SKERRYVORE GLOBAL EMERGING MARKETS ALL-CAP EQUITY FUND
C SHARE CLASS

Quarterly Commentary

Report for the quarter ended 31 December 2024

Skerryvore
ASSET MANAGEMENT

bennelong

Contents

Executive Summary

C SHARE CLASS INVESTMENT RESULTS – PERIOD RETURNS TO 31 DECEMBER 2024

	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Since Inception[1] (%)
Fund (net)	3.19	1.40	5.07	9.31	4.81
Benchmark[2]	5.07	3.08	7.88	18.48	2.26
Value Added	-1.88	-1.68	-2.81	-9.17	2.56

TOP 10 HOLDINGS

Name	Weight (%)
Fomento Economico Mexicano	5.82
HDFC Bank Limited	5.72
TSMC	5.10
Cipla	4.96
Tata Consultancy Services	3.61
Coca-Cola HBC	3.56
Yifeng Pharmacy Chain	3.37
Franco Nevada	3.28
Raia Drogasil	3.07
Kotak Mahindra Bank	2.91

KEY CHARACTERISTICS

Number of holdings	47
Number of countries	20
Number of sectors	8
Number of industries	24
Active share (%)	89

FUND VALUE

30 September 2024	31 December 2024
AUD $ 118,140,481	AUD $ 124,563,731

THE FUND AT A GLANCE

Feature	Fund Facts
APIR code	BFL3229AU
Benchmark	MSCI Emerging Markets Index (AUD)
Investment objective	Achieve long-term capital appreciation through investing in companies, operating in, or exposed to, emerging markets
Portfolio managers	Glen Finegan, Nicholas Cowley, Michael Cahoon
Active stock limit	+10%
Cash	0-10%
Recommended investment period	Long term (five years plus)
Buy/sell spread	+/-0.3%
Entry/exit fees	Nil
Management fees and costs*	1.10% p.a. of Net Asset Value of the fund

1. Inception date – 02 August 2021
2. MSCI Emerging Markets Index (AUD)

Source: Landy Tech as at 31 December 2024
Past performance is not indicative of future returns

Quarterly Commentary

INVESTMENT OVERVIEW

Global emerging market all-cap equities rose during the quarter. The strategy rose in value and underperformed the benchmark index[1].

POSITIONING & STRATEGY

We are fundamental, long-term, bottom-up investors seeking to create a high-conviction portfolio of reasonably valued, high-quality companies that are exposed to, or operate in, emerging markets. Portfolio positioning is the output of our bottom-up based convictions, rather than a specific top-down view.

ANNUAL REVIEW

Following a period of strong performance over the past three years, 2024 was a difficult year for the All-Cap strategy with acceptable absolute returns but trailing behind a very strong benchmark performance. There were three causes for this. Firstly, it is taking consumers time to digest the higher inflation experienced over the last few years which has slowed growth in our companies exposed to consumer staples such as beer. Secondly, on a relative basis we were not big beneficiaries of the huge stimulus unleashed by China in the second half of the year and finally our Latin American holdings suffered on the basis of political changes. We believe most of these effects are temporary and that the moves in price do not represent changes in the longer-term value of our companies.

The largest positive contributors to the strategy for the year include **TSMC**, **Cipla** and **Syngene** – all of which we've been trimming as their price to value relationships have become stretched. There has also been a notable recovery in the **HDFC** share price after a significant drop at the start of the year where we added to the holding. Merging the wholesale funded parent with the deposit-gathering bank was always likely to cause some short-term indigestion. Near-term comparisons to peers are rather meaningless until it fully completes the transition from a business perspective. We are pleased to see that the bank continues to maintain its leading position in deposit gathering, has undergrown the potentially frothy post-covid retail loan market and continues to show the highest asset quality. We believe the long-term earnings power of this franchise is undiminished and the shares remain attractively valued.

The largest negative contributor to returns for the strategy was from the holding in Mexican convenience store operator **FEMSA**. This has been a function of pulling back after a strong run in 2023 on the back of a more tepid economy and some weakness in the underlying currency. The currency weakness is as a result of the supermajority of the Morena party in elections this year with changes to the judicial system made by the outgoing President. Their largest trading partner hasn't helped either as announcements made by President Trump post the US election threatened tariff rates of 25% on Mexico and Canada. Given the complexity of the interrelationship between the economies of the two countries we hope that cooler heads ultimately prevail. Regardless of the politics, however, we believe that FEMSA has a significant growth opportunity ahead, as it continues its roll out of convenience stores and pharmacies across Latin America. We also take comfort from the fact that it has the financial strength and management team to navigate through these periods of uncertainty, as it has done before, leading to us adding to the position as it fell.

[1] Benchmark MSCI EM Net Total Return Index (AUD) as of 31 December 2024

Past performance does not predict future returns

Quarterly Commentary

QUARTERLY REVIEW

The strategy rose in value during the period and underperformed the benchmark index during the period. The key driver of this was the low allocation to Chinese equities which recovered in the quarter following further government announcements of support for the broader economy. The largest contributor to returns was from TSMC however in a relative sense this was also the largest negative contributor. As discussed, we believe that it is sensible to continue to reduce the holding size as the share price goes beyond our estimate of fair value.

Rhetoric versus reality. The Chinese government's decision to effectively underwrite risk in its property and banking sectors to offset strengthening deflationary forces sectors led to some extraordinary share price moves across the market there. We had added both **Yifeng Pharmacy** and **Hangzhou Robam** during the early part of this year as we looked to take advantage of better valuations in high-quality businesses with aligned owners, but didn't find as many bargains as we might have hoped. Both of these businesses are not strategic to the Chinese government in a way that leads to warped costs or demand. Robam is a maker of high-end extraction hoods and kitchen appliances, and not of interest to the government. Yifeng is one of three large, listed pharmacy chains that in our view has the best governance. It is aligned with government interests in that they help avoid some of the corruption that had become common place in hospitals, as well as helping to treat an aging population. Over the long term, we expect the industry to consolidate as it has in other countries.

Potential opportunities in political turmoil. There may be some interesting investment opportunities presenting themselves in South Korea. The strategy has benefitted this quarter from steering clear of Korean equities – predominantly because of our long-held concerns that we have had over acceptable levels of governance for the large Chaebols. What has also kept us away has been valuation concerns for those businesses where we've not felt that one must compromise on either quality or alignment. South Korea's chip-building evolution over the past 30 years has created scale for local specialist equipment suppliers to blossom into global leaders. Take the examples of three companies we visited on a research trip in 2023, which specialise in inspection and testing equipment – **Koh Young Technology**, **Park Systems** and **Leeno Industrial**. All three started without ownership ties to Chaebols or government and are still run today by their founders, who own significant stakes. Other common characteristics include being global market share gainers in their niches, selling 'high-value-add' products (as is demonstrated by strong gross margins) and having robust balance sheets capable of withstanding downturns. We are mindful that the political turmoil following the swiftly cancelled imposition of martial law by the suspended Korean President Yoon Suk Yeol and some signs of a cyclical slowdown in end markets could present us with some interesting buying opportunities.

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Quarterly Commentary

PORTFOLIO ACTIVITY

Portfolio turnover for the calendar year has been consistent with our investment horizon of 3-5 years. New positions in **Airtac International**, **Bid Corporation** and **Itaúsa** were established during the quarter. Airtac is a Taiwanese manufacturer of components used in industrial automation, primarily pneumatic components used in most factories. The company has a sizable presence in Mainland China and would benefit from any pickup in economic activity there and has a balance sheet that affords it the luxury of time. The slowing economy in China presented us with a chance to buy this excellent business at a reasonable price. Bidcorp is a South African logistics business specialising in the food service industry. The company's operations are globally diversified with significant operations in Europe, Australasia and South Africa. The company has a history of steady growth based on shrewd acquisitions and organic growth.

We completely sold two holdings during the period. The first was **Bajaj Auto**, a leading Indian manufacturer and distributor of two- and three-wheel scooters and rickshaws. The position had been purchased during a COVID related sell off in 2020 and there has been a significant volume recovery since the pandemic lows as the business recovered and grew. Whilst there is still some room for a normalisation in both international demand and profits, the share price incorporated overly optimistic assumptions with no room for a bump in the road. The capital raised was invested into other holdings within the portfolio where we believe we can make better returns. The second was the holding in Brazilian bank **Bradesco**. We exited the position to fund higher conviction ideas in the portfolio due to a lack of confidence in the longer-term growth opportunity for this business.

We have also significantly reduced the holding size in **TSMC**. This is purely on valuation grounds as there's no doubt that TSMC is a clear beneficiary of the emergence of artificial intelligence and more generally the incorporation of more microchips into more things. Growth in the business has narrowed and we worry that others have become overly optimistic. This as well as many other names in the AI supply chain look stretched from a valuation perspective and would be vulnerable to any disappointment.

OUTLOOK

We believe the strategy currently offers investors the opportunity to invest in long-term growth at attractive valuations. Through a challenging quarter and year, the companies we own continued to show underlying earnings growth, and a combination of currency weakness and lowered expectations from other participants means that the overall valuation of the strategy is more attractive than it was when we started the year. It is not unusual for the strategy to be pointing in a different direction to the crowd, and whilst this can be uncomfortable in the short-term, we believe it will allow us to generate attractive returns over the long-term.

Importantly, the demographic case for growth in the developing world has not changed. It also provides varied and different forms of growth to what's driven markets in 2024 and this may be helpful for protecting investors, particularly if any cracks appear in the US economy.

Finally, many central banks appear to consider the spectre of inflation to have been banished leading to falling interest rates which may help Emerging Markets and encourage investment which should lead to improved growth. It is also important to note that despite rising US rates, the developing world has demonstrated it to be more resilient than many imagined, and it's those countries in the developing world and the G7 that are facing fiscal and balance sheet challenges that one would associate with emerging markets. History has taught us, however, that investing on the basis of what might happen is less useful than focusing on what has happened in the form of long-term track records of the businesses we own. We continue to believe that the owners and managers of our companies will be in a good position to take advantage of whatever the economic weather throws at them.

Investment Results

C SHARE CLASS INVESTMENT RESULTS – PERIOD RETURNS TO 31 DECEMBER 2024

	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Since Inception[1] (%)
Fund (net)	3.19	1.40	5.07	9.31	4.81
Benchmark[2]	5.07	3.08	7.88	18.48	2.26
Value Added	-1.88	-1.68	-2.81	-9.17	2.56

FUND OBJECTIVE

The fund's objective is to achieve long-term capital appreciation through investing in companies operating in, or exposed to, emerging markets.

COMMENTARY

Global emerging market equities rose in Australian dollar terms during the period. The strategy rose in value and underperformed the MSCI emerging markets index. Following a period of strong performance over the past three years, 2024 was a difficult year for the All-Cap strategy with acceptable absolute returns but trailing behind a very strong benchmark performance. There were three causes for this. Firstly, it is taking consumers time to digest the higher inflation experienced over the last few years which has slowed growth in our companies exposed to consumer staples such as beer. Secondly, on a relative basis we were not big beneficiaries of the huge stimulus unleashed by China in the second half of the year and finally our Latin American holdings suffered on the basis of political changes. We believe most of these effects are temporary and that the moves in price do not represent changes in the longer-term value of our companies.

HOLDING LEVEL COMMENTARY

The largest contributor to returns during the period was from the holding in the semiconductor foundry **TSMC**. The business has maintained its leading position through consistent expenditure in research and development and is the most advanced chipmaker in the world, given its ability to manufacture leading-edge semiconductors. The company has been helped by the strong demand for AI chips, particularly from Nvidia, which has resulted in the business announcing revenue growth of 38% from the previous year.

With the shares up over 80% from a year ago we have continued to reduce the holding size in TSMC. This is purely on valuation grounds as there's no doubt that TSMC is a clear beneficiary of the emergence of artificial intelligence and more generally the incorporation of more microchips into more things.

Growth in the business has narrowed and we worry that others have become overly optimistic. This as well as many other names in the AI supply chain which in our view, look stretched from a valuation perspective and would be vulnerable to any disappointment.

The second largest positive contributor to the strategy were was from the holding in the Indian bank **HDFC.** The stock has been weak during the early part of the year, and we are starting to see the share price recover. Merging the wholesale funded parent with the deposit-gathering bank was always likely to cause some short-term indigestion. We are pleased to see that the bank continues to maintain its leading position in deposit gathering, has undergrown the potentially frothy post-covid retail loan market and continues to show the highest asset quality. We believe the long-term earnings power of this franchise is undiminished and the shares remain attractively valued.

1. Inception date – 02 August 2021
2. MSCI Emerging Markets Index (AUD)

Past performance does not predict future returns

Investment Results

STOCK LEVEL ATTRIBUTION

TOP CONTRIBUTORS TO RETURN

Name	Contribution (%)
TSMC	1.08
HDFC Bank Limited	0.65
Qualitas Controladora	0.46
Advantech	0.41
Uni-President China Holdings	0.38

TOP DETRACTORS TO RETURN

Name	Contribution (%)
Raia Drogasil	-0.49
Nexon Co Ltd	-0.38
Heineken Holding	-0.34
Bajaj Auto	-0.32
Hindustan Unilever Ltd	-0.28

HOLDING LEVEL COMMENTARY & ANALYSIS

The largest negative contributor to returns during the period was from the holding in Brazilian pharmaceutical retailer **Raia Drogasil**. There has been no specific company news to explain this weakness, as we believe it is the weakness of the underlying Brazilian currency that is impacting the share price. The business model which, with a lag, generates strong profit-growth during inflationary periods created by weaker currencies and to that end we believe this is a cyclical rather than a structural issue which the business and share price should recover from. We have added to the position in FEMSA during this period of share price weakness as the shares look very attractively valued relative to the long-term growth opportunity.

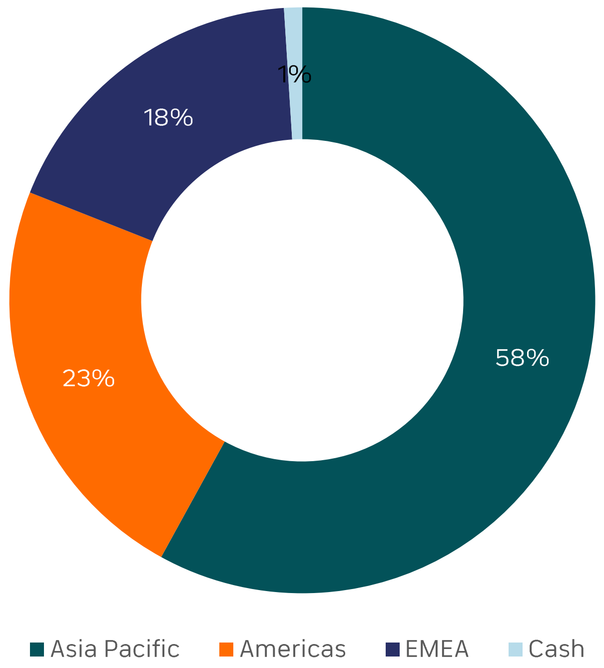
The second largest negative contributor to returns during the period was from the holding in Korean based gaming business **Nexon**. Recent results were strong with revenues +13% (YoY) and operating profits +11% (YoY) driven by robust game sales with a successful launch of The First Descendant and strong performance of MapleStory's localized versions. These results were below the markets' elevated expectations and caused a sharp sell-off in the share price. We continue to believe that the shares are very attractively valued for this leading Asian video games producer and distributor.

Portfolio Characteristics

COUNTRY WEIGHTS

Country	Portfolio (%)	Benchmark[1] (%)
India	25.45	19.44
Taiwan	13.17	19.76
China	8.90	27.05
Mexico	8.26	1.76
Brazil	6.86	4.05
South Africa	5.47	2.93
Switzerland	3.56	0.00
Canada	3.28	0.00
Greece	2.96	0.47
Chile	2.94	0.41
Thailand	2.75	1.44
Philippines	2.67	0.53
Netherlands	2.47	0.00
Portugal	2.41	0.00
Japan	2.31	0.00
Argentina	1.56	0.00
United Kingdom	1.46	0.00
Indonesia	1.44	1.47
Hong Kong	0.94	0.63
South Korea	0.41	8.99
Cash	0.74	0.00

REGIONAL WEIGHTS



SECTOR WEIGHTS

Sector	Portfolio (%)	Benchmark[1] (%)
Consumer Staples	42.21	4.70
Financials	17.11	23.65
Information Technology	14.31	25.05
Health Care	9.94	3.41
Consumer Discretionary	5.22	12.78
Industrials	4.45	6.39
Materials	3.72	5.74
Communication Services	2.31	9.34
Energy	0.00	4.64
Real Estate	0.00	1.66
Utilities	0.00	2.65
Cash	0.74	0.00

1. Benchmark MSCI EM Net Total Return Index (AUD)

Source: Landy Tech as at 31 December 2024
Totals may not sum to 100% due to rounding
Past performance does not predict future returns

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Information for investors in Australia and New Zealand

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In addition, BFML has been appointed to act as a distributor for the Firm in relation to this Fund in Australia and New Zealand and with regards to the Firm's strategy(s) in certain other Agreed Jurisdictions as defined in a distribution agreement dated 1 August 2024.

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▪A substantial portion of the trades executed for the Fund take place on non-AUS exchanges.

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1800 895 388 (AU) or 0800 442 302 (NZ)

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The fund is open to investors directly via the PDS (available on our website) or via the following platforms: Hub24 - Netwealth – Mason Stevens - Powerwrap - Praemium

Visit how to invest to find out more.

SKERRYVORE

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