NEDGROUP INVESTMENTS

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Nedgroup Investments Global Emerging Markets Equity Fund

Quarter Three, 2024

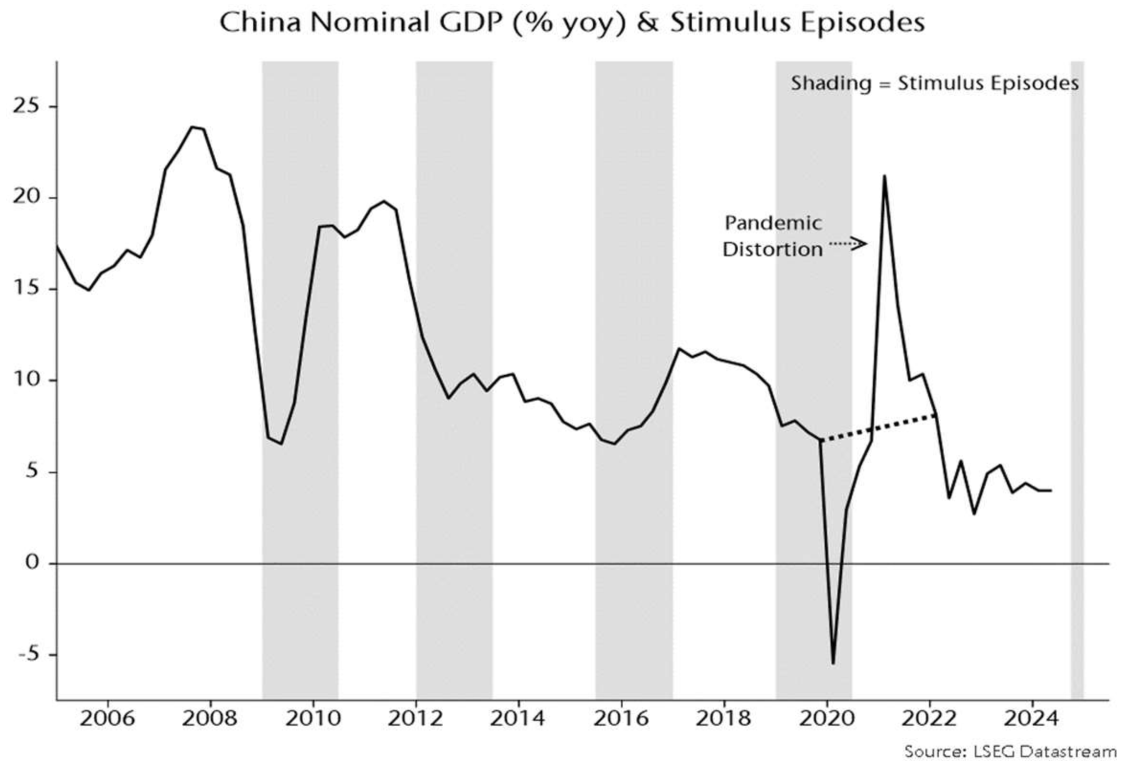
Marketing Communication

Economic and Monetary Backdrop

The baseline scenario in the mid-year commentary involved a “double dip” in global manufacturing in H2 2024 feeding through to weakness in services and labour markets. The industrial downturn is playing out, with the global manufacturing PMI new orders index falling to a 21-month low in September. The lagged relationship with global real narrow money momentum suggests that the PMI will bottom out by end-2024 but remain soft in early 2025.

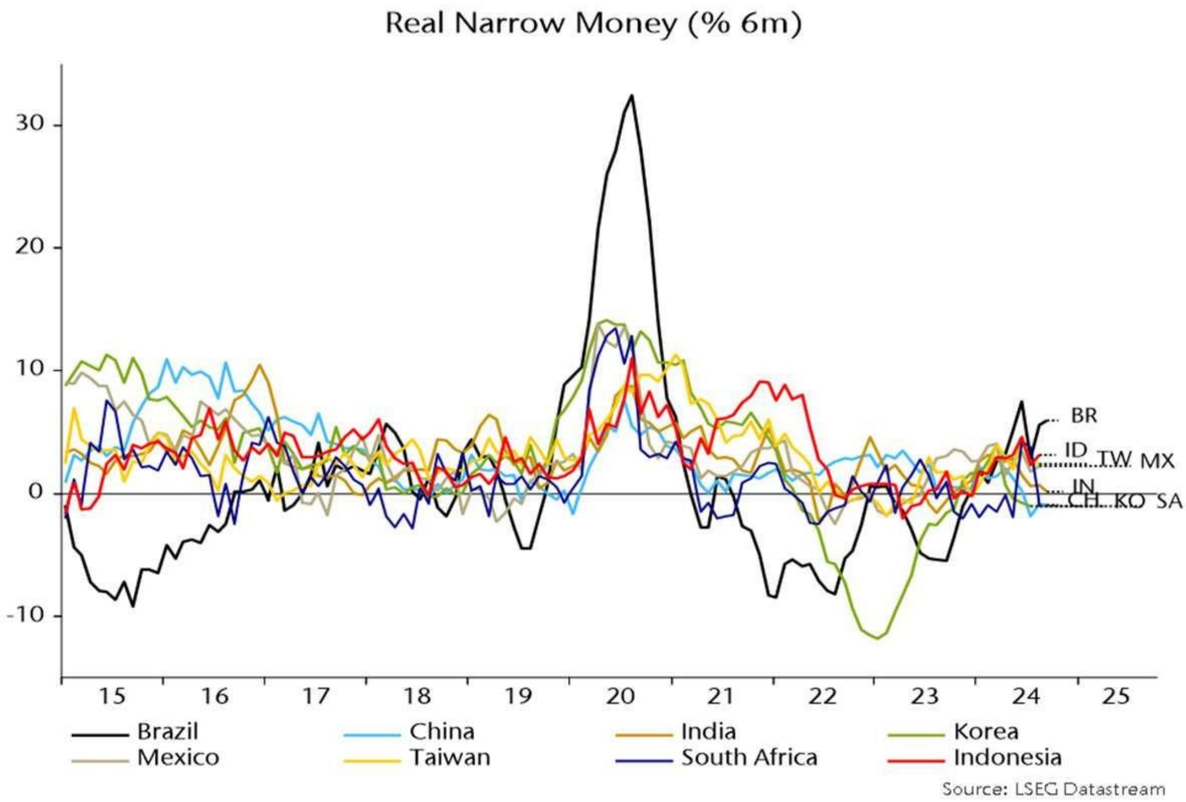
There are signs that weakness is transferring to services and employment but confirmation is required. The September global services PMI survey reported solid current activity but a fall in output expectations to a 23-month low. The global composite PMI employment index is at the breakeven 50 level.

Increased concern about global prospects and the implications for exports probably played a role in China’s quarter-end policy pivot. The stimulus package contains all the necessary elements – monetary / fiscal easing, additional funds for the property sector, local government debt relief, bank recapitalisation – but its size remains unclear. Most likely, it will fall short of the “bazooka” packages of 2008-09 and 2015-16, resembling smaller-scale stimulus deployed in 2012-13 and 2019-20. The latter initiatives stabilised but failed to boost nominal GDP growth:



MSCI China is still on a 17% forward PE discount to the rest of EM following the rally – versus a 7% average during the 2010s – so economic stabilisation could be sufficient to arrest underperformance.
The weak global backdrop argues for retaining a preference for liquidity-sensitive versus cyclical markets.

ASEAN markets could benefit from a combination of rapid Fed easing and Chinese domestic demand support. Monetary trends suggest weak economic prospects in Korea / South Africa and a slowdown in India, please refer to the chart on the next page:



Larger markets that benefited from ABC (Anything But China) flows may be at risk if Chinese policy-makers deliver.

Portfolio strategy

The portfolio (D Class USD) trailed a fast-rising market through the quarter, up 1.6% against 8.7% for the MSCI EM Index. Markets whipsawed through a period that saw Indian mid cap exposure cooling after a strong run in the first half, combined with IT names in Taiwan and South Korea selling off on the yen carry trade unwind, and defensive exposure in China lagging a sharp rally in beaten down financials and consumer laggards. Exposure in ASEAN was a positive contributor, with overweight positioning in Indonesia and Philippines, as well as stock picking in Malaysia all positive. Stock picking in Mexico was a small drag, offset by our underweight, as the market lagged wider EM on deteriorating political and institutional quality risks. The quarter marks the start of an easing cycle by the US Fed and other major central banks, along with falling inflation and weakening dollar. Against this backdrop, we retain a preference for liquidity-sensitive markets (e.g. ASEAN) versus cyclical / commodity-sensitive markets (e.g. Brazil). Previous beneficiaries of money diverted from China may also underperform as positions are adjusted e.g. Mexico and India. In India's case, the rise of domestic mutual funds should help to mitigate against repositioning by foreign investors.

Chinese stocks rallied through the final week of the quarter following a succession of announcements from the PBoC and Politburo signaling start of an expansionary policy cycle. The moves are a response to global economic weakness and a deflationary domestic environment. All markets including the YTD and indeed decade-long outperformer, India, lagged the scorching rally in Chinese securities led by the Hong Kong listed H-shares. The move has been violent and despite being broadly neutral China including HK, our high quality, cash generating companies that have been performing well in the difficult Chinese economy are not, with a few exceptions, what led the sharp rally. The MSCI China Index gained almost 25% in the few final days of the month. Our high quality names in China like Alibaba, Tencent and Trip.Com rallied but not enough to make up for our defensive and quality names in industrials, energy and utilities. Our China portfolio was up almost 16% over the quarter but the broader index gained 23%.

Previous commentaries have flagged that despite China's structural problems, we were nevertheless concerned about the prospect of a China rally given valuations and the pain from deflation forcing a policy response. Macro conditions began to shift in China's favour through the quarter as Fed rate cuts coupled with an unwind of the yen carry trade put downward pressure on the dollar, opening up a window of opportunity for Xi to pivot from defending the currency towards reflation. The PBoC was the first to step up by cutting benchmark lending rates. Mortgage rates were cut in an attempt to arrest the freefall in the property market, this alongside loan guarantees for local governments to buy up unsold property inventory, funding for the "national team" to buy equities, and the establishment of a swap program to make it easier for companies to buy back stock. Markets cheered the move but it was the unexpected Politburo meeting convened two days later to tackle the economic slump which set off a vertiginous rally. We judge the monetary policy elements of the package to be significant. The fiscal measures have yet to be spelt out but should also be meaningful, though not on the scale of some previous packages (e.g. 2008-09). Our baseline scenario is that the measures will stabilise the economy and lead to a recovery in money growth but economic growth will remain sub-par. Overall, the relative attraction of the market has increased but prices have moved sharply and we are inclined to wait for a pull-back and / or confirmation of a recovery in money growth before adding significantly - though with such recent volatility there could well be individual opportunities worth taking advantage of.

Volatility in global equities soared in July, sparked by the combination of the yen carry trade unwind and souring US economic data. On the BOJ's announcement that it would end decades of unconventional policy by raising rates. Trend following strategies deploying carry trade leverage were forced sellers of tech stocks with exposure to the AI supply chain. In the lead up to July, we had been steadily reducing our above-benchmark exposure to IT names in the strategy, and now maintain a modest overweight. Much of this shift has been through selling down more niche semiconductor names, detractors this quarter, which had rallied hard on demand for AI chips, such as Taiwan's Wiwynn (server designer and manufacturer) and South Korea's HPSP (high pressure hydrogen chip defect removal). Exposure to the highest quality chip names is maintained i.e. TSMC, which reported very strong results with high performance computing (dominated by AI demand) now accounting for over half of the company's revenue.

The start of the global easing cycle was a boost for liquidity-sensitive ASEAN exposure. Companies in the region are set to enjoy a broad upswing in economic growth while rates fall on a benign inflationary backdrop. One example in the portfolio is Philippine fast food chain Jollibee, which surged through the quarter. The company is famous for a menu that blends Western-style fast food with Filipino flavours, such as fried chicken, spaghetti, and sweet-style burgers (sampled by the NS team at Jollibee's Leicester Square store), alongside a portfolio of other brands covering coffee and tea, Chinese cuisine and gourmet burgers. Management aim to boost returns by developing digital channels and enhanced branding to deepen market penetration domestically by boosting the frequency of visits. It is also looking to scale up globally through Jollibee International in existing and new markets, while curbing investment in markets and any non-core brands that are falling short of investment targets (i.e. Chinese brands hit by consumer weakness).

Indonesian and Malaysian banking exposure outperformed through the quarter. The structural story supporting portfolio names like Indonesia's Bank Rakyat and Bank Central Asia is strong. Steadily rising GDP per capita and relatively low levels of debt penetration translate to healthy loan growth, more fees from loans, rising consumption (card spend) and wealth management. As these banks grow, operating leverage kicks in as scale and efficiency benefits pick up, and cost to asset ratios fall, supporting profitability. The cycle now appears to be turning in their favour. US Federal Reserve easing, resurgent currencies and capital inflows, stronger economies, and low inflation opens up room for Indonesia, Malaysia and the Philippines to begin easing monetary policy. In fact, the Philippine central bank cut by 25 bps in August while Indonesia's passed a surprise 25 bps cut just hours ahead of the Fed in September. Bank Rakyat Indonesia (BRI) is one of the largest active positions in the portfolio. It is a leader in the growing microlending market, popular among lower income groups and accounts for around half of the loan book but two thirds of profits. Serving nearly forty million customers across financing, savings and insurance, BRI has been compounding book value >17% p.a. since 2010. It's return on equity is over 20% with room to rise, as those on lower incomes will feel the boost of a stronger economy, falling fuel and food prices the most.

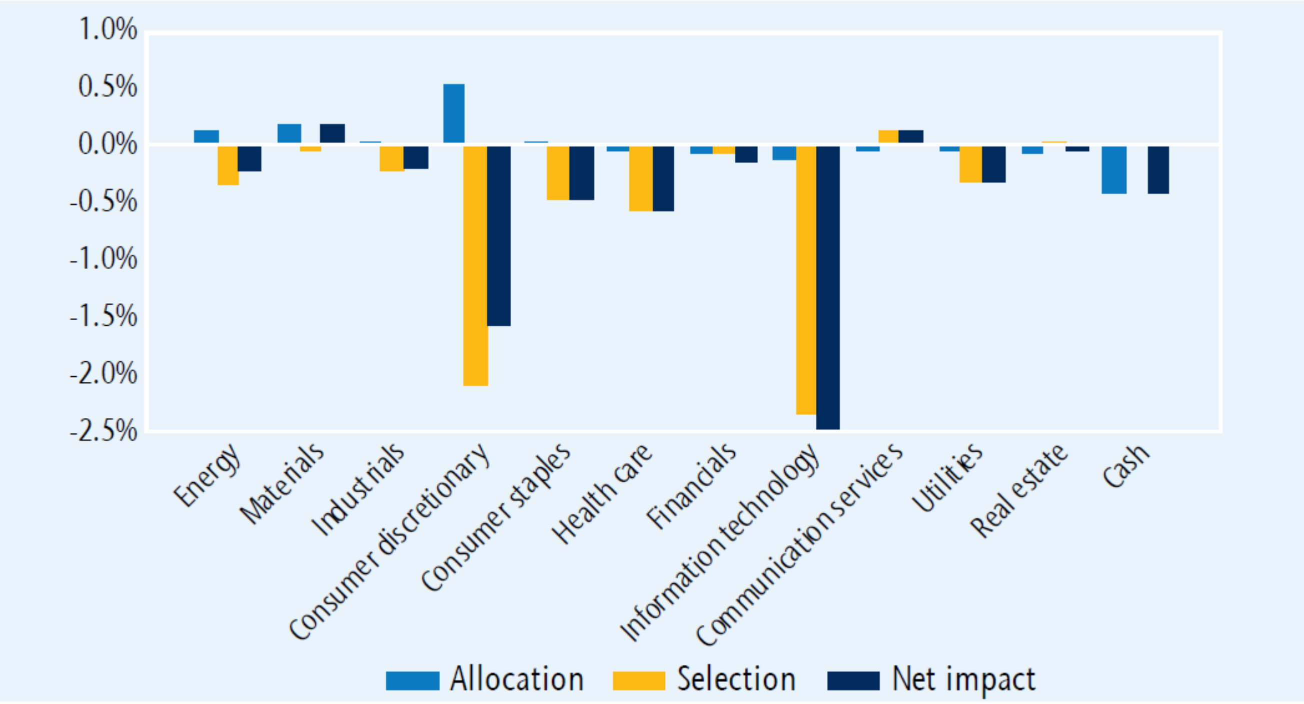
What next? On China, we need to see the fiscal plans, and the technical short term indicators are screaming overbought so we feel uncomfortable chasing here. Previous beneficiaries of money diverted from China may also underperform (e.g. Mexico, India). We need to reposition within the China portfolio and we will look for opportunities to do so. We are overweight A shares vs H and expect them to take up some of the running from here on, relative. We expect the global economy to remain weak and inflation to fall further, resulting in additional easing by the Fed and other major central banks. This should favour liquidity-sensitive markets such as ASEAN over cyclical / commodity-sensitive markets like Brazil and South Africa.

Best and Worst Countries by Net Impact

Country	Allocation	Stock Selection	Net Impact
Turkey	0.2%	0.0%	0.2%
Philippines	0.2%	0.0%	0.2%
Saudi Arabia	0.1%	0.0%	0.1%
Malaysia	0.0%	0.1%	0.1%
Brazil	-0.1%	0.1%	0.0%
Thailand	0.1%	-0.3%	-0.3%
Taiwan	0.2%	-0.8%	-0.6%
India	-0.1%	-1.4%	-1.5%
South Korea	0.0%	-1.7%	-1.7%
China	-0.5%	-1.4%	-1.9%

Source: NS Partners Ltd

Attribution by Sector



Source: NS Partners Ltd

Contribution Analysis

Top Contributors	Average Weight	Contribution
AIA Group Ltd	1.2%	0.3%
Public Bank Berhad	1.4%	0.2%
Eastroc Beverage Group Co Ltd	0.8%	0.1%
Picc Property & Casualty -H	0.8%	0.1%
Reliance Industries Ltd	0.0%	0.1%

Source: NS Partners Ltd

Top Detractors	Average Weight	Contribution
Kia Corp	1.3%	-0.5%
Max Healthcare Institute Ltd	2.6%	-0.4%
Varun Beverages Ltd	2.2%	-0.4%
Shenzhou International Group	1.1%	-0.3%
Juniper Hotels Ltd	0.8%	-0.3%

Source: NS Partners Ltd

Activity During the Quarter

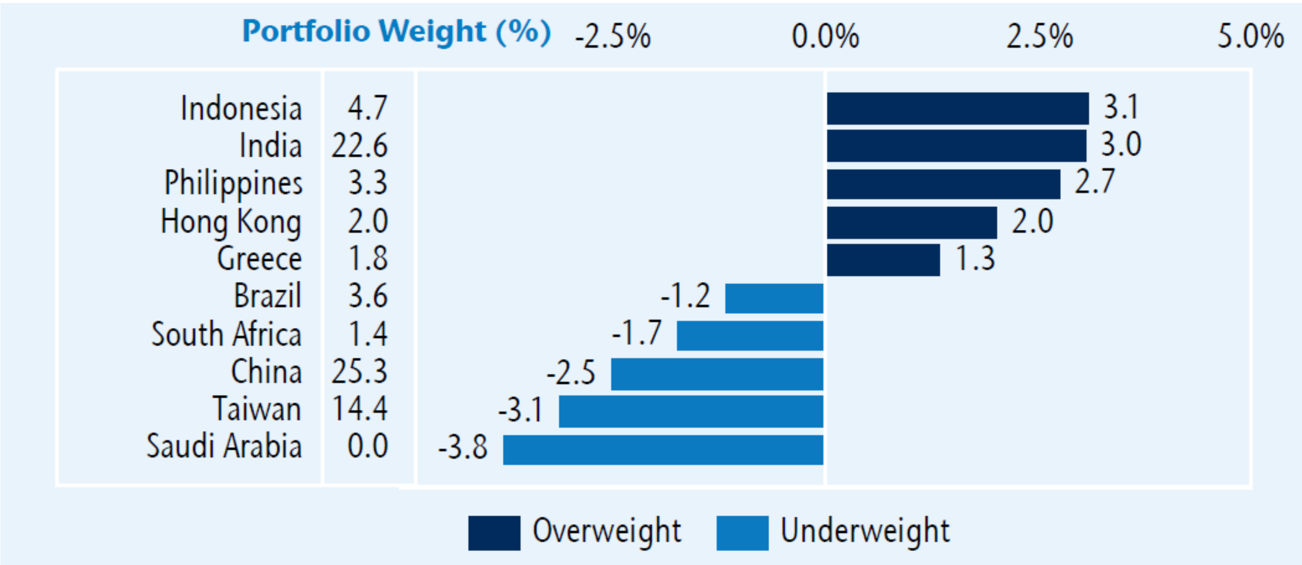
New	Exited
Cia Saneamento Basico De Sp	Shanghai Baosight Software-A
Infosys Ltd	Petrobras - Petroleo Bras
Vista Energy Sab De Cv	Walmart De Mexico SAB de CV
Bangkok Dusit Medical	Hong Kong Exchanges and Clearing Ltd
Credicorp Ltd	Kweichow Moutai Co Ltd-A
Zijin Mining Group Co Ltd-H	ASMPT Ltd
SM Investments Corp	Wiwynn Corp
Ayala Land Inc	Netease Inc
Bdo Unibank Inc	Container Corp Of India Ltd

Source: NS Partners Ltd

Add	Reduced
Alibaba Group Holding Ltd	Sk Hynix Inc
Tencent Holdings Ltd	Delta Electronics Inc
Bank Rakyat Indonesia (Persero) Tbk	Ptt Explor & Prod Public Co
Bank Central Asia Tbk Pt	Jsw Energy Ltd
China Merchants Bank-H	Mediatek Inc
Larsen & Toubro Ltd	SCB X PCL
Public Bank Berhad	Trip.com Group Ltd
Eastroc Beverage Group Co Ltd	PetroChina Co. Ltd.
Fpt Corp	Kb Financial Group Inc

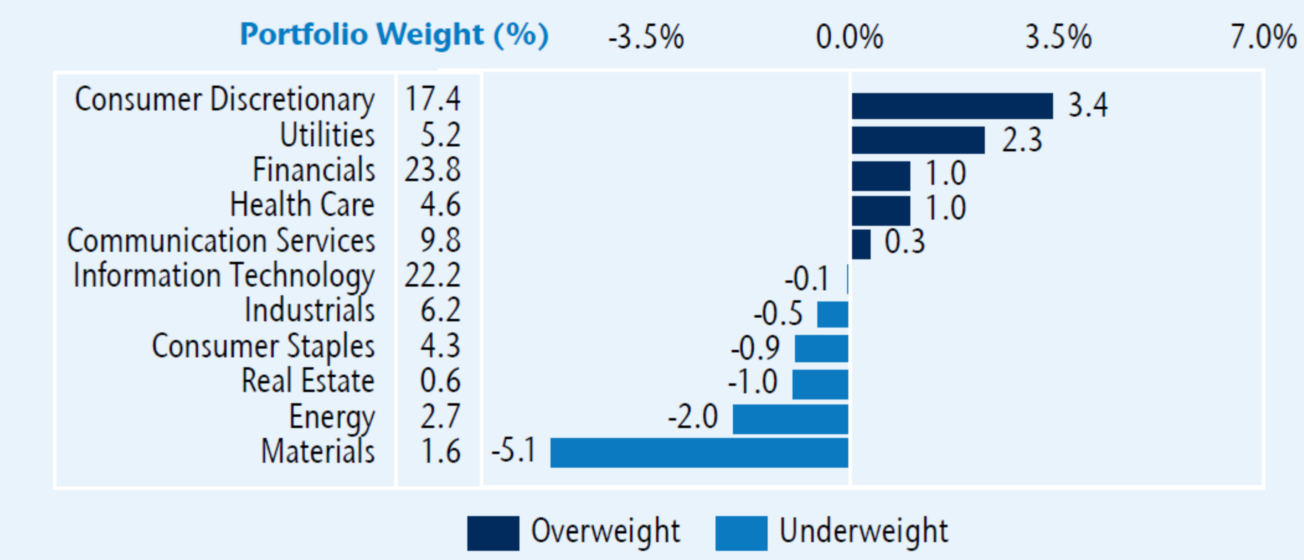
Source: NS Partners Ltd

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	2.7%
Bharti Airtel Ltd	India	Communication Services	2.2%
Axis Bank Ltd	India	Financials	2.0%
AIA Group Ltd	Hong Kong	Financials	2.0%
Samsung Electronics Co Ltd	South Korea	Information Technology	1.9%

Source: NS Partners Ltd

Top 5 Underweights vs MSCI EM Index

Company Name	Country	Sector	Active Weight
Meituan	China	Consumer Discretionary	-1.4%
Reliance Industries Ltd	India	Energy	-1.3%
ICICI Bank Ltd	India	Financials	-1.0%
Hon Hai Precision Industry	Taiwan	Information Technology	-0.9%
China Construction Bank	China	Financials	-0.9%

Source: NS Partners Ltd

Disclaimer

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