Fund Manager: Ewan Markson-Brown | Deputy Fund Manager: Damian Taylor

This is a Marketing Communication

TM CRUX Asia Ex-Japan Fund

> "Investors in Asian equities have faced another challenging three months, given the geopolitical, economic, and regulatory risks within the region, particularly in China... value outperformed growth in major markets, price discovery has declined, and stock prices have not followed earnings momentum"

Investors in Asian equities have faced another challenging three months, given the geopolitical, economic, and regulatory risks within the region, particularly in China. This quarter, we have also seen rising oil prices (Brent spiked to $96), a stronger USD (rising DXY), increased recession fears, and spiking US treasury yields (30-year near 5%). These factors have led to increased volatility, although Asian Ex-Japan markets have managed to remain broadly flat. The relative resilience to rising US yields and oil prices is indicative of strong government and corporate balance sheets in the region and low valuations.

For the CRUX Asia Ex-Japan Fund, this year continues to be a tough period as value outperformed growth in major markets, price discovery has declined, and stock prices have not followed earnings momentum. We see moments when we believe the market is coming back our way, only to be disappointed by further falls, especially in our China holdings. Despite these setbacks, we know that buying long-term growth companies, especially when they are out of favour leads to significant superior returns.

The fund NAV declined by 90bps, compared to a flat benchmark's +2bps% , leading to a 91bps underperformance over 3 months. China and Australia attribution was the major negative contribution, and India and Taiwan the major positive.

Given the unprecedented breakdown of correlations within the Asia Ex-Japan asset class this year, we believe it is best to view the fund as divided into China and Ex-China segments. While in the Ex-China segment, we have witnessed several significant success stories in the technology and consumer space, it is notable that Chinese technology stocks have not participated in the current global technology rally.

Three-Month Attribution Report

Key points:

The portfolio and markets had another volatile quarter, with the fund outperforming until late August. However, it was hit again by risk-off sentiment and concerns about China, resulting in the fund ending the month broadly flat in both absolute and relative terms. Our increased exposure to AI related names in Taiwan contributed

Market capitalisation

	%
> $50bn	14.1%
$15bn-50bn	14.8%
$2bn-15bn	43.8%
< $2bn	26.8%

Source: 30.09.23 CRUX Asset Management

positively, while India significantly boosted returns, with our holdings rising 17% in the quarter. China, Australia and Indonesia were the primary contributors to the portfolio's underperformance. In terms of sectors, Industrials and IT were our best-performing sectors, while Materials and Healthcare were the worst.

Post Covid, in 2020, we had been switching from technology towards materials and cyclical sectors due our view that the smartphone cycle had peaked. We are now moving back towards technology but only those stocks based on the new cycle: AI/EV related names. This is important as the old technology names often struggle to recover after a bust; the PC/Server/Notebook names never regained their prior highs after this wave of technology become saturated.

"Post Covid, in 2020, we had been switching from technology towards materials and cyclical sectors due our view that the smartphone cycle had peaked. We are now moving back towards technology but only those stocks based on the new cycle: AI/EV related names."

China:

China's market rose 2% over the period, and our portfolio experienced a slight decline of 0.8%. Our EV positions Li Auto and BYD delivered positive returns, however, Healthcare AI name Yidu Tech and Financials, especially Lufax, were a drag on performance.

Company-specific news:

- One of our large holdings in ecommerce, PDD rose 46%, showing life in one of China's best run technology companies.
- Miniso, budget lifestyle retailer rose 58% on consumption recovery in the mainland and improved outlook on international expansion
- Kuaishou rose 18% in this quarter.
- Lufax declined by 26% during the period. Despite its high beta, we maintain our position due to its strong balance sheet.
- Jiumaojiu fell 16% due to a sector-wide de-rating. We maintain our position.
- Nayuki, the local bubble tea company fell 26%; we exited our position to fund other high conviction ideas.

India:

India was again a standout performer, with our holdings rising 17% compared to the market's 7%, adding 180bps of outperformance. Key contributors included MTAR (that also contributed to India's maiden moon-landing mission), Skipper, Cyient, Indusind Bank, KPIT Technologies and Kaynes Technology. We initiated a small position in an Indian power equipment business, TD Power Systems. We remain selective in this highly rated but performing market. We see some overexuberance in small and mid-caps and thus remain cautious in adding weight to smaller market cap names.

South Korea:

The market fell 5%, with our stocks falling 3%. A notable contributor was EO Technics which rose 24%, on the back of winning Samsung Electronics as a customer for its equipment. SK IE Technology was the weakest, falling 22% on the back of poor sales of Ford's electric truck. We have been adding slightly to our technology holdings especially memory over the quarter. We maintain an underweight positioning in the country.

CRUX ASSET MANAGEMENT

Taiwan:

We outperformed the market by 8% via our AI related tech hardware names as the benchmark fell 2% in the period. We remain underweight TSMC due to its high exposure to legacy smartphone areas. Instead, we have constructed the portfolio around: a) Unimicron, which rose 4% due to expectations of a bottom in its earnings cycle; b) Accton, a global leader in switches for data centres, which rose 45%.

> "India was again a standout performer, with our holdings rising 17% compared to the market's 7%, adding 180bps of outperformance. Key contributors included MTAR (that also contributed to India's maiden moon-landing mission), Skipper, Cyient, Indusind Bank, KPIT Technologies and Kaynes Technology."

Australia and Indonesia:

Chalice Mining in Australia fell 63% after a badly received scoping study led to significant selling and a question over the valuation of their core asset. We were slightly disappointed by the study but were surprised at the fierceness of the market's reaction. Without this untimely stock specific event the fund would have delivered a positive return for the quarter.

We are reviewing all our holdings in the Materials sector as the macroeconomic environment is no longer conducive and we move towards a deflationary environment. The long-term outperformance of technology related sectors is likely to resume.
In the same vein, we have reduced our Materials exposure in Indonesia as well.

