Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU

Quarterly Report December 2023

Performance	1 month %	3 months %	6 months %	1 year %	2 years % p.a.	Inception % p.a.
Fund Return (Net)[1]	-1.5	-1.4	-2.3	0.1	-0.9	-5.9
MSCI Emerging Market Net Return Index AUD unhedged	1.0	2.0	2.1	9.2	-3.3	-3.7
Active Return	-2.5	-3.4	-4.4	-9.0	2.4	-2.2

[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 December 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 $37.0 M
Distribution frequency	Annual

Top 10 Positions

Company	Sector	%
Taiwan Semiconductor Manufacturing Co Ltd	Information Tech	6.55
SK Square Co Ltd	Information Tech	5.73
Samsung Electronics Co Ltd	Information Tech	5.04
HDFC Bank Ltd	Financials Ex Prop	5.03
Tencent Holdings Ltd	Comm Services	4.05
Reliance Industries Ltd	Energy	3.16
ANTA Sports Products Ltd	Consumer Disc	3.06
Vietnam Enterprise Investments Ltd	Financials Ex Prop	2.82
Bank Negara Indonesia Persero Tbk PT	Financials Ex Prop	2.10
Contemporary Amperex Technology Co Ltd	Industrials	2.05
Total		**39.58**

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.

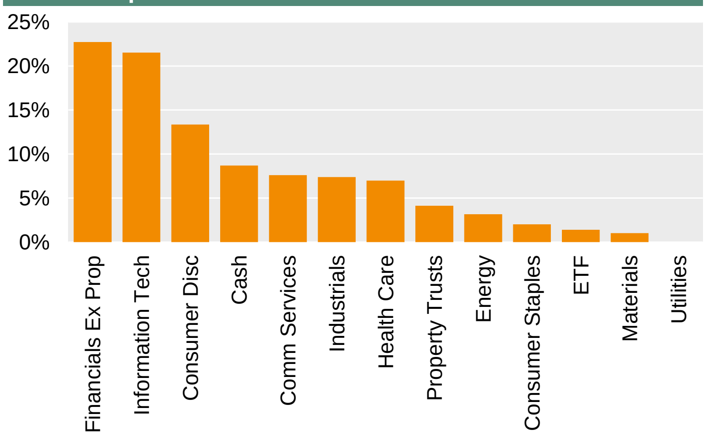
Capture growth: Ox Capital's investment approach is to identify the immense positive change taking place in Asia and other key emerging markets and to find companies that can benefit from those trends.

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.

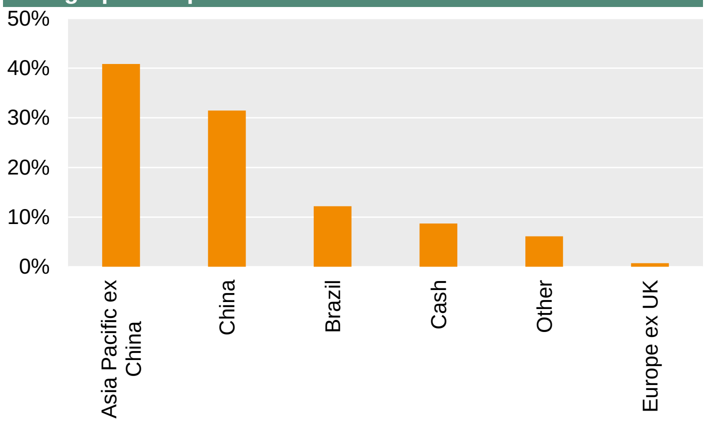
Capital protection strategies: The Fund can use derivatives such as index futures and equity swaps to help protect the portfolio from market volatility and to obtain synthetic exposure to stocks or markets.

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

Sector Exposure



Geographic Exposure



Fund Performance

In the fourth quarter of 2023, the Dynamic Emerging Market Fund Returned -1.4%, compared to 2.0% by the MSCI Emerging Market AUD Index.

Top contributors are semiconductor related exposures driven by new AI applications & the potential smartphone shipment recovery. (SK Square Co. Ltd. 14.77%, Taiwain Semiconductor Manufacturing Company Limited. 13.38%). While the detractors are Chinese internet platforms & a CDMO due to continued derating. (Meituan -28.53%, WuXi Biologics (Cayman) Inc -35.16%, Kuaishou Technology -15.75%).

The Fund put on protections against the slowing global growth and made a contribution of 13bps.

Market Commentary

Three key developments in the last quarter relevant to our investment universe were:

1.Brazil's interest rate continues to be cut.

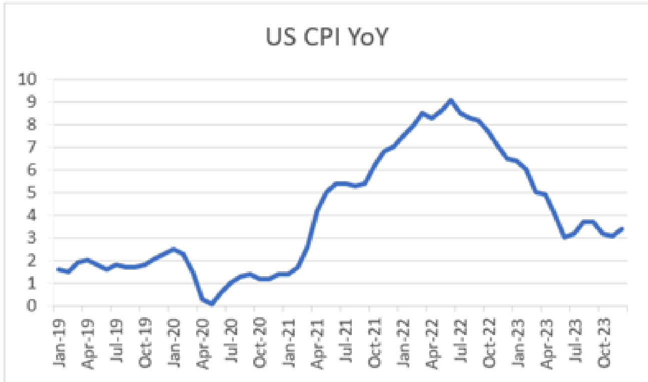
The inflationary pulse driven by loose monetary policy has mostly passed in Brazil, and its official interest rate has started to be cut. The notable feature in the recent past was that Brazil raised its interest rate to fight inflation from 2% to almost 14%. As a result, the Brazilian economy went into a major recession, and asset market valuations suffered significantly. With the interest rate coming down, asset markets started to rebound during the last quarter. We are positioned in the key interest rate sensitive and quality stocks which have benefited from the rebound. Given Brazil has a lot of room to cut rates further, we believe the rebound will prove resilient.

Source: Bloomberg

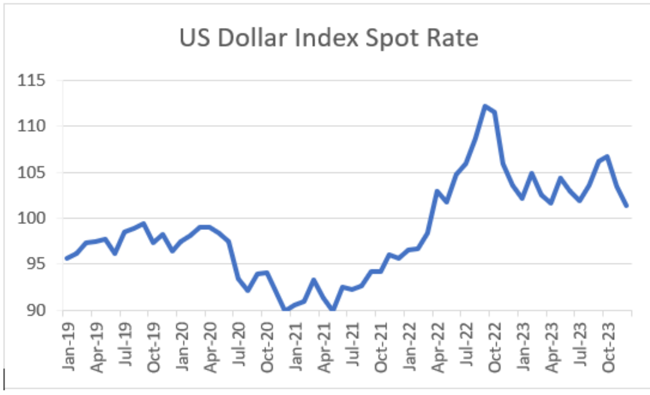
Source: Bloomberg

2. US inflation has come off significantly

With monetary tightening, the US inflation rate (CPI) has receded significantly in Q4. This is significant from our perspective, as interest rate cuts in the US is typically associated with a weakening of the USD which is highly positive for emerging market equities. The US Dollar appears to be in an early inning of further decline.

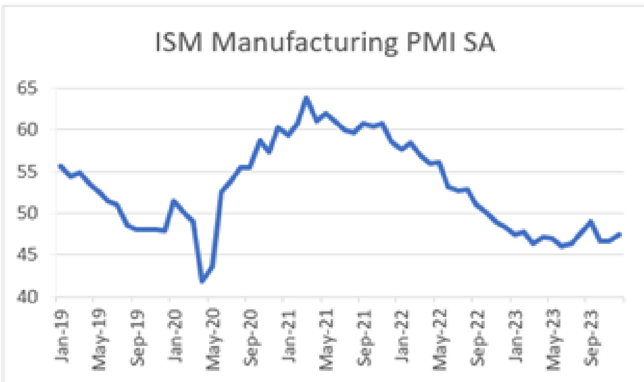


Source: Bloomberg



Source: Bloomberg

Furthermore, the US economy is obviously slowing. The Manufacturing PMI has been below 50 for more than 12 months! This in itself, is not new news.

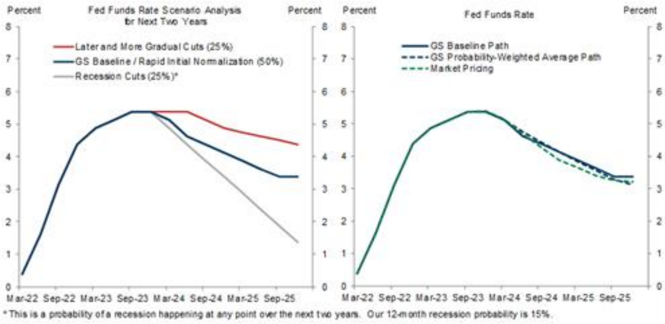


Source: Bloomberg

The perhaps surprising outcome rather is the lack of negative impact on the labour market despite a significant ratcheting of rates. The focus on the market going forward is whether the US slowdown will prove to be greater in magnitude than currently expected. From our perspective, a faster, but not a financial crisis level slowdown, in the US economy will likely lead to an accelerated rate cut cycle, which is most likely favourable to EM equities that are not directly linked to the US economy. A

OX CAPITAL MANAGEMENT

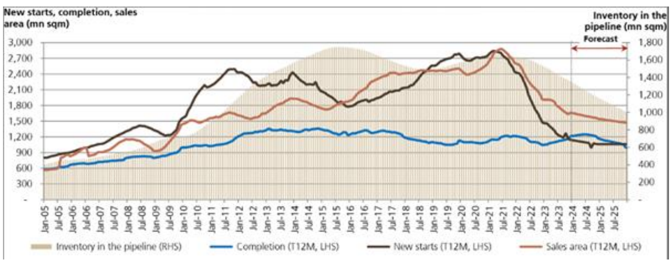
Goldman's forecast of interest rate path in the US depending on the economic outcome in 2024 is illustrated below.



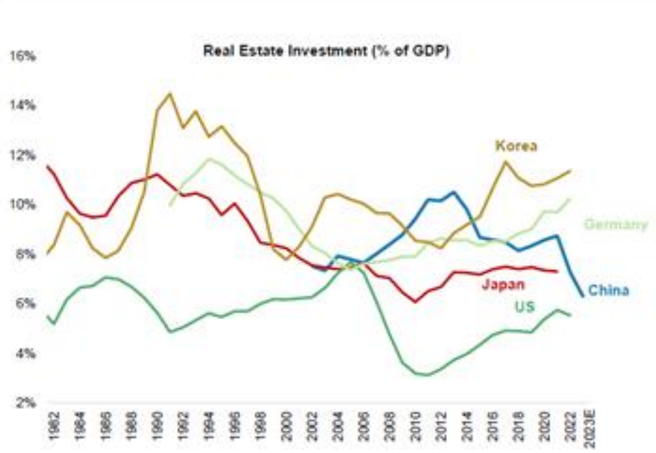
Source: NBS, UBS

3. China authorities taking more seriously stabilisation policies in the economy and the Xi-Biden meet in the San Francisco APEC meeting suggests thawing of relations.

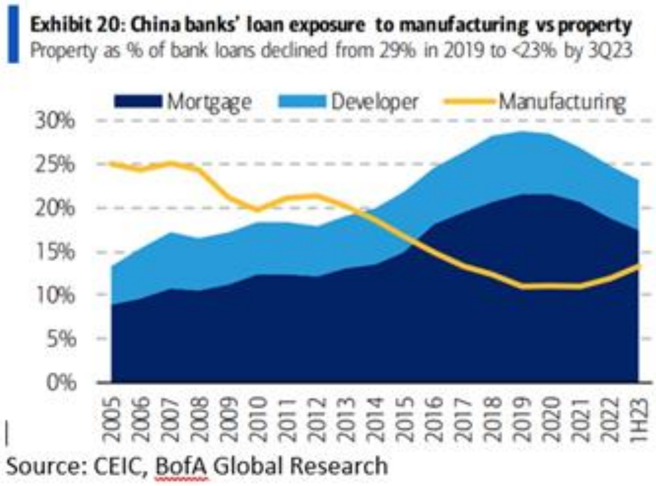
The property sector. The much talked about property downturn is in fact quite advanced. Sales volumes of new residential properties are down 35-40% from peak sales a few years ago closer to the equilibrium. Policy makers have therefore announced various loosening measures and sales volumes are stabilising. Going forward, given the current backdrop, further decline in volumes is going to have smaller incremental impact on economic activities. According to Morgan Stanley Research, given the significant decline in activities, property investment in China as a percentage of GDP is already lower than that of Korea, Germany and Japan!



China's real estate investment/GDP ratio is one of the lowest among major economies



China banks' real estate related exposures are now back to around 2015 level, allowing for a buffer for relaxation of policy measures.



Geopolitics tension is thawing

The meeting between President Biden and Xi shows the intention from both sides to restore bilateral relations and reducing near-term risk of escalatory confrontation. With the economy a top priority, China is adopting a pragmatic approach to dealing with geopolitical questions.

It is likely that continued technological competition will remain. Nevertheless, its manufacturing base remains second-to-none and cost-competitive, China will remain a key part of the global supply chain. New industries such as electric vehicles & renewable energy have become new drivers for export. China is diversifying exports towards the BRICS countries of the global south and remains the biggest exporter in the world.

Hidden Local Government Debt

Another risk to the economy is the "hidden debt" of the local Governments (also known as local government funding vehicle). Estimates has it totalling USD7 trillion (around 50% of China's economy). While not a small sum, it is manageable, and the magnitude is well-understood by investors and regulators. The regulators are pursuing a combination of austerity, debt restructuring, assumption of debt by the central government and potentially money printing to tackle the problem. These initiatives should gradually reduce the problem over time.

Government Crackdowns on Certain Private Sectors

Well-known examples of crackdown were on the after-school tuition sector and the internet sector. Firm rules were implemented to curb some of the activities that were deemed dysfunctional by the authorities.

The vibrant private sector has to shoulder the burden of economic growth under guardrails, and the Central Government has little appetite to introduce more tightening measures. The most recent episode involved a Government department official having to step down after releasing a consultation paper on additional tightening measures for the video gaming industry.

VIDEO GAMING

Key mainland official 'steps down' after market rout

Staff Reporter

A key mainland official involved in oversight of the country's video gaming industry has stepped down after proposed regulation last month wiped out billions of dollars of value from Chinese gaming stocks, according to people familiar with the situation.

Feng Shixin, a long-serving official, had left his official role as the publication bureau chief at the Communist Party's Central Propaganda Department, one person told the Post, asking not to be identified due to the sensitivity of the matter.

A second person, who also asked for anonymity, said Feng's departure was a sign that China might walk back some of last month's proposed restrictions on consumer spending in video games, which surprised the market due to their severity.

The National Press and Publication Administration (NPPA), the agency that answers directly to the propaganda authority in overseeing the country's video gaming industry, did not immediately respond to a request for comment.

Feng's departure comes as Beijing attempts to limit the damage from the NPPA's disclosure on December 23 of draft rules aimed at reining back spending on video games, which triggered a global sell-off of China gaming stocks, including leading players such as Tencent Holdings and NetEase.

According to the published proposals, which are open to public feedback until January 22, video game developers would have to implement measures to cap user spending, with bans on "excessive" rewards for activity such as daily logins and top-ups for fresh spending by consumers.

The timing and severity of the proposed rule changes dealt a fresh blow to already-fragile investor confidence in mainland stocks. NetEase, the country's No 2 gaming operator, fell by nearly a quarter in a single trading day, with Tencent dropping over 12 per cent.

The new rules appeared to be at odds with a recent change in Beijing's tone towards the video gaming industry – previously subject to a harsh crackdown – and broad efforts by the government to stabilise stock market sentiment and support the country's private sector.

In an attempt at damage control, the NPPA subsequently said the proposed regulation changes were aimed at "healthy development" of the gaming industry and that it would "revise and improve" the rules.

Meanwhile, the regulator approved 105 new video games for sale in China for December, the most in 17 months, in a supportive gesture to an industry with combined annual sales of 300 billion yuan (HK$330.4 billion) in 2023.

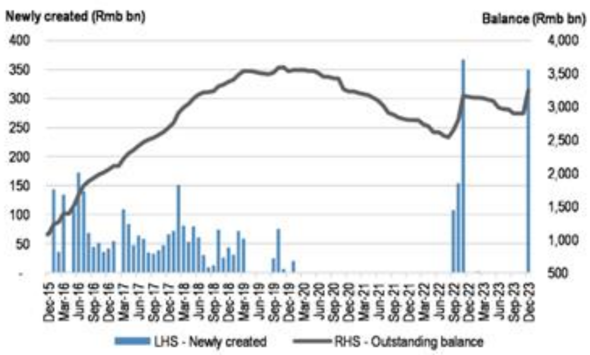
Feng is a veteran regulator. He delivered keynote speeches at the China Gaming Industry Annual Conference, the yearly gathering of officials and executives, for three consecutive years in 2018, 2019 and 2020 as a deputy publication bureau chief. In December 2020, Feng urged China's gaming companies to be vigilant about gaming content and not to "provide channels for any harmful content".

At the latest annual conference last month, Yang Fang, an official from the NPPA, delivered the keynote speech after Feng delegated the task to her.

Money Printing?

China's version of "money printing" is called pledged supplementary lending (PSL), and it is making an appearance again. If the magnitude is eventually bigger than investors' expectations, this will be a meaningful impetus for economic growth and cleaning up of the banking system.

Figure 1: China PSL outstanding balance



Source: Bloomberg Finance L.P., J.P. Morgan

Our Positioning

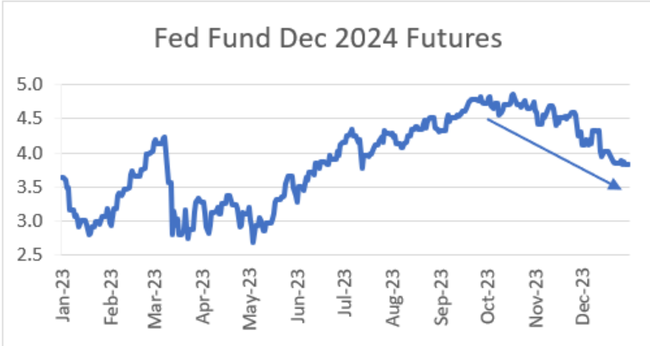
The outlook across many emerging economies remains positive for equities due to favourable macro-economic dynamics, such as decelerating inflation pressure and continued interest rate cuts by EM central banks. Moreover, valuations have contracted to very inexpensive, attractive levels for many quality names with sustainable long-term growth. Notably, our net invested position increased to 91% over the quarter. While some positions were trimmed in some of the Chinese stocks, we remained over index at 31%. The fund added to our semiconductor positions in Taiwan and Korea and further added to our positions in Brazil.

Market Outlook

Bringing it altogether: The outlook bodes well for Emerging Markets

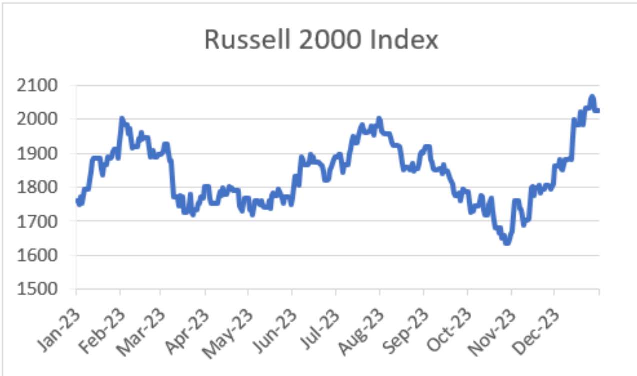
Markets have factored in quite an optimistic view of rate cuts in the US. This has driven equities valuations upwards, while driving the US Dollar and bond yields down. While we are also of the view that US rates will be lowered in 2024, the market may have advanced too much too quickly.

Fed Funds futures Dec24 has fallen 1% since October.



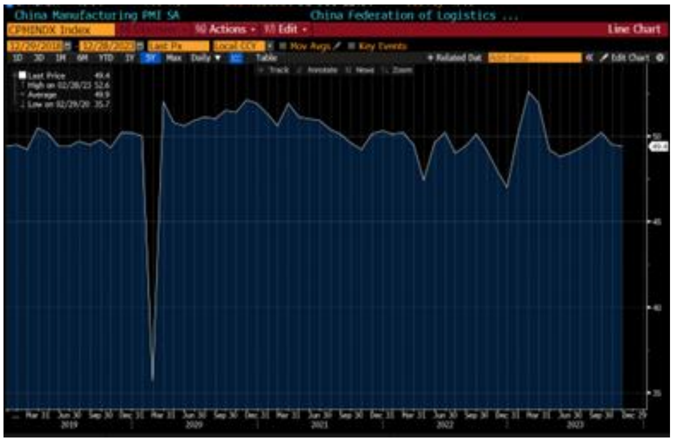
Source: Bloomberg

The Russell has recovered.



Source: Bloomberg

On the other hand, the issues in the China economy are well known. The authorities are gradually doing more to boost activities and confidence.



The China manufacturing PMI has been below or around 50 for 2 yrs. The slowdown is well known! With further relaxation from a fiscal, monetary and regulatory perspective, it is likely that stabilisation of activities will emerge in a not-too-distant future. **Given the extremely attractive valuation of Chinese equities, we believe that an exposure is warranted despite the obvious issues. With so much excess saving accumulated by the Chinese consumers, a return of confidence can ignite activities rather quickly. At the very least strong businesses with great growth prospects are now on offer at extremely attractive valuations that will perform well in even a sluggish environment.**

The beneficiaries of declining US rates and inflation is emerging markets. The decline of long yields globally will lead to re-rating of rate-sensitive assets as long as earnings stay resilient. In China's case, the economy may still take time to heal. The positive case for China is its low equities valuations, and by implication its equity risk premium is already so high that risk reward remains attractive despite the economic adjustment the Chinese economy is undertaking.

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 December 2023)

Exposure analysis	
Position	**% of net invested capital**
Long securities (including derivatives)	91.30
Cash	8.70
Gross equity exposure	91.30
Net equity exposure	91.30

Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 31 December 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	100%
> 21 days	100%

Maturity profile

As at 31 December 2023, the Fund does not have any material liabilities.

Derivative counterparties engaged

The derivative counterparties engaged for the period 1 October 2023 to 31 December 2023 are provided in the table below.

Derivatives counterparty
UBS AG, Australia Branch

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 December 2023, the Fund is long exposure of 91.30% and short exposure of 0.00%. The gross equity exposure of the Fund is 91.30% and net equity exposure of the Fund is 91.30%.

For further information, please contact:

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