

Skerryvore Global Emerging Markets All-Cap Equity Fund

Quarterly Commentary

Report for the quarter ended 31 March 2023



Skerryvore



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



Executive Summary

PERFORMANCE – PERIOD RETURNS TO 31 MARCH 2023

	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Since Inception ¹ (%)
Fund (net)	3.4	7.5	14.3	10.0	0.4
Benchmark ²	3.7	5.3	9.5	0.1	-12.2
Value Added	-0.3	2.2	4.8	9.9	12.6

TOP 10 HOLDINGS

Name	Weight (%)
Fomento Economico Mexicano	5.8
Heineken Holding	5.6
Cipla	5.0
TSMC	4.7
Housing Development Finance	4.6
Tata Consultancy Services	4.4
Franco Nevada	3.8
Advantech	3.7
Nexon Co Ltd	3.3
Raia Drogasil	2.9

KEY CHARACTERISTICS

Number of holdings	47
Number of countries	21
Number of sectors	8
Number of industries	24
Active share (%)	90

FUND VALUE

31 December 2022	31 March 2023
AUD \$ 292,912,909	AUD \$ 403,760,038

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



Awards 2023™

Morningstar Analyst Rating™ as of 06/02/2023

1. Inception date – 02 August 2021

2. MSCI Emerging Markets Index (AUD)

Report for the quarter ended 31 March 2023

Source: Landy Tech as at 31 March 2023

Past performance is not indicative of future returns

Quarterly Commentary

INVESTMENT OVERVIEW

Global emerging market equities rose during the quarter. The strategy also increased in value and outperformed the benchmark index¹.

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 half its stake in **Heineken**, freeing up capital to expand its core retail franchise more rapidly. Heineken shares continued to perform well in the wake of the sell-down by FEMSA.

Strong performance by **Mercado Libre** also helped this quarter. The company is perceived to be a beneficiary of rival Brazilian retailer **Americanas** going bankrupt in January. We have never included Americanas on our watchlist of investible companies due to its complex corporate structure and risk-seeking controlling shareholders.

In addition to the high-profile collapse of Americanas, there has been heavy 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.

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.

During February, Turkey and Syria were struck by a catastrophic earthquake, which has led to a humanitarian crisis. The epicentre of the quake was eastern Turkey, far from the country's industrial base, and the value of the Turkish currency and the strategy's holdings in **Koç Group** companies have been unaffected. Research says the enormous death toll in Turkey would probably have been lower had building rules been properly enforced and there are many allegations of corruption.

It remains to be seen what impact this disaster, and the government's response to it, will have on national elections scheduled for later this year.

The failure of some US banks and a Swiss bank led to fears that there may be systemic issues within the global banking system. Against this backdrop, the strategy's position in gold royalty business, **Franco-Nevada**, helped the strategy deliver an absolute return in March. The banks held within the strategy are single-country operations addressing the day-to-day needs of growing middle-class populations. They all have relatively simple business models with conservative cultures and are not exposed to the problems appearing in parts of the developed world.

PORTFOLIO ACTIVITY

Portfolio activity during the quarter was light with just one new buy and one complete sale. We added a new holding in **Bank Central Asia (BCA)**, Indonesia's leading private bank. We have long admired this conservatively managed institution and its opportunity for growth. Valuation has been a challenge, meaning the company has remained on our watchlist for a long time. In January we took advantage of some weakness in the Indonesian market to initiate a small position.

Past performance is not indicative of future returns

This new position was funded by the complete sale of **Samsung Fire & Marine**. We had become concerned about rising competition and pricing pressure in the Korean insurance industry and we have higher conviction in both the long-term growth opportunity and the valuation provided by BCA.

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 **Jeronimo 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.

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 start of the year brought renewed optimism surrounding emerging markets following the re-opening of the Chinese economy after very severe Covid related restrictions in 2022. The recovery in China has been an uneven one with enthusiasm for large ticket-items and property in particular still being tempered. The strategy performed well during this period as a result of strong idiosyncratic stock-led returns.

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HOLDING LEVEL COMMENTARY & ANALYSIS

The largest contributor to returns during the period was **Fomento Economico Mexicano** (FEMSA). FEMSA's main activities are operating convenience stores and bottling for the Coca Cola Company. The business announced the results of its strategic review during the quarter where it stated that it will re-focus its energies on its core retailing, digital and coke bottling verticals. It also announced that it would over time divest its stake in Heineken. There was a well-supported and co-ordinated tender offer for part of its stake which Heineken participated in to repurchase its own shares.

The second largest contributor to returns during the period was **Qualitas Controladora**, a Mexican based property and casualty insurer. The insurer has shown strong underwriting discipline whilst at the same

STOCK LEVEL ATTRIBUTION

TOP CONTRIBUTORS TO RETURN

Name	Contribution (%)
Fomento Economico Mexicano	1.4
Qualitas Controladora	1.1
MercadoLibre	1.1
Heineken Holding	1.0
TSMC	1.0

TOP DETRACTORS TO RETURN

Name	Contribution (%)
Cipla	-0.8
LG Household and Health Care	-0.4
Vinda International Holdings	-0.3
Hangzhou Tigermed Consulting	-0.3
United Breweries	-0.2

time being able to grow net earned premiums and have an industry leading combined ratio. Recent positive results were looked on favourably by the market. We continue to believe that the shares are attractively valued and meet our return requirement.

Cipla was the largest detractor to returns during the period. This was following reports that the FDA had noted issues with one of its plants around record-keeping and this may delay the launch of its generic Advair product in America. We have recently met with the management team and are comforted that they have been able to navigate the FDA review process successfully and implement any changes required. The shares are very attractively valued noting the improving returns of the business and its long-term growth opportunity.

1. MSCI Emerging Markets Index (AUD)

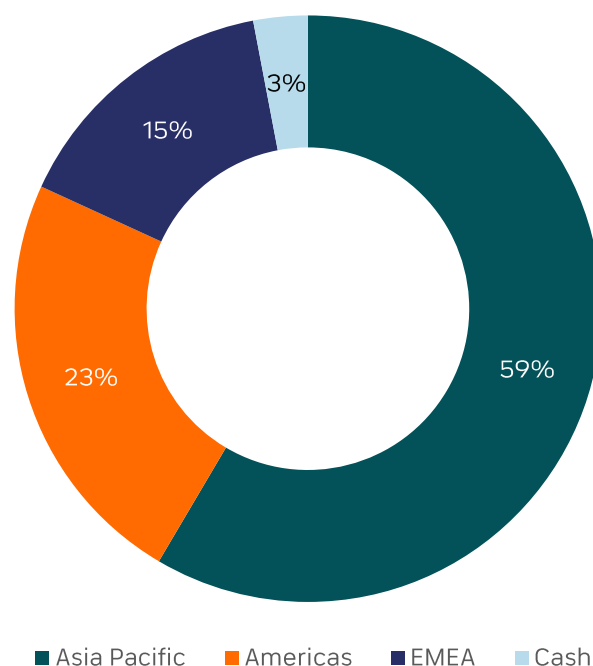
Past performance is not indicative of future returns

Portfolio Characteristics

COUNTRY WEIGHTS

Country	Portfolio (%)	Benchmark ¹ (%)
India	24.5	13.0
Taiwan	11.5	15.2
Mexico	8.6	2.6
China	6.9	31.8
Brazil	6.2	4.9
Netherlands	5.6	0.0
Canada	3.8	0.0
Japan	3.3	0.0
South Korea	3.2	11.9
Chile	2.7	0.6
Thailand	2.6	2.2
Philippines	2.4	0.7
South Africa	2.3	3.5
Switzerland	2.3	0.0
United Kingdom	2.2	0.0
Argentina	2.1	0.0
Turkey	2.0	0.6
Portugal	1.9	0.0
Indonesia	1.2	1.9
Hong Kong	1.1	0.8
Greece	1.0	0.4
Cash	2.8	0.0

REGIONAL WEIGHTS



SECTOR WEIGHTS

Sector	Portfolio (%)	Benchmark ¹ (%)
Consumer Staples	39.1	6.3
Information Technology	16.2	21.1
Financials	13.8	21.1
Health Care	10.0	3.8
Consumer Discretionary	8.8	13.3
Materials	4.5	8.6
Communication Services	3.3	10.5
Industrials	1.5	6.1
Energy	0.0	4.9
Real Estate	0.0	1.8
Utilities	0.0	2.5
Cash	2.8	0.0

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

Source: Landy Tech as at 31 March 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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Skerryvore is a boutique asset management team. The company is majority owned by team members, and minority owned by BennBridge. Skerryvore's personnel are assigned to BennBridge in order to provide portfolio management and trading activities.

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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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GET IN TOUCH



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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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