Horizon Asia Opportunity

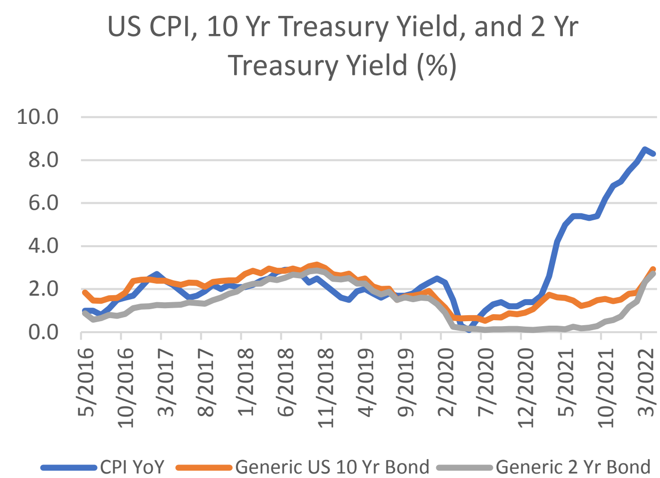
Q1 2022 Commentary

May 2022

In the first quarter of 2022, the Horizon Asia Opportunity Institutional Composite (the "Strategy") declined 1.1%, net of fees, compared to the MSCI All Country Asia Index (the "Index"), which declined 7.4%. The Strategy's holdings in a Hong Kong based shipping company, and Japanese trading and metal mining companies contributed positively. Internet service companies and an IT system integrator in Japan detracted from performance. 2022 started in a rather negative tone in the global financial markets. The past winners of the 15-year bull market suffered some of the largest negative quarterly returns since the market bottom made during the financial crisis of 2008.

	Total Return Q1 2022
S&P 500 Index	-4.6%
NASDAQ Composite Index	-8.9%
Bloomberg Barclays US Aggregate Index	-5.9%
MSCI EAFE Index	-5.7%
MSCI Emerging Markets Index	-6.9%

Source: Bloomberg



Source: Bloomberg

The Federal Reserve Bank (FRB) started a well anticipated interest rate tightening cycle in March by raising the Fed Funds rate by 25 basis points. Inflation pressure in the US has accelerated since the beginning of the year, and was worsened by the Russian invasion of Ukraine in late February.

The sector performance during the quarter was the mirror image of the prior 15 years, as energy sectors topped the list globally by producing double digit positive returns. Technology sectors were the largest underperformers, reversing long term winning streaks.

The MSCI AC World Index performed in line with its US counterpart in the first quarter, declining 5.25% while the MSCI US Index fell 5.21%. In the first quarter we had seen a wide dispersion of returns among the countries. This is a similar outcome to the S&P 500, where sector return dispersion was unusually high.

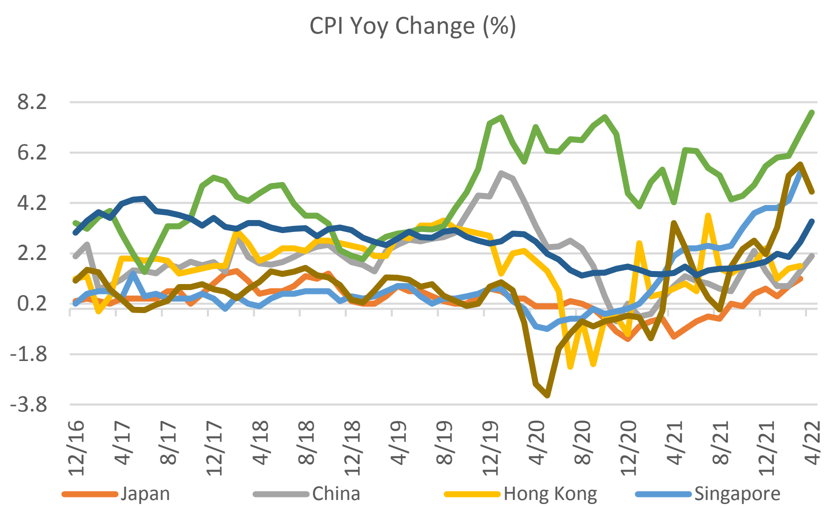
MSCI Index Returns (%)		
	2021	Q1 2022
MSCI Japan	2.00	-6.54
MSCI China	-21.67	-14.19
MSCI Hong Kong	-3.95	-1.82
MSCI Taiwan	26.64	-6.42
MSCI Philippines	-3.58	2.43
MSCI Korea Index	-8.41	-9.71
MSCI India	26.37	-1.77
MSCI Indonesia	2.58	9.92
MSCI Malaysia	-6.10	1.57
MSCI Singapore	5.74	-1.83
MSCI Thailand	-0.90	3.96
MSCI Australia	11.60	7.64
MSCI AC Asia Index	-2.28	-7.43
MSCI ACWI	19.04	-5.25

Source: Bloomberg. In local currency, except all country indexes in USD

Aside from the differing weightings of the technology sector in each country index, currency was another important differentiator of investment returns. The standout was the Japanese Yen. Though it is difficult to explain movement of the currencies, we believe the two key factors were inflation expectation parity against the US, and expected policy directions by the Asian central banks such as the Bank of Japan (BOJ), Peoples Bank of China (PBOC) and Federal Reserve Bank (FRB) in the near future.

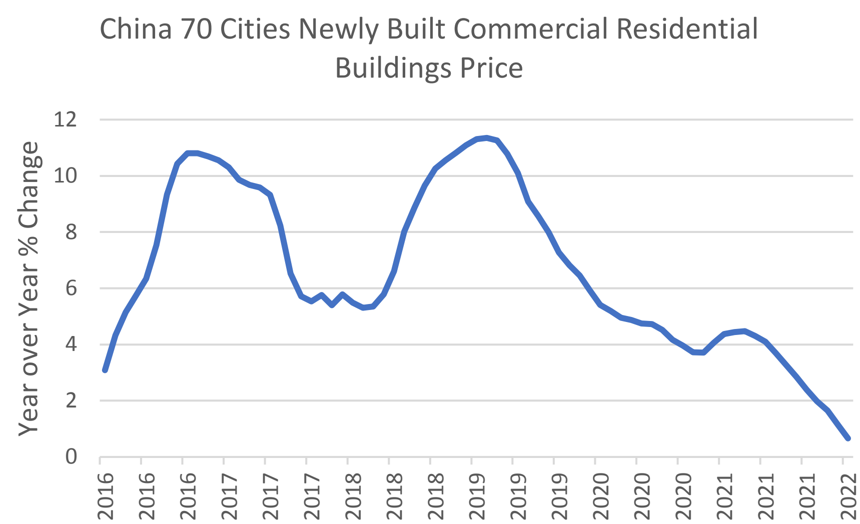
Currency Performance	Q1 2022
Japan	-5.41%
China	0.25%
Hong Kong	-0.46%
Taiwan	-3.53%
Philippines	-1.43%
Korea Index	2.15%
India	1.88%
Indonesia	-0.83%
Malaysia	-1.00%
Singapore	-0.47%

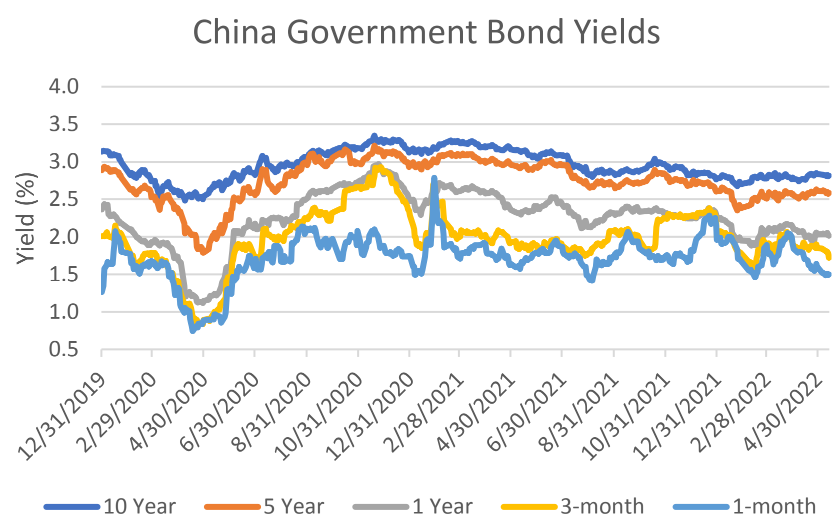
Asian countries generally have not yet seen a major uptick in inflationary pressure as of the first quarter. There were a few exceptions, such as Singapore and Thailand. However, we fully expect that, over time, some weak currency and/or resource poor countries will see accelerating inflationary pressures. Increasing commodity prices will impact the inflationary outlook for countries such as Japan, India and China more than for commodity producing Indonesia and Malaysia.



Source: Bloomberg

China is a standout in the fight against the global COVID pandemic, with a renewed surge in cases in the first quarter of 2022. The country's harsh response to this healthcare crisis has caused a slowdown of its economy. The important housing sector, for example, has experienced a marked slowdown The cases in the main cities such as Shanghai and Beijing have been increasing rapidly and the Chinese government's zero COVID policy forced a draconian and unpopular lockdown of these cities. The national vaccine produced by Sino Pharma seems to be less effective than the Western counterparts produced by Pfizer and Moderna against the newer and more contagious variants. The Chinese government has shifted its policy toward easing key interest rates downwards to combat the economic slowdown caused by the earlier lockdowns in some cities to prepare for the Beijing Winter Olympics. In January, PBOC cut the one year medium-term lending facility rate and reverse repurchase rate by 10 basis points. They are, however, in the rather difficult position of choosing economic stimulus or defending the Chinese Yuan. So far, stabilizing the currency seems to be winning, and PBOC has not employed more aggressive monetary easing policy yet. We believe the peak of the resurgence of COVID cases in cities such as Shanghai has passed, and eventually the government will ease these rather harsh measures to contain it. However, we believe the biggest casualty might be certainty of Xi Jinping's third term as the Chinese president. In addition to his handling of resurgent COVID, China's dealings with Russia after the Ukrainian invasion and the Democratic nations' policy reactions to Russia shows the risk of Xi's diplomatic handlings of this crisis and the eventual Taiwan question. We expect the policy balance will shift to economic growth in the coming months, leading up to the important 20th National Party Congress.





Source: Bloomberg

However, his harsh treatment of some technology companies and other political intrusions to private enterprise are likely to continue, in order to meet the Chinese Communist Party's (CCP) political agenda. We remain cautious toward investing in the Chinese equity markets.

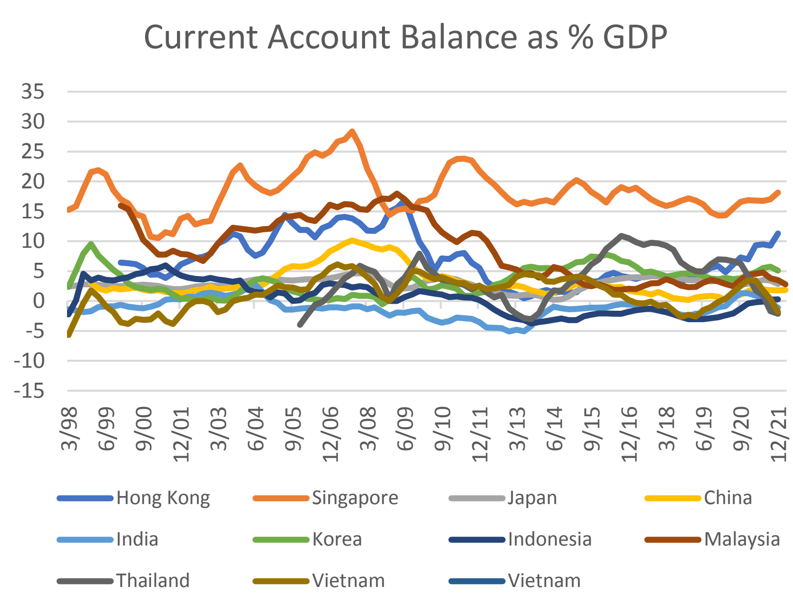
Aside from the Chinese equity markets, we believe that the Asian equity markets should outperform the rest of the world, especially the US equity markets. Valuation levels remain very attractive, and some of the major economies in the region are not in sync with US cycle so far, giving the regional central banks much more flexibility.

Global Valuation Comparison

	P/E FY22e	P/E FY23e	P/B FY22e	EV/EBITDA FY22e	ROE FY22e	Div Yield FY22e	10yr Bond Yield Current
Japan	12.0	11.5	1.1	7.2	9.0	2.6	0.2
China	10.4	8.8	1.1	10.7	11.3	2.8	2.8
Asia ex-Japan	11.8	10.5	1.4	9.2	11.7	2.9	NA
US	17.7	16.2	4.0	11.9	23.0	1.6	2.0
Europe	12.6	11.7	1.6	8.1	10.3	3.4	0.6

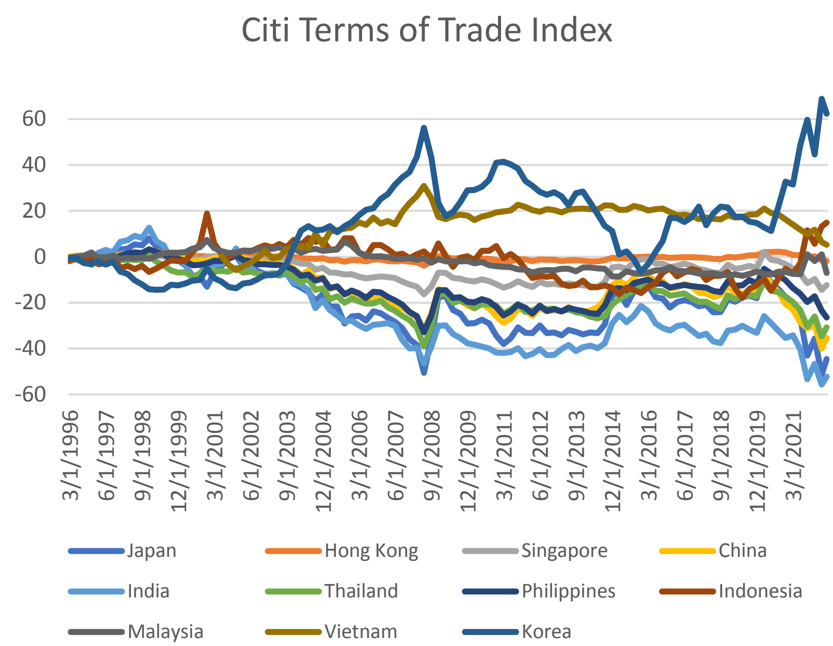
Japanese universe is TSE 1. Chinese universe is MSCI China Index. US universe is S&P 500. European universe is STOXX Europe 600. Asia ex Japan universe is MSCI AC Asia ex-Japan Index. As of 5/13/2022.
Sources: Bloomberg

In the past, a strong US dollar and peaking economic cycle contributed to many Asian markets' severe downturns, such as in 2008-2009. We are carefully watching the trends in current account positions and terms of trade in Asia.



Source: Bloomberg

In this economic cycle, unlike in developed countries such as U.S. and EU, we have not seen much excess, and we are encouraged by the more sensible central bank policies in many Asian countries. In the last 12 months, we have shifted our portfolio focus from consumer companies to energy and other resources companies such as INPEX (1605 JP) in our portfolio. We still hold a high level of cash at the moment (approximately 16%) and continue our efforts to find attractive candidates for long term capital appreciation.



Source: Bloomberg

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The MSCI All Countries Asia Index® captures large and mid-cap companies represented across 3 Developed Markets countries and 8 Emerging Markets countries in Asia. With 930 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI China A Index measures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The index covers only those securities that are accessible through "Stock Connect".

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

TOPIX is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the TSE First Section. TOPIX shows the measure of current market capitalization assuming that market capitalization as of the base date (January 4, 1968) is 100 points. This is a measure of the overall trend in the stock market and is used as a benchmark for investment in Japanese stocks.

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