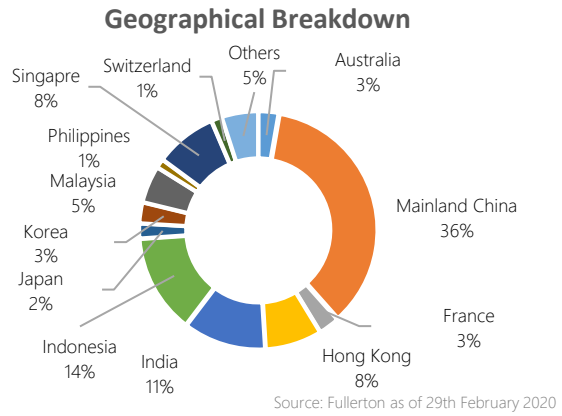
- Predominantly an Asian US$ Investment Grade Credit Portfolio with up to 30% in HY.
- Essentially a straight bond portfolio with limited use of derivatives: F/X hedging back to its base currency and potentially active duration management via interest rate swaps.
- Fund has a 4% p.a. distribution (paid quarterly). Absolute gross total return target of 4% p.a.

### Why this Fund? 3 Reasons:

1. Strong team: Considerable strength in Asian Credits with a large credit research team. Notable capacity and team's talent.
2. Diversified and broad scope in Asian market: Benefited from the strength of the Asian focus team, the fund has broad Asian scope and moderate duration profile, providing more opportunities with less liquidity risk and credit risk.
3. Stable performance: Since inception, the fund has consistently beat its internal benchmark and has been on par with the broader JACI benchmark. Most of the returns are driven by the carry of the portfolio.

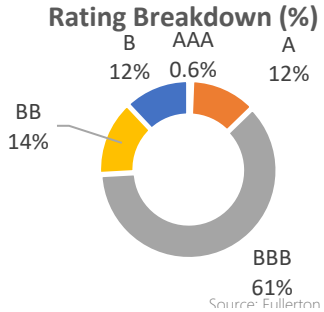
### How is this fund positioned**?

- Majority of the portfolio is in corporate bonds and credit selection is a key driver of alpha.




Source: Fullerton as of 29th February 2020

- China is the largest holding by geography, though there is an U/W of c.14%. Given the firm's strength in SG credits, we are not surprised to see its O/W in SG credits (c.8%). Australia (c.3%) is an off-benchmark exposure.
- 50% of the fund is in financials and spread across Singapore (REITs, developers) as well as HK & China.




Source: Fullerton as of 29th February 2020

- Largely avoided AAA or AA bonds with BBB, BB, making up around 74% of the fund.
- PM took advantage of the spread widening and added high yield bonds, bringing the exposure to c.26%.
- Duration is typically lower than benchmark, after adding it is now at 4.0 yrs vs. BM at 5.6 yrs.

### MSCI ESG Ratings:


Source: Factset, MSCI as of 8th April 2020

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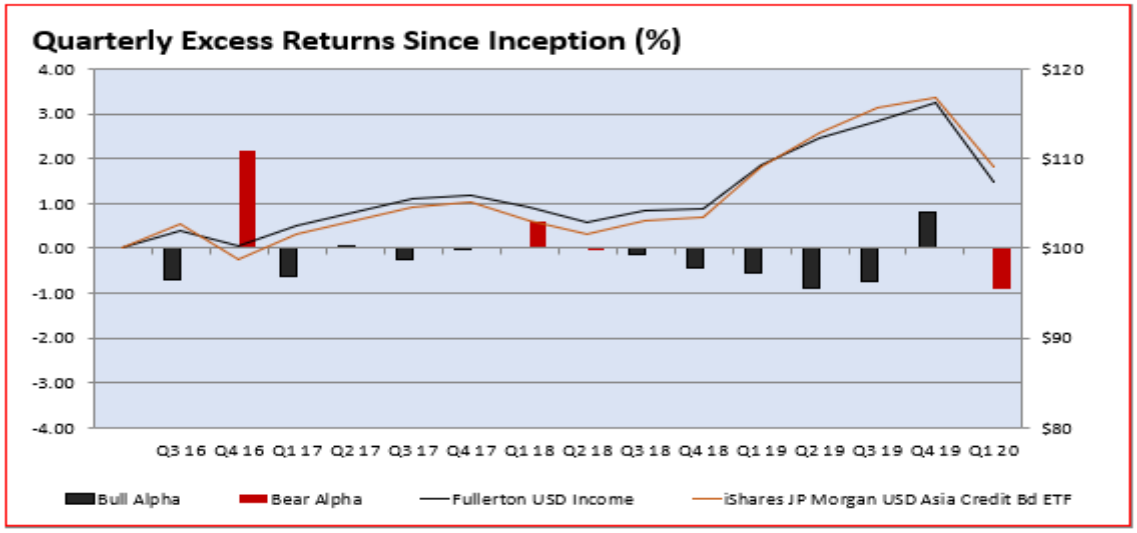
## How has the fund Performed?

- Since inception its performance is on par with the benchmark. The team remains vigilant and defensively positions the fund for this volatile period. This allows the fund to be more protective in down markets in March.

| As of March 31st, 2020 | 1M | 3M | 6M | 1YR | 3YR^ | SI* |
|---|---|---|---|---|---|---|
| Fullerton USD Income | -8.57 | -7.54 | -5.85 | -1.75 | 1.55 | 2.30 |
| iShares JP Morgan USD Asia Credit Bd ETF | -8.87 | -6.63 | -5.67 | -0.01 | 2.37 | 2.76 |

Source: Morningstar ^Annualized *Fund incepted on 15 Apr 2016.




Source: Morningstar / DBS. As of March 31st, 2020

## What are the Key Risks of this fund?

- Despite attractive past returns, Asia Pacific ex-Japan equities have historically been volatile (average standard deviation of 15%). Geopolitical risks like trade tensions as well as general economic slowdowns globally or even in Chinese economy could create headwinds.
- The fund is risk rated 2 on a 5-point scale. Risk rating 1-5 indicates the relative rating of potential loss; "1" being the lowest and "5" being the highest.
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Notwithstanding, a double whammy of the COVID-19 and oil shocks has led to extreme levels of fear being priced into bond prices. That said, pockets of opportunities are starting to emerge.

In this uncertain environment, harvesting non-traditional risk premiums can offer a diversified, balanced approach to fixed income investing.

## JPMorgan Income Fund +++

### What are the Key Characteristics of this fund?

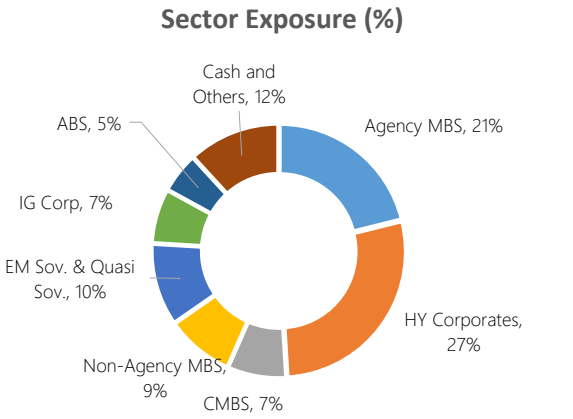
- Fixed Income fund with a broad mandate. Seeks to provide predictable income of c.5% p.a.
- 3 core Fixed Income sleeves: Securitized Credit, Corporate Credit and Emerging Markets (EMD). Securitized features prominently and offers diversification to traditional bond portfolios.
- Controlled risk profile, with the fund targeting an annual volatility of below 6%. Historical 5-year volatility has been kept within this level.

### Why this Fund? 3 Reasons:

1. Diversified Risk Premiums: The fund seeks to derive non-traditional risk premiums through exposures to US securitized credit. This offers investors diversification from traditional bonds.
2. Seasoned Managers: Veteran co-managers Drew Headley and Andrew Norelli both have extensive experience, with over 20 years of average experience.
3. JPM's Fixed Income capabilities: The fund leverages on JPM's fixed income resources (over 200 investment professionals). Several sub-teams are also involved in running the JPM Global Income Fund.

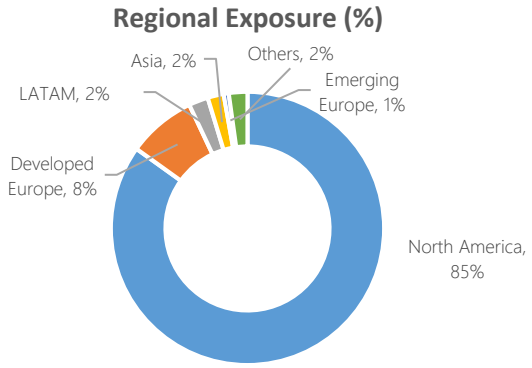
### How is this fund positioned**?

- The fund typically allocates c.40-55% to Securitized Credits such as mortgage-backed securities (MBS), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS). Current exposure is c.48%, with exposures reduced on rich valuations.




Source: JP Morgan, as of 29th Febuary 2020

- In terms of Corporate Credit, the fund has 7% in investment grade corporates, and 27% net exposure in high yield (HY). Fund has about 2% of HY hedges to reduce credit exposure.
- Geographically, the fund is anchored in the US but has flexibility to invest globally.




Source: JP Morgan, as of 29th Febuary 2020

- Current portfolio's duration is 4.2 years and has a yield of 4.9%. Average credit rating is BBB.

### Some of the key investment themes**?

- Focus on Quality: Moving higher in quality, reducing EMD and not overstretching for yield.
- Active on Duration: Increased duration in January to hedge credit exposures.

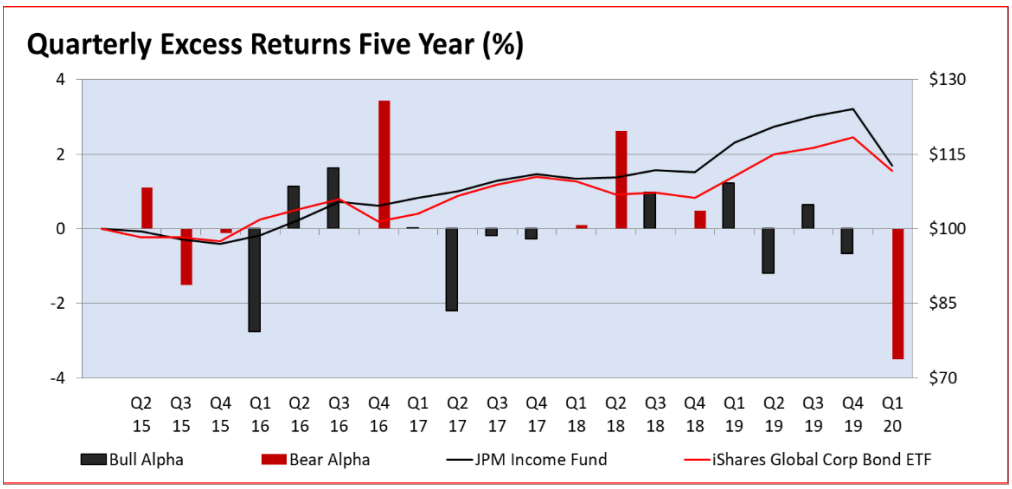
**Funds are actively managed, positions may change.

## How has the fund Performed?

- Despite a similar volatility profile, the fund has managed to generate meaningful alpha against the index over most periods. The past quarter has been challenging as the fund held more credit.
- Nonetheless, we feel that JPM is a credible manager for this strategy and should recover.

| Performance as of March 31st, 2020 in US$ | 1M | 3M | 6M | 1YR | 3YR^ | 5YR^ |
|---|---|---|---|---|---|---|
| JPM Income Fund A Acc USD | -9.91 | -9.18 | -8.16 | -3.96 | 1.99 | 2.41 |
| iShares Global Agg Corp Bond ETF | -7.44 | -5.68 | -4.00 | 0.91 | 2.73 | 2.23 |

Source: Morningstar ^Annualized




Source: Morningstar / DBS. As of March 31st, 2020

## What are the Key Risks of this fund?

- Fixed-income securities are subject, among other things, to the risk of the issuers or a guarantor's inability to meet principal and interest payments on its obligations as well as to price volatility.
- The Fund may invest in EM, securitized and global debt securities issued by governments, government-related or corporate entities and may use derivatives. These have historically been subject to price movements, generally due to interest rates, currency and/or bond markets.
- The fund is risk rated 3 on a 5-point scale. Risk rating 1-5 indicates the relative loss potential; "1" being the lowest and "5" being the highest.
- For a comprehensive list of the fund's risks, please consult your RM or the fund's prospectus.

### DBS Fund Selection Proposition

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| Conviction Level | Rating |
|---|---|
| Strong Positive | ++++ |
| Positive | +++ |
| Neutral | ++ |
| Low Conviction | + |

DBS Solutions Q2 2020: Fund Insights

# Asia Equities Strategy

Fund Selection Team
Pierre DeGagné, CFA
Kenneth Teow, CFA
Ting Hock Kiat, CFA
Dharit Shah

## Overview

On the backdrop of COVID-19, Asian equity index have tumbled 19% while the ASEAN market plunged by close to 40%. To mitigate the downside to domestic economy, governments have stepped up policy support. Going forward, we believe sectors with stronger fundamental will be able to better withstand further volatility and ultimately experience a sharper recovery. As investors continue to seek yield, we also think that dividend-yielding stocks offer attractive value due to their steady stream of cashflow and relatively lower volatility.

To get access to these companies, we recommend the First State Dividend Advantage fund.

## First State Dividend Advantage / First State Asian Equity Plus ++++

### What are the Key Characteristics of this fund?

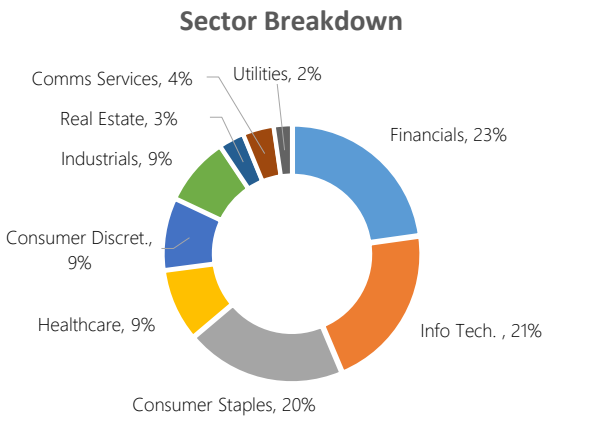
- "Quality" style focusing on firms with competitive advantages and attention to corporate governance.
- Diversified, larger-cap Asia ex-Japan equity portfolio with a focus on dividends.
- While fund has no set dividend target, they are focused on stocks with future dividend growth and long-term capital appreciation potential.
- Consistent distributions since inception.

### Why this Fund? 3 Reasons:

1. The Track Record: Launched over 15 years ago, the fund has been a consistent performer and has outperformed over the longer term.
2. The People: More importantly, the people who built the track record are still running the fund today. Twenty-year industry veteran Martin Lau has run the fund since inception.
3. The Process: The fund focuses on First State philosophy of quality (strong management, franchise and robust financials).

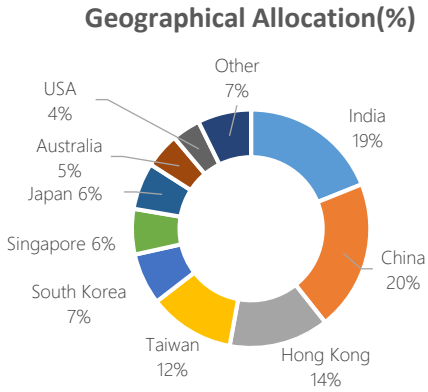
### How is this fund positioned**?

- Key sector overweight in Consumer Staples and IT while underweight to Financials and zero exposure to energy.




Source: First State Stewart as of 29th February 2020

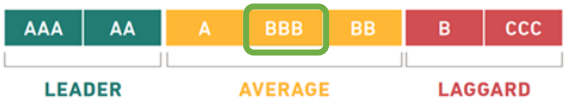
- Fund is benchmark agnostic and hold an off-index allocation into Japan. India remains a key focus, where they are notably overweight relative to the index and these two countries have historically been an alpha source. Year to date, these 2 countries have been a drag though.




Source: First State Stewart as of 29th February 2020

- Key investment themes revolve around dominant consumer franchises, the rise of health care and the beneficiaries of digitalization.

### MSCI ESG Ratings:




Source: Factset, MSCI as of 8th April 2020

**Funds are actively managed, positions may change.



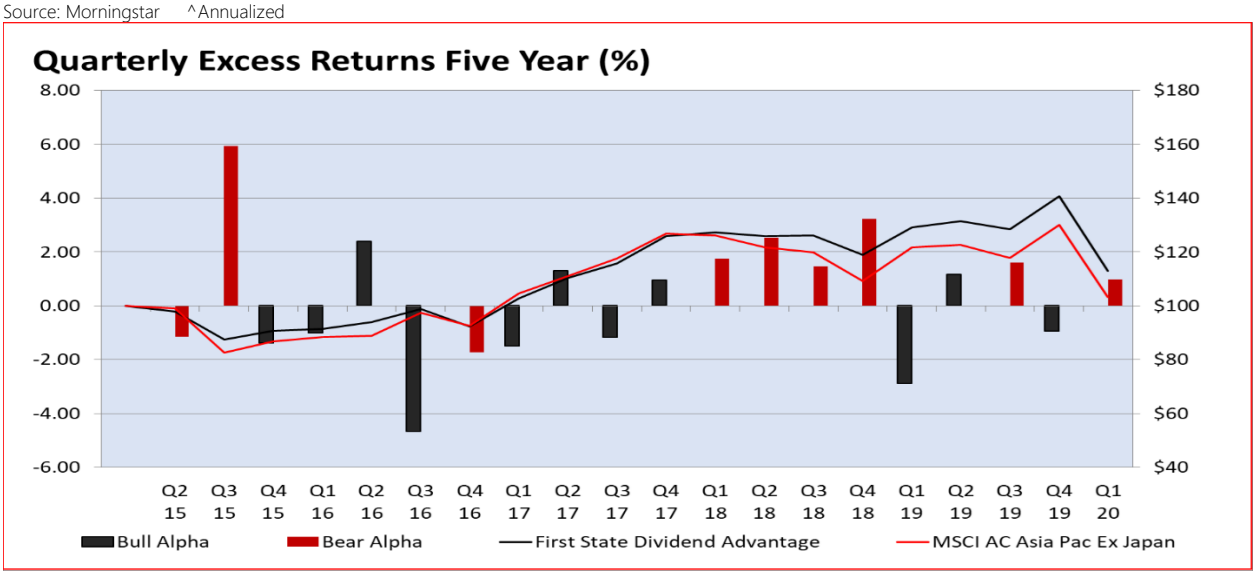
DBS

## How has the fund Performed?

- Impressive track record since inception with an annualized return of 10%. Quality tilt of the portfolio results in better downside protection while preserving bulk of the upside capture. Overall, fund provides a lower volatility avenue to tap on Asia's growth.

| Performance as of March 31st, 2020 in US$ | 1M | 3M | 6M | 1YR | 3YR^ | 5YR^ |
|---|---|---|---|---|---|---|
| First State Dividend Advantage | **-13.75** | **-19.73** | **-12.03** | **-12.49** | **3.24** | **2.47** |
| MSCI AC Asia Pacific ex Japan | **-14.03** | **-20.71** | **-12.36** | **-15.24** | **-0.42** | **0.63** |

Source: Morningstar ^Annualized




Source: Morningstar / DBS. As of March 31st, 2020

## What are the Key Risks of this fund?

- Despite attractive past returns, Asia Pacific ex-Japan equities have historically been volatile (average standard deviation of 12%). Geopolitical risks like trade tensions as well as general economic slowdowns globally or even in Greater China & India economy could create headwinds.
- The fund is risk rated 4 on a five-point scale. Risk rating 1-5 indicates the relative rating of potential loss; "1" being the lowest and "5" being the highest.
- For a comprehensive list of the fund's risks, please consult your RM or the fund's prospectus.

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| Conviction Level | Rating |
|---|---|
| Strong Positive | ++++ |
| Positive | +++ |
| Neutral | ++ |
| Low Conviction | + |

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Fund Selection Team
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Dharit Shah

DBS Solutions Q2 2020: Fund Insights

# China Equities

## Overview

Despite the US-China Trade Dispute and the outbreak of COVID-19, our bank has been constructive on China equities since early last year is continuing to do so. Chinese corporates have demonstrated strong cash flow generally. There have also been improvements on corporate debt to equity ratios. Further, the easing stance by the PBOC also add to the reasons why we remain constructive on China equities. Some of the key investment themes we like include ageing population, domestic consumption and A-shares market reform. A fund focusing on domestic leaders may be a better way to participate in the volatile market.

## UBS All China ++++

### What are the Key Characteristics of this fund?

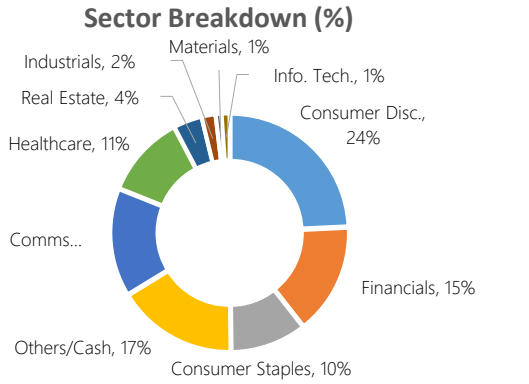
- An unconstrained China Equity portfolio investing in 25-50 best ideas irrespective of their listing, onshore or offshore.
- Strong bias to "New China" sectors (Consumer, IT, Healthcare) which are set to benefit from China's reform. Small exposure to Material, Industrial & Energy (predominantly state-owned) because management interests are often misaligned with that of shareholders.
- Stock selection heavily depends on bottom-up research, which allows them discover quality off-benchmark or mid-small cap names.

### Why this Fund? 3 Reasons:

1. Flexibility: With the opening of the onshore equity market, international investors can further expand their investment universe in China. A strategy which has no hard limit on stock listing allows PM to seek for the best ideas across all China markets.
2. Credible team: Veteran PM Bin Shi who has impressive track records in running UBS China Opp and UBS China A Opp. He is supported by a resourceful team of analysts based in Hong Kong as well as a team from an onshore joint venture.
3. Process: Low turnover portfolio is constructed through detailed fundamental research and generates alpha through its high active share.

### How is this fund positioned**?

- No restrictions on allocation split between onshore and offshore. As of March, the fund had 68% in Offshore Equities and 17% in Onshore equities. Cash was raised to 15%.
- New China focus: Discretionary and Healthcare are the largest overweight sectors. Outside these sectors, Financials had the largest position, focusing on the private sector in companies like Ping An and HKEx.

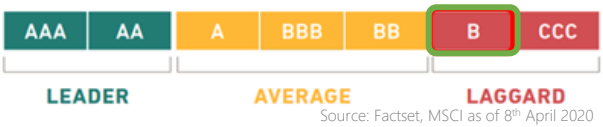



Source: UBS as of 31st March 2020

### Some of the key investment themes**?

- Consumption Upgrade: A confluence of income growth drives demands for premium brands (e.g. liquor) and higher education.
- Ageing Population: Demands for quality healthcare and increase of insurance penetration present strong opportunities.
- Up and coming industry leaders: Identifying gems which will grow into future leaders is one of the team's strengths. For instance, they had an early conviction in TAL Education before it grew to its size today.

### MSCI ESG Ratings:




Source: Factset, MSCI as of 8th April 2020

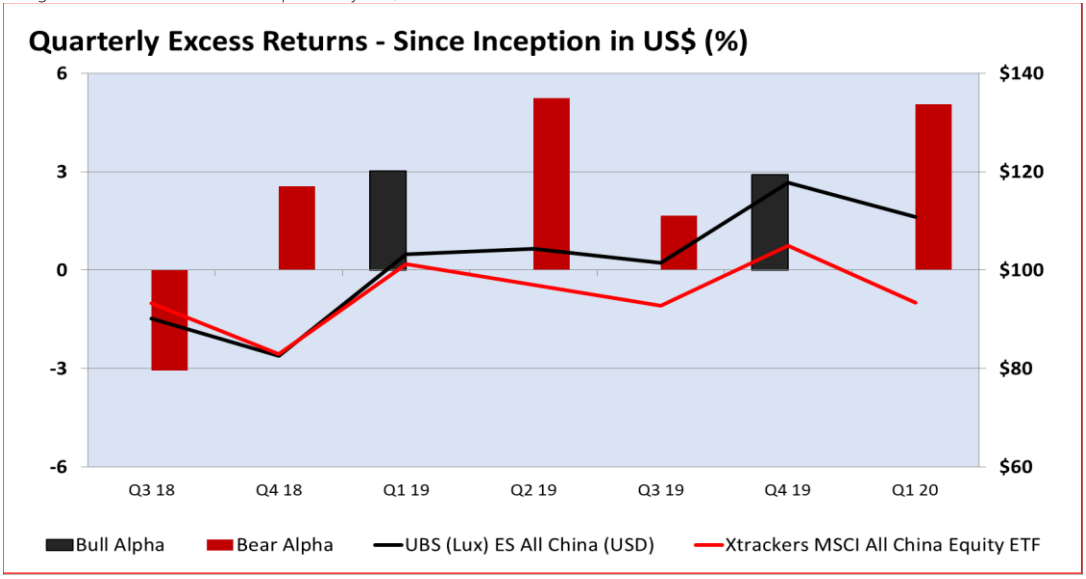
**Funds are actively managed, positions may change.

## How has the fund Performed?

- Since inception, the fund has generated excess returns consistently. The active allocation to cash (peaked at 20% in Feb) added resilience to the portfolio during the recent sell-off.

| Performance as of March 31st, 2020 in US$ | 1M | 3M | 6M | 1YR | SI^ |
|---|---|---|---|---|---|
| UBS (Lux) ES All China (USD) | -4.95 | -5.89 | 9.19 | 7.30 | 9.55 |
| Xtrackers MSCI All China Equity ETF | -7.36 | -10.95 | 0.73 | -7.75 | -10.06 |

Source: Morningstar ^Annualized since inception May 24th, 2018




Source: Morningstar / DBS. As of March 31st, 2020

## What are the Key Risks of this fund?

- Investing primarily in a single country, the fund is subjected to higher concentration risks.
- The portfolio may be periodically rebalanced and may incur greater transaction costs than a fund employing a buy-and-hold allocation strategy.
- The fund may hold assets that are not denominated in its base currency (USD). Currency fluctuation may potentially result in losses. In particular, the fund invests in RMB assets. RMB is currently not freely convertible and is subject to exchange controls by the Chinese government.
- The fund is risk rated 4 on a 5-point scale. Risk rating 1-5 indicates the relative rating of potential loss; "1" being the lowest and "5" being the highest.
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| Strong Positive | ++++ |
| Positive | +++ |
| Neutral | ++ |
| Low Conviction | + |

Fund Selection Team
Pierre DeGagné, CFA
Kenneth Teow, CFA
Ting Hock Kiat, CFA
Dharit Shah

DBS Solutions Q2 2020: Fund Insights

# Sector Asia Pacific REITs

## Overview

This is a quality offering for clients who are looking to access the Asia Pacific ex-Japan property market for both income and potential upside opportunities. REITs allow investors the opportunity to obtain regular cash flows from a wide range of properties such as malls, offices, hotels or serviced apartments, managed by professionals. On top of income, exposure to real estate-related equities also allows for potential capital appreciation. Notwithstanding the Coronavirus outbreak, the distribution income for Asia REITs remains stable and the correction created opportunities to buy into names with sustainable quality yields.

## Manulife Asia Pacific REIT Fund ++++

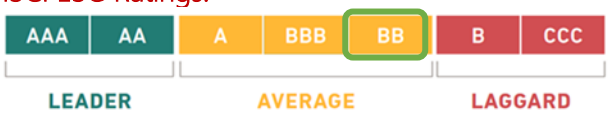
## What are the Key Characteristics of this Fund?

•The fund will invest >70% of its net assets in Asian REITs to generate sustainable income.
•The rest can be invested in real estate-related equities (e.g. property developers) that offer exposure to commercial and residential spaces. This provides both income and potential price upside.
•Key markets: Singapore, Hong Kong and Australia.
•Despite the fund having a short track record, the co-PMs are experienced and today manage a separate pure-REIT offering.

### Why this Fund? Three Reasons:

1. Access to diversified and high-quality property portfolios: Asia Pacific offers a diverse mix of high-quality retail and commercial assets. This provides opportunities for income and capital appreciation.
2. Defensiveness in dovish rate environment: In periods of benign interest rate trajectories, REITS may exhibit defensiveness by virtue of investors' continued need for income/yield.
3. Sustainable Dividend Yield: Fund aims to invest in quality asset managers with diversified portfolios and strong balance sheets. This increases the potential to obtain good and sustainable dividend yields from high quality companies.

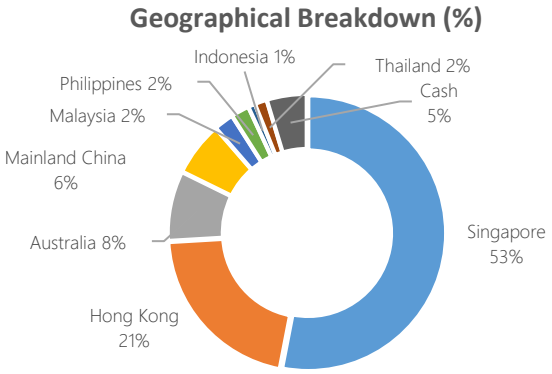
### MSCI ESG Ratings:




Source: Factset, MSCI as of 8th April 2020

## How is this fund positioned*?

- Industry allocation: Fund has a sizable allocation to Retail REITs. In Singapore, their focus is on larger mall operators that draw strong traffic. They similarly like Industrial REITs, where they favor REITs with geographical diversification, particularly in logistics related assets.




Source: Manulife, as of 29th Feburary 2020

- Geographical allocation: Singapore accounts for over 50% of the portfolio, but 40% of their assets are invested overseas. The rest of the portfolio is largely in Hong Kong and Australia. The positions in Hong Kong focus on Grade A office owners and retail malls selling necessities.
- Property developers: The off-benchmark sector accounts for c.4% for growth opportunities. Given the social unrest in HK, PM is selective and focuses on companies with ready for sale projects.

## Some of the key investment themes**?

- Relative Income Attractiveness: Dividend yielding Equities like REITs are looking increasingly attractive as global government bond yields head into negative territory.
- REITs Increasingly Relevant: REITs are becoming an increasingly important component of Asia's stock markets. S-REITs account for around 10% of the Singapore Exchange's market capitalisation.
- Global Exposure: Although the REITs and Property developer names in the fund are mostly listed in Asia, they own diversified property portfolios that can span outside of their home countries, giving investors a broader geographical reach.

*Funds are actively managed, positions may change.

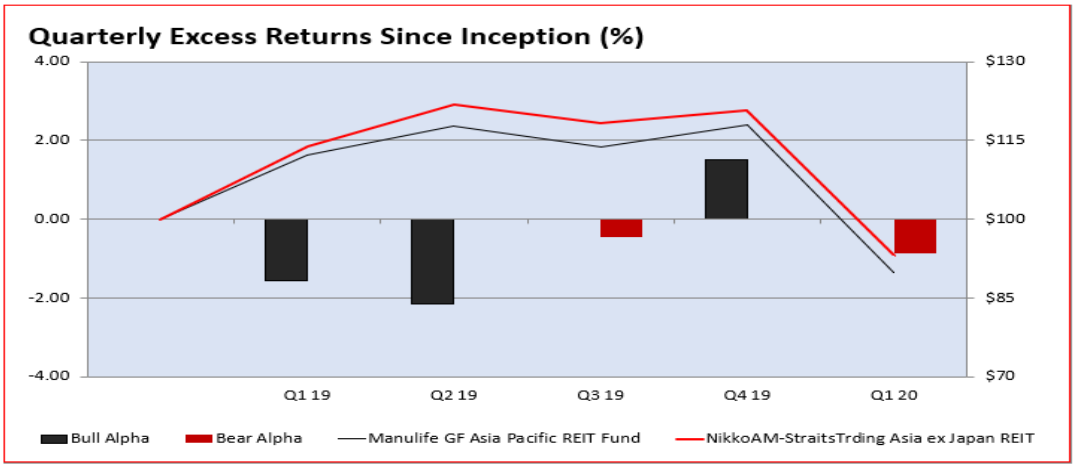

DBS

## How has the fund Performed?

- On YTD basis, Singapore Data Center REITs have contributed positively to performance due to strong growth driven by the value-added acquisitions. On the other hand, Singapore retail REITs were the main detractors because of the stricter distancing measures. Overall, the fund is on par with index and we continue to have confidence in their stock selection ability.

| Performance as of March 31st, 2020 in US$ | 1M | 3M | 6M | 1YR | SI^ |
|---|---|---|---|---|---|
| Manulife Investment Asia Pacific REIT | -18.23 | -23.76 | -20.96 | -19.90 | -6.96 |
| NikkoAM-Straits Trading Asia ex Japan REIT | -17.95 | -22.89 | -21.24 | -18.15 | -3.77 |

Source: Morningstar ^Since Inception in Sep 2018




Source: Morningstar / DBS. As of 31st March 2020

## What are some Key Risks of this fund?

- The strategy may invest in securities of REITs, real estate companies and other entities affected by the risks associated with the direct ownership of real estate. The major risks can be attributed to a decline in real estate values, the possibility that the owners of real estate could default on mortgage payments resulting in the loss of property and environmental liability and rise of interest rates.
- The fund is risk rated 4 on a 5-point scale. Risk rating 1-5 indicates the relative rating of potential loss; "1" being the lowest and "5" being the highest.
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DBS Solutions Q2 2020: Fund Insights

# Alternatives: Gold Equities

Fund Selection Team
Pierre DeGagné, CFA
Kenneth Teow, CFA
Ting Hock Kiat, CFA
Dharit Shah

## Overview

Financial markets have undergone extreme volatility in 1Q20 under COVID and the collapse of oil price. The risk of a global recession heightened with global stocks falling over 30% peak-to-trough. Treasury bond yields have also hit historic lows, making the opportunity cost to hold Gold extremely low. During the sell-off, Gold has also played its role as a portfolio hedge, returning 4% in the quarter.

Gold Miners, however, have been seriously impacted by the broad equity market sell-off and have underperformed bullion. Having said that, as the stock market stabilizes, Gold Miners may play catch up and potentially offer rewarding returns.

So, what is a simple and diversified approach to obtain a broad exposure to Gold Equities?

## Investec GSF Global Gold Fund ++++

### What are the Key Characteristics of this fund?

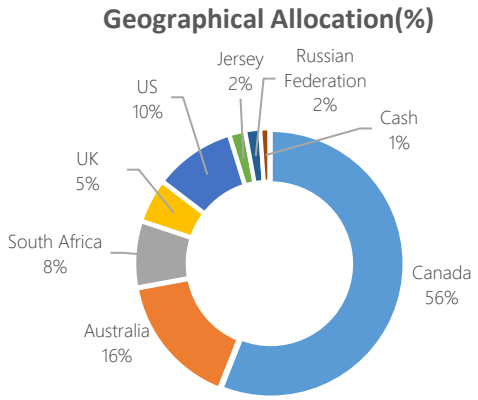
- This strategy invests in Gold Mining Stocks, with up to a third of the fund invested in other precious metals miners and Exchange Traded Commodity funds in Gold and Silver bullion.
- Concentrated fund with roughly 30 positions.
- When selecting securities, they consider medium term commodity prices and the company's ability to generate superior Return on Capital.

### Why this Fund? 3 Reasons:

1. Portfolio diversifier: Historically, gold price is positively correlated to US inflation and tends to perform in periods of sustained volatility. If global growth weakens, there may be upside in gold.
2. Experienced PM with specialized team: Investec is a leader in the space. Veteran George Cheveley manages the fund supported by 2 analysts, both with significant industry experience.
3. Actively managed: The team actively adjusts the portfolio: anticipating down markets, they will try and allocate more to royalty streamers and larger caps. With a bullish view they will favour higher beta junior miners which are more sensitive to rises in Gold prices.

### How is this fund positioned**?

- Majority of the fund is in gold miners (c.75%), with some tactical positions in other precious metals (e.g. silver) miners, royalty streamers and Exchange Traded Commodity funds. Recently, they have started to rotate out of royalty streamers into some second tier miners.
- Region wise, a significant proportion of the mines are in N.America, but they also invest in some companies mining in Australia, Russia and Africa. There is minimal exposure to Silver.




Source: Investec; as of 29th Febuary 2020

- With a manageable fund size of around $600mn, the PM can flexibly allocate across the the market cap, depending on where the best opportunities lie, including smaller cap juniors.

### Some of the key investment themes**?

- The Majors: Major benchmark constituents like Newmont and Agnico typically make up about 25% of the portfolio. These companies can benefit from economies of scale as gold prices rise, while being cushioned in down-turns.
- The Juniors: There is roughly another third in smaller caps below US$3bn in market cap, mostly smaller operating miners and many of which operates in developing jurisdictions. These companies are very sensitive to a rising gold prices and may become targets for acquisition if gold continues to rise.
- Conservatively optimistic: Manager has tuned down the exposure to royalty companies (c.15%) which did well to buffer for the recent correction due to their diversified business model

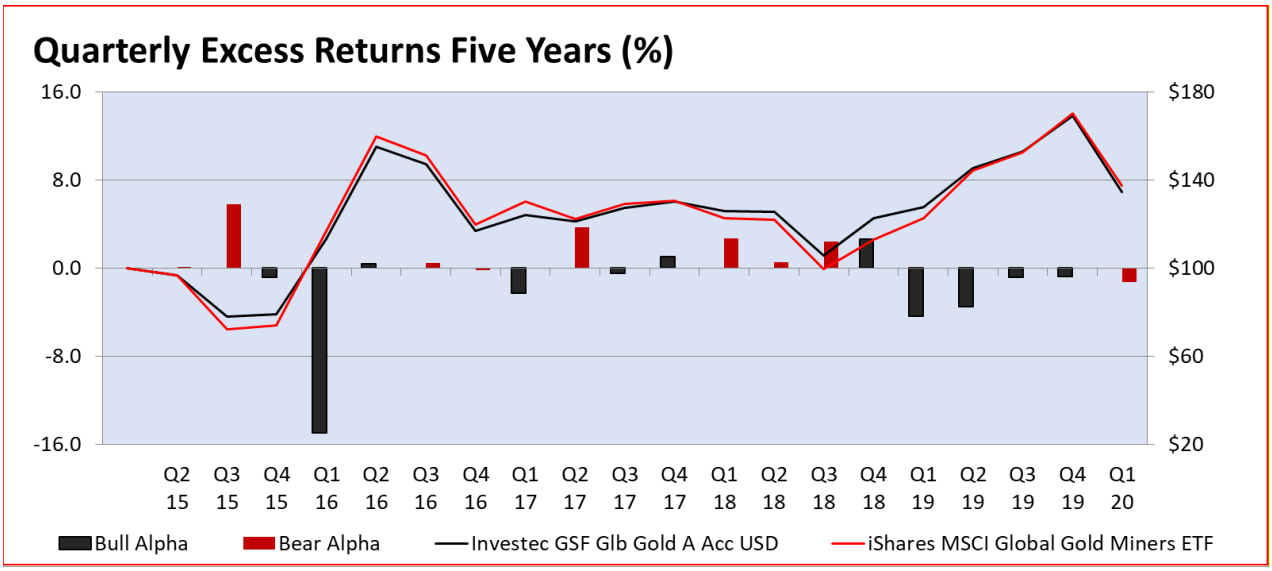
**Funds are actively managed, positions may change.

## How has the fund Performed?

- Over the longer term, the fund has performed in line with benchmark with less volatility. They have slightly outperformed in the recent correction. We feel their stock selection will continue to add value.

| Performance as of March 31st, 2020 - US$ | 1M | 3M | 6M | 1YR | 3YR^ | 5YR^ |
|---|---|---|---|---|---|---|
| Investec GSF Glb Gold A Acc USD | -12.08 | -20.63 | -12.13 | 5.14 | 2.71 | 6.08 |
| iShares MSCI Global Gold Miners ETF | -11.25 | -19.34 | -10.10 | 11.81 | 1.81 | 6.54 |

Source: Morningstar ^Annualized




Source: Morningstar **Bull Alpha is the added value in quarters where the market rises; Bear Alpha is the added value in quarters where the market falls.

## What are some Key Risks of this fund?

- Investing primarily in a single sector, the fund is subjected to higher concentration risks.
- Commodity Equities have been a historically volatile asset class, mostly more volatile than their underlying commodities and less beneficial as diversifiers.
- The fund is risk rated 5 on a five-point scale. Risk rating 1-5 indicates the relative rating of potential loss; "1" being the lowest and "5" being the highest.
- For a comprehensive list of the fund's risks, please consult your RM or the fund's prospectus.

### DBS Fund Selection Proposition

At DBS, our goal is to provide our clients with a holistic approach to managing your wealth. As investors seek to preserve, diversify and build their wealth, for many, mutual funds can be integral tools. Funds are diversified, efficient tools to access different global markets with the guidance of professional asset managers.

DBS Fund Selection Team (FST) is a dedicated group of professionals, committed to identifying high quality mutual funds which the team believes can add value for our clients. With over 300 funds under coverage, the team meets the managers, writes an assessment of the fund and assigns a conviction rating to each. This is followed by on-going monitoring of the performance of the fund. The DBS FST Fund Rating encapsulates a qualitative assessment of the fund's competitive advantage relative to its peers.

### DBS FST Fund Ratings

The DBS FST currently covers over 300 funds. The team will review and assign an appropriate rating to each fund.

This rating reflects the team's assessment of the fund's competitive advantage, and represents the level of conviction the team has with respect to the fund performing well relative to its peers and its assigned asset class benchmark over the next 18 to 36 months.

Investors should, however, note that the DBS FST Fund Rating is not a view on funds as an asset class nor is it a guarantee of a fund's performance.

| Conviction Level | Rating |
|---|---|
| Strong Positive | ++++ |
| Positive | +++ |
| Neutral | ++ |
| Low Conviction | + |

**Funds are actively managed, positions may change.

Notes:

1. A qualitative approach is used to systematically analyse each fund's characteristics, risk and performance attributes to identify funds we believe could add value. Through interviews that we conduct with respective fund managers, 5 key areas are reviewed: People, Product, Process, Portfolio and Performance.

2. Fund performance are sourced from Morningstar Direct workstations and/or Bloomberg Terminals. 3-months, 6-months and 1-year performance returns are cumulative, while 3 and 5-years' performance returns are annualized. All data presented are as of 31st December 2019, or the closest available NAV date prior. Cumulative and annualized performance data are bid-to-bid, in USD terms, unless specified otherwise. The funds' relative performance against their appropriate benchmarks are provided, where applicable.

3. Standard deviation is a statistical measure of risk. The higher the standard deviation, the greater the volatility, therefore, the higher the potential risk. Approximately 68% of the annual total return of the fund is expected to range between +1 and –1 standard deviation from the annual average return, assuming a fund's return falls in a standard normal distribution.

4. Ratings assigned by DBS Fund Selection Team is on the basis of the team's assessment of the fund's competitive advantage and represents the level of conviction that the team has with respect to the fund performing well relative to its peers and its assigned asset class benchmark over the next 18 to 36 months. Investors should, however, note that the DBS FST Fund Rating is not a view on funds as an asset class nor is it a guarantee of a fund's future performance. A fund with high rating does not mean that it is suitable for all investors, and should not be considered as recommendations to buy or sell the relevant funds. Prospective investors should seek advice from a financial advisor regarding the suitability of the funds, taking into account their specific investment objectives, financial situation or particular needs before committing to invest in or purchase in any of the funds mentioned.



DBS

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Ho Tian Yee, DBS Lead Independent Director, Chairman of the Nominating Committee, Board of Director, and member of the Board Risk Management Committee and Executive Committee is a Board member/trustee of Fullerton Fund Management Co. Ltd as of 17th April 2020.

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DBS Bank Ltd may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the analyst listed to view previous investment recommendations published by DBS Bank Ltd in the preceding 12 months.