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

Quarterly Commentary

Report for the quarter ended 30 September 2023

Skerryvore

bennelong

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Executive Summary

C SHARE CLASS PERFORMANCE – PERIOD RETURNS TO 30 SEPTEMBER 2023

	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Since Inception[1] (%)
Fund (net)	-3.3	-1.4	3.0	17.7	3.4
Benchmark[2]	-2.3	0.1	1.6	11.3	-10.7
Value Added	-1.0	-1.5	1.3	6.4	14.1

TOP 10 HOLDINGS

Name	Weight (%)
Fomento Economico Mexicano	7.0
Cipla	5.2
HDFC Bank Limited	5.0
Tata Consultancy Services	4.3
Heineken Holding	4.3
Franco Nevada	3.8
TSMC	3.8
Advantech	3.1
Raia Drogasil	3.0
Mega Lifescience	3.0

KEY CHARACTERISTICS

Number of holdings	45
Number of countries	20
Number of sectors	8
Number of industries	24
Active share (%)	91

FUND VALUE

30 June 2023	30 Sept 2023
AUD $ 445,161,384	AUD $ 490,414,876,

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 Gold™

MORNINGSTAR Awards 2023™

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 30 September 2023
Past performance is not indicative of future returns
*Management fees and costs consist of annual management fee rate and capped recoverable expenses. For a detailed split of the fees and costs, please refer to the fund(s) PDS.

Quarterly Commentary

INVESTMENT OVERVIEW

Global emerging market equities rose slightly during the quarter. The strategy fell in value and underperformed 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 where there is evidence of strong pricing power.

Jerónimo Martins and **Heineken** gave back some of this year's earlier gains. Both businesses continue to execute well noting the current environment and offer upside to our assessment of their five-year fair market value. Headwinds in China continued to negatively affect the portfolio from an absolute perspective, albeit from a low starting position at around 6% of the strategy and Chinese holding **Meidong** was the worst absolute performer during the quarter. **Cipla**, one of the strategy's largest holdings, was the strongest absolute contributor to returns during the period.

PORTFOLIO ACTIVITY

We trimmed some **Cipla** early in the quarter as its share price approached our assessment of fair market value. We continue to monitor news flow surrounding the possible sale of the promoter Hamied family's stake.

We added a new position in **Voltronic**, a Taiwanese power electronics business, after its share price corrected. We have previously held shares in this company but had exited on valuation concerns.

Finally, we sold our small position in Chinese vehicle distributor **Meidong** at a loss. Like the company's management, we had anticipated a strong recovery in demand for its products as pandemic-era restrictions were removed. However, this has not been the case, resulting in heavy discounting and excess levels of inventory. Furthermore, our original thesis that this company would be able to consolidate the industry in China has been challenged by a poorly timed acquisition. A combination of these factors led us to increase our required return and exit the position.

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 **Unilever**, the **Coca-Cola** bottlers and retailers **FEMSA** and Jerónimo Martins have so far been able to push through price rises with minimal impact on their growth.

Finally, as the era of ultra-low interest rates has ended it is likely that balance sheet strength will be rewarded. We take comfort from the fact the strategy has very little exposure to leveraged businesses and believe this should help with downside protection.

1. Benchmark MSCI EM Net Total Return, as of 30 September 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 very slightly in Australian dollar terms during the period. The strategy produced a negative return and underperformed the MSCI Emerging Markets Index.

The strategy has performed very strongly in absolute terms during the past twelve months, and we believe that we have seen some short-term profit taking in several names held within the portfolio during this period.

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1. Inception date – 02 August 2021
2. MSCI Emerging Markets Index (AUD)

Past performance is not indicative of future returns

Performance

STOCK LEVEL ATTRIBUTION

TOP CONTRIBUTORS TO RETURN

Name	Contribution (%)
Cipla	1.0
Mega Lifescience	0.5
HDFC Bank Limited	0.4
Colgate India	0.4
Tata Consultancy Services	0.3

TOP DETRACTORS TO RETURN

Name	Contribution (%)
Housing Development Finance (HDFC)	-0.8
Heineken Holding	-0.4
Jeronimo Martins	-0.4
TSMC	-0.3
China MeiDong Auto Holdings	-0.3

HOLDING LEVEL COMMENTARY & ANALYSIS

The largest contributor to returns during the period was from the holding in **Cipla.** There are reports that the Hamied family and broader promoter group is looking to sell its 33% stake in the business and has hired advisors to advise it on its options. Local market rules dictate that if the entire stake is sold then this would trigger the offer for a further 26% of the company from minority investors. Currently there is no definitive purchaser of the family stake. When this is announced we will consider the implications to our long-term fair value estimate of the share price.

HDFC was the largest negative contributor to returns. The share price has been weak during the closure of the merger between HFDC Bank and HDFC Limited that occurred this quarter. In the near-term we believe there will be some pressure on profits as the two businesses are aligned, however in the long-term the bank is very well positioned to take advantage of the low penetration of banking services in India, and the shares are very attractively valued.

The second largest negative contributor to returns during the period was from the holding in **Heineken**. It is seeing short-term volume declines due to price increases and weakness in Vietnam. Profit growth for the year will now be in the mid-single rather than the high-single digits. We see both issues as cyclical rather than structural pressures and the shares look attractively valued for its long-term profit outlook.

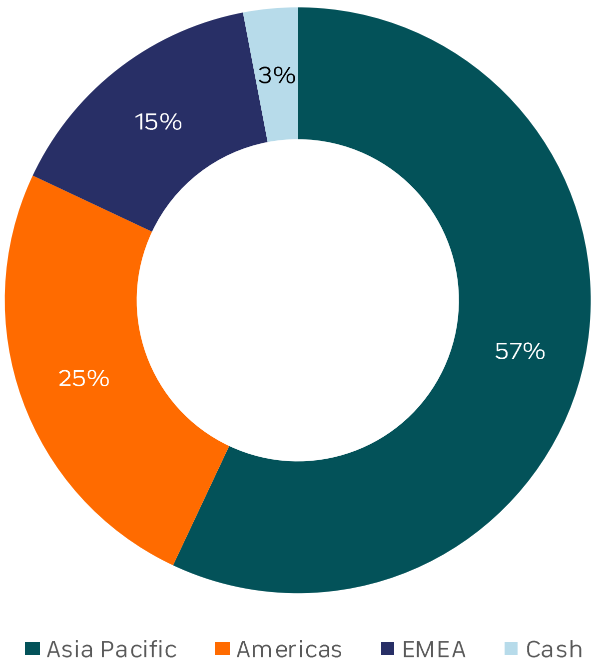
Past performance is not indicative of future returns

Portfolio Characteristics

COUNTRY WEIGHTS

Country	Portfolio (%)	Benchmark[1] (%)
India	27.0	15.7
Taiwan	11.4	14.8
Mexico	9.7	2.5
Brazil	7.5	5.4
China	5.9	29.0
Netherlands	4.3	0.0
Canada	3.8	0.0
Thailand	3.0	1.9
Japan	2.9	0.0
Chile	2.6	0.5
Philippines	2.5	0.6
South Africa	2.4	3.0
Switzerland	2.4	0.0
Portugal	2.1	0.0
South Korea	2.0	12.2
United Kingdom	2.0	0.0
Argentina	1.9	0.0
Greece	1.6	0.4
Indonesia	1.3	2.0
Hong Kong	1.1	0.9
Cash	2.6	0.0

REGIONAL WEIGHTS



SECTOR WEIGHTS

Sector	Portfolio (%)	Benchmark[1] (%)
Consumer Staples	40.2	6.0
Financials	14.8	22.3
Information Technology	14.5	21.0
Health Care	10.5	3.8
Consumer Discretionary	6.8	13.4
Materials	4.8	8.1
Industrials	3.0	6.4
Communication Services	2.9	9.3
Energy	0.0	5.3
Real Estate	0.0	1.7
Utilities	0.0	2.5
Cash	2.6	0.0

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

Source: Landy Tech as at 30 September 2023
Totals may not sum to 100% due to rounding
Past performance does not predict future returns

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- The Fund's investment programme is speculative in nature and entails substantial risks.

- The investments of each Fund may be subject to sudden and large falls in price or value and there could be a large loss upon realisation of a holder's investment, which could equal the total amount invested.

- The Fund does not hedge currency exposure. If the currency of the share class is different from the local currency in the country in which you reside, the figures shown in this document may increase or decrease if converted into your local currency.

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Disclaimer

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RATINGS

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

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Visit how to invest to find out more.

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