China and the impact on regional equities

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China and the impact on regional equities

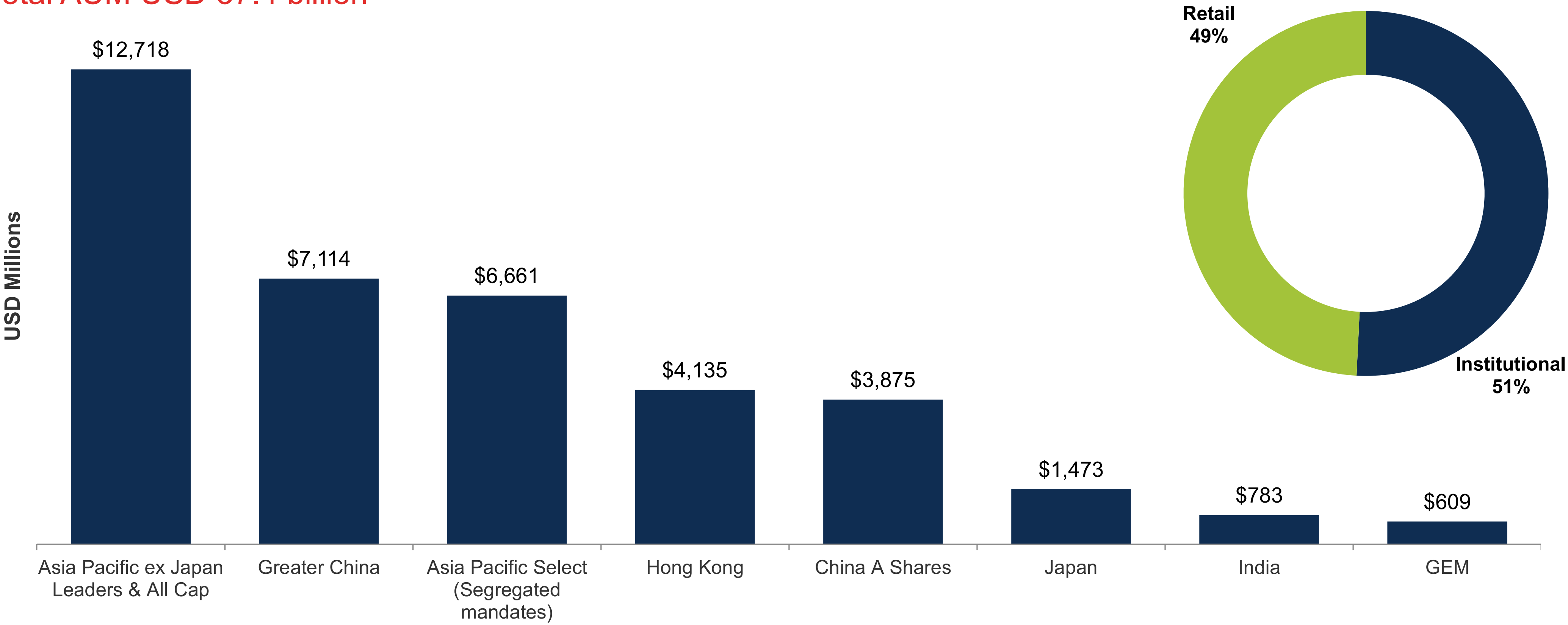
Rizi Mohanty, Portfolio Manager

March 2022

FSSA Investment Managers

FSSA Investment Managers

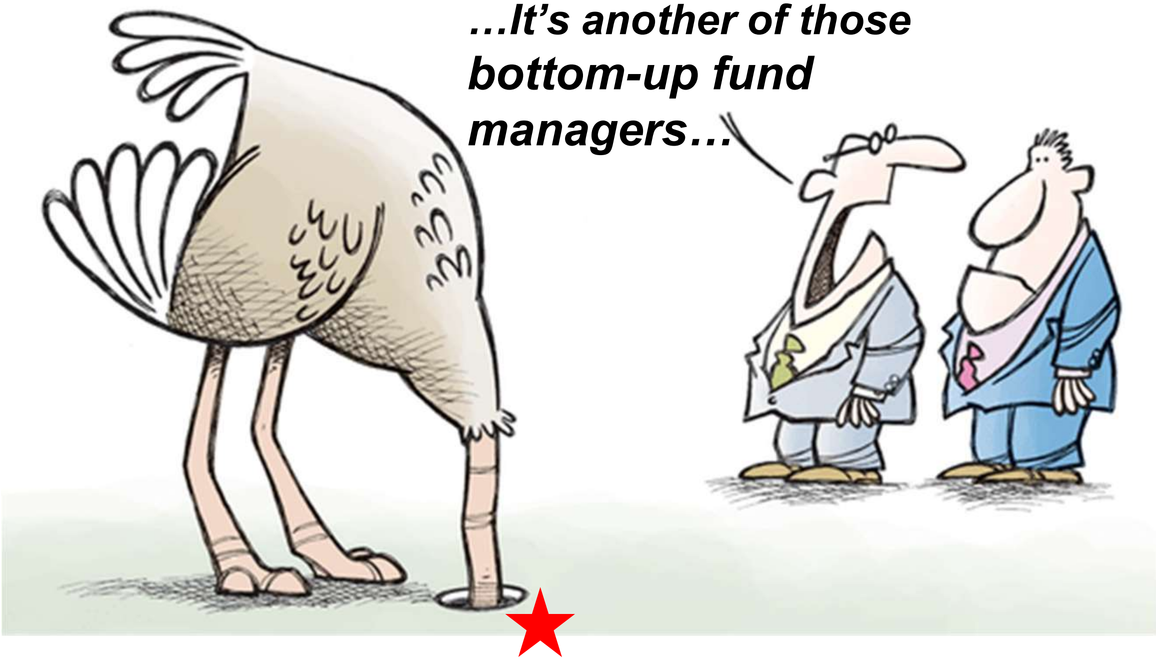
Total AUM USD 37.4 billion



Source: First Sentier Investors. Data as at 31 December 2021.

The FSSA investment process?!

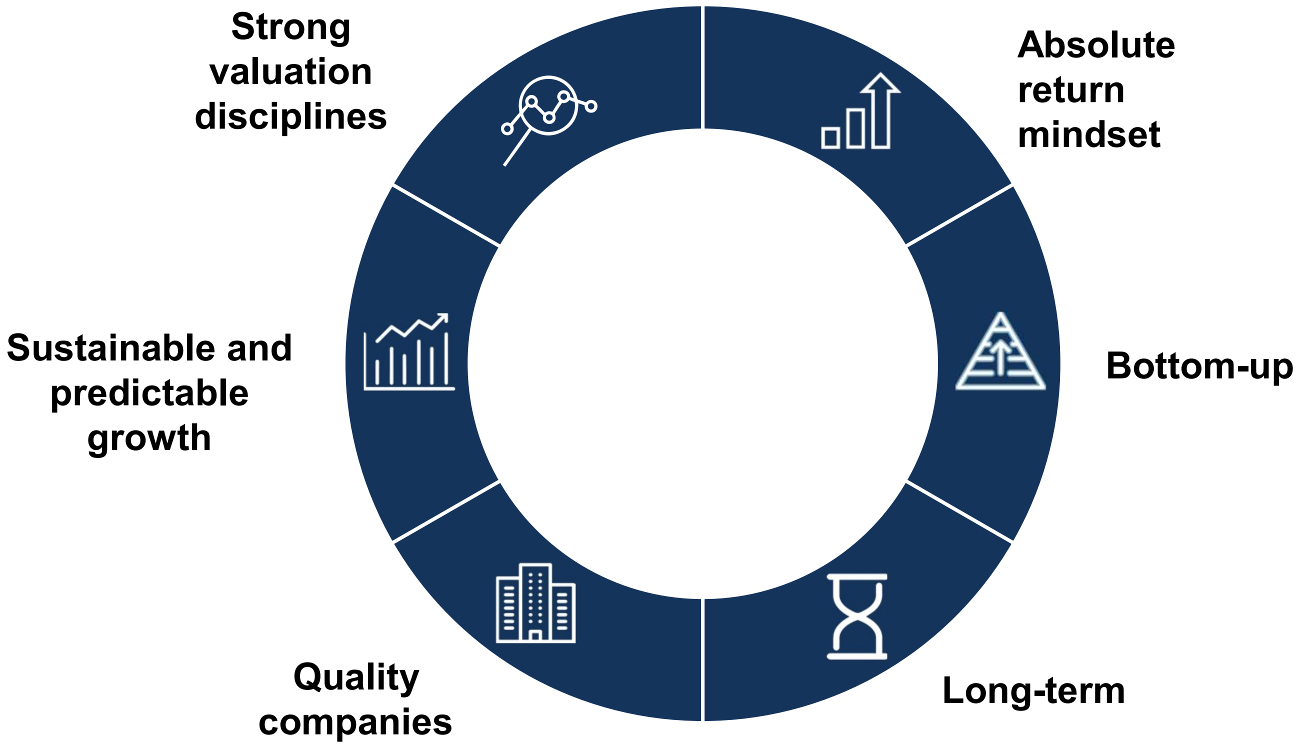
Pandemic, geo-politics, inflation, interest rates, regulatory & policy swings, high valuations, growth?



★The FSSA investment team?

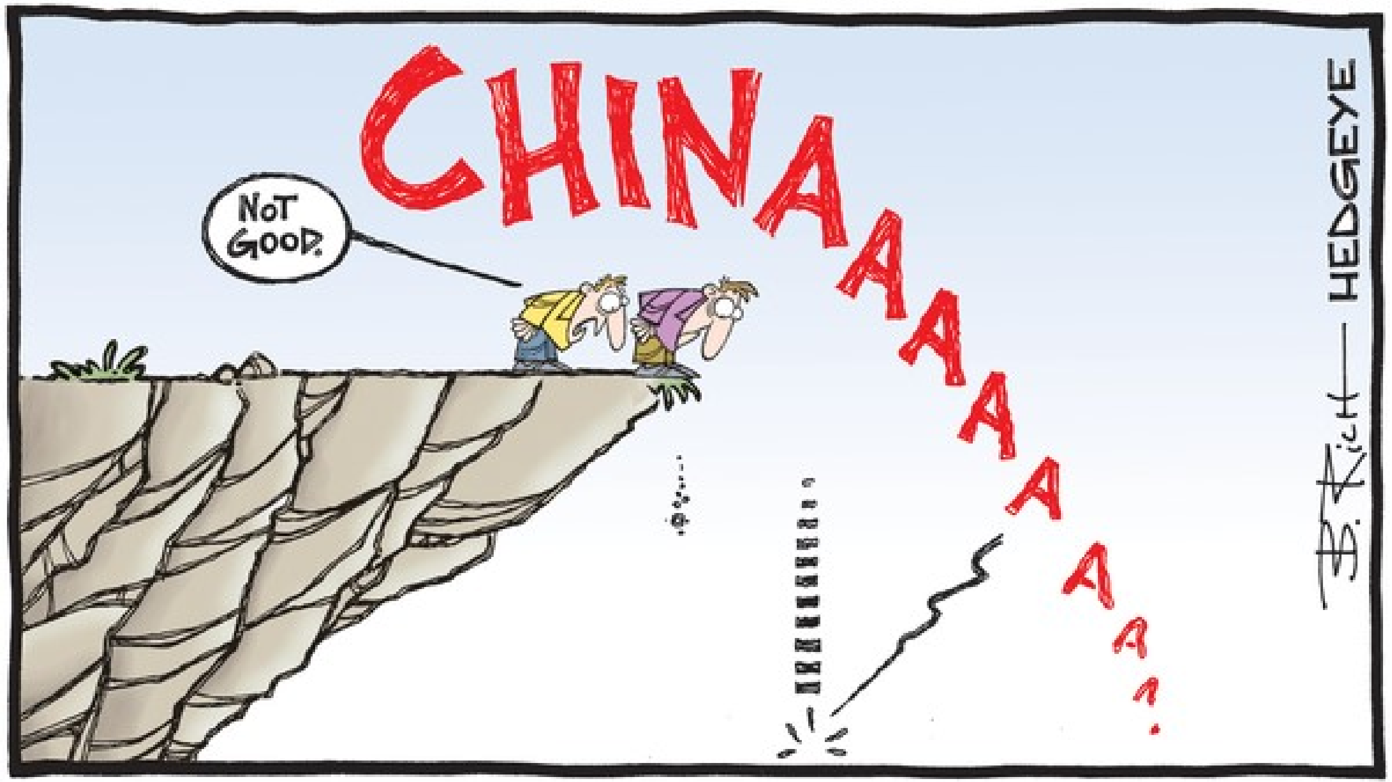
Source: Hedgeye Cartoons, FSSA Investment Managers.

The FSSA investment process



★ ***…what you think and do when something you own halves***

Major investor concerns on China



Source: Hedgeye Cartoons, FSSA Investment Managers.

Major investor concerns on China

- New regulations
- Property sector regulations and deleveraging
- Common prosperity
- Slowing economy

Stocks tend to follow earnings in the long run

China Merchants Bank (3968.HK) share price vs. forward EPS

Source: Factset, FSSA Investment Managers, February 2022. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of First Sentier Investors' portfolios at a certain point in time, and the holdings may change over time.

FSSA Investment Managers

Our views

- Focus on high-quality companies (more than ever) with higher profits in 5-10 years' time

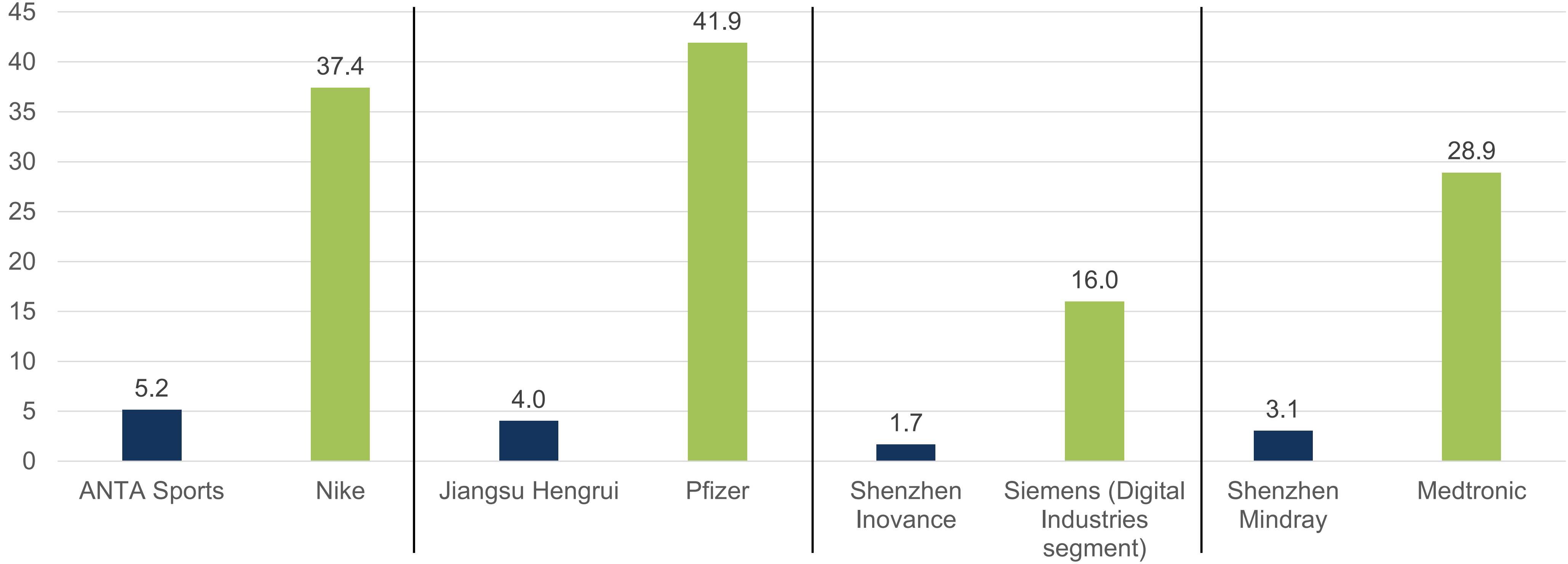
- Positive to see the market is more focused on risks

- Policy-makers are more accommodative easing monetary supply and property market restrictions

- Take advantage of more attractive valuations in good companies

Long growth runway for domestic leaders

Revenue Comparison (2020, USD billions)



Source: Bloomberg, FSSA Investment Managers, February 2022. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of First Sentier Investors' portfolios at a certain point in time, and the holdings may change over time.

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OX CAPITAL MANAGEMENT

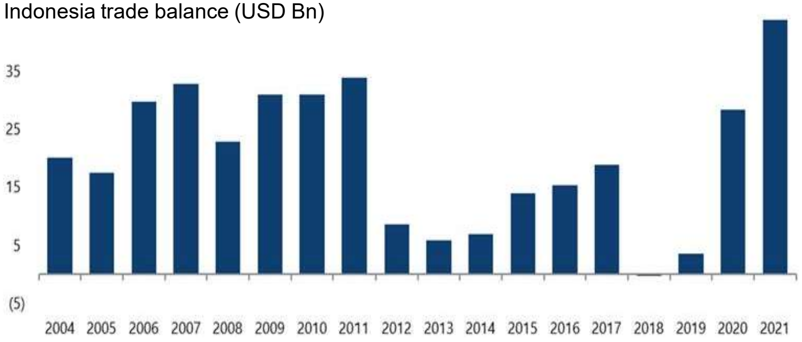
OX CAPITAL DYNAMIC EMERGING MARKETS FUND IN FOCUS

MARCH 2022

INDONESIA IS BENEFITTING FROM RISING ENERGY PRICES, DEMAND FOR EVS, AND IS ON THE CUSP OF A CYCLICAL RECOVERY

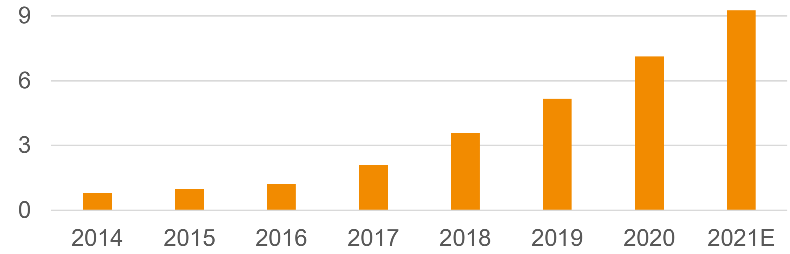
Rising energy and commodity prices is significantly turning around a decade of under-performance in Indonesian exports

Indonesia trade balance (USD Bn)

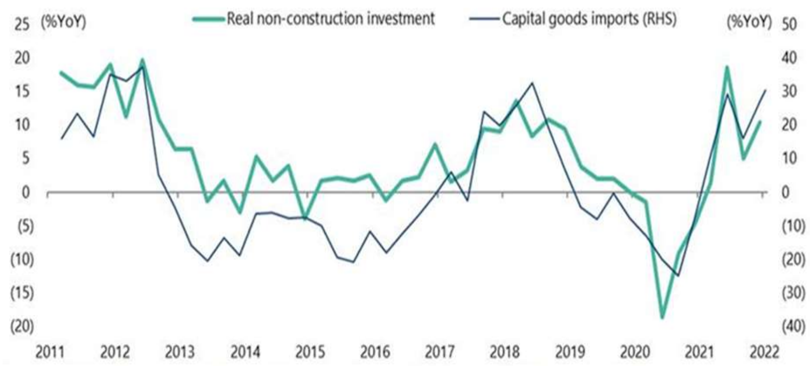


Indonesia's 200M internet users is seeing significant rise in mobile data consumption fueling new internet businesses

Mobile data consumption
(GB per user per month)



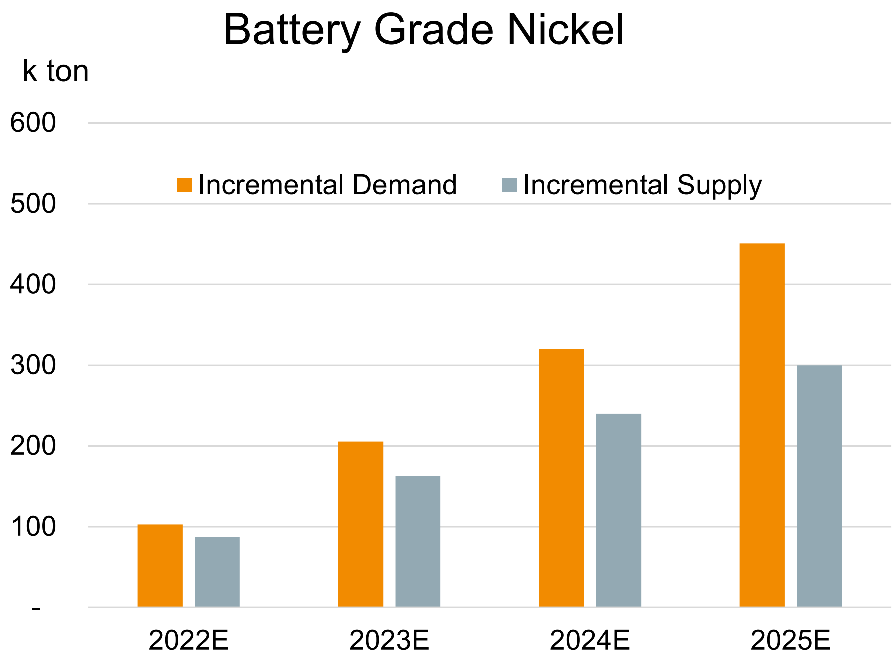
Indonesia is on the cusp of consumption and capital expenditure cycle



Sources: Top left, right: Jefferies; Bottom left: PT Telkom, OxCap Research

NICKEL IN INDONESIA IS ONE OF THE BEST WAYS TO PLAY THE EV BOOM THIS DECADE

- Nickel content per electric vehicle (EV) battery will grow as energy density requirement increases in coming years.
- Battery grade nickel demand is growing at 50% rate, and supply is limited.
- The lack of alternatives means that the bulk of incremental supply will come from Indonesia.
- Indonesia is creating a whole new industry of battery manufacturing from mining to battery assembly. Global companies like LG and CATL have invested significantly to set up manufacturing plants in Indonesia.
- Our portfolio includes ANTM, an Indonesian government-owned gold and nickel miner that is a key part of the Indonesian government strategy to domesticate EV battery production. Vale Indonesia is a pure play on nickel.



Source: Roskill, OxCap Research

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Will higher rates be a headwind for Australian Equities?

Jo Potts, Findex

Andrew Fleming, Schroders

Will Riggall, Clime Investment Management

Schroders

Presentation

Schroder Australian Equities

Andrew Fleming, Deputy Head of Australian Equities

March 2022

For professional investors or advisers only

Everyone has a plan until they get punched

As of 28 February 2022

Market return (Rolling period returns)	1year	3 years (p.a.)	5 years (p.a.)
Top 20 Leaders	9.4%	8.6%	8.0%
ASX 200	10.2%	8.4%	8.5%
ASX Small Ords	5.0%	7.7%	9.4%
Resources	13.7%	16.8%	17.5%
Property	23.9%	6.8%	7.7%
Banks	12.4%	6.6%	3.1%

EV / EBIT Multiples	FY1	FY2	Mid Cycle
Industrials	20.4	16.2	15.5
Healthcare	25.3	26.8	21.9
Bond sensitives	21.8	17.4	15.4
Property	21.0	20.7	25.8
Resources	6.5	13.1	13.5
Banks (NPAT)	16.1	17.1	18.3
IT	45.6	39.5	23.2

Macro factors	Spot	Mid Cycle
Cash rate (Mar-20)	0.10%	
10 year bonds - AUD	2.35	1.00%
10 year bonds - USD	2.01	
AUDUSD	0.73	0.75

Commodities	Price	YoY %	Mid Cycle
Gold (US$/oz)	1901	9.9%	1400
Oil (US$/bbl)	96	55.6%	65
Iron Ore (US$/mt)	142	-14.3%	62
Coking Coal (US$/mt)	275	230.9%	135
Wheat (US$/mt)	360	11.8%	

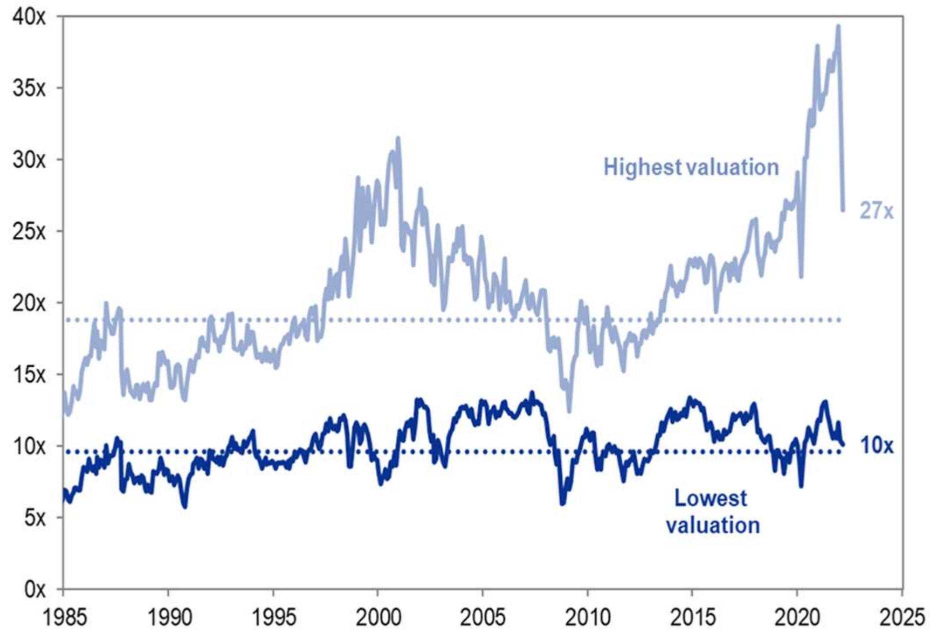
Source: Schroders, Factset. Past performance is not indicative of future performance.

Jerome Powell has driven the equity market

95% correlation between major central bank assets vs MSCI AC World

Correlation between central banks / global market

S&P 500 FY2 P/E multiple top and bottom quintiles



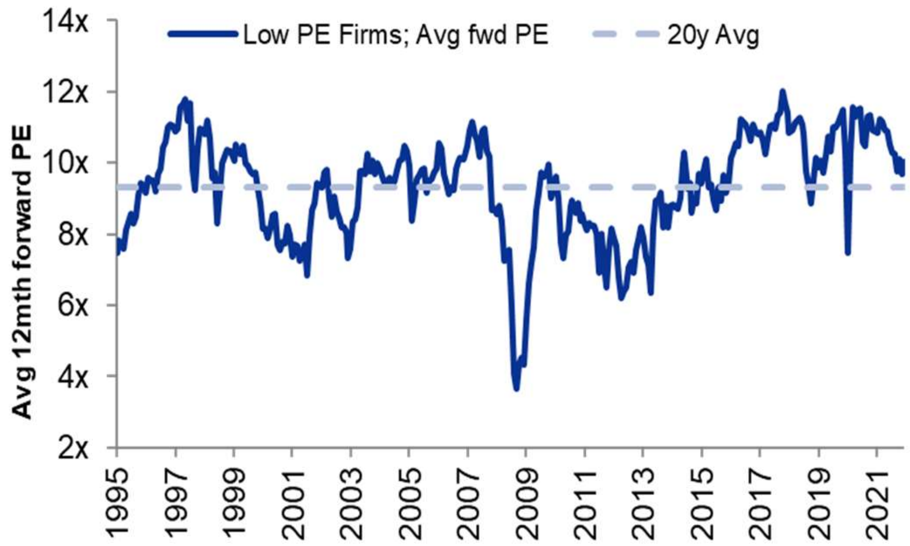
Source: Refinitiv / Schroders

Valuation dispersion has widened sharply

ASX P/E de-ratings

High PE firms at 39.2x, 58% above the 20-yr average

Low PE firms at 10.0x, 7% above the 20-yr average

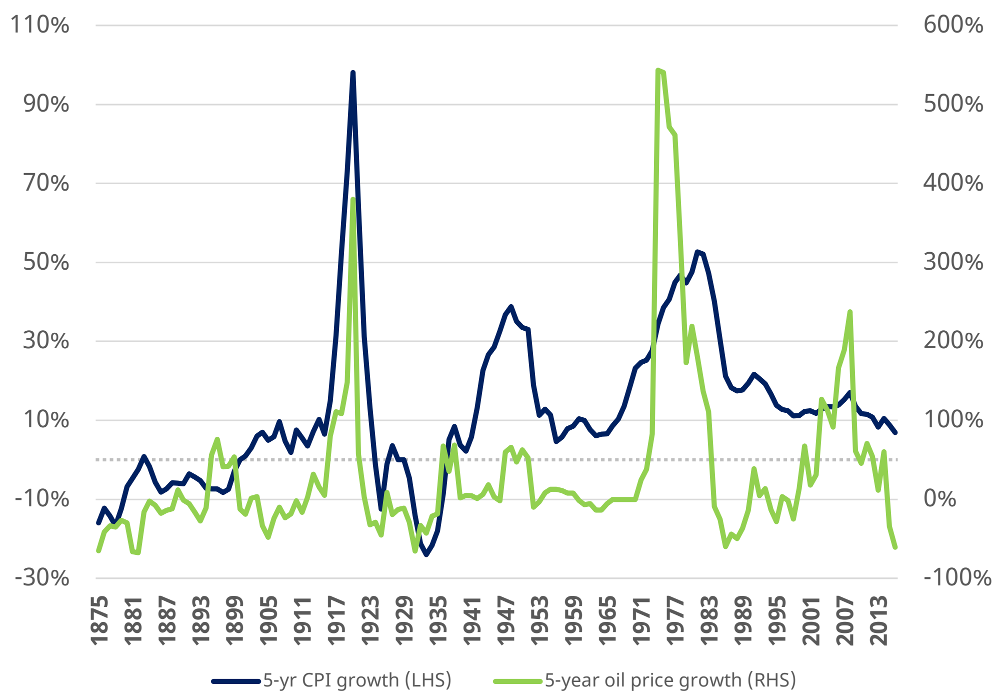


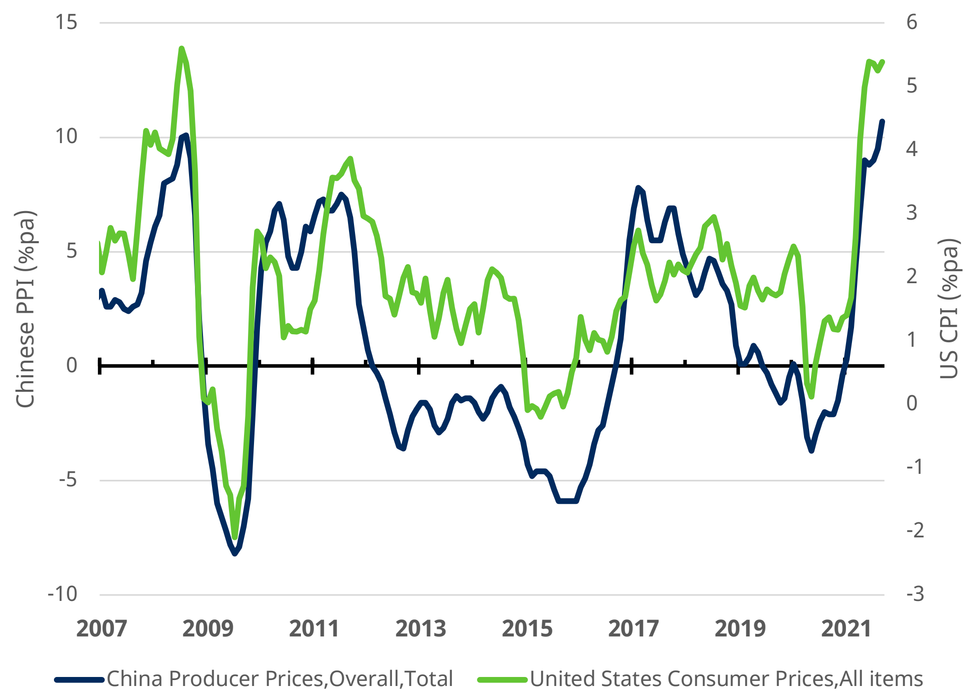
Source: Goldman Sachs

Schroders

Putin on the inflation

Energy prices drive inflation





Source: Schroders Factset, Goldman Sachs

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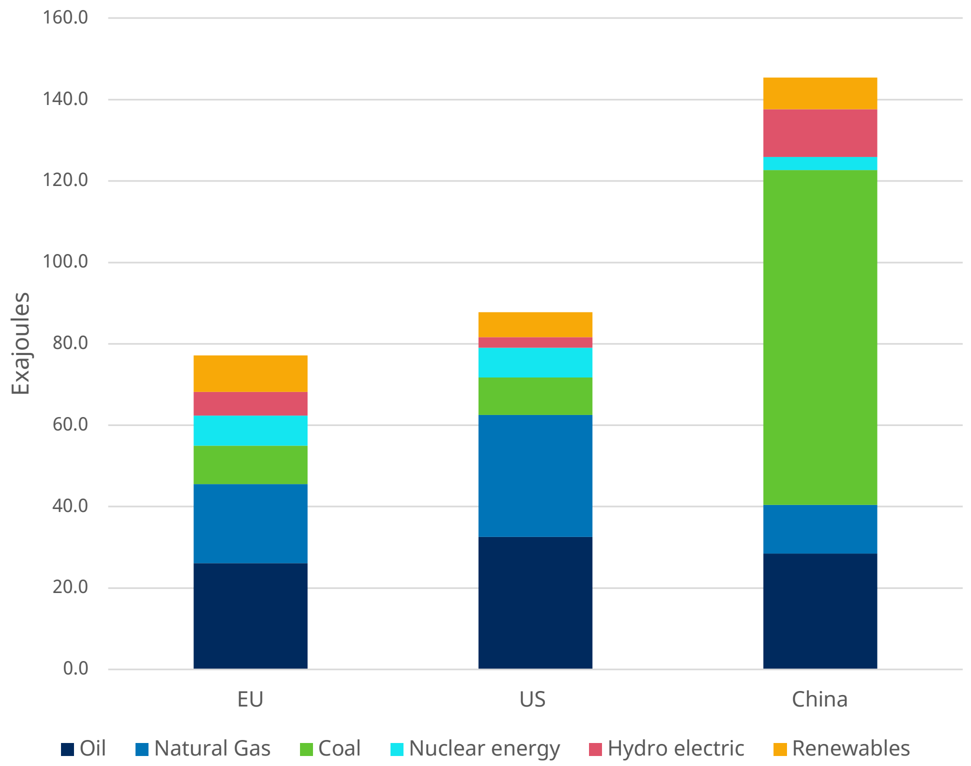
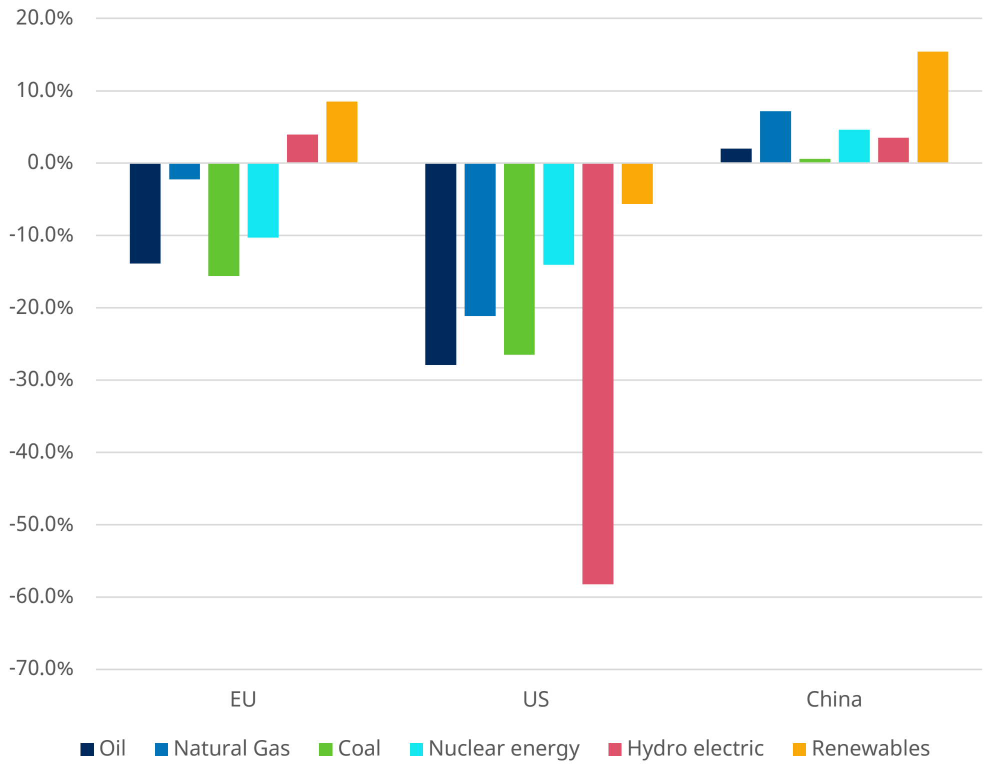
Zero Carbon

2020 energy mix and YoY growth rates

Energy Consumption - Exajoules



YoY change in energy source



Source: BP Statistical Review of World Energy July 2021

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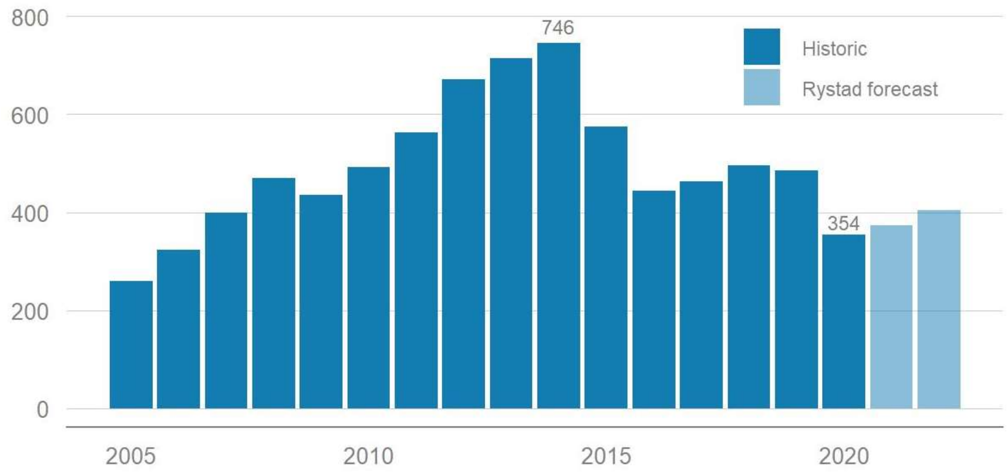
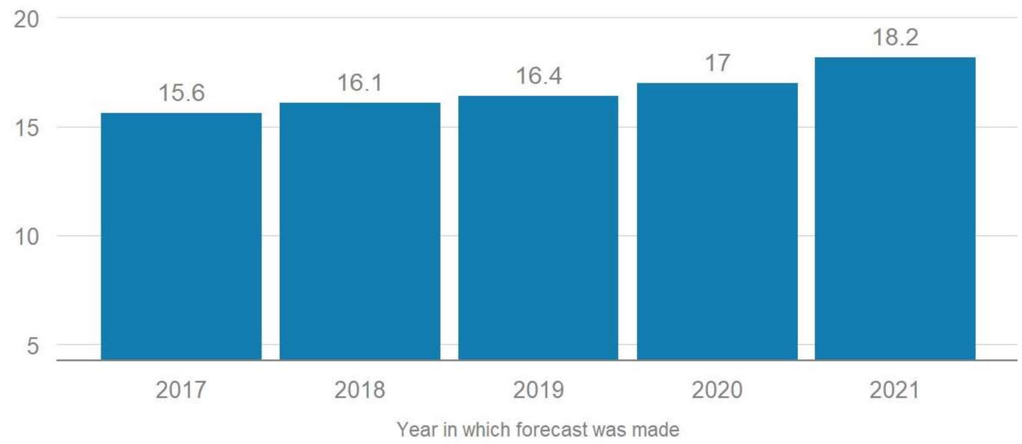
Greta Thunberg’s law of unintended consequences

Supply of fossil fuels has been choked; and demand keeps increasing

Oil and Gas Field Development Capex



CNPC’s estimate of peak Chinese Oil



Source: Morgan Stanley, Rysad Energy

Phil Lowe hasn't unleashed animal spirits

Just a housing bubble

Business investment versus GDP

Capacity Utilisation

Source: Citi Research, RBA, NAB

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Will higher rates be a headwind for AE?

Will Riggall – Chief Investment Officer

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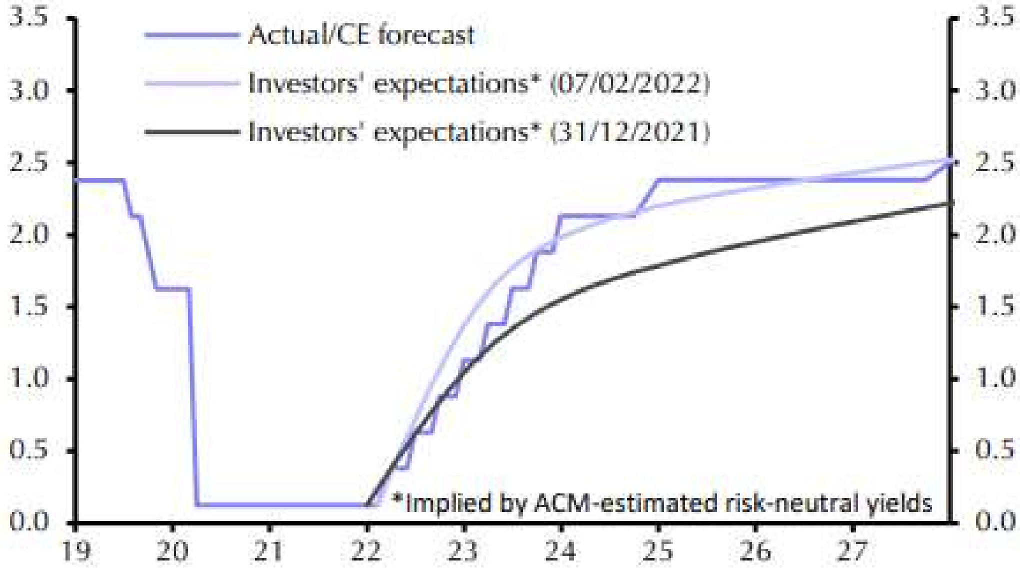
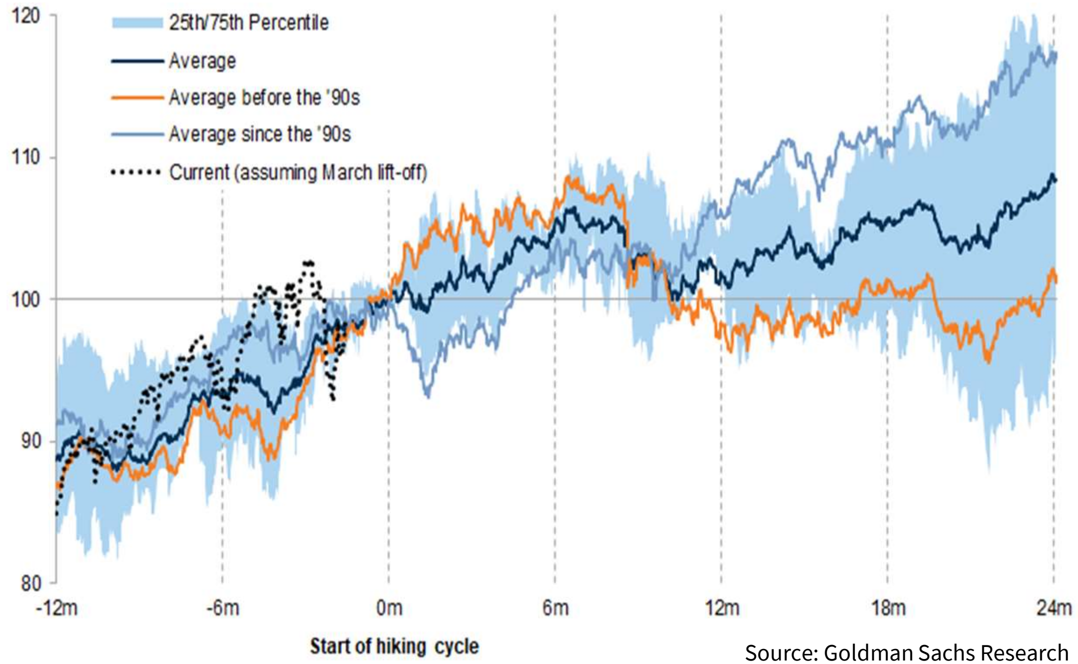
Inflation and the Fed

Rising expectation of interest rates



Capital Economics (Feb 2022)

Rate rises are not bad for the share market



Source: Goldman Sachs Research

Its about positioning more than timing

High PE have led sell off

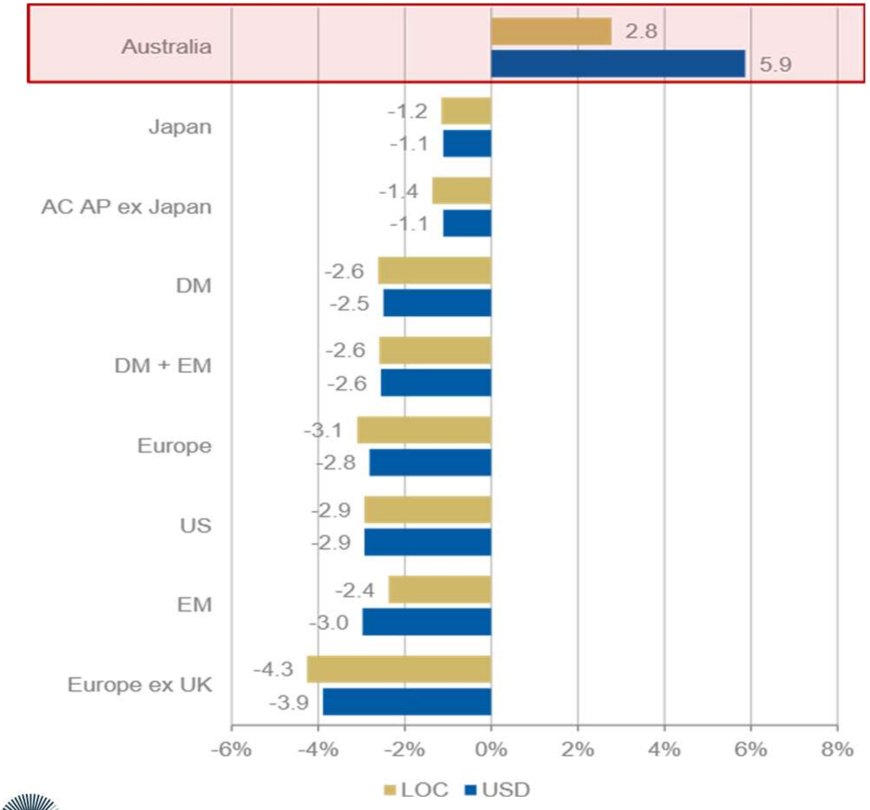
Source: Morgans Stanley

High PE valuations….still high

Source: Morgan Stanley

We are overweight AE

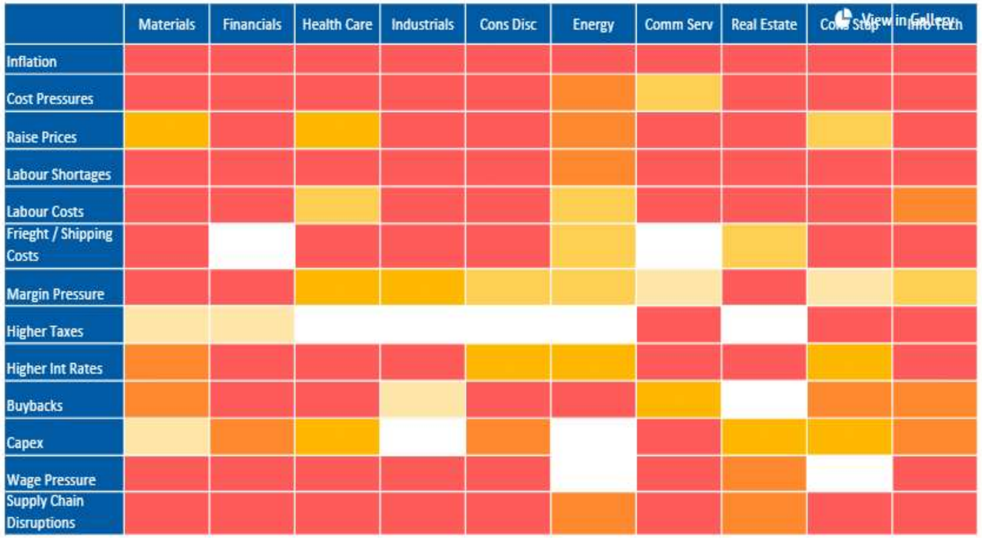
Australia shines in market volatility



Global cyclical sectors have outperformed

Russia/Ukraine – cost impact is broad

In 1H21 results - Cost pressures dominated



Source: Alpha-Sense, Morgan Stanley Research. Pulled from Earnings transcripts, sales updates, guidance updates, conference presentations and investor/shareholder meetings. Universe is Australian Public Companies with Market cap > $100m. Heatmap Colours: We have ranked mentions in Feb-2022 vs previous February's (back to 2014), top-ranked is in RED while bottom-ranked is WHITE.

Russia & Ukraine to impact more than Energy

Source: World Bank, Refinitiv, Credit Suisse research

Portfolio positioning

Defensive Yield		Commodity Exposure		Quality Industrials		High PE		Low earnings track record	
Consumer Staples	Inflation linked	Energy Exposure	Future Facing Minerals	James Hardie Industries (JHX)	Seven Group (SVW)	Tech	Healthcare	Concept stocks	Early stage Mining/Energy

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