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

Quarterly Commentary

Report for the quarter ended 30 September 2024

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Executive Summary

C SHARE CLASS INVESTMENT RESULTS – PERIOD RETURNS TO 30 SEPTEMBER 2024

	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Since Inception[1] (%)
Fund (net)	1.44	3.62	1.58	11.99	4.75
Benchmark[2]	4.33	4.66	7.35	17.27	1.46
Value Added	-2.89	-1.04	-5.77	-5.28	3.29

TOP 10 HOLDINGS

Name	Weight (%)
Fomento Economico Mexicano	5.5
TSMC	5.3
HDFC Bank Limited	5.1
Cipla	4.9
Tata Consultancy Services	3.5
Heineken Holding	3.2
Raia Drogasil	3.1
Coca-Cola HBC	3.1
Franco Nevada	3.1
Yifeng Chain Pharmacy	3.0

KEY CHARACTERISTICS

Number of holdings	46
Number of countries	20
Number of sectors	8
Number of industries	25
Active share (%)	89

FUND VALUE

28 June 2024	30 September 2024
AUD $ 94,908,792	AUD $ 118,140,481

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

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

Source: Landy Tech as at 30 September 2024

Past performance is not indicative of future returns

Quarterly Commentary

INVESTMENT OVERVIEW

Global emerging market all-cap equities rose during the quarter. The strategy rose 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 long-term case for investing in emerging markets is built upon the possibility of finding diversified sources of long term compounding growth. To that end, there has been no dramatic change in the funds positioning or strategy over the past three months as portfolio turnover remains consistent with our three to five-year time horizon.

PORTFOLIO ACTIVITY

Many of our investments are in businesses enjoying emerging markets' demographic tailwinds, such as consumer-facing companies where these is evidence of strong pricing power. We also favour innovative businesses where consistent reinvestment in their technical capabilities gives us comfort that their long-term pricing power can be maintained. The Brazilian electricity equipment manufacturer **WEG** is one such example of an emerging market company that has become a global leader. The company remains majority owned by its founding families who established the business in 1961. Their long-term mindset has led the business to continually reinvest in its technologies and over time close the technology and service gap with the likes of ABB, Schneider and Siemens. After decades of under investment, there appears to be little doubt that US demand for electricity transmission and distribution equipment will remain elevated for some time. WEG has positioned itself well to benefit from this trend via its investments in Mexican manufacturing facilities, but, as always, we prefer to stay conservative when establishing five-year price targets. Strong performance of WEG's shares therefore prompted us to take some profits in our holding during the quarter.

Our focus on absolute share prices and future potential returns means that we are often reducing exposures to businesses where levels of excitement are rising, and there is the potential that the share price is running ahead of its long-term intrinsic value. **TSMC** is a case in point, where we have continued reducing the position size, a process which we started last quarter. We have little doubt that TSMC is a long-term beneficiary of increasing demand for Artificial Intelligence computing power, however the current valuation leaves little room for error and technology spending cycles, have the potential to be less linear than the market or the share price would appear to be currently anticipating.

There is also the potential that this same dynamic is playing out for our holding in leading Indian manufacturer and distributor of both conventional and electric two and three-wheel scooters and rickshaws, **Bajaj Auto**. There has been a significant volume recovery since the pandemic lows which has been supplemented by strong bottom-up execution by the business which has launched new models that have been well received. Whilst there is still some room for a normalisation in both international demand and profits the share price now incorporates some very rosy thinking by others in the market.

We have been recycling the capital raised from the reductions above in businesses where the share prices have been weak but where we believe the long-term opportunity is both attractive and under-appreciated. This has led the strategy to add to **FEMSA** which has been notably weak since the start of the year, in part because of Mexico falling from favour following the landslide victory of the Morena party.

1. Benchmark MSCI EM Net Total Return, as of 30 September 2024

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

Quarterly Commentary

We have also added to two of our pharmacy businesses within the strategy – **Raia Drogasil** and **Yifeng Pharmacy**. In a similar manner to FEMSA we have historically found that these businesses have strong pricing power whilst also benefitting from the pent-up demand for healthcare in their respective populations.

The strategy also added a new holding, **Standard Bank Group** , a South African based universal bank founded in 1862. Here we particularly like that while others have come and gone across the continent, Standard Bank has continued to maintain its subsidiaries across 20 sub-Saharan African nations such as Kenya and Nigeria and makes excellent returns as a result of its patience. We also took the decision to fully exit a small position in **Vitasoy** where we thought the capital could be put to work in other higher conviction ideas.

A BULL IN A CHINA SHOP

The last week of the quarter saw a range of surprise announcements being made by the People's Bank of China (PBOC) and other government bodies which were designed to address a trifecta of economic challenges: weak consumer demand, a falling real estate market and deflationary pressures caused through a loss of both investor and consumer confidence. The timing ahead of the 75th anniversary of the foundation of the People's Republic of China on October 1st is likely not a coincidence.

The announcements by Chinese authorities to support both financial markets and domestic consumption has led to the best week for Chinese equities since the stimulus announcements made in 2008. As discussed earlier, we had added to our holding in Yifeng Pharmacy during the period and the fund is benefitting from the considerable research effort and trips (see this quarter's long view for our insights from the recent trip to China) that have taken place to unearth and introduce into the portfolio other high-quality businesses such as **Hangzhou Tigermed** and **Robam Appliances.**

As we have talked about before in some of our other investor letters we believe it is important not to be swayed by what could be a short term sugar-high brought on by the promise of cheap money. Core to our investment philosophy is buying companies when they are below what we determine to be their intrinsic value. Prior to these announcements we had been able to find businesses at attractive prices and if these measures bring those stocks back to their fair value then we have achieved what we set out to do. What we won't do is chase momentum or increase our exposure to China because its weighting in the index looks likely to rise again. This wouldn't be the first time we've seen a huge rally in China to be disappointed on the far side. Timing when to be in or out of any market when government policy can shift so dramatically is a pursuit that we consider to be far too risky.

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.

Finally, many central banks appear to consider the spectre of inflation to have been banished leading to falling interest rates which may help Emerging Markets and encourage investment which should lead to improved growth. History has taught us, however, that investing on the basis of what might happen is less useful than focusing on what has happened in the form of long-term track records of the businesses we own. We continue to believe that the owners and managers of our companies will be in a good position to take advantage of whatever the economic weather throws at them.

1. Benchmark MSCI EM Net Total Return, as of 30 September 2024

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Investment Results

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 but underperformed the MSCI emerging markets index. At a country level the holdings in Mexico were the largest negative contributor to returns and those in China were the largest positive contributors following an announcement of monetary and fiscal stimulus towards the end of the period.

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1. MSCI Emerging Markets Index (AUD)

Past performance is not indicative of future returns

Investment Results

STOCK LEVEL ATTRIBUTION

TOP CONTRIBUTORS TO RETURN

Name	Contribution (%)
WEG SA	0.69
Bajaj Auto	0.44
Clicks	0.38
Cipla	0.38
Mega Lifescience	0.37

TOP DETRACTORS TO RETURN

Name	Contribution (%)
Fomento Economico Mexicano	-0.66
Qualitas Controladora	-0.63
Advantech	-0.32
Heineken Holding	-0.22
Koh Young Technology	-0.11

HOLDING LEVEL COMMENTARY & ANALYSIS

The strongest contributor to returns during the period was from the holding in the Brazilian industrial business **WEG**. It specialises in the manufacturer of electrical motors and power distribution systems. After decades of under investment, US demand for electricity transmission and distribution equipment is strong at this time. WEG has positioned itself well to benefit from this trend via its investments in Mexican manufacturing facilities, which can be seen in recently announced results with revenues up at a mid-teens level from a year ago. We have decided to reduce the position following the strength in the share price as the holding is getting closer to our estimate of fair-value.

The second largest contributor to returns was from the holding in the Indian automotive manufacturer and distributor **Bajaj Auto.** There has been a significant volume recovery since the pandemic lows which has been supplemented by strong bottom-up execution by the business which has launched new models that have been well received.

The two largest negative contributors to the strategy were Mexican holdings **FEMSA** and **Qualitas Controladora**. There has been no bottom-up specific news that has driven this performance as both businesses continue to produce strong results. For example, FEMSA recently announced mid-teens revenue and profit growth. It has been Mexican politics which has impacted the Mexican peso as a result of the landslide majority which was won by the Morena party at the start of the year. This allowed the outgoing President to implement a program of judicial reform which combined with an unwinding of the Japanese carry trade during the period has negatively impacted the high-yielding Mexican peso.

FEMSA's business models traditionally generates strong profit-growth during inflationary periods created by weaker currencies. To that end we have added to the position as the shares look very attractively valued relative to the long-term growth opportunity,

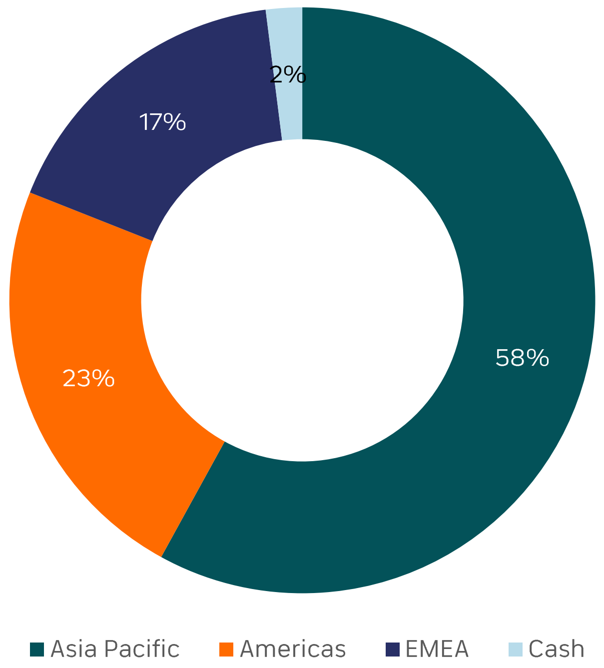
Past performance is not indicative of future returns

Portfolio Characteristics

COUNTRY WEIGHTS

Country	Portfolio (%)	Benchmark[1] (%)
India	25.98	19.55
Taiwan	12.81	17.54
China	8.55	26.99
Brazil	7.67	4.82
Mexico	7.36	1.88
South Africa	3.88	3.12
Netherlands	3.23	0.00
Switzerland	3.13	0.00
Canada	3.07	0.00
Thailand	2.88	1.50
Chile	2.85	0.41
Greece	2.83	0.46
Japan	2.80	0.00
Philippines	2.50	0.57
Portugal	2.20	0.00
Argentina	1.75	0.00
United Kingdom	1.54	0.00
Indonesia	1.23	1.65
Hong Kong	0.89	0.72
South Korea	0.55	10.40
Cash	2.28	0.00

REGIONAL WEIGHTS



SECTOR WEIGHTS

Sector	Portfolio (%)	Benchmark[1] (%)
Consumer Staples	40.45	5.13
Financials	14.98	22.78
Information Technology	13.51	22.97
Health Care	10.48	3.56
Consumer Discretionary	7.53	13.64
Industrials	4.24	6.52
Materials	3.73	6.72
Communication Services	2.80	9.39
Energy	0.00	4.83
Real Estate	0.00	1.59
Utilities	0.00	2.88
Cash	2.28	0.00

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

Source: Landy Tech as at 30 September 2024
Totals may not sum to 100% due to rounding
Past performance does not predict future returns

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Information for investors in Australia and New Zealand

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In addition, BFML has been appointed to act as a distributor for the Firm in relation to this Fund in Australia and New Zealand and with regards to the Firm's strategy(s) in certain other Agreed Jurisdictions as defined in a distribution agreement dated 1 August 2024.

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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.

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▪Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. In difficult market conditions, the Fund may not be able to sell a security for full value or at all. This could affect performance and could cause the Fund to defer or suspend redemptions of its shares.

▪The Fund may be leveraged.

▪A substantial portion of the trades executed for the Fund take place on non-AUS exchanges.

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skerryvoream.com

1800 895 388 (AU) or 0800 442 302 (NZ)

client.experience@bennelongfunds.com

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The fund is open to investors directly via the PDS (available on our website) or via the following platforms: Hub24 - Netwealth – Mason Stevens - Powerwrap - Praemium

Visit how to invest to find out more.

SKERRYVORE

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Skerryvore ASSET MANAGEMENT

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