Adapting to Challenges: Navigating High Fed Fund Rates, Geopolitical Risks, and Strategic Adjustments

New Dimensions Capital
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Contents

Executive Summary

Welcome to the latest edition of the NDC Stable Income Fund Quarterly Updates, crafted to provide investors with a comprehensive overview of our fund's performance. This report covers the period from August 2023 to October 2023, offering insights into key developments and strategic shifts during this quarter.

Key Takeaways

- US inflation: Still above the Fed's 2.00% target, driven by high oil prices.
- FED Signals: Plan to hold rates higher and longer, impacting both US and global markets.
- Middle East Tensions: Escalation between Israel and Hamas adds uncertainty.

In October, global markets experienced a third consecutive month of decline, driven by diminishing risk appetite. Economic strength and persistent inflation concerns indicated a likelihood of prolonged higher interest rates. Escalating tensions in the Middle East exacerbated inflation worries, prompting investors to seek refuge in safe-haven assets like gold and the US dollar. Even US bonds were not immune, with yields rising for the sixth straight month.

While most developed markets maintained their interest rates in September, the European Central Bank (ECB) diverged from a 15-month trend by keeping rates steady in October. This shift reflected a cautious "wait-and-see" approach, aiming to bring inflation back to the 2% target over the medium term.

Inflation levels in developed markets remained elevated, raising fears of a sustained "higher for longer" scenario. The US saw an annual inflation rate of 3.7%, while core inflation slowed to 4.1%. China faced deflationary pressures, with unchanged consumer prices in September, signalling decreased demand. Euro area inflation dropped to 2.9%, and the UK's inflation held at 6.7%.

Key economic indicators in the US remained strong in October, fuelling concerns about the Federal Reserve maintaining restrictive borrowing costs. The US economy expanded by 4.9% in the third quarter, beating forecasts. Despite a tight labour market (3.8% unemployment rate in September), robust consumer spending persisted, as evidenced by a 0.7% increase in retail sales.

Global equity markets, including major indices like MSCI World Index and MSCI Emerging Markets Index, ended the month lower, reflecting negative sentiment. Major markets such as FTSE 100, DAX, Nikkei 225, and Shanghai SE Composite all recorded negative returns.

US equities, represented by NASDAQ 100 and S&P 500, also declined in October. Mega-cap technology stocks pressured NASDAQ, though year-to-date performance remained strong.

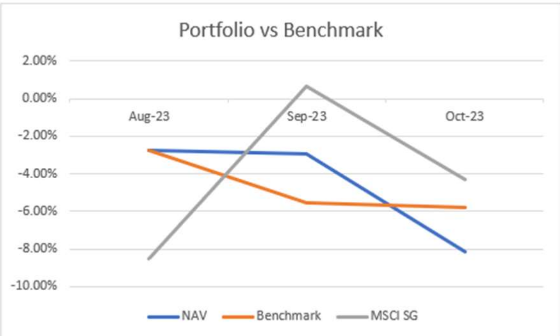
Investors faced challenges in generating meaningful returns due to weak global sentiment. Global equity markets generated weak returns in hard currency terms and added headwinds to global allocations.

The month's volatility highlighted the impact of economic events, geopolitical tensions, and short-term focus on investor behaviour. It emphasized the importance of robustness and diversification in portfolios. Despite challenges, the portfolio positioning, asset allocation, and manager selection remained sound, with a commitment to a valuation-driven approach and building resilient portfolios. Confidence in delivering on specific investment objectives persisted regardless of prevailing market conditions.

Economic Indicators

- US: Strong economic indicators, 4.9% of Q3 growth, and 3.8% unemployment
- IMF hikes US growth forecast for 2023 to 2.1% from 1.8%.
- IMF projected the global growth to fall from an estimated 3.5% in 2022 to 3.0% in both 2023 and 2024.
- Global: Major equity indices recorded declines, reflecting negative sentiment

Portfolio Performance Analysis



NDC Stable Income Fund	Q3'2023
NDC SIF NAV	8.0401
Quarterly P&L	-13.85%
Benchmark	-14.09%
Investment P&L	-8.18%
FX P&L	-2.18%
Dividend Received	1.13%
Others & Expenses	-3.63%
Dividend Payout	1.00%

	Q3' 23	Oct' 23	Sep' 23	Aug' 23
MSCI Global Index	-10.31%	-3.07%	-4.27%	-2.96%
S&P500	-8.84%	-2.20%	-4.87%	-1.77%
Nasdaq	-10.76%	-2.78%	-5.81%	-2.17%
Mega Cap Tech	-7.65%	-0.95%	-6.19%	-0.51%
Japan TOPIX	-2.96%	-3.00%	-0.37%	0.41%
Hang Seng Index	-15.48%	-3.91%	-3.11%	-8.45%
China CSI 3000	-11.39%	-3.17%	-2.01%	-6.21%
MSCI Singapore	-12.18%	-4.32%	0.67%	-8.52%
Emerging Market	-13.11%	-3.94%	-2.81%	-6.36%
NDC SIF NAV	-13.85%	-8.17%	-2.96%	-2.72%
Benchmark (S&P APAC REIT)	-14.09%	-5.78%	-5.55%	-2.76%
Lion-Philip SREIT	-14.02%	-3.51%	-3.76%	-6.75%

The aforementioned quarter proved to be one of the most challenging periods for global stock markets. A confluence of factors, including the fear of higher Fed fund rates, rising tensions in the Middle East, the US/China trade war, and China's property market concerns, contributed to an atmosphere of heightened risk aversion. These dynamics prompted a flight to safety, impacting markets worldwide.

During this period, NDC Stable Income Fund experienced a decline in Net Asset Value (NAV) of -13.85%. While this reflects a challenging environment, it is crucial to note that our benchmark, the S&P APAC REIT Index, was down by -14.09%. Moreover, the MSCI Singapore Index, given our 60% allocation to Singapore stocks, reported a decline of -12.18%.

In October, the fund incurred a one-off setup cost, amounting to -3.3% of our overall portfolio. Excluding this exceptional cost, our fund actually outperformed both the benchmark and the MSCI Singapore Index.

We believe in transparent communication, and it is essential to highlight that short-term market fluctuations are part of investing. The external factors mentioned earlier significantly influenced the market, and our performance reflects the broader market conditions.

NDC Stable Income Fund remains committed to its long-term investment strategy. The investment team is continuously monitoring market conditions and making informed decisions to position the fund for success over the long term.

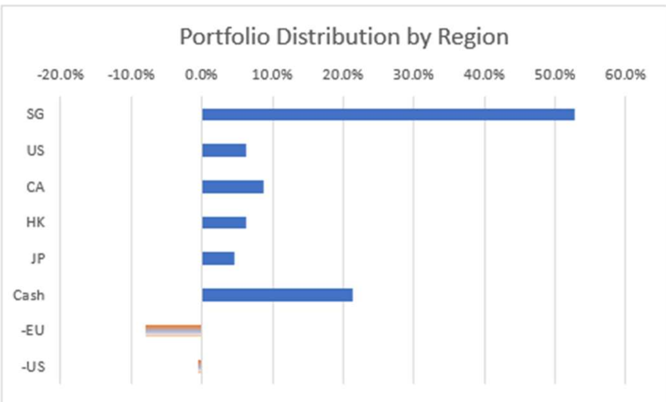
Risk

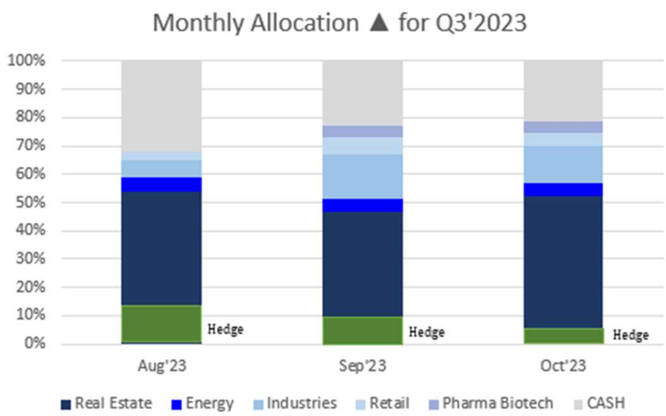
Amidst the Federal Reserve's departure from the initially projected two 25bps hikes and the decision to halt rate increase by mid-2023, the impact of prolonged and elevated Fed fund rates has reverberated throughout the entire financial market, particularly affecting Real Estate. Considering our initial analysis, we prudently downsized our US REIT holdings, maintaining a substantial portion of REITs in the Singapore market due to perceived lower leverage and more stable rental returns compared to their US counterparts.

Regrettably, our portfolio faced challenges as Wall Street banks flooded downgrade for the sector, citing the adverse effects of high Fed fund rates and a robust USD, even impacting local Singapore REITs or stocks with exposure to USD loans. Consequently, the investment committee has reached a consensus to reduce our allocation to REITs and redirect investments towards other resilient sectors, including Infrastructure, Industries, and Banks.

Recognizing the elevated concentration risk within the Singapore market, compounded by diminishing appeal among foreign investors in the Asia Pacific region, the investment committee has strategically decided to diversify into undervalued stocks in Hong Kong and Japan. This proactive approach aims to mitigate risks and optimize the overall portfolio performance in response to the evolving market dynamics.

Portfolio Composition





HOLDING NAME	NAME EXPOSURE	SECTOR	MONTHLY
MAPLETREE LOGISTICS TRUST	7.85%	REITS	
KEPPEL CORP	6.91%	MULTI-UTILITIES	
CK ASSETS	5.78%	REAL ESTATE SER	
SASSEUR REIT	5.14%	REITS	
KEPPEL REIT	4.74%	REITS	
CAPITALAND CHINA TRUST	4.62%	REITS	
SINGAPORE AIRLINES	4.49%	TRANSPORTATION	
ENBRIDGE	4.38%	OIL, GAS, COAL	
PFIZER	4.17%	PHARMA & Bio	
FRASERS CENTREPOINT TRUST	3.57%	REITS	

NOTE: Name exposures are calculated including the Cash allocation.

Real Estate: 52.2%

While real estate has historically been a cornerstone of the portfolio, recent challenges stemming from a potential Fed rate hike and geopolitical uncertainties have impacted valuations.

Energy: 4.4%

The energy sector, characterized by stability and growth potential, maintains a conservative yet strategic presence in the portfolio.

Industries: 13.1%

Industries contribute to the portfolio's diversification, and the allocation aligns with our commitment to capturing opportunities across various sectors.

Retail: 4.6%

The retail sector, with its exposure to consumer spending trends, retains a moderate position in the portfolio.

Pharma Biotech: 4.1%

The pharmaceutical and biotech sector provides a balance of growth potential and resilience, contributing to the overall diversification strategy.

Technology: 0.3%

The technology sector, while currently representing a smaller portion, is poised for strategic growth, reflecting a forward-looking approach to market trends.

Cash: 21.4%

The cash allocation has been maintained at 21.4%, providing liquidity for opportunistic investments and acting as a risk buffer in times of uncertainty.

Strategic Adjustments & Targets

Real Estate Rationalization (Target: 47.5%):

Given the recent challenges faced by the real estate sector, we propose a gradual reduction in the allocation to 47.5%. This adjustment aims to mitigate the impact of potential rate hikes and geopolitical uncertainties on the portfolio's overall valuation.

Technology Enhancement (Target: 1.5%):

Acknowledging the transformative role of technology, we recommend increasing the allocation to technology to 1.5%. This adjustment aligns with our forward-looking approach to capitalize on technological advancements across industries.

Enhanced Diversification (Target: 2.5%):

To further enhance portfolio diversification, we propose exploring opportunities in additional sectors such as healthcare and banks, with a targeted allocation of 2.5%. This move aims to capitalize on growth opportunities in areas with proven stability and resilience.

Anticipated Outcomes

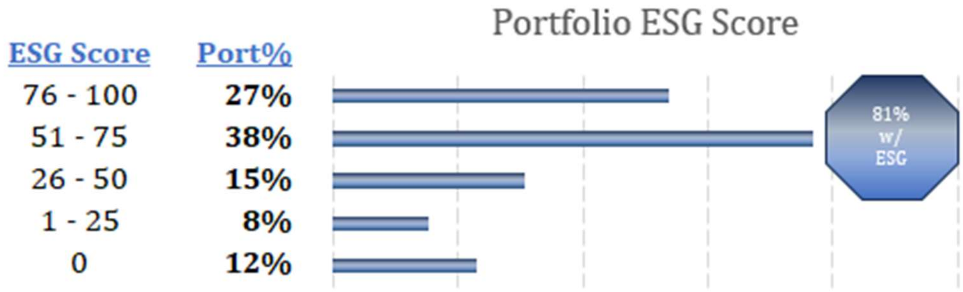
These adjustments are strategically designed to achieve the following:

- Risk Mitigation: The proposed adjustments seek to mitigate sector-specific risks, particularly in real estate, and enhance the overall risk-return profile of the portfolio.

- Growth Opportunities: Increased allocations to technology and additional sectors provide exposure to growth opportunities aligned with evolving market trends.

In conclusion, despite a challenging quarter, NDC Stable Income Fund remains committed to its long-term strategy, making informed adjustments to navigate market dynamics and deliver on investment objectives.

Sustainable Investing Snapshot



Our NDC Stable Income Fund currently allocates approximately 81% of our assets to investments with an ESG (Environmental, Social, and Governance) score ranging from 25 to 100, reflecting our strong commitment to responsible investing. Our fund strategically incorporates ESG considerations in the portfolio selection process, ensuring that our investments not only align with sustainable practices but also adhere to our prime objective of delivering optimal profitability for our investors. By combining financial performance with ethical and responsible principles, we aim to create a balanced and sustainable investment portfolio that maximizes returns while contributing positively to the broader societal and environmental landscape

New Dimensions Capital (NDC), Singapore

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With a CMS license from the Monetary Authority of Singapore, NDC underscores its unwavering dedication to delivering exemplary service to clients.