NEDGROUP INVESTMENTS

see money differently

Nedgroup Investments Global Emerging Markets Equity Fund

Quarter Two, 2023

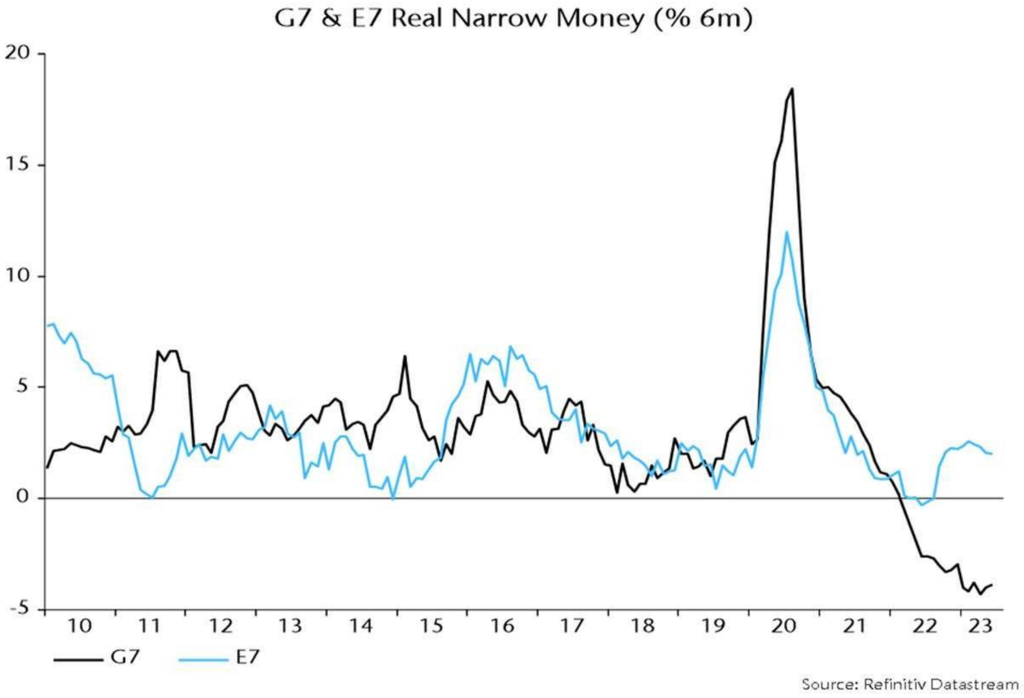
Marketing Communication

Nedgroup Investments Global Emerging Markets Equity Fund

Economic and Monetary Backdrop

Global monetary trends remain consistent with European / US "hard landings" and a return of inflation rates to target in 2024. The "excess" money backdrop for markets still appears unfavourable, casting doubt on the H1 equity market rally and suggesting retaining a preference for defensive sectors and quality.

Global monetary weakness is being driven by G7 policy overtightening. Inflation rates have normalised much faster in EM, resulting in official rates peaking earlier and at moderate levels. The contrast is reflected in an unusually wide gap between E7 and G7 real money momentum:

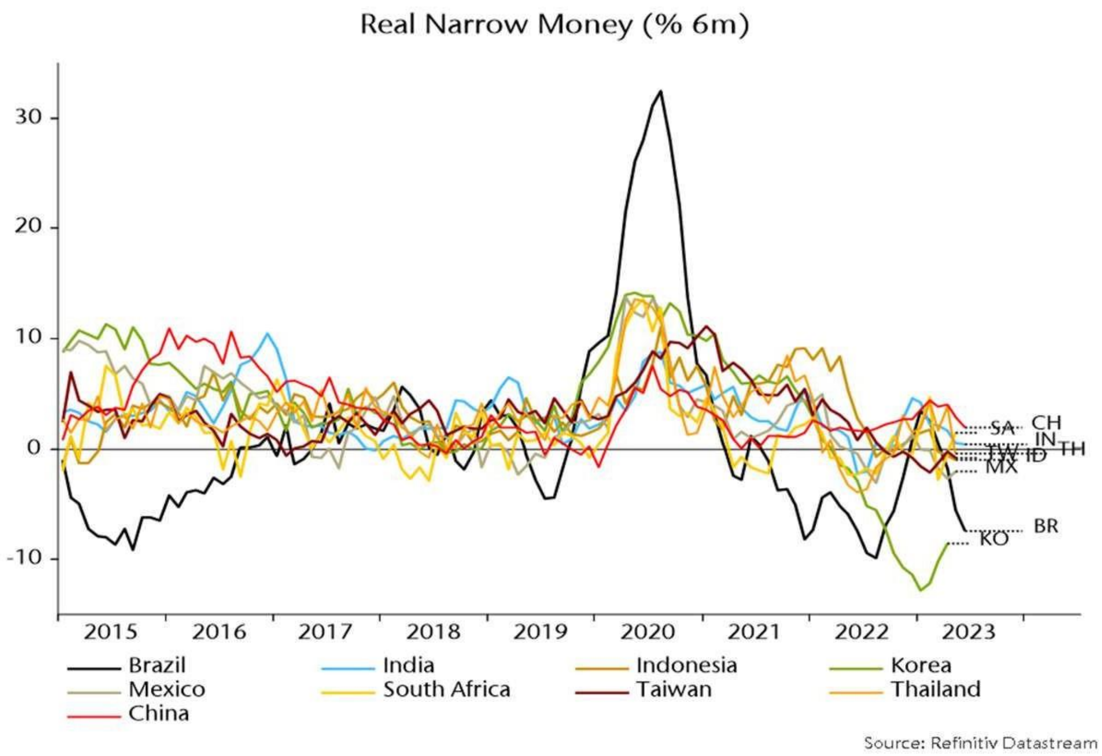


A positive E7 / G7 gap has been a necessary but not sufficient condition for EM equities to outperform historically – an additional requirement was a positive global excess money backdrop, as indicated by real money outpacing industrial output. The latter condition could fall into place during H2 as global industry moves into recession.

Chinese equities underperformed the rest of EM during H1 despite relatively favourable monetary trends. The Q4 2022 commentary expressed concern that investors were over-optimistic about a reopening boost to the Chinese economy, noting that money growth remained modest by historical standards and the PBoC was disinclined to ease aggressively.

Any remaining bullishness has long since been extinguished and consensus expectations now appear overly gloomy relative to monetary trends, which continue to suggest a slow economic recovery with no inflation and associated scope for additional policy easing.

Chinese money trends still compare favourably with most other EM economies as shown below:



Trends are weakest in Korea, Brazil and Mexico, suggesting policy overtightening and greater downside risk to growth / inflation. Indian real money momentum remains positive but has cooled since late 2022, signalling a likely moderation of economic expansion from its recent rapid pace.

Portfolio strategy

Markets vacillated through the quarter between fears over sticky inflation, risks that central banks have overstepped, and hope that they have engineered a soft landing. Forward looking indicators including inventory build, shrinking order backlogs, improving delivery speed, and competitive exchange rates in the manufacturing hubs of Asia forcing prices lower as they export disinflation, all point to inflation falling and indeed undershooting in 2024-25. While retreating inflation is good news, continued tightening based on backward-looking services, employment and wage data looks like policy error and risks a sharper slowdown. This is reflected in relatively defensive positioning, with only selective exposure to commodities and energy stocks and favouring high quality consumer and technology names. The portfolio underperformed over the period, largely down to drag from stock picking in China, while partially offset by gains in IT and Communications names boosted by investor excitement for AI technology.

Stock picking in Chinese equities was the largest detractor through the quarter as fatigued foreign investors become increasingly sceptical of the prospects for China's economic recovery. State-owned enterprises bucked the broader trend, with investor enthusiasm for extremely cheap companies across a host of sectors sparked by the announcement of yet another SOE reform push aimed at improving shareholder returns. The portfolio has very limited exposure to SOEs, largely by proxy through private sector companies Baosight (automation in the state-owned steel sector) and Supcon Technology (automation in petrochemicals). We are sceptical on the prospects for more dynamic SOE management that justifies the outperformance, driven by local mutual fund investors embracing the theme in the absence of other short term opportunities. Despite the challenging backdrop, the portfolio remains overweight China (including Hong Kong). Valuations remain compelling, money numbers accommodating, and easy earnings comps for portfolio names. Meaningful stimulus could be another boost, but authorities have only made tweaks which have failed to counter the malaise. Persistent weakness across property, industrial production, consumer spending and exports may ultimately force their hand.

Contract Research Organisation (CRO) Tigermed was one of the key detractors in China over the quarter. The company is a leader in outsourced drug development services for major pharmaceutical companies, including clinical trial design, patient recruitment, site and data management. It provides exposure to global mega trends including ageing populations, increasingly complex clinical trial designs, and outsourcing by global pharma companies juggling the need to boost R&D while controlling costs. Poor global liquidity and tightening domestic regulation has crimped biotech funding in China, which has negative flow on effects for listed Chinese healthcare companies. Soft results and guidance from Tigermed management intensified concerns. However, the structural growth story remains intact and the company's asset light model should help it weather a soft patch for the sector while the H-shares (held in the portfolio) trade at a 70% discount to their A-share counterparts, on around 13x 2024 earnings and delivering a return on equity of just under 12%.

Semiconductor names in Taiwan and Korea were significant contributors, surging on investor frenzy over AI technology sparked by Nvidia reporting Q1 sales and management guidance on May 25, streets ahead of sell side expectations. Potential for rapid adoption of generative AI technology saw Nvidia's stock jump 25% (in USD terms) on the day, reflecting the company's dominant position as a supplier of graphics processing units, which provide the brute compute power for AI- enabled products. Markets were particularly excited about management guidance for Q2 revenue of US$11 billion, growth of 64% year on year. Taiwan and Korea are home to a number of critical companies in the supply chain for advanced semiconductors, essential components in AI and other high tech applications. We have been lifting exposure to semiconductor names, based on our assessment that the industry is nearing the end of an inventory destocking cycle. This included topping up TSMC, and adding chip design service firms Global Unichip Corporation (GUC) and Alchip, providers of solutions to companies seeking to produce chips that power AI and high performance computing. In Korea, DRAM leader SK Hynix was added, more cyclically geared to a semiconductor industry upcycle. Structural growth drivers in the cloud and server market should also benefit Hynix, given their need for vast amounts of memory to power AI. Hynix is the first-mover in high bandwidth memory with 40% market share. While accounting for only a small share of revenue, it is likely to be a key component in GPUs and central to preventing bandwidth issues in large language models.

Stock picking and an overweight to India was the strongest contributor at a country level, led by private hospital chain Max Healthcare, telecoms company Bharti Airtel, Yum! Brands franchisee Devyani, and PepsiCo bottler Varun Beverages. Max was boosted by news of MSCI index inclusion, prompting a number of positive broker reports. The company has been generating an earnings CAGR of 60% over the last cycle as Max works to meet the need for improved health infrastructure in India, and global demand for quality medical tourism. There is only a small handful of private hospital players in India with huge headroom for growth through maximising bed utilisation, optimising payee type, while adding capacity via its land bank in Mumbai and Delhi and acquiring other sites for development.

An underweight to Brazil was a detractor as the market rallied sharply over the quarter. Stock picking partially offset this, largely down to a strong run by oil major Petrobras. OPEC's announcement of production cuts and a better political backdrop boosted the stock of this inexpensive producer. The company is priced like Russian energy but clearly without the same risks, which on consensus numbers is trading on 3x price to earnings with a reduced but ample dividend yield of 16% (versus 45% last year). The lower distribution will facilitate investment in highly profitable pre-salt deepwater fields. Governance risk for Petrobras is elevated – former President Bolsonaro ran through three CEOs, while Lula named current CEO Jean Prates in late 2022. Despite being a political football for successive administrations, Petrobras management reshuffles have been borne out of government frustration with the inability of the company to enact directives for fuel price controls and wasteful capex. Having been caught up at the centre of corruption scandal Operação Lava Jato in 2014, corporate governance reform was essential for cleaning up corruption among SOEs. Laws promoting personal accountability for SOE management were aimed at mitigating risks of corruption. SOEs were made to implement their own integrity bylaws with oversight from regulators. The effect has been to constrain the ability of management to cater to government whims at the expense of minority shareholders without making themselves liable for conflicts of interest.

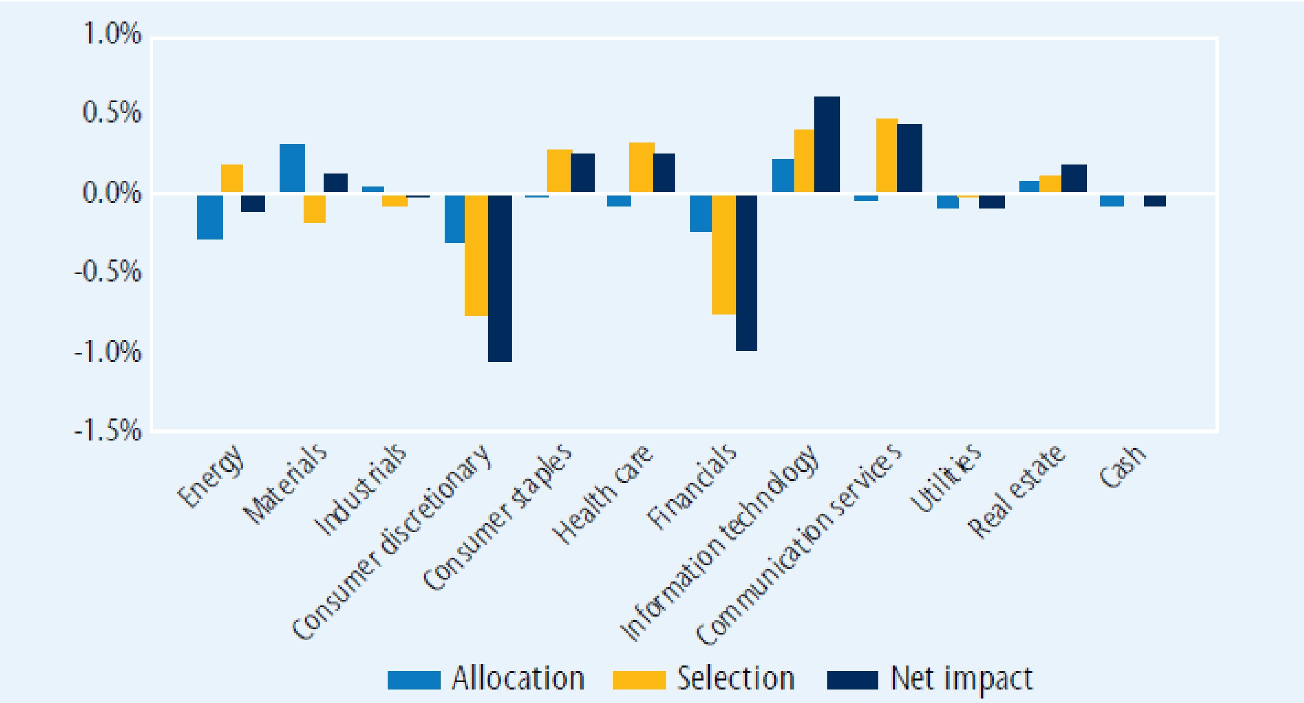
It appears that the pace of tightening by central banks is an equal and opposite error to the excessively prolonged QE in 2020-21, the full effects of which should become apparent through the second half of the year. Money numbers in EM continue to diverge to the upside relative to DM, with lower inflation and higher rates, having not resorted to the same monetary excesses through the pandemic. This along with better economic fundamentals, improving corporate earnings, modest valuations, competitive real exchange rates and sustained growth, all bode well for long term return prospects. However, in the near term it is highly unlikely that EM equities will decouple when developed markets enter recession. With this in mind, we remain defensive while looking for global excess money numbers to turn positive before adding to cyclically sensitive sectors.

Best and Worst Countries by Net Impact

Country	Allocation	Stock Selection	Net Impact
India	0.3%	0.6%	0.9%
South Korea	0.0%	0.6%	0.6%
Greece	0.4%	-0.1%	0.3%
South Africa	0.2%	0.1%	0.2%
Taiwan	-0.1%	0.3%	0.2%
Poland	-0.2%	0.0%	-0.2%
Brazil	-0.5%	0.3%	-0.2%
Saudi Arabia	-0.2%	0.0%	-0.2%
Hong Kong	-0.3%	0.0%	-0.3%
China	-0.1%	-1.6%	-1.7%

Source: NS Partners Ltd

Attribution by Sector



Source: NS Partners Ltd

Contribution Analysis

Top Contributors	Average Weight	Contribution
Max Healthcare Institute Ltd	2.4%	0.8%
Varun Beverages Ltd	3.1%	0.5%
Opap Sa	1.8%	0.4%
Petroleo Brasileiro	1.0%	0.3%
Netease Inc	2.1%	0.3%

Source: NS Partners Ltd

Top Detractors	Average Weight	Contribution
Hangzhou Tigermed Consulting C	0.8%	-0.3%
Hong Kong Exchanges and Clearing..	1.4%	-0.3%
Li Ning Co Ltd	1.3%	-0.3%
Longi Green Energy Technol-A	0.5%	-0.3%
Zhejiang Supcon Technology Co	0.9%	-0.2%

Source: NS Partners Ltd

Activity During the Quarter

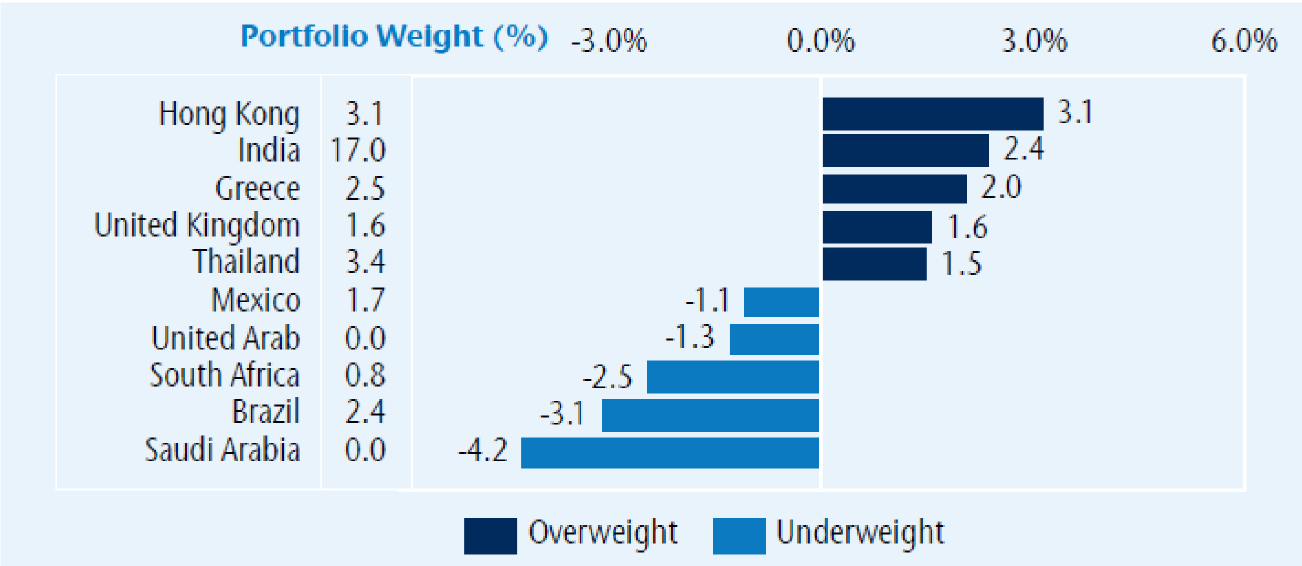
New	Exited
Sk Hynix Inc	Mediatek Inc
Delta Electronics Inc	Nio Inc
Industrial and Commercial Bank of China	Yageo Corporation
Alchip Technologies Ltd	Kb Financial Group Inc
SCB X PCL	Lg Energy Solution
Shenzhen Envicool Technology C	Jd.Com Inc
Kia Corp	Longi Green Energy Technol-A
Unimicron Technology Corp	Haier Smart Home Co Ltd
Hyundai Mobis Co Ltd	China National Building Ma-H

Source: NS Partners Ltd

Add	Reduced
Nari Technology Co Ltd-A	President Chain Store Corp
E Ink Holdings Inc	Taiwan Semiconductor Manufac
East Money Information Co-A	Sany Heavy Industry Co Ltd-A
-	Accton Technology Corp
-	Jiangsu Hengli Hydraulic C-A
-	Parade Technologies Ltd

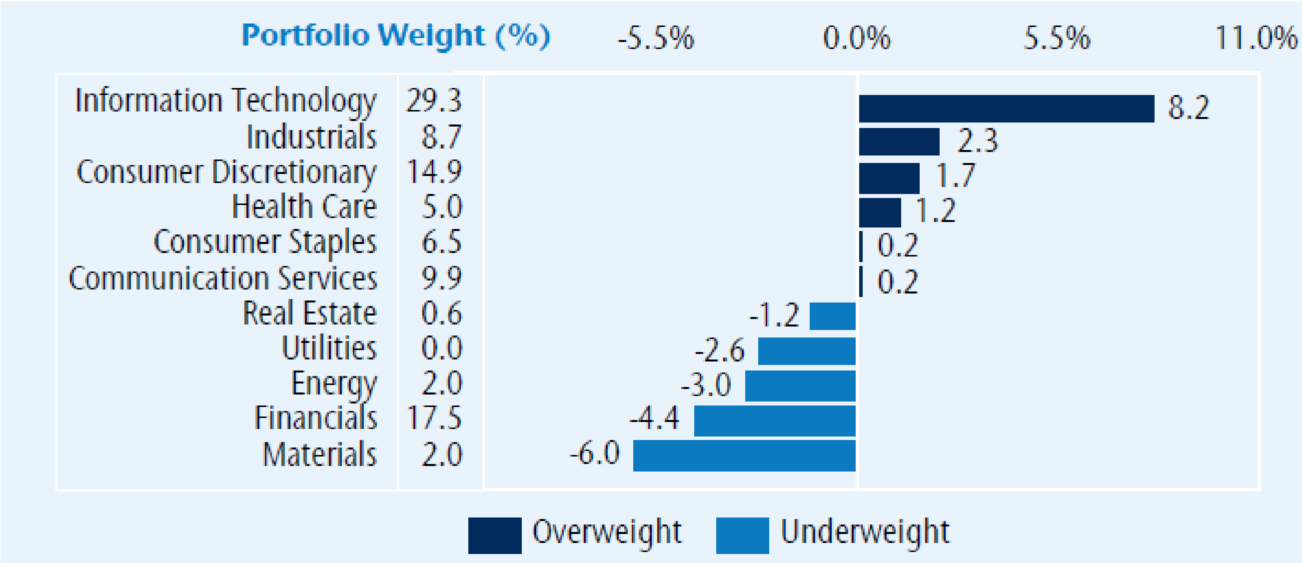
Source: NS Partners Ltd

Top Country Over/Under Weights vs MSCI EM Index



Source: NS Partners Ltd

Sector Allocation Over/Under Weights vs MSCI EM Index



Source: NS Partners Ltd

Top 5 Overweights vs MSCI EM Index

Company Name	Country	Sector	Active Weight
Samsung Electronics Co Ltd	South Korea	Information Technology	3.5%
Varun Beverages Ltd	India	Consumer Staples	3.0%
Shanghai Baosight Software-A	China	Information Technology	3.0%
Max Healthcare Institute Ltd	India	Health Care	2.6%
Housing Development Finance	India	Financials	2.3%

Source: NS Partners Ltd

Top 5 Underweights vs MSCI EM Index

Company Name	Country	Sector	Active Weight
Reliance Industries Ltd	India	Energy	-1.4%
China Construction Bank	China	Financials	-0.9%
ICICI Bank Ltd	India	Financials	-0.9%
Infosys Ltd	India	Information Technology	-0.8%
Vale Sa	Brazil	Materials	-0.7%

Source: NS Partners Ltd

Disclaimer

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The sub-funds of the Fund (the **Sub-Funds**) are generally medium to long-term investments and the Investment Manager does not guarantee the performance of an investor's investment and even if forecasts about the expected future performance are included the investor will carry the investment and market risk, which includes the possibility of losing capital.

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Fees are outlined in the relevant Sub-Fund supplement available from the Investment Manager's website.

The Sub-Funds are valued using the prices of underlying securities prevailing at 11pm Irish time the business day before the dealing date. Prices are published on the Investment Manager's website. A summary of investor rights can be obtained, free of charge at www.nedgroupinvestments.com.

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