# Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU

## Monthly Report June 2022

| Performance | 1 Month % | 3 Month % | 6 Month % | 1 Year % | 3 Year % p.a. | 5 Year % p.a. | Inception % p.a. |
|---|---|---|---|---|---|---|---|
| Fund return (net)[1] | 4.5 | 4.2 | -3.2 | - | - | - | -14.3 |
| MSCI Emerging Market Net Return Index AUD unhedged | -2.6 | -3.3 | -12.9 | - | - | - | -14.5 |
| **Excess return** | **7.1** | **7.5** | **9.7** | **-** | **-** | **-** | **0.2** |

[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, 30 June 2022.**

| 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** | $32.2 M |
| **Distribution Frequency** | Annually |

### Top 10 Positions

| Company | Sector | % |
|---|---|---|
| **Country Garden Services Holdings Co Ltd** | Industrials | 4.17 |
| **HDFC Bank Ltd** | Financials Ex Property | 3.84 |
| **Tencent Holdings Ltd** | Comm Services | 3.81 |
| **Alibaba Group Holding Ltd** | Consumer Disc | 3.63 |
| **Meituan Dianping** | Consumer Disc | 3.53 |
| **Ping An Insurance Group Co of China Ltd** | Financials Ex Property | 3.43 |
| **Vipshop Holdings Ltd** | Consumer Disc | 3.30 |
| **Direxion Daily Semiconductors Bear 3x Shares** | ETF | 3.12 |
| **JD.com Inc** | Consumer Disc | 3.10 |
| **Reliance Industries Ltd** | Energy | 2.90% |
| **Total** | | **34.85%** |

**Data Source: Fidante Partners Limited, 30 June 2022.**
[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.

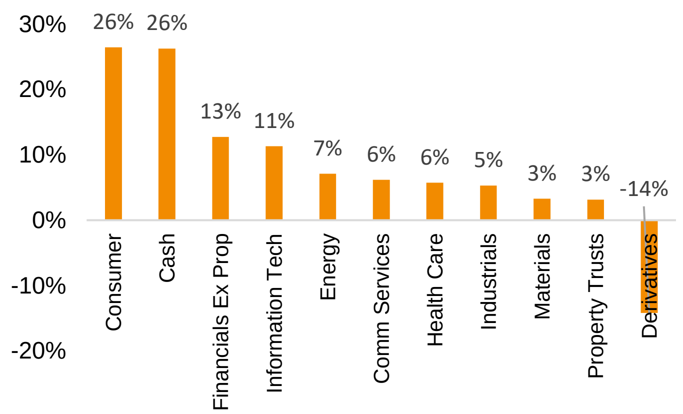
**Capture growth:** Ox Capital's investment approach is to identify the immense positive changes taking place in Asia and other key emerging markets and to find companies that can benefit from those trends.

**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.

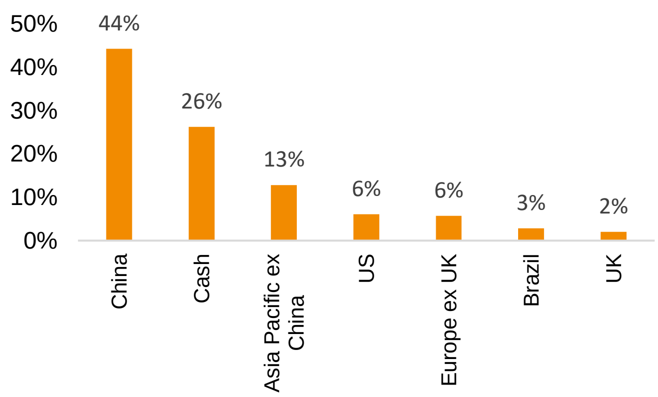
**Capital protection strategies:** The Fund can use derivatives such as index futures and equity swaps to help protect the portfolio from market volatility and to obtain synthetic exposure to stocks or markets.

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

### Sector Exposure




### Geographic Exposure



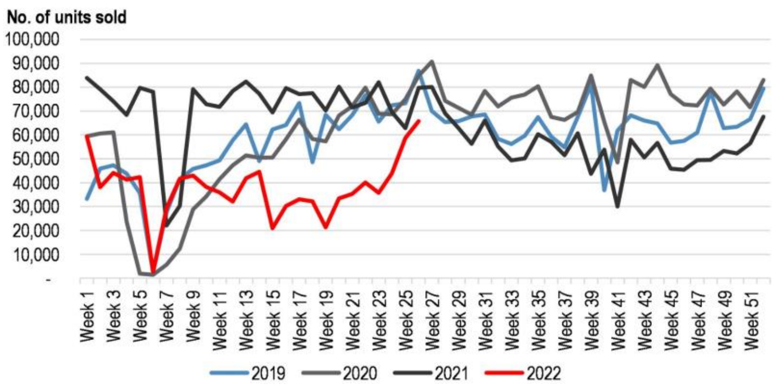
## Fund Performance

In the second quarter of 2022, the strategy returned 4.2%, outperforming the MSCI Emerging Market index by 7.5% (which returned -3.3% over the period). Outperformance was contributed by the Fund's exposure to Chinese equities, energy and protection put on to manage market volatility.

Our downside protection strategies added 3.51% to performance. The main contributors were hedges against stock market Indices and the semiconductor sector.

Our China exposures enjoyed decent gains in the quarter as loosening fiscal, monetary and regulatory policies continued (Meituan Dianping: +25.09%; AK Medical Holdings Ltd: +25.99%). The property market is stabilising rapidly and regulatory crackdowns, particularly against internet platforms, has well and truly waned. This is consistent with our views communicated in the previous thought piece. With a clearer regulatory framework, strong businesses will do well over the long term and will provide significant upside from a valuation perspective.

**The number of units sold in China has recovered rapidly post policy relaxation and interest rate cuts.**




Source: JPM, OxCap Research

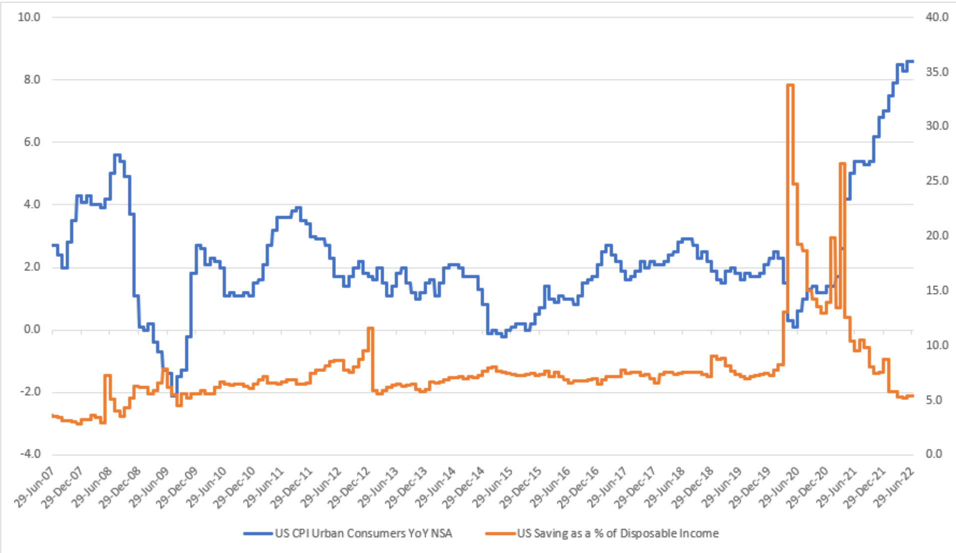
Our small exposures detracted from performance. These high-growth stocks (Oncoclinicas do Brasil Servicos Medicos: SA -56.54%; Sea Ltd: -43.73%) are the typical unfavoured names during times when credit growth slows and typically deliver great capital returns when credit flow returns.

The Fund took profit on energy exposures (Repsol SA: +10.62%) late in the quarter to mitigate risks of a slowing global economy despite our structurally positive view on commodities over the longer term. The fact is, consumer wallets all over the world must contend with higher food and petrol prices, interest rates and less government handouts. Something must give, and it has been our view that the fear over inflation was going to give way to fear over rapid economic slowdowns.

As mentioned in the March quarterly, we have been cautious over expensive internet stocks and the semiconductor sector as it is an area that has benefited disproportionally from the COVID dynamic of working-from-home and stimulus.

The buying of PCs, spending time online, investing in the cloud, and handouts from governments have brought forward the demand for computers and smartphones. As demand reverts to a long-term trend, valuation of the sector corrected significantly over the quarter. We have avoided the sector and are now starting to seek opportunities post the correction.

**Urban household purchases have become more expensive while the savings rate has fallen.**




Source: Bureau of Labour Statistics; Bureau of Economic Analysis; OxCap Research

At OxCap, we seek to own strong businesses in fast-growing regions of the world, whilst protecting the downside during market volatility. We believe this will lead to sustainable robust performance over the long term. Within China, we are selectively favouring companies growing in technological prowess that can become champions in the coming decade. Outside of China, we are focused on dominant businesses with pricing power that are growing rapidly, benefiting from significant economic development arising from very encouraging dynamics such as rapid urbanisation, supply chain migration and mobile internet penetration.

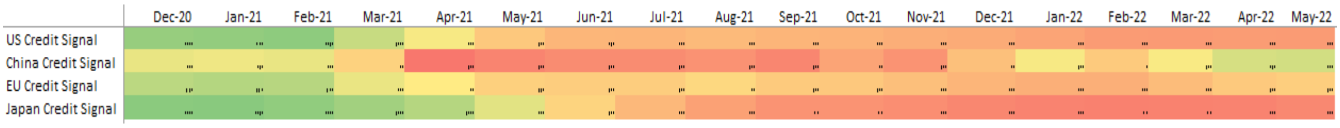
## Market Commentary

It was another eventful quarter in the financial markets. The NASDAQ fell 22.44% during the quarter on the back of a weaker global growth profile and central banks that are handicapped by higher inflation prints and rising political costs. The NASDAQ only started to stabilise after slower growth began eroding inflation expectations.

Over in China, Shanghai - one of the most integrated Chinese cities - was hit by Omicron and experienced an entire month of lockdown. Business confidence fell (April Caixin Composite PMI 37.2) and CSI 300, the often-cited index of top companies on the Shanghai Stock Exchange, dropped 10%. A politburo meeting with supportive policy promises was then called for. A stimulus package was announced soon after and Le Keqiang held a video conference that required full attendance of government officials to ensure sound execution of policy direction. As a result, the CSI 300 ended the quarter with a 6.21% gain.

This is consistent with OxCap's risk management model, Macro Overlay Aggregate Tracker (MOAT). US credit impulse has been weak for over a year and the US economy is now showing signs of a slowdown. Meanwhile, a slowdown in credit and economic activity has already occurred and China is currently the only major economy with supportive credit conditions because it is not battling inflation. This has allowed us to selectively add to the names we like in China.

**Credit signal of key economies (Green: Loosening credit condition; Red: Tightening credit condition)**




Source: OxCap Research

From a more bottom-up lens, three investment themes stood out for us when we started the journey at Ox Capital – natural gas, Indonesia and selective Chinese equities. Almost a year on, some of these themes have played out and others are on the cusp of playing out. These themes have, for the most part, remained resilient in the face of extremely volatile global markets. While these themes are still in their early innings, we believe they have a lot of room to generate significant returns in years to come given their extremely attractive valuations and solid fundamentals.

## Outlook & Positioning

At Ox Capital, we have a very simple process:

1) Identify secular under-appreciated themes
2) Find the best companies to take advantage of these themes
3) Do not pay up

Practically, we seek to be early in discovering longer-term themes and participate in those at attractive valuations. This requires independent thinking and deep analysis of the fundamentals of the industries and businesses we investigate. It also means that we do not chase assets that are well-liked because they are expensive.

At the time of our investment into these three particular themes, they were far from topical. Energy was considered an un-investable theme for Environmental, Social and Governance (ESG) reasons but is top of mind today. Indonesia is a resource-rich economy that has gone through a lost decade due to sluggish commodity prices and waning investor interest, but is now waking up with booming consumer and business investment cycles. China was in the throes of a major economic recession due to regulatory and monetary tightening in the preceding year, and that has well-and-truly turned.

These themes were extremely interesting to OxCap as our work suggested strong secular growth for all of them, but even the best companies were available at very attractive valuations. This is our mission – to find underappreciated themes and the best companies exposed to those themes and buy only when valuation is cheap.

Let us take you through these themes in greater detail.

## Energy

Tightness in energy is a result of years of under-investment. Growing oil and gas supply is no easy feat, requiring significant capex and years of development. The lack of investment has led to a lack of supply growth. Demand, on the other hand, is continuing to grow. In the developing countries of the world, there are about 5 billion people improving their living standards. This requires a lot of energy. While a lot of renewable energy supplies are getting installed, during the transition period, the world still requires growing supplies of natural gas and, to a lesser extent, oil.

The war in Ukraine has a greater impact on natural gas supply than oil, as oil can be diverted more easily to Asia away from Europe. The diversion of Russian oil, however, has led to some unintended consequences. Refineries in Asia are not primed to process this diverted Russian oil. Output of the middle distillates (diesel, gasoline and jet fuel) was negatively impacted as a result of the diversion. Prices (or spreads) of these refined products has recently skyrocketed. The opening up of China post-lockdown and the recovery of demand from driving and flying has added to the demand spike.

Going forward, the withdrawal of Western oil companies from Russia, one of the world's top oil producers, is likely going to lead to declining output that will persist in coming years. Despite heightening energy prices, we are not seeing any meaningful increase in capital expenditure to bolster supply for environmental reasons. Stock prices have appreciated but are still priced extremely attractively.

## Indonesia

Indonesia has not had a great decade economically, partly because of weak commodity prices. As opposed to economies that import commodities, as a commodities exporter, higher resource prices are beneficial to Indonesia. This is beginning to 'trickle-down' to consumption and investment decisions of Indonesian businesses. Further, Indonesia has undertaken significant economic reforms to improve the productivity of the economy and is undergoing a mobile internet revolution. The population is young and aspirational and the economy is transforming.

It appears that we are at the foothill of a huge consumption and investment cycle. The stock market has reacted accordingly and is up significantly so far this year. Indonesia is fertile ground to hunt for secular growth businesses in an inflationary world and valuations are attractive relative to its own history and to the growth darlings of last decade in developed markets. We can access Indonesia's top-of-class retailers on teen multiples, with expected growth of 40% per year in coming years.

## Selective Chinese stocks

When it comes to China, one must understand the nuances and be selective in stock picking. With the many years of experience the team have at OxCap, we have a deep appreciation of the regulatory environment and context of so called 'crackdowns' as well as the Chinese monetary and fiscal policy environment and interest rate cycles.

Towards the end of 2021, as the Chinese economy slowed under the weight of both regulatory and monetary tightening, it became common parlance to describe Chinese equities as “un-investable”. While fashionable, such utterances often mark the bottom of markets. In the aftermath of the GFC, US markets were described as “un-investable” by many and then became the best-performing markets globally for more than a decade!

China is transforming its growth model from that fuelled by heightening property prices and consumer debt to one driven by strong, technologically-advanced, industrial enterprises. While consumption will grow, the more interesting names have changed to those focused on technological innovation and domestic indigenisation. To invest successfully in the Chinese market going forward, investors must be selective. Given the changing focus of the authorities in China, it has become more prospective to invest in the future GE’s, Pfizer’s and Accenture’s of China and we can identify quite a large number on rock bottom valuations.

Early monetary tightening in China has been painful for economic growth and equities. This contrasts with the economic overheating experienced by developed economies that has resulted from excessive stimulation. Both situations are socially destabilising. The solution for China, however, is to stimulate, and for developed countries, it is to tighten policies. The impact of this is seen in the equities market, in which many of the stocks in Asia are holding firm or gaining ground, while most in developed markets have been weak.

Our protection of the downside of the portfolio has been useful during recent market volatility. Our quantitative MOAT framework has guided us to be more cautious on the developed markets. Stimulation during the pandemic has led to an over-indexation of demand by consumers and inflationary pressure. Tightening and return to trend level of consumption triggered by interest rate rises inevitably led to weakness in stock prices.

The end of US tightening of monetary policies is likely the start of significant emerging markets outperformance. We believe secularly high resource prices, a loosening policy out of the US, positive regulatory and economic cycles out of China, and attractively valued businesses will likely be powerful drivers for emerging markets equities.

## 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 30 June 2022)

| Exposure analysis | |
|---|---|
| **Position** | **% of net invested capital** |
| Long securities (including derivatives) | 90.42 |
| Short securities (including derivatives) | - |
| Cash | 9.58 |
| Gross equity exposure | 90.42 |
| Net equity exposure | 90.42 |

### Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 30 June 2022.

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 30 June 2022, the Fund does not have any material liabilities.

### Derivative counterparties engaged

The derivative counterparties engaged for the period 1 July 2021 to 30 June 2022 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 30 June 2022, the Fund has long exposure of 88.97% and short exposure of 0.00%. The Gross equity exposure of the Fund is 90.42% and the net equity exposure of the Fund is 90.42 %.

**For further information, please contact:**

**Fidante Partners Investor Services** | **p:** 13 51 53 | **e:** info@fidante.com.au | **w:** www.fidante.com

---

This material has been prepared by Ox Capital Management Pty Ltd (ABN 60 648 887 914, AFSL 234 668) OxCap, the investment manager of the Ox Capital Dynamic Emerging Markets Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (**Challenger Group**) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. OxCap and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, OxCap and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.