

CASTLESTONE
MANAGEMENT



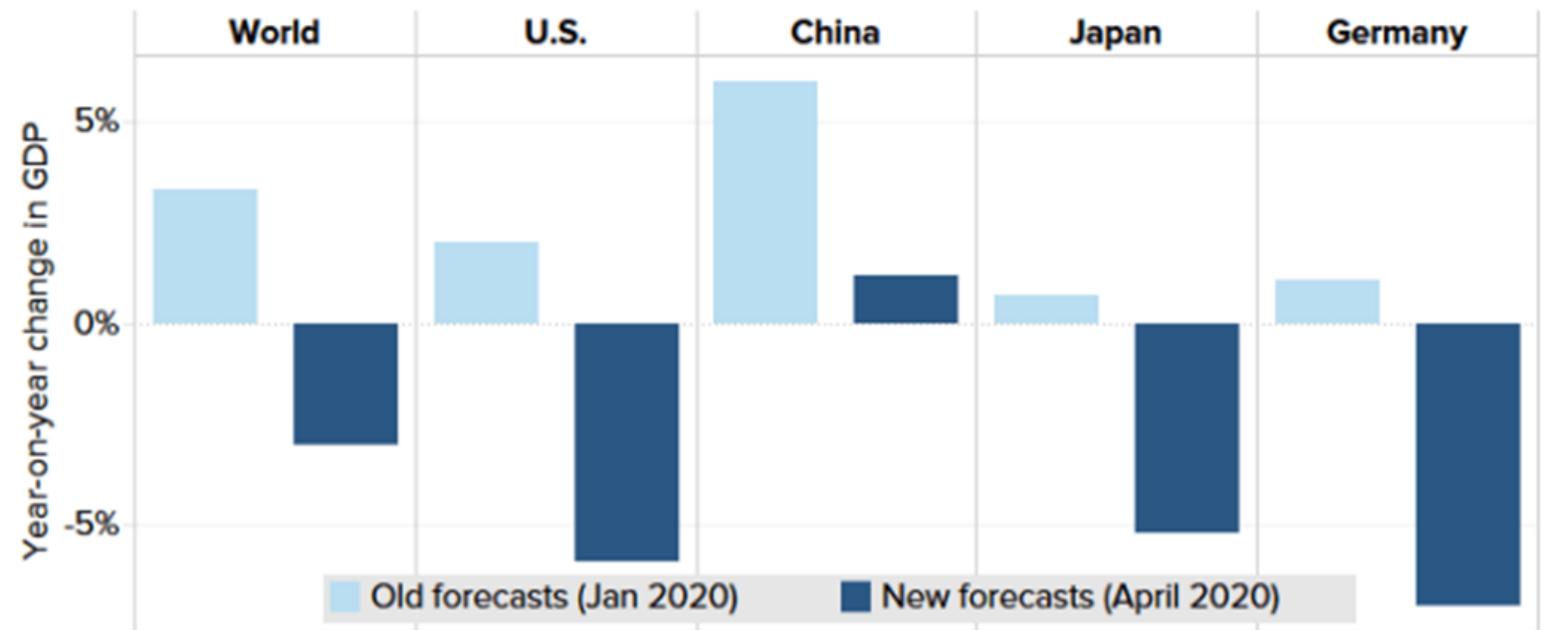
Advisor Bulletin May
18/05/2020

Current Global Economic Outlook

- A global recession is possible.
- Stock markets have factored in a recession.
- Economies will likely improve from here.
- As countries start to re-open businesses, this should help to re start economies.

Economic forecasts downgraded for 2020

The International Monetary Fund cut its GDP projections for all regions



SOURCE: IMF World Economic Outlook (April 2020)

We are moving past the crisis

- The Bloomberg U.S. Financial Conditions Index tracks the overall level of financial stress in the U.S. money, bond, and equity markets to help assess the availability and cost of credit.
- S&P 500 tends to follow the Index higher.
- Financial conditions in the U.S., as measured by Bloomberg, show that the brief risk of a liquidity-driven crisis has been almost totally recovered.



Federal Reserve is ready to act.

Powell pointed to uncertainty over how well future outbreaks of the virus can be controlled and how quickly a vaccine or therapy can be developed, and said **policymakers needed to be ready to address “a range” of possible outcomes.**

“It will take some time to get back to where we were,” Powell said in a webcast interview with Adam Posen, the director of the Peterson Institute for International Economics. “There is a sense, growing sense I think, that the recovery may come more slowly than we would like. But it will come, and that may mean that it’s necessary for us to do more.”

For a central banker who spent part of his career as a deficit hawk and has tried to avoid giving advice to elected officials, the remarks marked an extraordinary nod to the risks the U.S. economy is facing from the combined health and economic crisis brought on by the pandemic.

The **U.S. central bank has slashed interest rates to near zero** and set up a broad network of programs to ensure financial markets continue to function during the pandemic. It has also established precedent-setting lending facilities for companies and the first-ever corporate bond purchases.

<https://www.reuters.com/article/us-usa-fed-powell/in-nod-to-grim-u-s-outlook-feds-powell-calls-for-more-fiscal-support-idUSKBN22P1FG>

Strategist's comments on Fed action

“What’s happening in the market is — two mantras really working, one is ‘don't fight the Fed’ and the other is ‘the market's always four months ahead of GDP,’” said Bannister.

Bannister says the current market is reflecting an inflection upward in GDP sometime later this summer — around August.

“If neither of those happen, if the Fed pulls back, or if the economy can’t inflect, then the market's going to go down. Otherwise it's just going to trade sideways here and to just digest its recent gains,” said Bannister.

“If we get the recovery of the consumer by August, then what will happen is the market rising now is justified, but it still has to consolidate in the near term until we have more visibility post August,” he added.

Work from Home becomes the norm, led by Tech Companies

Now, it's time for another dose of reality. Without a vaccine or a broad testing plan on the horizon, **Facebook is telling employees not to come back for the rest of the year. Alphabet Inc.'s Google is saying something similar. And Twitter Inc. is going even further, saying that even after the virus threat recedes, employees should feel free to work from home permanently.**

For the first time since the start of the pandemic, employees can plan for the long-term. And they're realizing that without their offices—with all of those free meals, shuttle commutes and team bonding exercises—there's nothing tying them to the Bay Area. For a new story in Bloomberg Businessweek, the authors talked to employees who haven't been able to afford to buy a home near their offices, and who are now realizing that their tech salaries will stretch a lot further somewhere else entirely.

- COVID-19 has forced companies and individuals to change their work habits.
- As more people work from home this increases amount invested in technology. As more people use the likes of MS teams and ZOOM.

https://www.bloomberg.com/news/articles/2020-05-08/internet-giants-to-staff-plan-to-work-from-home-for-the-year?cmpid=BBD051320_TECH&utm_medium=email&utm_source=newsletter&utm_term=200513&utm_campaign=tech

Assets are moving into Equites

Over the quarter, there was heavy rotation into equities, even as panic gripped share markets. During March, **global equity ETFs gathered net inflows of ~US\$31B, while fixed income ETFs reported outflows of ~US\$27B for the month.** For the quarter, global equity ETFs received net inflows of ~US\$69B, nearly double the ~US\$36B received in Q1 2019. By contrast, global fixed income ETFs took in ~US\$9B for the first quarter of this year, massively down from net inflows of ~US\$56B in Q1 2019.

In terms of regional exposures, using **U.S. ETFs as our example, North American exposures were by far the most popular region in Q1, receiving ~US\$57B in inflows, while Asia Pacific and European exposures saw outflows of ~US\$5.5B and ~US\$3.4B respectively.**

At a sector level, **Technology was the standout, doubling net inflows from ~US\$5.1B in Q4 2019 to ~US\$10.1B in Q1 2020.** Investor interest in technology was no doubt assisted by the sector's relative outperformance vs. the broader market over the quarter.

- ETFs have seen significant and continued inflows
- North American Equites have seen an outsized proportion of these funds
- Technology ETFs have benefitted greatly from these inflows

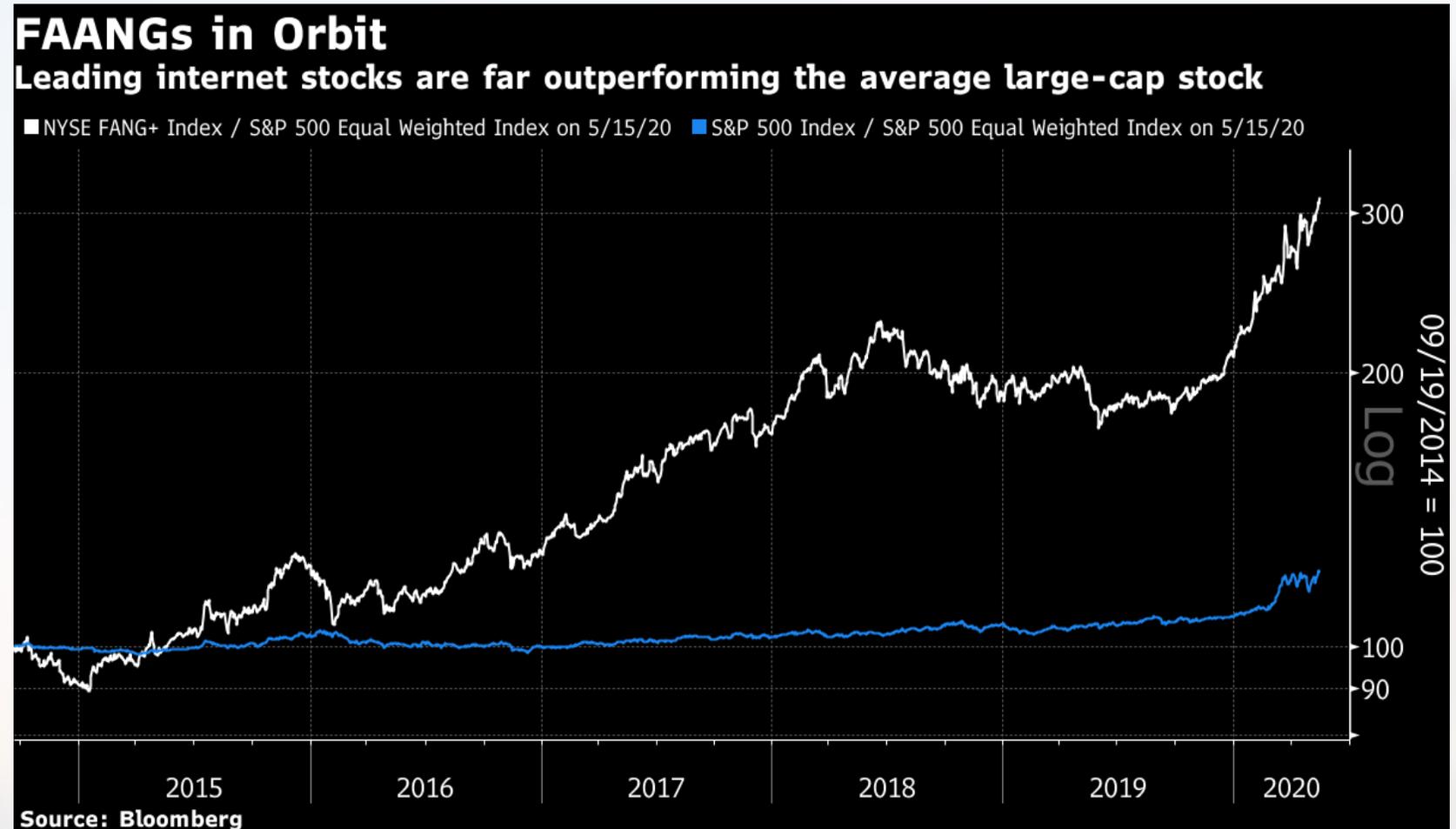
Outstanding inflows into technology stocks related ETFs



<https://www.marketscreener.com/MANAGEMENT-SOLUTIONS-CO--60225962/news/TrackInsight-Outstanding-inflows-into-technology-stocks-related-ETFs-30607427/>

Equal – weighted index comparison

The market cap-weighted version of the S&P 500 is strongly outperforming the equal-weighted version, in which each stock accounts for 0.2% of the index. And the NYSE FANG+ index, featuring the dominant internet groups such as Amazon.com Inc., Apple Inc. and Netflix Inc., continues to beat the average stock to a remarkable extent.



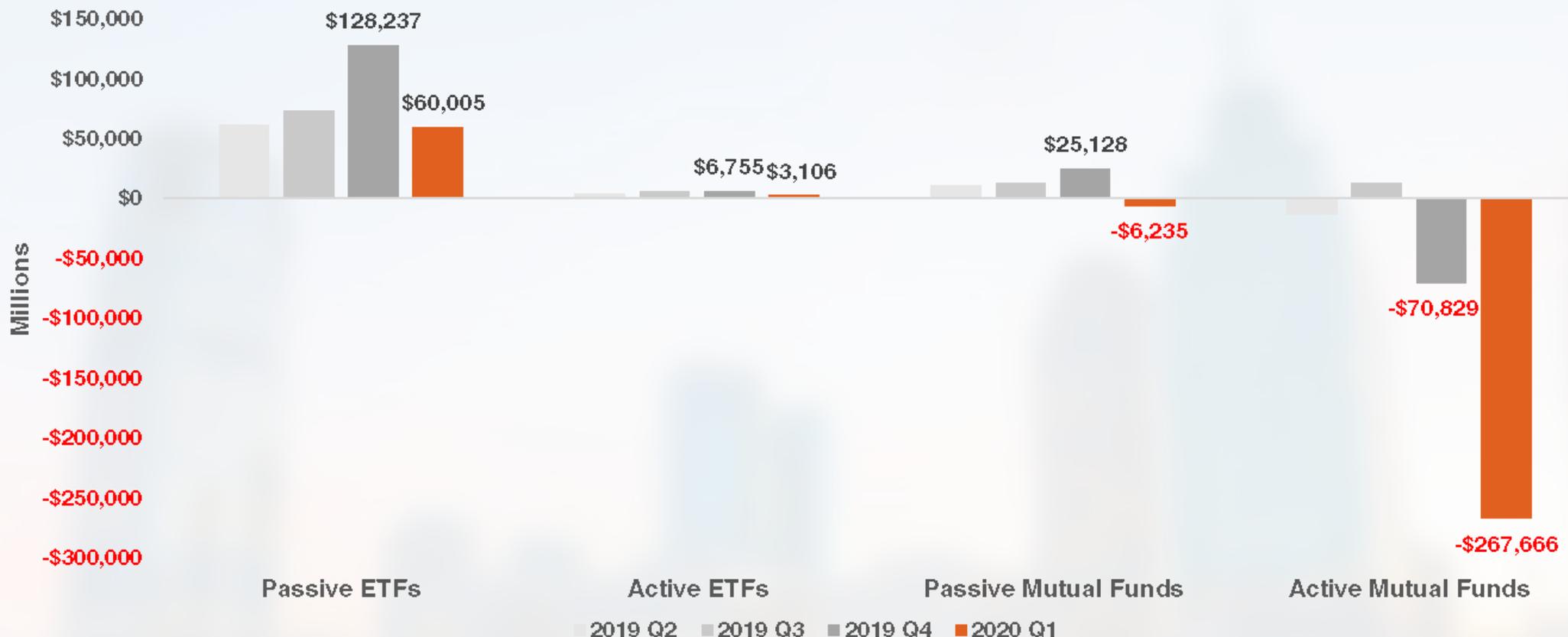
Asian Technology stocks are closing the gap with their US brethren.

- It's noticeable that one of the few significant changes brought by the pandemic remains intact; after years of moving roughly in line with the rest of the emerging market complex, China is now outperforming by far.
- FAANG+ has a 11.52% weighting in Chinese equities. As at 30/04/2020.



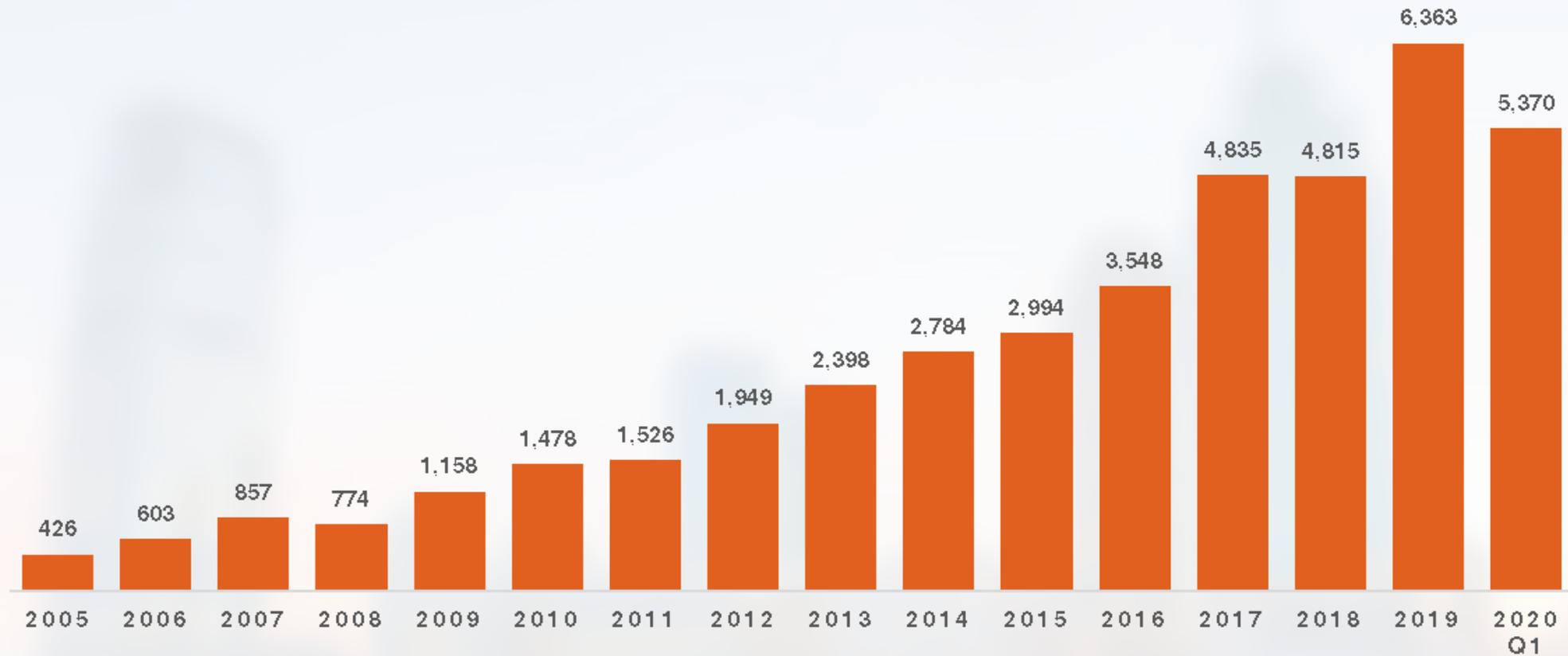
ETFs vs. traditional mutual funds.

US Flows by Structure 2019/20 (US\$m)



Flows into passive management outpace active management.

Global ETF Industry AuM (US\$B): 2005 - Q1 2020



Trump touts stock market as reason for re-election

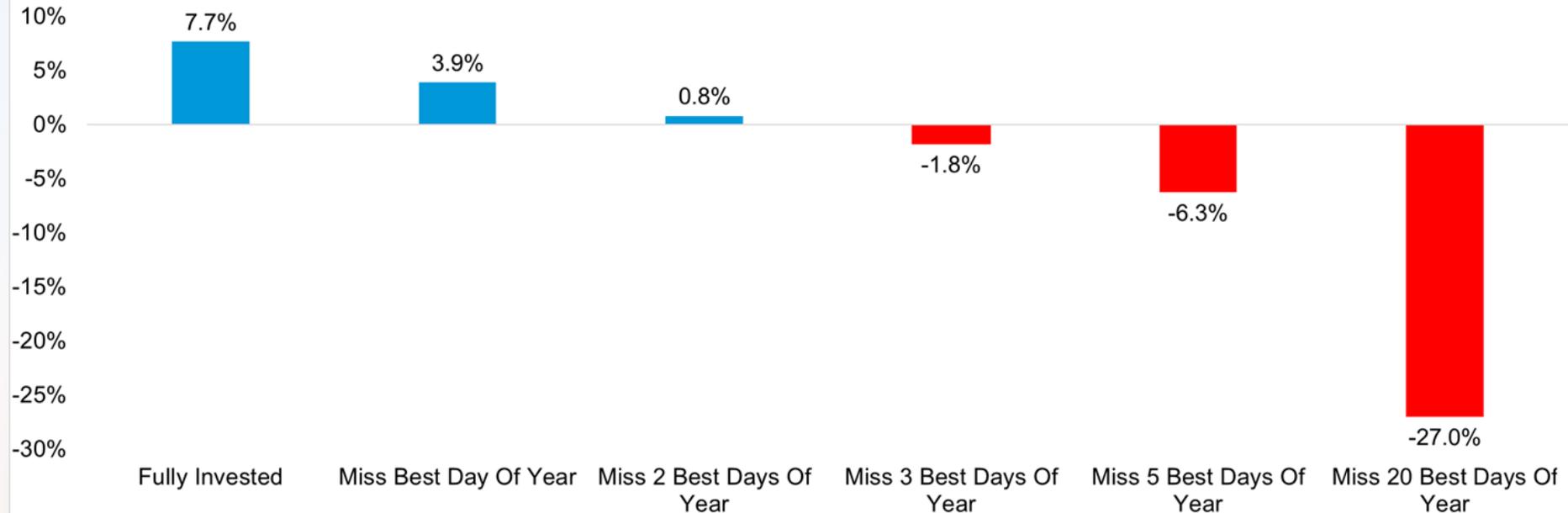
The steady improvement in President Trump's chances of re-election was accompanied by a steady rally in the stock market. They both collapsed together, and rallied together. But for a month now, the S&P 500 has managed to keep rising (albeit much more slowly), even though Trump's chances are seen to be falling again. He now lags the Democrats by 4 percentage points.



It's not your timing of the market but your time in the market that helps performance

Market Timing Can Cost Investors Significantly

S&P 500 Index Annualized Growth Rate (1990 - 2019)



Source: LPL Research, FactSet 3/23/20

All indexes are unmanaged and cannot be invested into directly.
Past performance is no guarantee of future results.

Representative list of FAANG+ holdings

Name	% Wgt	Tot Rtn YTD	Tot Rtn 1Y
TESLA INC	3.98	89.08	248.43
SNAP INC - A	1.96	40.33	40.33
EBAY INC	2.04	37.86	37.86
JD.COM INC-ADR	2.14	35.71	69.66
NETFLIX INC	7.96	35.45	26.94
NVIDIA CORP	4.03	32.34	97.09
AMAZON.COM INC	8.15	28.15	29.91
VERISIGN INC	2.09	20.57	20.57
TENCENT HOLDINGS LTD	2.15	20.45	24.22
MICROSOFT CORP	4.05	14.29	47.66
CITRIX SYSTEMS INC	2.02	6.31	6.31
APPLE INC	8.01	5.30	67.62
AKAMAI TECHNOLOGIES INC	2.02	1.05	1.05
ALPHABET INC-CL C	7.97	0.92	19.20
FACEBOOK INC-CLASS A	7.92	-0.07	12.98

Other Leading Companies held in FAANG+

JD.com, Inc. also known as Jingdong and formerly called 360buy, is a Chinese e-commerce company headquartered in Beijing. It is one of the two massive B2C online retailers in China by transaction volume and revenue, a member of the Fortune Global 500 and a major competitor to Alibaba-run Tmall.

Nvidia Corporation. is an American technology company incorporated in Delaware and based in Santa Clara, California. It designs graphics processing units (GPUs) for the gaming and professional markets, as well as system on a chip units (SoCs) for the mobile computing and automotive market. Its primary GPU product line, labelled "GeForce", is in direct competition with Advanced Micro Devices' (AMD) "Radeon" products. Nvidia expanded its presence in the gaming industry with its handheld Shield Portable, Shield Tablet, and Shield Android TV.

Verisign Inc. is an American company based in Reston, Virginia, United States that operates a diverse array of network infrastructure, including two of the Internet's thirteen root nameservers, the authoritative registry for the .com, .net, and .name generic top-level domains and the .cc and .tv country-code top-level domains, and the back-end systems for the .jobs, .gov, and .edu top-level domains. Verisign also offers a range of security services, including managed DNS, distributed denial-of-service (DDoS) attack mitigation and cyber-threat reporting.

Other Leading Companies held in FAANG+

Citrix Systems, Inc. is an American multinational software company that provides server, application and desktop virtualization, networking, software as a service (SaaS), and cloud computing technologies. Citrix products are claimed to be in use by over 400,000 clients worldwide, including 99% of the Fortune 100, and 98% of the Fortune 500.

Akamai Technologies, Inc. is a global content delivery network (CDN), cybersecurity, and cloud service company, providing web and Internet security services. Akamai's content delivery network is one of the world's largest distributed computing platforms, responsible for serving between 15% and 30% of all web traffic. The company operates a network of servers around the world and rents out capacity on these servers to customers who want their websites to work faster by distributing content from locations close to the user. When a user navigates to the URL of an Akamai customer, their browser is redirected to one of Akamai's copies of the website.

Snapchat is a multimedia messaging app developed by Snap Inc., originally Snapchat Inc. One of the principal features of Snapchat is that pictures and messages are usually only available for a short time before they become inaccessible to their recipients. The app has evolved from originally focusing on person-to-person photo sharing to presently featuring users' "Stories" of 24 hours of chronological content, along with "Discover," letting brands show ad-supported short-form content. It also allows users to keep photos in the "my eyes only" which lets them keep their photos in a password-protected space.

Disclaimer

Note: Disclaimer: This document is intended for and directed at investment professionals and not intended for retail customers. Persons who do not have professional experience in matters relating to investment should not rely on this document.

AQA UCITS Fund SICAV plc is licensed in Malta by the Malta Financial Services Authority as an undertaking for collective investment in transferable securities (UCITS).

This document is issued by Castlestone Management LLC (“We”). The information contained in this document is not directed at, nor is it intended for distribution to, or use by, persons in any jurisdiction in which the investment products are not authorized for distribution or in which the dissemination of information regarding the investment products is not permitted. This document is not offering to sell any product. Any investment in the Fund is required to be undertaken in line with the Offering Supplement of the Fund. Copies of the Offering Supplement, audited annual financial statements and half-yearly reports and the key investor information documents (in English Language) are available free of charge upon request. We will not be liable for any use you make of any information in this document. We are not your advisor or fiduciary. We are not recommending or making any representations as to suitability of any product or the tax, legal or accounting treatment of any product. We are not responsible for information stated to be obtained or derived from third party sources. All opinions are given as of the date hereof and are subject to change. We are not obliged to inform you of any such changes. Any projections and opinions expressed herein are expressed solely as general market commentary and do not constitute investment advice or guaranteed return. They represent the views of Castlestone Management LLC at the time of publication and are subject to change without notice. Any simulated performance data and/or past performance data contained herein is not a reliable indicator or guarantee of future performance. An investment in the Fund may include a commission or sales fee which is charged at the time of the initial purchase of the investment and may be deducted from the invested amount therefore lowering the size of your investment. A redemption / contingent deferred sales charge may be charged at the time you redeem your investor and such charge may have an impact on the amount of money you receive back upon your redemption. Income from investments may fluctuate and investors may not recoup the amount originally invested. An investment in the Fund may be effected by changes in currency exchange rates. If you redeem your investment before 6 years, you may be at higher risk of losing some, or all of, the money you invest. Any forward-looking statements concerning the financial condition, results of operations and businesses of Castlestone Management LLC expressed or implied, are based on management’s current expectations and assumptions, which may change without notice, and are no guarantee of future results, performance or events. Nothing in this document constitutes a representation that any

investment strategy or recommendation is suitable or appropriate to an investor’s individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. Investors and prospective investors should make reference to the risk warnings set out in the Offering Supplement of the Fund. This document is confidential. No part of it may be reproduced, distributed or transmitted without Castlestone Management’s written permission. Neither this document nor any copy of it may be distributed, directly or indirectly, in the United States of America or its territories or possessions (the “United States” or to any US Person as defined in Regulations under the United States Securities Act of 1933 (as amended)). Any failure to comply with these restrictions may constitute a violation of United States securities law. This is not exhaustive; other regional-specific wording may apply. If in doubt, please consult with Castlestone Management’s Compliance department. Castlestone Management LLC is a registered investment adviser in the state of New Jersey. Being registered does not imply a certain level of skill or training. Investment in any Fund involves significant risks. A prospective or continuing investor should not invest in any Fund unless satisfied that it and/or its investment representative or professional adviser has/have asked for and received all information which would enable it or both of them to evaluate the risks in terms of an investment or continued investment in the Fund. The information in this document has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. No invitation to the public in Hong Kong to buy or subscribe for any product is permitted to be made. You should consult your own attorney, business adviser and tax adviser as to legal, business, tax and related matters concerning any of the contents of this document.

Additional information about Castlestone Management LLC is available on the United States Securities and Exchange Commission’s website at www.adviserinfo.sec.gov.

W A R N I N G

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.