Nomura Global Shariah Strategic Growth Fund ('SGF')
Investor Letter #10

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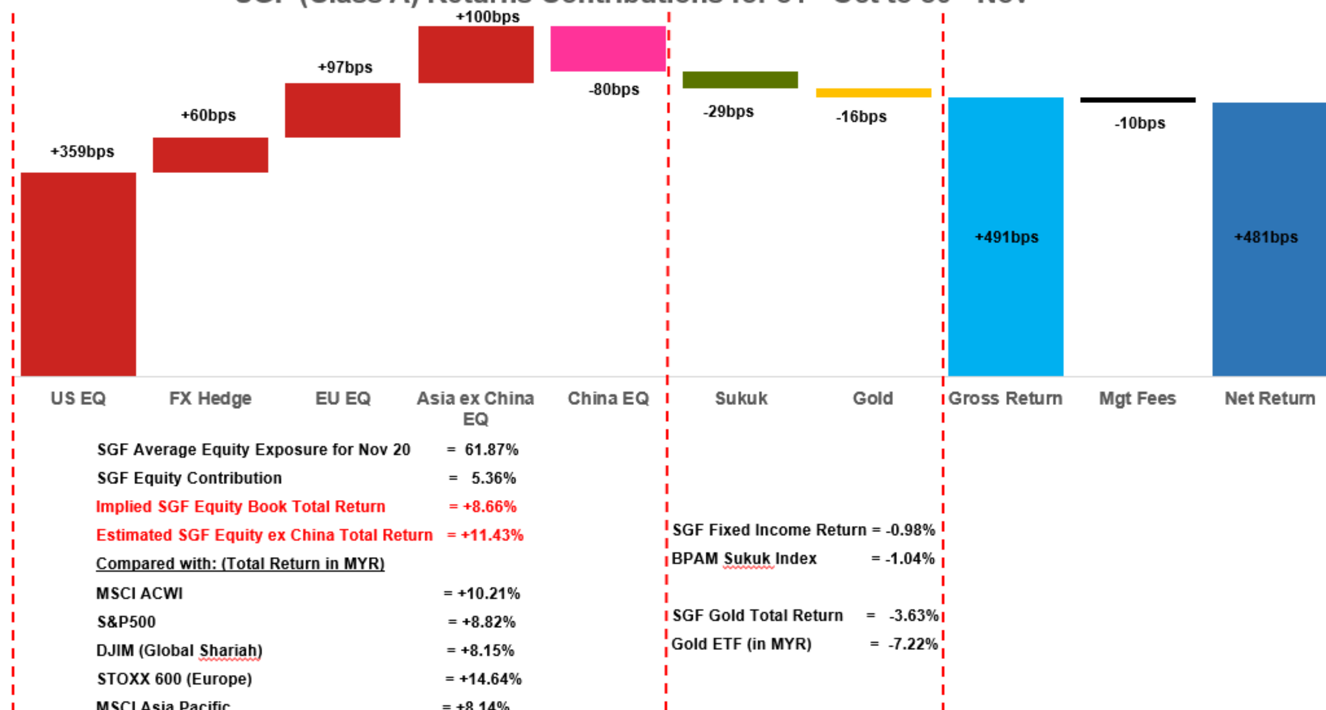
Dear SGF investors and friends,

This month marks the 6th month of the SGF. As such I would like to convey a huge thank you to all the investors who have embarked on this investment journey with us. Before I start analysing the imaginary flight path from the last letter (attached at the end), we begin this letter with the usual performance review for the month of November 2020.



November marks one of the best monthly returns for risk assets. SGF Class A was up +4.81% whilst Class B was up +4.78%. Let's break the performance down.

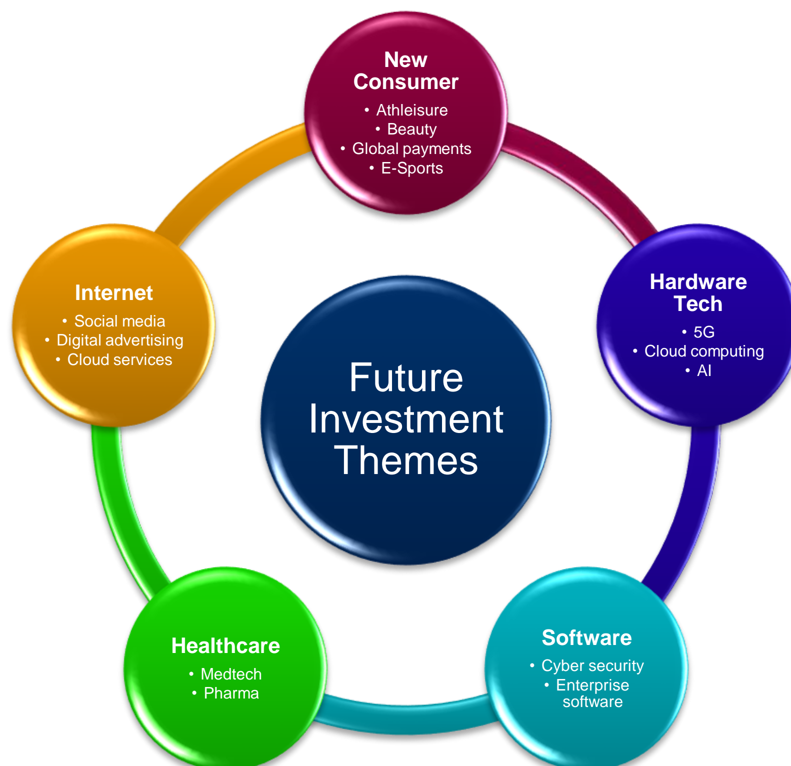
Equity Book Performance for the month of November (all figures in MYR)

MSCI ACWI, often cited as the benchmark for Global Equities was up +10.21% whilst the Shariah Benchmark for Global Equities, DJIM was up +8.15%. S&P 500 (US Market) was up +8.82%, SXXP600 (Europe Market) was up +14.64% whilst MSCI Asia Pac was up +8.14%. This strong performance was driven by 1) the early indications that a split congress is the most likely outcome of the much awaited US elections. Markets tends to do better when congress is split, as the ability to pass meaningful legislation is lower hence 'status quo' or certainty is always the preferred option.2) Vaccine updates from Pfizer and Moderna with an efficacy of 90%+ was much better than what the market was expecting. This recession was caused by a health crisis, hence it can only be resolved by a health solution. The Vaccine news led to a much improved sentiment, as a path to normality starts to become visible in FY21.

This compares to SGF's Equity Book Performance of +8.66%. *November is a tale of two halves*. Excluding the performance of the China equities, performance was actually highly satisfactory. If we look at the waterfall chart above, we can see that each region contributed positively to returns (US +4.19%, Europe +0.97%, Japan & Australia +1.0%) except for China which contributed -0.80%. If we exclude the performance of China equities, the remaining equities book was actually up +11.43%. The performance drag in China was caused by a series of unfortunate events, which started with the cancellation of the much anticipated ANT IPO within days of the IPO date, followed by the tightening of internet regulation in China which led to equity risk premia moving significantly higher. SGF's holdings in Ali Baba and Tencent were materially impacted with the stocks down -12.5% and -6.5% respectively.

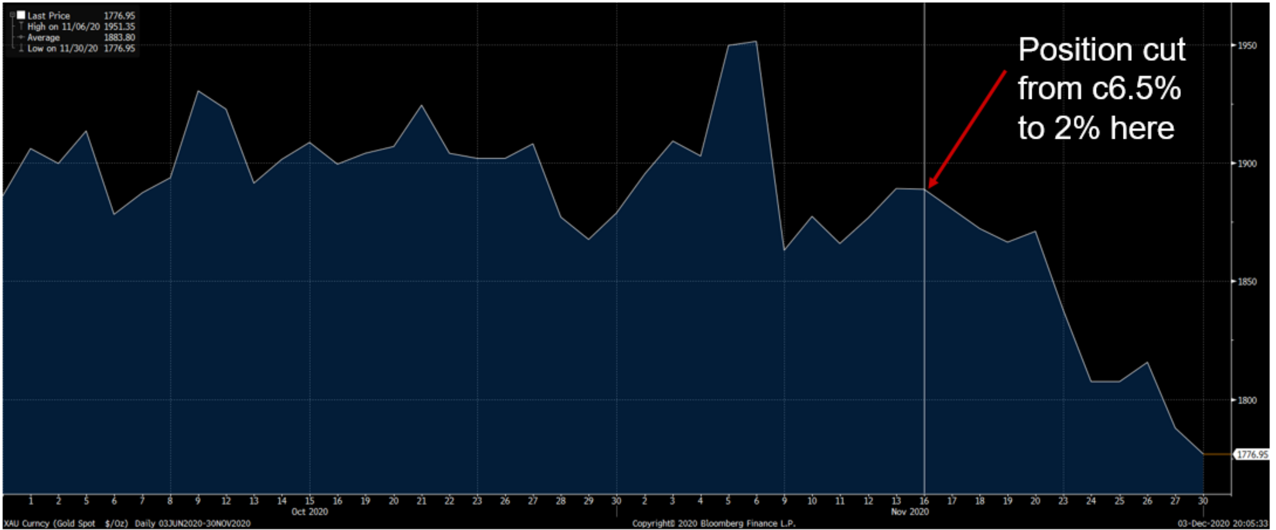
Expertise to Exceed

Despite the short term underperformance in these stocks, we continue to like the China Internet / Tech space, given 1) relative valuation vs. US tech is at a low (i.e. very attractive) and 2) it is a great way to get exposure to the digitalization trends in China and to one of the fastest growing Consumers globally. It is worth noting here that China's weight in the MSCI ACWI is about 5% and this compares to SGF's allocation of 13% (of the Equity Book). As a global investor sitting in Malaysia, we believe that it makes a lot of sense, to be invested in China Tech (hence the larger allocation to China). After all, these stocks are a great fit to our "future investment themes" which makes up the core of our investment methodology.



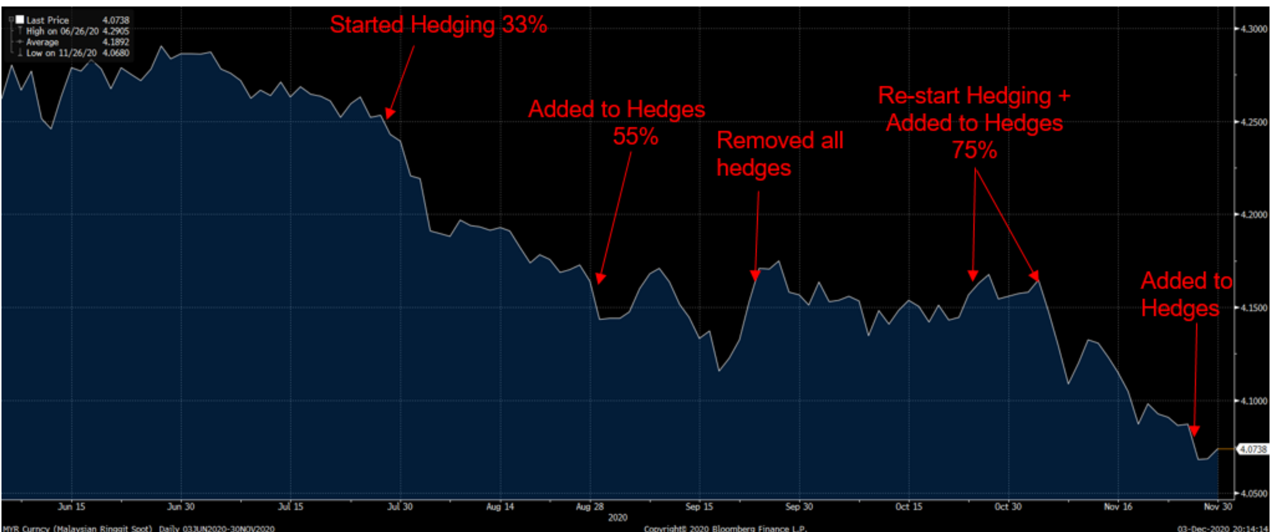
Fixed Income / Sukuk Book Performance for the month of November (all figures in MYR)
SGF's Fixed Income book returned -0.98%, this compares to the BPAM Sukuk Index return of -1.04%. Unsurprisingly, as news of vaccine fuel improving growth expectations, bond yields are starting to normalise, moving higher – leading to a negative return on bond prices. The average exposure of the fixed income book was 26.81% for the month. Sukuk contributed -0.29% to SGF's performance in November.

Gold Performance for the month of November (all figures in MYR)
After the news of the highly efficacious vaccine was announced, we reviewed our position in Gold. Even though we still think that higher inflation expectations into FY21 will keep the US real rates low (which is positive for the gold price), the increase in the 10 year yields as growth expectations improve driven by the path to herd immunity being drawn globally, gold would underperform in the short term. As such, we cut our Gold position from c6.5% to 2% on the 16th of November. Chart below shows the Gold Price (USD) and the date that we reduced our gold exposure. Even though the Gold ETF (SPDR) fell by -7.22% for the month of November, the performance of SGF's gold exposure was only -3.63%, helped by the timely reduction in exposures. Gold contributed -0.16% to SGF's performance in November.



FX Hedge Update

Last bits of housekeeping – a quick update on the FX hedges. In our October letter #8, we discussed the new hedges put in place around the end of October. We were hedged around 4.1570 and USDMYR currently trades at 4.0728. i.e. USD has weakened by 2% since we put the hedges on. Since then, we've initiated new currency hedges for Euro, Japanese Yen and further added to our USD hedge. The thesis is that Malaysian Ringgit is likely to continue to strengthen from here. Combination of early cycle plays and a global synchronized recovery next year is likely to lead to flow of money moving towards Emerging Markets, more so for commodity currencies. MYR is likely to benefit from this flow and hence hedging currency here makes sense, as Malaysian – ringgit investors.



*""Ladies and gentlemen, a reminder from the flight deck that the **fasten seat belt sign is still switched on**. Please return to your seats and keep your seat belts fastened. Thank you."*

In our last letter (attached at the end), we warned that we will be flying through a zone of turbulence. However, the markets have continued to move higher since the announcement, with no turbulence in sight. Feels like **déjà vu**? Ever been in that situation where the pilot interrupts the inflight entertainment to warn of upcoming turbulence yet 20 minutes has passed and nothing – not even a **jolt**? And you keep looking to check if the seat belt signs are turned off. Well, that's what it feels like right now.

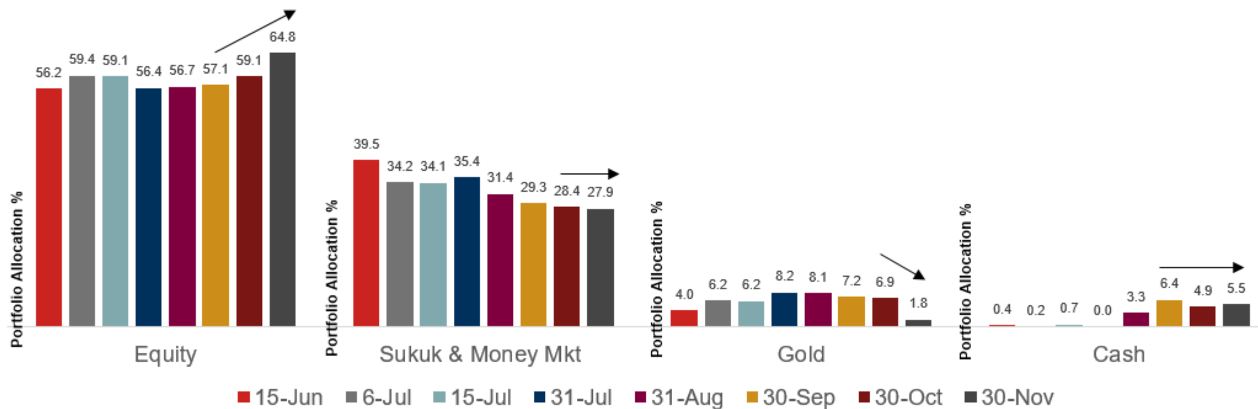
The sharp ramp in optimism as seen on the bull bear indicators is a sign that perhaps too much excitement is being priced in the markets right now. That said, this alone is not enough to catalyse a dip in the market – which is ultimately bought.

Observations on the market internals are not encouraging *(Source: UBS)*. When positioning is this extreme, a -5% to -10% pullback cannot be ruled out. We've had a record high inflows into ETF in November. The 2 periods with similar extreme inflows, Dec 14 and Jan 18 saw S&P500 fall -5-10%. History of course is not a prediction of the future. We've also had 14 days of back to back buying by retail investors – it is rare to see such a prolonged chasing of upside like this. This could be a contrarian indicator – i.e. Retail buying at the top. It is also worth noting that the cash levels at retail is back to where it was pre-COVID. As such the cash deployment likely slows from here. Retail buying has also forced Hedge funds to cover shorts, pushing net exposures of hedge funds higher at a time when the market is under hedged. Lastly, pension rebalancing at quarter end is likely to lead to more selling pressure given strong performance of equities and corporate buybacks will pause last 2 weeks of December and the first 2 weeks of January. Simply put, the position that the market is in remains nerve-racking, but we are mentally prepared for the next "Jolt", which perhaps makes it less scary.

Just for fun – here are some stats that is supportive of a "Santa Rally". In the last 75 years of markets, there were 13 observations, where the S&P500 was up 15% between Jan and Nov (like it is this year). When that happened, the market was up in December, in all 13 observations - 100% hit rate. *(Source: Fund Strat)*

The takeaway here is not that a pullback is imminent nor is December going to be a "sure thing". It is simply a reminder to remain seated and fasten the seatbelt. The reality is that any corrections from here is likely to come from the unknown, something the market has not yet considered. That said we remain with the view that this period of turbulence will pass and that "the most beautiful skies comes after the worst of storms".

Summary: Strategy & Portfolio Allocation



As for SGF's strategy, any dips from here will be bought and used as an opportunity to further increase our equity exposure into 2021. Equity risk premias remain elevated vs. history and implied volatility, meaning there is further room for valuations to re-rate higher and with earnings expected to grow by 25-30% next year – makes investing in equities extremely attractive, especially relative to bonds. Please see the previous SGF letter (below) on my thesis – for the path ahead for global equities over the next 1-2 years.

In keeping with our promise to deliver full transparency with our investors, we hope this letter finds you in good health. Thank you for investing with SGF.

Sincerely,

Hisham Hamzah

SIMPLE
SIMPLIFYING PERSONAL WEALTH
- SGF = MULTI ASSET STRATEGY
- PROPRIETARY MULTI ASSET MODEL
- ALLOCATE INTO GLOBAL EQUITIES, DOMESTIC FIXED INCOME AND GOLD
- REBALANCING DONE EVERY 2 WEEKS + SPECIAL SITUATIONS

AFFORDABLE
MAKING INVESTMENT AFFORDABLE
- 0% SALES CHARGE
- ANNUAL MANAGEMENT FEES FROM 1.2%

TRANSPARENT
BUILDING LONG TERM RELATIONS
- FREQUENT/PERIODIC INVESTMENT LETTERS TO COMMUNICATE:
-FUND MANAGER'S VIEW
-PORTFOLIO STRATEGY
-PORTFOLIO POSITIONING
-CURRENT ASSET ALLOCATION + REASONING
-MARKET NARRATIVE DISSECTING

GLOBAL
INVESTING IN THE POSSIBLE FUTURE
- FUTURE INVESTMENT THEMES
-INTERNET
-NEW CONSUMER
-HARDWARE
-SOFTWARE
-HEALTHCARE

Disclaimer

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Please note that below is a copy of SGF's Investor Letter #9

Dear SGF investors and friends,

*""The Captain has turned on the **fasten seat belt sign**. We are expecting some turbulence ahead of us. Please keep your seat belts fastened. Thank you."*

I have been pondering a larger thesis over the past few days. Specifically on the path that lies ahead for Global Equities over the course of the next 12 to 24 months. My sense is that there is a narrative building in the markets that we are facing one of the best backdrops for risk assets in years.

Let me start with a flying analogy (I started my equities career as a Transport Equity Analyst after all). Let's pretend we are flying one of the busiest routes, London Heathrow to New York JFK. Famous for breaking air speed records if one is lucky enough to catch a powerful Jetstream. Right now, a decision has to be made - a Jetstream has emerged, which could cut down our flying time, but the Jetstream is a product of a strong storm at the North Atlantic. Turbulence therefore, cannot be ruled out as we will have to fly straight into the eye of the storm. Alternatively, one could fly around the storm, but risk losing precious time. Based on the data compiled by the flight crew, the rewards of surfing this jet stream seems to outweigh the risks. As such, our flight paths have been set to meet the storm.

Now for the thesis. Over the past few years, global risks was elevated by the trade war, followed by an outbreak of a pandemic and most recently, US election uncertainty. However, the outlook is significantly improving with the V-shape recovery now more visible (K shape underneath!), greater clarity on vaccines and continued fiscal and monetary support (effectively the COVID 19 put). As such, early cycle dynamics are likely to be in play next year which is highly supportive for risk assets (i.e. 2021 = 2010, recovery post GFC).

Consensus has S&P500 EPS at $168 for next year, compared to $162 in 2019 (I remember a time when market had 2021 EPS < 2019 levels). However, I am starting to see some new FY21 EPS being published at $175-178. The top down view would be with US Nominal GDP growth expected to be +7% next year (Global +9%), expect top line to rebound considerably and with operating leverage kicking in (given all the cost control measures this year), pass through to earnings will be positive hence EPS likely to grow ahead of top line. Achieving +10% growth on EPS vs 2019 levels, (+29% vs. 2020) or $178 is not unrealistic, especially if the above conditions hold (+ partial immunity) and the run-off elections in Georgia re-affirms the split congress (and thus lack of tax rate hikes). A split congress has historically been good for the market returns.

S&P 500 currently trades at 21.5x on consensus EPS of $168 for FY21. If we do get to $175-178 (c10% higher than 2019) and put a 22x multiple, we get a price target of c3900, which is about +9.5% higher from here. There are some concerns on the long end of the rates moving higher being detrimental to equity valuations. To put into context, 10 year US yields may rise to 1.3-1.5% but this is still very low on an absolute basis. But equity risk premia is what I believe equity markets will focus on, and with room to re-rate as the conditions improve, it is likely that the PE multiple can hold despite higher bond yields. Also worth noting that market expects $2.8trn of liquidity creation in FY21. Notwithstanding this year, this number is 2x a normal year. So 10 year yields likely to remain capped via the interplay between ample liquidity and higher growth rates which puts upward pressure on rates. The unique cause of the 2020 recession has led to policy makers responding in a way that was much more forgiving than the past recessions. Most importantly, it is unlikely that this support disappears in the near term and this will support the multiple to remain higher for longer.

Simply put, think this could be a good opportunity to add more exposure to Global Equities into FY21, Doing so on any pullbacks from here, would of course be ideal. As mentioned, market internals are starting to look weak and the rise in COVID cases and vaccine news could lead to some complacency which triggers the need for further lockdowns (albeit not at the same degree as before as we know much more about the virus today). There is also the risk that further fiscal stimulus gets delayed and President Trumps remains a risk factor. Given that the market is currently under-hedged and pension rebalancing is expected to increase equity supply short term, any pullbacks in the range of -5% to -10% should be bought as the upside into next year is very attractive and we've also pointed to the amount of cash that is still on the sidelines. This needs to make its way back into the market and Equities feels like the obvious choice vs. rising yields in bonds. There is of course the risk that this view on the Equity backdrop starts to become prominent hence we get a grind higher into year-end instead.

Flight Path Redux: As such, our strategy has shifted to increase our equity exposures significantly into the year end. Having brought down equity exposure slightly as the market hit an all-time high, we are once again looking to add back exposure, which will accelerate if we do hit get any dips in the market.

"The most beautiful skies comes after the worst of storms"

In keeping with our promise to deliver full transparency with our investors, we hope this letter finds you in good health. Thank you for investing with SGF.

Sincerely, *Hisham Hamzah*