NEDGROUP INVESTMENTS

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Nedgroup Investments Global Emerging Markets Equity Fund

Quarter Four, 2024

Marketing Communication

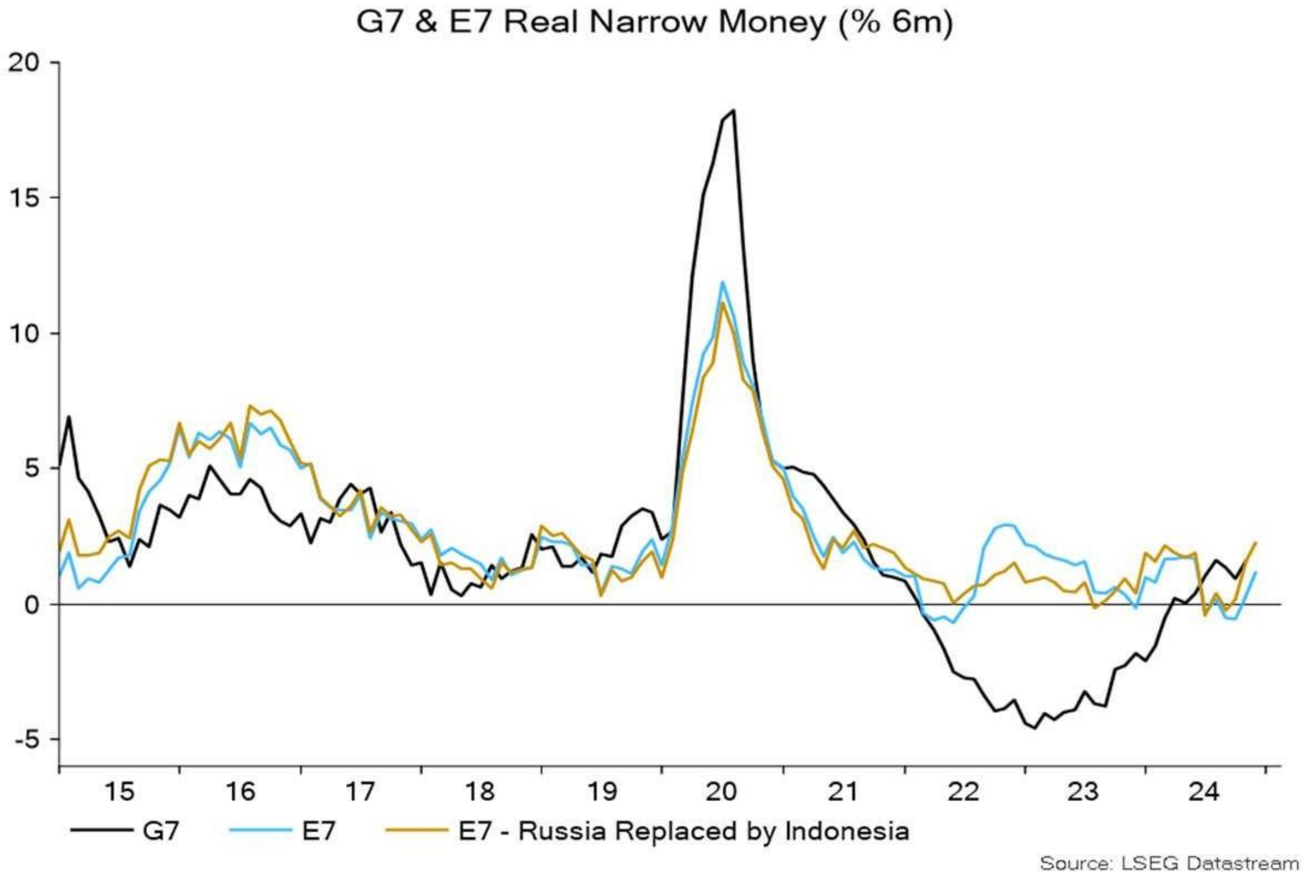
Economic and Monetary Backdrop

Global six-month real narrow money momentum has been moving sideways since Q2 2024 at a weak level by historical standards. Allowing for a typical 6 to 12- month lead, this suggests that economic growth will remain subdued in H1 2025.

Job openings / vacancy rates in major developed economies are mostly back to pre-pandemic levels, so below-trend growth is likely to be associated with greater deterioration in labour markets than in 2024.

Inflation follows money trends with a longer lead averaging two years. G7 annual money growth fell into mid-2023, suggesting that annual headline / core inflation rates will decline further in H1 2025. Economic news, therefore, may support significant monetary policy easing, with positive implications for EM financial conditions.

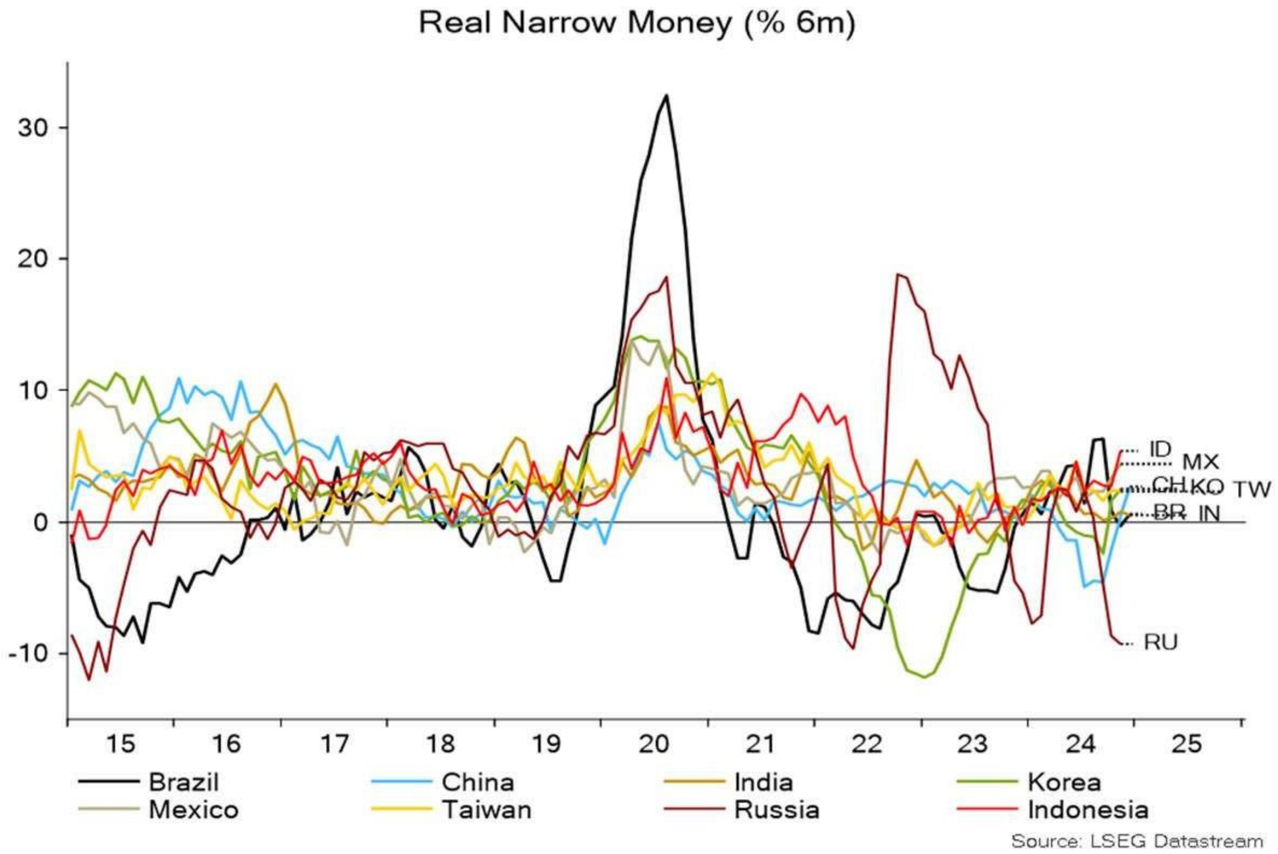
Stronger real narrow money momentum in the "E7" (referring to the 7 largest emerging economies) than the G7 has usually been a necessary condition for outperformance of EM equities. E7 momentum was lower in H2 2024 but the gap has narrowed. The E7 definition used here historically included Russia but the country's isolation from the global economy warrants its replacement by Indonesia. On the revised definition, the E7 / G7 gap has closed:



EM outperformance historically also usually required a supportive global "excess" money backdrop, as indicated by a positive gap between six-month rates of change of real narrow money and industrial output. This condition may also be close to being met as policy easing lifts money momentum and economic growth remains soft.

The policies of the second Trump administration and their impact are highly uncertain but consensus assumptions that they will lead to further US dollar strength and higher Treasury yields are questionable.

The recent rise in E7 (revised) six-month real narrow money momentum has been driven by recoveries in China and Korea and further pick-ups in Indonesia and Mexico. Momentum is weak in Brazil and India and at crisis levels in Russia:



Portfolio strategy

Buoyant sentiment for US assets on Donald Trump's election to a second term was mirrored by outflows from EM equities as investors fret over potential fallout from renewed trade tensions. The portfolio returned -6.2% (USD D Class) for the quarter against -8.0% for the MSCI EM Index with outperformance driven by stock selection. Stock picking in Taiwan was the largest contributor to outperformance, while underweight positioning in South Korea was a relative positive as the market fell on president Yoon's attempt to impose martial law. Key active positions in India outperformed a falling market. The contribution from stocks and a slight overweight in mainland China was flat overall. Hong Kong exposure was a drag as our insurers retraced gains made in September despite strong results. Liquidity sensitive ASEAN exposure fell as investors bet on higher yields and stronger dollar under Trump. Strong performance from holding ADNOC Drilling in the UAE was not enough to o set an underweight to the GCC, which outperformed wider EM. Argentinian exposure was positive, while relative performance in Brazil was flat through a sharp drawdown. Activity included adding to China, and GCC, while reducing India, Indonesia, Philippines, Argentina and Poland.

Taiwan's technology stocks led returns as insatiable demand for compute to power ever larger AI models persists. The advances in what AI can do in just a few years have been massive, enabled by more powerful models rolled out by US tech giants. Chat GPT-5 is rumoured to be built on 50 trillion training parameters, up from GPT- 3's 100 million. We own a number of companies dominating niches in the AI supply chain benefiting from explosive demand, their stocks surging through the quarter. This includes advanced chip design provider Alchip, TSMC, and datacentre specialists Lotes and Accton. Alchip led gains for the quarter, but posted a small negative return for 2024 as investor sentiment whipsawed on large contracts with key customers like AWS coming to an end, along with a lack of demand visibility. Lotes was the portfolio's top IT name in 2024, riding the hyperscale capex boom driving datacentre demand growth for AI connectors and cables for GPU baseboards.

Elsewhere in North Asia the portfolio has exposure to businesses addressing energy and data bottlenecks in AI. Much like the human brain consuming 20% of the body's energy while only representing 2% of body mass, AI datacentres are forecast to consume 9% of US electricity by 2030, double today's share. China's Shenzhen Envicool rose nearly 50% through the period and is a first mover in liquid cooling temperature control systems for datacentres, critical for maximising energy efficiency. South Korean DRAM giants Hynix and Samsung underperformed the sector as the country was hit by political crisis. They are also facing headwinds in commodity memory as Chinese supply threatens to rachet up amid weak demand. Hynix is better positioned as the leader in High Bandwidth Memory (HBM), sole supplier to Nvidia for leading edge chips. Our mistake was holding onto Samsung through HBM missteps, falling short of qualification into Nvidia's supply chain on heat and power consumption issues. Samsung has a history of successful course corrections, and we give management the benefit of the doubt following a position review. Samsung issued a rare apology in October, followed by a buyback announcement to purchase $7 billion of its shares trading at 20-year low valuations.

We maintain our glass half-full view of China, which outperformed the wider EM benchmark and remains standout cheap with improving liquidity. The market was weak on disappointment over lack of clarity for stimulus from Beijing. Xi is yet to back pro-growth rhetoric with action, likely keeping his powder dry as US trade policy takes shape. It was pleasing to see domestically-focused consumer names including Trip.com and Eastroc Beverages outperform. Online travel provider Trip.com reported strong performance with 16% year-over-year revenue growth and 20% increase in operating profit, driven by 60% growth in its international arm. Management hinted at potential buybacks and a dividend, while issuing solid guidance for structural growth in domestic and outbound travel. We think the story is durable due to a competitive moat based on growing scale, a widening o ering and dominance online. Hong Kong-based life insurer AIA Group remains a headache, with the ongoing exit of one of its largest shareholders weighing on the stock. Operating performance remains impressive, reporting a record value of new business for the third quarter, with strong demand in China and Hong Kong.

We are tactically more cautious in India as an increasing number of short-term negatives crop up. The market looks fragile as private equity takes profits through IPO exits, high powered money. Stock picking was positive in a market which has punished names falling short of expectations. Private hospital operator Max Healthcare was the top contributor. Managing director Abhay Soi is leading Max out of its Delhi home base, and we are starting to see his e orts bear fruit. Abhay has a history of fuelling growth through smart acquisitions of hospital sites. But what excites us is the potential for further development across a growing portfolio through infills on brownfield land, boosting productivity and adding complexity to operations. We think this is underappreciated by the market, with growth and profitability likely to surprise on the upside in coming years. The largest negative in India was fast growing baby and skincare brand Honasa, underperforming on a severe recalibration of growth forecasts. There are concerns that the company is approaching the limits of growth online, while doubts emerge over its ability to execute in online efforts. We exited following a review of the position.

Argentinian shale oil company Vista was the standout in Latin America. Low lifting costs, growing production profile, and the lift in sentiment for Argentina under reformist president Milei fuelled a rally in the stock. The stock has run hard and we exited the position as valuations became stretched. Transition from Mexican president AMLO to Sheinbaum occurred without attacks on institutions that many (including us) had feared. However, Mexico's status as the largest exporter to the US places it in the crosshairs of an incoming US administration. A zero weight to the country was a positive as the peso fell. The Brazilian reais hit an all-time low against the US dollar as investors revolt over president Lula's fiscal profligacy. Outflows from Brazilian equities hit portfolio positions including jewellery retailer Vivara and leading private bank Itau which underperformed. Despite a dreary backdrop, our conversations with dozens of Brazilian companies over the past few months suggest that economic reality is better than sentiment suggests, reflected in our growing watchlist of companies generating high and stable revenue growth with low leverage while trading at single digit P/E ratios.

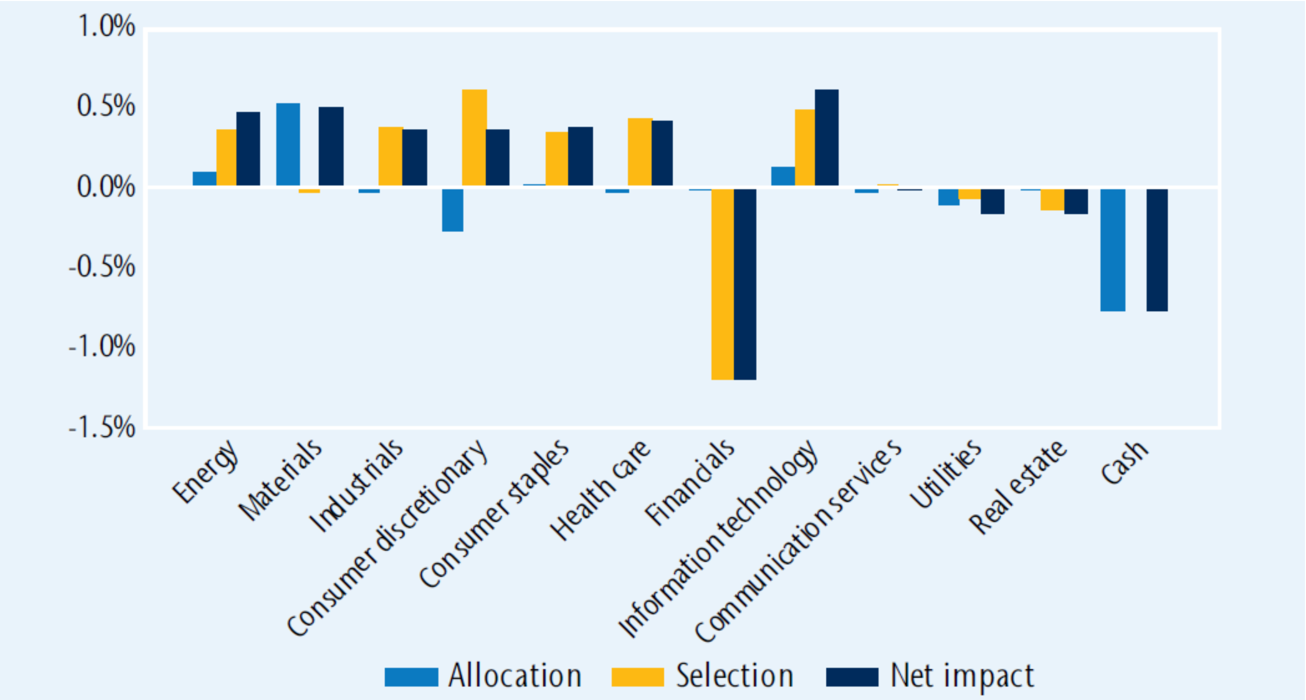
Emerging markets continue to offer value and we and believe it will pay to ignore the noise around Trump tariffs. EM (especially Chinese) equities fared well during Trump's first term despite the headlines. US dominance as an investment destination is mirrored by low expectations in EM. There is no doubt that the US has outstripped the rest of the world in economic performance and innovation. Forecasts are rosy with accelerating earnings growth in a goldilocks economy reflected in rich valuations. Heated enthusiasm exposes participants to negative shocks should reality fall short of expectations. The opposite applies when sentiment is excessively negative; investors risk missing a re-acceleration in emerging economic growth. EM earnings growth expectations are shifting higher, with JP Morgan expecting over 15% in 2024 against 11% for the US. Despite an improving backdrop, EM equities trade on a forward P/E of just over 11x. While calling the reversion in EM performance feels like waiting for Godot, the lack of competition in an unloved asset class makes it easier for us to buy well today while waiting for the tide to turn.

Best and Worst Countries by Net Impact

Country	Allocation	Stock Selection	Net Impact
Taiwan	-0.2%	1.6%	1.4%
India	-0.1%	1.1%	1.0%
Mexico	0.0%	0.3%	0.3%
South Korea	0.1%	0.1%	0.2%
Vietnam	0.1%	0.0%	0.1%
Thailand	0.0%	-0.1%	-0.1%
United Arab Emirates	-0.2%	0.0%	-0.2%
Hong Kong	-0.2%	0.0%	-0.2%
Saudi Arabia	-0.2%	0.0%	-0.2%
Indonesia	-0.2%	0.0%	-0.3%

Source: NS Partners Ltd

Attribution by Sector



Source: NS Partners Ltd

Contribution Analysis

Top Contributors	Average Weight	Contribution
Max Healthcare Institute Ltd	2.9%	0.5%
Trip.com Group Ltd	2.5%	0.5%
Eastroc Beverage Group Co Ltd	1.5%	0.4%
Accton Technology Corp	1.2%	0.4%
Vista Energy Sab De Cv	0.7%	0.3%

Source: NS Partners Ltd

Top Detractors	Average Weight	Contribution
Bank Rakyat Indonesia (Persero)..	2.0%	-0.3%
AIA Group Ltd	1.8%	-0.3%
Xiaomi Corp-Class B	0.0%	-0.3%
Samsung Electronics Co Ltd	3.3%	-0.2%
Samsung Electronics-Pfd	1.2%	-0.2%

Source: NS Partners Ltd

Activity During the Quarter

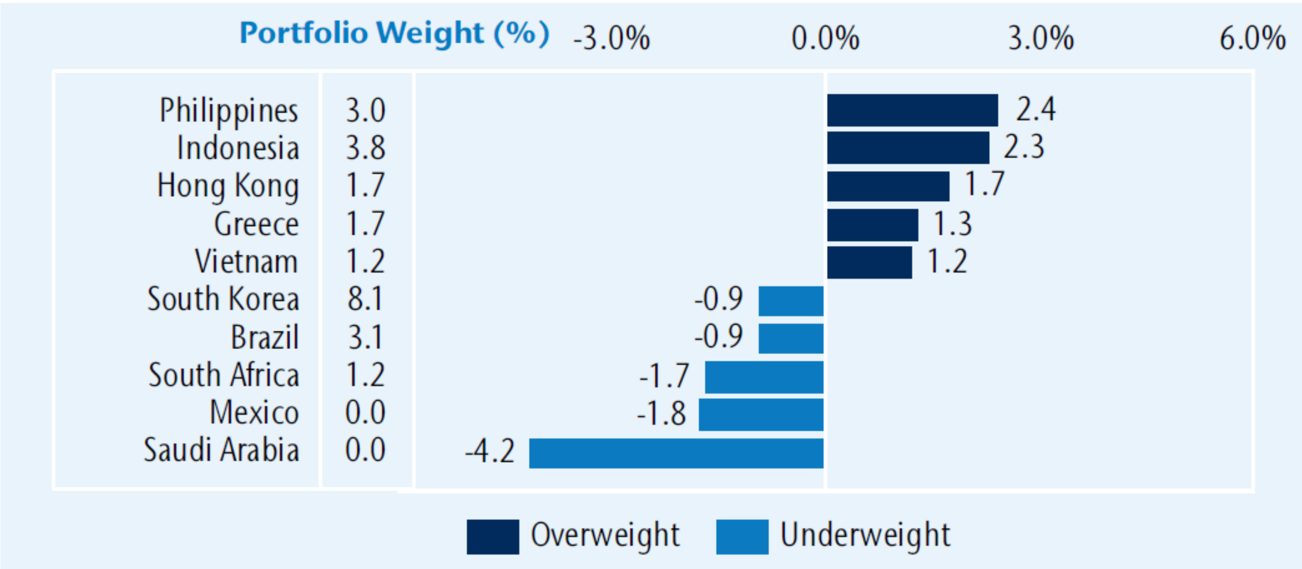
New	Exited
Quanta Computer Inc	Jsw Energy Ltd
Jd.Com Inc	Vista Energy Sab De Cv
360 ONE WAM Ltd	China Yangtze Power Co Ltd-A
Globant Sa	Shenzhou International Group
Qifu Technology Inc	Eicher Motors Ltd
Shenzhen Envicool Technology C	Hyundai Motor Co
Full Truck Alliance Co Ltd	Telkom Indonesia Persero Tbk PT
Byd Co Ltd-H	Banco Btg Pactual Sa-Unit
Shenzhen Inovance Technolo-A	Banco Santander Chile

Source: NS Partners Ltd

Add	Reduced
Sk Hynix Inc	Taiwan Semiconductor Manufac
Alibaba Group Holding Ltd	Bharti Airtel Ltd
Delta Electronics Inc	Bank Pekao Sa
Mediatek Inc	PetroChina Co. Ltd.
Midea Group Co Ltd	Public Bank Berhad
Banco Do Brasil S.A.	Bharat Electronics Ltd
Lotes Co Ltd	Axis Bank Ltd
-	Varun Beverages Ltd
-	Max Healthcare Institute Ltd

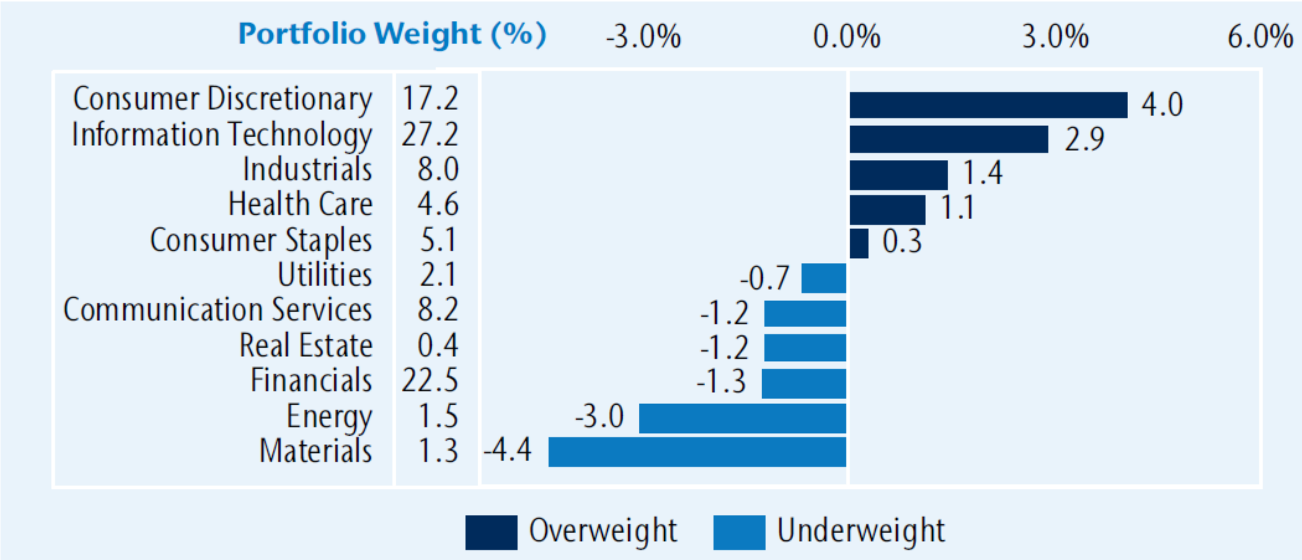
Source: NS Partners Ltd

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
Max Healthcare Institute Ltd	India	Health Care	2.9%
Trip.com Group Ltd	China	Consumer Discretionary	2.0%
AIA Group Ltd	Hong Kong	Financials	1.7%
Eastroc Beverage Group Co Ltd	China	Consumer Staples	1.7%
Varun Beverages Ltd	India	Consumer Staples	1.6%

Source: NS Partners Ltd

Top 5 Underweights vs MSCI EM Index

Company Name	Country	Sector	Active Weight
Taiwan Semiconductor Manufac	Taiwan	Information Technology	-1.3%
Meituan	China	Consumer Discretionary	-1.3%
Reliance Industries Ltd	India	Energy	-1.1%
China Construction Bank	China	Financials	-1.1%
ICICI Bank Ltd	India	Financials	-1.0%

Source: NS Partners Ltd

Disclaimer

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