Quarterly Commentary
Q1 2023

CRUX ASSET MANAGEMENT

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CRUX Asia ex-Japan Fund

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Fund Performance

The CRUX Asia ex-Japan fund outperformed the MSCI Asia ex-Japan index this quarter by 1.2% rising by 3.5%. It was however, a very volatile quarter with the fund up almost 15% in absolute terms by the beginning of February, before falling significantly as the US banking crisis gripped global markets. This especially hurt our financial holdings and US listed stocks, although the crisis has had no direct impact on any of our holdings.

*Source: FE FundInfo 31.12.22 - 31.03.23 Bid-Bid in GBP, TR, net income re-invested.

The main positive sector contributors to fund performance came from our overweight position in Materials, Consumer Staples (after the reclassification of Dada Nexus in the MSCI Index) and Industrials sectors. The main negative sector contributions came from our underweight positioning in Financials and Information Technology sectors. India, Australia, and Singapore led the country gainers with significant moves from Sea ltd, on promises of a quicker break-even and Chalice mining on a 50% uplift on their resources. Taiwan and Indonesia lagged.

In terms of company specific attribution over the Q1 2023, the main positive contributors to fund performance came from Chinese search giant Baidu, Chinese EV OEM Li Auto, and Taiwanese ABF substrate company Unimicron Technology.

The main detractors of fund performance came from our overweight position in Chinese financial services provider Lufax Holding and Indian private bank IndusInd Bank along with our underweight position in large caps such as Tencent Holdings and TSMC.

Attribution Stock Level Q1 2023

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Baidu 1.23%	Lufax Holding Ltd -0.66%
SEA Ltd 0.65%	JD.com -0.53%
Unimicron Technology Corp 0.49%	Indusind Bank Ltd -0.50%
Li Auto 0.48%	PDD Holdings -0.42%
Zijin Mining 0.47%	Kuaishou Technology -0.40%

Source: Bloomberg as at 31.03.2023

Market Cap

	Fund
>$50bn	16.4%
$15bn-50bn	10.5%
$2bn-15bn	42.0%
<$2bn	29.5%

Source: CRUX Asset Management as at 31.03.2023

Portfolio Changes

Over the quarter, we added the fund's exposure in Consumer Discretionary, Information Technology and Healthcare sectors. We funded this by reducing our exposure to the Industrials, Materials and Communications sectors.

Highlighted new stock buys:

Cyient Ltd.: We initiated a position in Cyient Ltd., an Indian ERnD software services provider. Cyient caters to a mix of transportation (aerospace, railways) and non-transportation sectors (communications, plant engineering) on the Services side (85% revenues mix). We expect Cyient to surprise on revenues growth as the commercial aerospace activity picks up after multiple years of muted spends. Further, the company has filed a prospectus to carve out its manufacturing business (15% revenues mix) which could be a potential value creating opportunity for the shareholders. Valuations are attractive in our view for this renewal story with multiple management changes at 15x forward earnings.

Hesai Group: We participated in the US listing of Hesai Group. Hesai is a global technological and cost leader in LIDAR (light detection and ranging) solutions. The company has grown to become larger than the next 8 global suppliers combined, exhibiting significant economies of scale. We believe Hesai's competitive advantages (technology, cost) along with its presence in China (local manufacturing) places it at the inflection point of multi-year penetration of ADAS and autonomous adoption in new car sales in China and global markets.

Outlook

We remain firm optimists about the future. When we look at the world and our lives from a small perspective, troubles can seem insurmountable, problems huge and the future dark. However, from a bigger picture there are clear positive trends that have, and are highly likely to, continue to lead to ever greater human prosperity. One such, is the communications revolution, which started in the early 1980s and continues to this day: voice, text, video, ideas, social, goods, services and travel, between countries, peoples, business and now computers continue to expand exponentially. The make-up of companies in the global indices today reflects the extraordinary changes this on-going revolution has created. It is our contention, that roughly each decade, and especially post a crisis event, new innovations and leaders emerge that become the next global giants. The last decade was firmly that of the smartphone and e-commerce, what we called the Digitalisation of Everything. This one, we think, keeps with the same arc of history, via the growth of communications, but moves it into transport, industry, robots and exploration. We are calling it the Electrification of everything.

Chat GPT3 was the fastest adoption of any software/APP in history. SVB was the fastest bank run in history. The reason we are all feeling uncertain, that there is so much division among countries, peoples, ideas and even what used to be objectively true and false, is that our culture, our local and global institutions, are desperately trying to keep up or not, with technological change. We are in the midst of a crisis, like the 08-11 period, looking for a way out. These transitions are never smooth. We believe that exposure to rapidly growing areas that will surprise on their adoption curves, is the best way to reduce risk and maximise return over longer-timeframes. Electric vehicles, first in China then the world, ADAS and autonomous driving, first in China then the world, AI/Large language Models, Space exploration, renewables, first in China then the world, India manufacturing, industrial and consumer robots. Finding the potentially leading companies in these areas and holding them for significant time has historically led to significant outperformance.

Over the last three months, it is good to see a number of our EV names delivering significant returns, despite the lacklustre China environment. It is our contention that we are near the trough of the Chinese auto cycle and that over the next 3 years we will not only see a significant improvement in flow demand (cyclical/move towards EV from ICE) but also stock demand as older ICE engines are scrapped in favour of EV. Li Auto and BYD remain are favoured winners in the OEM space, with CATL in batteries. Within EV software, there are no clear Chinese leaders but KPIT in India, is emerging as best in class in this space globally. Within AI, Baidu is the Chinese AI Chat leader and also the leader in autonomous software, it remains the largest holding in our portfolio, it trades on 13x forward earnings, but we expect it be on a low single digit multiple within a few years.

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China has morphed into our largest country overweight, we are not naturally contrarian investors, however, we see the country having potentially the largest upside surprise within the region. Chinese M2 has bottomed and is growing significantly again after a two-year decline, the economy and stock markets has historically followed. At the same time US M2 is falling for the first time in at least 70 years.

As the table below shows, according to the Australian Strategic Policy Institute (ASPI), China has a global lead in 37 out of 44 critical technologies across a range of fields from defence, space, robotics, energy, biotechnology, AI, advanced materials, and key quantum technologies. It is close to having a monopoly in 8 of these. This is not a position from which Western countries are going to be able to successfully begin a deglobalisation process. We expect pragmatism on all sides to prevail.