Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU

Quarterly Report September 2024

Performance	1 month %	3 months %	1 year %	2 years % p.a.	3 years % p.a.	Inception % p.a.
Fund Return (Net)[1]	6.5	4.1	9.6	8.4	-1.2	-1.1
MSCI Emerging Market Net Return Index AUD unhedged	4.3	4.7	17.3	14.2	1.8	1.8
Active Return	2.1	-0.6	-7.6	-5.8	-3.0	-2.9

[1] The returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowances are made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. The inception date for the fund is 20 September 2021.
Source: Fidante Partners Limited, 30 September 2024

Fund Facts

Portfolio managers	Joseph Lai, Douglas Huey, Alan Zhang
Inception date	20 September 2021
Management fee	1.00% p.a.
Performance fee	15% of the Fund's daily return above the benchmark[2]
Fund objective	The Fund aims to provide an absolute return and capital growth over the long term and outperform its benchmark after costs over rolling five year periods.
Initial investment	$10,000
Minimum suggested timeframe	5 years
Buy/sell spread[2]	+0.25% / -0.25%
Fund FUM	AUD $43.0 M
Distribution frequency	Annual

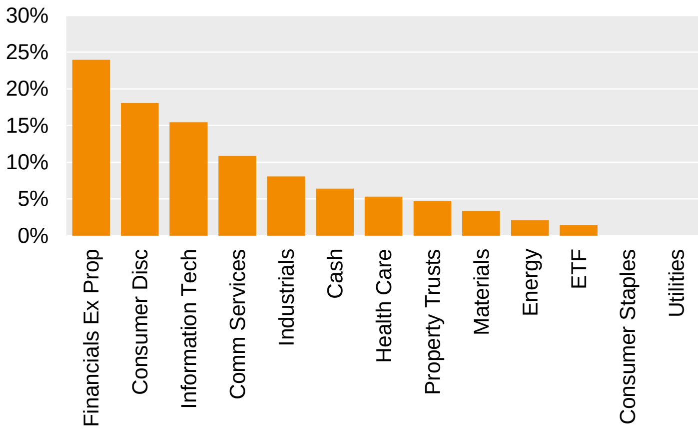
Top 10 Positions

Company	Sector	%
Taiwan Semiconductor Manufacturing Co Ltd	Information Tech	7.25
Tencent Holdings Ltd	Comm Services	5.06
Ping An Insurance Group Co of China Ltd	Financials Ex Prop	4.29
Kuaishou Technology	Comm Services	4.08
Samsung Electronics Co Ltd	Information Tech	3.81
SK Hynix Inc	Information Tech	3.59
Vietnam Enterprise Investments Ltd	Financials Ex Prop	3.49
BYD Co Ltd	Consumer Disc	3.18
Bank Mandiri Persero Tbk PT	Financials Ex Prop	2.93
Bank Negara Indonesia Persero Tbk PT	Financials Ex Prop	2.93
Total		**40.61**

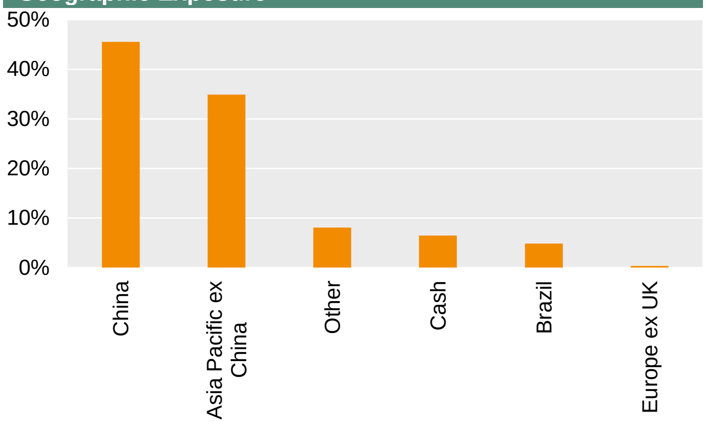
Fund Features

Concentrated: A portfolio of 30-50 high quality, undervalued, well run companies that have the potential to generate high absolute returns over the medium to long term.
Capture growth: Ox Capital's investment approach is to identify the immense positive change taking place in Asia and other key emerging markets and to find companies that can benefit from those trends.
Macro overlay: A quantitative model provides a bird's eye view of how macro conditions impact equity markets and helps guide country and sector asset allocation.
Capital protection strategies: The Fund can use derivatives such as index futures and equity swaps to help protect the portfolio from market volatility and to obtain synthetic exposure to stocks or markets.
Experienced team: A team of experienced and passionate emerging market investors strongly aligned with clients' investment objectives.

Sector Exposure



Geographic Exposure



Fund Performance

In the September quarter, the Dynamic Emerging Market Fund returned 4.1%, compared to 4.7% by the MSCI Emerging Market AUD Index.

Top contributors are a Chinese retail platform, a leading Chinese battery manufacturer, and a Chinese technology conglomerate (Meituan 54.82%; Contemporary Amperex Technology Co., Limited 39.92%; Tencent Holdings Limited 19.39%). While the detractors are a Korean semiconductor related names and a Chinese HR and a recruiting services platform.

Our Positioning

The portfolio remained well invested at the end of September with a net invested position of 94%. The strategy was overweight China, Indonesia, and Vietnam and underweight Taiwan, Korea, and India. We added to our positions in China for a few weeks leading up to and immediately following the recent stimulus announcements. Many initiatives and measures were announced in late September to support the property market and economy. We observed a significant change in tone by the Chinese government with clear intentions to support and stimulate the economy. We trimmed our positions in Brazil to almost index weight. The short-term outlook in Brazil is less prospective relative to other emerging markets given the counter-cycle stance of the central bank.

Market Commentary

The Inflection Point for Emerging Markets

Emerging markets equities have derated for more than a decade. Despite very attractive valuation, the majority of investors are only "lightly" positioned in the asset class. Investor sentiment remains lukewarm.

The reality is rather more exciting because the fundamentals of these economies are robust, and they offer sustainable economic growth in a slow global environment. Many of these EM economies are relatively unindebted compared to developed world. Economic expansion can be supported by credit growth in coming years.

The reasons for EM's the under-performance can be attributed to two reasons:

1. The relatively high valuation of EM a decade ago. Performance of EM tailed off in the past decade following strong performance of EM equities in the decade before.

2. The strong US Dollar

As noted, valuation has adjusted down significantly over the past decade. We are likely to see prolonged weakening of the US Dollar as the US Fed cuts rates in the coming quarters. Emerging markets returns is likely to improve.

With expectation of US rate cuts intensifying, significant appreciation of Asian currencies (relative to the USD) has been observed. As multiple rounds of US rate cuts are expected, further Asian currency appreciation is forthcoming.

Attractive stock market valuation and appreciating currencies make strong tailwinds for emerging markets equities. Many stocks offer attractive dividend yields and return will be further boosted by positive currency carry. Such favourable dynamic is likely to further drive funds flow into these growing economies, driving up their valuations.

For example, Bank Mandiri, a key position for Ox, is considered one of the best managed banks in Indonesia. The banking market in Indonesia is oligopolistic in nature. Bank Mandiri generates 20% return on equity, growing earnings at a 10% clip, as well as offering a 5% dividend yield! The rising Indonesia Rupiah and low risk nature of the business makes this stock extremely attractive.

Furthermore, similar to many other economies in developing Asia, Indonesia's fundamentals are robust. The authorities here have undertaken a decade of economic reform to improve the structure and balance of the economy. Infrastructure and export capabilities are much improved than years past.

The country is in good financial shape. Many sectors of the economy are not highly geared, providing significant flexibility for the government and private sector to borrow to fund growth. This is particularly helpful to banks' long-term growth and profitability. For instance, household indebtedness is around 10% of GDP vs 60-100% in most developed economies!

In addition, there is little inflation (2.1%) to speak off, and interest rates (6.25%) have been artificially set high to match the high US interest rates for currency stability.

US rate cut will allow countries like Indonesia to lower interest rates. Since valuations for these markets are universally cheap (with the exception of India which has been in the limelight of becoming the "next China"), the impact on valuation is likely significant.

With respect to China, we have always believed the "perceived" structural problems in China are well discounted by the cheap valuations of Chinese stocks. The issues facing China are well-known. Geopolitical competition impacts funds flow and valuations. Property downturn impacts confidence and economic growth.

However, the recent coordinated stimulus measures announced by various government ministries to support the property and equity markets have the potential to re-invigorate the market and so far, the impact is encouraging. The property market relaxation policies should stabilise prices as the authorities are addressing the important issues.

1. **Deflation:** Weak asset prices have been a main drag on the economy. The ex-Governor of the People's Bank of China (PBOC) publicly urged strong policies to fight deflation.

2. **The Stock Market:** The authorities showed clear intention to support the stock market. The PBOC is going to allow non-bank financial companies, such as insurers, asset managers and brokers to swap their bonds for cash to invest in the stock market. ***The initial facility is RMB500bn in size and offered more if needed***. From our perspective, this is significant, as it means the PBOC is going to use its balance sheet to support stock prices! Furthermore, there are plans to set up special financing channels for public companies for buybacks, and PBOC is open to setting up a stock stabilization fund.

3. **The Property Market:** The aim is to stabilise the property market which implies a higher tolerance for property price appreciation. These new stabilisation measures include mortgage rate cuts, the down payment requirement cut to 15% for first and second properties, financing for local governments to buy back inventories in the market, and banking support for whitelisted developers.

4. **Injection of capital into the banks:** This will enable the banks to more readily lend.

If the authorities follow up by tackling some of the longer-term issues, such as local government finances and income distribution (via taxes and direct transfers), this can improve fiscal sustainability, defuse risks for the economy and boost end consumption demand.

This pivot from the authorities can ignite the long-awaited Chinese economy reflation. Given the extremely attractive valuations, the upside from here can be highly rewarding.

Moreover, the Chinese property market is at the final stage of the downturn. Three years into the downturn, new property sales have gone down c.70% from the peak. Incremental worsening of sales is not going to have as much impact on the economy as it has in the past. Our view is that the domestic economy is gradually bottoming, and the central government is prepared to support the economy as required.

We expect geopolitical competition to persist. However, the funds flow problem facing the HK equity market is likely to be at least partially ameliorated by the expansion of the ChinaConnect program, which will enable Mainland investors to buy HK stocks with Chinese RMB. The impact can be significant.

At Ox, we remain focused on companies that are going to be longer-term champions domestically and globally. The Fund has identified many promising investment ideas (and future Champions of China) and will seek to add exposures as confidence returns and the domestic macro environment improve.

ASIC Periodic Reporting Requirements

The Ox Capital Dynamic Emerging Markets Fund (Fund) is classified as a hedge fund in accordance with the Australian Securities and Investments Commission Regulatory Guide 240 *Hedge funds: Improving disclosure.* We are required to provide this additional information to you on a quarterly basis.

Asset Allocation (as at 30 September 2024)

Exposure analysis	
Position	**% of net invested capital**
Long securities (including derivatives)	93.57
Cash	6.43
Gross equity exposure	93.57
Net equity exposure	93.57

Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 30 September 2024.

In summary, 100% of the Fund's assets can be liquidated within 10 days.

Time to liquidate	% of assets
Within 1-10 days	100%
>10 to 21 days	100%
> 21 days	100%

Maturity profile

As at 30 September 2024, the Fund does not have any material liabilities.

Derivative counterparties engaged

The derivative counterparties engaged for the period 1 July 2024 to 30 September 2024 are provided in the table below.

Derivatives counterparty
UBS AG, Australia Branch

Leverage

Ox Capital may use leverage to increase the exposure of the Fund to investment markets. Leverage will generally be obtained through the use of derivative instruments. Although the maximum allowable leverage permitted in the Fund is 150% of the Fund's NAV, the Fund's positions in long securities and derivatives and overall net equity exposure will generally not exceed 100% of the Fund's NAV. The Fund must provide collateral to secure its obligations under the relevant agreements.

As at 30 September 2024, the Fund is long exposure of 93.57% and short exposure of 0.00%. The gross equity exposure of the Fund 93.57% and net equity exposure of the Fund is 93.57%.

For further information, please contact:

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