

Ox Capital Dynamic Emerging Markets Fund

ARSN 649 969 264 | APIR HOW6479AU



Monthly Report October 2024

Performance	1 month %	3 months %	1 year %	2 years % p.a.	3 years % p.a.	Inception % p.a.
Fund Return (Net) ¹	0.1	4.4	13.4	10.2	-0.6	-1.0
MSCI Emerging Market Net Return Index AUD unhedged	1.2	3.3	21.1	16.4	3.2	2.1
Active Return	-1.1	1.2	-7.7	-6.2	-3.8	-3.2

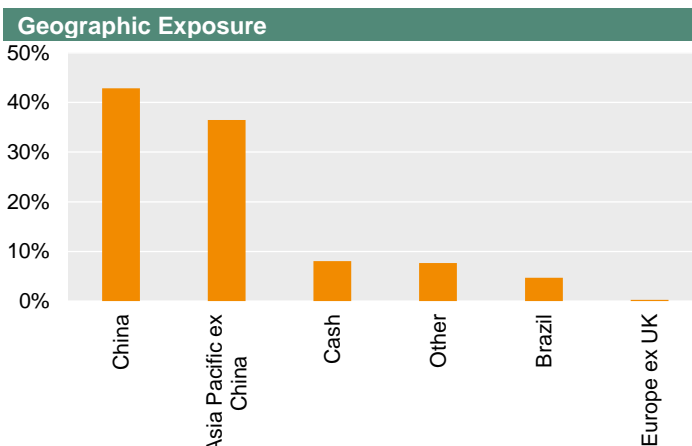
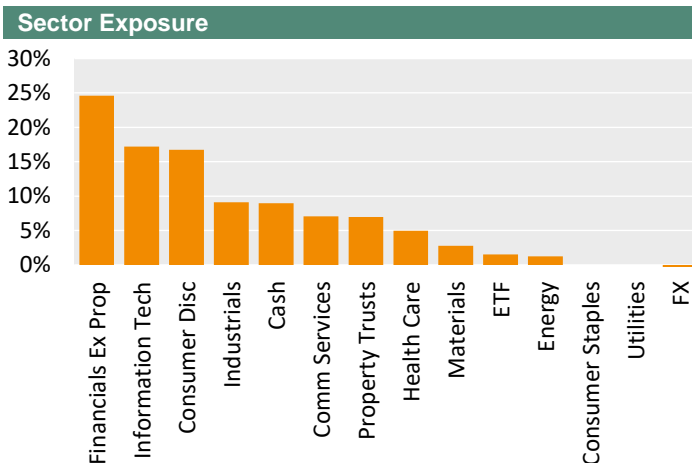
¹ The returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowances are made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. The inception date for the fund is 20 September 2021.

Source: Fidante Partners Limited, 31 October 2024

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 \$43.5 M
Distribution frequency	Annual

Top 10 Positions		
Company	Sector	%
Taiwan Semiconductor Manufacturing Co Ltd	Information Tech	8.41
SK Hynix Inc	Information Tech	5.18
Tencent Holdings Ltd	Comm Services	4.09
BYD Co Ltd	Consumer Disc	3.81
Ping An Insurance Group Co of China Ltd	Financials Ex Prop	3.53
Vietnam Enterprise Investments Ltd	Financials Ex Prop	3.43
Meituan Dianping	Consumer Disc	3.22
Kuaishou Technology	Comm Services	2.97
Bank Negara Indonesia Persero Tbk PT	Financials Ex Prop	2.90
Bank Mandiri Persero Tbk PT	Financials Ex Prop	2.86
Total		40.39

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.



Fund Performance

In the tenth month of 2024, the Dynamic Emerging Market Fund returned 0.1%, compared to 1.2% by the MSCI Emerging Market AUD Index.

Top contributors were a leading semiconductor manufacturer, a Chinese online retail services and consumer products platform, and a multinational online travel service provider. (Taiwan Semiconductor Manufacturing Company Limited 7.63%; Meituan 6.10%; Trip.com Group Limited 8.36%). While the detractors were a Chinese social media platform, a Chinese online retailer, and a South Korean consumer electronics company.

Market Commentary

Macro

China: The government has pivoted. It is determined to counter any deflationary impulse and reflate the economy.

- Since the policy pivot, we can see early signals of recovery. October primary property sales grew 3% yoy, first year over year growth in over a year (and up as much as 68% month on month).
- Tourism traffic growth is strong during the national day holiday, home appliance sales are picking up, sales growth in Shanghai restaurants is strong, Meituan local service division grew over 70% year over year during the national day holiday.
- The government will support the economy, as needed, to deliver steady growth of $\approx 4.5\text{-}5\%$ in 2024.

Thailand: The new Thai government is re-considering if casinos should be allowed in the country. The Entertainment Complex Bill is expected to be released between 2024-2026. If the Bill is passed, these casino(s) will open in 2031-2033.

- The new government is supportive of the tourism industry and is actively looking for ways to kickstart the domestic economy.

Malaysia: The government tabled a solid budget for 2025. Budget deficit is expected to be cut from 4.3% in 2024 to 3.8% in 2025.

- Subsidy spending will be reduced by 14% while a broadening tax base will raise tax revenues by 7.5%.
- The government is also pushing for minimum wage increase, as well as 30% increase in financial assistance to the vulnerable groups.
- Malaysia is pursuing sensible policies (reducing budget deficit + reducing subsidies), as well as supporting domestic consumption.

Indonesia: The new cabinet points to continuation of existing policy direction. Several ministers from the Jokowi administration were appointed to the new cabinet. Importantly, the well-regarded Minister of Finance assumes the same portfolio in the new government.

- The new government is considering multiple pro-growth programs. It plans to support the real estate sector to build as many as 3M houses and aims to remove stamp duty along with state taxes on property purchases (which can add up to as much as 16% of the purchase value).
- The government is also considering reducing corporate income tax from 22% to 20%. At the same time, fiscal deficit is expected to be kept to 2.5% of GDP in FY 2025.

US Election: It is widely expected the new US government will impose tariffs on China and its other trading partners

- While USA remains an important trade partner to China, its importance has declined in the past few years. In 2017, USA accounted for 19% of China's exports and has dropped to 15% in 2023.
- Since 2021, China's exports to USA declined from close to US\$600bn to US\$500bn. China has also reduced its reliance on imports from USA (from $\approx \$190\text{bn}$ to $\approx \$160\text{bn}$ since 2021).
- To put it in perspective, total net exports (exports – imports) made up only $\approx 2\%$ of GDP in China.
- Some economists estimate negative impact of the 60% tariff on China can add up to $\approx 2\%$ of GDP.
- In our view, the "headwind" is manageable. The Chinese government will support the economy, as needed, to deliver steady growth of $\approx 4.5\text{-}5\%$ in 2025.
- Despite early optimism (US market + USD strengthening) following the US election, there are structural challenges (persistent budget deficit, consumer-led economy, and high debt level) which will pressure the USD in time.

Portfolio News/Portfolio changes

1. The portfolio remained well invested at the end of October. Net invested position was 94%.

- Overweight: China, Indonesia, and Vietnam.
- Underweight: Taiwan, Korea, and India.
- The fund is overweight China ($>40\%$). Post the euphoric high in early October, although many Chinese stocks pulled back, the Shanghai composite index has almost re-claimed the high, while the Hang Seng China Enterprise Index (HK) lagged. It is an important "tell" that the domestic investors harbour confidence on the future direction of the economy.
- Post US election, the fund retains its overweight position in China. There are several factors to consider: i) The Chinese government has the heft and will to maintain steady economic growth in 2025 and beyond, ii) policies are implemented to restore confidence, counter deflationary impulse, and reflate the economy, iii) we are observing early signs of improving sentiment and better consumer spending, iv) numerous strong local industry leaders/stocks remain attractively valued with long term growth runway.

- The portfolio is primarily positioned in domestic industries. We do not have many export-oriented stocks. For the likes of BYD and CATL (EV battery), they have minimal (if not zero) exposure in USA. For the semiconductor names, the supply chain in USA is uncompetitive against them. In addition, TSMC, Samsung, and Hynix are building fabs/plants in USA as we write.
- The portfolio remains under weight India. We are seeing early signs of credit issues amongst the micro finance segment. Consumer spending growth is slowing also.

2. **EV:** Contrast the production trend for Tesla and BYD. Despite popular narrative and concerns surrounding the Chinese economy, BYD increased car production by 38% yoy in Q3 24. It has further extended its scale vs. Tesla, improving their cost advantage. In addition, BYD produces both EVs and plug-in hybrids. It is targeting a larger demographic than Tesla.

Production	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q3 Yoy
Tesla	430,448	494,989	433,371	410,831	469,796	9%
BYD	824,001	944,779	626,263	986,720	1,134,892	38%

- BYD and Tesla had revenue growth of 20% and 8% respectively in Q3 24. BYD reported net profit growth of 11% vs. 8% for Tesla yoy in 24 Q3.
- BYD is valued at 20X PE 24 and 16X 25. Tesla is valued at >120X PE 24 and 90X 25.

3. **TSMC:** ASML (a mission critical semiconductor equipment maker) had to cut its sales outlook in 2025. Intel and Samsung decided to sharply cut back their equipment orders for 2026/2026. Have a look at the workhorse EUV tool shipment trend/forecast:

0.33 NA tools	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Logic												
TSMC	1	1	3	10	15	15	20	22	19	11	22	18
Samsung Foundry	1	1	1	2	4	9	11	14	4	2	2	3
Intel	2	2	2	3	3	2	2	9	7	7	2	5
GF			1									
Others			1	1	2		1					

- Samsung and Intel are giving up the "fight". TSMC has established itself as the "almost" monopoly in leading edge logic chips (for smartphones, AI etc etc) in the coming years. Well over >90% of AI GPUs are produced by TSMC these days.
 - TSMC is attractively valued at 18X PE 2025. PEG ratio is less than 1. EPS is expected to grow 26% yoy in 2025.
4. **AI:** Our base case is investments in AI will remain healthy in 2025.

- Use cases are being developed. Accenture is training 30000 staff on Nvidia AI technology. The new Nvidia Business Group will help enterprises to develop "Agentic AI systems" for business applications. Microsoft disclosed that AI is the fastest product in its history to reach \$10bn annual revenue.
- The cloud platforms in USA are budgeting for solid (>20%) capX growth in 2025 as well.

Hyperscaler Capex Est. (\$bn)	2023	2024	2025	2026
AMZN	\$52.7	\$75.0	\$96.4	\$105.4
GOOGL	\$32.3	\$51.3	\$62.6	\$69.9
META	\$28.1	\$40.0	\$52.3	\$60.9
MSFT	\$41.2	\$74.1	\$89.9	\$100.2
Total Hyperscaler Capex	\$154.3	\$240.4	\$301.2	\$336.5
Y/Y % Growth	(1%)	56%	25%	12%
Y/Y \$ Growth	(\$1.3)	\$86.1	\$60.8	\$35.3

Source: Company data, Morgan Stanley Research Estimates

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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. 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.