

# Wellington Emerging Markets Research Equity Fund

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## MARKET REVIEW

Emerging markets equities fell in October. Asia led the decline, followed by Europe, the Middle East, and Africa (EMEA), and Latin America.

In Asia, China's third-quarter GDP grew 4.6% annually, its slowest pace since early 2023 and down from 4.7% in the second quarter. The sharp property sector downturn, alongside weakening export growth and deflationary pressures, continued to weigh on the economy. The government announced more support for the struggling economy, while the central bank cut key lending rates by 25 bps. India's central bank tweaked its policy stance to "neutral", opening the door for potential rate cuts amid early signs of moderating economic growth. Taiwan's GDP expanded at a higher-than-expected annual pace of 4.0% in the third quarter, as robust AI demand boosted exports.

In EMEA, Saudi Arabia's Ministry of Finance slashed its 2024 GDP forecast to 0.8%, from a previous estimate of 4.4%, and raised its budget deficit estimates for fiscal years 2024 — 2026. In the United Arab Emirates, second-quarter economic growth of 4.1% was driven by a 6.6% increase in the non-oil sector. South Africa's inflation dropped sharply to 3.8% in September, increasing the prospect of another rate cut.

In Latin America, Brazil's inflation accelerated to 4.5% in the 12 months to mid-October, driven by higher residential electricity costs due in part to a major drought. In Mexico, third-quarter GDP surprisingly rebounded at the fastest quarterly pace in more than a year, although economic growth this year has been disappointing.

The MSCI Emerging Markets Net returned -4.4% over the period. Within the index, 10 out of 11 sectors declined over the period. Consumer staples and communication services were the bottom performing sectors, while information technology was the top performing sector for the period.

## FUND PERFORMANCE AND ATTRIBUTION

- The fund modestly outperformed the index over the month, however delivered negative returns.
- Strong selection in consumer discretionary, information technology and real estate was partially offset by selection in financials. On a market basis, strong stock selection in Taiwan and China was partially offset by selection in Brazil, India and Philippines.
- Within consumer discretionary and real estate, our top relative contributors were an out of benchmark allocation to Amber Enterprises India and an overweight to KE Holdings, respectively. Within financials and consumer staples, our top relative detractors were overweights to IndusInd Bank and Kweichow Moutai, respectively.
- Amber Enterprises India 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 IndusInd Bank declined during the period after the company reported results for the fiscal second quarter below consensus estimates. Increased provisions for bad loans, weak net interest margins, deteriorating asset quality, and high credit costs led to a significant drop in net profit, contrasting with the broader banking sector's positive trend and resulting in a cautious outlook.

## FUND POSITIONING AND OUTLOOK

From a market perspective, our largest exposures were China and India, and we were least exposed to Hungary. We had no exposure to Malaysia and Poland.

## RISKS

**CAPITAL:** Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment. The Fund may experience a high volatility from time to time. **CONCENTRATION:** Concentration of investments within securities, sectors or industries, or geographical regions may impact performance. **CURRENCY:** The value of the Fund may be affected by changes in currency exchange rates. Unhedged currency risk may subject the Fund to significant volatility. **EMERGING MARKETS:** Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. **EQUITIES:** Investments may be volatile and may fluctuate according to market conditions, the performance of individual companies and that of the broader equity market. **HEDGING:** Any hedging strategy using derivatives may not achieve a perfect hedge. **INVESTMENT IN CHINA:** Changes in Chinese political, social or economic policies or securities law and regulations may significantly affect the value of the Fund. Chinese securities may be subject to trading suspensions which could impact the Funds investment strategy and affect performance. Chinese tax law is applied under policies that may change without notice and with retrospective effect. **MANAGER:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. **SHANGHAI-HONG KONG STOCK CONNECT:** Allows access to certain China A Shares listed on the Shanghai and the Shenzhen Stock Exchanges, securities could be recalled from the scope of the program which could restrict the Funds ability to implement its investment strategy effectively. The program is subject to quota limitations which may restrict dealing on a timely basis. Trading is subject to China A Share market rules, foreign shareholder restrictions and disclosure obligations and changes to laws, regulations and policies in China may affect share prices of securities held. **SUSTAINABILITY:** A

## PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. AN INVESTMENT CAN LOSE VALUE.

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Sustainability Risk can be defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

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