Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU

OX CAPITAL MANAGEMENT

Quarterly Report December

Performance	1 Month %	3 Month %	FYTD %	1 Year %	3 Year % p.a.	5 Year % p.a.	Inception % p.a.
Fund return (net)[1]	-7.7	-11.7	-11.4	-	-	-	-11.4
MSCI Emerging Market Net Return Index AUD unhedged	-0.6	-1.9	-1.8	-	-	-	-1.8
Excess return	**-7.0**	**-9.8**	**-9.6**	**-**	**-**	**-**	**-9.6**

[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. The inception date for the fund is 17 September 2021. **Past performance figures that are less than 12 months are for informational purposes only and are not to be relied upon when considering the likely future performance of the Fund. Data Source: Fidante Partners Limited, 31 December 2021.**

Fund Facts

Portfolio managers	Joseph Lai, Douglas Huey, Alan Zhang
Inception date	17 September 2021
Management fee	1.00% p.a.
Performance fee	15% of the Fund's daily return above the benchmark[3]
Fund Objective	The Fund aims to provide an absolute return and capital growth over the long term and outperform its benchmark after costs over rolling five year periods.
Initial Investment	$10,000
Minimum suggested timeframe	5 years
Buy/sell spread[3]	+0.25% / -0.25%
Fund FUM	$31.5 M
Distribution Frequency	Annually

Top 10 Positions

Company	Sector	%
Alibaba Group Holding Ltd	Consumer Disc.	4.16
Prosus NV	Information Tech.	3.78
iPath Series B S&P 500 VIX Short-Term Futures ETN	ETF	3.78
Astra International Tbk PT	Consumer Disc.	3.69
Samsung Electronics Co Ltd	Information Tech.	3.67
Tencent Holdings Ltd	Comm Services	3.55
Taiwan Semiconductor Manufacturing Co Ltd	Information Tech.	3.39
Prudential PLC	Financials Ex Prop	3.18
Jardine Cycle & Carriage Ltd	Consumer Disc.	3.10
Ayala Land Inc	Property Trusts	3.06
Total		**35.38**

Data Source: Fidante Partners Limited, 31 December, 2021.

[3]Daily return measured after fees, expenses, after adding back distributions paid.

Fund Features

Concentrated: A portfolio of 30-50 high quality, undervalued, well run companies that have the potential to generate high absolute returns over the medium to long term.

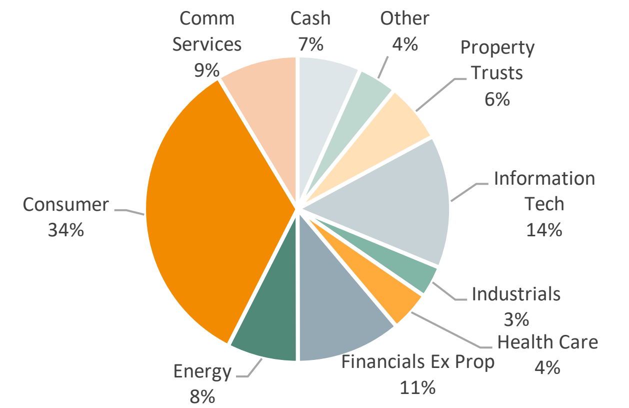
Capture growth: Ox Capital's investment approach is to identify the immense positive changes taking place in Asia and other key emerging markets and to find companies that can benefit from those trends.

Macro overlay: A quantitative model provides a bird's eye view of how macro conditions impact equity markets and helps guide country and sector asset allocation.

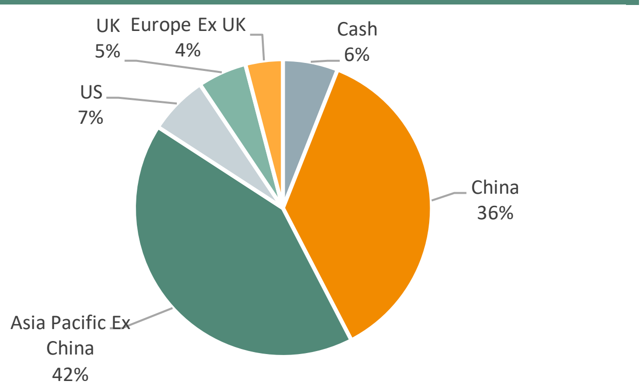
Capital protection strategies: The Fund can use derivatives such as index futures and equity swaps to help protect the portfolio from market volatility and to obtain synthetic exposure to stocks or markets.

Experienced team: A team of experienced and passionate emerging market investors strongly aligned with clients' investment objectives.

Sector Exposure



Geographic Exposure



Fund Commentary

The fund returned -11.75% for the quarter and -7.67% for the month of December. The benchmark was down -1.95% and -0.65% for quarter and month respectively.

We believe the overall weakness in the portfolio in December can be largely to risk-off sentiment generally on the back of the prospect of rising US interest rates and a softening Chinese economy and the emergence of the omicron strain of COVID-19, impacting economic reopening plays. Some of the key contributors to this negative performance in December were as follows:

- We had a small hedge against overall market downside via a VIX ETF that gave the Fund long volatility exposure to US S&P500 volatility futures contracts, as we are concerned about the valuations of developed markets, valuations are very high and interest rates is rising. A big fall in developed equity markets can impact our markets somewhat. This product moved against us over December, falling 17% as US equity markets rallied over December.

- JD.com is a fast growing e-commerce operator in China. It has held up well during in 2021. Tencent decided to distribute its JD.com shares to its shareholders. It does not alter the fundamentals of JD.com, but given the poor sentiment surrounding Chinese internet stocks, the stock was down 19% over December.

- Dada Nexus, a large on-demand delivery platform in China we are exposed to via American depository receipt (ADR) vehicle listed on the US NASDAQ exchange, was caught up in decoupling and delisted fears affecting sentiment towards most Chinese stocks listed offshore. The stock was down 28% over December.

We are certainly disappointed by the short-term return. Yet, we are excited by the long-term prospects of the portfolio. As the saying goes, “what a time to be alive”. In hindsight, what a time to start a fund!

Ox Capital has a simple investment philosophy. We look to buy good companies at attractive valuations, that will deliver respectable returns - double or better - in the next few years. Buying good businesses is when sentiment is against us generates strong long term returns, we believe. In 2021, we witnessed significant market dislocations which reached a crescendo in the last quarter. We saw an abundance of opportunities as we started deploying capital. Sadly, we were a touch early. We remain very optimistic over the long-term prospects of the stocks in the portfolio.

Market Commentary

A quote from Jeffrey Gundlach of DoubleLine Capital in US this month illustrates the current sentiment : “China is *uninvestable*, in my opinion, at this point". He admitted that he has never invested in China. The salient point was is that his view probably reflects that of the typical western investor.

2021 was an especially turbulent year in China. The US and China increasingly considered each other as rivals, rather than allies. The tension boiled onto the capital markets so much so that Chinese ADRs (depository receipts) may be forced off the US exchanges by 2023 to 2024. Despite the availability of a tried solution of dual listing in the Hong Kong Stock Exchange, the damage to sentiment drove valuations down significantly, particularly in December.

In order to secure long term sustainability, the Chinese authorities decided to undertake significant reforms. While these reforms are necessarily, the optics can appear draconian, hence they are often termed “crackdowns” in the press. The Chinese government cracked down on the education and the internet sector. The banking system curbed lending to property developers to remove the excesses of risk taking by some developers. By now, we have all read about the Evergrande situation.

In the second half of 2021, as more regulatory and financial pressure took hold, investors started to be concerned that the Chinese economy may slow down.

Figure 1: Performance of Chinese stocks listed domestically (CSI300), outside of China but including Hong Kong (MSCI China), and USA (ADR)

Source: Jefferies

The chart above is telling.

There was a sharp divergence in performance. ADRs and overseas-listed Chinese stocks depreciated aggressively, while domestic Chinese stocks held up well despite monetary tightening. The further one is away from the Chinese market it appears, the greater the pessimism and the share price suffered!

Unseasoned investors in the Chinese markets ran for the hills, while the domestic investors are held firm. In our years of experience investing in these markets, It is rare to see a pervasive sense of despair similar to this one. Global investors threw the panda out with the bath water!

Our other significant exposure is ASEAN nations such as Indonesia reopening up and energy price tightness. While the emergence of Omicron in late November was a negative surprise to these themes, we were highly confident that these themes would recover. As we write, oil price has recovered to closer to US$90 per barrel and it is looking increasingly likely that the Omicron variant will cause less disruption than previous COVID waves despite its highly infectious nature.

In particular, we have a significant exposure to Indonesia. It is a country that is endowed with natural resources that will benefit from structurally higher energy prices and higher demand for nickel (from EVs batteries) over the long term. The economy has been tepid for a number of years, but the feedback we are getting is that a full-blown economic recovery is taking place.

Our investment process is to seek out attractively valued and strong companies on long term growth trajectory. We took advantage of the market dislocation and added to our positions during the market turbulence. Not owning and indeed adding to these strong companies with dominant positions would likely prove to be a mistake in the long run. For instance, **quite a few of these stocks are now trading on cash backing and even ignoring the cash is on a single digit P/E** – well below overall average market valuations!

Outlook

The main exposures of the portfolio are in China, Indonesia and energy.

The pendulum of public pessimism towards China has swung too far. The large cluster of prospective investment opportunities trading at mouthwatering valuations makes us actually very excited over long term prospects for the Fund. There are businesses that we would happily own for the next five years, which would be capable of delivering well over our target return.

Over the medium term, we are optimistic also. The Chinese authorities' focus on growth will mean reversal of the severe tightening measures of 2021. The tightening of the internet sector appears to have peaked after guardrails have been put in. The tightening of the property market has evidently peaked as the over-levered property companies are squeezed out and property prices return to a more acceptable level. Interest rate cuts marks the beginning of monetary policy stimulus to the Chinese economy – an enviable position they are in given short- and longer term interest rates in China are significantly above those in the West.

We believe that the combination of Chinese stimulus measures together with the world getting over the worst of the Omicron, will provide a compelling macro backdrop to the portfolio.

It would surprise many to find out that over 35% of Nasdaq stocks have lost half its value over 2021 despite a strong performance put up by the overall Nasdaq index. This suggests significant crowding into the most marquee names at the expense of the mid to small-size names. As interest rates go up, it is likely the crowding will be squeezed out.

Meanwhile, most emerging market economies have been raising rates for a while ahead of the US tightening. In the case of China it is now in the position to even cut rates! Indeed, China and Indonesia are just about the only two economies in the world with a positive real interest rate! These economies should be more resilient against the backdrop of US rate rise. Emerging markets are clearly still an underappreciated asset class. Yet, they have many companies that are top quality and have sustainable growth. Starting valuation is a good predictor of returns. We have a portfolio with a price to earnings multiple of 15x and expected earnings growth of 20%!

We look forward to the next quarterly update.

ASIC Periodic Reporting Requirements

The Ox Capital Dynamic Emerging Markets Fund (Fund) is classified as a hedge fund in accordance with the Australian Securities and Investments Commission Regulatory Guide 240 *Hedge funds: Improving disclosure.* We are required to provide this additional information to you on a quarterly basis.

Asset Allocation (as at 31 December 2021)

Exposure analysis	
Position	**% of net invested capital**
Long securities (including derivatives)	93.26
Short securities (including derivatives)	-
Cash	6.74
Gross equity exposure	93.26
Net equity exposure	93.26

Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 31 December 2021.

In summary, 100% of the Fund's assets can be liquidated within 10 days.

Time to liquidate	% of assets
Within 1-10 days	100%
>10 to 21 days	0%
> 21 days	0%

Maturity profile

As at 31 December 2021, the Fund does not have any material liabilities.

Derivative counterparties engaged

The derivative counterparties engaged for the period 1 July 2021 to 31 December 2021 are provided in the table below.

Derivatives counterparty
Citigroup Global Markets Limited
Citibank, N.A.

Leverage

Ox Capital may use leverage to increase the exposure of the Fund to investment markets. Leverage will generally be obtained through the use of derivative instruments. Although the maximum allowable leverage permitted in the Fund is 150% of the Fund's NAV, the Fund's positions in long securities and derivatives and overall net equity exposure will generally not exceed 100% of the Fund's NAV. The Fund must provide collateral to secure its obligations under the relevant agreements.

As at 31 December 2021, the Fund has long exposure of 93.26% and short exposure of 0.00%. The Gross equity exposure of the Fund is 93.26% and the net equity exposure of the Fund is 93.26%.

For further information, please contact:

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