SKERRYVORE GLOBAL EMERGING MARKETS ALL-CAP EQUITY FUND
C SHARE CLASS

Quarterly Commentary

Report for the quarter ended 31 December 2023

Skerryvore

bennelong

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C SHARE CLASS PERFORMANCE – PERIOD RETURNS TO 31 DECEMBER 2023

	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Since Inception[1] (%)
Fund (net)	2.12	3.88	2.42	14.94	7.41
Benchmark[2]	0.97	2.02	2.15	9.15	-8.92
Value Added	1.15	1.86	0.28	5.79	16.33

TOP 10 HOLDINGS

Name	Weight (%)
Fomento Economico Mexicano	6.9
HDFC Bank Limited	5.2
TSMC	5.1
Cipla	4.7
Heineken Holding	4.2
Tata Consultancy Services	4.0
Franco Nevada	3.2
Qualitas Controladora	3.2
Advantech	3.0
Raia Drogasil	3.0

KEY CHARACTERISTICS

Number of holdings	45
Number of countries	20
Number of sectors	8
Number of industries	24
Active share (%)	90

FUND VALUE

30 September 2023	31 December 2023
AUD $ 40,770,040	AUD $ 64,740,259

THE FUND AT A GLANCE

Feature	Fund Facts
APIR code	BFL3229AU
Benchmark	MSCI Emerging Markets Index (AUD)
Investment objective	Achieve long-term capital appreciation through investing in companies, operating in, or exposed to, emerging markets
Portfolio managers	Glen Finegan, Nicholas Cowley, Michael Cahoon
Active stock limit	+10%
Cash	0-10%
Recommended investment period	Long term (five years plus)
Buy/sell spread	+/-0.3%
Entry/exit fees	Nil
Management fees and costs*	1.10% p.a. of Net Asset Value of the fund

RATINGS AND AWARDS

Morningstar Analyst Rating™ as of 06/02/2023

1. Inception date – 02 August 2021

2. MSCI Emerging Markets Index (AUD)

Source: Landy Tech as at 31 December 2023

Past performance is not indicative of future returns

Quarterly Commentary

INVESTMENT OVERVIEW

Global emerging market equities rose during the quarter. The strategy also rose in value and outperformed the benchmark index[1].

POSITIONING & STRATEGY

We are fundamental, long-term, bottom-up investors seeking to create a high-conviction portfolio of reasonably valued, high-quality companies that are exposed to, or operate in, emerging markets. Portfolio positioning is the output of our bottom-up based convictions, rather than a specific top-down view.

The strategy continues to have a significant exposure to well-managed consumer-facing businesses with evidence of strong pricing power.

Following a difficult two years, 2023 was a better one for emerging markets, with the index registering a gain in US dollar terms. The Skerryvore strategy also rose in value and outperformed the index.

Pleasingly, the source of the strategy's returns is largely earnings growth delivered by the companies it holds, rather than a broad re-rating. The one-year forward price to earnings ratio of the strategy has fallen marginally from 12 months ago despite many share prices having risen. As a result, we are not overly concerned about the current valuation backdrop.

The year clearly demonstrated that there is much more to the emerging markets opportunity set than just China. We see clear beneficiaries of realigning global supply chains and are not surprised that some of the strategy's strongest returns have come from high-quality Mexican and Indian businesses.

PORTFOLIO ACTIVITY

We initiated a new position in **Yifeng**, a leading founder-led Chinese pharmacy business. It has over 10,000 stores and a presence in seven provinces and three municipalities, including Beijing and Shanghai. Its franchise looks well positioned to consolidate this fragmented and growing industry and to benefit from China's aging population. Yifeng has a business model that we are very familiar with, a clean balance sheet, a good track record and a long runway for growth. The sell-off in the broader Chinese market has brought the shares to a valuation that meets our required rate of return for this business.

A recent investment trip to Taiwan and meeting with **Uni-President Enterprises** led us to reduce our conviction in the benefits of owning this corporate conglomerate, when we can directly own the higher-quality, faster growing and attractively valued parts within it, most notably **President Chain Store**.

OUTLOOK

Many years' experience of investing in inflation-prone emerging markets has taught us to seek out companies with strong pricing power. A proven ability to create intellectual property, ownership of strong brands and well-managed retail franchises are some of the attributes of companies we have seen navigate previous periods of high inflation. Regulated assets or assets at high risk of being regulated often lack pricing power, which can leave them more exposed to inflationary pressures, and for that reason we have tended to avoid holding these in our portfolios.

We continue to see portfolio companies take pricing steps to protect margins during this inflationary period. Reassuringly there is evidence of strong pricing power in the face of rising costs. Companies such as **Heineken,** the **Coca-Cola** bottlers and retailers **FEMSA** and **Jerónimo Martins** have so far been able to push through price rises with limited impact on their growth.

Finally, as the era of ultra-low interest rates has ended, it is likely that balance sheet strength will continue to be rewarded. We take comfort from the fact the strategy has very little exposure to leveraged businesses and believe this should help downside protection should 2024 prove to be a difficult year for markets. Importantly, though, we remain highly confident of the opportunities afforded to the businesses we invest in.

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1. Benchmark MSCI EM Net Total Return, as of 31 December 2023

The information provided in this document relating to specific stock examples should not be considered a recommendation to buy or sell any particular security. Past performance does not predict future returns

Performance

PERFORMANCE OBJECTIVE

The fund's objective is to seek to achieve long-term capital growth by outperforming the benchmark by 2-3% per annum net of fees annualised over rolling five year periods.

PERFORMANCE COMMENTARY

Global emerging market equities rose in Australian dollar terms during the period. The strategy produced a positive return and outperformed the MSCI Emerging Markets Index.

The fund has performed strongly in absolute terms over the past calendar year and outperformed the benchmark index. Our bottom-up stock-picking has been the main driver of returns . It is also interesting to note that the positive absolute return for the asset class has been achieved despite weakness in Chinese equities which we believe is a long-term positive for the asset class and speaks to the benefits of investing selectively in the emerging world.

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1. MSCI Emerging Markets Index (AUD)

Past performance is not indicative of future returns

Performance

STOCK LEVEL ATTRIBUTION

TOP CONTRIBUTORS TO RETURN

Name	Contribution (%)
Fomento Economico Mexicano	1.0
Qualitas Controladora	0.8
Bajaj Auto	0.6
Clicks	0.5
TSMC	0.5

TOP DETRACTORS TO RETURN

Name	Contribution (%)
Franco Nevada	-0.8
China Resources Beer	-0.5
Mega Lifescience	-0.3
LG Household and Health Care	-0.2
Hangzhou Tigermed Consulting	-0.2

HOLDING LEVEL COMMENTARY & ANALYSIS

The largest contributor to returns during the period was from the holding in **FEMSA.** All its underlying businesses are performing well with consolidated revenues up over 19% from a year ago and mid-teens levels of profit growth on an adjusted basis. The shares have performed strongly over the past 12 months but the recent strategy announcements and simplification of the business structure means that the shares are trading at a reasonable valuation for a business that should be able to compound at a high-single digit level for a number of years.

Bajaj Auto was another strong contributor to returns following strong underlying results. The business is benefitting from strong demand for 125cc+ bikes in India where it is also gaining market share. Its two-wheeler electric brand Chetak has also performed well and is gaining market share and continues to build out its presence across India. We have reduced the position in light of the recent stock price strength but continue to see the current share price as being able to meet our long-term return requirements for this business.

HOLDING LEVEL COMMENTARY & ANALYSIS

The largest negative contributor to returns was from the gold-focused royalty and streaming company **Franco Nevada.** It has a royalty mining agreement with First Quantum for gold-focused royalties from the Cobre Panama mine. This mine has been shut following a decision by the Panama's Supreme Court that the original concession agreement between First Quantum and the Panama government is unconstitutional. First Quantum has taken the decision to international arbitration

We believe that Franco Nevada is the leading gold-focused royalty and streaming company and its diversified revenue sources and strong balance sheet will allow it to weather this storm. The current share price appears to price-in the total loss of the current Cobre royalty stream and gives the rest of the business little benefit for growing its business from its other royalty streams.

The second largest negative contributor to returns was from the holding in **China Resources Beer.** There has been no specific company news which we can attribute to the stock price weakness. The most recent business results were encouraging with the company continuing to deliver on its premiumization strategy. There is a risk that the business could be impacted by a significantly weaker Chinese economy. The shares look attractively valued for a bottom-up driven growth opportunity and should be seen within the context of the strategy's moderate exposure to Chinese equities.

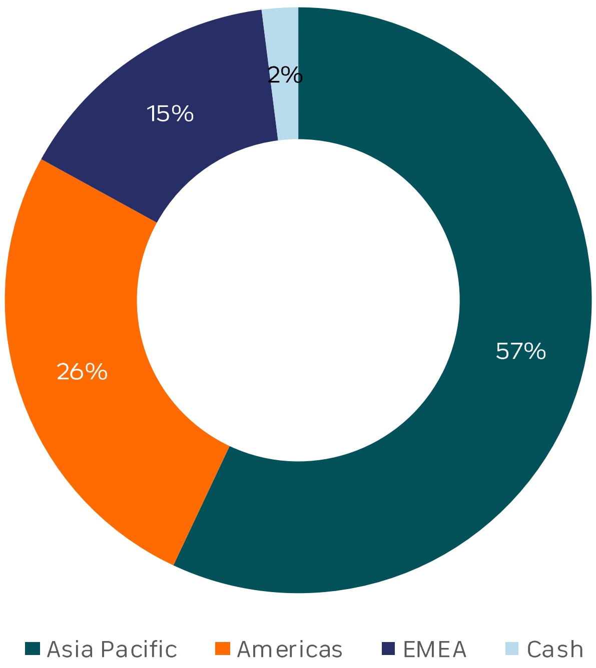
Past performance is not indicative of future returns

Portfolio Characteristics

COUNTRY WEIGHTS

Country	Portfolio (%)	Benchmark[1] (%)
India	26.1	16.7
Taiwan	12.6	16.1
Mexico	10.1	2.8
Brazil	7.9	5.8
China	6.4	25.7
Netherlands	4.2	0.0
Canada	3.2	0.0
Japan	2.9	0.0
Thailand	2.8	1.7
South Africa	2.7	3.1
Chile	2.7	0.5
Portugal	2.6	0.0
Philippines	2.3	0.6
Switzerland	2.2	0.0
Greece	2.0	0.5
Argentina	1.8	0.0
United Kingdom	1.7	0.0
South Korea	1.3	12.9
Indonesia	1.2	1.9
Hong Kong	1.0	0.8
Cash	2.2	0.0

REGIONAL WEIGHTS



SECTOR WEIGHTS

Sector	Portfolio (%)	Benchmark[1] (%)
Consumer Staples	40.3	5.9
Financials	15.3	22.4
Information Technology	15.2	22.8
Health Care	9.5	3.7
Consumer Discretionary	7.2	12.5
Materials	4.1	8.1
Industrials	3.3	6.4
Communication Services	2.9	8.7
Energy	0.0	5.2
Real Estate	0.0	1.6
Utilities	0.0	2.6
Cash	2.2	0.0

1. Benchmark MSCI EM Net Total Return Index (AUD)

Source: Landy Tech as at 29 December 2023
Totals may not sum to 100% due to rounding
Past performance does not predict future returns

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SKERRYVORE

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The Morningstar Analyst Rating™ for Skerryvore Global Emerging Markets All-Cap Equity Fund is 'Gold' as of 06/02/2023

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client.experience@bennelongfunds.com

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Visit how to invest to find out more.

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