To: Our Valued Investors

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Date: February 2021

Global economies started the new year on shaky grounds. The virus continued to spread fast in developed countries such as the EU and UK, which have again imposed lockdowns. The lockdowns are likely to hit their Q1 GDP. Over in Asia, Japan, Malaysia, South Korea and Thailand have restricted movements, pushing back the full resumption of manufacturing production to possibly Q4. This will help China keep its lead in market share.

Equity markets, however, shrugged all these off and raced ahead, matching the pace of vaccination. The inauguration of President Biden and the Democrats' surprise Senate sweep renewed optimism that policies passed by Trump may be reversed. That could potentially include normalising trade and geopolitical relationships. President Biden's proposed US$1.9tr stimulus bill - final amount might be lower - should also help to arrest the decline in consumer sentiment and uptick in jobless claims. He has, moreover, pledged to hasten vaccination. A flattening of the virus curve is crucial for economic recovery. More COVID vaccines have passed clinical trials, though variants of the virus might disrupt the vaccination process.

An anticipated liquidity influx from the stimulus, together with low interest rates, has been driving up asset prices. The uptrend looks set to continue, possibly till vaccination is completed and herd immunity achieved. Or when business operations return to normalcy. Or when handouts run out. We expect the earliest to be end-Q2. Energy demand is likely to be among the first to gain from the stimulus. With subdued capex, the retirement of rigs and unchanged supply growth from OPEC and non-OPEC producers, oil companies, especially the upstream players, are likely to have a less nasty year in 2021.

High retail participation has also been adding liquidity to markets, so much so that asset prices are now powered more by fund flows than information. To guard against any market correction, we focus our investments on businesses that have been pummelled by COVID but have survived, offer high dividend yields and are free-cash-flow-rich. We also pick growth stocks that can deliver growth through the cycles and deeply undervalued value stocks.

The Singapore market is playing catch-up, having lost 12% in 2020. The country's 2020 GDP fell 5.8%, but is expected to grow by more than 7% in 2021. Singapore secured S$17.2bn of investment commitments in 2020, up 13% yoy. This almost matched its historical high of S$18bn in 2008. Electronics accounted for 38% of the total commitments. December exports rose 6.8% yoy, led by electronics' 13.7% increase. A string of privatisations in the over-looked tech sector – Hi-P, Sunningdale and CEI – rejuvenated interest in the sector, in particular the chip industry. The latter accounted for 6.9% of Singapore's GDP in 2019.

We are bullish on the semiconductor sector. Demand is driven by 5G, electric vehicles, storage and cloud migration, AI and IOT. Already, electric-vehicle production is facing a chip shortage. We think the DRAM market may also face undersupply in 2021. Validating the sector's bullish outlook, TSMC announced a capex plan of US$25-28bn for 2021, up from US$17bn in 2020. It has also guided a 23-26% annual increase in revenue for the current year. TSMC is a customer of AMD, which is a major customer of UMS.

China's Two Sessions - the 13th National Committee of the Chinese People's Political Consultative Conference (CPPCC) and 13th National People's Congress (NPC) - will open in Beijing on March 4. At these Congresses, details will be mapped out on how the country intends to realise its economic goals and build its new development paradigm.

The Chinese economy expanded 2.3% in 2020. Growth looks set to top 8% in 2021. The Congresses will lay out plans and targets for the country to make domestic consumption its key economic pillar and China self-reliant in crucial technologies. Higher domestic consumption will be positive for retail loans, such as credit-card loans, and fee income. China Merchant Bank and Postal Savings Bank of China are the stronger players in retail banking.

The Two Sessions may also address US-China relations. While we expect relations to stabilise, we do not expect any thawing. The migration of manufacturing out of China might continue, though the pace could slow down. China's integrated supply chain and large domestic market are just too hard to beat. Although its labour costs are higher than Indonesia's and Vietnam's, total production costs taking into account network effects are almost similar.

Its central bank issued a consultation draft for the regulation of non-bank payment institutions on January 20. Anti-monopoly was mentioned for the first time and the draft suggests that the central bank will hold talks with the institutions on their market dominance if the market shares of the top 1, 2 and 3 reached 1/3, ½ and 3/5 of the total market respectively. Total market is defined as the national electronic payment market, which includes electronic and bank card payments. Currently, no institution – neither Alipay nor Tencent Pay - constitutes a monopoly.

The market has been anticipating more anti-trust regulation by the central authorities. This has cast a pall over Internet platforms, in particular Alibaba, Tencent, JD.com and Pinduoduo. The draft thus comes as a great relief as the authorities appear to be striking a balance between promoting innovation and reining in monopolistic acts that could hurt consumers. Remember that for Internet companies to be efficient and price-competitive, scale is paramount.

The greater risk to equity markets remains the virus and renewed lockdowns. Countries that can achieve herd immunity earlier will be able to return to normalcy earlier. Singapore plans to achieve 100% vaccination by Q3 2021. The US and EU are targetting 70-80% vaccination - the rate for herd immunity - by end-2021. This implies global economies can aim to return to pre-COVID sanity only at end-2022.

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