NOMURA

Global Strategic Thoughts #18

Nomura Global Shariah Strategic Growth Fund (SGF)

Dear SGF Investors and Friends,

A brief update from us this time. June was a strong month for global risk assets accompanied by a reversal in the value or reflation trade as growth or tech stocks outperformed, with US 10 year yields re-tracing lower. The June FOMC meeting sowed doubts over the feds commitment to let inflation run high, earlier taper hence causing doubts to the reflation trade.

The Fund's NAV was up +2.55% (Class A) and +2.53% (Class B) for the month of June. The chart below shows the performance of Class A, which is up +21.46% since Inception on the 2nd of June 20 to 30th of June 21.

In the month of June, the Fund's equity book (+4.45%) outperformed relative to the Dow Jones World Islamic Index (+4.02%) in MYR, with an average weight of c60% for the month of June. Equities contributed +2.62% whilst the rising COVID concerns and lockdown in Malaysia led to the ringgit weakening by 0.62%.

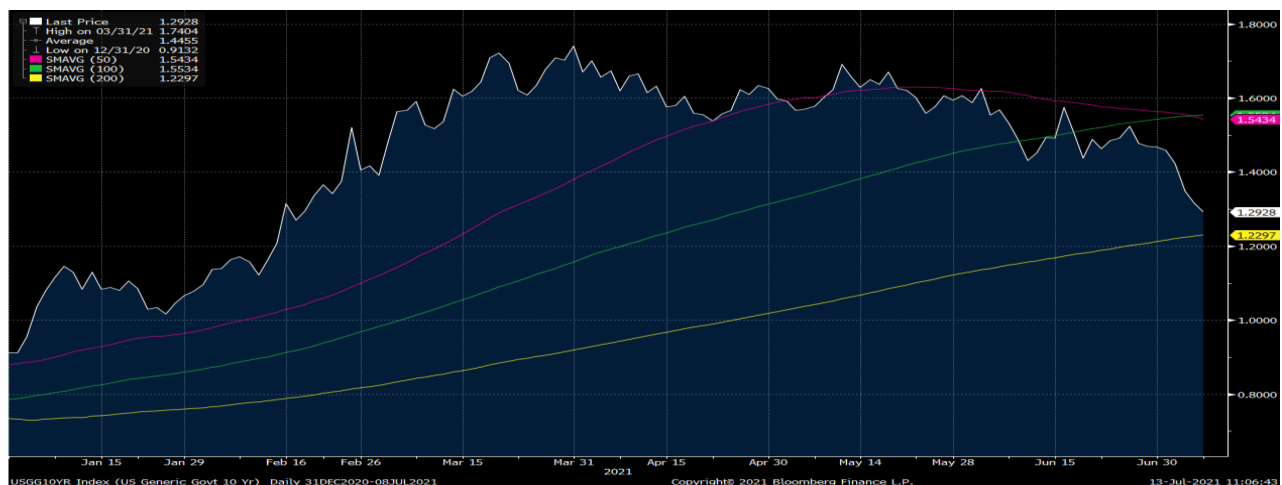
As for FX, we re-hedged some of the fund's USD exposure in late May but made the decision to close the hedges on the 17th of June, realizing a very small profit. (For those who are not familiar with the hedging strategy, a FX hedge on USD means we protect the portfolio from a weakening USD as we are invested in USD equities.) The decision to close the hedge on the 17th of June at a small profit has been beneficial as the USD continue to strengthen against MYR.

Expertise to Exceed

Our Sukuk (via the collective investment scheme, CIS) exposure contributed about +0.16% as local fixed income markets continued to get a bid amidst the renewed lockdown.

Falling US 10 Year Nominal Yields

Earlier in the year, we talked about how rising yields was a concern for the markets, but more importantly, it is the rate of change or speed of the move that matters, vs. the actual increase itself. However, over the last few weeks, US yields have been declining at a rate that alarmed the market again, raising fresh concerns on the strength of the economic recovery, amidst the rise of the Covid delta variant globally. Readers who wish to dive deeper into this topic can continue reading the technical summary at the bottom of this letter. As a brief summary, we think that the move lower is driven by some fundamental reasons but exacerbated by technical reasons. That said, as we move towards the second half of the year, we think yields will likely start to move higher again.



Final words

We continue to remain cautious on equities with allocation to equities being capped at c60% (from c69% in April). However, we think US real yields will likely rise in the second half, driving nominal yields higher which would benefit the reflation trade. As such, we will be looking to position the equity book accordingly towards the economic sensitive or cyclical sectors. **We retain our positive view on risk assets over the mid to long term and view any corrections in the market as an opportunity to buy the dip and rebuild our equity exposures.** We hope that through our dynamic asset allocation i.e. multi-asset strategy, our investors will be able to benefit from increased diversification and our constant monitoring + tweaks to the portfolio, to achieve their long term financial goals.

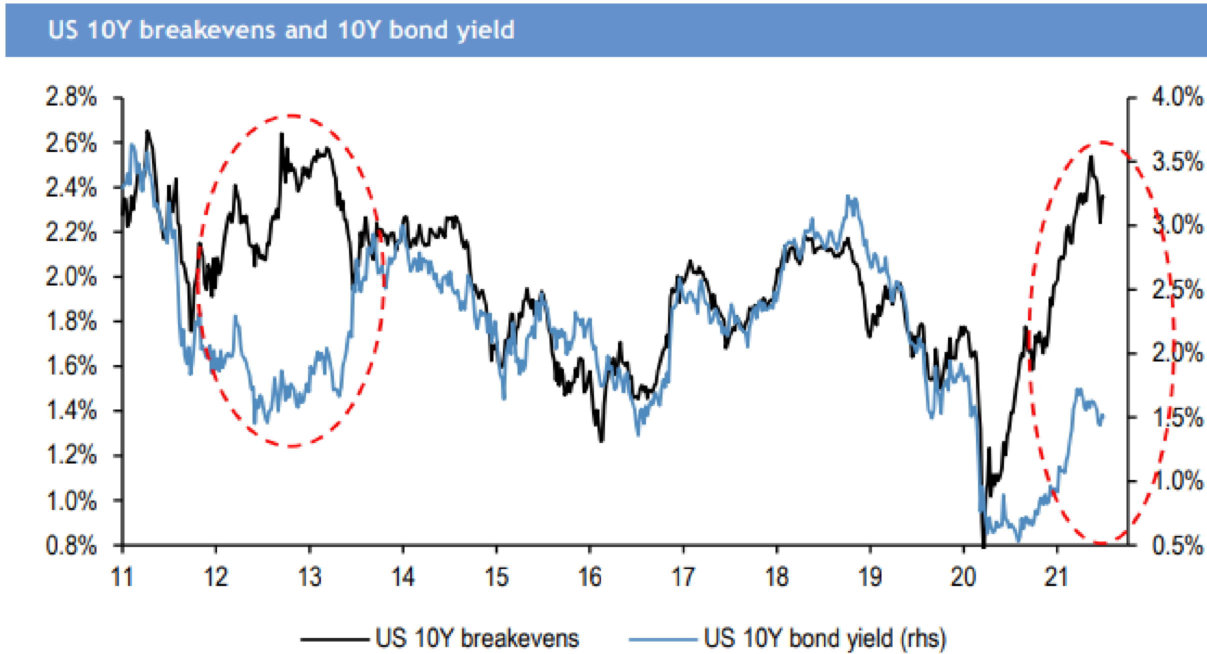
Sincerely,

Hisham Hamzah

As promised, a technical write up below for our investors who wants to dive deeper…

Updating Our Thoughts

The market was up strongly for the month of June. Unlike the previous month, Growth and Tech stocks led the markets higher as US treasury yields re-traced lower. June FOMC meeting raised sufficient doubts on FAIT thus a potential shift in the view of the members. Perhaps the Fed may not be comfortable to shrug off a hot economy, even if inflation is believed to be transitory. A faster than expected taper and rate hike would curtail inflation and growth, therefore breakeven rates declined along with real and nominal US 10 year yields (favoring Growth over value).



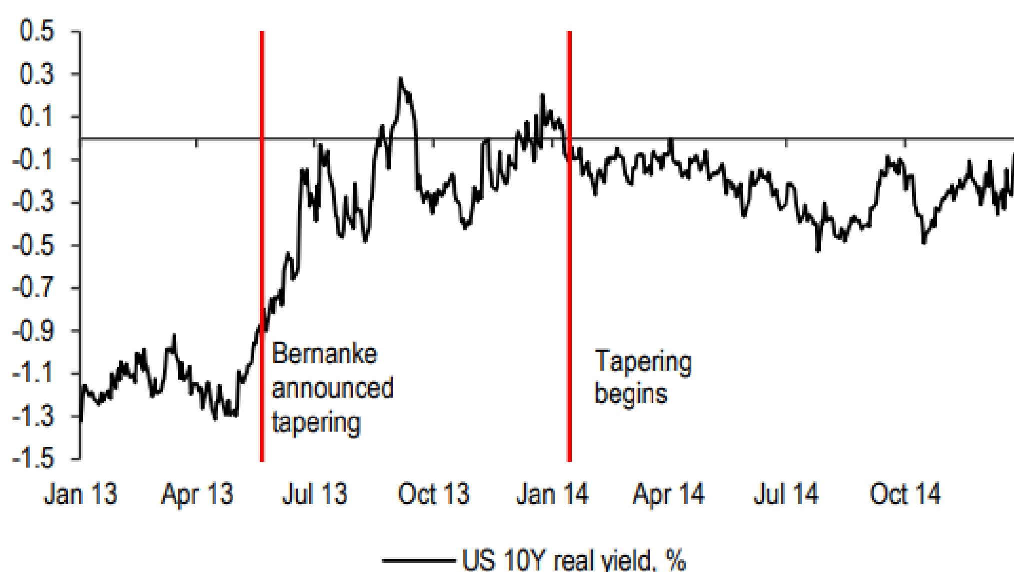
Source: JP Morgan Research, July 21

The reality is, the rise and fall of treasury yields was the main feature of the first half, and will remain central to the second half story. Interest rates, continue to be dominant macro driver of equity returns this year. As such, we think the strategy going into the second half is likely to be divided into two parts.

As the reopening of the developed economy is underway, economic growth likely peaks in either the second or third quarter. Concerns of peaking activity momentum combined with the shift in Fed policy needs to be digested (hence the reversal of value vs growth), but unlikely to be extended into the second half. Positioning

within the economic sensitive areas are no longer as stretched and the focus on the second half should be on the above trend growth.

With US 10 year real yields now back to the lows seen in May, investors need to have a view on the forward trajectory of bond yields as we move into the second half of this year. Whilst the market remains divided on the debate of inflation being transitory or structural, our sense is that there is sufficient agreement that nominal yields are likely to rise rather than fall into the year end, especially given the strong backdrop for economic growth. Also worth noting that during the taper tantrum of 2013, real yields went up significantly after taper was announced.



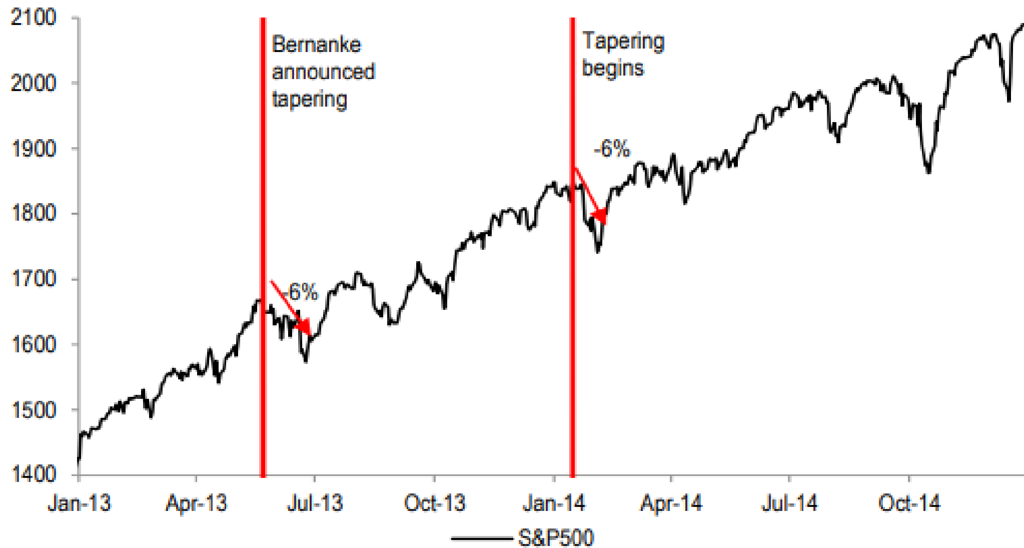
Source: JP Morgan Research, July 21

Even though strategically, decelerating economic growth will be supportive for the outperformance of Growth stocks, we think this will feature in late second half into FY22 as rising yields, fiscal package (infrastructure and tax reform) would be more beneficial to value and cyclical stocks in the near term. That said, we should continue to expect a choppy outlook from here.

Portfolio Strategy

We maintain our neutral position given the strong move higher in the market and some caution on short term corrections. From a quants perspective, we note that the 1 year correlation between equity and bonds have turned positive. Historically, this has signaled an imminent correction of -5-10% within 2 months (Source: UBS). Similarly, when taper was announced in 2013, SPX declined -6% before making new highs and similarly again when tapering actually began. We would be looking to buy these dips and deploy the cash on hand.

SPX during tapering episode



Source: JP Morgan Research, July 21

At the same time, we will also be looking at our positioning within the cyclical and economic sensitive areas, driven by real yields moving higher. The charts below shows the recent relative underperformance in the cyclical sectors.

Figure 2: Financials and Industrials have given back strong relative performance

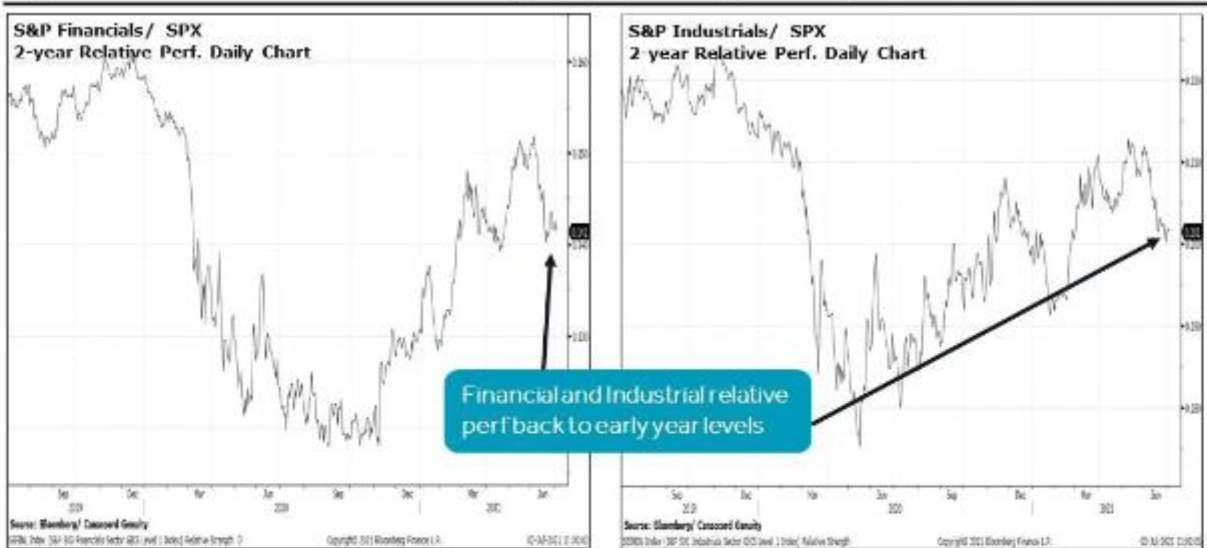
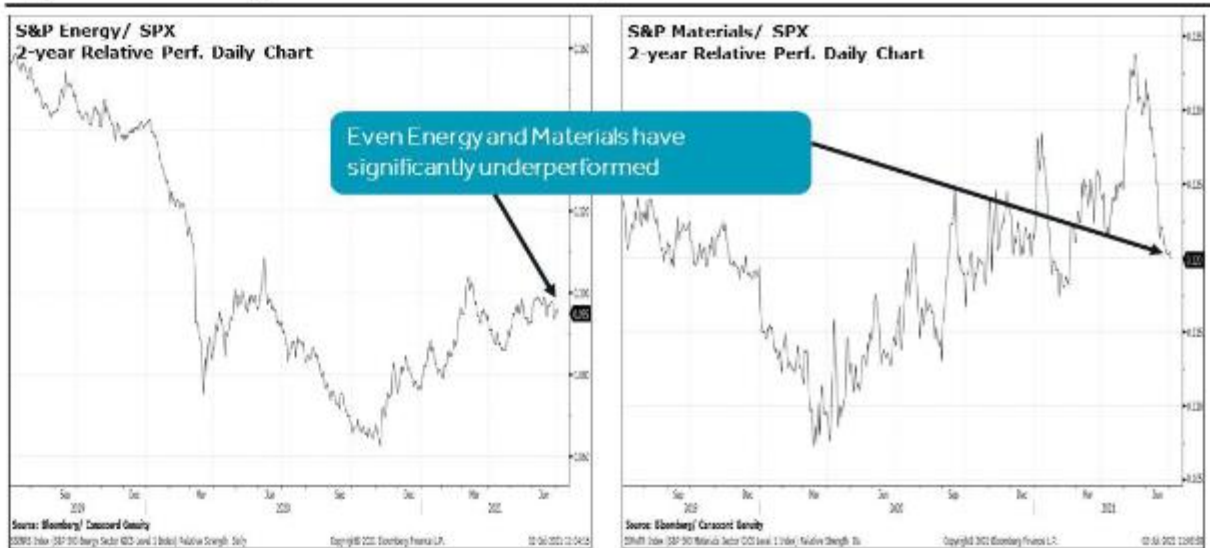


Figure 3: Even Energy and Materials have underperformed since March



Source: Canaccord Genuity, July 21

Sincerely,

Hisham Hamzah

Nomura Asset Management

STRATEGIC GROWTH FUND

Nomura Global Shariah Strategic Growth Fund

S — Simplifying Personal Wealth

A — Making Investing Affordable

T — Building Long Term Relations

G — Investing in Possible Future

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

Expertise to Exceed

Disclaimer

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