Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU

Quarterly Report June 2023

Performance	1 month %	3 months %	6 months %	1 year %	2 years % p.a.	Inception % p.a.
Fund Return (Net)[1]	1.1	1.4	2.4	3.9	-	-6.3
MSCI Emerging Market Net Return Index AUD unhedged	0.9	1.5	6.9	5.1	-	-5.8
Active Return	0.2	-0.1	-4.4	-1.2	-	-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, 30 June 2023

Fund Facts

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 $35.6 M
Distribution frequency	Annual

Top 10 Positions

Company	Sector	%
Tencent Holdings Ltd	Comm Services	4.18
HDFC Bank Ltd	Financials Ex Prop	4.06
Samsung Electronics Co Ltd	Information Tech	4.02
Taiwan Semiconductor Manufacturing Co Ltd	Information Tech	3.86
SK Square Co Ltd	Information Tech	3.61
Reliance Industries Ltd	Energy	3.37
Bank Negara Indonesia Persero Tbk PT	Financials Ex Prop	2.97
Vietnam Enterprise Investments Ltd	Financials Ex Prop	2.89
Baidu Inc	Comm Services	2.80
ANTA Sports Products Ltd	Consumer Disc	2.67
Total		**34.43**

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.

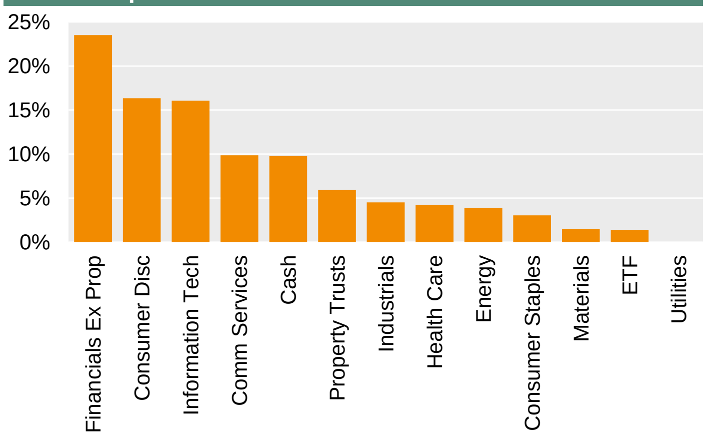
Capture growth: Ox Capital's investment approach is to identify the immense positive change taking place in Asia and other key emerging markets and to find companies that can benefit from those trends.

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.

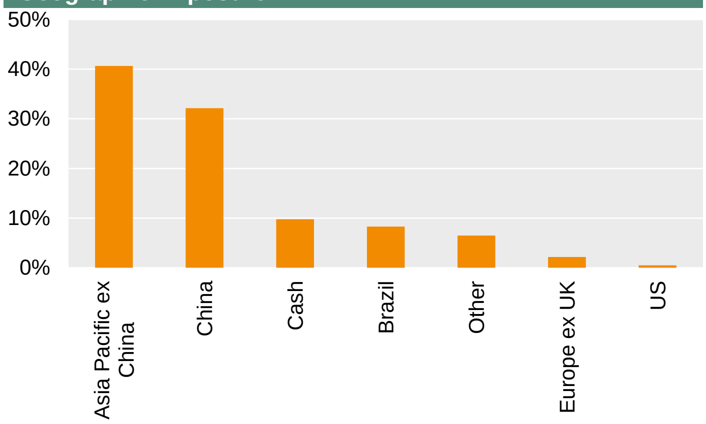
Capital protection strategies: The Fund can use derivatives such as index futures and equity swaps to help protect the portfolio from market volatility and to obtain synthetic exposure to stocks or markets.

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

Sector Exposure



Geographic Exposure



Fund Performance

The MSCI Emerging Market Net Return Index AUD unhedged returned +1.52% for the quarter. The fund underperformed the market and delivered a +1.43% return over the quarter.

Market Commentary

The performance out of Brazil was very pleasing over the quarter. It proves once again the efficacy of owning leading businesses with long term growth when valuation is attractive. In the case of our Brazilian exposures, we own the leading quality businesses in the country, including the McDonald's franchise (Arcos), leading financial institution (Banco BTG Pactual), leading pharmaceutical manufacturer (Hypera) and enterprise management software leader (TOTVS). Significant hiking of interest rates (from 2% to 13.75%) to battle inflation severely derated the equity market and slowed the economy. When valuations of leading businesses became extremely attractive, it was time to add. While it is never easy to own positions in volatile markets, if the right stocks are chosen, it typically turns out to be a highly fruitful endeavour. With Inflation having come down significantly from 12% to 4%, the market is starting to price in the expectation of significant interest rate cuts from the dizzying 13.75%, and the stocks are starting to deliver significant returns.

Source: OxCap Research, Banco Central do Brasil

Source: OxCap Research

The HSCEI (Hong Kong China Enterprise Index) has retraced back to 2006 level. Despite the various headwinds (which we will go through later one) China is obviously facing, we believe we have an opportunity right now to own leading businesses at extremely attractive valuations that will prove fruitful in due course.

Source: OxCap Research

In the second quarter of 2023, the Chinese market sold off after the Fund reduced its exposure as the re-opening hype faded. As we remain positive on China's long-term growth potential, despite the gradual pace of economic recovery, we took the opportunity to increase our exposure again. Our focus is on leading companies taking market share in growing sectors that will be resilient even in less than robust economic conditions.

In contrast to the negative headlines and pervasive negativity, based on our channel checks, we observe that the Chinese economy continues to recover, albeit at an uneven pace. This will be punctuated by fiscal and monetary stimulus going forward. The property sector reforms that took place will mean advancements in other areas. Productivity improvement will drive growth in the future.

We believe we are at an inflection point in Chinese equities, as the headwinds of property sector crackdown, Covid lockdown and geopolitical pressures recede. Valuation is at an extremely attractive level. An important point to note is that strong businesses that can take advantage of the current environment will become greater and bigger businesses in 3 to 5 years.

China is the world's second largest economy and its economic fortunes impact asset prices and economic outcomes globally. It is important to have a clear idea on China's economic outlook whether one invests in Chinese assets or not. Fortunately, this area is where our expertise lies given years of experience and on-the-ground knowledge of this enormous and diverse economy.

Our interpretation of what is happening in China is more nuanced than the typical demographic and geopolitical scaremongering that is prevalent. Demographics impact takes decades to take hold. Our ability to hedge the portfolio during geopolitical flare-ups can protect the downside.

Market Outlook

The Headwinds

Rapid urbanisation and infrastructure investment drove the previous Chinese growth phase. As the urban population in China is already over 900M (~65% of the population), the rate of urbanisation is slowing and it does not need quite as many new apartments as before. What we witnessed in the last 2 years was the authorities slamming on the brakes on funding to property purchasers (mortgages) and developers (lending and other channels of funding). The result was a sharp slow down in property market activities and quite a few developers went bust. New properties sold in China declined as much as ~40% from peak. As expected, this led to a cyclical downturn in economic activities for the broader economy.

Very few governments in the world would deliberately deflate their property bubbles given the obvious risks to economic and social stability. The fact that the economy is not as robust as before is to be expected, but the good news is that the much-needed adjustment has taken place, and the economy still has other growth drivers which will be discussed later on in the piece.

To compound the challenge, COVID impacted the Chinese economy while it was adjusting. The escalation of US-China economic competition led to further de-rating of equity markets.

Inflection

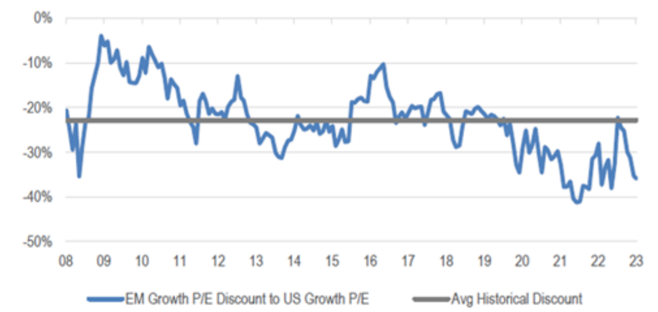
Given the lacklustre performance of the Chinese equity market in recent years, it appears to us that investors have now factored in the "new" reality of the domestic economy, and the economic slowdown is cyclical in nature. Sentiment is already very negative, with US-China relations in a multi-year low point.

We believe the situation is changing for the better. The Chinese government is now more interested in economic growth and jobs rather than reforms. Geopolitics appears to have stopped worsening post the Blinken visit to China.

Attractive Valuation

Chinese equities are very attractively valued and provide an interesting entry point to add to our positions. The peaking of the USD is going to provide a nice tailwind to China and other emerging markets. Considering EM growth equities (including that of China) are trading at a multi-year discount to developed markets, the risk reward is very attractive for resilient growth companies against a generally sluggish global backdrop.

Emerging Market equities are trading at extreme discounts amid their earning resilience



Source: OxCap Research, MSCI, Bloomberg Finance L.P. and J.P. Morgan

Compounders are on sale

	EV/EBITDA	P/E	Profit Growth
04/07/2023	2024	2024	23-24
Alibaba	5.8	8.1	20%
Tencent	14.4	16.4	27%
Baidu	5.9	9.7	37%
Kuaishou	8.7	15.8	176%
Kanzhun	14.7	17.3	55%
VIPS	3.7	7.9	11%
Tencent Music	8.9	12.9	10%
Hello Group	0.0	5.9	10%
AK Medical	14.1	20.8	33%
3sBio	4.6	6.3	10%
Bairong	0.8	10.0	22%

Source: OxCap Research

On-the-ground Findings

Our recent trip to China also reminded us that many entrepreneurial private businesses in China are having success climbing the technological ladder. Domestic manufacturers continue to improve the quality of their products through research and development. The willingness to invest in research, the availability of talented and low-cost engineers and a huge domestic market are key enabling factors for technological advancement. Across the fields of medical devices, robotics, industrial automation and electric vehicles, the domestic players are rapidly gaining in knowhow and cost competitiveness. An example of a rapidly improving technological strength is the fact that China has gone from nowhere to becoming the world's biggest car exporter and the world's biggest EV market. Chinese companies will march to higher market share globally in many fields including robotics, renewable energy and EVs in coming years.

Construction and export are over-indexed while domestic consumption is under-represented in the Chinese economy. The authorities will seek to boost consumption to sustain decent economic growth. The government will likely look to further relax property policies (although there is no appetite to kickstart another property bubble), introduce more incentives for EV purchases, and further reduction in interest rates (China still has a positive real rate of interest – i.e. its interest rate is higher than its inflation rate).

Further reforms that may be used to unlock the consumption potential of the Chinese population include relaxation of the age-old Hukou system, rural land reform and stronger social security net for the population which has thus far been below global average.

Our portfolio in China includes the leaders in internet (Tencent), life insurance (Ping An), sports apparel (Anta Sports), delivery and hotel booking (Meituan), EV batteries (CATL), EV component maker (Shuanghuan) and medical devices (Zylox, MicroPort and AK Medical).

Other Themes and Economies

Another long-term secular theme that has been topical is the field of artificial intelligence. Asia boasts key enablers of Artificial Intelligence – the dominant foundry TSMC, and memory makers like Samsung and SK Hynix. We have exposures in these names.

Elsewhere in Asia, Vietnam became the first central bank in Asia to cut its key policy rate as inflationary pressure has abated in the face of weak export demand. However, we are beginning to see early signs of export orders improving, and recovery in tourism, now ~70% of pre-covid levels. Domestic consumption grew double digitals during the quarter. New regulations and government instruction to spur real estate project completions were implemented in the quarter. At present, we see many prospective investment opportunities available at highly attractive valuations.

India continues to grow strongly. Our exposures are focused on businesses with high quality management and sustainable growth, with leading businesses in banking (HDFC Bank), life insurance (HDFC Life), Internet & e-commerce (Reliance), and low-cost airline (InterGlobe).

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 2023)

Exposure analysis	
Position	**% of net invested capital**
Long securities (including derivatives)	90.23
Cash	9.77
Gross equity exposure	90.23
Net equity exposure	90.23

Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 30 June 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 30 June 2023, the Fund does not have any material liabilities.

Derivative counterparties engaged

The derivative counterparties engaged for the period 31 March 2023 to 30 June 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 30 June 2023, the Fund is long exposure of 90.23% and short exposure of 0.00%. The gross equity exposure of the Fund is 90.23% and net equity exposure of the Fund is 90.23%.

For further information, please contact:

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