Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU

Quarterly Report March 2023

Performance	1 month %	3 months %	6 months %	1 year %	2 years % p.a.	Inception % p.a.
Fund Return (Net)[1]	1.0	1.0	6.7	6.8	-	-8.2
MSCI Emerging Market Net Return Index AUD unhedged	3.7	5.3	9.5	0.1	-	-7.7
Active Return	-2.7	-4.3	-2.8	6.6	-	-0.5

[1] The returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowances are made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. The inception date for the fund is 20 September 2021.
Source: Fidante Partners Limited, 31 March 2023

Fund Facts	
Portfolio managers	Joseph Lai, Douglas Huey, Alan Zhang
Inception date	20 September 2021
Management fee	1.00% p.a.
Performance fee	15% of the Fund's daily return above the benchmark[2]
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[2]	+0.25% / -0.25%
Fund FUM	AUD $34.4 M
Distribution frequency	Annual

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 change 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.

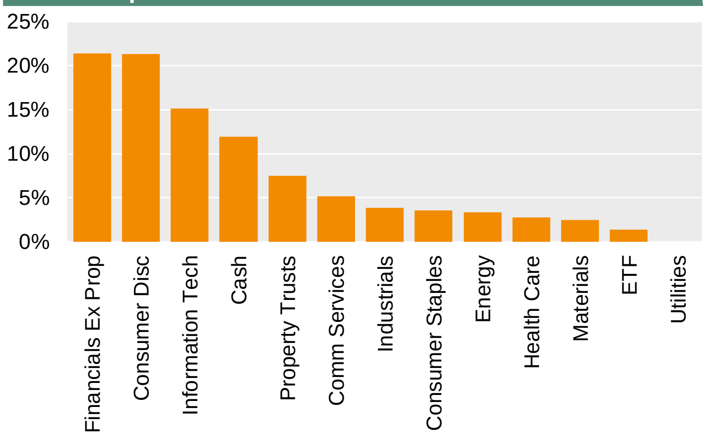
Capital protection strategies: The Fund can use derivatives such as index futures and equity swaps to help protect the portfolio from market volatility and to obtain synthetic exposure to stocks or markets.

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

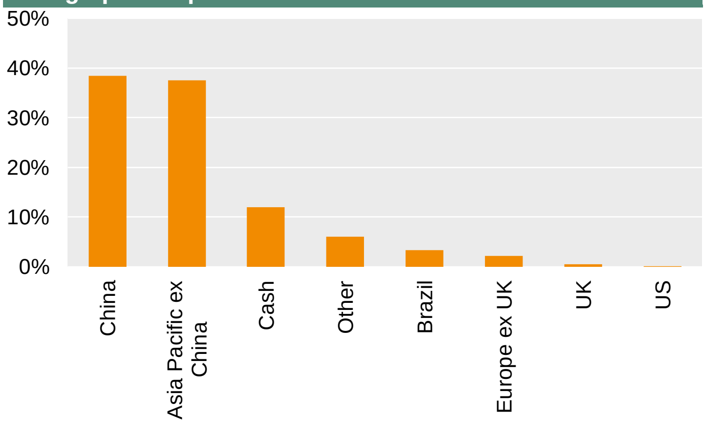
Top 10 Positions

Company	Sector	%
Taiwan Semiconductor Manufacturing Co Ltd	Information Tech	5.11
Tencent Holdings Ltd	Comm Services	5.00
Samsung Electronics Co Ltd	Information Tech	4.10
Alibaba Group Holding Ltd	Consumer Disc	3.74
Bank Negara Indonesia Persero Tbk PT	Financials Ex Prop	3.66
ANTA Sports Products Ltd	Consumer Disc	3.24
Meituan Dianping	Consumer Disc	3.14
Reliance Industries Ltd	Energy	3.08
HDFC Bank Ltd	Financials Ex Prop	3.02
IDFC First Bank Ltd	Financials Ex Prop	3.01
Total		**37.10**

Sector Exposure



Geographic Exposure



Performance Commentary

In the first quarter of 2023, the Fund returned 1.00%, compared to 5.3% by the MSCI Emerging Market Net Return Index.

Top contributors continue to be the Chinese internet companies given the backdrop of more regulatory relaxations and consumption stimulus. (Tencent Holdings Ltd 21.62%; Alibaba Group Holding Ltd 16.00%; Taiwan Semiconductor Manufacture 18.84%). While the detractors are the cyclical exposures given the mounting concerns of a slower economic slowdown without a large stimulus. (Reliance Industries Ltd -8.49%; Meituan -17.86%; Talos Energy Inc -21.40%).

Market Commentary

It is important to understand the investment environment to appropriately position our portfolio. The first quarter of 2023 was marked by noteworthy events that will pave the way for an exciting next three to five years for emerging market equities.

China

The China COVID-19 re-opening rally tapered off during the quarter as the market awaited more evidence of an economic recovery. All signs point to continued momentum with further loosening of policy, and we remain optimistic the market will begin to reflect this more fully. After having trimmed some of our Chinese exposures in late January, we redeployed some of this capital as the Hong Kong and China markets retraced some of the large gains from the preceding three months, focussing on quality companies with growth.

The reversal of property, internet and COVID-19 policies have led to meaningful improvement in economic activities. Economic adjustment in China over the prior 18 months was painful but necessary in order to reorientate the Chinese economy for more sustainable growth.

- Property transactions were down 40% from the peak, with extremely tight funding policies in mortgages and developer funding.
- Numerous indebted property developers went bankrupt.
- Internet companies saw dramatic curtailment of business activities impacted by regulatory changes.
- Omicron lock down in 2022 were especially difficult for the small to medium businesses in the service such as dining, tourism and entertainment industries
- Lockdowns also reduced tourism activities, business planning and investment, hampering business confidence.

The clean-up was over, and the focus of public officials switched from reforms to rebooting growth. Accordingly, from October 2022 we added to our Chinese exposures. The banking system showed great resilience despite authorities undertaking major reorganisation of the economy over such a short period of time.

The result is an economy which has addressed dysfunctional sectors and is now less reliant on property development.

This change was not without costs. Business and consumer confidence was downgraded strongly, and equity prices declined widely. The Fund was able to avoid the full extent of these adjustments, through strong deep on-the-ground insights. Just as the market initially underestimated the authorities' resolve to reform the economy, and the subsequent slowdown in activities, it could now be underestimating the pick-up in consumer confidence and growth in coming years.

The fact is, China's income per capita is still a fraction of that of developed Asian economies. Entrepreneurial private enterprises continue to invest heavily in research and development and are making significant strides in climbing the technology ladder. Indeed, many domestic companies are already world leaders in a range of industries. The impetus for economic growth is strong despite the difficult external environment as a result of intensified geopolitical competition.

In response to the external environment the authorities have started forming longer term partnerships with many economies including those in ASEAN, the Middle East and most recently with some European countries. Many of these economies remain interested in diversifying reliance on their traditional developed market trading partners and the USD. The Asean region, for example, has overtaken USA as the largest export partner of China.

Further, from the middle of 2023 some stocks in Hong Kong will be quoted in the Chinese Yuan (CNY). We view this as a major event, with significant long-term implications for Hong Kong equities. The extremely attractive valuation in Hong Kong is a result of low liquidity, which will be resolved if Mainland investors can buy and sell shares in HK in Rmb.

Financial Risks Surfacing

Developed economies saw the first cracks in the dam emerging this quarter as a decade of ever falling interest rates and money printing called time on overvaluation of certain asset classes. Risky assets whose valuations were pumped up by easy money such as cryptocurrencies, profitless growth companies on the Nasdaq, certain fixed income, and illiquid assets, fell in value as easy money was withdrawn from the system as with the rising interest rate.

The problem became acute when assets which were previously backed by cheap debt no longer had access to affordable sources of funding. In this case, when asset values fell, equity became negative. Thus arose a major problem for banks this quarter. The Federal Reserve came to the rescue, effectively containing the loss of confidence in the case of Silicon Valley Bank and First Republic Bank by backstopping liquidity and counterparty risks in the banking system. One ponders if other financial institutions or leveraged structures created in times of low interest rates will come into strife in coming weeks or months.

The quarter culminated with the Credit Suisse crisis, which represented a loss of confidence in a specific institution. It again required central bankers to come to the rescue. Credit Suisse was a global financial giant. While the immediate crisis was staved off, it again raises the question: What other financial institutions could be in trouble if interest rates remain persistently higher?

Given the hit to confidence on the banking system, it is likely that the world will see a slower rate of growth going forward, even in light of economic recovery in China in coming months. We reduced our exposure to the financials and energy sectors and deployed the capital into quality businesses, on attractive valuations that will see a continuation of growth in the longer term, even in a slower global economic environment.

Higher Inflation Ahead and Its Implications

The global economy is moving into a period of more persistent inflation. Firstly, the low hanging fruits of globalisation are close to exhausted. For example, making more shirts or shoes in Vietnam is generally not going to lower costs for developed market consumers. Secondly, we are much more willing to invest money according to ones morals rather than costs. For example, investing money to achieve carbon zero or improve the resilience of our supply chains is necessary and desirable, but these investments are likely to lead to structurally higher costs. Thirdly, the practice of central banks printing money and spending on socially desirable goals, appears to be accepted as conventional policy amongst most governments. We have witnessed the copious spending to support consumers during COVID-19 lockdowns. This is one such example. Further, we are seeing the USA, amongst others, implement the Inflation Reduction Act and CHIPS Act. Both legislations will lead to significantly higher government spending for many years to come.

Going forward, the base level of global inflation is likely to be higher. The disinflationary environment of the last decade led to certain assets being highly valued. In the future, the investment asset class that will outperform is likely to be quite different. Indeed, assets that were hyped up may be the proverbial crowded trades that will drop in value as the economic environment changes. Assets that lack liquidity due to unproven business models, or higher inherent risk, were embraced by the markets during periods of abundant liquidity and may be at risk of a mark down in valuations.

The China Question

China is essential for all market participants to decipher. We believe this is the single most important part of the market to understand as investments within China and the Chinese economy impacts a broad range of investment assets. The Fund is in an advantaged position as we have the historic experience in China and framework to understand the nuances of the Chinese economy, through years of involvement and bottom-up fundamental analysis of investment opportunities within China.

It is important to appreciate that China is a huge and complex economy with diverse and meaningful relationships with most of the economies of the world. The complexity means that it is impossible to characterise China with simple catch phrases, most popularly is "un-investable" by some market participants in 2022.

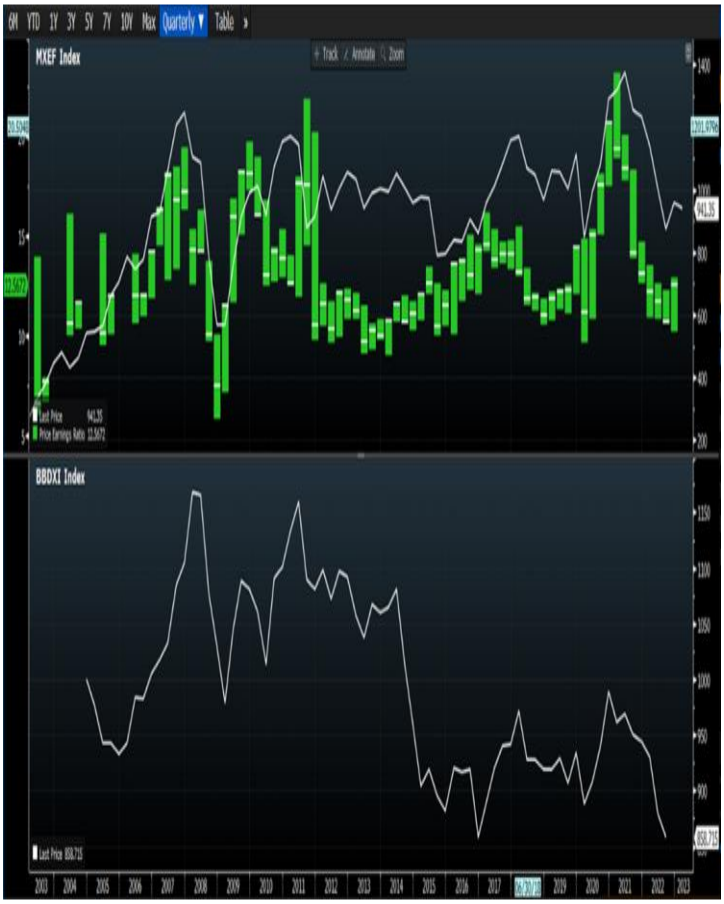
What is clear is that China is not interested in growth for growth's sake anymore. Quality growth can be seen as a new marker of success. China is already a well-developed economy, building an ever-greater stock of infrastructure, property and factories simply does not make sense. Growth can only be sustainable if the private enterprises within China invest in research and development.

Given its difficult relationship with the US, it is likely that we will see a greater push from the Chinese Government to encourage domestic consumption and a further diversification of exports towards countries with whom it has a more stable relationship with. Growth coming out of China will be slower going forward, thus impacting the companies that will be prospective to the Fund going forward. Further, as China's economic growth has been a key driver of global growth over the last two decades, this diminishing growth momentum will mean slower growth for the entire global economy.

The USD

A sustained weakening of the USD would prove to be highly favourable for emerging markets. Significant inflationary pressure over the past 18 months has led to a rapid and severe tightening of interest rates in the US, in turn leading to a very strong USD, until earlier this quarter. A strong USD has historically been a drag for emerging market equities performance, and while the past year was no different, emerging markets showed greater resilience in recent crises compared to those of the past as economic and social reforms conducted over the past decade have begun to bear fruit. The banking issues and the likely accelerated slowdown in the US economy will lead to a peaking of interest rates and therefore the USD. This may prove the turning point for emerging markets and precede a multi-year upside for emerging market equities.

EM Index vs Inverse USD Index



The Asian Tigers: New and Old

Given the shifting economic winds, the Fund has chosen a few pockets of opportunities that are set to benefit disproportionately. The global economy is likely to grow slowly, hence, growth will be in short supply. Inflation is likely to be higher, and economies that are more able to deal with higher inflation are likely to be more resilient. Further, diversification of global supply chains will benefit some countries disproportionately as (or foreign investments are re-directed) factories migrate into these economies.

Vietnam, Indonesia, and India are clear beneficiaries. These economics are growing solidly from a low base (2022 GDP per capita ~USD2,000- 4,500), driven by ever growing consumer demand, investment in infrastructure and export. In fact, this tripartite model of growth for these economies is not dissimilar to that of China 20 years ago. To take advantage of these exciting opportunities, the Fund has chosen to invest in the best quality and growing businesses with very attractive valuations.

With respect to Chinese exposures, we are selective. Even though economic growth in China will be slower and relations with the US is not likely to improve quickly, certain sectors will still grow robustly. The Chinese economy is coming out of a major economic recession, primarily driven by a property market reforms and COVID-19 related policies. Given the attractive valuations, we have chosen to own quality stocks that are leveraged to long-term growth themes, through exposure to domestic consumption and future technological giants.

During times of volatility, we will not hesitate to adjust our exposure to China to reduce downside risk. Given the focus of the Chinese authorities on economic growth and COVID-19 reopening, the Chinese market looks highly prospective at this current time.

Market Outlook

We are optimistic towards the long-term outlook of the businesses in the portfolio despite heightened levels of uncertainty in the banking system in developed economies, and the slower global economic growth environment. The Fund owns quality businesses, many are already champions in their respective fields, who will prove resilient in their respective local economies and industry sectors. The hitherto strong USD and volatile geopolitical environment, and a lack of interest in emerging market equities at current juncture, make it possible for us to invest in these selective great companies at extremely attractive valuations. The dramatic transformation of economies like Vietnam, Indonesia and India is exciting and provides fertile grounds to hunt for the underappreciated future behemoths of the world.

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 March 2023)

Exposure analysis	
Position	**% of net invested capital**
Long securities (including derivatives)	88.06
Cash	11.94
Gross equity exposure	88.06
Net equity exposure	88.06

Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 31 March 2023.

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 March 2023, the Fund does not have any material liabilities.

Derivative counterparties engaged

The derivative counterparties engaged for the period 1 January 2023 to 31 March 2023 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 March 2023, the Fund is long exposure of 88.06% and short exposure of 0.00%. The gross equity exposure of the Fund is 88.06% and net equity exposure of the Fund is 88.06%.

For further information, please contact:

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