

Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU



Monthly Report August 2023

Performance	1 month %	3 months %	6 months %	1 year %	2 years % p.a.	Inception % p.a.
Fund Return (Net) ¹	-3.6	3.0	4.4	5.9	-	-4.8
MSCI Emerging Market Net Return Index AUD unhedged	-2.4	3.4	7.9	7.2	-	-4.1
Active Return	-1.2	-0.3	-3.5	-1.3	-	-0.7

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 August 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 spread²	+0.25% / -0.25%
Fund FUM	AUD \$36.9 M
Distribution frequency	Annual

Top 10 Positions		
Company	Sector	%
Tencent Holdings Ltd	Comm Services	4.05
ANTA Sports Products Ltd	Consumer Disc	3.69
HDFC Bank Ltd	Financials Ex Prop	3.69
SK Square Co Ltd	Information Tech	3.63
Kuaishou Technology	Comm Services	3.35
Meituan Dianping	Consumer Disc	3.30
Reliance Industries Ltd	Energy	3.12
Samsung Electronics Co Ltd	Information Tech	3.10
Contemporary Amperex Technology Co Ltd	Industrials	3.05
HDFC Life Insurance Co Ltd	Financials Ex Prop	3.03
Total		34.01

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.

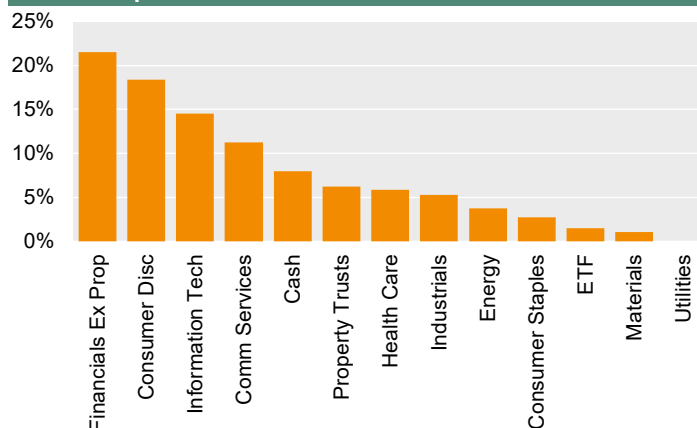
Capture growth: Ox Capital's investment approach is to identify the immense positive change taking place in Asia and other key emerging markets and to find companies that can benefit from those trends.

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.

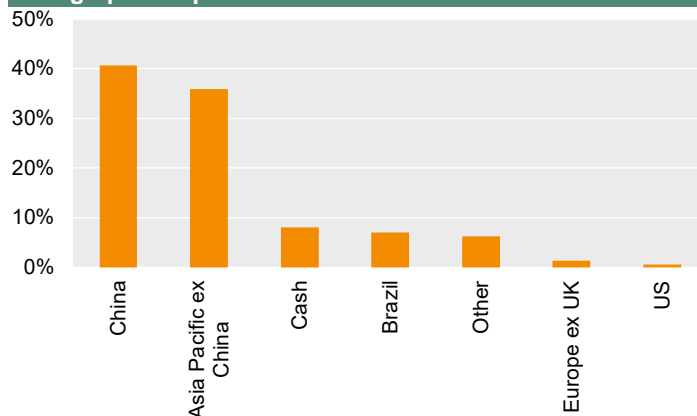
Capital protection strategies: The Fund can use derivatives such as index futures and equity swaps to help protect the portfolio from market volatility and to obtain synthetic exposure to stocks or markets.

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

Sector Exposure



Geographic Exposure



Fund Performance Summary

In August 2023, the Dynamic Emerging Market Fund returned -3.6%, compared to -2.4% by the MSCI Emerging Market AUD Index.

Top contributors are the banks in Southern Asia and EV supply chains in China (Bank Negara Indonesia Persero 3.38%; IDFC First Bank Ltd 7.05%; Zhejiang Shuanghuan Driveline 12.84%). While the detractors are mainly consumer discretionary companies in China (Meituan -12.17%; Pagueguero Digital Ltd -20.95%; Tencent Holdings Ltd -8.30%).

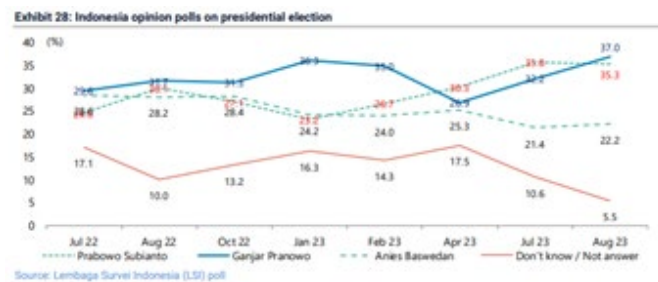
Market Commentary

Macro News

1) **China:** Once again, there is renewed concern on China's economic health following more news of cash crunch in the property sector from players like Country Garden and Evergrande. Given the bulk of the property defaults has already taken place in 2022, we believe the current concerns are a bit backward-looking. Our more nuanced assessment is that the property slowdown will likely stabilize thanks for relaxation of hitherto tight policies. For further details, please see our latest Ox Cap Insights ([A fortunate outlook for China | Money Management](#)).

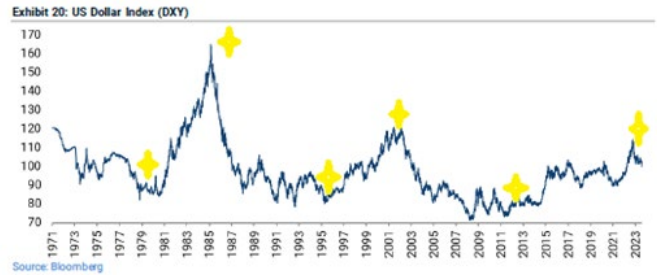
2) **Indonesia:** Indonesia is critical to the EV transition. By 2026, Indonesia will account for as much as 60% of global nickel supply.

In the coming months, the market will likely focus on the Presidential race due in February 2024. President Jokowi is one of the most popular President ever, with a sky-high 82% approval rating. His endorsement key to the outcome of the election, as the two candidates, Prabowo Subianto (Defense Minister) and Ganjar Pranowo (Central Java Governor) are neck and neck frontrunners in the polls at this stage. Both candidates are likely to perpetuate President Jowoki's pro-growth and reform policies, lending stability to the market.



3) **USA:** Early August, Fitch downgraded the US credit rating from AAA to AA+, another milestone that potentially heralds the peak of the USD.

- The US economy is supported by a fiscal deficit spending of ~8% in 2023 as the economy gradually cools. Continuation of fiscal spending in coming years is likely USD-negative.
- Depreciating USD (typically multi-year in nature) is generally positive for Emerging Markets.



4) **MOAT:** Year to date, USA and Japan equity markets have been strong. Our MOAT model is currently cautious on these two developed markets. Within EM, Brazil and Malaysia look prospective.

	Actual										Forecast			
	2021	2022	2022	2022	2022	2022	2022	2022	2022	2022	2023	2023	2023	2023
US	3	2	3	3	3	4	3	4	4	4	4	4	4	4
EU	3	2	3	3	3	3	4	4	4	4	4	4	4	4
CN	4	3	1	3	2	4	1	1	1	2	2	3	2	4
JP	3	3	3	2	3	3	1	1	1	2	2	1	1	4
IN	4	4	3	2	4	4	3	1	1	3	3	4	1	1
KP	3	2	3	3	2	4	4	3	1	1	1	1	4	4
AU	4	2	3	2	2	3	4	4	4	4	4	4	1	1
ID	3	2	3	2	2	3	1	4	1	4	2	2	1	4
TH	4	2	2	2	2	4	1	1	1	2	4	4	4	4
HK	3	4	4	1	3	1	2	3	1	2	4	2	4	4
SG	3	3	3	2	3	4	4	4	1	1	1	1	2	4
MY	3	2	1	2	2	4	4	4	4	4	4	4	1	1
PH	3	1	3	2	3	3	3	4	4	4	4	4	2	2
VN	4	1	1	1	1	3	4	2	1	3	4	4	1	2
TW	3	2	3	3	1	4	3	1	4	1	4	4	4	4
RU	3	2	3	3	1	2	1	2	2	2	2	4	2	2
SA	4	2	2	2	2	4	4	4	4	4	4	4	1	4
MX	4	3	2	2	2	4	4	4	4	4	4	4	1	1
BR	3	3	2	2	4	4	4	4	4	4	4	4	1	1

Portfolio News

Portfolio changes

1) **Net invested position decreased from 95% to 82%.** In August, we put on portfolio protection against the indices in Taiwan and India. Oil price has picked up from ~\$70 to well over \$85 in recent months, and sustained higher levels is a headwind for the Indian economy.

2) **New names in the top 10 positions:** are **Kuaishou Technology** and **CATL**. We also added to **Anta Sports** and **Meituan**. These incremental positions were funded by selling down of **Ping An Insurance** which typically suffers from low interest rate. We are taking advantage of the current environment to further add to our other fast-growing franchises.

3) **China:** Despite the dire prognosis of the Chinese economy across Western media, earnings reported by most of our holdings in China remain robust. As we can see from the table below, the well managed companies in China are expected to grow solidly in the coming years, and they are trading on extremely attractive valuations. While some sectors in China have peaked in their growth as the economy transitions from investment to consumption, plenty of other industries still have lots of room to grow. This include sectors such as healthcare, leading domestic technology companies taking share from foreign competitors, strong internet platforms and dominant domestic brands. We are optimistic about our positions.

	Sector	1H Net profit growth	PE (2023)	PE (2025)
Tencent	Internet	33%	20	15
Alibaba	Internet	48%	11	9
Anta	Consumer	34%	24	17
CATL	EV Battery	149%	23	14
Meituan	O2O Services	372%	34	16
Baidu	Internet	44%	14	12
Tencent Music	Online music	52%	14	12
VIP Shop	e-Commerce	51%	8	7
Bairong	Fintech	80%	15	10
Qifu	Fintech	12%	4	3
3sBio	Healthcare	20%	7.5	6

Thematic: Tiktok sucks up a lot of time for our kids, as investors, we view this theme positively. Short video platforms like Tiktok/Douyin and Kuaishou are changing consumers' online habits. Not only are consumers spending more and more time watching short video clips, these platforms have successfully pushed into adjacent opportunities such as e-commerce.

Leadership:

Kuaishou is one of the leading short video platforms in China. Every month half of the population in China tune into the app, spending an average of 2 hours a day, with daily video views exceeding 100bn.

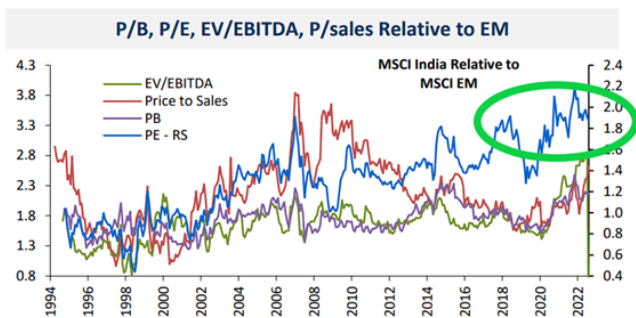
It has built a loyal online community, and its stronghold is the younger folks in the lower tier cities. Its videos are considered authentic with many users uploading videos with other users. The platform boasts 31bn mutual followers (users following each other).

Based on a high trust environment it has fostered amongst the younger users, Kuaishou has demonstrated success in a number of huge opportunities, live-streaming, online advertising, and e-commerce!

Valuation:

Kuaishou is at a nascent stage of building these prospective revenue streams and earnings will accelerate in the coming years. It is on 11X price earnings multiple in 2025.

4)**India:** The long-term story of India is indeed enticing. However, valuation of India relative to other EM markets is high. Forward PE in India is 20X. We are index weight for now in India.



Source: RIMES, MSCI, BSE, Bloomberg, Morgan Stanley Research.

Macro Forecasts at a Glance			
	F2023E	F2024E	F2025E
GDP Growth	7.2%	6.2%	6.5%
Average CPI	6.7%	5.4%	4.8%
Repo Rate (year end)	6.50%	6.25%	6.00%
CAD% of GDP	-2.0%	-1.1%	-1.5%
Sensex EPS (MS top down)	2588	3345	4007
EPS growth YoY	16.8%	29.3%	19.8%
Sensex PE	25.3	19.6	16.3
Sensex EPS (consensus)	2572	3055	3541

2)**Vinci Partners**



Fund	Vintage	Vintage Size	Committed Capital	Deployed Capital	Realized/Partially Realized	Unrealized	Total Value	Gain/LOSS	Gain/LOSS	Gain/LOSS	Gain/LOSS
	(Year)	(MUSD)	(MUSD)	(MUSD)	(MUSD)	(MUSD)	(MUSD)	(%)	(%)	(%)	(%)
VCP Strategic	Private Equity	6,678	5,268	7,242	8,083	11,226	2,714	22%	44.7%	10.7%	10.7%
VCP Strategic	Private Equity	1,378	961	373	487	487	176	15%	15%	10.2%	10.4%

Thematic: There are two key themes driving Vinci. First, deepening of financial services in Brazil. Second, interest rates in Brazil are expected to decline in 2024 to 9% from almost 14% today, improving the appetite for investing in financial products.

Leadership:

Vinci is a leading private equity fund in Brazil formed in 2009. The core team came from the principal investment division of BTG Pactual (another one of our businesses). The team has a long track record of delivering for investors.

The competitive landscape is oligopolistic in nature, with only 4-5 key domestic private equity funds competing for deals in the country. The international private equity funds have tried to enter the market over the years, but none managed to establish even a foothold.

Vinci has an enviable long term investment track record. Its flagship PE strategy (VCP funds of different vintages) returned 70% internal rate of return (IRR). Its two other strategies (VIR + SPS) returned close to 30% IRR.

Two of our stocks

1) **Kuaishou Technology**



Vinci is an ambitious company. It took advantage of the high interest rate environment in Brazil of late and built out its platform offerings by acquiring strategic assets. The Vinci platform now offers a broad spectrum of investment products – unlisted, listed, equities, fixed income, real estate, and infrastructure. It has strong distribution capability. Between 2018-2022, it grew its FUM from R\$24bn to R\$63bn.

There is a secular tailwind behind Vinci and the PE industry in Brazil. Institutions in Brazil are under "allocating" to private assets (under 5%). In developed markets, the allocation to private assets is well over 25%.

As interest rate comes down in the country, Vinci will likely be able to generate strong investment return and substantially increase its asset under management in the coming years.

Valuation:

Vinci is attractively valued. It is on 11X 23 price earnings multiple and offers dividend yield of 9%. It is expected to grow nicely in the next few years (6X PE in 2025/2026). Furthermore, approximately half of its market cap is cash and it is seeding various new funds with its cash. There is also room for significant performance fee uplift from which shareholders can benefit.

At Ox, we focus on owning quality leading companies when valuations are attractive, and we can identify plenty of opportunities!

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This material has been prepared by Ox Capital Management ABN 60 648 887 914 AFSL 533828 (OxCapital), the investment manager of the Ox Capital Dynamic Emerging Markets Fund ARSN 649 969 264 (**Fund**). Fidante Partners Limited ABN 94 002 835 592 AFSL 234 668 (**Fidante Partners**) 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. OxCapital and Fidante Partners have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, OxCapital and Fidante Partners 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.