Affin Hwang World Series - Global Brands Fund

Quarterly Report
31 March 2021

Out **think.** Out **perform.**

AFFIN HWANG
CAPITAL

MANAGER
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AFFIN HWANG WORLD SERIES – GLOBAL BRANDS FUND

Quarterly Report and Financial Statements
As at 31 March 2021

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QUARTERLY REPORT

FUND INFORMATION

Fund Name	Affin Hwang World Series – Global Brands Fund
Fund Type	Growth
Fund Category	Feeder (Wholesale)
Investment Objective	The Fund seeks to achieve capital appreciation over medium to long term period.
Benchmark	MSCI World Index
Distribution Policy	The Fund is not expected to make distribution. However, incidental distribution may be declared whenever is appropriate.

FUND PERFORMANCE DATA

MYR Hedged-Class

Category	As at 31 Mar 2021	As at 31 Dec 2020
Total NAV (million)	89.122	87.607
NAV per Unit (RM)	0.6070	0.5984
Unit in Circulation (million)	146.817	146.402

SGD Hedged-Class

Category	As at 31 Mar 2021	As at 31 Dec 2020
Total NAV (million)	2.618	1.446
NAV per Unit (SGD)	0.5865	0.5799
Unit in Circulation (million)	4.463	2.493

AUD Hedged-Class

Category	As at 31 Mar 2021	As at 31 Dec 2020
Total NAV (million)	1.280	1.702
NAV per Unit (AUD)	0.5964	0.5907
Unit in Circulation (million)	2.146	2.882

USD Class

Category	As at 31 Mar 2021	As at 31 Dec 2020
Total NAV (million)	3.173	2.866
NAV per Unit (USD)	0.5901	0.5831
Unit in Circulation (million)	5.378	4.915

Fund Performance

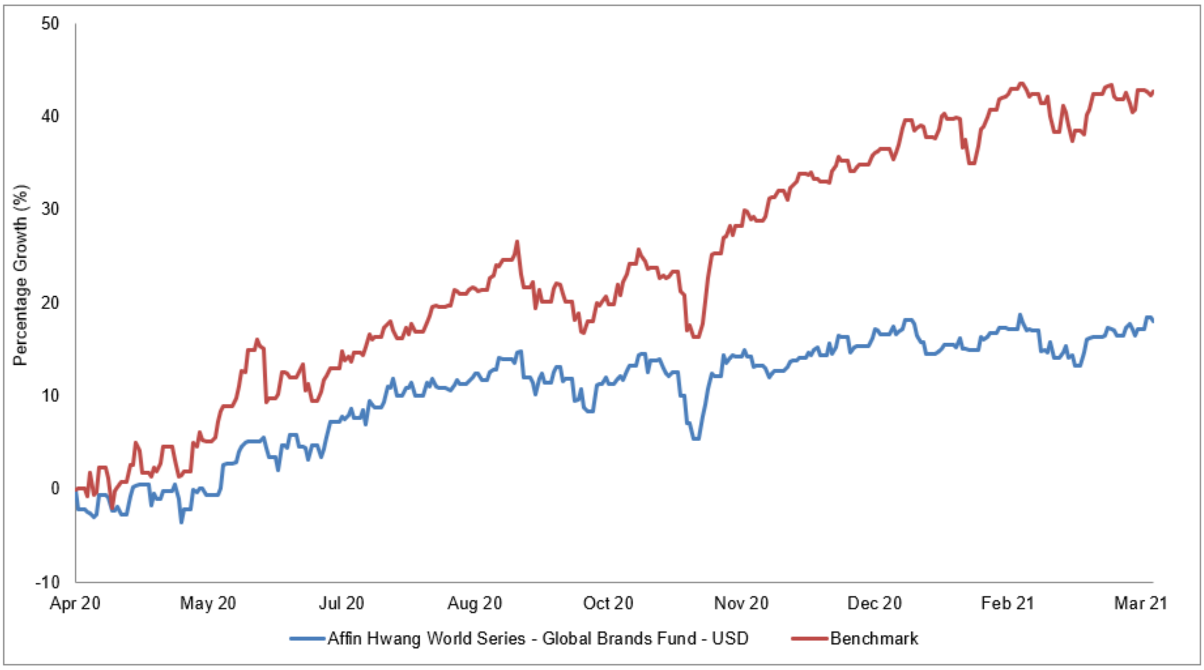
USD Class

Performance as at 31 March 2021

	3 Months (1/1/21 - 31/3/21)	6 Months (1/10/20 - 31/3/21)	Since Commencement (10/4/20 - 31/3/21)
Fund	**1.20%**	**5.96%**	**18.02%**
Benchmark	**4.52%**	**18.77%**	**42.68%**
Outperformance	**(3.32%)**	**(12.81%)**	**(24.66%)**

Source of Benchmark: Bloomberg

Movement of the Fund versus the Benchmark



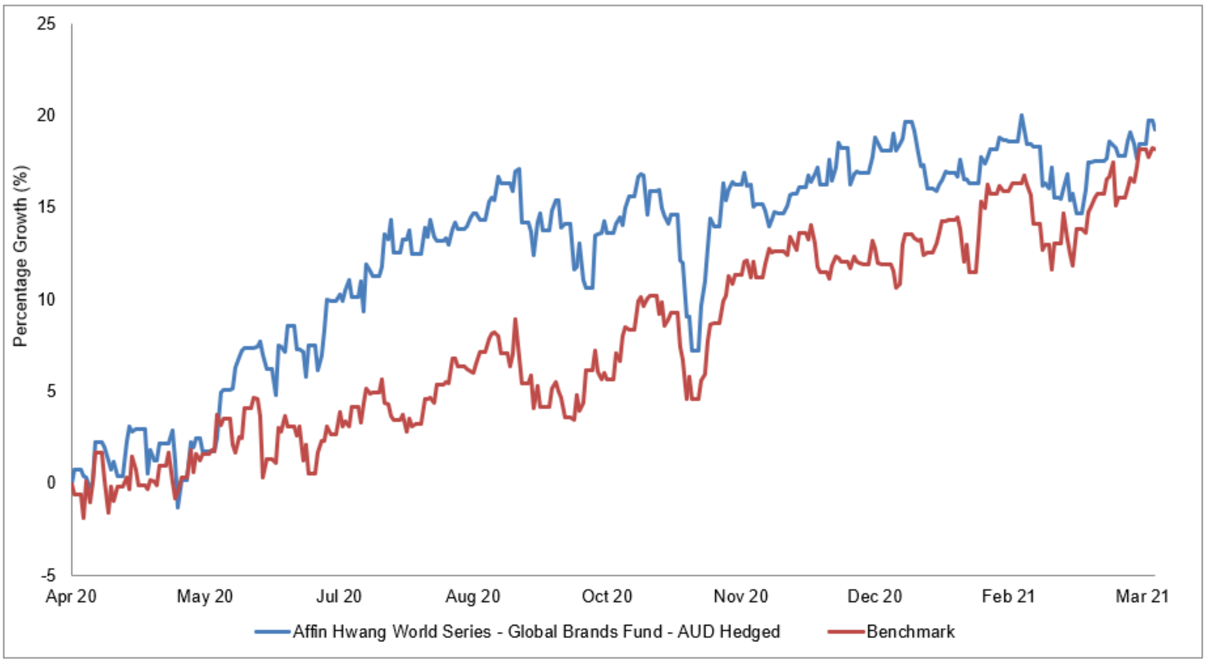
<u>AUD Hedged-Class</u>

Performance as at 31 March 2021

	3 Months (1/1/21 - 31/3/21)	6 Months (1/10/20 - 31/3/21)	Since Commencement (10/4/20 - 31/3/21)
Fund	**0.96%**	**4.94%**	**19.28%**
Benchmark	**5.58%**	**11.82%**	**18.18%**
Outperformance	**(4.62%)**	**(6.88%)**	**1.10%**

Source of Benchmark: Bloomberg

Movement of the Fund versus the Benchmark



MYR Hedged-Class

Performance as at 31 March 2021

	3 Months (1/1/21 - 31/3/21)	6 Months (1/10/20 - 31/3/21)	Since Commencement (10/4/20 - 31/3/21)
Fund	**1.44%**	**6.21%**	**21.40%**
Benchmark	**7.79%**	**18.52%**	**36.53%**
Outperformance	**(6.35%)**	**(12.31%)**	**(15.13%)**

Source of Benchmark: Bloomberg

Movement of the Fund versus the Benchmark

SGD Hedged-Class

Performance as at 31 March 2021

	3 Months (1/1/21 - 31/3/21)	6 Months (1/10/20 - 31/3/21)	Since Commencement (10/4/20 - 31/3/21)
Fund	**1.14%**	**5.62%**	**17.30%**
Benchmark	**6.32%**	**16.96%**	**35.34%**
Outperformance	**(5.18%)**	**(11.34%)**	**(18.04%)**

Source of Benchmark: Bloomberg

Movement of the Fund versus the Benchmark

"This information is prepared by Affin Hwang Asset Management Berhad (AFFINHWANGAM) for information purposes only. Past earnings or the fund's distribution record is not a guarantee or reflection of the fund's future earnings/future distributions. Investors are advised that unit prices, distributions payable and investment returns may go down as well as up. Source of Benchmark is from Bloomberg."
Benchmark: MSCI World Index

Past performance is not necessarily indicative of future performance and that Unit prices and investment returns may go down, as well as up.

Asset Allocation

Fund's asset mix during the period under review:

	31 March 2021
	(%)
Unit Trust	98.60
Derivative	-0.54
Cash & money market	1.94
Total	**100.00**

Strategies Employed

In the one month period ending 31st March 2021, the Fund's I shares returned 4.48% (net of fees) , while the benchmark returned 4.71%.

The portfolio underperformed for the quarter, returning 0.87% vs. 3.95% for the MSCI World Index.

For the first quarter (Q1) overall, the underperformance was driven by sector allocation, given the value and cyclical rally. The overweights in consumer staples, health care and information technology all hurt performance, as did the underweights in financials and communication services and the lack of energy holdings. Stock selection was neutral in the quarter. Outperformance in the three main sectors in the portfolio – consumer staples, information technology and health care – was positive, but the Fund's holdings in financials and industrials, far higher quality than their respective sectors, were unable to keep up with the value rally and thus underperformed.

The largest contributors for the quarter were PMI (+62 basis points [bps]), Microsoft (+50 bps), and Abbott Laboratories (+35 bps).

The top absolute detractors for the same time period were SAP (-36 bps), Visa (-20 bps) and Heineken (-20 bps).

Market Review

For Q1, the MSCI World Index gained 4.9% (+6.1% in local currencies). Behind this overall picture, there was sharp variation by sector, given the value/cyclical rally. Energy (+22%) and financials (+13%) continued the strong recovery seen in the fourth quarter 2020, with banks up 19% within financials. The other cyclical sectors showed milder outperformance. Industrials were up 8%, though commercial & professional services, the highest quality element and our traditional area of focus within the sector, only gained 1%.

At the other end of the spectrum, defensive sectors lagged, with consumer staples down 1% despite the decent March, utilities flat and health care up only 1%. Information technology, the clear leader in 2020, and one of three main sectors for the portfolio alongside consumer staples and health care, also lagged the market, only up 1%, though semiconductors did gain 11% thanks to the global chip shortage. The quarter saw less variation by geography than sector, despite the very different levels of success with vaccinations. Canada (+10% USD, +8% local), Singapore (+9%, +11%) and Hong Kong (+7%, +8%) were ahead of the MSCI World Index, while Switzerland (-2%, +4%), Spain (+1%, +5%) and Japan (+2%, +9%) lagged mildly. The U.S. (+5%) was 40 bps ahead of the overall index.

We completed our exit from Unilever during the quarter due to our worries about its ability to compound, given the low growth of many of its categories and its seeming inability to grow or even maintain share in many markets, perhaps aggravated by its excessive focus on margin. Some of the proceeds were invested in rebuilding the position size of Pernod Ricard, as the share price seems to now more than discount the likely further social distancing. We also exited the modest position in Fox Corporation as we were concerned about its resilience in the fast-changing media landscape given the emerging competitors, not least for sports rights. In addition, we reduced our position in RELX , given its struggles to grow its top-line faster than low-single digit, and Nike on grounds of valuation. The resulting funds were invested in growing the position sizes in Roper Technologies and Thermo Fisher along with some smaller additions to our software and IT services holdings given the attractive valuations.

Investment outlook

It has been a tough 12 months, in relative terms at least, for investing in Quality, particularly for those who pay close attention to valuations. There has been a double whammy from the combination of the "Value Rally" and the "Growth Bubble", which has meant that reasonably priced compounders have significantly lagged the market, despite continuing to perform their core role of compounding their earnings far better than the index as a whole over the cycle. While not cheap, the portfolio now looks attractively valued against the MSCI World Index given that it is at only a 13% earnings premium despite its far higher quality and ability to compound. In the shorter term, the relative picture is less clear, but there is at least some evidence that both the "Value Rally" and the "Growth Bubble" may be close to running their course.

It is unsurprising that Value has done well from the March 2020 market trough. There has been a great deal of positive economic news. The massive level of government intervention – be it through stimulus packages, furloughing workers or central bank intervention to support markets and minimize the chances of corporate financial distress – has both mitigated the economic impacts of the crisis and limited the fallout on corporate earnings. The speed of vaccine development, and in some cases vaccine rollouts, have also been a significant positive surprise. Given all this, the switch from "risk-off" to "risk-on" is understandable, and the sharp improvement in earnings expectations for cyclical sectors seems justified. Both of these factors naturally leave the higher quality names in the shade, given they are seen as safe havens with less volatile revenues and lower operational leverage. Over the 12 months ended March 31, 2021, the consumer staples sector only returned 24% and health care 29%, as against 54% for the MSCI World Index as a whole, more than giving up their significant relative gains of the first quarter of 2020. The two sectors combined make up 55% of the portfolio.

In addition, there has been talk of reflation and rising rates, which has direct positive effects for financials, and also notionally makes cheaper and thus shorter duration equities more attractive versus higher quality or faster growing longer duration plays. While the U.S. 10-year rate has indeed risen by over 100 bps to 1.74% over the last year, this impact seems less clear-cut. Not only does the German 10-year rate still languish at -0.29%, only 16 bps up from a year ago, but the duration argument does not fit well with the exuberance in growth stocks. Our December 2020 piece ("Avoiding Losing Money in Equities") discussed how the most expensive quintile of the MSCI World's information technology sector was trading on 160 times earnings two years forward, even excluding share-based compensation, and actually gained 160% during 2020, massively ahead of the duller, and cheaper, stocks from the third and fourth valuation quintiles that make up the information technology element of the portfolio. This meant that the portfolio's holdings in the information technology sector, one of three key sectors for the portfolio alongside consumer staples and health care, have only returned 41% since the March 2020 trough, versus 68% for the sector as a whole.

2020-21 has been the fourth significant, i.e. double-digit, relative drawdown that Global Franchise – parent strategy of the Global Brands Fund – has suffered over its 25-year history. The others came in 1998-99, during the tech-media-telecom (TMT) growth bubble; 2002-03 in the cyclical earnings rally; and 2012-13, as risk came back on post the euro crisis. The last year has arguably seen a perfect storm as all three factors have played their part. While the past is always an imperfect guide to the future, in these previous three cases the double-digit relative ground lost had all been recovered (or in 2005, all but 1% recovered) within 17 to 21 months. It is also worth remembering that despite these temporary reverses and the recent underperformance, the portfolio has delivered significant outperformance versus the index over the period since inception, over 5% per year in excess of the index.

While the portfolio has lagged significantly over the last 12 months, the stocks within it have been performing their core function, that of compounding. The portfolio's forward earnings growth may not have kept up with the index since the earnings trough in June 2020, up only 15% versus 27% for the MSCI World Index, but the far higher robustness in the crisis conditions of the first half of 2020 (down only 6% versus -21% for the index) means that the portfolio's earnings are up 9% since the start of 2020, while the earnings of the index are flat. Going back another year makes the comparison even more stark, with the portfolio's earnings up 19%, a full 20 percentage points ahead of the MSCI World Index's earnings, which are actually down 1% over the 27 months.

Looking backwards, it is clear that the portfolio's relative performance has suffered from the combination of its very high weights in the lagging quality defensive sectors of consumer staples and health care and missing out on the growth exuberance within information technology.

We are confident about the path of the portfolio's earnings. The companies are compounders after all, with a proven ability to grow across cycles at a high return on operating capital, with resilience in tough times, as proven again in 2020. Admittedly, there is a higher level of noise than usual at present. Beverages and medical devices should gain as social distancing eases, allowing visits to bars and routine operations in hospitals, while some of the portfolio's "bonus" earnings from hygiene products and COVID-19 testing may ease off. There may also be a headwind from rising corporate tax rates, already implemented in the U.K. and potentially looming in the U.S. However, beneath this short-term noise, the structural drivers of recurring revenues and pricing power are still in place.

As ever, there is much less clarity for the market's earnings. Progress depends on the extent and duration of the recovery. Earnings forecasts do lag, so there may well be more growth to come, but the pace of improvement seems to be slowing outside the commodity plays of energy and materials. The other nine sectors' earnings only rose 0.5% in March, versus the 2%- plus monthly progress since last June. Aside from the potential tax rise headwind, one area of concern is how effectively companies with limited pricing power will be able to pass on any rising input costs, be they from commodities or labour.

The larger risk for the market is multiples. The MSCI World Index's forward earnings multiple is still above 20x, only down 1% despite the 27% rise in the earnings denominator over the last nine months. This is defying the normal pattern of a falling multiple as earnings recover from a cyclical low. The current market valuation is a full six turns above the 2005-18 average multiple and seems to imply further sharp earnings growth. The other worry is that macroeconomic forecasts are now extremely bullish, with Wall Street talking about U.S. gross domestic product growth reaching 8% by the end of the year with no Federal Reserve reaction expected until 2023 at the earliest. This may well turn out to be correct, but it does leave limited room for further macroeconomic surprises, or at least further positive macroeconomic surprises. The strength and speed of the recovery may also limit its duration and imply that the early part of the cycle – so favourable for value plays – may be nearing its end.

Multiples are a particular concern in the growthier extremes of the market, given the 2020 exuberance. Special purpose acquisition companies (SPACs) are still flooding onto the market, raising $88 billion in the first quarter of 2021, more than in the whole of 2020. However, there are signs that the air is beginning to hiss out of this inflated area, with the most expensive quintile of information technology returning -9% in March, while the other four quintiles were up on average 3.6%, admittedly only a small dent in 2020's 160% top quintile return. The CNBC SPAC 50 Index, which covers the 50 largest SPACs, is now down for the year, having been up 20% in late February. The portfolio is seeing the benefit of this Growth reversal, as stock selection in information technology has moved into positive territory in 2021 after the significant negative in 2020.

While we would not claim that the portfolio is cheap in absolute terms, trading at 22.7x earnings, it does seem reasonably valued in relative terms, at only a 13% earnings premium to the MSCI World Index, which is virtual parity in free cash flow terms, given its high returns have been better at turning earnings to cash than the index. This premium, or lack of it, looks attractive given the far higher quality – be it in higher returns on operating capital, lower operational and financial leverage and the proven resilience of earnings – and is close to lows outside the Global Financial Crisis. The portfolio has "only" rerated by 20% since the start of 2019, while the index's multiple is up by more than 50%. If the portfolio can indeed continue to compound its earnings, it looks like a far safer medium- or long-term bet than the market, which remains at multiples not seen since the TMT bubble at the end of the last century. In the shorter term, market moves are more of a lottery, but there are reasons to believe that the Growth Bubble may have peaked and that the Value Rally is at least nearing its end.

AFFIN HWANG WORLD SERIES – GLOBAL BRANDS FUND

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2021

	Financial period ended 31.3.2021 USD
INVESTMENT INCOME	
Interest income from financial assets at amortised cost	573
Net gain on foreign currency exchange	24,844
Net gain on forward foreign currency contracts at fair value through profit or loss	197,923
Net gain on financial assets at fair value through profit or loss	1,863,213
	2,086,553
EXPENSES	
Management fee	(255,832)
Trustee fee	(8,374)
Fund accounting fee	(2,280)
Auditors' remuneration	(1,431)
Tax agent's fee	(668)
Other expenses	(4,687)
	(273,272)
PROFIT BEFORE TAXATION	1,813,281
Taxation	-
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	1,813,281
Increase of net asset attributable to unitholders is made up of the following:	
Realised amount	427,275
Unrealised amount	1,386,006
	1,813,281

AFFIN HWANG WORLD SERIES – GLOBAL BRANDS FUND

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

	2021
	USD
ASSETS	
Cash and cash equivalents	717,770
Amount due from brokers	3,411
Amount due from Manager	
- creation of units	293,045
- management fee rebate receivable	16,605
Financial assets at fair value through profit or loss	27,220,086
Forward foreign currency contracts at fair value through profit or loss	72,925
TOTAL ASSETS	28,323,842
LIABILITIES	
Forward foreign currency contracts at fair value through profit or loss	220,774
Amount due to brokers	251,654
Amount due to Manager	
- management fee	42,321
- cancellation of units	197,579
Amount due to Trustee	1,373
Auditors' remuneration	1,438
Tax agent's fee	671
Other payable and accruals	191
TOTAL LIABILITIES (EXCLUDING NET ASSET ATTRIBUTABLE TO UNITHOLDERS)	716,001
NET ASSET VALUE OF THE FUND	27,607,841
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	27,607,841

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021 (CONTINUED)

	2021
	USD
REPRESENTED BY:	
FAIR VALUE OF OUTSTANDING UNITS	
- AUD Hedged-class	975,371
- MYR Hedged-class	21,511,523
- SGD Hedged-class	1,947,603
- USD Class	3,173,344
	27,607,841
NUMBER OF UNITS IN CIRCULATION	
- AUD Hedged-class	2,146,000
- MYR Hedged-class	146,817,000
- SGD Hedged-class	4,463,000
- USD Class	5,378,000
	158,804,000
NET ASSET VALUE PER UNIT (USD)	
- AUD Hedged-class	0.4545
- MYR Hedged-class	0.1465
- SGD Hedged-class	0.4364
- USD Class	0.5901
NET ASSET VALUE PER UNIT IN RESPECTIVE CURRENCIES	
- AUD Hedged-class	AUD0.5964
- MYR Hedged-class	MYR0.6070
- SGD Hedged-class	SGD0.5865
- USD Class	USD0.5901

AFFIN HWANG WORLD SERIES – GLOBAL BRANDS FUND

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDER FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2021

	Financial period ended 31.3.2021 USD
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT THE DATE OF LAUNCH	**-**
Movement due to units created and cancelled during the financial period	
Creation of units arising from applications	34,047,231
- AUD Hedged-class	1,739,248
- MYR Hedged-class	25,517,556
- SGD Hedged-class	2,185,645
- USD Class	4,604,782
Cancellation of units	(8,252,671)
- AUD Hedged-class	(917,118)
- MYR Hedged-class	(5,341,635)
- SGD Hedged-class	(310,009)
- USD Class	(1,683,909)
Net increase in net assets attributable to unitholders during the financial period	1,813,281
- AUD Hedged-class	153,241
- MYR Hedged-class	1,335,602
- SGD Hedged-class	71,967
- USD Class	252,471
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT THE END OF THE FINANCIAL PERIOD	27,607,841

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