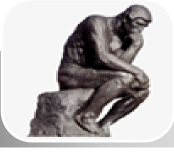
MONTHLY BULLETIN

May 2023



Thought of the Month

For the month of April 2023, the three themes that have affected our portfolios and strategies are:

1 – Growing concerns about the potential commercial real estate crash following banking crisis.

In February this year, SL Green & Co. 's CEO Marc Holliday was happily reporting that traffic to the company's buildings was picking up, and more than 1 million square feet of space was either recently leased or in negotiations. New York's biggest commercial landlord's debt was down and successfully completed new investments, while new local infrastructure additions were supporting the firm's earnings growth.

When SVB failed, shares of developers and the banks that lend to them dropped sharply, with analysts raising concerns that developers might default on a large portion of the outstanding $3.1 trillion of U.S. commercial real estate loans.

The real concern comes from the refinancing cliff in a period when rates are at highest. Higher vacancies will lower the buildings valuations and prompt the banks to tougher the loan terms. Shortage of recent sales made banks to be undecided on how much collateral to require.

Table: Gabriel Cortes / CNBC
Source: Trepp

	2023 Q1	2022 Q1	Year-over-year % change
Conduit	**$2.3B**	**$7.9B**	**-72%**
SASB	**$2.7B**	**$19.1B**	**-86%**
Large Loan	**$13.1M**	**$442.6M**	**-97%**
CRE CLO	**$1.5B**	**$15.3B**	**-90%**
Total	**$6.5B**	**$42.8B**	**-85%**

Issuance of new bonds dropped sharply – but that began last year, when fourth-quarter deal volume fell 88 percent, without causing a recession. Q1 2023 total value of CMBS issues were down over 80% from the prior year.

Emerging stagflation and the pending specific concerns created an environment for which there is no modern-day playbook and led many real estate investors to step away from the market and wait for events to play out. There are fundamental changes that emerged and that we are currently monitoring (especially in APAC where our core portfolio resides):

- Capitalization rates to raise 100-150bps over the course of the year.
- Underlying firms to start invest in defensive properties and strategies (shorter lese terms, rent indexation)
- Higher risks for development projects.
- Diversification from mainstream assets.

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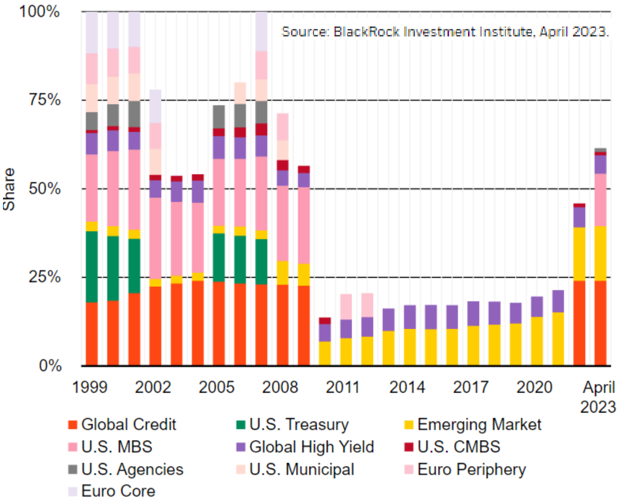
2 – Is yield back? Really?

In the new macro regime of heightened growth and inflation volatility, attention turns to bonds for income rather than earning returns from falling yields or using them as a portfolio ballast. Income is attractive, with limited credit and duration risk – or sensitivity to interest rate swings.



The share of fixed income indexes yielding over 4% is at its highest level since 2008 (see the chart published by Blackrock Investment Institute). Global investment grade credit has come roaring back after a long drought (orange bars) making bonds the favourite. We prefer earning income from high-quality bonds without reaching into riskier parts of fixed income.

There are voices supporting the income from inflation-linked bonds rather than the dividend income provided by developed market (DM) equities. Equities can offer a sort of inflation protection should companies be able to pass on higher prices but developed markets stocks are yet to price the damage expected from higher rates that would take effect the next one or two quarters. This is a risk to dividends in the next 12 months and the dividend yield of the S&P 500 is less than half of the 3.43% yield on the U.S. 10-year Treasury.

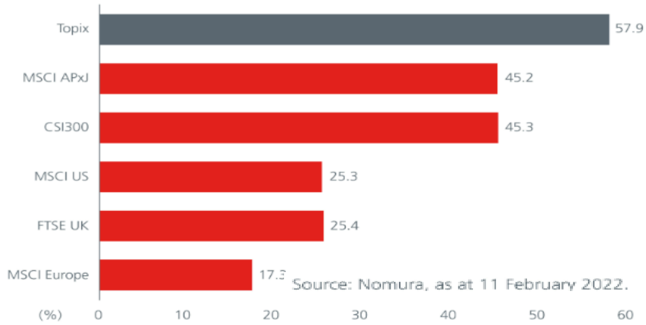
Meanwhile, U.S. stocks rallied from a four-week low after tech earnings beat expectations, helping offset renewed regional bank woes. The U.S. 2Y Treasury yield dropped to near 4.0% although the market eyes a Fed rate hike in May. U.S. PCE data showed consumer spending losing momentum over the course of the first quarter but we do not see reason for rate cut this year as inflation seems to settle well above the 2% policy target. So, no reason for euphoria yet in equity markets, but continue slow grinding away from the dark sights of recession.

3 – Attention returns to Japan and JPY.

The Japanese market was flat in 2021 and dropped around 5% in 2022, both in USD terms. Despite respectable returns in 2023, Japan was a laggard in 2022 versus other developed markets driven by several factors including the COVID outbreak and containment, political uncertainty as the country leadership transitioned to the new Prime Minister Fumio Kishida, economy slowdown from supply chain disruptions related to China, and the increases in material costs.

At the same time, we found encouraging factors that support Japanese corporates and their valuations:

- Low exposure to Russia-Ukraine war
- Improving profitability and care for shareholder wealth
- Attractive valuations compared to peers
- Net cash on balance sheets (more than 50% of non-financial companies in Japan)



Inflation in Japan is, to a certain extent, a good thing. It stimulates private sector consumption and investment borrowing, challenges the feeling of perennial low rates in Japan while allowing for growth. Japanese corporates are now seeing pricing power after years of not being able to raise prices without impacting volumes or losing market share.

Together with a stronger JPY (the new BoJ governor has its eyes on it) the Japanese companies are ripe for a good year, attracting more foreign investors by the month.

From the News Desk to the Investment Team

- April - US and EU implementing green subsidy schemes – costly from a nationalistic approach.
- April - AfCFTA opportunities for automotive businesses on the continent during 1st Business Forum.
- Apr 11th – IMF World Economic Outlook – world growth to fall to 2.8% in 2023 (from 3.4% in 2022).
- Apr 12th – US Core inflation at 5.6% (versus previous 5.5%)
- Apr 19th – China GDP increase of 4.5% Q1 2023 over the Q1 2022, boosted by consumption.
- Apr 21st – Biden to curb investment in China with G7 backing.
- Apr 25th - BRICS draws membership bids from 19 nations before Summit.
- Apr 26th - Yellen says US default on debt would trigger economic catastrophe.
- Apr 28th - Europe economy grew +0.3% in Q1.
- Apr 30th – China factory activity shrinks in April, with PMI at 49.2 versus 51.9 in March.

Another month becomes a matter of the past and we keep growing in our conviction that what Fed wants and need is a slower growth and less bank lending. In other words, the Fed prioritize curbing inflation higher than stabilizing the financial system.

Over the month of April, earnings in US and in US$ terms have underperformed the international peers. At least for the rest of 2023, we expect non-US stocks to outperform their US peers. Valuations seem much more favourable for non-US corporations which are currently trading at around 12x forward earnings, compared to 18.x for the US ones.

The MSCI Japan Index is trading at the lower end of its average price-range for the past 10 years, despite a marked improvement in corporate earnings resulting in a YTD uptick of 6.7% (performance unchanged in April). Across the past decade, Japanese corporate profits and margins have steadily improved, and although we are currently in a period of rising interest rates with peak globalisation potentially behind us, this trend has continued.

In China, insurance stocks have emerged as winners over the month, with the sector posting its best first-quarter result since 2018 amid increased demand for insurance products and better investment returns. Five listed insurers posted more than 18% year-on-year rise in profits for the Q1 2023 well above an average of 2.7% growth at all publicly traded companies on China's onshore market over the same period.

Airline ticket bookings and prices rose over the month and added to the China economy revival signals. According to data from multiple travel platforms such as Flight Master (航班管家), in April 2023, the number of domestic flight bookings for popular destinations during the May Day holiday increased 33.86% compared to last year's May Day holiday.

For the bond market, the drop in yields seen in March as markets reacted to banking sector stresses did not continue in April, with yields beginning to creep up once more. Overall, markets were calmer compared to March.

US bond yields were largely flat with the US 10-year yield edging down from 3.47% to 3.42%, with the two-year dropping very slightly from 4.03% to 4.01%. Germany's 10-year yield increased from 2.29% to 2.31%. The UK 10-year yield rose from 3.49% to 3.72% and two-year increased from 3.44% to 3.78%. Spreads tightened as markets recovered from an indiscriminate sell-off following the events surrounding Silicon Valley Bank and Credit Suisse, resulting in positive total returns across investment grade and high yield.

The S&P GSCI Index recorded a negative performance in April as weaker prices for agriculture, industrial metals and energy offset price gains in livestock and precious metals. Agriculture was the worst-performing component of the index, with sharp falls in the price of wheat and corn.

Looking forward:

- Equities sectors that would benefit most from an easier monetary policy (such as technology, consumer discretionary), have been rallying over the month and we see it continuing, especially for international markets once US$ shows weakness.
- Looking at China, sectors and fields that have been seriously affected by COVID-19 prevention and control are expected to have the larger margin of rebound, such as: healthcare, travel, high-tech and e-commerce.
- We further our analysis on Japan equities, looking for cash rich companies that give higher priority to shareholders (dividends). As the population gets older, the demographics increasingly favours the interests of pensioners who tend to be shareholders.

Investment Views

For the month of April 2023, we have continued the portfolio reshuffle in terms of stock selection – investing in Energy stocks and diversifying into North American Real Estate through monthly dividend paying REITs in Canada. A low exposure was kept in Singapore Banks since they are relatively isolated from the global banking troubles, well capitalised and providing assurance of their propensity to pay dividends. To enhance the stability of the portfolio during a turbulent month (and start of the year) we kept an average of 35% of the portfolio in cash, this being the only asset allocation variation for the month.

We're always looking for businesses with pricing power and the capability to grow earnings and, respectively, dividends at a sustainable level. Such companies have the potential to be compelling investments when markets are volatile – we are looking to add technology and consumer staples stocks, while in terms of regional allocation we expand into Japan and, to a lower extent, China through H shares.

Apr-23	GLOBAL GROWTH	APAC GROWTH	GLOBAL QUALITY	APAC QUALITY	GLOBAL MINVOL	APAC MINVOL	Global IG 1-3Y	Global IG 3-5Y	GLOBAL HY	GLOBAL DYIELD
	EQUITIES						BONDS			EQUITIES
1 MONTH	1.60%	1.14%	2.14%	-3.39%	2.67%	1.96%	0.38%	0.41%	0.64%	1.84%
1 QUARTER	6.62%	5.05%	6.34%	-4.88%	2.91%	0.75%	1.09%	0.51%	-0.36%	0.74%
1 YEAR	4.02%	2.46%	5.34%	-6.03%	2.40%	-0.12%	1.66%	-1.45%	0.71%	1.84%
3 YEARS	40.39%	35.67%	43.25%	9.54%	22.45%	6.98%	0.28%	-6.95%	10.43%	35.16%
5 YEARS	64.79%	54.68%	74.12%	14.20%	35.35%	-3.82%	7.53%	-2.71%	6.39%	33.26%
10 YEARS	177.06%	154.64%	195.73%	68.49%	101.88%	30.91%	13.78%	1.38%	34.12%	79.26%

Source: New Dimensions Capital, Bloomberg.

This month we are seeing a certain reversal in terms of factor performance and relevant effects to our portfolio:

- Growth factors 'cooled down' in April from a hot first quarter but we do not have any large exposure to it.
- APAC Quality has strikingly underperformed the peers and put some pressure on our fund.
- On a positive note, dividend yield names have performed relatively well and were a supporting factor.

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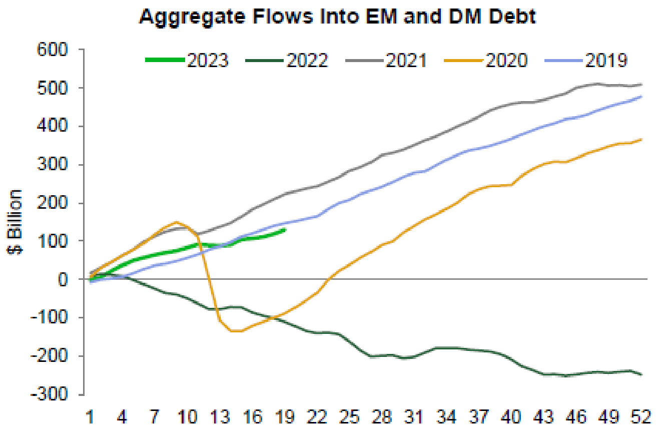
- Bonds have performed at normal levels supporting the dividend yield theme.

Holding quality APAC names (as our fund tends to do, such as Singapore REITs) was too costly this month while the exposure to dividend distributing names globally was a supporting factor. We believe in quality names in APAC and will not lower allocation in May, but we are looking to refresh the selected names (for Singapore REITs we transition from pure commercial RE into logistics, industrial and retail RE, as a region we look to transition from US real estate to Canada real estate).

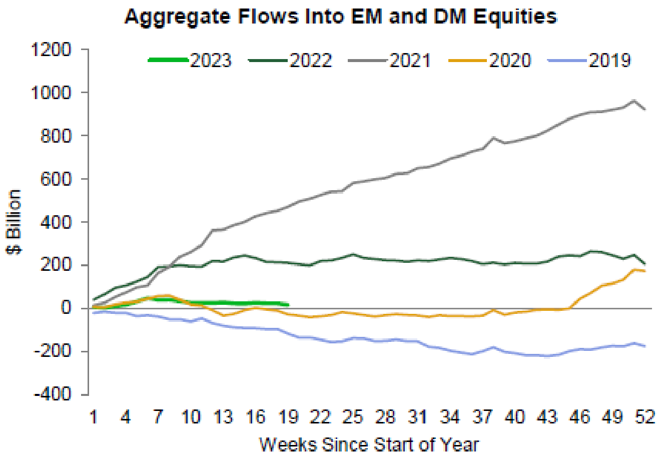
From one of the latest reports from TD securities, we have realised that interest in Equities markets has continued to fade in April, turning towards Bonds markets.

Global equities recorded the largest outflow in 10 weeks at $6.5bn, with DM seeing outflows of $9.5bn and EM garnering inflows of $3bn. In DM, the US recorded the largest outflow of $8.8 bn, while in EM, China led the way at $1.9bn. Both defensive and cyclical stocks recorded outflows, at $0.3bn and $0.2bn respectively.

Global bonds saw a 6th straight week of inflows, amounting to $11bn in the week to 3rd May. The US took in a still solid $4bn in inflows but got edged by Europe which combined for $4.4 bn, the largest since July 2021.



Source: EPFR, TD Securities



We will combine value stock-picking with selected growth names (from high beta cyclical sectors that perform well in regimes described above) as we need to be ready to participate at market recovery while defending a low-risk position. We target dividend growth through companies with growing dividends, that tend to be less risky than others since they have a history of distributing dividends for long term.

For income-focused strategies like ours, investing in dividend-growing firms can be a beneficial strategy because it offers the possibility of a consistent flow of dividends. Companies that are increasing their dividends offer some protection from inflation in addition to being essential defensive holdings. The ability of investors to maintain purchasing power with their holdings depends on a rising dividend.

To enhance our investable universe, some of the more consistent dividend growth companies are 3M Co, AbbVie, Chevron, ExxonMobil, Walgreens Boots Alliance in US, while in Singapore we have OCBC bank, AEM Holdings and VMS.

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New Dimensions Capital – About Us

“**An organization ‘s ability to learn and translate that learning into action rapidly is the ultimate competitive advantage.”**

– Jack Welch, Former CEO of General Electric.

We all strive to better ourselves and represent our business with pride and professionalism.

In April, New Dimensions Capital took the stage at the 4th annual Private Wealth Asia in Singapore and shared about core beliefs or new initiatives dedicated to service all clients and construct reliable investment solutions through asset allocation and new product development.

Several themes that were discussed throughout the panel and highly appreciated by participants were:

- Emerging dichotomy between investment valuations and the narratives ‘s trend.
- Means to build trust with investors in a period of many unknowns, besides known risks.
- Looking forward, major events that will affect investment outcomes and advisors’ capability to deliver suitable investment solutions: Core Inflation US and EU, finding value in dividend paying stocks, tactical asset allocation driven by structural and financial risks.

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