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A photograph of an open book with white pages, viewed from a high angle. A white bookmark is visible in the center fold. The background is a light, neutral color.

Nedgroup Investments Global Emerging Markets Equity Fund

Quarter Two, 2021

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Portfolio strategy

Emerging equity markets rose further in Q2 but continued to lag developed markets, with consumer areas underperforming industrial cyclicals for a second quarter and Chinese consumer and IT stocks negatively impacted by on-going intervention by the local regulatory authorities. The MSCI Emerging Markets index rose 3.83% in local currency terms and 5.05% in US dollars. Healthcare was the strongest sector with a 14.1% gain, having been the worst performer last quarter. Real estate was weakest, falling 6%. Brazil was the best performing market with a gain of 22.9% after a weak Q1 while Chile was the worst, falling 14.1%

Our current macro/liquidity outlook can be summarised as global industrial momentum is peaking in Q2 and will likely moderate through Q4. China is leading the slowdown, reflecting restrictive policy. The current inflation upswing will extend into 2022 but commodity price pressures should ease with economic cooling. Treasury yields are range bound, while the US dollar may stabilise or recover further. “Excess” money is currently unfavourable. We are therefore shifting to overweight quality and defensive sectors on the near term slowdown view. PBoC easing is needed to revive Chinese and global money growth, laying the foundation for economic reacceleration into Q2 2022 and a potential second/final upswing for cyclical assets.

Corporate profit expectations for the next twelve months remain robust with positive revisions over the last quarter as the global economy emerges from the pandemic induced lockdowns. As detailed in the portfolio activity section, we have been reducing cyclical sectors/stocks in favour of defensives.

Chinese environmental policies to close polluting steel production in order to improve air quality are a longer-term structural positive for selected cyclical companies. The inexorable shift to clean ESG compliant production in mining is destroying capacity and will push up prices. However, with global PMIs rolling over we have taken profits tactically hoping to reinvest in the sector at lower levels. In industrials we have also been reducing the more cyclically oriented stocks in the portfolio such as Larsen & Toubro in India and Airtac Intl in Taiwan. In aerospace, airlines are reporting pent-up demand for travel and hopes have shifted on business travel where a recovery is now expected. We continue to like low cost operators such as Wizz Air operating in Eastern Europe and Spring Airlines in China.

In consumer areas premiumisation remains a powerful driver. The beer industry is looking forward to an end of Covid restrictions as on-premises consumption is much more profitable. Movement of people is key and supply pressures are easing off. In autos, the global shortage of semiconductors has slowed the recovery in car sales despite pent-up demand for new vehicles. The disruption to supply of new cars has seen prices for second hand models rise dramatically over the last year. Consumer discretionary is a smaller overweight than usual with the focus on online exposure such as DADA Nexus and Alibaba although the aggregate weighting in the online segment has been lowered whilst regulatory uncertainties remain. We have maintained some re-opening plays such as Lemon Tree Hotels, Minor International and Wynn Macau. In contrast staples is also an overweight for the portfolio where the focus is on quality defensives that should perform well if markets correct and that have some pricing power in order to pass on rising costs. Drinks are still the focus such as Budweiser APAC listed in Hong Kong, which should benefit from the premiumisation of the Chinese beer market, and Indian carbonated drinks maker Varun Beverages, which has handled the supply side disruptions of Covid well.

We have been adding to healthcare where we favour growth names in the group as elective treatments and tourism resume in some countries and hospital care returns to normal. This should drive sector growth over the next year. In financials we have returned to an underweight in Chinese banks by selling Ping An Bank but have retained China Merchants Bank. We prefer the growth story in wealth management and insurance played through the likes of AIA and Prudential. We favour banks in India such as ICICI and the housing finance company Housing Development Corp where the market dynamics are much more attractive; the banking industries differ across emerging markets and still represent a favorable way of accessing growth in the asset class. In IT the global shortage of chips has extended the cycle in semiconductors but the stocks appear vulnerable to a downturn in demand and our preference is to reduce going into an economic slowdown in H2.

Performance Attribution and Commentary

3 Months to 30 June 2021 (gross)	Allocation (%)	Stock Selection (%)	Net Impact (%)
Total	-0.94	-2.24	-3.18
Emerging Market Asia	-0.65	-1.58	-2.23
China	0.11	-0.36	-0.25
Hong Kong	-0.38	0.00	-0.38
India	-0.02	-0.43	-0.45
Philippines	0.03	0.22	0.25
South Korea	0.01	-0.41	-0.41
Taiwan	0.03	-0.70	-0.67
Thailand	-0.38	0.11	-0.27
Emerging Markets Europe, Middle East and Africa	-0.21	-0.15	-0.36
Greece	0.06	0.04	0.10
Gulf Markets (Saudi Arabia, Qatar, UAE, Kuwait)	-0.22	0.00	-0.22
Russian Federation	-0.00	-0.10	-0.10
South Africa	0.20	-0.08	0.11
Emerging Market Latin America	0.01	-0.52	-0.50
Brazil	0.05	-0.49	-0.44
Mexico	-0.07	0.00	-0.07
Chile	-0.00	-0.02	-0.03
Frontier Markets	0.17	0.00	0.17
Cash	-0.22	0.00	-0.22
Other	-0.04	0.00	-0.04

The MSCI Emerging Markets index posted a US\$ gain of 5.1% in the second quarter with a 3.8% advance in local currencies bolstered by a slightly weaker greenback, with the fund lagging over the period. The best performing sector was healthcare with a 14% gain whilst real estate was the weakest, declining 5.9%. Energy (+12.2%) and industrials (+13.5%) were strong risers for the period. Materials also outperformed (+8.5%) with the remaining sectors lagging the broader index. The fund was underweight energy, materials and healthcare, which was negative for relative returns with industrials the only overweight in these leading sectors. Security selection was negative with the biggest impact from consumer discretionary holdings and our insurance companies within financials.

The strongest and weakest markets were both in Latin America. The best performer was Brazil (+23%) and our modest overweight was positive; Chile (-13.7%) was at the opposite end of the range. Elections to Chile's constitutional assembly were the catalyst for the weakness in the market as the majority of elected members were from non-traditional parties, raising expectations of business unfriendly proposals, in particular for the mining industry. Traditional parties failed to win enough seats to veto proposals but the independent members do not represent a unified force at present. The fund's underweights in laggards China (+2.3%) and South Africa (-1.35%) were positive for relative performance, as was off-index exposure to Vietnam (+17.2%). These benefits,

however, were more than offset by drags from underweights in Saudi Arabia (+9.7%) and UAE (+11.2%) and the overweight in Thailand (-4.76%).

In terms of overall performance impact by country, the largest negative contributors were Taiwan, Korea, India and Brazil, with security selection detracting in all four cases. In Brazil the underweights in energy and materials were negative for relative returns, with the two sectors posting returns of 27.5% and 37% respectively. We sold the retailer Lojas Renner (-1.3%) during the quarter as the company raised capital with little clarity on the proposed use of funds. We liked the company previously for its disciplined investment approach but are concerned that potential M&A could be negative for shareholder returns. In India our long-held position in mortgage provider HDFC (-1.7%) along with real estate company Godrej Properties (-2.3%) were drags. Despite good performance in IT consulting giant Infosys (+14.9%) and Lemon Tree Hotels (+11.4%) our Indian investments lagged MSCI India.

In Thailand, our overweight position was negative for relative returns as a fresh outbreak of Covid19 pushed back any hopes of an earlier re-opening of the economically important tourism industry. Our Thai banks Kasikornbank (-19.2%) and Siam Commercial Bank (-12.4%) fared badly as did hotel operator Minor International (-10%). In Taiwan, negative security selection was primarily driven by Gudeng Precision (-15.2%), with the stock hit by expectations of investment in a new plant pointing to lower free cash flow in the coming years. The company supplies EUV consumables to TSMC and needs to increase capex in line with the growth plans of its biggest customer. In consumer discretionary bicycle manufacturer Giant (-5.2%) was a further drag. The company had good Q1 results and reported a strong order outlook but concern regarding supply disruption weighed on sentiment. We like the order book and Giant's ability to pass cost increases through to customers especially in the high margin e-Bicycle segment.

In Korea our semiconductor holdings were negative for relative returns. SK Hynix (-3.3%) and Samsung were dull over the quarter despite strong results and the ongoing chip shortages. OCI Co Ltd (-2.8%) in speciality chemicals and polysilicon also surrendered some of the prior quarter and was a further drag on relative returns.

In China our holding of China Education (+26.8%) was a positive contributor as a crackdown on poor regulatory compliance in the sector highlighted the company's adherence to requirements and attractive profitability. Our renewables plays in China worked well with battery manufacturer Contemporary Amprex (+68.4%) and solar module manufacturer Longi Green (+43.8%). In healthcare, Alibaba Health Information Technologies (-21.6%) struggled by association with its parent and continued regulatory uncertainty. We believe that the company is helping to deliver efficiency improvements needed by the healthcare system and are inclined to add to the position when the melee has abated. Insurance exposure was unhelpful over the quarter as Ping An Insurance (-16.1%) and Prudential PLC. (-10.7%) disappointed. In the Philippines our modest overweight was positive, in particular due to the purchase of Monde Nissin (+19.9%). Monde is an instant noodle manufacturer with an interesting meat replacement microprotein business, which has a significant market share in the UK and global possibilities.

Portfolio activity

Top Purchases

Country	Security	Sector	%
Philippines	Monde Nissin Corp	Consumer Staples	2.06
China	Shanghai Baosight Software-B	Information Technology	1.33
Taiwan	Hon Hai Precision Industry	Information Technology	1.23
Russian Federation	Gazprom Oao	Energy	1.05
China	Hangzhou Tigermed Consulti-A	Health Care	0.97
Thailand	Ptt Explor & Prod Public Co	Energy	0.95
China	Midea Group Co Ltd-A	Consumer Discretionary	0.83
Vietnam	Vinhomes Jsc	Real Estate	0.63
China	China Merchants Bank-H	Financials	0.54
India	Max Healthcare Institute Ltd	Health Care	0.53

Top Sales

Country	Security	Sector	%
Taiwan	Airtac International Group	Industrials	1.12
China	Conch Cement Co Ltd	Materials	1.11
China	Jiangxi Copper Co Ltd-H	Materials	1.10
Brazil	Lojas Renner S.A.	Consumer Discretionary	1.07
Russian Federation	Mmc Norilsk Nickel Ojsc	Materials	1.00
China	Ping An Bank Co Ltd-A	Financials	0.89
China	Navinfo Co Ltd-A	Consumer Discretionary	0.89
India	Axis Bank Ltd	Financials	0.88
South Korea	Samsung Electronics Co Ltd	Information Technology	0.70
India	Larsen & Toubro Ltd	Industrials	0.65

Activity over the quarter saw us reduce some cyclical sectors such as materials and industrials in favour of defensive areas such as consumer staples, real estate and healthcare. We have also increased exposure in IT and communications. We have moved slightly overweight the Philippines with the purchase of Noodle maker Monde Nissin in an IPO. The company has purchased Quorn Foods to take advantage of the global shift to meat alternatives. Quorn has been an underinvested product and, especially, brand which management believes can re-position in a rapidly growing food segment. The company already generates a high return with earnings expected to grow above 20% over the next two years as the company takes market share domestically in noodles and expands Quorn in the US and UK, where it holds a significant market position. We have also added to the overweight in Thailand through the purchase of SCG Packaging, the largest Southeast Asian packaging, paper and integrated solutions provider. Paper prices have been rising and the company stands to benefit from recent bolt-on acquisitions. The total addressable market (TAM) is large and growing in the region due to rising per capita consumption and e-commerce penetration. Both Monde Nissin and SCG Packaging have strong ESG credentials. SCG has pioneered a strong commitment to sustainability through recycling and lower emissions

intensity while Monde Nissin lowers sodium and removes the environmentally damaging palm oil from its noodles. In Taiwan, we have introduced Hon Hai Precision which remains the largest supplier of components to Apple but is shifting production to the EV market where it plans to help reduce design time from four years to two. The company has improved its operational efficiency by supply chain management and automation, which has raised margins. Smartphone revenues should remain steady while the opportunity in EV production, digital health and robotics is substantial. On the sell side we have taken profits in pneumatic components maker Airtac.

In China we have bought Shanghai Baosight Software which provides a range of software to China's steel industry. Growth for the company will be partly driven by the digitalisation of Chinese steel plants as they strive to be more efficient and green. We have also introduced household electrical appliance installer Midea that provides air conditioning and other large white goods. Overseas orders are accelerating and the company expects to meet double-digit revenue guidance set at the beginning of the year. We have also added to battery products manufacturing company Contemporary Amperex Technology. The company signed a new supply agreement with Tesla for EV battery products in June extending to end-2025. EV penetration in China and elsewhere is accelerating rapidly with prices falling as battery costs drop. The company is the market leader with a 45-50% market share and can grow share overseas. We have also purchased Hangzhou Tigermed, which is a contract research company providing whole process clinical trial services for the R&D of pharmaceuticals. The company is set to benefit from the growth in R&D outsourcing, new collaborative deals and favourable government policy.

On the sell side in China we have exited Conch Cement and Jiangxi Copper both in materials, reducing cyclical exposure. We have also exited navigation software developer Navinfo, which reported disappointing results due to a slower recovery in its traditional navigation business and production difficulties in auto chips.

In India, we have introduced Max Healthcare Institute, which operates a chain of hospitals. The company is increasing its bed capacity from 2024 onwards at existing locations in Mumbai and Delhi by around 1000 beds. Margins have been improving as the mix of patients and funding shifts to the private sector from government and other public sector undertakings. The number of international patients should recover as travel normalises and doctor attrition levels should continue to fall. The overall weight in India has fallen slightly through sales including exiting cyclicals Larson & Toubro, Axis Bank and Eicher Motors but this should prove transitory. In Korea, we have purchased OCI which should benefit from both rising polysilicon prices and foreign customers paying a premium for non-China sources. Polysilicon prices have been rising driven by production disruptions and strong solar panel demand. The company has improved its competitiveness through cost cutting, demand is continuing to grow as prices fall and interest rates remain low, improving the economic viability of solar. In Vietnam we have bought residential real estate company Vinhomes, which is benefiting from strong demand for apartments. Project approvals are being granted more quickly and the funding environment has improved with mortgage rates falling.

Outside of Asia we have added Gazprom in Russia, which is benefiting from a tight gas market in Europe where inventories are low. We have reduced Brazil through the sale of retailer Lojas Renner, which has raised capital through a rights issue with no clear strategy for investing the proceeds.

Asset allocation

Region	Portfolio (%)	MSCI EM (%)	Deviation (%)
Emerging Markets Asia	79.41	79.13	0.28
China	31.05	37.50	-6.45
Hong Kong	3.66	0.00	3.66
Philippines	2.27	0.61	1.66
South Korea	9.71	13.22	-3.51
Taiwan	13.53	13.95	-0.42
India	10.85	9.90	0.95
Thailand	5.92	1.60	4.32
Emerging Markets Europe, Middle East & Africa	7.89	13.02	-5.14
Greece	2.32	0.13	2.19
Russian Federation	3.20	3.34	-0.14
South Africa	0.57	3.53	-2.96
Gulf Markets (Saudi Arabia, Qatar, UAE, Kuwait)	0.00	4.70	-4.70
Emerging Markets Latin America	5.73	7.84	-2.12
Brazil	5.29	5.21	0.08
Chile	0.43	0.44	-0.00
Mexico	0.00	1.74	-1.74
Frontier Markets	1.62	0.00	1.62
Other	2.30	0.00	2.30
Cash	3.05	0.00	3.05

Sector	Portfolio (%)	MSCI EM (%)	Deviation (%)
Energy	3.05	5.03	-1.98
Materials	1.52	8.42	-6.90
Industrials	6.39	4.89	1.50
Consumer Discretionary	18.97	17.58	1.38
Consumer Staples	7.35	5.62	1.73
Health Care	2.46	5.04	-2.58
Financials	19.66	17.78	1.88
IT	26.58	20.42	6.16
Communication Services	6.92	11.26	-4.34
Utilities	0.67	1.94	-1.27
Real Estate	3.39	2.01	1.38
Cash	3.05	0.00	3.05

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