

11th July 2024

Re: 4th Investor Newsletter – July 2024 (Mid-Year Market Review and Outlook 2024)

We are pleased to share with you an overview of our observations, strategies, and performance.

Telecom Stock on HKEX: One of our telecommunication stocks listed on the Hong Kong Stock Exchange (“HKEX”) is currently undergoing contract renewal review by the government. We are monitoring the situation and prepared to rebalance into other defensive stocks should there be no clarity.

Singapore Macro Fund Shuts (January 2024): The Hang Seng Index (“HSI”) recently declined to a nearly 15-year low. A Singapore based macro fund, which was long Hong Kong and short Japan, announced closure due to intense trading pressure.

During the COVID-19 pandemic, oil prices went negative for the first time on record, forcing several funds to shutter. Shortly thereafter oil bottomed out and subsequently rebounded.

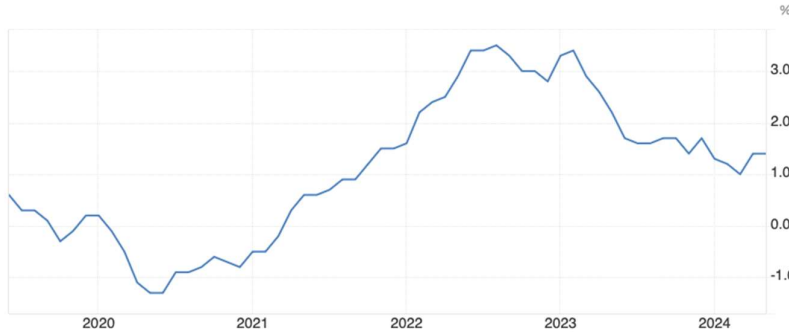
Commercial Real Estate Stress (February 2024): Several US regional banks are beginning to see stress in their commercial property loan portfolios. New York Community Bank, listed in the US, and Aozora Bank, listed in Japan plunged close to 30% within two days in February this year. This strain, exacerbated by higher debt costs and vacancies among commercial REITs and developers, underscores the challenges in this sector. We do not hold exposure to US banks.

REIT Suspension of Dividends (February 2024): A Singapore listed REIT with US assets recently suspended its dividend due to mark-to-market revaluation issues triggering loan-to-value (LTV) covenant breaches. This is the second Singapore listed REIT with commercial assets in the US to suspend its dividend in recent months. We do not directly own any REITs but do have exposure to a select few property developers. We continue to monitor our exposure.

Japan & Swiss Central Bank Actions (March & June 2024):

1. Japan's central bank increased its lending rates for the first time in 17 years in March this year. This marks the end of Japan's easy monetary era. More than anything, the increase is symbolic (rate hike of 10bps) as it signals interest rate normalization in this new era.
2. Switzerland's central bank was the first in the developed market to cut interest rates by 25bps. Looking at the historical inflation of Switzerland, its inflation rate stayed constant below 2% and trended downwards for more than 6 months before a cut of 25bps was triggered. This could be an indication as to under what conditions other central banks will cut.

Swiss Inflation Rate



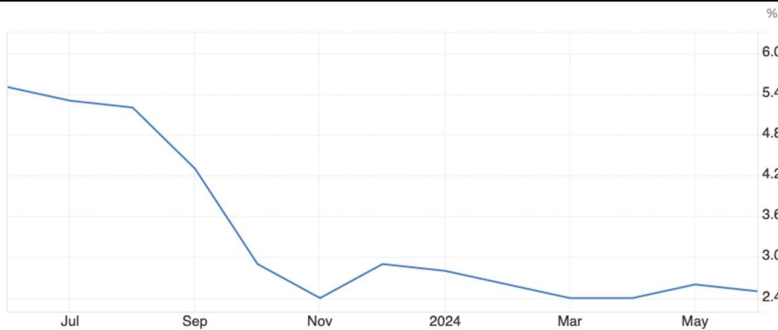
Source: Swiss Federal Statistical Office

Federal Reserve Rate Cut Expectations (April 2024): The market now expects zero to two rate cuts due to stickier inflation data. We believe that higher-for-longer rates are here to stay and expect normalized Fed Funds rate to be at 3-4.5% for the long term. We continue to monitor the strength of the USD and expect the USD to continue to strengthen against other currencies. We could consider allocating funds into short-term AA to AAA rated credits in our portfolio moving forward should we have surplus cash.

HKSE 10-Day Rally (May 2024): The Hong Kong stock market seems to have bottomed after a continuous 10-day rally in May. This was the best 10-day event for HKSE since 2018. Our portfolio has benefited due to our allocations to the HK market over the last 1-1.5 years.

ECB Cuts Rates (June 2024): The European Central Bank (ECB), the central bank of the European Union (EU), another major developed economic bloc, cut its interest rate by 25bps after the CPI for Europe stayed below 3% for 6 months. The CPI in May for the eurozone was reported to be around 2.6%. Thus far, the central banks have only acted when the CPI ranges below 2-3% for 6 months consecutively or more.

EU Inflation Rate



Source: Swiss Federal Statistical Office



Magnificent Seven Stocks (June 2024): The market cap of the magnificent seven stocks (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, Tesla) reached USD\$16 trillion as of 26 June 2024, representing 35% of the S&P 500 index. We remain cautious of richly valued stocks.

Arkenomics Provident Fund's Asset Allocation

We continue to find Asian sectors attractive, particularly the Hong Kong and Singapore markets, despite the recent rally in Hong Kong from April to May. Our geographic allocation remains Asia-centric, with 86% in listed Asian stock exchanges (predominantly Singapore and Hong Kong), 8% in the US, and 6% in Europe. The current portfolio yield stands close to 5%, and a more defensive approach could increase it to 6%.

Please refer to Appendix 1: Fund Portfolio Sheet for further information on the Portfolio composition.

Arkenomics Provident Fund Performance in First Half 2024 & Since Inception

Arkenomics Provident Fund Class A shares generated a net total return of approx. 8.26% in SGD terms for the first half of 2024 and approx. 23.58% in SGD terms for the 21-month period since inception Oct'22 to June'24. This translates to a compounded annual growth rate of 12.86% / year.

Arkenomics Provident Fund Class B shares generated a net total return of approx. 8.40% in SGD terms for the first half of 2024 and approx. 23.37% in SGD terms for the 21-month period since inception Oct'22 to June'24. This translates to a compounded annual growth rate of 12.76% / year.

While our performance has exceeded that of the Singapore and Hong Kong markets, we recognize it trails behind the MSCI ACWI index, which has a heavier US focus. Nevertheless, we believe our portfolio is well-positioned to capitalize on favorable market conditions.

Outlook for H2 2024:

We remain committed to acquiring assets at attractive valuations, prioritizing cash flow and good dividend yields.

Sincerely,

Peter Lum Shuncaï
Portfolio Manager
Arkenomics Provident Fund



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