

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

Quarterly Commentary

Report for the quarter ended 28 June 2024



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Skerryvore AM LLP (trading as Skerryvore Asset Management) is an appointed representative of BennBridge Ltd ("BennBridge"). The Fund is issued by Bennelong Funds Management Ltd ("BFML")



Executive Summary

C SHARE CLASS PERFORMANCE – PERIOD RETURNS TO 28 JUNE 2024

	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Since Inception ¹ p.a (%)
Fund (net)	-0.36	-1.97	4.03	6.55	3.89
Benchmark ²	3.51	2.57	9.82	12.18	0.01
Value Added	-3.87	-4.54	-5.79	-5.62	3.88

TOP 10 HOLDINGS

Name	Weight (%)
TSMC	7.1
Fomento Economico Mexicano	5.9
HDFC Bank Limited	5.3
Cipla	5.1
Tata Consultancy Services	3.7
Franco Nevada	3.4
Coca-Cola HBC	3.2
Nexon Ltd	3.0
Advantech	2.9
Heineken Holding	2.9

KEY CHARACTERISTICS

Number of holdings	46
Number of countries	20
Number of sectors	8
Number of industries	25
Active share (%)	88.3

FUND VALUE

28 March 2024	28 June 2024
AUD \$ 79,495,100	AUD \$ 94,908,792

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 28 June 2024
Past performance is not indicative of future returns

Quarterly Commentary

INVESTMENT OVERVIEW

Global emerging market equities rose in Australian dollar terms during the quarter. The strategy fell in value and underperformed the benchmark index¹.

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 case for Emerging Markets is, in our opinion, built upon the possibility of finding diversified sources of growth that we believe will help clients meet their long-term absolute return needs. Since the 2008 financial crisis the MSCI Emerging Markets index has failed to deliver but our highly active approach that puts governance and alignment at its core has generated better returns for lower levels of absolute risk.

While many of our investments are in businesses enjoying emerging markets' demographic tailwinds, such as consumer-facing companies where there is evidence of strong pricing power. We also favour innovative businesses where consistent reinvestment in their technical capabilities gives us comfort that pricing power can be maintained, such as Taiwanese chip manufacturer **TSMC**.

That said, current levels of excitement around the potential for Artificial Intelligence led us to take some profits in TSMC as it approached our price target this quarter. We acknowledge that the longer-term growth rate has likely improved as the company demonstrates strong pricing power in the most advanced solutions but, as always, we prefer to stay conservative when establishing five-year price targets.

INCREMENTAL CHANGES AT THE BALLOT BOX

This has been a quarter of elections in our markets, with predominantly incremental rather than abrupt change in the political environments in which our businesses operate. The result of the Mexican election was as predicted with Claudia Sheinbaum being elected as Mexico's first female President. The extent of the victory was much stronger than expected with the scale of the victory allowing the potential for the Morena party to initiate constitutional change in areas such as having an elected judiciary. This hurt the value of the currency after a long run of relative strength versus the US dollar and resulted in poor performance from the strategy's Mexican positions. We remain confident in the ability of these businesses to continue growing and the families behind **FEMSA** announced a further increase in the buy-back authorisation suggesting they also see value in the share price here. South Africa's election avoided the least business friendly outcomes and India's BJP was re-elected as expected, albeit with a smaller majority for the incumbent.

A moment of uncertainty over the result of India's election did however result in sharp falls in the value of the broad index and Adani Group companies in particular. This serves as a useful reminder of the risks related to investing in politically exposed businesses and underlines why we avoid doing so.

A trip to China by team members this quarter underscored how challenging the environment there remains. Not only are consumers under pressure but the level of competition in areas we would normally favour, such as branded cosmetics, snacks and soft drinks, is incredibly fierce. We continue to favour the pharmacy sector and had a positive meeting with **Yifeng**, which one of the consolidators of this fragmented market. The team also identified some interesting businesses software, healthcare and industrial businesses on which we are conducting further analysis.

1. Benchmark MSCI EM Net Total Return, as of 28 June 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

PORTFOLIO ACTIVITY

In addition to reducing the position in TSMC, we continued to take profits in India from names where valuations have become challenging. Both **Bajaj Auto** and **Tata Consulting Services** are now smaller positions than they were at the start of the quarter. We also implicitly accepted a bid to take **Vinda**, the China based tissue manufacturer, private meaning it also left the portfolio. The capital raised through the Vinda transaction has been put to work in Chinese kitchen equipment maker **Robam** after a significant de-rating of its shares. This company has over decades developed strong high-end brands in China and would benefit from any improvement in the consumer environment, however, it also maintains a very strong balance sheet and can take significant market share through new product introductions should things remain challenging.

There was one other new purchase during the period as we took a holding in the family-owned Greek fast-moving consumer goods company **Sarantis**. The business operates in Central Eastern Europe, an area that is underserved by large global consumer goods businesses. A recent trip to Greece where we met with members of the professional management team led to greater conviction in the strength of Sarantis' franchise as it looks to extract more growth from existing categories, drive up margins, and release cash tied up in working capital. Finally, portfolio turnover is currently at the lower end of our historical range at around 20% per annum, which is consistent with our 3 to 5 year investment time-horizon.

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, in the current higher interest rate environment it is likely that pricing power and balance sheet strength will continue to be rewarded. We take comfort from the fact the strategy has very little exposure to leveraged businesses. Importantly, though, we remain highly confident of the opportunities afforded to the emerging leading businesses we invest in which we believe can navigate a more volatile landscape.

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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 negative return and underperformed the MSCI emerging markets index.

We find ourselves out of step with the market during this quarter. Our largest holdings have been predominantly overlooked in a market environment that has narrowed and has been driven by those sectors and businesses which are deemed to benefit from significant spending on Artificial Intelligence, and renewed enthusiasm for Chinese internet related businesses. The information technology and communication services were the only sectors during the period that outperformed the benchmark. We have exposure to this opportunity set, but if anything, we have been reducing the position size in the likes of **TSMC** as the business is getting closer to fair-value on our five-year time horizon.

The portfolio was also hurt by the significant weakness in the Mexican Peso after the recent election. The extent of the victory for the ruling Morena party was much stronger than expected. This gives an opportunity for the Morena party to initiate constitutional change which could hurt the value of the currency after a long run of relative strength versus the US dollar. This resulted in poor performance from the strategy's Mexican positions. We remain confident in the ability of these businesses to continue growing and they are very attractively valued.

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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 (%)
TSMC	1.2
HDFC Bank Limited	0.7
Uni-President China Holdings	0.5
Philippine Seven	0.5
Clicks	0.4

TOP DETRACTORS TO RETURN

Name	Contribution (%)
FEMSA	-1.2
Yifeng Pharmacy	-0.7
China Resources Beer	-0.5
Raia Drogasil	-0.5
Koh Young Technology	-0.4

HOLDING LEVEL COMMENTARY & ANALYSIS

FEMSA was the largest negative contributor to the fund. There was no stock specific news as the business continues to post strong results but the Mexican elections significantly impacted the Mexican currency and the discount rate that the market is using to value Mexican businesses. Interestingly, the business has increased its share purchase authorisation.

The second largest negative contributor to returns was **Yifeng** which has been weak partly as a result of concerns over the health of the Chinese consumer and partly over some concerns over increased competition from the internet sector with some local governments promoting greater price transparency for pharmaceutical products. We believe that this impacts the smaller pharmacies to a greater extent, and allows Yifeng to consolidate the market which is part of its long-term growth strategy. The shares look very attractively valued at this time.

HOLDING LEVEL COMMENTARY & ANALYSIS

The largest positive contributor to returns during the period was from the holding in **TSMC**. The business is benefitting from strong demand of its leading-edge chips as significant capital is being put to work to take advantage of the opportunities afforded by artificial intelligence. TSMC has been openly discussing its ability to raise its prices further as it tries to meet very strong demand. We have been reducing the position into this price strength as the shares are approaching our estimate of its five-year price target.

The second largest positive contributor to returns during the period was from the Indian Bank **HDFC**. The shares had been the worst contributor to returns for the portfolio in the previous quarter, and whilst here was no specific company news to drive the news it would appear that the market is reacting positively to a more balanced regulatory environment within the financials sector which saw the BJP party returned to power but by working with coalition partners. There was significant volatility in the Indian stock market which fell almost 8% in a single-day during this period with the businesses perceived to be beneficiaries of the BJP parties patronage suffering significant falls. We believe that HDFC is very attractively valued and is in a strong position to benefit from continued growth in the Indian economy and it can support the long-term demand for mortgages and home ownership.

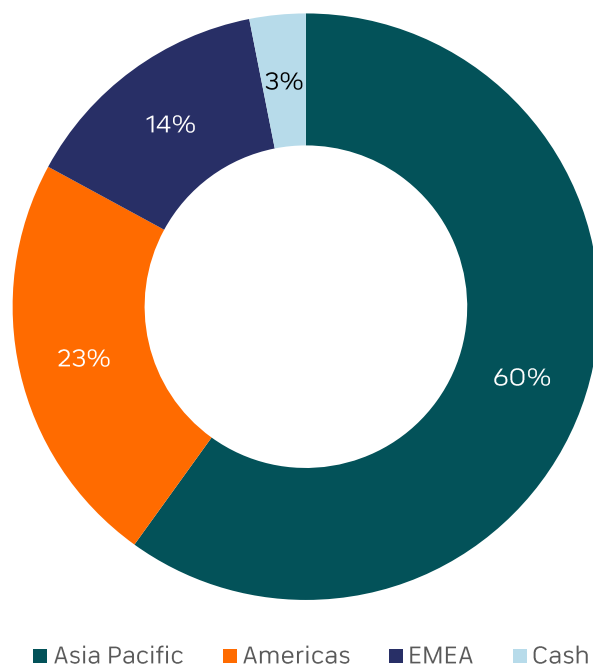
Past performance is not indicative of future returns

Portfolio Characteristics

COUNTRY WEIGHTS

Country	Portfolio (%)	Benchmark ¹ (%)
India	25.6	19.2
Taiwan	14.3	19.4
Mexico	9.1	2.1
China	7.8	24.5
Brazil	6.6	4.2
Canada	3.4	0.0
Switzerland	3.0	0.0
Netherlands	3.0	0.0
Thailand	2.8	1.3
Japan	2.8	0.0
Greece	2.6	0.5
South Africa	2.3	3.0
Philippines	2.3	0.5
Portugal	2.1	0.0
United Kingdom	2.0	0.0
Chile	2.0	0.4
Argentina	1.6	0.0
Indonesia	1.2	1.6
Hong Kong	1.0	0.6
South Korea	0.9	12.1
Cash	3.1	0.0

REGIONAL WEIGHTS



SECTOR WEIGHTS

Sector	Portfolio (%)	Benchmark ¹ (%)
Consumer Staples	38.9	5.5
Information Technology	15.5	23.6
Financials	14.3	22.0
Health Care	10.1	3.3
Consumer Discretionary	7.5	12.9
Materials	4.1	7.2
Industrials	3.8	6.9
Communication Services	2.7	8.8
Energy	0.0	5.3
Real Estate	0.0	1.5
Utilities	0.0	3.0
Cash	3.2	0.0

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

Source: Landy Tech as at 28 June 2024

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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skerryvoream.com



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HOW TO INVEST

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.

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