NEDGROUP INVESTMENTS

see money differently

Nedgroup Investments Global Emerging Markets Equity Fund

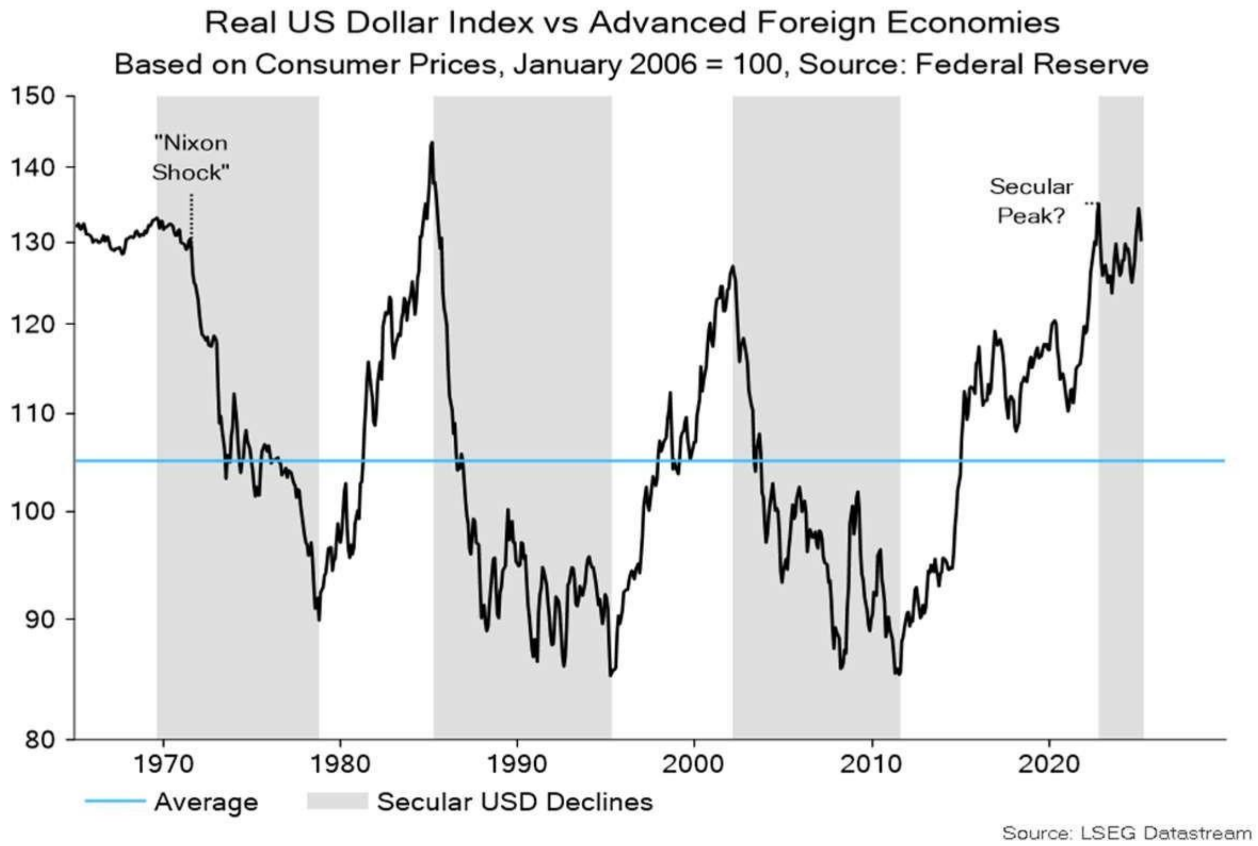
Quarter One, 2025

Marketing Communication

Economic and Monetary Backdrop

Global money trends have been signaling a loss of economic momentum in Q2 / Q3 followed by a recovery in late 2025. The US tariff shock will magnify near-term weakness and could push out or abort a subsequent revival.

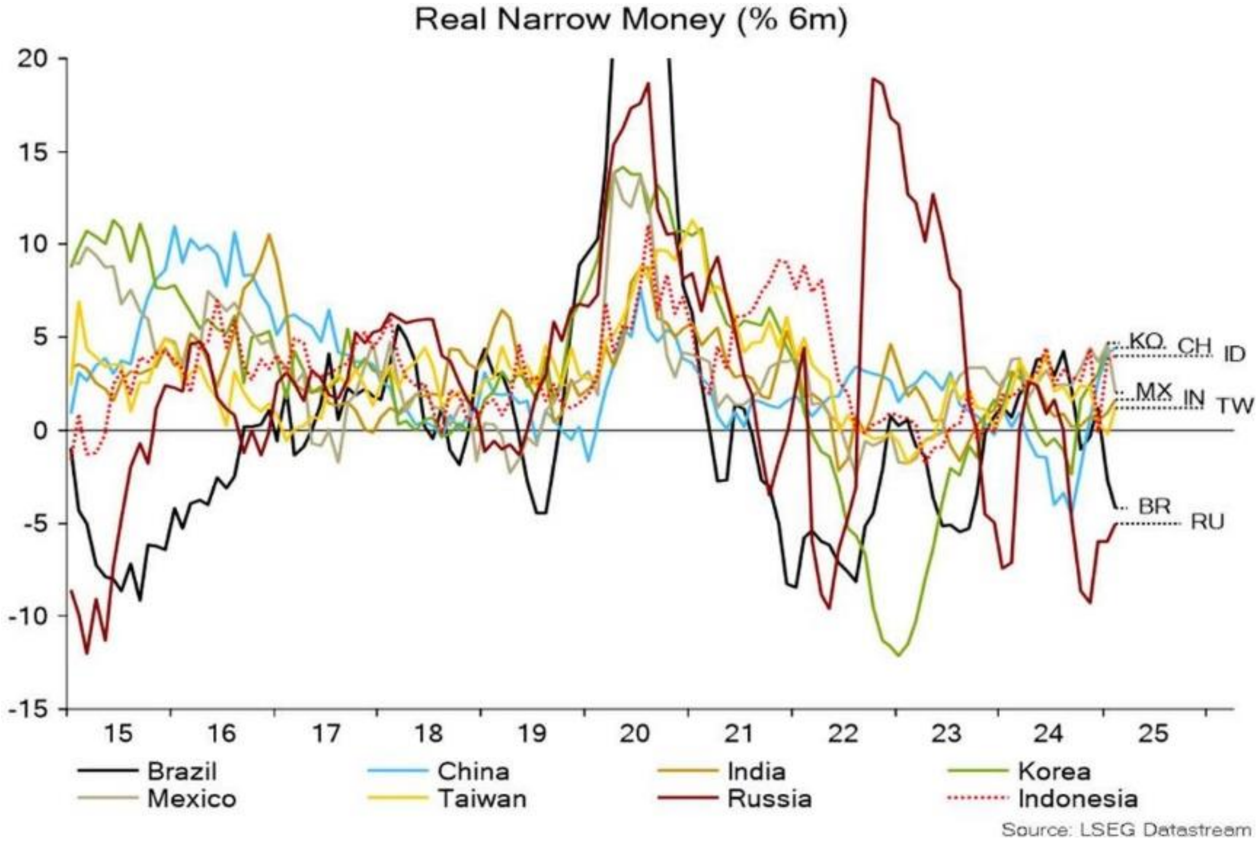
Global slowdowns / recessions are usually unfavourable for EM relative performance but there are reasons for expecting resilience currently. Trump policies – unless reversed – are likely to discourage portfolio capital flows into the US, suggesting dollar weakness. There may be a parallel with the 1971 "Nixon shock", involving suspension of the dollar's convertibility into gold and imposition of a 10% tariff. This accelerated a secular decline in the dollar, which was similarly overvalued to now:



That decline and similar long-term dollar depreciations in the late 1980s / early 1990s and during the 2000s were associated with sustained outperformance of EM equities.

The incredible level of US tariffs on China proposed at the time of writing would inflict major damage on the US and Chinese economies. Some degree of rowback is inevitable. The Chinese economy had started to regain momentum in response to earlier policy easing. The authorities are likely to increase fiscal stimulus – central government debt remains low – and expand credit via the PBoC and state banks. The exchange rate is unlikely to be used as a policy tool: a devaluation would provide minimal offset to US tariff damage while inflaming dumping complaints from other trading partners.

EM money trends are relatively favourable. E7 six-month real narrow money momentum has crossed back above the G7 level. In addition to Chinese acceleration, momentum is solid or has improved in Korea, Indonesia, India and Taiwan. Brazil is a notable exception, reflecting recent policy tightening:



The current global environment suggests underweighting cyclical markets in favour of those more dependent on domestic demand and likely to benefit from policy easing.

Portfolio strategy

While US equities faltered over tariff concerns and slowing growth, a large rally in Chinese equities underpinned a positive period for EM. The portfolio produced positive returns but underperformed the MSCI EM Index. A pullback in Taiwan tech and Indian mid-caps were the key detractors, offsetting strong stock picking among quality names in China. In South-East Asia, good stock picking in Malaysia and Thailand was outweighed by underperformance from overweight positioning in Indonesia and Philippines. The portfolio is overweight in Greece and Poland, with both markets surging on excitement over a European defence and infrastructure boom. Stocks and an underweight in South Africa were detractors as that market rallied. In Brazil, strong stock picking offset being underweight a large rally. Turkey reminded us that sound macroanalysis is crucial to avoiding downside shocks that come with investing in emerging markets. The market tanked on news of President Erdogan jailing a political rival on trumped up corruption charges. The portfolio is zero- weight Turkey, and we are not tempted by ever cheaper valuations while Erdogan threatens the rule of law. Portfolio activity included adding to China, GCC and Brazil, while reducing Indonesia, Philippines and Poland.

An overweight to Indonesia was negative as the political backdrop soured on fears President Prabowo (a retired general) may boost the military's political influence. We cut exposure on this basis, exiting politically and economically sensitive Bank Rakyat, while retaining blue chip Bank of Central Asia. In Malaysia, Public Bank reported solid results with its stock flat in a down market. One of the most well-run banks in the region, it has been in the portfolio for nearly 25 years and generates a consistent ROE of around 13% on a conservative loan book. We met with General Manager Chin Soo Long in Kuala Lumpur to discuss the bank's expansion into insurance through the acquisition of LPI. Public Bank paid 1.7x P/B for the insurer, which boasts an ROE of c.20% with room to grow through releasing excess capital buffers. There are growth opportunities through crossselling of banking and insurance products in over 200 LPI branches. Stocks in Thailand were positive, including global hospitality and restaurant leader Minor International. Minor's stock outperformed on a surge in bookings for its Thai properties featured in HBO's The White Lotus.

The revelation of DeepSeek's AI innovation triggered a rally in China tech and selling of Taiwan's AI supply chain companies. Deepseek's AI models demonstrated that you don't have to invest huge amounts of money and hardware to build powerful AI. The fear is that demand for AI infrastructure including computer chips may be lower than first thought. AI supply chain names Lotes (-30%) and Ememory (-33%) were hit by the news, while advanced chip monopoly TSMC fared better (-16%). We doubt DeepSeek will change demand for the advanced chips running at the lowest possible power. TSMC's dominance in leading-edge production remains a competitive moat. In the long run we may find that Jevon's Paradox applies, with demand for AI to boom as the technology becomes more efficient and cheaper. We think the greater risk for TSMC came with news it will make $100 billion of additional US investments over the decade, responding to threats from the US government to impose 100% tariffs on chips from Taiwan. What we like about TSMC is its ability to expand the moat by reinvesting cash flows into R&D, allowing it to pull away technologically from rivals and stay highly profitable through the cycle. While its technological leadership is likely to remain intact, there is a risk that US investments hamper its ability to maximise returns on capital.

The withdrawal of foreign investors and rotation of domestic allocators in China into SOEs and high dividend stocks has resulted in unusually large and extended underperformance of quality stocks. Our response has been to devote more research hours to the exposure, including time on the ground to re-test investment theses. This validated the conviction that China is home to a host of attractive, growing and cash generative businesses at reasonable prices. A fragile economic recovery should favour companies with strong fundamentals. Portfolio names kept up with the rally set off by DeepSeek. Fuel was added by a speech from President Xi to an audience of tech leaders, declaring it was time for entrepreneurs to "show their talents." This was followed by the Two Sessions announcement that Beijing would deliver consumption stimulus. Alibaba's stock surged (+55%) as investors seized on its AI models boasting similar performance to DeepSeek. AI revenue from its cloud division is expected to grow at triple digits through monetisation of the technology. Tencent (+19%) outperformed on excitement over the integration of AI into WeChat, e-payments and online advertising. We kept our China overweight modest on a view this rally risks getting ahead of a subdued earnings season. Consumers nursing heavy losses in their property portfolios will need more support to get out of their rut. Despite Beijing's rhetoric, we expect more incrementalism and not a Damascene conversion by Xi to embrace entrepreneurs and consumers.

Shifting underweight in India was positive but offset by a pullback in mid cap exposure. We have been overweight the market for most of the past three years reflecting India's strong structural growth story. This remains intact, but a deteriorating monetary backdrop provides less support for lofty valuations. Since September we have gradually downgraded our rating for India, feeding into a reduced risk budget allocated to the country. Varun Beverages (-15%) underperformed and is one example of a long-term winner where we have taken risk off the table. The PepsiCo bottler reported a fourth quarter earnings beat, although volumes were softening. Guidance for 2025 is for the company's international expansion to fuel growth and profitability. Consumer holdings in India underperformed, including Juniper Hotels which reported lower occupancy and margins as it renovates Grand Hyatt Mumbai. Food delivery and restaurant aggregator Zomato is undergoing expansion and increasing investment in grocery delivery business Blinkit. Higher advertising and promotional expenses weighed on profitability along with slower than expected growth for food delivery.

Doubts in Europe over the Trump administration's commitment to NATO was the catalyst for Germany lifting its debt brake, with plans to spend over €1 trillion on defence and infrastructure over the decade. This sparked a rally in European equities, including Greece and Poland where the portfolio is overweight. The portfolio's heavy underweight to the GCC was positive. However, light positioning belies the potential we see in the region. An ambitious development and investment drive is under way, powered by vast amounts of capital from local institutions. This is aimed at diversifying their economies, becoming less dependent on oil as financial services, tourism, and construction grow as drivers. The region is pursuing global talent, fuelling immigration that will see the population double by 2030. We have met with a number of impressive management teams from the GCC and will be on the ground shortly to dig deeper.

Attracting foreign investment is a beauty contest. The US is the best place in the world to do business and innovate with the protection of strong institutions. However, markets reflect this and the US government's pursuit of protectionist trade policy takes shine off the story. Meanwhile, Europe is talking up deregulation and defence, and Xi Jinping is telling Chinese entrepreneurs to "show their talents" and get rich. More combative US trade policy is a catalyst for EM countries and trading blocs getting serious about opening up and integrating. We saw the potential for trade opening in EM first hand on a visit to the Johor-Singapore Special Economic Zone in

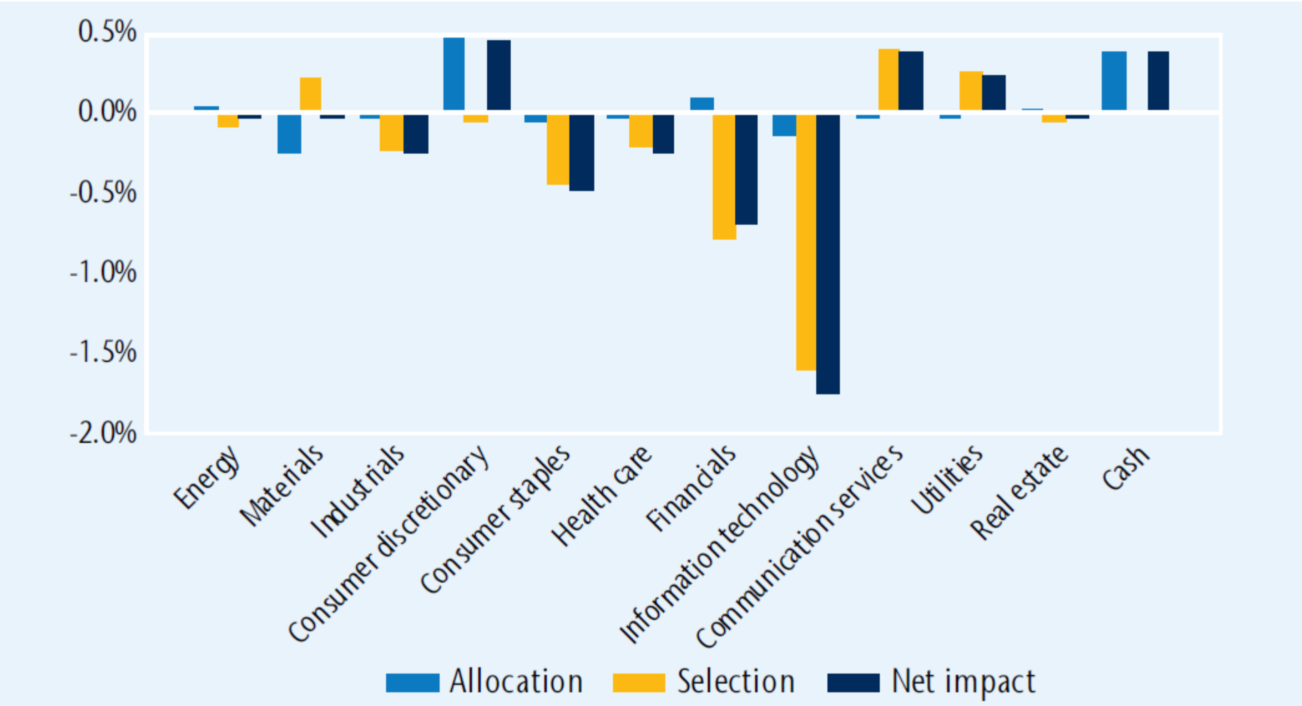
February. Who would have thought we would see the likes of Japan, South Korea and China pledge to pursue deeper trade relations? India committed to cutting tariffs after a visit from the Trump trade team in March. While brutal, President Trump's carrot and stick approach to trade has the potential to force historically closed economies to open up and compete.

Best and Worst Countries by Net Impact

Country	Allocation	Stock Selection	Net Impact
China	0.1%	0.4%	0.4%
Greece	0.2%	0.0%	0.2%
Brazil	-0.1%	0.3%	0.2%
Poland	0.3%	-0.1%	0.2%
Thailand	-0.2%	0.3%	0.1%
Vietnam	-0.3%	0.0%	-0.3%
United States	-0.3%	0.0%	-0.3%
South Africa	-0.2%	-0.2%	-0.4%
India	0.1%	-0.8%	-0.7%
Taiwan	0.3%	-1.2%	-1.0%

Source: NS Partners Ltd

Attribution by Sector



Source: NS Partners Ltd

Contribution Analysis

Top Contributors	Average Weight	Contribution
Alibaba Group Holding Ltd	4.3%	0.5%
Cia Saneamento Basico De Sp	1.6%	0.3%
Tencent Holdings Ltd	7.1%	0.2%
Byd Co Ltd -A	1.2%	0.2%
Full Truck Alliance Co Ltd	1.0%	0.2%

Source: NS Partners Ltd

Top Detractors	Average Weight	Contribution
Xiaomi Corp-Class B	0.0%	-0.5%
Trip.com Group Ltd	2.1%	-0.4%
360 ONE WAM Ltd	0.8%	-0.3%
Globant Sa	0.6%	-0.3%
Varun Beverages Ltd	1.4%	-0.3%

Source: NS Partners Ltd

Activity During the Quarter

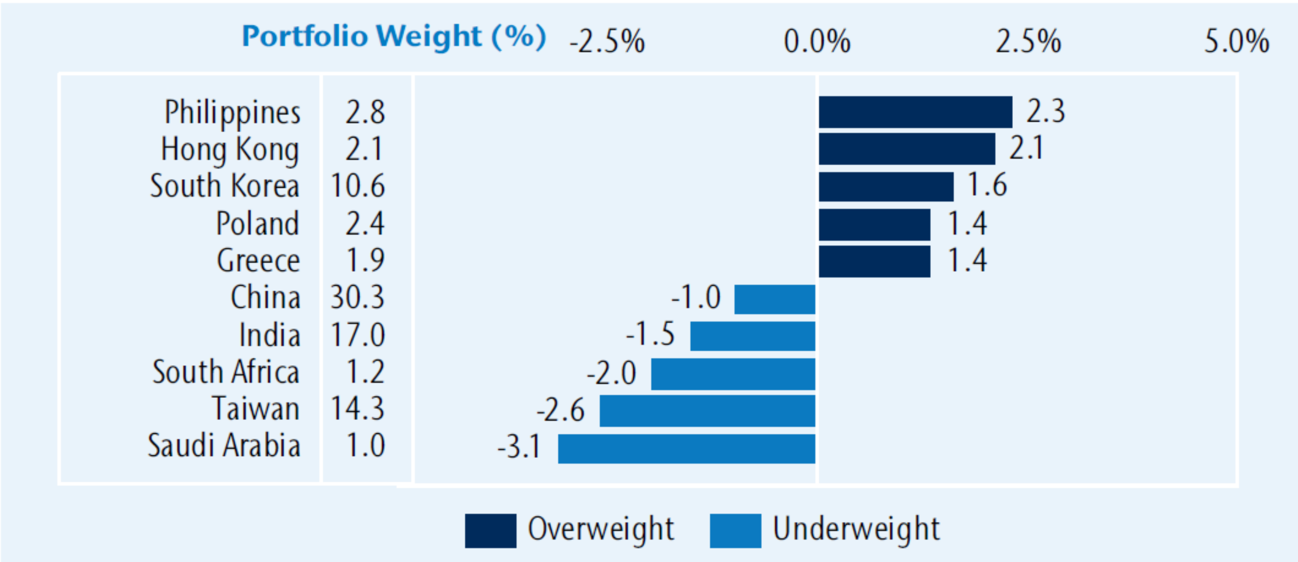
New	Exited
Industrial and Commercial Bank of China	Eastroc Beverage Group Co Ltd
Grupo Financiero Banorte - O	Bank Rakyat Indonesia (Persero) Tbk
Chifeng Jilong Gold Mining Co	Quanta Computer Inc
Hong Kong Exchanges and Clearing Ltd	Nari Technology Co Ltd-A
Hugel Inc	Zijin Mining Group Co Ltd-A
Meituan	Zomato Ltd
Anta Sports Products Ltd	Shenzhen Envicool Technology C
E Ink Holdings Inc	Itau Unibanco Holding S-Pref
Woori Financial Group Inc	Alchip Technologies Ltd

Source: NS Partners Ltd

Add	Reduced
Hdfc Bank Limited	Delta Electronics Inc
Vivara Participacoes Sa	Trip.com Group Ltd
Kia Corp	Alibaba Group Holding Ltd
Midea Group Co Ltd	AIA Group Ltd
Bank Pekao Sa	Cia Saneamento Basico De Sp
-	Samsung Electronics Co Ltd
-	Accton Technology Corp
-	Bharat Electronics Ltd
-	Picc Property & Casualty -H

Source: NS Partners Ltd

Top Country Over/Under Weights vs MSCI EM Index



Source: NS Partners Ltd

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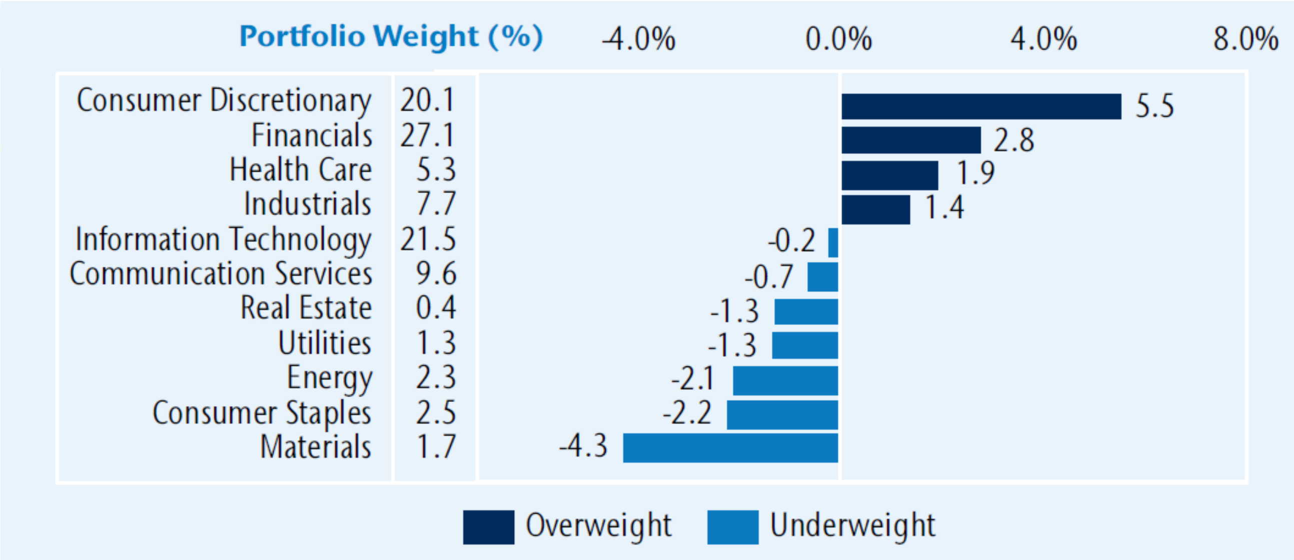
Sector Allocation Over/Under Weights vs MSCI EM Index



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%
Tencent Holdings Ltd	China	Communication Services	2.1%
Bank Central Asia Tbk Pt	Indonesia	Financials	1.6%
Bharti Airtel Ltd	India	Communication Services	1.5%
Picc Property & Casualty -H	China	Financials	1.5%

Source: NS Partners Ltd

Top 5 Underweights vs MSCI EM Index

Company Name	Country	Sector	Active Weight
Xiaomi Corp-Class B	China	Information Technology	-1.4%
Reliance Industries Ltd	India	Energy	-1.2%
China Construction Bank	China	Financials	-1.1%
ICICI Bank Ltd	India	Financials	-1.1%
Taiwan Semiconductor Manufac	Taiwan	Information Technology	-0.9%

Source: NS Partners Ltd

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