

LO Funds

Emerging High Conviction

Newsletter

Regional Equities • Equities

31 October 2024

PERFORMANCE COMMENT

Emerging market equities pulled back in October, with the MXEF falling 4.3%. After a very strong performance in September, the MSCI China fell by 5.9% as optimism over the government policy pivot faded while markets await more concrete details on the size of the fiscal and monetary stimulus to be announced post the NPC Standing Committee meeting in November. The MSCI India fell by 7.7% as a result of heavy selling by foreign investors who were likely allocating more funds to China, as well as a weak earnings reporting season, which saw more corporates miss earnings expectations and guidance turn more cautious. The MSCI Korea was down 6.8% in the month, with weakness in Samsung Electronics a major drag. The major non-Asia EM markets of Brazil and Mexico also fell more than 5%. Taiwan was the bright spot, with the MSCI Taiwan recording a 3.8% gain. Despite the challenging market backdrop, LO Funds–Emerging High Conviction outperformed its benchmark during the month.

MACRO REVIEW

In China, a series of meetings was held by various government ministries as a follow up to the major policy directives announced in September. While the actual size of stimulus to tackle local government debt and stabilise the housing market will likely be known after the NPC Standing Committee meeting (4-8 November), the directives provided in preceding meetings by the PBoC, Ministry of Finance and Ministry of Housing continued to assure that the policy pivot is real and the government is willing to do whatever it takes to tackle the structural challenges facing the economy. A large-scale expansion of the debt-swap programme to address the weakness in local government finances is an important starting point as delayed payments by local government to businesses can resume, retroactive penalties and over-taxation can be removed and this will eventually trickle down to stimulate consumption as employees are paid. Proceeds from special bond issuance will be used for land and unsold inventory purchases, which

can further put a backstop to housing market weakness. Some green shoots were already being seen in October. After a series of relaxation policies, sales growth among the top 100 developers in China turned positive year-on-year for the first time since June 2023, with major first-tier cities reporting double-digit sales growth. Consumption trade-in support policies were also seen to be effective as major consumer appliance retailers like JD.com have seen strong sales, and automotive sales momentum has picked up in the past two months. The Caixin October Services and Composite numbers also came in stronger than expected, indicating that sentiment among private, small- to medium-size enterprises is turning a corner.

The Indian equity market came under pressure in October. Earnings season started on a weak note, with major Consumer Staples companies like Hindustan Unilever and Nestle India reporting muted 2Q FY25 revenue and earnings growth while turning cautious on urban demand due to inflationary pressure. The Automotive sector also saw a pullback as major industry players reported earnings misses and expressed a cautious outlook on festive demand. Financial institutions like IndusInd Bank, Bajaj Finance and Mahindra & Mahindra Financial Services also reported weak numbers that indicate stress in microfinance books and rising credit cost. The earnings of major industrial companies also seem to suggest more acute margin pressure as topline growth slowed. At a macro level, GDP growth slowed to 6.5%, with slower government capex and the heavy rainfall season partly affecting domestic demand.

The Taiwan technology sector was stellar in October as AI-driven demand remains strong. TSMC reported a strong set of 3Q24 results, with a 39% y/y increase in revenue and 54% y/y increase in earnings, a reflection of its dominance in AI chipset manufacturing for its major customer Nvidia. In South Korea, SK Hynix reaffirmed its leading position in HBM manufacturing with record high profits in 3Q24. In contrast, Samsung Electronics is playing catch up with SK Hynix in HBM technology and qualification and will likely see its semiconductor

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profitability coming in lower than SK Hynix for the first time in the company's history.

PORTFOLIO ACTIVITY

In the month, the Fund added a new stock, Onewo, a property management company with a strong balance sheet that has allowed it to raise payouts substantially in FY24 with a special dividend. The Fund also exited Titagarh Rail and Astral in India due to their stretched valuation and limited upside. In Taiwan, the Fund initiated a position in Quanta, which is a leading assembler of AI servers and automotive computers.

TOP PERFORMANCE CONTRIBUTORS/DETRACTORS

Popmart, KE Holdings, Makemytrip and MELI were among the top contributors. Popmart delivered another set of stellar results with its exceptional growth. KE Holdings rallied as housing transactions picked up strongly in October.

AIA, Samsung Electronics, Gail Industries and Alibaba were the top detractors. AIA and Alibaba corrected after a strong rebound in September, while Samsung Electronics underperformed on a weak commodity memory market and delayed qualification of its HBM3E

chips.

Trump's victory in the US presidential election will create more uncertainty for EM equities. The threat of higher tariffs, greater policy uncertainty regarding China, lower subsidies for the renewable energy supply chain, risk of higher inflation and interest rates and a strong USD will be headwinds from both a fundamental and flow perspective. For China, this increases the likelihood that the government will roll out more aggressive counter-cyclical stimulus measures and the push towards boosting domestic consumption as a long-term counter-measure against external risk will be unwavering. In Taiwan and South Korea, the growth potential of technology companies is immense, with the evolution of AI. The multi-year growth journey of India, ASEAN and major non-Asia EMs is structural in nature and backed by favourable demographics, an expanding middle class and rising infrastructure investments. The long-term outlook for EM equities is very positive and it is a compelling asset class to invest in high-quality growth, best-in-class companies at reasonable valuations.

Thank you for your continued support.

LOIM ASIA/EMERGING MARKETS EQUITIES TEAM

PERFORMANCE

31.10.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023	2022	2021	2020	2019
LO Funds – Emerging High Conviction PA [1]	31 October 2011	USD 93 mn	-3.52%	17.67%	43.30%	0.52%	-26.40%	-10.73%	22.84%	12.04%
LO Funds – Emerging High Conviction NA [2]			-3.44%	18.62%	62.68%	1.49%	-25.69%	-9.87%	24.02%	13.12%
Benchmark [3]			-4.45%	11.66%	54.18%	9.83%	-20.09%	-2.54%	18.31%	18.44%

Past performance is not a guarantee of future results. Performance is presented net of fees.

[1] Dividend accumulated private client share class, net performance in USD.

[2] Dividend accumulated institutional client share class, net performance in USD.

[3] MSCI Emerging Market; ND performance

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