Wellington Asian Opportunities Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

Global equities declined over the past month, as investors became increasingly concerned about a slower pace of rate cuts and potential inflationary pressures, especially with the possibility of Republican candidate Trump returning to the presidency. The latest US CPI report indicated that inflation eased less than anticipated, which, coupled with strong corporate earnings and a better-than-expected labor market report, has tempered expectations for rate cuts. Additionally, uncertainties in the Middle East have further dampened sentiment. Geopolitical tensions in the region have created a cloud of uncertainty, leading investors to adopt a more cautious stance.

In October, Asian economies slightly outperformed broader emerging markets, with Taiwan and Japan being the better-performing markets on a relative basis, while India and Korea lagged. Taiwanese equities saw a rally, primarily driven by better-than-expected earnings from major semiconductor companies. Japanese equities declined in absolute terms due to the Bank of Japan's hawkish stance and political uncertainties but still outperformed the broader index, supported by a weak yen. On the other hand, Indian equities retreated from their all-time highs as investors sought to take profit. Meanwhile, risk sentiment in Korea ran low owing to a challenging economic backdrop marked by sluggish industrial output. The technology sector, a large component in the Korean market, was volatile as the market looked for leaders and laggards in AI beneficiaries.

The MSCI AC Asia ex Japan Net returned -4.6% over the period. Within the index, 10 out of 11 sectors declined for the month. Consumer staples and energy were the bottom performing sectors, while information technology and financials were the top performing sectors for the period.

FUND PERFORMANCE AND ATTRIBUTION

- The fund outperformed the index for the period, however delivered negative returns.
- Security selection was the primary driver of relative outperformance. Strong selection in industrials, consumer discretionary and real estate was partially offset by selection in information technology and communication services. Sector allocation, a result of our bottom-up stock selection process, also modestly contributed to returns. Allocation effect was driven by our lack of exposure to materials, energy and health care, but offset by our overweight to consumer discretionary and real estate and underweight to information technology. On a market basis, strong stock selection in India and Singapore was partially offset by selection in China.
- At the issuer level, our top two relative contributors were an out of benchmark allocation to Amber Enterprises India and not owning Alibaba, while our top two relative detractors were overweights to Kanzhun and Hyundai Motor.
- Amber Enterprises shares rose in October ahead of the company's Q2 FY2025 earnings results. Revenue increased 82% year-over-year and operating EBITDA grew 85% driven by growth across segments, particularly the Consumer Durables business. The company also announced a joint venture with Korea Circuit for the manufacturing of printed circuit boards in India. The venture will help meet the growing demand for domestic electronics. Shares of Kanzhun, a China-based provider of online recruitment services, fell over the period as Chinese equities cooled off from their recent stimulus-driven rally after the country's state planner failed to sustain optimism for further spending.

FUND POSITIONING AND OUTLOOK

From an outlook perspective, we remain constructive on the outlook for Asian equities. In China, we believe the recently-announced monetary and fiscal support packages signify a – long awaited by us – recognition at the highest levels within the Chinese government of the serious consequences of slowing economic growth and depressed investor confidence. We are assessing implications and have modestly added to our existing holdings in China. We continue to observe a range of attractive bottom-up opportunities in India, supported by the country's more favorable economic backdrop, younger demographics and rising importance in the context of the global supply chain. In the long run, we continue to be focused on finding attractive high-quality companies, which are able to sustain higher returns on capital at undemanding valuations, and we are optimistic on the outlook for portfolio alpha. We believe that over time, high-quality businesses trading at reasonable valuations have good potential to outperform the broader market on the strength of their stock-specific fundamentals.

At the end of the period, our largest overweights were real estate and consumer discretionary. We were most underweight to materials, health care and energy, all of which we had no exposure to. From a market perspective, our largest overweights were India and Indonesia. We were most underweight to Taiwan and China.

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