Wellington Asian Opportunities Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

In June, global equities exhibited varied performance as markets navigated the implications of divergent monetary policies across major economies. The US Federal Reserve's decision to hold rates steady, contrary to market expectations, introduced uncertainty, while the European Central Bank's decision to lower rates positively impacted European equities. Despite these challenges, the overall economic outlook remained positive, supported by robust data in key areas such as employment and inflation. Asian economies marginally outperformed broader emerging markets with Taiwan and Korea being the better-performing markets on a relative basis, while Hong Kong and China lagged.

Over the course of the month, Taiwanese equities experienced a significant boost, primarily due to market expectation that major semiconductor companies would be able to capitalize on the growing demand for AI. Korean stocks also saw an upswing, fueled by the robust semiconductor sector that thrived on the persistent demand for AI, despite the political tension between the President and the legislative body. On the flip side, Hong Kong and China markets experienced a pullback driven in part by profit-taking in May, with consumer confidence remaining subdued amidst a prolonged crisis in the property sector. The escalating conflict between the US and China over semiconductors, coupled with concerns about capital flight from China due to the weakening Yuan, also weighed on the stock market too.

The MSCI AC Asia ex Japan Net returned 4.3% over the month. Within the index, eight out of 11 sectors rose for the month. Information technology and energy were the top performing sectors, while real estate and consumer staples were the bottom performing sectors over the month.

FUND PERFORMANCE AND ATTRIBUTION

- The fund outperformed the index for the period.
- Security selection was the primary driver of relative outperformance. Strong selection in consumer discretionary, financials and real estate was partially offset by selection in industrials. Sector allocation, a result of our bottom-up stock selection process, detracted from returns. Allocation effect was driven by our overweight to real estate and consumer discretionary, but partially offset by our lack of exposure to consumer staples and underweight to materials. On a market basis, strong stock selection in South Korea and Indonesia was partially offset by selection in Singapore.
- At the issuer level, our top two relative contributors were overweights to HD Hyundai Heavy Industries and Mahindra & Mahindra, while our top two relative detractors were an out of benchmark allocation to Seatrium and an overweight to KE Holdings.
- Shares of HD Hyundai Heavy Industries, the world's largest shipbuilding company and a major heavy equipment manufacturer, rose over the period. The company reported May revenue of KRW 1.3 trillion, compared with KRW 987 billion for the year-ago period. Share price of Seatrium, an engineering solutions firm based in Singapore, declined during the period due to an ongoing investigation by Singapore authorities. The investigation centers around potential violations committed prior to the establishment of the company in 2023, following the merger of Sembcorp Marine and Keppel Offshore & Marine.

FUND POSITIONING AND OUTLOOK

From an outlook perspective, we remain constructive on the outlook for Asian equities although performance divergence across markets have been significant. 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. Conversely in China, despite earnings have improved gradually, we have continued to see a compression in equity valuation driven by rising geopolitical concerns, a struggling property market and more importantly, a lack of confidence in both consumers and business owners to spend and invest. 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, consumer staples and energy, all of which we had no exposure to. From a market perspective, our largest overweights were India and South Korea. We were most underweight to China and Taiwan.

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