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

Quarterly Commentary

Report for the quarter ended 30 June 2023

Skerryvore

bennelong

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Executive Summary

C SHARE CLASS PERFORMANCE – PERIOD RETURNS TO 30 JUNE 2023

	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Since Inception[1] (%)
Fund (net)	0.8	4.4	12.2	22.0	4.9
Benchmark[2]	0.9	1.5	6.9	5.1	-10.8
Value Added	-0.1	2.9	5.4	16.9	15.7

TOP 10 HOLDINGS

Name	Weight (%)
Fomento Economico Mexicano	6.5
Cipla	5.4
Housing Development Finance	5.3
Heineken Holding	4.5
Tata Consultancy Services	4.1
TSMC	4.0
Franco Nevada	3.8
Advantech	3.6
Raia Drogasil	3.2
Nexon Co Ltd	2.8

KEY CHARACTERISTICS

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

FUND VALUE

31 March 2023	30 June 2023
AUD $ 403,760,038	AUD $ 445,161,384

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 fee	0.95% 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 30 June 2023

Past performance is not indicative of future returns

Quarterly Commentary

INVESTMENT OVERVIEW

Global emerging market all-cap equities rose during the quarter. The strategy also increased 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 significant exposure to well-managed consumer-facing businesses where there is evidence of strong pricing power.

Performance was helped by a strong rise in the share price of **FEMSA**, the strategy's largest holding. The company announced a significant restructuring together with the sale of its stake in **Heineken**, freeing up capital to expand its core retail franchise more rapidly.

A recovery in the share price of **Cipla** aided the strategy and a recent meeting with the company underlined the quality of this business, particularly its strong domestic medicines franchise and debt-free balance sheet.

Shares in businesses exposed to China continued to be a headwind for the strategy during the quarter. For example, domestic brewer **China Resources Beer** and Korean cosmetics maker **LG H&H** both fell in value as concerns over the direction of the Chinese economy continued to mount.

There continues to be press coverage of India's **Adani Group** following a short-seller's report. We have never included any Adani-linked companies on our watchlist due to our perception of political risk and their attitude to debt.

PORTFOLIO ACTIVITY

Positions in Turkey were fully sold ahead of general elections there as a result of us increasing our required rate of return for these businesses. Having enjoyed significant absolute returns from holding unpopular Turkish stocks it was prudent to step aside during this potentially risky event. Following the election result the Turkish lira has sharply weakened, and it remains unclear how or when policy can be normalised given years of economic mismanagement. We remain enthusiastic about **Koç Group** companies, given their underlying quality and opportunities for growth; they remain on the watchlist.

We added significantly to leading Mexican retailer **Walmart de Mexico**, funded from more economically sensitive businesses **Tata Consultancy Services, Taiwan Semiconductor (TSMC)** and **Advantech**. Sentiment towards these businesses has improved during this period, which is reflected in higher current valuations, leading us to prudently manage position sizes.

Finally, we added to unpopular Brazilian names **Bradesco** and **Dexco**, which have been impacted by high real interest rates being used by the central bank to curb inflation.

1. Benchmark MSCI EM Net Total Return, as of 30 June 2023

Past performance is not indicative of future returns

OUTLOOK

Many years' experience from 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 makes them risky and for that reason we have tended to avoid holding these in our portfolios.

We continue to see portfolio company's take pricing steps to protect margins during this inflationary period. Reassuringly we are seeing evidence of strong pricing power in the face of rising costs. Companies such as **Heineken, Unilever**, the **Coca Cola** bottlers and retailers **FEMSA** and **Jeroenimo Martins** have so far been able to push through prices with minimal impact on their growth.

Finally, as the era of ultra-low interest rates appears to have 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 assist downside protection should 2023 prove to be another difficult year for markets.

Past performance is not indicative of 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 strategy is benefitting in absolute terms from holding businesses which exhibit strong pricing power trading at sensible valuations and in relative terms through having a small amount of capital invested in the Chinese equity markets

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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
Raia Drogasil	0.8
Cipla	0.7
Banco Bradesco	0.5
Qualitas Controladora	0.5

TOP DETRACTORS TO RETURN

Name	Contribution (%)
Nexon Ltd	-0.6
Hangzhou Tigermed Consulting	-0.6
China MeiDong Auto Holdings Ord Shs	-0.5
LG Household and Health Care	-0.4
Mega Lifescience	-0.4

HOLDING LEVEL COMMENTARY & ANALYSIS

The largest contributor to returns during the period was from the holding in **Femsa**. The business is performing well with strong double-digit revenue and earnings growth. It is also executing on its "Femsa Forward" business strategy by divesting its holding in Heineken NV and its US business Jetro during the quarter. Our holdings in Brazil, **Raia Drogasil, Banco Bradesco** and **Dexco** also made a strong contribution to returns during the period. These high-quality franchises have attractive valuations and are benefitting from investors starting to look through the period of high real-rates.

The largest negative contributor to returns was from **Nexon Ltd**. The shares have performed strongly over the past twelve months and there was no specific news. The second largest negative contributor to returns was from **Hangzhou Tigermed** which is seeing a weaker revenue environment as a number of its early-stage biotech customers are pausing clinical trials on new products. We believe that the business continues to gain market share in the broader industry and that the shares are attractively valued.

Those holdings driven by Chinese consumption such as **China Meidong** and **LG H&H** have all been weak in absolute terms over this period. The post-Covid economic bounce back has been relatively lacklustre and the economy appears to be suffering from a lack of confidence in the property sector. We are comfortable with the strength of the franchises of our Chinese related holdings and see the high level of competition for capital from other business areas and geographies within the portfolio as a positive at this time.

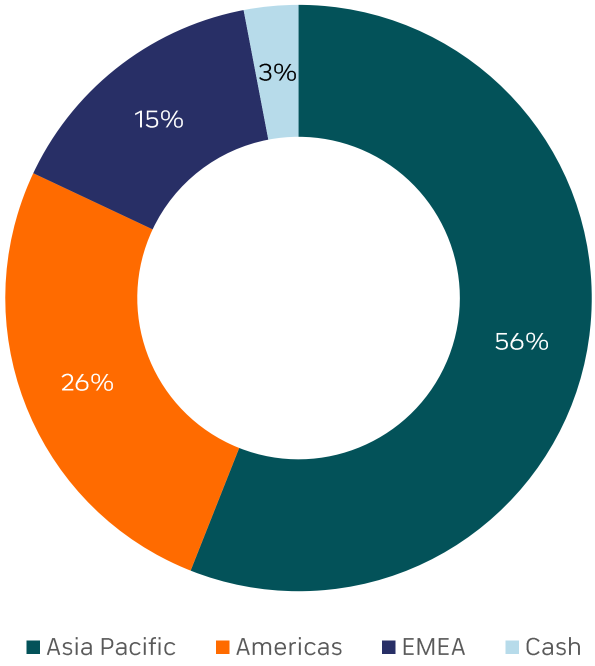
Past performance is not indicative of future returns

Portfolio Characteristics

COUNTRY WEIGHTS

Country	Portfolio (%)	Benchmark[1] (%)
India	26.6	14.6
Taiwan	11.0	15.6
Mexico	9.2	2.8
Brazil	7.9	5.5
China	5.8	28.7
Netherlands	4.5	0.0
Canada	3.8	0.0
Chile	2.9	0.5
Japan	2.8	0.0
Thailand	2.7	1.9
Switzerland	2.6	0.0
South Korea	2.5	12.3
Philippines	2.4	0.6
South Africa	2.3	3.2
United Kingdom	2.2	0.0
Portugal	2.1	0.0
Argentina	1.9	0.0
Greece	1.5	0.5
Indonesia	1.2	2.0
Hong Kong	1.1	0.8
Cash	3.1	0.0

REGIONAL WEIGHTS



SECTOR WEIGHTS

Sector	Portfolio (%)	Benchmark[1] (%)
Consumer Staples	39.5	6.1
Financials	15.6	22.0
Information Technology	15.3	21.9
Health Care	10.2	3.8
Consumer Discretionary	7.2	12.8
Materials	4.8	8.0
Communication Services	2.8	9.6
Industrials	1.5	6.2
Energy	0.0	5.1
Real Estate	0.0	1.7
Utilities	0.0	2.5
Cash	3.1	0.0

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

Source: Landy Tech as at 30 June 2023
Totals may not sum to 100% due to rounding
Past performance is not indicative of 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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Visit how to invest to find out more.

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