

# Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU



## Monthly Report November 2023

Performance	1 month %	3 months %	6 months %	1 year %	2 years % p.a.	Inception % p.a.
Fund Return (Net) <sup>1</sup>	3.6	-2.6	0.4	3.4	-4.0	-5.5
MSCI Emerging Market Net Return Index AUD unhedged	3.1	-1.3	2.1	5.3	-4.1	-4.2
<b>Active Return</b>	0.4	-1.4	-1.7	-1.8	0.1	-1.2

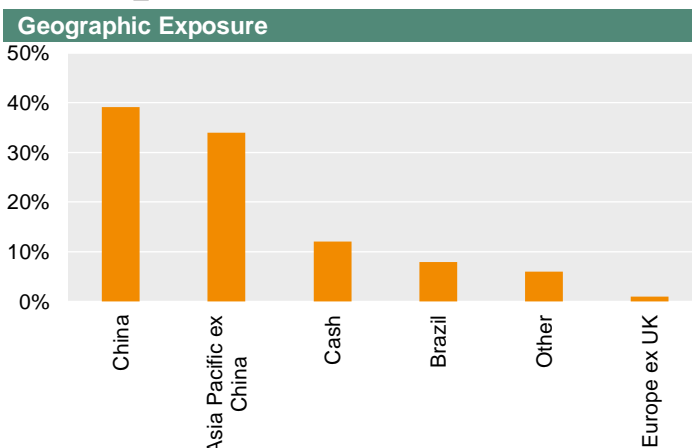
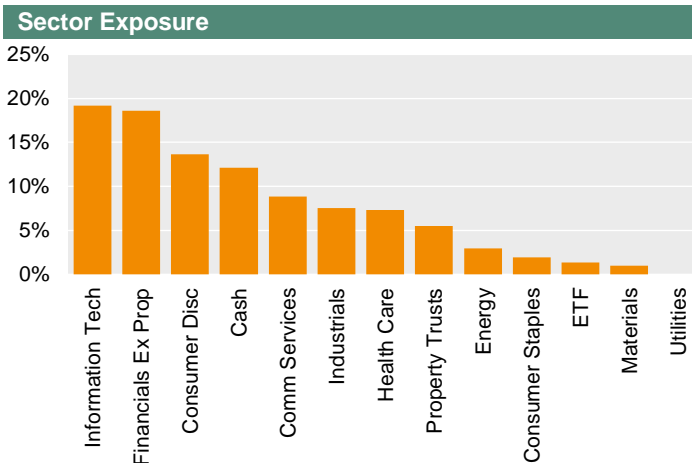
<sup>1</sup> The returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowances are made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. The inception date for the fund is 20 September 2021.

Source: Fidante Partners Limited, 30 November 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 \$37.4 M
<b>Distribution frequency</b>	Annual

Top 10 Positions		
Company	Sector	%
SK Square Co Ltd	Information Tech	5.14
Taiwan Semiconductor Manufacturing Co Ltd	Information Tech	5.06
Samsung Electronics Co Ltd	Information Tech	4.08
HDFC Bank Ltd	Financials Ex Prop	3.50
Tencent Holdings Ltd	Comm Services	3.11
Reliance Industries Ltd	Energy	2.95
Vietnam Enterprise Investments Ltd	Financials Ex Prop	2.73
Baidu Inc	Comm Services	2.70
ANTA Sports Products Ltd	Consumer Disc	2.59
Kuaishou Technology	Comm Services	2.55
<b>Total</b>		<b>34.42</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 November 2023, the Dynamic Emerging Markets Fund returned 3.55%, compared to 3.13% by the MSCI Emerging Market AUD Index.

The top contributors were a Korean semiconductor company, a Chinese software company, and a Chinese education company. (SK Square Co., Ltd. 19.86%; Bairong Inc. 35.51%; TAL Education Group 42.87%). While the detractors were a Chinese e-commerce platform, a Chinese sportswear company, and a Chinese EV battery maker (Meituan -18.08%; ANTA Sports Products Limited -7.81%; Contemporary Amperex Technology Co., Limited -10.02%).

The fund put on protections against the slowing global growth and made a contribution of 4bps.

## Market Commentary

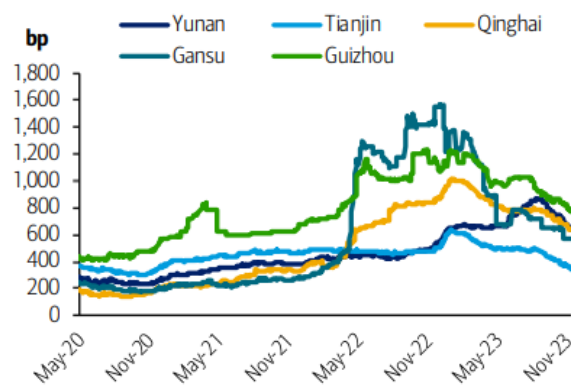
### Macro

**1. China:** In our view, the government is now dedicated to restoring confidence and reinvigorating the economy. So much so that, it is launching its version of QE (Quantitative Easing). Please see our recent OxCap Insights commentary for further details: <https://www.oxcapm.com/china-undertaking-qe-us-rates-peaking>.

- In addition, many measures (debt swap of as much as Rmb1.3trn, debt restructuring, and cap on new debt issuance) have been introduced to defuse local government financing vehicle (LGFV) risks. These measures are heading in right direction. LGFV bond yield spread for several fiscally weaker regions are tightening.

### Exhibit 3: LGFV bond yield spread for selected debt-ridden regions

Especially we see a downward trend for debt-ridden regions



Source: Wind, BofA Global Research

BofA GLOBAL RESEARCH

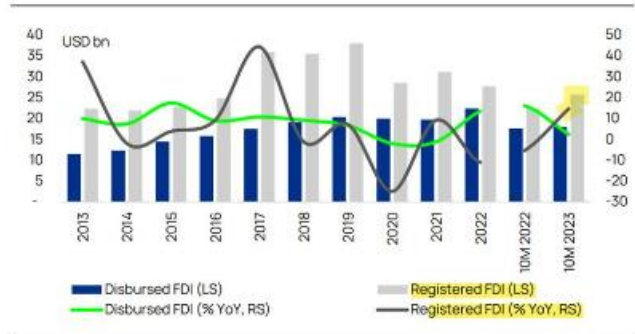
The various measures will flow through to impact the economy in the next few quarters. We are comfortable with the outlook for China through 2024, considering these supportive measures.

**2. Korea:** The government announced a short selling ban until end of Jun 2024. As a rule of thumb, when a government is keen to support the domestic stock market, it doesn't pay to be bearish.

**3. Vietnam:** Vietnam has been a major beneficiary of the transformation of the global supply chain reconfiguration. Vietnam witnessed strong foreign direct investment (FDI) inflow year to date in 2023 (increased 15% yoy). FDI alone is adding >5% of economic growth in Vietnam.

- 10M23 FDI registrations \$25.8B up 15% y/y

Figure 11: Disbursed and registered FDI, growth



Source: Ministry of Planning and Investment, Vietcap

**4. Argentina:** Following the recent presidential election after which a reformist president was elected, we have received some questions regarding the outlook. Inflation is running at over 140% and the Government will have to rein in growth. We spoke to one of our portfolio companies which has a presence in the country, and their view was that the government will need to cut subsidies and slow down the economy in order to bring inflation under control.

- Our primary exposure in LATAM is Brazil. However, we will monitor the progress in Argentina given the political shift and potential economic reforms.

**5. Global macro forecast:** Bank of America's macro forecast for 2024.

- Growth in developed economies is expected to slow in 2024. China, despite its economic challenges, is expected to grow faster than either USA, Japan or EU.
- The USD is expected to weaken vs. other major currencies in 2024.
- This backdrop bodes well for emerging markets, and we expect more tailwinds for EMs in the coming year.

Table 2: BofA Macro & Market Forecasts for '23 and '24

	BofA Macro Forecasts	
	2023	2024
<b>Macro</b>		
Global real GDP (%)	3.0%	2.8%
US real GDP (%)	2.4%	1.4%
Euro area real GDP (%)	0.5%	0.5%
China real GDP (%)	5.3%	4.8%
Japan real GDP (%)	1.7%	0.8%
Global CPI (%)	4.2%	3.1%
US CPI (%)	4.1%	2.8%
US core CPI (%)	4.8%	3.2%
US unemployment rate (%)**	3.7%	4.2%
<b>Rates</b>		
Fed Funds*	5.25-5.50%	4.50-4.75%
ECB refi rate*	4.50%	3.75%
BoJ base rate	3.25%	3.25%
BoJ policy balance rate	-0.10%	0.25%
US1 2-year Treasury*	4.85%	4.00%
US1 5-year Treasury*	4.65%	4.15%
US1 10-year Treasury*	4.50%	4.25%
<b>Foreign-exchange rates</b>		
EUR-USD*	1.05	1.15
USD-JPY*	153	142
USD-CNY*	7.40	6.90

## Portfolio News/Portfolio changes

**1. Net invested position** increased from 79% to 88% between October and November. Our country weights remained similar. Over: China, Indonesia, and Brazil. Under: India, Taiwan, and Korea. The fund remained overweight China, but took advantage of strong run ups in some positions and trimmed back. We re-deployed and stepped up our weightings in Taiwan and Korea (+4% combined). We also selectively added to our different positions in Brazil.

**2. Earnings in China:** Our view is that great companies can perform and adapt in any economic environment. Despite a supposedly "less than robust" economic backdrop, earnings in Q3 were solid.

23 Q3	Sales growth (yoy)	EBIT growth (yoy)
Tencent	10%	36%
Kuaishou (Online video)	21%	380%* * EBITDA
Meituan	22%	240%
Baidu (Google of China)	6%	6%
Tencent Music (Spotify of China)	-11%	13%
Kanzhun (LinkedIn of China)	36%	89%
VIP Shop	5%	33%
Qifu Technology (Fintech)	3%	20%

- Great management teams can adapt and find cost savings to support profitability.
- In the internet sector, many companies either increased dividends or bought back stocks. Year to date, shareholder returns totalled 4% on average.
- Chinese stocks are being de-risked and stock prices are bottoming. Many stocks are holding above their lows during COVID in 2022.

**3. Earnings in Brazil:** Keeping in mind that companies in Brazil are operating in a punishing environment, with nominal rate of 12.25% (>7% real rate), earnings in Q3 were resilient.

23 Q3	Sales growth (yoy)	EBIT growth (yoy)
Banco BTG	19%	19%
XP (Charles Schwab of Brazil)	14%	18%
PagBank (Fintech)	0%	18%
Inter & Co (Fintech)	49%	Profitable
TOTVS (software)	18%	15%
Arcos Dorado (McDonald's in Latam)	22%	23%
Hypera (Pharmaceutical)	5%	8%
Oncoclinicas (Hospitals)	20%	40%

We reiterate, great management teams can adapt and find cost savings to support profitability.

**We highlight one of our portfolio stocks - Zylox-Tonbridge.**

At OX Capital, across EMs, we look for companies that meet the "QGV" test:



That is, quality companies with a strong, sustainable long-term growth outlook at inexpensive, attractive valuations.

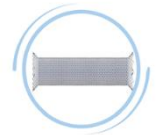
**Zylox-Tonbridge**



Aspiration Catheter<sup>1</sup>



Second Generation Clot Retriever Device



Flow Diverter

**Thematic:** Access to better healthcare in emerging markets. In China, there are over 4M cases of acute ischemic stroke a year. Yet, only under 3% of stroke patients were treated in 2022. The domestic Medtech industry stands to benefit from geopolitical tension as government looks to promote domestic device makers to improve self-sufficiency.

**Leadership:** Zylox is one of the top domestic neuro and peripheral vascular interventional device makers in China. It has an ambitious vision to become the leading minimally invasive medical device platform in China. Its commitment to R&D is unparalleled. In 2022, its R&D to sales ratio was 70%. It had 19 approved products in Dec 22. Quite amazingly, it expects to launch another 56 products in the coming five years. It has strong confidence in its technology that, for its clot retriever device, it ran a head to head clinical trial against Medtronic and demonstrated its superiority.

In the coming years, we expect Zylox to emerge as one of the top 3 domestic medical device maker in its served markets. The opportunity is significant. As a rule of thumb, the industry is currently dominated by international brands where they have market share of 80-90% in most segments. The status quo will be no more. Domestic brands such as Zylox are now in a position to take over. In the coming years, the domestic brands, with competitive technology and price competitiveness, will likely win over 60-70% of the Chinese market. Zylox is targeting 20-30% market share in each of its key products.

As it launches new products and takes market share, Zylox will grow rapidly. Zylox expects to grow more than 4X between 2022-2026.

**Valuation:** MV is HK\$4.3bn. It has net cash of HK\$2.7bn. The business is young. Earnings will inflect soon. Zylox is targeting breakeven in 2H 23/early 2024. At scale, it will earn 15-20% net margin. We believe its potential is currently overlooked by the market.

**For further information, please contact:**

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