

Investment Outlook

1H22F Outlook – Late cycle rotations

- We expect the US to underperform Europe and Japan in 2022 on earlier turning of its policy cycle.
- EM will be dragged by low vaccination rates, high inflation, and interest rate pressures, but Chinese equities should benefit from policy easing.
- US Dollar decline could resume on negative real rates.

Expect lower US returns

The triple peaks in economic growth, earnings growth and policy stimulus will likely result in lower returns for US equities in 2022, in our view. Persistently high inflation – likely running hotter in the US than in Europe and Japan – will cause greater volatility as US equities are put on tenterhooks over rate hikes. The US currently has deeply negative real rates which are at around the levels of 1975, with the Taylor Rule Model suggesting the appropriate Fed Funds Rate should be 5.5%-6.0%.

[Read the commentary or download the full report from here](#)

Lim Say Boon

Chief Investment Strategist, CGS-CIMB Research

Fund analysis – A bright spark in Europe

• BlackRock European Fund (BEUA2SD LX) generated cumulative total returns of 93.30%, or **8.11% annualised** since inception in September 2013. [Stephen Gries](#) started managing the fund since 2019 and it is currently **rank 7th out of 86 managers in Europe tracked by Citywire**.

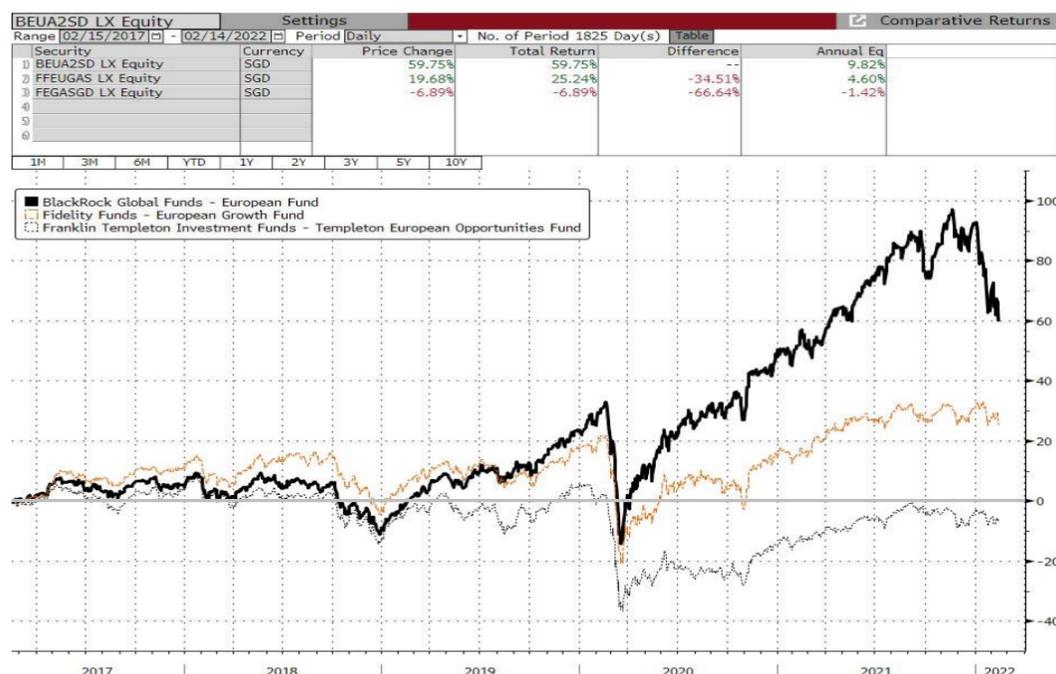
• **Risk-adjusted returns:** Both of the fund's 3yr Sharpe and Sortino ratios at **1.24-0.90**, is substantially higher than our segment average at 0.70-0.61; meaning it delivers higher returns with a lower level of risk. Our CQM model rates the fund a 3 out of 4 in February, with a score of 62.23, **ranking 23rd out of 217** in our equity segment.

• **Relative performance:** The 3yr Information ratio of the fund at **0.45**, beating our segment average convincingly at -0.43, thus exhibiting strong **outperformance** against its benchmark and peers.

• To illustrate how it fare against notable peers, we compare the Fund (**bold black line**) against Fidelity European Growth Fund (orange line) and Franklin Templeton European Opportunities Fund (black dotted line) as shown below. We observe **outperformance** after Stephen Gries starts managing the fund, achieving **9.82%** annualised returns over the past 5 years, while the peers managed 4.60% and -1.42% respectively.

• **Conclusion:** Stephen Gries [rated AA by Citywire](#), has been delivering eye-catching returns since he took over the helm; this fund has strong potential to generate alpha for investors and is suitable for investors who are looking to overweight Europe.

Jake Damien Chow, CMT (Chartered Market Technician)
Portfolio Manager, Discretionary Portfolio Management



Source: Bloomberg and CGS-CIMB Discretionary Portfolio Management 15 February 2022

Fund House

BlackRock Global Funds

NAV per unit

S\$19.33 (15 Feb) – Acc share class A2 (SGD Hedged)

Geographical Focus

European region

Risk Profile

High - Equities (P2)

Investment Objective

The European Fund seeks to maximise total return. The Fund invests at least 70% of its total assets in the equity securities of companies domiciled in, or exercising the predominant part of their economic activity in, Europe.

Fund Manager

Stefan Gries, CFA

Bloomberg Ticker

BEUA2SD LX

ISIN code

LU0963555726

Inception date (share class)

04 Sep 2013

Total expense Ratio

1.82%

Annualised Returns (3yr)

17.04%

Volatility (3yr)

17.47%

Sharpe Ratio (3yr)

1.24

Information ratio (3yr)

1.18

Sortino ratio (3yr)

0.90

Click on [factsheet](#) & [product highlight sheet](#)

Source: Bloomberg and Morningstar, 15 February 2022

GEOGRAPHIC BREAKDOWN (%)

	Fund	Benchmark
United Kingdom	18.02%	23.07%
Denmark	15.83%	3.86%
Netherlands	15.56%	7.12%
Switzerland	15.21%	15.53%
France	14.04%	17.77%
Sweden	6.94%	5.73%
Germany	3.73%	13.74%
Italy	3.03%	3.86%
Cash and/or	2.68%	0.00%
Derivatives		
Spain	2.00%	3.54%
Other	2.96%	5.79%

SECTOR BREAKDOWN (%)

	Fund	Benchmark
Industrials	27.25%	14.66%
Information	21.14%	7.73%
Technology		
Health Care	14.50%	14.41%
Cons. Discretionary	13.90%	11.40%
Materials	6.88%	7.45%
Financials	6.35%	17.06%
Cons. Staples	3.39%	12.73%
Communication	3.05%	3.73%
Cash and/or	2.68%	0.00%
Derivatives		
Energy	0.86%	5.34%
Utilities	0.00%	4.21%
Real Estate	0.00%	1.27%

Source: BlackRock, 7 February 2022

9 Top Picks from FundsPrimo

(our proprietary quantitative ranking model)

Equity Funds

Fund Name (Bloomberg Ticker)	Geo Focus	CQM Rating #	Annualised Return (%)		Sharpe Ratio (3yr)	Volatility (%) (3yr)
			3Y	5Y		
BlackRock - India Fund (MLINA2D LX) - Acc	India	4	14.50	11.21	0.95	25.18
Fidelity - Global Technology Fund (FFGTAAS LX) - Acc	Global	4	26.63	-	1.81	16.40
BlackRock - Continental European Flexible Fund (BGCEA2U LX) - Acc	Europe ex UK	3	18.60	13.75	1.29	18.50

Fixed Income Funds

Fund Name (Bloomberg Ticker)	Geo Focus	CQM Rating #	Annualised Return (%)		Sharpe Ratio (3yr)	Volatility (%) (3yr)
			3Y	5Y		
Pimco GIS Global Real Return Fund (PIMRRAE ID) - Acc	Global	4	4.99	3.59	0.86	6.33
Franklin Global Convertible Securities (FGCSAAU LX) - Acc	Int'l	3	13.03	11.71	1.04	14.33
BlackRock Global Funds - China Bond Fund (BGRBA2U LX) - Acc	Multi	3	6.12	6.39	0.94	5.73

Multi Asset Funds

Fund Name (Bloomberg Ticker)	Geo Focus	CQM Rating #	Annualised Return (%)		Sharpe Ratio (3yr)	Volatility (%) (3yr)
			3Y	5Y		
Franklin Diversified Dynamic Fund (FTDDAAS LX) - Acc	Int'l	4	9.79	4.89	1.16	9.40
BlackRock - ESG Multi-Asset Fund (BGFSAA2 LX) - Acc	Int'l	4	10.35	8.20	1.41	8.09
First Sentier Global Balanced Fund (FSIGLBA SP) - Acc	Global	3	7.21	5.59	0.96	8.09

To access the full list of our FundsPrimo or our full product list, please contact your sales representative

Footnote:

Fund ratings screened based on our proprietary screening model (1: Uninspiring, 2: Fair, 3: Strong Performer, 4: Outstanding)

* Data from a share class with a longer history

Acc = accumulation fund

Dist = distribution fund

Methodology of FundsPrimo

(CQM Mutual Fund Screener)

CQM mutual fund screener is a multiple regression model that can handle vast amount of data. The aim is to objectively identify fund managers that consistently stand out in our three pillars of investment performance metrics which are predictive of future performance when constructed into a model.

First pillar: Relative outperformance: we apply "Information Ratio" to assess the funds' performance relative to their benchmarks/peers.

Second pillar: Risk-adjusted returns: we apply "Sharpe Ratio" to evaluate portfolio returns adjusted for every unit of risk it bears.

Third pillar: Downside volatility: we apply "Sortino Ratio" to determine a manager's ability in mitigating downside risk during market declines.

This model uses all available statistical data from these three pillars to populate a numerical score for each fund within their asset class universe before ranking them into 4 different quartiles thus deriving a CQM rating with 1 being the worst, and 4 being the best.

For inclusion into FundsPrimo, the investment team only select the top-ranking funds (average 15 percentile across product universe) from three different asset class segments such as; equities, fixed income and multi-asset. FundsPrimo therefore comprises of 50* names drawn from our entire product universe approximately at 339* funds currently.

In addition, we have also handpicked and showcase 9 top-ranking funds with the least overlapping geographical exposure within FundsPrimo to help our advisors/clients to identify the right funds faster.

*figures are subject to change.

Key Risks

Type	Key Risks
Fixed Income Funds	<ul style="list-style-type: none"> Investor will be exposed to credit risk of the issuer. Investor will incur losses to their investment if the issuer is unable to meet their contractual obligations or failure to repay the loan. Investor will be exposed to interest rate risk. Investor is at risk of suffering losses from an adverse change in interest rate. Investor will be exposed to inflation risk. An investment return's purchasing power will be affected by inflation rates Investor will be exposed to liquidity risk. Investor face a risk of not being able to sell an investment that is declining in value Investor will be exposed to country risk. Adverse change in geopolitical environments may result in a decline of an investment's value resulting in losses
Equities Funds	<ul style="list-style-type: none"> Investor will be exposed to equity market risk. Adverse changes in the underlying asset will result in investor suffering losse Investor will be exposed to liquidity risk. Investor face a risk of not being able to sell an investment that is declining in value Investor will be exposed to country risk. Adverse change in geopolitical environments may result in a decline of an investment's value resulting in losses
Multi-Asset Funds	<ul style="list-style-type: none"> Investor will be exposed to currency risk. An investor will incur losses due to an adverse change in exchange rates Investor will be exposed to credit risk of the issuer. Investor will incur losses to their investment if the issuer is unable to meet their contractual obligations or failure to repay the loan Investor will be exposed to interest rate risk. Investor is at risk of suffering losses from an adverse change in interest rate Investor will be exposed to inflation risk. An investment return's purchasing power will be affected by inflation rates Investor will be exposed to equity market risk. Adverse changes in the underlying asset will result in investor suffering losses Investor will be exposed to liquidity risk. Investor face a risk of not being able to sell an investment that is declining in value Investor will be exposed to country risk. Adverse change in geopolitical environments may result in a decline of an investment's value resulting in losses Investor will be exposed to equity market risk. Adverse changes in the underlying asset will result in investor suffering losses

Glossary

Name	Definition
Alpha	Alpha (α) refers to excess returns earned on an investment above the benchmark return and is commonly used to describe an investment strategy's ability to beat the market, or its "edge". Active portfolio managers seek to generate alpha in diversified portfolios, with diversification intended to eliminate unsystematic risk.
Annualised return	Annualised return or annualised total return is the geometric average of an investment's earnings in a year. It shows an investor what they would earn if the annual return was compounded over a period of time and allows objective comparison of the returns of any asset over any given period.
Beta	Beta (β) is a measure of the volatility - or systematic (non-diversifiable) risk - of a security or portfolio compared to the market as a whole. It effectively describes the activity of a security's returns as it responds to swings in the market.
Core & Satellite also known as (Strategic & Tactical)	This strategy splits the portfolio is split into 2 segments; the "core" is usually the largest and passively managed by allocating to low cost funds to harvest market returns (beta). The "satellite" is usually smaller allocations and actively managed where investors can overweight in specific sectors, regions or styles in an attempt to ride economic and market trends to produce outsize returns (alpha).
CQM	CQM is the abbreviation for "CGS-CIMB Quantitative Models ". This family of proprietary models are built on machine learning techniques; using large amount of statistical inputs to evaluate and identify investment opportunities.
Information Ratio (IR)	Information ratio is a measurement of portfolio returns beyond its benchmark, usually a market/sector/industry index, compared to the volatility of those returns. IR is often used as a measure of a portfolio manager's level of skill, ability and consistency to generate excess returns relative to a benchmark, by incorporating a tracking error, or standard deviation component into the calculation.
NAV	Net Asset Value per share is the current dollar value of a single stock, mutual fund, exchange-traded fund (ETF).
Sharpe Ratio (SR)	Sharpe ratio a measure of historical risk-adjusted returns . The higher the ratio, the greater the investment return relative to the amount of risk taken, and thus, the more attractive the investment. This ratio can be used to evaluate a single stock or investment, or an entire portfolio.
Sortino Ratio	Sortino ratio is a variation of the Sharpe ratio that differentiates harmful volatility from total overall volatility by using the asset's standard deviation of negative portfolio returns - downside deviation - instead of the total standard deviation of portfolio returns.
Volatility	Volatility is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security. Volatility is often measured as either the standard deviation or variance between returns from that same security or market index.

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