Quarterly Commentary

Q1 2022

CRUX ASSET MANAGEMENT

Fund Managers: Ewan Markson Brown & Damian Taylor

CRUX Asia ex-Japan Fund

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Fund Performance

The CRUX Asia ex-Japan fund returned -9.6% underperforming the MSCI Asia ex-Japan index which returned -5.4% this quarter.* All our underperformance for the quarter was logged in January due to poor performance in our semiconductor and internet names.

In terms of company specific attribution over the first quarter, the main detractors to fund performance were Asean gaming and e-commerce company SEA Ltd, Korean electronics and semiconductor manufacturer Samsung Electronics, and Australian Nickel Miner Chalice Mining.

The main positive contributors to fund performance came from our copper mining stocks MMG Ltd and Zijin Mining, as well as Taiwanese ABF substrate manufacturer Unimircon.

*Source: FE FundInfo 31.12.21-31.03.22 Bid-Bid in GBP, TR, net income re-invested.

Market Commentary

The first quarter of 2022 started with many of the concern hangovers from 2021. The market rout in high growth companies which began in the later part of Q4 2021 continued unabated thanks to ongoing concerns about the persistency of inflationary pressures and a growing belief that the US Federal Reserve was likely to follow a more aggressive path of fiscal tightening. The Fed's more hawkish stance at the end of January spooked equity markets as it became apparent that 7 rather than 4 rate hikes were likely this year. The Fed has a tough balancing act to try and control inflation without killing off economy growth. This undoubted impacted investor appetite for those companies that, while maintaining high top line growth rates, were yet to reach profitability.

The terrible events unfolding in Ukraine are a timely reminder of how fragile peace can be. While the initial reaction from governments around the world was arguably too timid, the show of unity in applying far reaching sanctions has likely surprised Putin and should give all authoritarian regimes pause for thought as to how they use their hard power.

Russia may account for less than 2% of global GDP, but it supplies 17% of natural gas globally and, as has been well publicised, as much as 40% of Western European energy needs. As peace seems unlikely to be negotiated quickly, we will inevitably be living with higher energy and commodity prices for longer. Fortunately, we had already taken an overweight position in metals and mining stocks as we believe the world is net short of the key raw material inputs for the energy transition away from fossil fuels towards renewables and electric vehicles.

Market Cap

	Fund
>$50bn	25.7%
$15bn-50bn	18.7%
$2bn-15bn	39.0%
<$2bn	15.9%

Source: CRUX Asset Management as at 31.03.22

The invasion has also complicated what was already a difficult to read economic environment. Supply chains, which were only just starting to recover, were hit again by Omicron outbreaks, most notably in China. Corporates were left yet again dealing with rising input costs and a lack of clarity as to how much China dependent supplies would be caught up Russian-related sanctions.

Government regulation also featured heavily in news flow over the period under review. Beijing's regulatory crackdown on the internet sector continued as we saw new fines issued, the reiteration of policies to stem monopolistic behaviour, and new policies aimed at lowering food delivery prices. The Biden administration also began to target more Chinese companies with investment and export sanctions. Adding to these pressures, Chinese ADR delisting risk become front-of-mind for investors again after the SEC began to publish names of Chinese stocks at risk due to the U.S. Public Company Accounting Oversight Board (PCAOB) being unable to audit requested financial reports.

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Transactions

Over the quarter we increased our exposure in the semiconductor and electric vehicle sectors. We also added to our weighting in Indonesia.

We started new positions in Bank Negara, which is the third largest SOE owned Indonesia Bank focussed which we believe is set to benefit from rebound in corporate lending, Peacebird Fashion; a leading mass market Chinese apparel company with a strong brand positioning and a compelling digitalisation strategy and Jiumaojiu International. Jiumaojiu International is an emerging winner in the Chinese quick service restaurant space with focus on GenZ consumers.

We sold out of Sinopec Engineering, despite its strong domestic positioning in oil refinery plant engineering, we were concerned about the geographic exposure in its future order book. We also sold out of Li Ning due to increasing supply chain risks.

Outlook

Investors are faced with global macro growth and policy cycles moving in opposing directions as the US continues to signal tightening while China pursues an easing strategy. It is likely that these divergent trends will continue throughout 2022.

We have been using the current bout of market volatility to add to what we believe will be some of the great growth companies in Asia over the next 3-5 years. We think the rate of the slowdown in Chinese economic growth is abating, and that sequential economic growth will return by the middle of this year. In terms of regulatory change, we think incremental market surprise has peaked and is now overly discounted – the Chinese government may be concerned about the political and social power of the internet companies, however, the demand for their services only grows amongst the younger generations. These factors, combined with a large valuation divergence between China and Global equity markets, is why we are keen to find more opportunities to add to our China exposure. There are many companies, outside of the well-known eCommerce platforms, which are emerging as world class operators in their field.

Indonesia has become our largest country overweight driven by favourable regulatory reforms over the last few years and positive tailwinds from rising commodity prices and their position in the electric vehicle supply chain.

Events in the Ukraine, much like the COVID-19 outbreak, has served to accelerate certain long-term trends – this time it is the movement towards renewables and ever more efficient use of energy resources. Our portfolio has been well positioned to benefit from this shift.

Despite the doomsday headlines, we are firm believers that Asia population growth and rising prosperity, combined with consumers that have a propensity to adopt new technologies early, are fundamental secular drivers, which will provide many years of exciting economic growth in the region.

