

# Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU



## Monthly Report October 2023

Performance	1 month %	3 months %	6 months %	1 year %	2 years % p.a.	Inception % p.a.
Fund Return (Net) <sup>1</sup>	-3.3	-9.3	-2.8	7.0	-6.9	-7.2
MSCI Emerging Market Net Return Index AUD unhedged	-2.0	-6.5	-0.6	11.9	-4.8	-5.8
<b>Active Return</b>	-1.2	-2.8	-2.2	-4.9	-2.1	-1.4

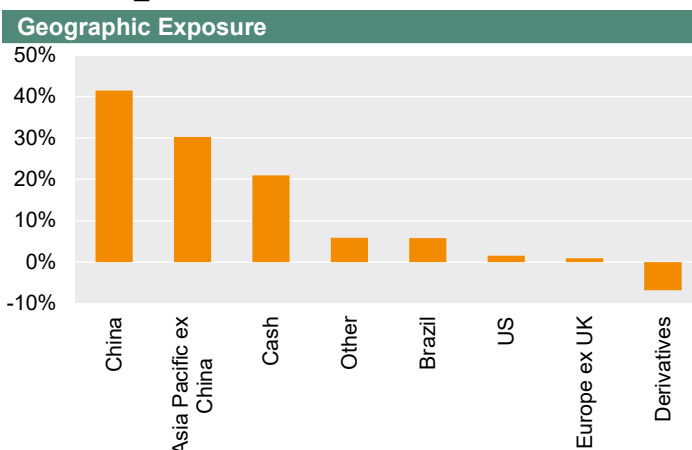
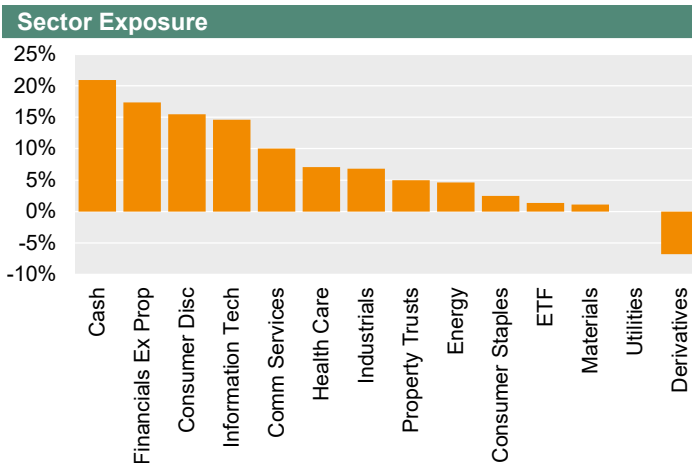
<sup>1</sup> The returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowances are made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. The inception date for the fund is 20 September 2021.

Source: Fidante Partners Limited, 31 October 2023

Fund Facts	
<b>Portfolio managers</b>	Joseph Lai, Douglas Huey, Alan Zhang
<b>Inception date</b>	20 September 2021
<b>Management fee</b>	1.00% p.a.
<b>Performance fee</b>	15% of the Fund's daily return above the benchmark <sup>2</sup>
<b>Fund objective</b>	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.
<b>Initial investment</b>	\$10,000
<b>Minimum suggested timeframe</b>	5 years
<b>Buy/sell spread<sup>2</sup></b>	+0.25% / -0.25%
<b>Fund FUM</b>	AUD \$35.9 M
<b>Distribution frequency</b>	Annual

Top 10 Positions		
Company	Sector	%
SK Square Co Ltd	Information Tech	3.85
Tencent Holdings Ltd	Comm Services	3.80
HDFC Bank Ltd	Financials Ex Prop	3.62
ANTA Sports Products Ltd	Consumer Disc	3.44
Samsung Electronics Co Ltd	Information Tech	3.19
Reliance Industries Ltd	Energy	3.11
Kuaishou Technology	Comm Services	3.07
Meituan Dianping	Consumer Disc	3.00
Taiwan Semiconductor Manufacturing Co Ltd	Information Tech	2.98
Vietnam Enterprise Investments Ltd	Financials Ex Prop	2.78
<b>Total</b>		<b>32.84</b>

Fund Features
<b>Concentrated:</b> 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.
<b>Capture growth:</b> 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.
<b>Macro overlay:</b> A quantitative model provides a bird's eye view of how macro conditions impact equity markets and helps guide country and sector asset allocation.
<b>Capital protection strategies:</b> 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.
<b>Experienced team:</b> A team of experienced and passionate emerging market investors strongly aligned with clients' investment objectives.



## Fund Performance

In October 2023, the Dynamic Emerging Market Fund returned -3.3%, compared to -2.0% by the MSCI Emerging Market AUD Index.

Top contributors were companies in the Chinese consumer and healthcare industries, which are the future drivers of the economy (Zylox-Tonbridge Medical Techno 34.69%; AK Medical Holdings Ltd 14.98%; ANTA Sports Products Ltd 0.23%). While the detractors are the high growth firms in the technology sector as a result of rising interest rate concerns (Kuaishou Technology -19.89%; Baidu Inc -21.85%; Vietnam Enterprise Investments -12.65%).

Hedges were put on in October to protect the downsides from more restrictive monetary policies and they added 14bps.

## Market Commentary

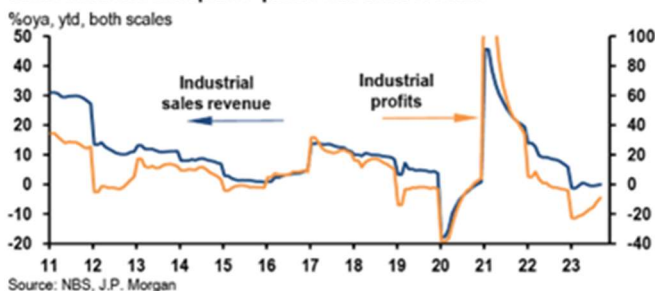
### Macro

**1. China:** While the Chinese economy has hit a cyclically slow patch, its long-term growth will prove resilient. Real GDP growth is expected to be 4.7% in 2023 and 4.2% in 2024. In comparison, the G10 economies (including ISA, Euro Area, Japan and UK) are expected to grow 1.1% in 2024. The Chinese equity market is very attractive given the negativity around it and is a prospective area to look for champion companies of the future!

From late August onwards, the government aggressively stepped-up initiatives to restore confidence and spur on a cyclical recovery.

- In Aug/Sept, the government reduced down-payment requirements from 30-40% for first home buyers to 20%. The first nationwide demand-side easing policy on the property sector since 2015.
- In late Oct, the government expanded the budget by Rmb1trn (0.8% of GDP). It was the first time since 1998 that the government chose to exceed its self-imposed 3% budget deficit threshold.
- In the meantime, we are observing stabilizing or improving datapoints on the economy, such as industrial profits, tourism spending, primary home sales, and industrial inventory.

China industrial enterprises' profits and sales revenue



**Valuation:** Anta is currently on 23x 2023PE; Anta has a strong balance sheet of 3b USD net cash; it also owns 6.5b USD worth of Amer Group.

Early signs of macro stabilization start to show...



**2. Vietnam:** Exports have been weak (-7% year-to-date), but this has been picking up. October saw export growth from a year ago of 6%, the second consecutive month of improvement. Mortgage rates are now down to 9-10%, from 14% in Q4 22. This will help to re-ignite latent demand in this rapidly growing economy.

**3. Indonesia:** Domestic economy is resilient. Bank Negara (one of our key holdings) saw loan growth of 8% in Q3 23. Consumers remained optimistic. MAPI (a dominant retailer and another one of our key holdings) reported sales growth of 25% in Q3 23 from a year earlier.

**4. Brazil:** The Central Bank delivered its 3rd consecutive rate cut, now down to 12.25% (vs. peak of 13.75%). With inflation well under control (expected 3.6% in 2024). The rate cut story for Brazil is firmly intact.

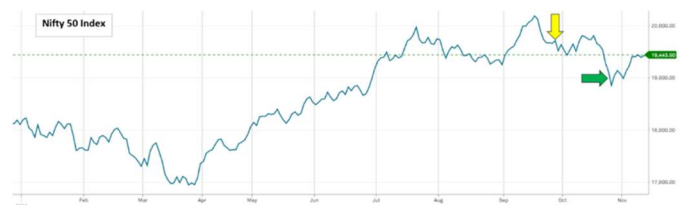
**5. MOAT:** One of the key inputs in our MOAT model is credit flow. Credit flow in the global monetary system has been tightening. China credit flow, on the other hand, is still growing. We are likely to see a continuation of an economic recovery in China (which has a very attractively priced equity market) while other parts of the world (many of which have more expensive equity market valuations) continue to slow down.

	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Global Credit flow	19,385	19,206	18,622	18,456	15,627	14,134	11,820
Global flow yoy%	-26%	-29%	-11%	-4%	-19%	-26%	-37%
CN System Credit	707,507	737,020	760,819	779,975	792,424	830,789	850,200
CN flow yoy%	-5%	9%	43%	59%	50%	45%	19%

### Portfolio News/Portfolio changes

**1. Net invested position stayed flattish from 77% to 79% between September and October.** On the other hand, we scaled back short protection from 12% to 7%. Our country weights remained similar. Over: China, Indonesia, and Brazil. Under: India, Taiwan, and Korea. We have taken advantage of market volatility in October to rotate and add to stocks with fast growing and hockey stick earning potential.

**2. Shorting/Portfolio protection:** Below is a recent example of our portfolio protection strategy. In late September, we shorted 8% of the portfolio against the Nifty 50 index (yellow arrow) and brought our net exposure in India to 3%. In late Oct (green arrow), the shorts were lifted and net exposure in India back to 11%. The shorts mitigated downside during the market sell off.



Source: S&P Capital IQ

**3. Memory:** The portfolio owns 2 memory stocks – Samsung and SK Square. These 2 stocks are amongst our top 10 holdings. **We have growing confidence that the memory market is bottoming.** Recovery is expected to be sharp in DRAM, but it may be until 2H24 before the NAND market recovers. Take Samsung for example, it is noticeable that EBIT margin in its DRAM division is expected to inflect from -5% in Q3 23 to well over 40% by Q3 24.

Table 5: SEC – Key assumptions/earnings projections for DRAM business

Wtn. units in mn (8Gb equiv.)	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E
Sales (₩ billion)	5,075	5,352	6,376	8,318	8,574	9,812	11,824	12,150
Unit shipments (8Gb equiv.)	2,366	2,650	2,968	3,383	3,214	3,375	3,543	3,650
Sequential change, %	-10%	12%	12%	14%	-5%	5%	5%	3%
Blended ASP (8Gb equiv.), US\$	1.7	1.5	1.6	1.8	2	2	2	3
Sequential change, %	-19%	-8%	6%	12%	11%	0%	7%	7%
Total cost, US\$	2.3	1.9	1.7	1.6	1.6	1.6	1.5	1.5
Cash cost, US\$	1.7	1.3	1.2	1.1	1.1	1.1	1.1	1.1
Operating profit	-1,321	-604	-306	1,081	1,886	3,336	4,630	5,710
OP margin (%)	-26%	-11%	-5%	12%	22%	34%	42%	47%

**4. AI:** AI has been the theme of the year. Key challenge for investor is if there will be a demand air pocket after the first wave of large language models have been trained. Importantly, there are many sectors in EM who are long term beneficiaries of AI e.g. semiconductor, online game, internet, software, IT hardware, IT services, and fintech. These sectors will benefit long after the current bout of market over-enthusiasm on AI. We estimate 23-24% of the portfolio are long term beneficiaries of AI.

## Two of Our Stocks

### 1. Tencent Music – Spotify of China



**Thematic:** The next evolution in online music. Tencent Music (TME) is building a comprehensive online music and audio ecosystem in China.

**Leadership:** TME is the dominant online music platform in China. It has 4 of the top 5 music apps in China. Over 40% of the population (~600M monthly active users) in China use its apps every month. In comparison, Spotify had 574M MAUs as of 23 Q3. TME is the default music app in 90% of EVs in China.

Dominant online music operators enjoy significant scale benefits. TME is 3X larger than the No.2 online music platform in China and this provides TME an unassailable advantage to secure the most popular talent and content, which in turn make the TME offer even more sticky to users!

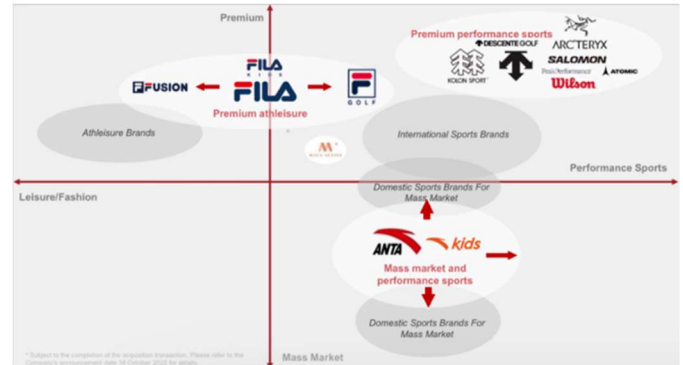
It is much more than just a music app distributing music but a music label in the centre of music entertainment in China. TME has leveraged its hugely popular platform to nurture over 390K indie musicians. It offers sophisticated AI tools for musicians to streamline music production online and it promotes offline concerts and music festivals all over China.

TME is early in its monetization drive. Online music subscription is around AUD2 a month, half the price of a cup of bubble tea. Proportion of users paying ratio is only 16% (vs. 40% for Spotify). The new generation of users are demonstrating they are more willing to pay for music subscriptions. It is just starting to earn revenues on the advertising front, specifically targeting users who do not want to pay directly for the service. With more than half a billion users, the runway for revenue growth is immense!

**Valuation:** It is attractively valued (14X 23 price to earnings multiple), and market capitalisation of US\$12.5bn and net cash of \$4bn. Ex-cash price to earnings multiple is 10X 23! Valuation is attractive for the dominant online music platform in China with a multi-year growth trajectory.

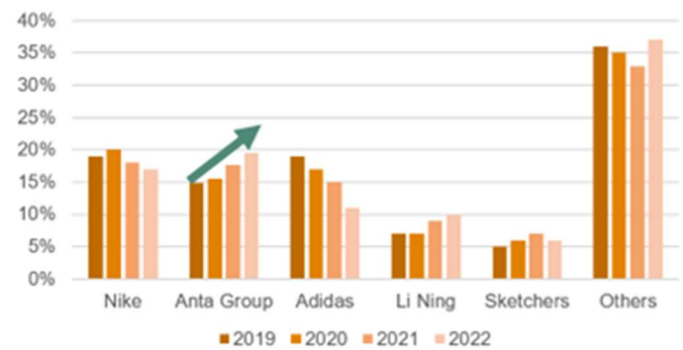
### 2. Anta Sports – the LVMH in sportswear

**Thematic:** Rising consumer focus on personal identity and functional performance sportswear, illustrated by global business leaders. Anta Sports provides superior retail experience of their brand sportswear portfolio.



**Leadership:** Anta Sports has c.20% market shares in the Chinese market still with growing momentum. The brands they operate often have the highest store productivity in shopping malls and during festive shopping seasons. This is attributed to the direct retail model that the company has finessed which has the benefits of inventory management, store ambience and therefore pricing power. It is one of the few companies globally that handles both branding and retailing.

Market shares of sportswear brand by revenue, %



**Example:** OxCap recently visited Chian for field research. Arc'teryx, owned by Anta through Amer Group, had strong foot traffic in stores even on a Wednesday afternoon before the evening rush.



**Valuation:** Anta is currently on 23x 2023PE; Anta has a strong balance sheet of 3b USD net cash; it also owns 6.5b USD worth of Amer Group.

**For further information, please contact:**

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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](http://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.