OX CAPITAL MANAGEMENT

# THE OPPORTUNITY IN EMERGING MARKETS

FEBRUARY 2022

# DISCLAIMER

This material has been prepared by Ox Capital Management Pty Ltd (ABN 60 648 887 914 AFSL 533828) (OxCap), the investment manager of Ox Capital Dynamic Emerging Markets Fund and Ox Capital Emerging Markets Fund (Funds). Fidante is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Funds. Other than information which is identified as sourced from Fidante in relation to the Funds, Fidante is not responsible for the information in this material, including any statements of opinion.

It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Funds. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

Past performance is not a reliable indicator of future performance.

Any projections are based on assumptions which we believe are reasonable but are subject to change and should not be relied upon.

OxCap and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, OxCap and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties.

Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the Banking Act 1959 (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (Challenger ADI) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Funds are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.

# CONTENTS

# SECTION 1:

# THE OX CAPITAL STORY

# MEET DR JOSEPH LAI

**FOUNDER AND CHIEF INVESTMENT OFFICER**

Dear potential investors,

I started Ox Capital Management with a mission to deliver stellar returns for our investors.

I have had the privilege and responsibility to manage money for clients for over 17 years investing in emerging markets. I believe now more than ever that emerging markets are unusually undervalued.

Emerging market equities have out-performed the developed markets for over 40 years. The last ten years were an anomaly because of the high starting valuation in the period leading up to the GFC. Now, price to earnings multiples are at a record discount despite better quality businesses and we aim to capitalise on the sheer scale and growth in emerging markets over the next decade.

Our investment philosophy is simple. We buy high quality businesses with strong ESG credentials at good prices. We endeavour to look for the champions of the future. We aim to hold our investments for the long term. We have a strong focus on risk management to protect the downside.

At OxCap, we remain committed to being a sensible and intelligent custodian of your capital.

Sincerely,
Dr. Joseph Lai

# WHY EMERGING MARKETS?

**>70%**

Global Growth

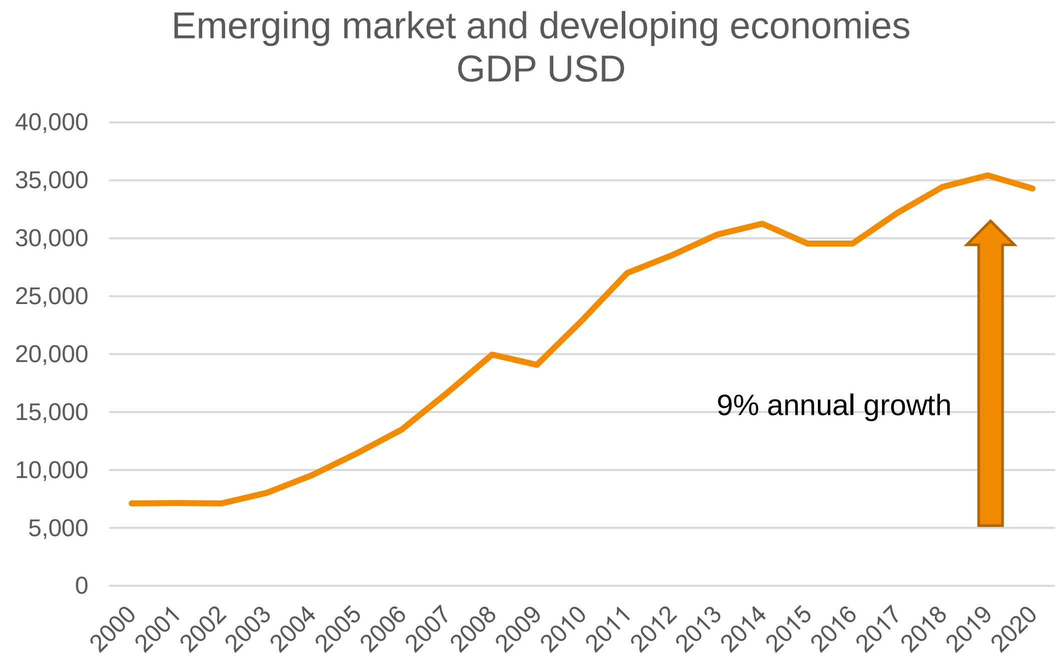
**~60%**

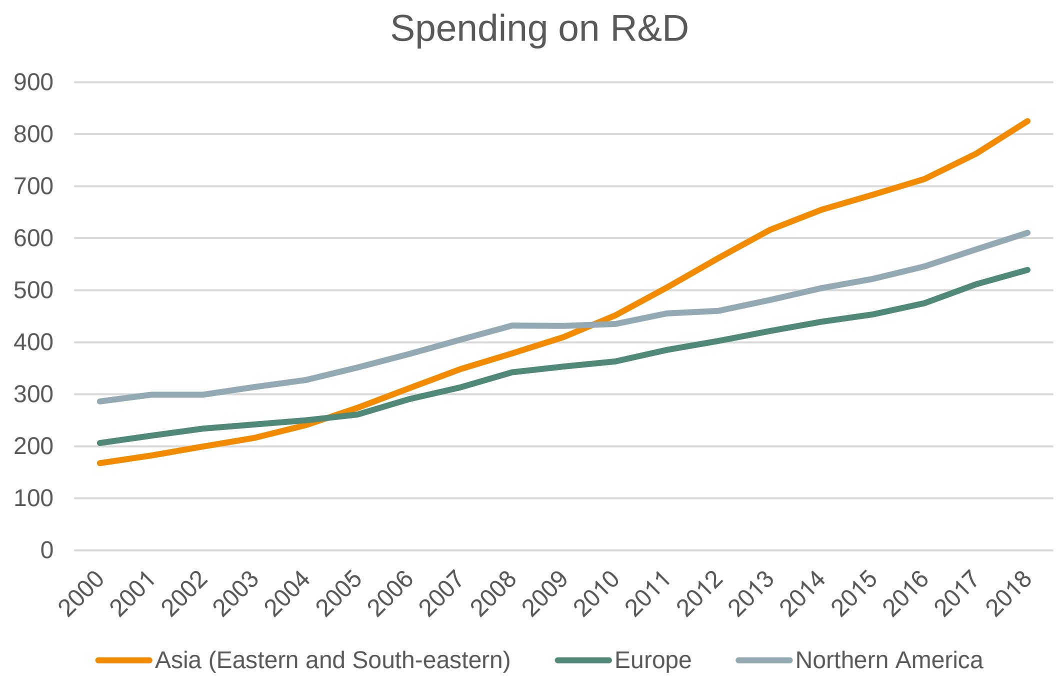
Global GDP

**<13%**

MSCI ACWI Index

# TRANSFORMATIONAL CHANGE TAKING PLACE




## Rapid economic growth driven by R&D and urbanisation

Source: IMF Datamapper (RHS), UNESCO Institute for Statistics Research and Experimental Development database (RHS)

OX CAPITAL MANAGEMENT

# ASIA IS LEADING THE WAY

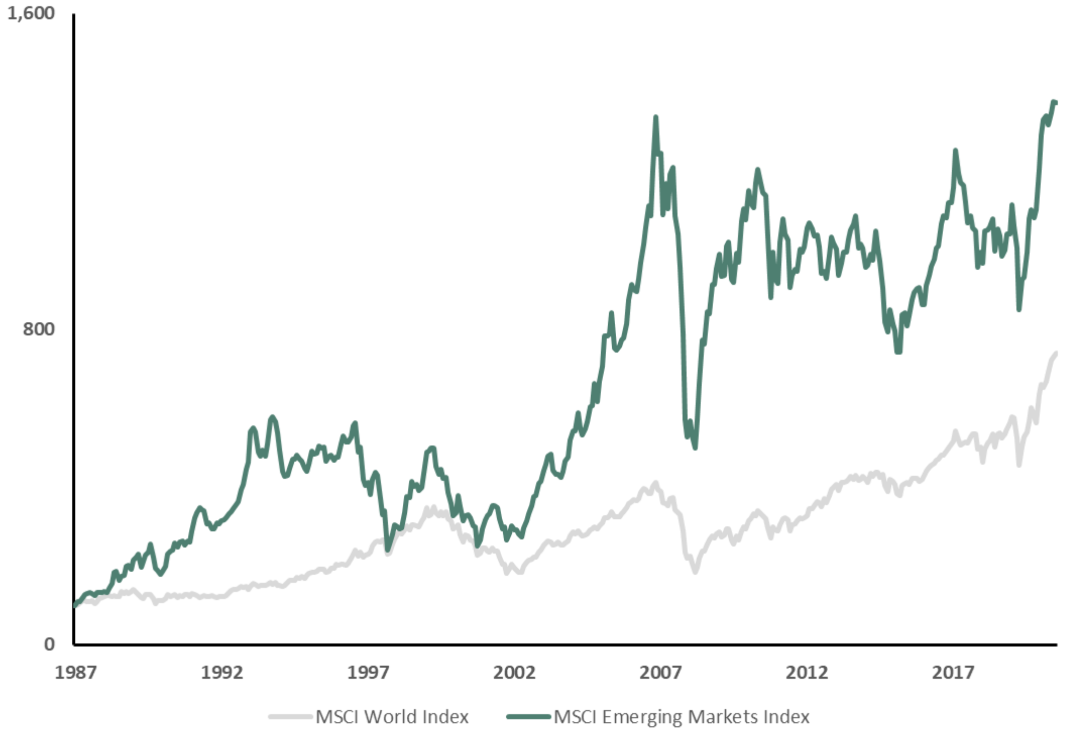
- **Asian companies have come of age**
  - Sophisticated, R&D-driven

- **Faster growth than developed markets**
  - Led by local consumption by increasingly wealthier consumers

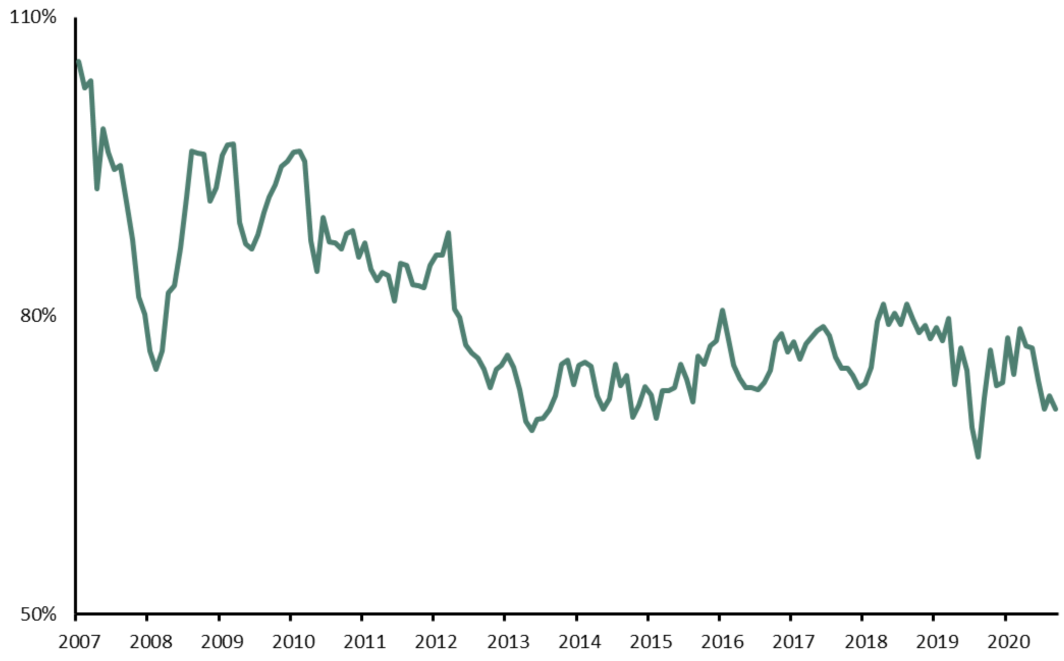
- **Strong domestic companies emerging as leaders**
  - Local champions best way to capture the growth

# EMERGING MARKETS ARE ATTRACTIVELY VALUED

**MSCI Index: EM have out-performed the DM over the last 40 years**




**EM trading at a discounted P/E ratio compared to DM**

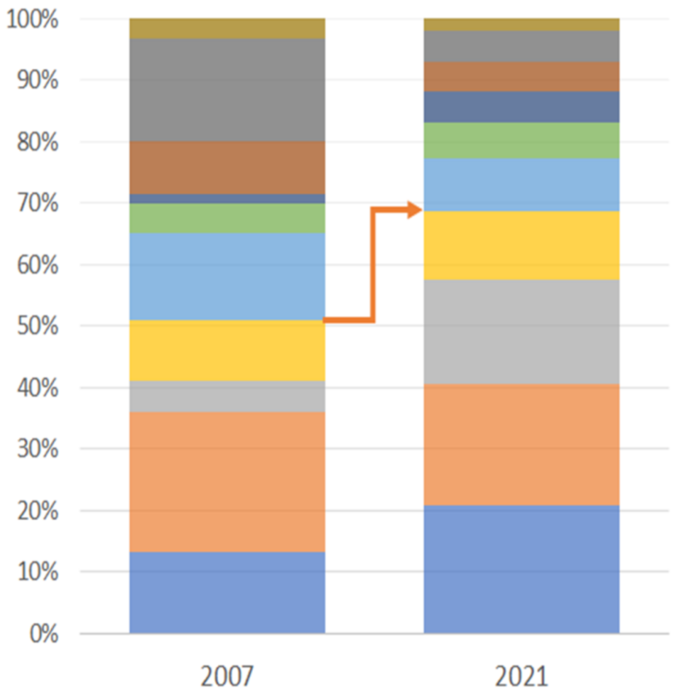



A decade of Chinese deleveraging campaign coming to an end with the property sector the last major shoe to drop

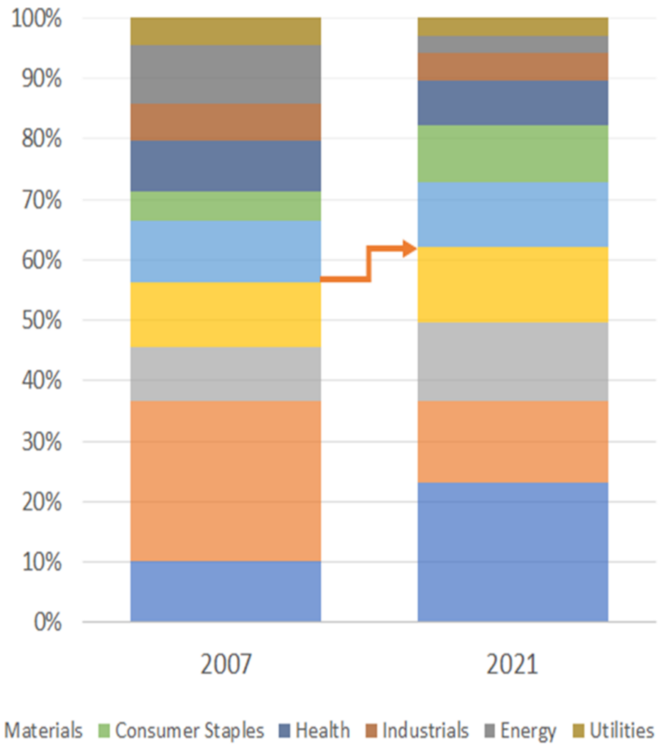
Source: S&P Capital IQ, as at 30 June 2021. Past performance is not indicative of future performance.

# EVOLUTION OF MSCI EM

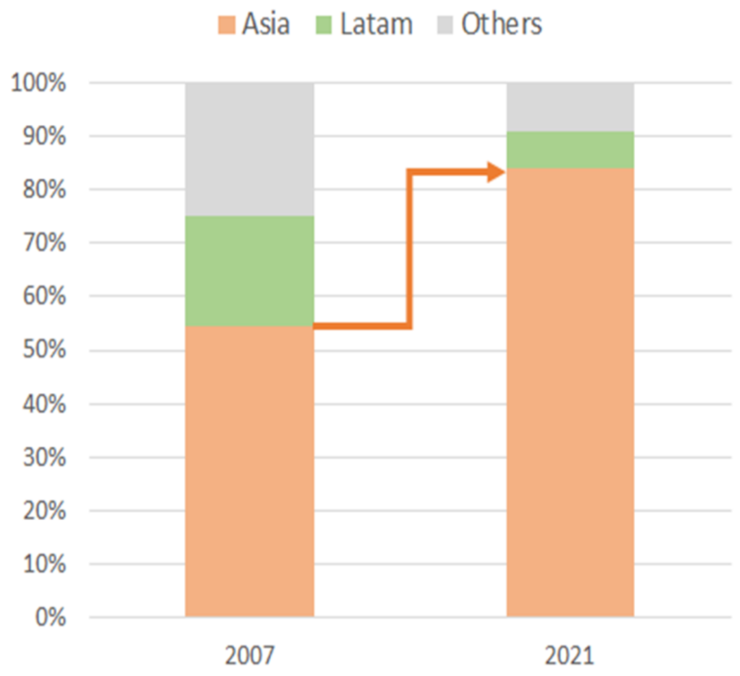
### MSCI EM: then and now




### MSCI World: then and now




### MSCI EM: Asia taking the lead




MSCI EM : Tech and Consumer heavy, reflecting the dramatic change in these economies

Source: S&P CapitalIQ

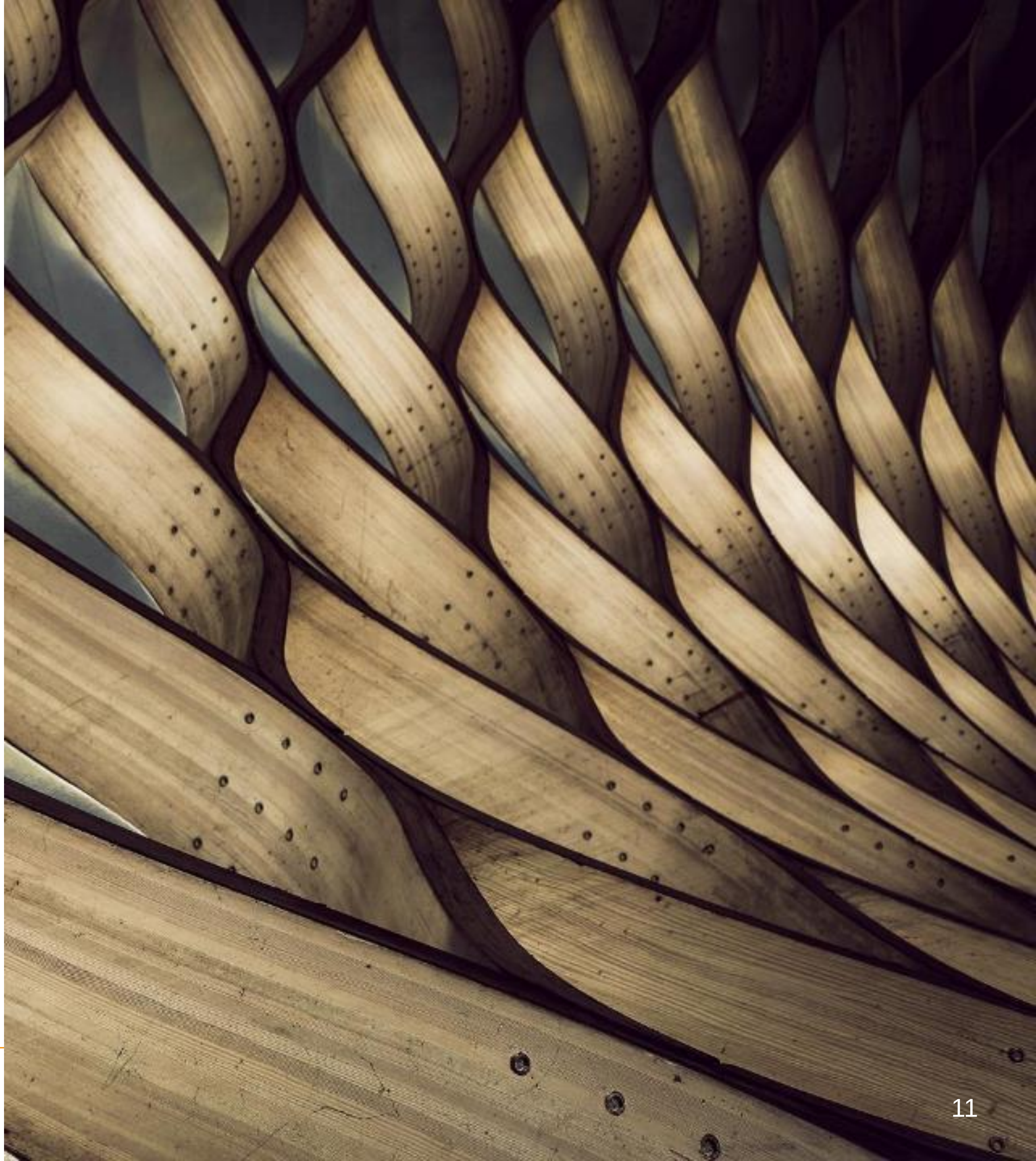
# OUR CORE BELIEFS

- We like to own **structurally growing businesses** and emerging markets are the source of many of these businesses

- An appreciation for how markets behave in **different economic environments** allows for generation of excess returns whilst also managing market volatilities

- An **ESG focus** by businesses reflects business quality and is a source of returns

- Markets can be inefficient, and we seek to **exploit mispriced opportunities**



# OUR APPROACH

We are **experienced investors** in picking high quality emerging market companies.

We construct our portfolio in an **index agnostic** manner.

**High conviction** portfolio, with 30-50 of the best stocks in emerging markets.

We have a differentiated, multi-level and highly disciplined approach to **risk management.**

We combine bottom-up fundamental analysis, with our risk management framework, to achieve good **long-term returns with reduced volatility.**

# INVESTMENT TEAM

Joseph and Douglas invested together for 15 years. Tightly-knit team. Aligned and Focussed.

| Position | Name | Previous Experience | Regional Coverage | Sector Coverage |
|---|---|---|---|---|
| Chief Investment Officer | Dr Joseph Lai | Portfolio Manager of Platinum Asia Fund<br>Head of Asia Research (Platinum)<br>Member of Management Committee<br>17 years investment and management experience<br>MB BS (U. Syd), MBA (AGSM), CFA Charter Holder | All EM | Internet and consumer healthcare, financials |
| Portfolio Managers | Douglas Huey | Portfolio Manager, PM Capital<br>25 years investment experience in Asia, Global Tech and Healthcare (Platinum & PM Capital)<br>LLB (UNSW), BCom (UNSW) | North Asia<br>Rest of World | Internet and consumer, semi-conductors |
| | Alan Zhang | Analyst, Platinum Asia Team<br>4 years investment experience in Asia, focused on Consumers, Internet<br>BActSt (UNSW) | North Asia<br>Rest of World | Internet and consumer, financials, 'new tech', quant (MOAT model) |
| Analysts | Kate Goodwin | 4 years experience Global Transaction Services Bank of America<br>BCom (UNSW), BEcon (UNSW) | South Asia | Internet and consumers, 'new tech', ESG |
| | Sid Mehta | Founder of an Antler-backed start-up (Sydney), Manager Strategy (Uber Singapore & Philippines)<br>5 years experience Investment Banking Grant Thornton and Ernst & Young (India)<br>BEcon(Hons) (St Xavier's Mumbai), MBA (AGSM) | South Asia | Internet, consumers, 'new tech', quant (screens and portfolio analytics) |

# SUPPORT FROM FIDANTE PARTNERS

| 8th largest fund manager in Australia | 17 boutique relationships | Fidante & OxCap |
| --- | --- | --- |
| Fidante Partners is part of the ASX-listed Challenger Group, one of the largest providers of annuities for retirees in Australia.<br><br>Challenger manages over AUD 109 billion*. | Fidante has partnered with 17 boutique funds.<br><br>Boutique relationships ranging from fixed income to Australian equities, alternatives and global equities. | Fidante has partnered with OxCap and is actively supporting our back office, risk and business management.<br><br>Our investment team focuses on the job of investing. |

*As at 31 December 2021.

# WHY CAN WE DELIVER?

- Robust and proven **investment process**
- Our CIO and Portfolio Manager have been investing successfully for **over 15 years**
- **Experienced, diverse** and successful team
- Strong **interest alignment** and a highly collaborative culture
- Proprietary risk management model **(MOAT)** to capture excess return and manage risks

OX CAPITAL MANAGEMENT

# SECTION 2:

# OX CAPITAL DYNAMIC EMERGING MARKETS FUND

# FUND DETAILS

| | Ox Capital Dynamic Emerging Markets Fund |
|---|---|
| **Investment Objective** | The Portfolio aims to provide an absolute return and capital growth over the long term and outperform its benchmark after costs over rolling five year periods. |
| **Performance Objective** | The performance objective for the Portfolio is to exceed the Benchmark by 3% per annum before fees over rolling five (5) year periods. |
| **Benchmark** | MSCI Emerging Markets Net Total Return Index (AUD) Unhedged |
| **Fees & Spreads** | Management fee: 1% per annum<br>Performance fee: 15% of the Fund's daily return[1] above the Benchmark.<br>Buy/sell spread: +/-0.25% |
| **Target Portfolio** | 30-50 stocks that can double in value in 3-5 years (~15% total return p.a.)<br>Mandate allows for minimum of 20 and maximum of 80 stocks. |
| **Asset Allocation** | Long: 50-150%*, Short 0-50%, Gross equity exposure 50%-150%, Net equity exposure 50-150%*, Cash 0-50%<br>Typically 80-90% invested |
| **Currency Hedging** | Typically unhedged to the AUD, however, the Ox Cap may implement active currency strategies using F/X forwards and futures. |
| **Key Focus Sectors & Limits** | Focus on Technology, Healthcare, Financials, Internet, Consumer<br>• Single stock: No greater than 10% at purchase.<br>• Sector: No greater than 30% above the Benchmark Sector Group weights (GICS Level I). Min 0%.<br>• Country: No greater than 25% above the weighting for that country in the Benchmark. Min 0%. |
| **Geography** | Asia ex-Japan and Emerging Markets[2] and flexibility to invest up to 25% of NAV in non-EM[3] |

OX CAPITAL MANAGEMENT

[1] Daily return measured after fees, expenses, after adding back distributions paid. The performance fee payable is calculated on each business day. This daily performance fee amount can be positive or negative depending on whether or not the Performance Benchmark has been exceeded for that day. The cumulative performance fee amount on any given business day is the aggregate of all the daily performance fee amounts (both positive and negative) since a performance fee was last paid from the Fund. The Performance Fee is paid every quarter.
[2] Authorised Countries include non-Asian and emerging markets subject to companies generating more than 50% of their annual sales revenue from Asian and emerging markets.
[3] For the avoidance of doubt, this allows for exposure to companies in frontier markets and developed markets that are not subject to [2] above where Ox believe future growth is linked to Asian and emerging markets themes
* Typical Long securities and net equity exposure will not exceed 100%

# WHERE WE ARE CURRENTLY INVESTED

**NORTH AMERICA**
US

**EUROPE**
Netherlands
United Kingdom
Germany
Spain
Luxembourg

**LATAM**
Brazil

**ASIA**
China
Indonesia
Hong Kong
Thailand
Philippines
Singapore
Republic of Korea
Japan

As at 28 February 2022

# WHAT WE INVEST IN

## QUALITY COMPOUNDERS

- Best in class companies with strong Management
- Pricing power, long-term growth runway
- Positive ESG factors

**Characteristics:**

- ✓ Long runway of current growth
- ✓ Strong management
- ✓ High Return on Capital Employed
- ✓ High gross margin and pricing power
- ✓ Strong EPS growth

**Typical industries:**

Big internet franchises like Alibaba, Tencent

## EARLY GROWTH

- Companies with promising long term growth
- Near term profitability may be depressed because of early-stage investment requirements

**Characteristics:**

- ✓ Long runway of current growth
- ✓ Strong management
- ✓ Low price to sales
- ✓ High sales growth

**Typical industries:**

Early-stage internet, healthcare with patient IP

## TURN-AROUNDS

- Cyclicals or industries that have gone through a washout

**Characteristics:**

- ✓ Potential for longer term growth
- ✓ Strong management
- ✓ Low price to book
- ✓ Low price to EPS on normalised margin

**Typical industries:**

Financials, commodities

## UNDERVALUED ASSETS

- Stocks that trade at a significant discount to net asset value

**Characteristics:**

- ✓ Potential for longer term growth
- ✓ Strong Management
- ✓ EV/capital employed
- ✓ Price to book

**Typical industries:**

Property and infrastructure

# WHAT WE DON’T INVEST IN

### POOR ESG

Companies that operate in an unsustainable manner with poor ESG performance.

### LOW ROIC

Companies with low prospects of long-term sustainable return on invested capital or a poor record of management decisions.

### DECLINING BUSINESSES

Broken businesses, where business fundamentals are declining.

# ESG INTEGRATION

## SCREENING AND ESG SCORES

Exclude tobacco, controversial weapons and other ESG problematic companies during screening.

Proprietary ESG scores and materiality map to evaluate ESG risks.

Momentum of ESG metrics is key.

## INTEGRATION AND ENGAGEMENT

OxCap is a signatory of the United Nations backed Principles for Responsible Management.

ESG embedded in stock research.

Materiality map and research guides engagement with companies.

Signatory of:

PRI Principles for Responsible Investment

## A BETTER WORLD WILL DRIVE RETURNS

We believe ESG issues (positive or negative) to form a natural and important part of the fundamental research process given the direct impact on the financial performance of companies.

EM companies with good ESG profiles outperform.

# A PROVEN AND ROBUST INVESTMENT PROCESS

**Aim to gain a visceral understanding of the businesses through vigorous bottom-up research**

## IDEA GENERATION

- Identify underappreciated emerging and enduring trends in EM
- Look for good companies leveraged to the trend and can deliver on the promise
- Valuation has to be attractive so that it can double in 3-5 years
- We employ quant screens

## IDEA DEVELOPMENT

- Close interaction between CIO and analysts
- Detailed bottom-up analysis of industry structure, trends, company management, outlook and earnings growth potential
- Evaluate ESG considerations

## TEAM REVIEW

- Understand the business
- Prosecute the idea
- Determine the pricing power and economic moat of the business
- Determine the true intrinsic value of the business

## PORTFOLIO DECISION

- New ideas are compared against existing ideas for portfolio inclusion

**Stocks** → Screen 4,000+ stocks → Filter down to +200 stocks → +45 stocks → +25 stocks → ~10 buys

OX CAPITAL MANAGEMENT

# CASE STUDIES FROM PAST INVESTMENTS:
## RELIANCE: OIL AND GAS TURNED TO INDIA'S INTERNET JUGGERNAUT

**Reliance is a petrochemical giant in India that expanded to telecom in 2007 with the launch of Jio**

**Jio is not only the largest mobile operator in India, but is also creating a digital ecosystem in India**

Source: Bloomberg

We looked at Reliance in 2017 and our work suggested that the market under-estimated their potential to transform into a technology giant

The market was concerned about the scale of investment in their telecom solution. Our research showed that they had the potential to transform the market with their high speed, low-cost 4G network, Jio. They became the market leader in India within just 3 years

From 2007-17, Reliance built a telecom offering superior to its competitors and has strategically positioned itself to become the future winner in e-commerce, logistics and online media. Companies like Google, Facebook and Microsoft have invested in Reliance or formed JVs with Reliance, to get access to the long-term structural tailwinds

**The stock has returned over 300% since January 2017**

# CASE STUDIES FROM PAST INVESTMENTS:
## LG CHEMICAL: THE MARKET UNDERESTIMATED THEIR ROLE IN EV'S

**LG Chem is the B2B subsidiary of LG Corp**


**LG Chem was the leading battery supplier for EVs in 2020**

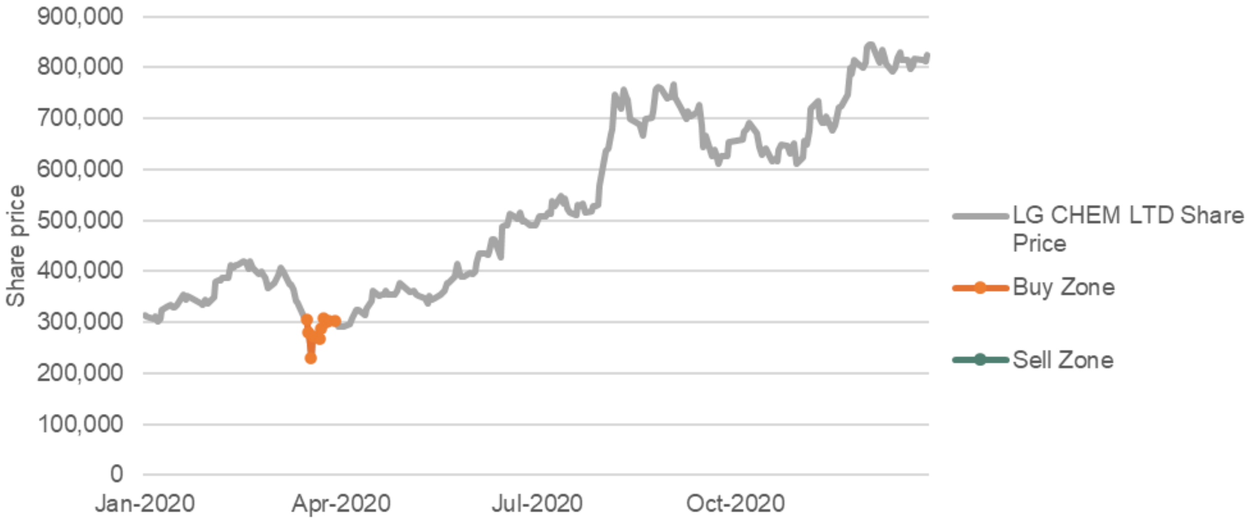

Source: Bloomberg

LG Chem was the largest Korean chemical company and the 10th largest chemical company in the world by revenue in 2017

We looked at LG Chem in 2020. Our research showed that major electric vehicle (EV) makers needed dual-source batteries and LG Chem was one of the strongest candidates to supply these batteries to the market

Sales of EVs surged even during lockdown and served as a catalyst for LG Chem

**The stock has returned over +300% by the year end**



# CASE STUDIES FROM PAST INVESTMENTS:
## MEITUAN: THE MARKET UNDER-ESTIMATED ITS COMPETITIVE ADVANTAGE AGAINST GIANTS LIKE ALIBABA

**Meituan is the market leader in China's food delivery market**


**The stock returned 100%+ in 9 months as the story unfolded that they were strategically positioned to emerge as the leader in China's food delivery market**


Source: Bloomberg

Meituan is a large internet company in China that offers a wide range of products from discounted deals and restaurant reviews to food delivery

In 2018, the market was concerned that cash-rich Alibaba would take over the market through its subsidiary Ele.me. Speculators shorted Meituan (40% borrow cost)

Our research found that Meituan would be the winner. It has a huge edge in cost because of it's network density and has huge potential in advertising revenue

**The stock returned over 370% in 9 months with home delivery being the first batch of businesses to recover post-pandemic**


OX CAPITAL MANAGEMENT

# CASE STUDIES FROM PAST INVESTMENTS:
## KINGSOFT'S CLOUD SOLUTIONS AND YUM CHINA'S KFC BUSINESS

**Kingsoft is a cloud computing, data centre and software company based in China. It also develops video games through its subsidiary Seasun**

The market was concerned about its late life-cycle of its JX multi-player role playing game and the reluctance of users paying for productivity software

Our research showed that subscription revenues were ramping up and its University collaborations would drive user growth in the future

**The stock returned 500% by 2020 year end**


**Yum China is one of the largest QSR groups in China and holds the franchise for KFC, Taco Bell, Pizza Hut, among others**

The stock was hit after the African swine flu and Sino-US trade frictions, with higher protein prices and boycotting by the locals

Our research into the chicken reproductive cycle and the consumer's perception of KFC allowed us to take advantage of the opportunity

**The stock returned 80%+ since**


Source: Bloomberg

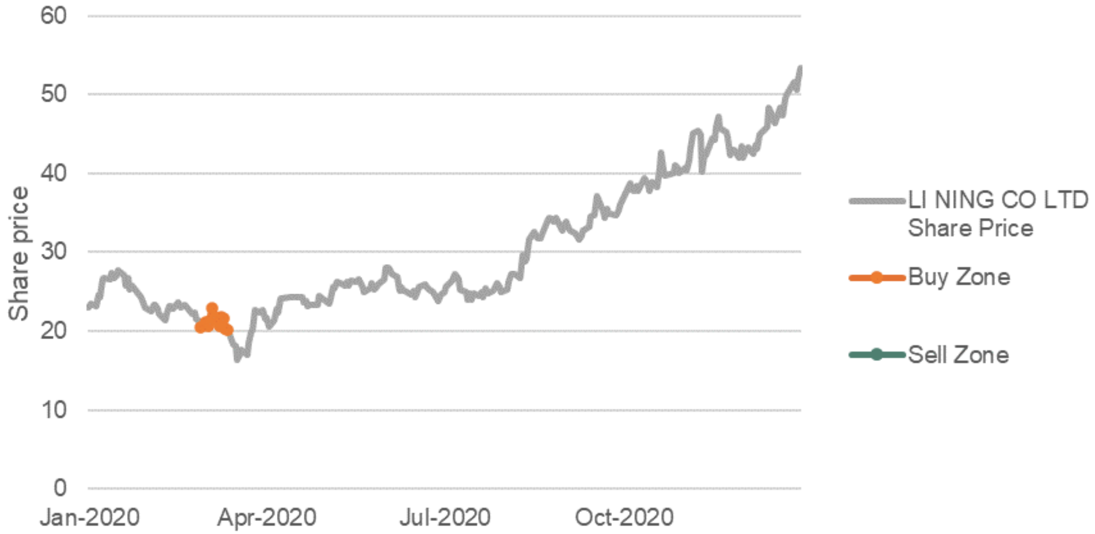
# CASE STUDIES FROM PAST INVESTMENTS:
## LI NING'S PREMIUM SPORTSWEAR AND JD'S LOGISTICS CAPABILITIES IN CHINA

### Li Ning is a premium sportswear brand, started by a former Olympic gymnast

The market under-recognised Li Ning's appeal in the Chinese premium sportswear market and focused on foreign giants Nike and Adidas

Our insight was that Li Ning would be able to premiumise and achieve significant acceptance. Their continued success from Q120 rallied the stock

**The stock returned 250% by 2020 year end and was trading as high as HK$ 105/share by July 2021, returning 470%**



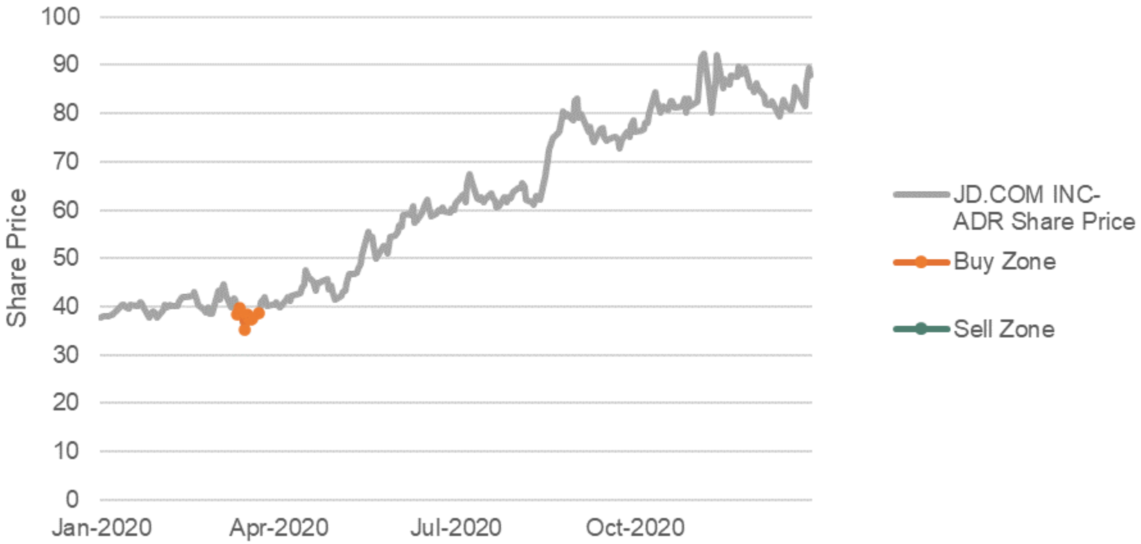

Source: Bloomberg

### JD is one of the largest e-commerce and logistics players in China

The market was concerned of JD's scalability as it operates an asset-heavy model of owing warehouses and distribution centres compared to Alibaba and PDD

Our study showed that consumers in China were increasingly getting more particular about the quality and speed of deliveries. COVID-19 accelerated this transition

**The stock returned 80%+ since**



# PORTFOLIO CONSTRUCTION

## RANKING OF BEST OPPORTUNITIES

Index agnostic.

Stocks are evaluated on their own merits and ranked on attractiveness.

## CONVICTION BASED WEIGHTING

Portfolio weight based off conviction on the expected value of the stock in 3-5 years. Position size 3-6%.

Expected value based on:

- Valuation based on earnings estimates in 3-5 years assuming normalised P/E
- Probability of achievement of the earnings trajectory
- Probability and magnitude of downside if base case does not eventuate

## CURATED CONSTANTLY

Constant portfolio evaluation to determine the opportunity cost of including new ideas.

Hence, the portfolio consists of stocks at different stages of maturity in terms of the value potential.

# DOWNSIDE PROTECTION

### JUDICIOUS USE OF SHORTS

Well-timed shorting is an effective hedge against downside risks.

Ill-timed shorting, even if stock selection is correct, not only fails to protect against, but also exacerbates potential capital loss.

### THE SHORT BOOK SIZE WILL FLUCTUATE

MOAT Model guides the size of the short book.

0-50% range.

This is typically when:

A) Economic conditions are deteriorating

B) Market valuation is stretched

### SHORT DECLINING BUSINESSES OR INDICES

Individual stock shorts will focus on broken businesses.

Equity index shorts or volatility index longs, can be employed to hedge against expected market volatility.

# INVESTMENT RISK FRAMEWORK: CONSERVATIVE ASSESSMENT OF DOWNSIDE RISKS

### Quantitative MOAT model

The MOAT is our proprietary model for a **codified, systematic and unbiased** quantification of what is happening in key economies and sectors.

**Judicious use of derivatives** to reduce tail and correlation risks. Use liquid equities or indices when they provide superior risk reward.

### Diversification

Diversification of **industries and countries.**

**No outsized positions** – Limit on geographic and individual stock exposures.

### Idiosyncratic Risks

**Margin of safety** – do not pay up and know the downside even if the base case does not play out

**Liquidity** and other transactional risks inform downside scenario.

# HOW OUR PROCESS COMES TOGETHER

## BOTTOM-UP

- Team of independent thinkers constantly working to discover new ideas and industry trends
- A visceral understanding of how the business works and which companies could be the long-term winners
- Buy these high-quality compounders when they are attractively priced

## RISK MANAGEMENT EDGE

- Our MOAT model reduces noise in forecasting the evolution of economic outcomes
- Our fundamental work reduces individual stock risks
- Diversification reduces correlation risks

## CONCENTRATED PORTFOLIO

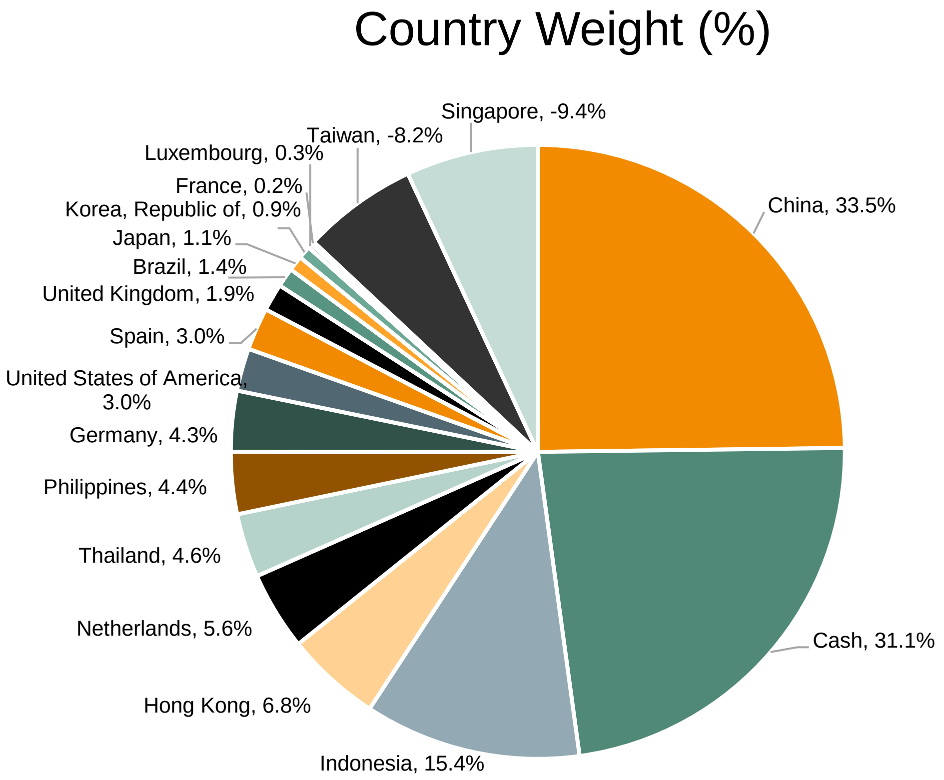
- Concentrated portfolio in companies that capitalise on the immense structural growth trends in emerging markets
- Protect the downside risk

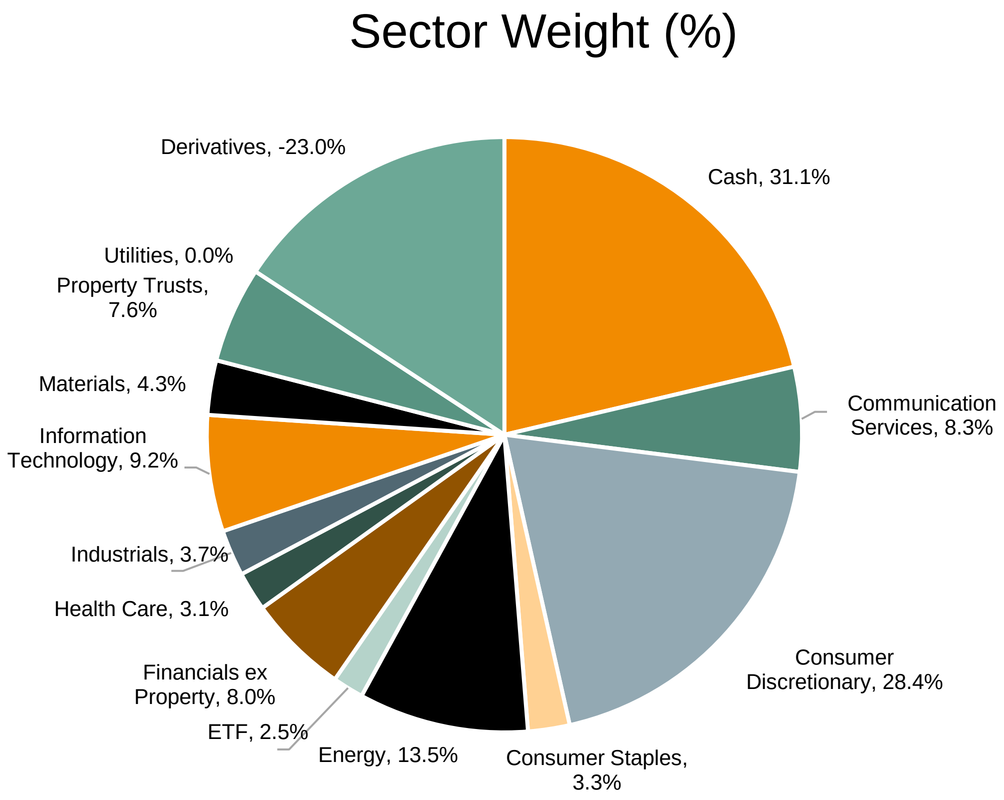
# TOP 10 HOLDINGS - DYNAMIC

| Issuer | Issuer Name | GICS Sector | Fund Weight | Benchmark Weight |
|---|---|---|---|---|
| SHEL GB | Shell PLC | ENERGY | 5.59% | 0.00% |
| 700 HK | Tencent Holdings Ltd | COMMUNICATION SERVICES | 5.00% | 4.18% |
| DHER DE | Delivery Hero AG | CONSUMER DISCRETIONARY | 4.32% | 0.04% |
| 9988 HK | Alibaba Group Holding Ltd | CONSUMER DISCRETIONARY | 3.97% | 2.73% |
| SE US | Sea Ltd | INFORMATION TECHNOLOGY | 3.19% | 0.00% |
| 1299 HK | AIA Group Ltd | FINANCIALS EX PROPERTY | 3.15% | 0.00% |
| ASII ID | Astra International Tbk PT | CONSUMER DISCRETIONARY | 3.11% | 0.11% |
| 9618 HK | JD.com Inc | CONSUMER DISCRETIONARY | 3.09% | 0.84% |
| TLKM IE | Telekomunikasi Indonesia Persero Tbk PT | COMMUNICATION SERVICES | 3.05% | 0.20% |
| REPYY US | Repsol SA | ENERGY | 3.02% | 0.00% |
| **Total** | | | **37.48%** | **8.09%** |

As at 28 February 2022

# PORTFOLIO COMPOSITION - DYNAMIC




As at 28 February 2022

OX CAPITAL MANAGEMENT

# PERFORMANCE - DYNAMIC

## Ox Capital Dynamic Emerging Markets Fund

| Performance | 1 Month % | 3 Month % | FYTD % | 1 Year % | 3 Year % p.a. | Inception % p.a. |
|---|---|---|---|---|---|---|
| Fund return (net)[1] | -4.45% | -10.07% | - | - | - | -13.70% |
| MSCI Emerging Market Net Return Index AUD unhedged | -5.81% | -5.26% | - | - | - | -6.36% |
| **Excess return** | **1.36%** | **-4.81%** | **-** | **-** | **-** | **-7.34%** |

[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. The inception date for the fund is 17 September 2021. **Past performance figures that are less than 12 months are for informational purposes only and are not to be relied upon when considering the likely future performance of the Fund. Data Source: Fidante Partners Limited, 28 February 2022.**

OX CAPITAL MANAGEMENT

# SECTION 3:

# THE MACRO OVERLAY AGGREGATE TRACKER (MOAT)

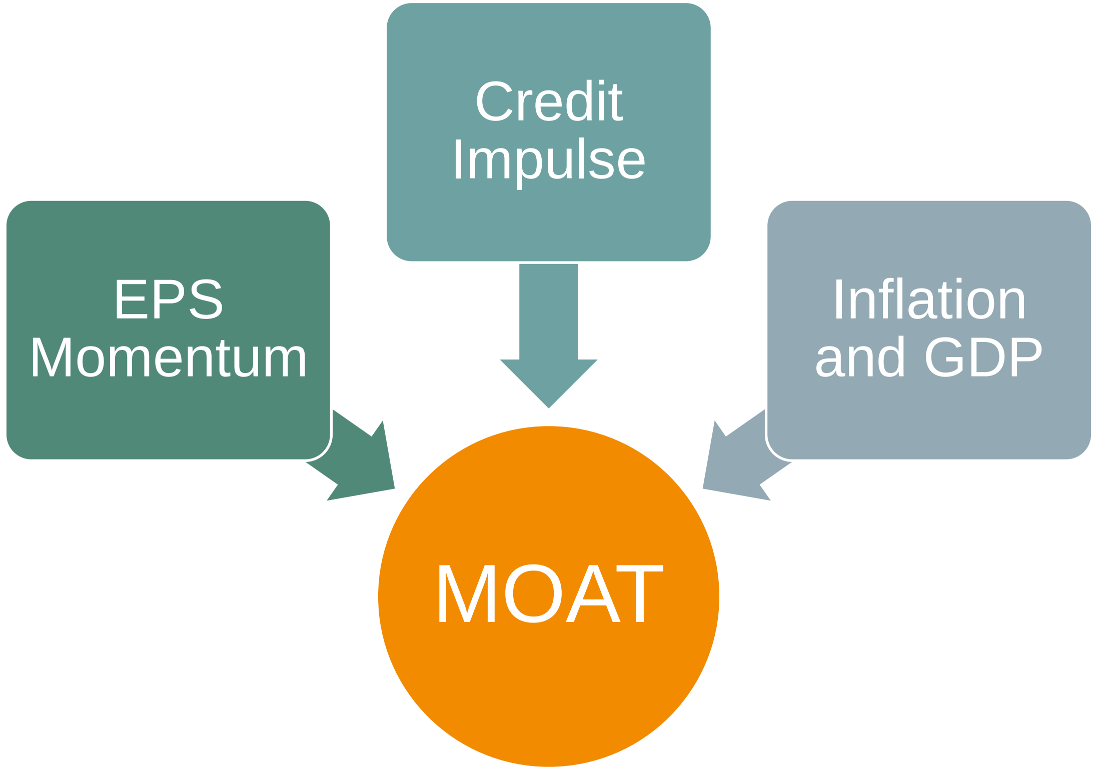
# MOAT: A QUANTITATIVE TOOL TO MANAGE RISK

- The Macro Overlay Aggregate Tracker (MOAT) is a quantitative tool to guide us in the type and level of risks to be taken

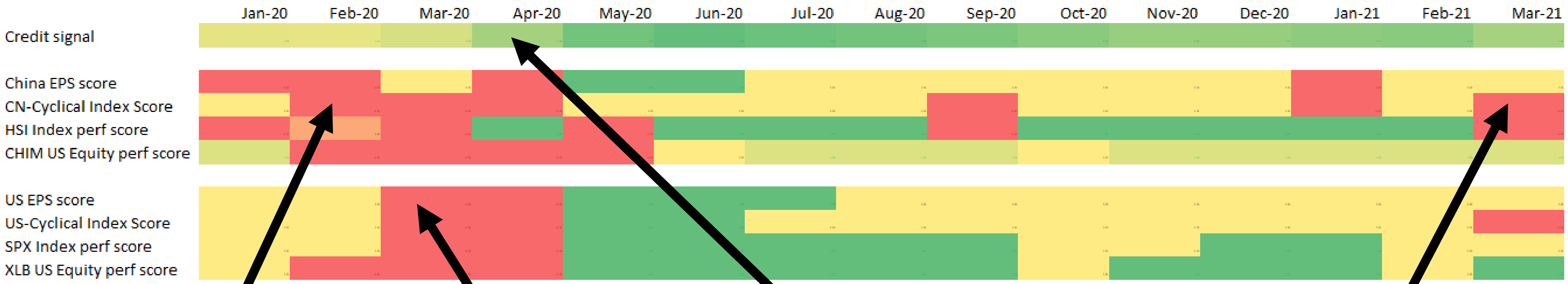
- Captures over 1 million data points every month (macro, fundamental and market data) and algorithms distil the signals into potential actionable outputs

- The MOAT provides an unbiased, systematic quantification of key sectors, economies and markets. It reduces human biases in decision making.

- Combined with experience and discipline, we can effectively take actions to protect and grow capital



# HOW THE MOAT WOULD HAVE HELPED DURING COVID-19




Worsening EPS score and CN-Cyclical index upon China Lockdown fore-warned about market impact on Global lockdown

When COVID spread to Italy, big market drawdown expected.
**Action:** Hedge significantly

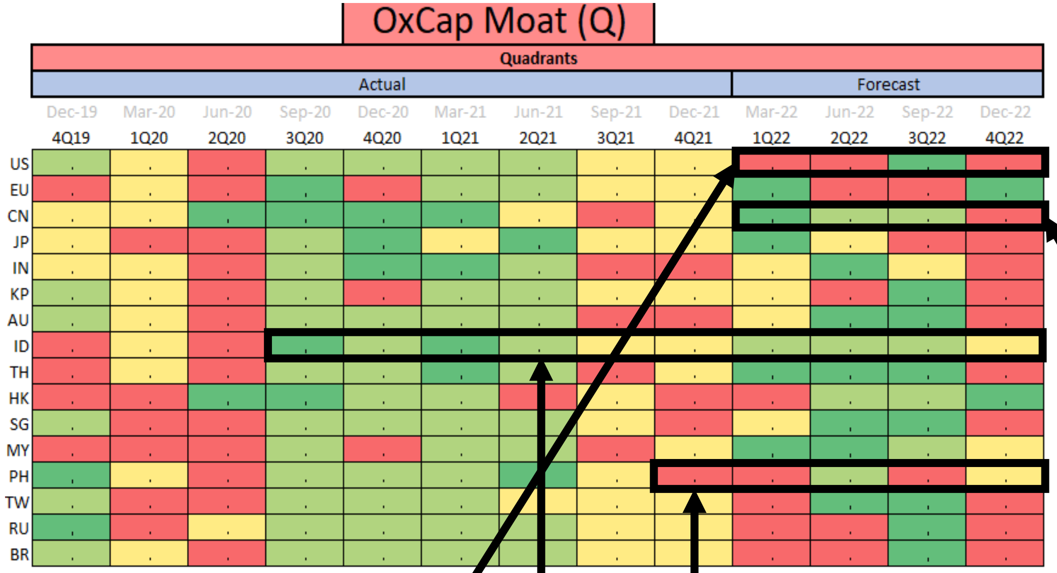
In April, credit signal started flashing green. Big stimulus.
**Action:** Time to buy!

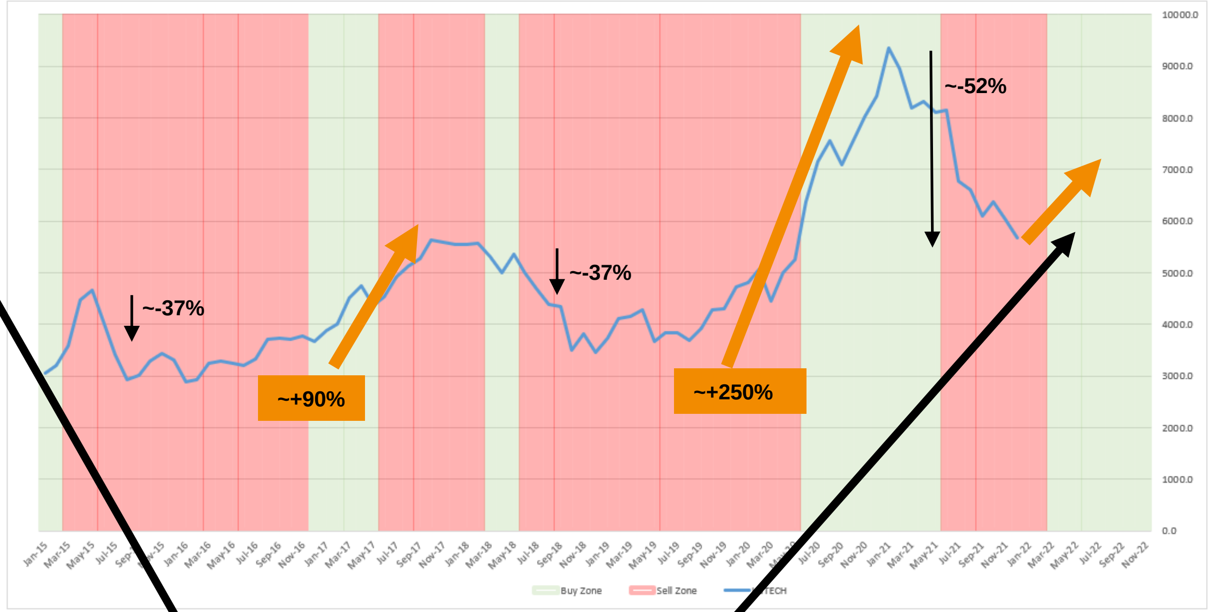
Chinese cyclical index and credit signal weakening.
**Action:** Time to be cautious

| | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 |
|---|---|---|---|---|---|---|---|---|
| CN-Energy | 0.10 | 0.03 | -0.37 | 0.43 | 0.30 | 0.05 | 0.11 | -0.10 |
| CN-Materials | 0.02 | 0.15 | -0.05 | -0.11 | 0.27 | 0.07 | 0.07 | -0.15 |
| US-Energy | -0.16 | 0.05 | -0.58 | 0.84 | 4.24 | 0.41 | 0.16 | -0.04 |
| US-Materials | 0.03 | -0.03 | -0.10 | 0.06 | 0.30 | 0.03 | 0.02 | 0.04 |

Huge EPS upgrades in Energy and Materials 2Q2020.
**Action:** Consider the cyclicals

# MOAT OUTPUTS LOOKING AHEAD




US: Economic condition is plateauing and it is time to be cautious

Indonesia: Has been green, the Jakarta index has done well

Philippines: Red in 4Q21 and 1Q22 due to COVID. Set to improve in 2022 as vaccination rate goes up

China: Left the green zone in 1Q21. Set to turn green in 2022. An opportunity to start positioning.

OX CAPITAL MANAGEMENT

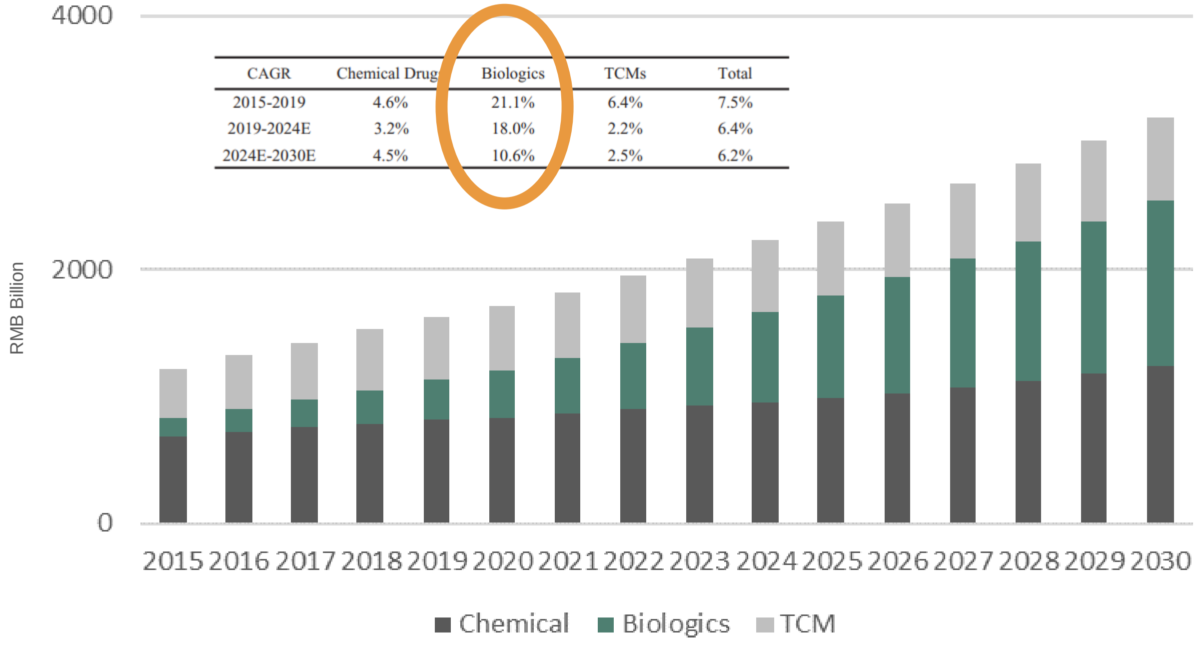
# SECTION 4:

# STRUCTURAL TRENDS

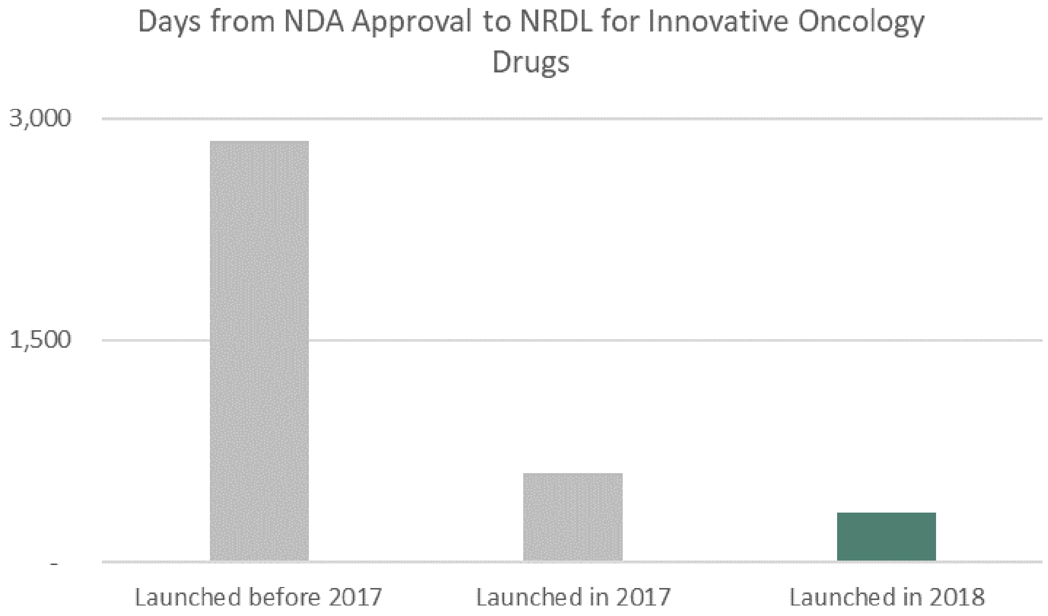
# 1. HEALTHCARE:
## BIOLOGICS AND CELL THERAPY MARKETS SET TO SURGE IN CHINA

China's pharmaceutical market is the second largest in the world; Currently estimated at USD 281 Bn, forecasted to grow over 6% a year over the next decade driven by surge in biologics and cell therapy.

The standard of care for many diseases in China is different from the US. There is an opportunity to launch proven drugs in the Chinese market.



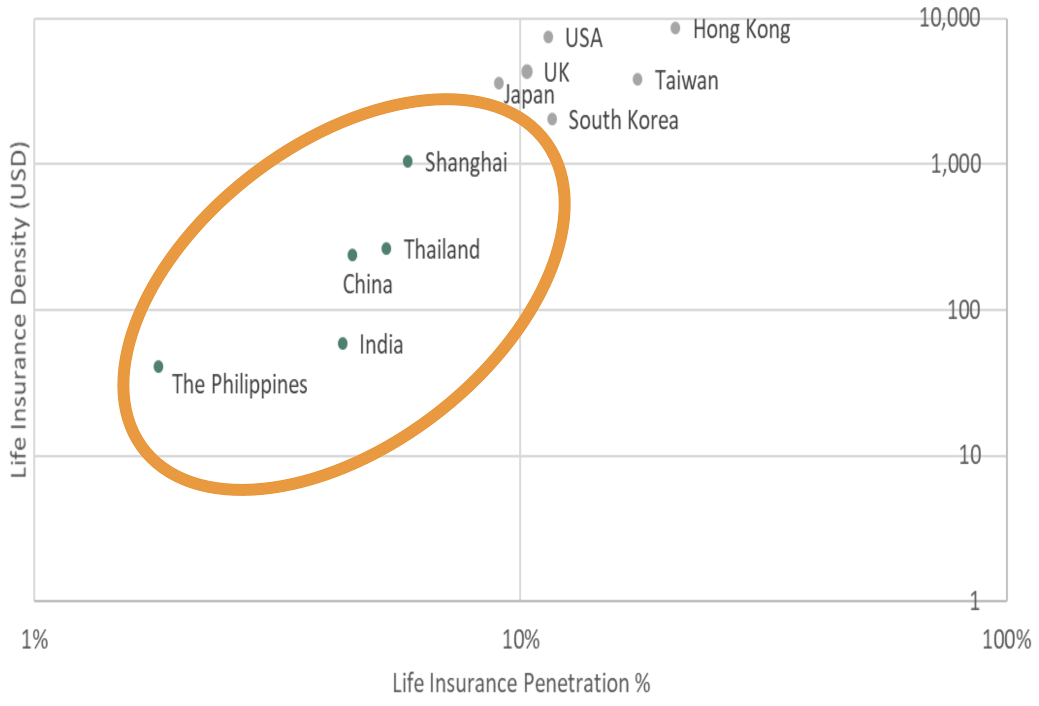

| CAGR | Chemical Drug | Biologics | TCMs | Total |
|---|---|---|---|---|
| 2015-2019 | 4.6% | 21.1% | 6.4% | 7.5% |
| 2019-2024E | 3.2% | 18.0% | 2.2% | 6.4% |
| 2024E-2030E | 4.5% | 10.6% | 2.5% | 6.2% |



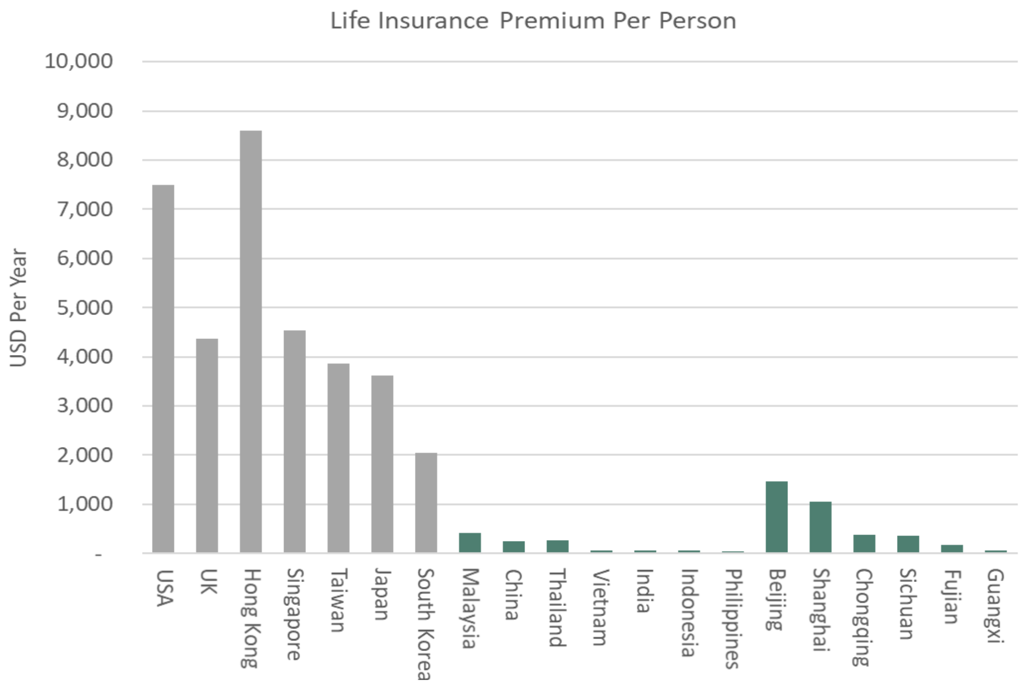

Source: Frost and Sullivan, Everest Medicines Ltd

# 2. FINANCIALS:
## UNDER-PENETRATED INSURANCE MARKET IN ASIA

China and India have some of the lowest insurance penetration and life insurance densities in the world.



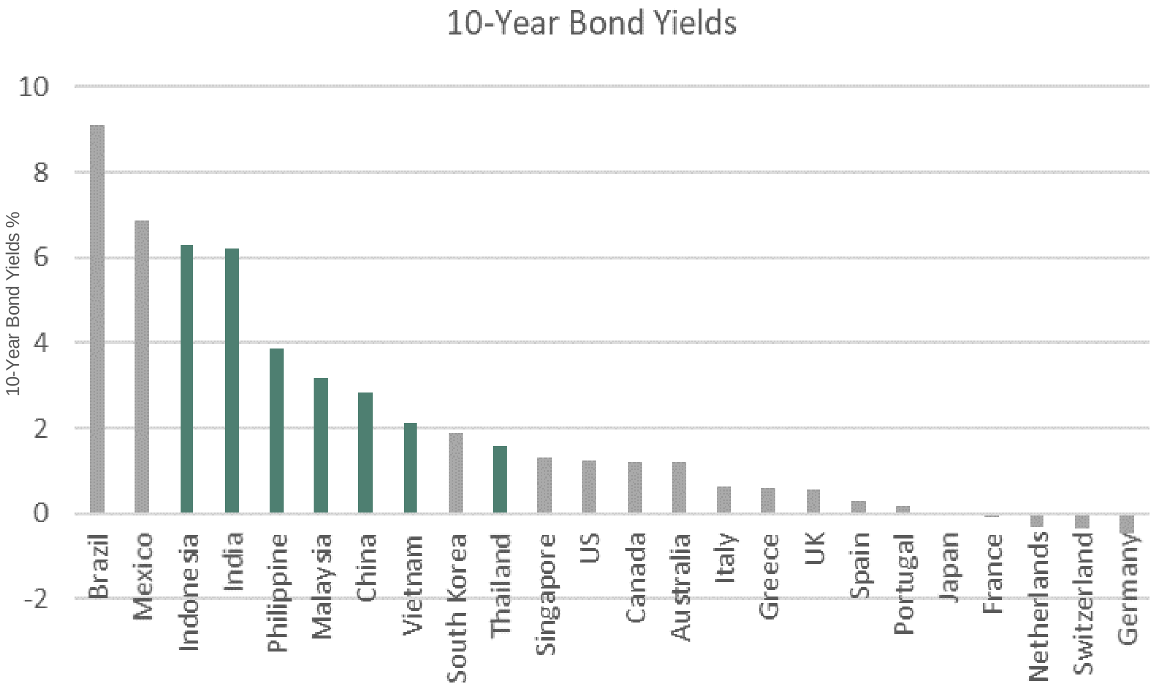

There is a huge unmet life insurance market driven by low insurance premiums per person in Asia.



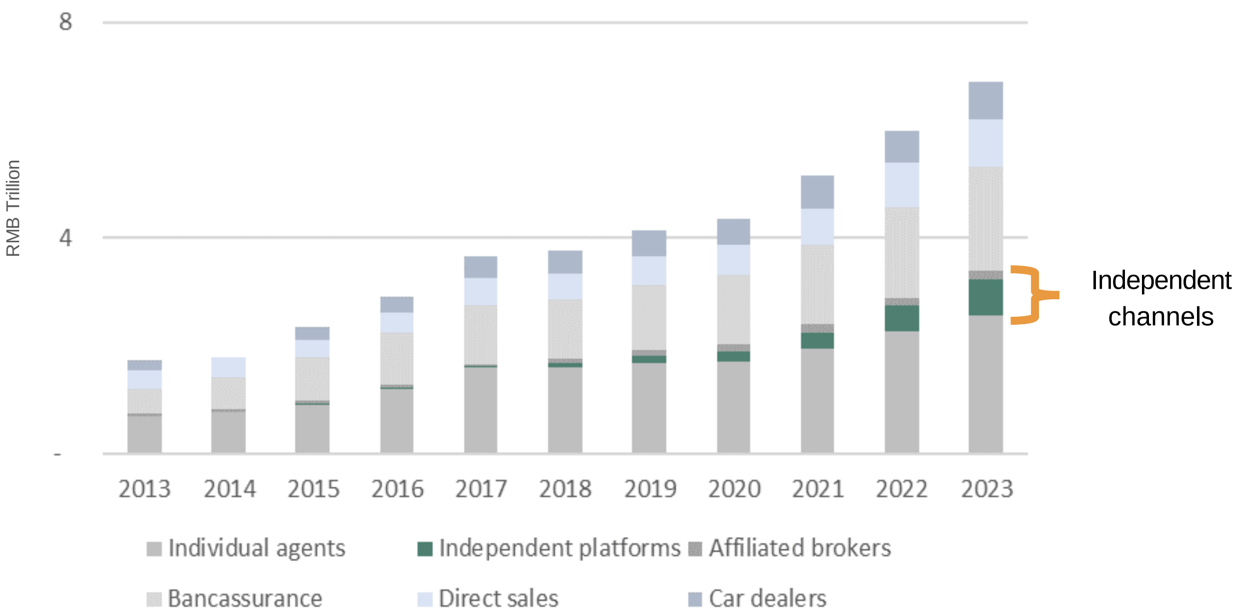

Source: Swiss Re, Sui Zhou, OxCap Research

# 2. FINANCIALS:
## THIRD-PARTY LIFE INSURANCE DISTRIBUTION CHANNELS SET TO SURGE

Financials in EM still enjoy decent bond yields. The eventual decline will be a tailwind for assets.




Life insurance distribution channels in China are nascent; Third party channels are well positioned to capitalise on the USD 1 trillion insurance market in China by 2023.

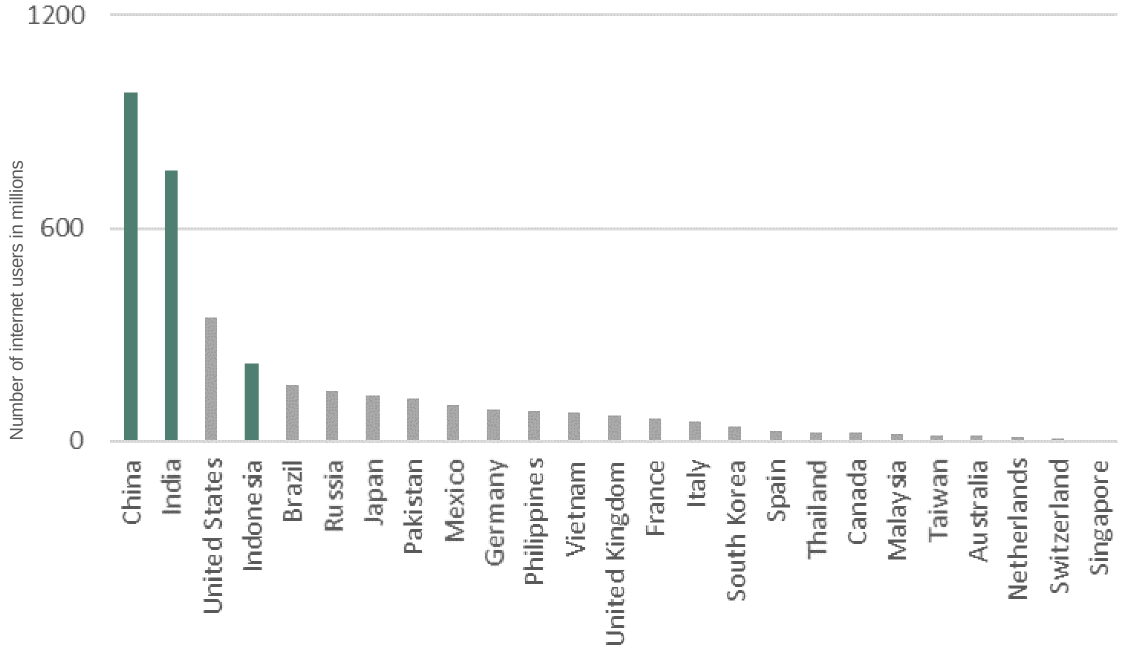



Source: Oliver Wyman, OxCap Research

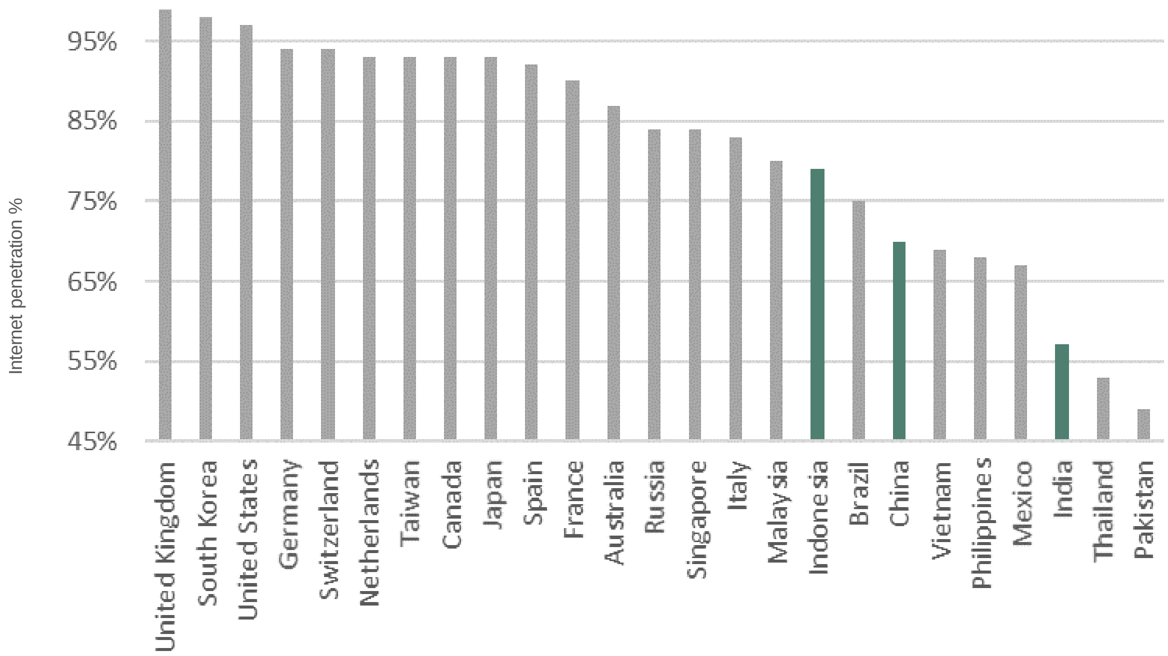
OX CAPITAL MANAGEMENT

# 3. INTERNET:
## EM HAS THE HIGHEST NUMBER OF INTERNET USERS AND IS STILL GROWING

India, China, Indonesia have some of the highest number of internet users in the world.




Yet, internet penetration is still low in EM and there is room to grow further.

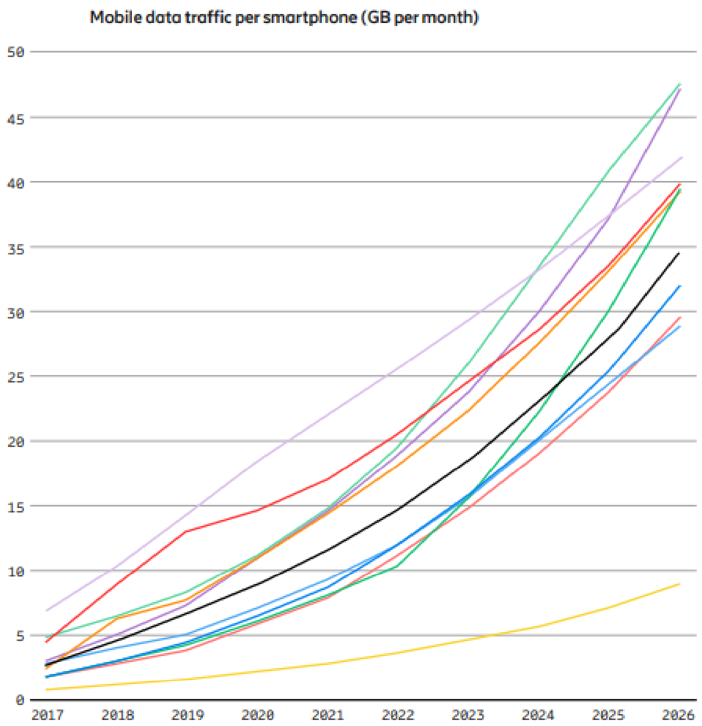



Source: WIPO, World Bank

# 3. INTERNET:
## LOCAL COMPANIES CAPITALISING ON THE DIGITISATION SURGE

Mobile data usage forecasted to surge to 40GB/month/user in India and SE Asia over the next 5 years.

Many EM countries have local digital champions; Digitisation is lifting the living standards in the form of super-apps.

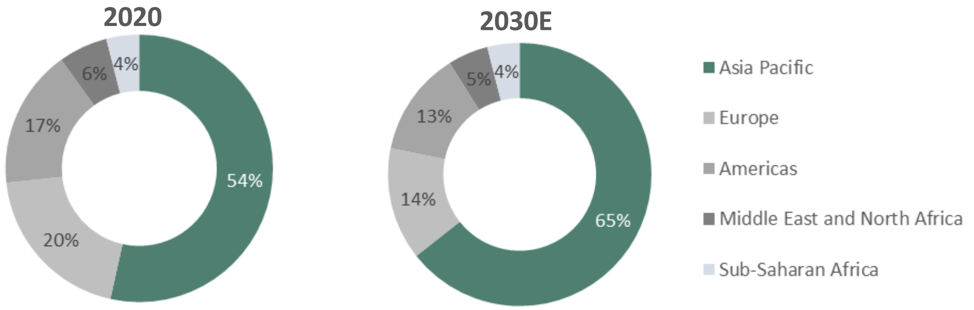


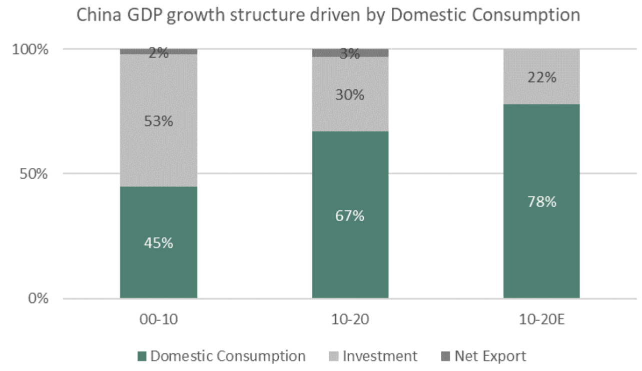

| Regions | 2020 | 2026 | CAGR 2020–2026 |
|---|---|---|---|
| North America | 11.1 | 48 | 27% |
| Western Europe | 11 | 47 | 28% |
| GCC | 18.4 | 42 | 15% |
| India | 14.6 | 40 | 18% |
| South East Asia and Oceania | 6.2 | 39 | 36% |
| North East Asia | 10.9 | 39 | 24% |
| Global average | 9 | 35 | 25% |
| Middle East and North Africa | 6.5 | 32 | 30% |
| Latin America | 5.9 | 30 | 31% |
| Central and Eastern Europe | 7.2 | 29 | 26% |
| Sub-Saharan Africa | 2.2 | 9 | 26% |

Source: Ericsson Mobility Report, June 2021

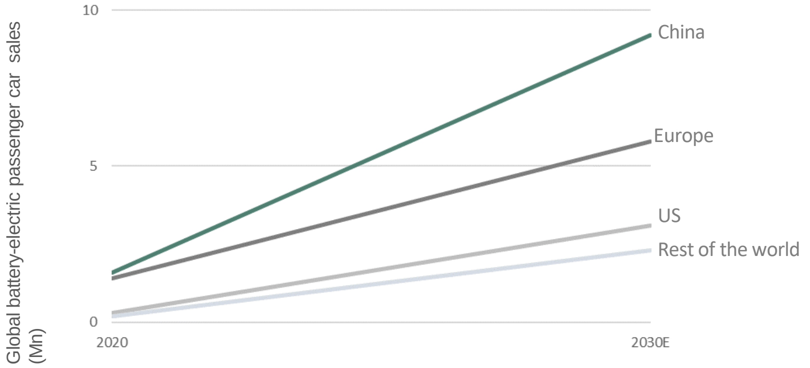
# 4. CONSUMER:
# RISING ASIAN MIDDLE CLASS, PARTICULARLY IN CHINA

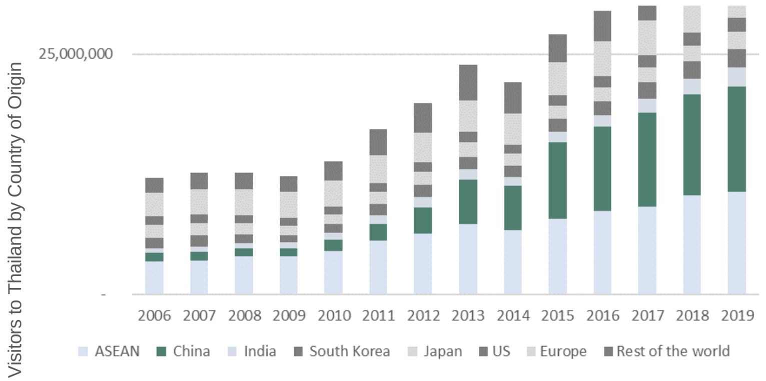
The share of the Middle Class is rising in Asia and GDP growth is being driven by domestic consumption. China will continue to have the biggest impact as it shifts away from being the world's factory.




Spend of the Middle Class set to surge. China is currently the largest consumer of Electric Vehicles (EV) and by 2030, battery EV sales to exceed 9 Mn cars, whilst Chinese middle-class travel is changing economies in the region.



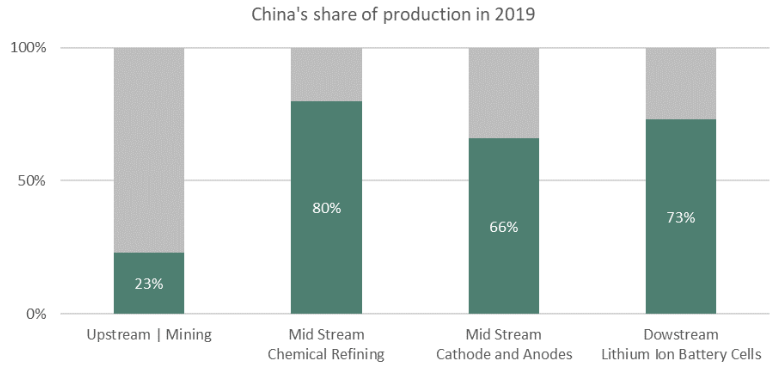




Sources: Source: Brookings Institution ; Middle Class defined as households earning USD 100/ person/ day; BCG; McKinsey.

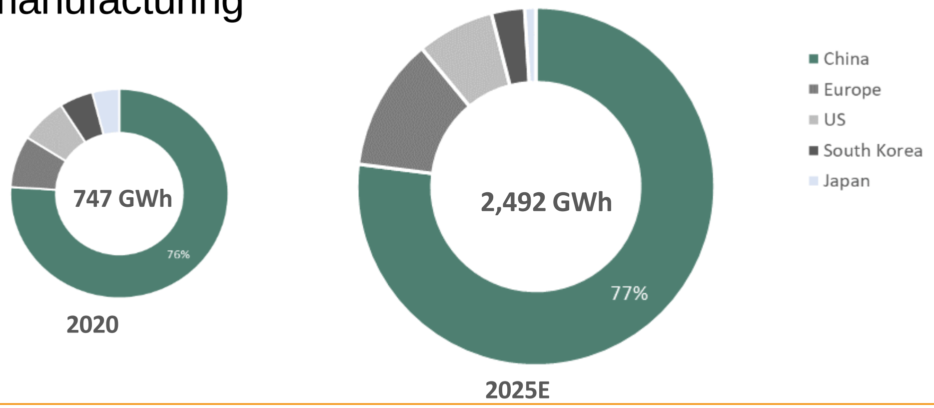
OX CAPITAL MANAGEMENT

# 5. NEW-TECHNOLOGY:
## EM DOMINATES THE EV BATTERY AND SEMI-CONDUCTOR SUPPLY-CHAIN

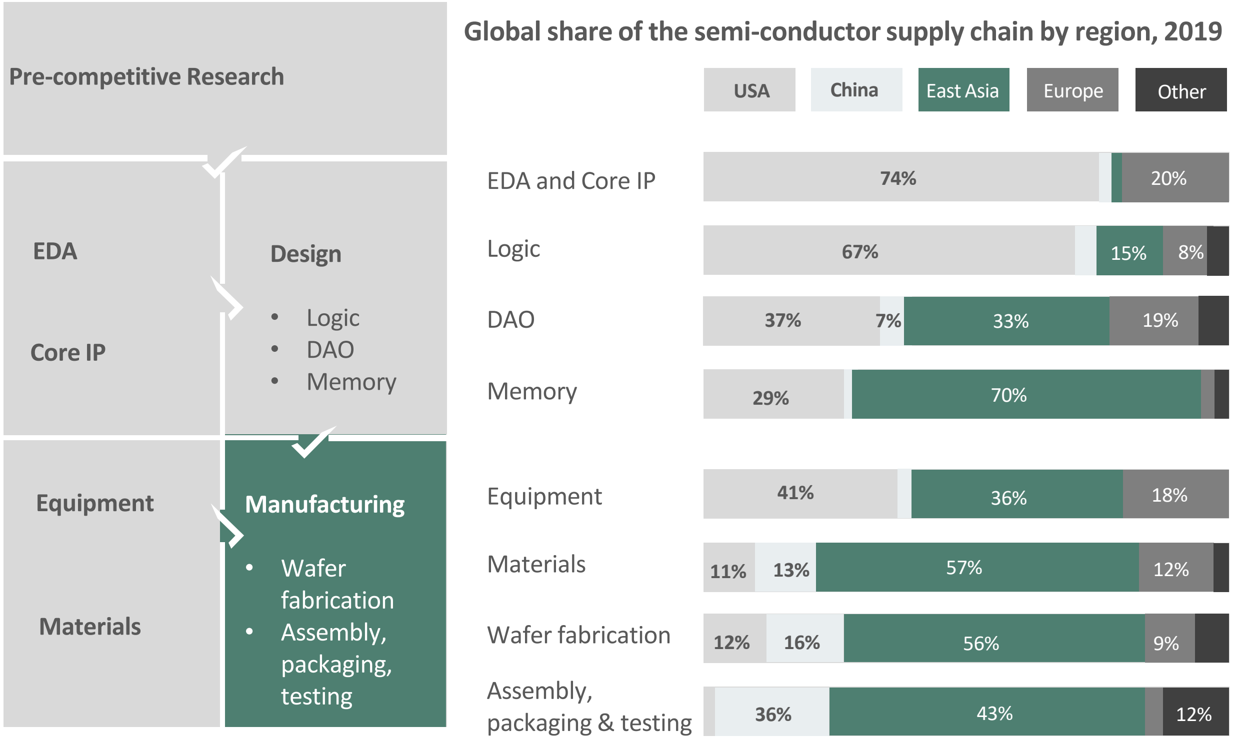
China's battery mega-factories dominate the Electric Vehicle (EV) battery manufacturing supply chain




China forecasted to continue its dominance in cell manufacturing




China, Taiwan, South Korea and Japan control majority share of the global semi-conductor manufacturing

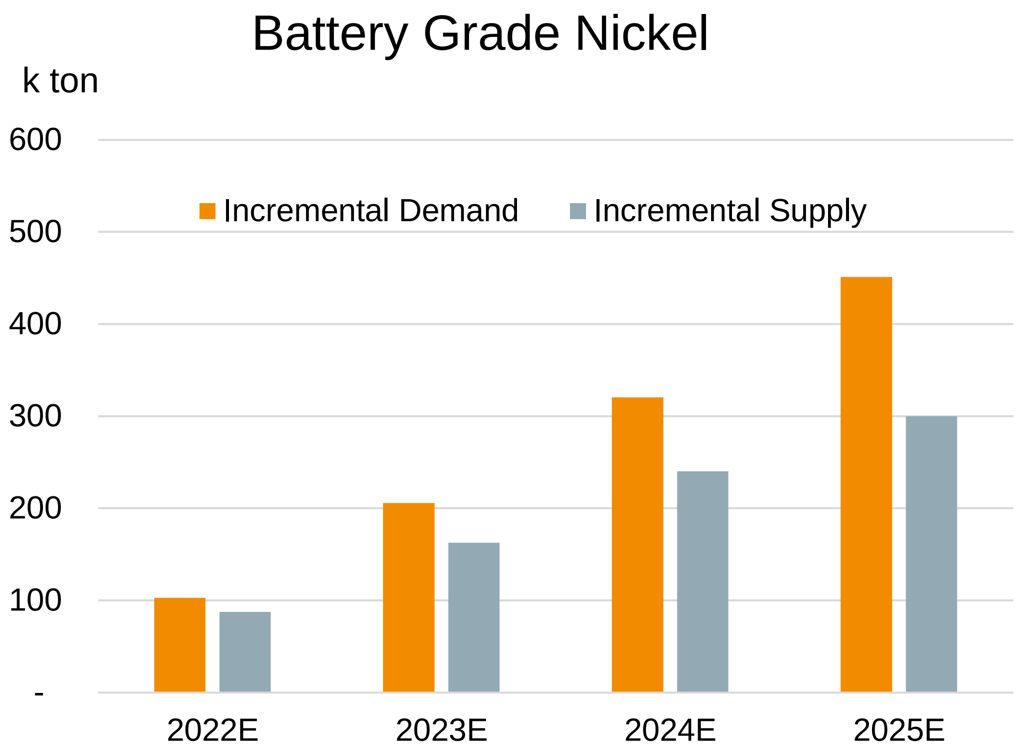



* East Asia includes Taiwan, South Korea, Japan Source: BCG, Benchmark

OX CAPITAL MANAGEMENT

# 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

# 6. CHINA REGULATORY CRACKDOWN:
## A POSITIVE TRANSFORMATION WITH A LONG-TERM VIEW

- The motive of the government is to break-up the monopoly of big-tech and narrow the wealth gap in China
- The transformation in education is to encourage innovation and creativity in students, and not just train to pass exams
- The crackdown on Didi is indicative of the move towards more stringent data protection of consumers
- Ant Financial has a balance bigger than most banks in China. The crackdown is to level the playing field, ensuring all companies abide by regulation
- This was not the first Chinese crackdown. It happened before in gaming, lending, insurance. Our takeaway is that the intent of the government is to improve the quality of life for the people in China in the long-term

# 6. CHINA REGULATORY CRACKDOWN:
## POLARISATION OF GEO-POLITICS

### Potential Scenarios of the Crackdown

- **Likely Case**: Chinese listing in the US continue despite the occasional sanctions
- **Worst Case:** Polarisation of the world, with formation of economic and political blocks. Chinese companies de-list from the US

### Likely Outcomes in Both Cases

- Diversification of industries, countries and idiosyncratic risks
- Economic reforms accelerate in China and potentially in the US
- Supply chain would incrementally move to other low-cost countries

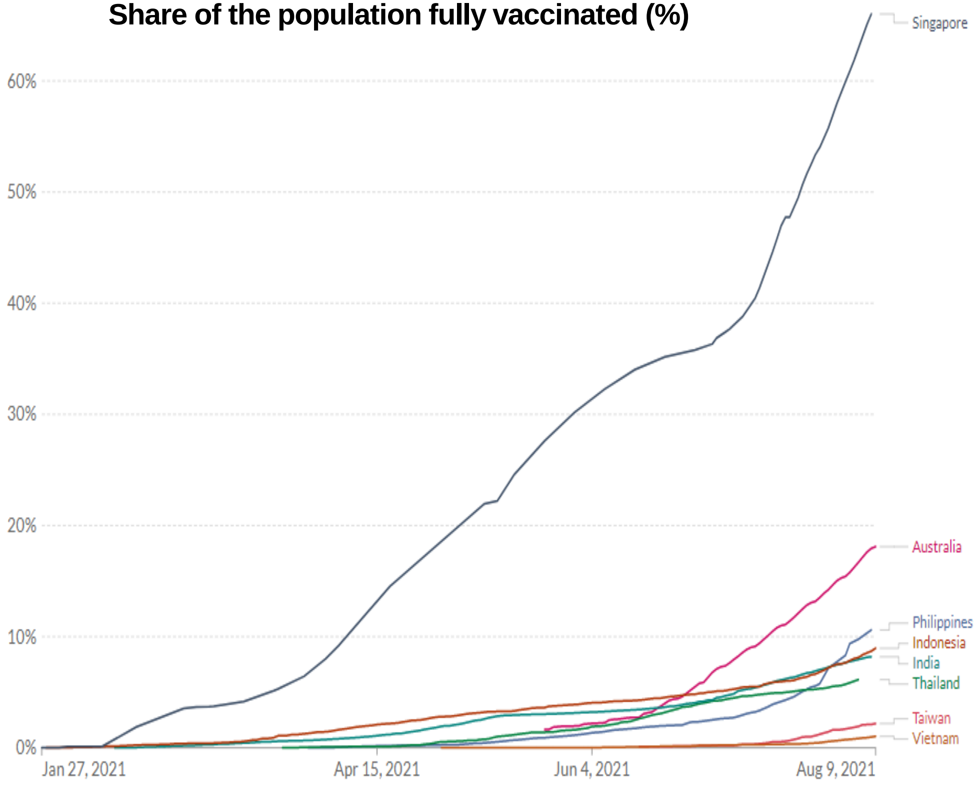
### What it means for Investing

- Chinese ADRs return to HK or Mainland
- Indigenisation and upgrade of domestic technologies
- Potential for other economies and companies to benefit from the transfer of supply chain
- Greater need for investment risk management

# 7. VACCINES IN EM RAMP-UP IN THE FIGHT AGAINST COVID-19

EM have been slow in distributing doses but now vaccinations have started to ramp-up. It Is estimated to take less than 300 days for over 75% of the population in most of EM to get fully vaccinated

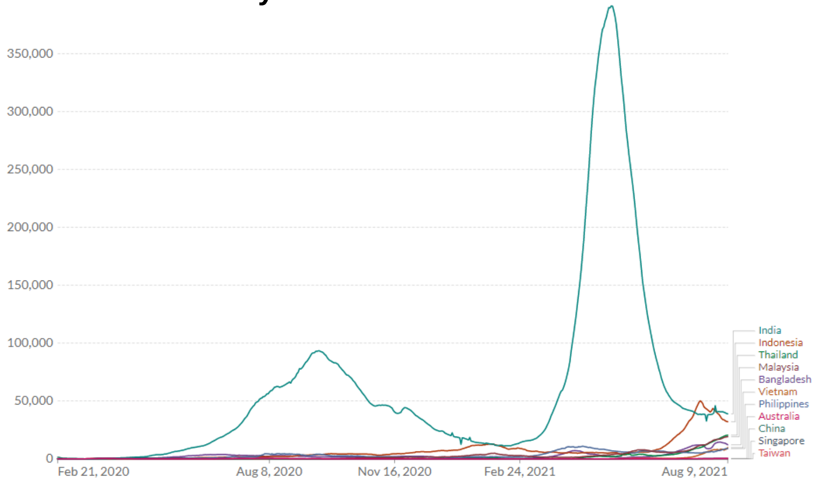
**Share of the population fully vaccinated (%)**




Source: Ourworldindata.org, JPMorgan, Bloomberg

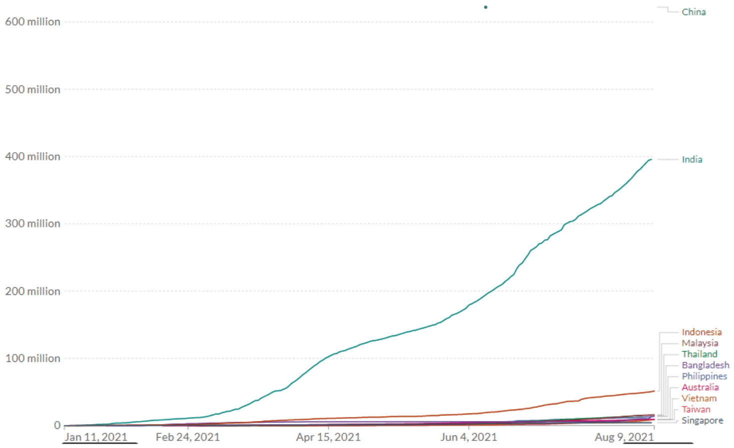
The second wave was worse for India and Indonesia but case counts have come down since.

**Daily confirmed COVID-19 cases**




The logistics and scale of vaccinations in EM is worth noting. China has given over 1.7B doses and fully vaccinated over 220M citizens. India and Indonesia have distributed over 390M and 50M vaccines so far respectively.

**Number of people who received at least one vaccine dose**




OX CAPITAL MANAGEMENT

# SECTION 5:

# PROSPECTIVE IDEAS

# VIP SHOP: DISCOUNT E-COMMERCE RETAILER IN CHINA

VIP Shop was the pioneer of the ‘Flash Sales’ model in China, similar to TJ Maxx in the US. They sell high-quality brands at a fraction of the price by discounting the unsold inventory

What differentiates VIP Shop is their focus on the Buying Department, responsible for curating the best selling authentic products and negotiating terms with large brands

Over 80% of the customers are women, with 97% orders from repeat users. VIP Shop offers 7-day free returns, and has kept up its double digit growth rate pre-pandemic despite rising competition from Alibaba, JD, PDD

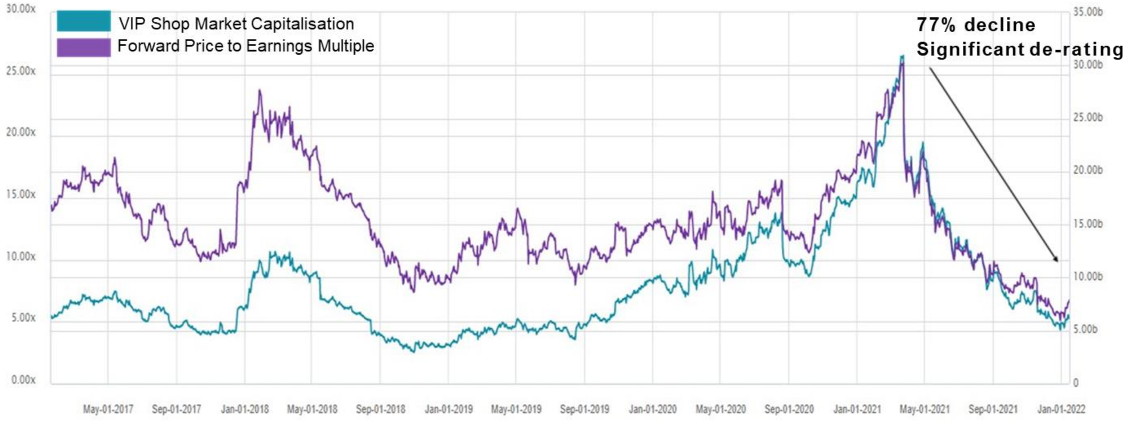
VIP Shop is backed by JD and Tencent and has lowered its customer acquisition cost by accessing their traffic

VIP Shop was once a favourite pick in the share market. The share price has come off over 77% in the last 10 months since it is an ADR listed in New York

VIP Shop is well positioned to capitalise on the next wave of customers in the smaller cities in China seeking authentic premium brands at discounted prices. The stock has significant upside in our view

**VIP Shop has grown double digits pre-pandemic, has almost 44M active customers and is expanding into offline discount apparel and cosmetics stores in China**


**The market cap fell from $30B in Mar-21 down to $6.2B currently. VIP was trading on a 22x PE pre-pandemic, down to 7x, driven by the fear of de-listing**

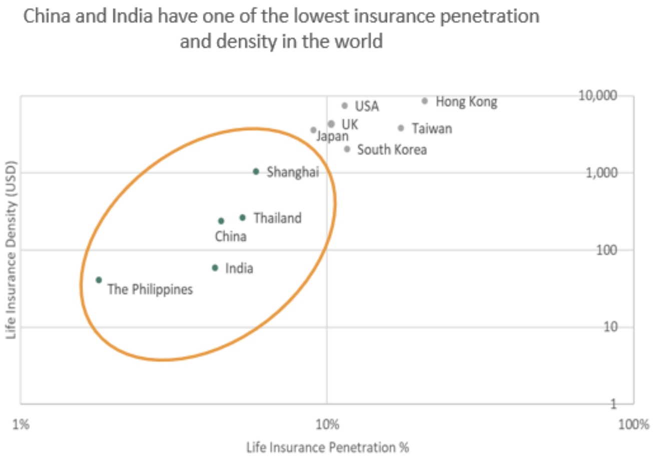


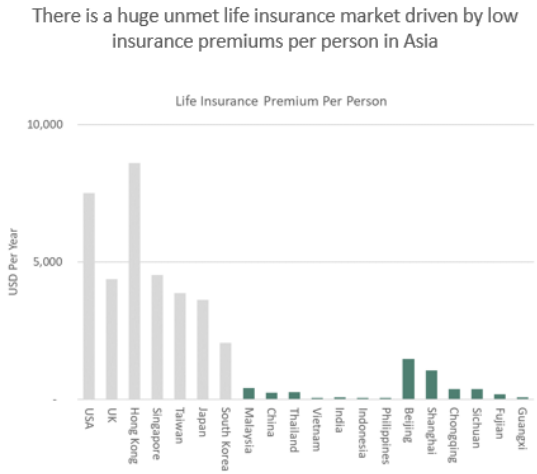

Source: Capital IQ as on January 18, 2022, Figures in USD unless specified

# AIA GROUP: DOMINANT LIFE INSURER IN ASIA

- The life insurance sector in Asia is arguably oligopolistic, but still competitive. Outside China, AIA, along with Prudential, is one of the dominant insurers
- Managing a good agency force and discipline in product design are key, and AIA has put in the right foundations in place to grow its dominance in the larger cities
- Life insurance is under-penetrated in Asia. It is a long-term secular growth theme. As people's income grows, demand for life insurance would likely rise significantly
- Life insurance sales per capita in Shanghai is still a fraction of Hong Kong. AIA is embarking on a multi-year expansion in China and there is a lot of room for growth
- AIA's digitisation strategy is still nascent. AIA is investing significantly to ramp up its cloud adoption, automate claim and service operations and leverage AI for under-writing
- Our view is that the market is under-estimating the strength of a rebound in life-insurance sales post-pandemic. The market is well-positioned to grow materially and AIA is in one of the best positions to capitalise on the opportunity

**There is a large un-met life insurance market in Asia driven by low penetration and low premiums per person**




**AIA's market cap fell 25% during the pandemic, but recovered strongly, rallying 75% in 9 months. The share price has come off 24% again and is currently at $128B with a forward PE of 18x. AIA has a lot of room to grow, particularly in China, and there is significant upside in our view**

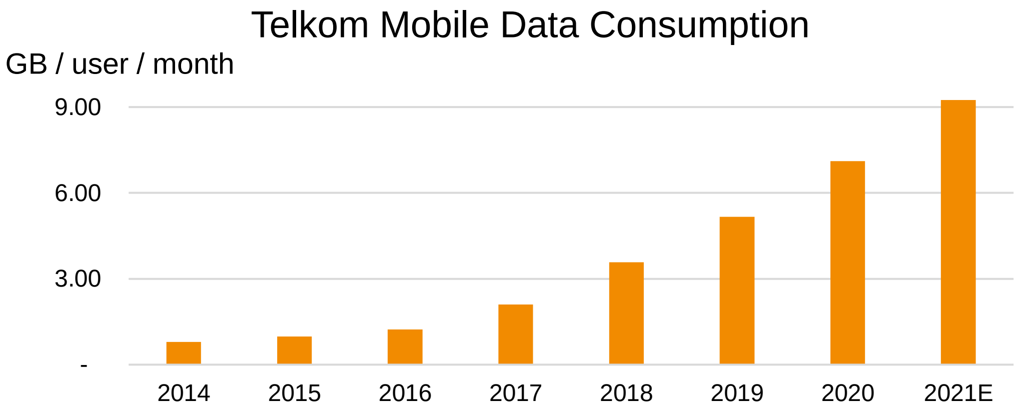

Source: Capital IQ as on January 18, 2022, Figures in the title are in USD while in the chart are in HKD

OX CAPITAL MANAGEMENT

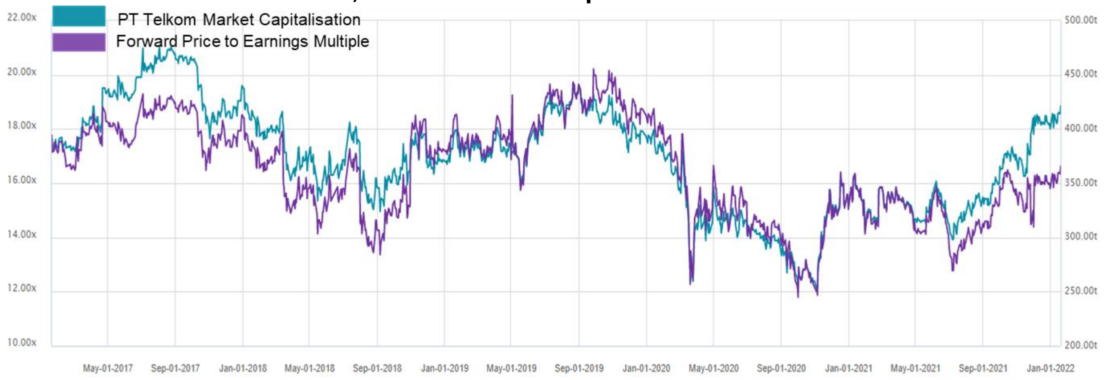
# PT TELKOM: DOMINANT TELCO IN INDONESIA

- PT Telkom is the dominant telecommunications player in Indonesia. It has been consistently profitable, with return on capital of over 20% in the past decade.
- The industry is currently going through consolidation, the number of players is going down from 5 to 3.
- Telkom is a high quality telco leader in Indonesia. It is going to benefit from a lessening of competition while the penetration of mobile and fixed line broadband is surging.
- Telecom in Indonesia is challenging as the country has over 17K islands making national coverage difficult.
- Telkom's advantage is its leadership in network infrastructure, network coverage and service quality, and monopolistic market share, particularly outside the island of Java.
- Telkom has nearly 60% market share in cellular with 170M subscribers, and around 80% share in the nascent broadband market with 8M households.

**Telkom has nearly 60% market share in cellular with 170M subscribers, and around 80% share in the nascent broadband market with 8M households**




**Telkom is dominant in Indonesia because of its lead in infrastructure. The business is trading at 16x forward PE and has a dividend yield of 6%. The market cap has recovered to pre-pandemic levels, but there is still upside**




Source: Capital IQ as on January 18, 2022, Figures in IDR

OX CAPITAL MANAGEMENT

# MAPI: THE LARGEST LIFESTYLE RETAILER IN INDONESIA

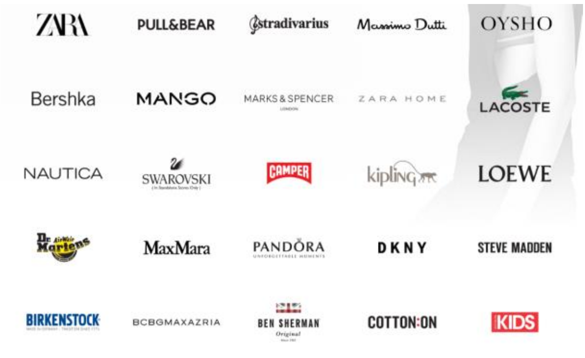
PT Mitra Adiperkasa Tbk (MAPI) operates the largest network of multi-brand retail stores in Indonesia across various formats such as specialty stores, department stores and F&B outlets. The stores sell everything from active/ sports gear to fashion apparel, cafes, food and beverage, and others

MAPI has become a key channel for global brands to launch into the Indonesian market. MAPI's brand partners include Zara (Inditex Group), Nike, Adidas, Planet Sports

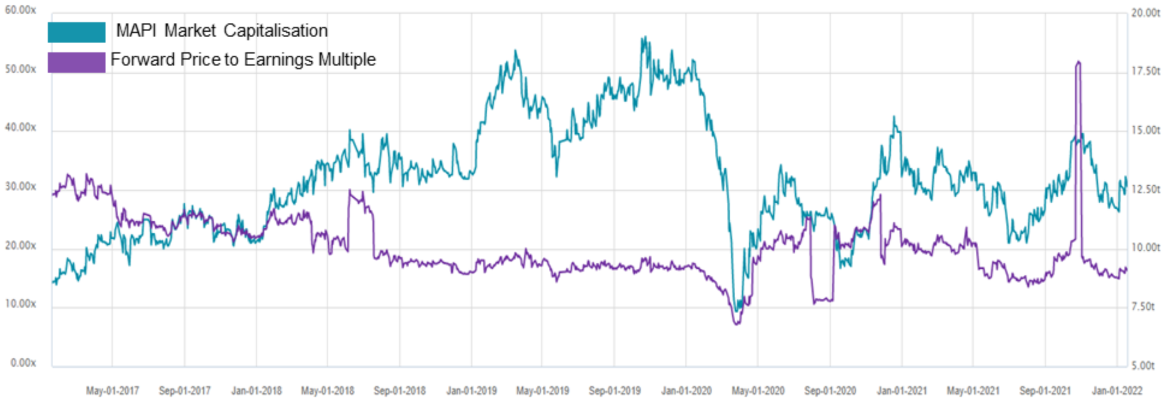
Pre-pandemic, MAPI opened over 190 stores a year and had same store sales growth of over 4%. Their retail business suffered during the pandemic, but MAPI grew online sales by over 200% yoy. MAPI has also expanded stores in the Philippines, Vietnam and Thailand

MAPI is not just a re-opening play. It is a high-quality business with often-exclusive partnerships with global brands. It has high gross margins, is growing its digital channels, expanding overseas, is run by good management and is available at an attractive valuation

**MAPI sells over 150 brands through over 2,300 brick and mortar stores as well as its e-commerce store across Indonesia**


**The market cap fell 32% from $1.3B in Mar-21 down to $880M currently. MAPI is trading on 14x pre-pandemic earnings (2019). Earnings will benefit from the re-opening of Indonesia**




Source: Capital IQ as on January 18, 2022, Market capitalisation in the chart is in IDR, in the title is in USD

# AK MEDICAL: LEADER OF ARTIFICIAL JOINTS IN CHINA

AK Medical is a leading orthopaedic implants manufacturer in China, specialising in knee and hip implants

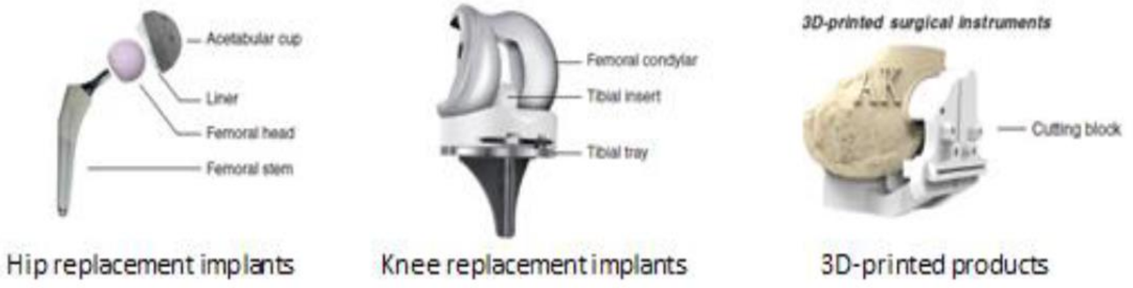
In 2015, AKM's got the regulatory approval for its 3D printed hip replacement implants from the CFDA in China, and has since become the leader in 3D printed implants in China

M&A: In 2018, AKM acquired UK-based JRI, a leading manufacturer of hip implants with hydroxyapatite coating to improve the longevity of implants. In 2020, AKM acquired Libeier from Medtronic to gain access to a leading Chinese biotech company specialising in spinal and trauma implants, along with other surgical instruments

Orthopaedic implants has significant barriers to entry. It's challenging to build relationships with doctors and hospitals, demonstrate a long track record, invest heavily in technology and product development and get the regulatory approvals in place. Further, the Chinese government included orthopaedic implants under the Central Procurement act, which would significantly drop the retail price of the implants

These barriers provide an advantage for companies such as AKM, that have a strong product portfolio, invest significantly in R&D, have new launches in the pipeline and aims to further enhance its market leadership in 3D printed implants in China

**AK Medical has a strong pipeline of hip, knee and 3D printed products, and is strengthening its presence in other categories such as joints, spine and trauma applications**



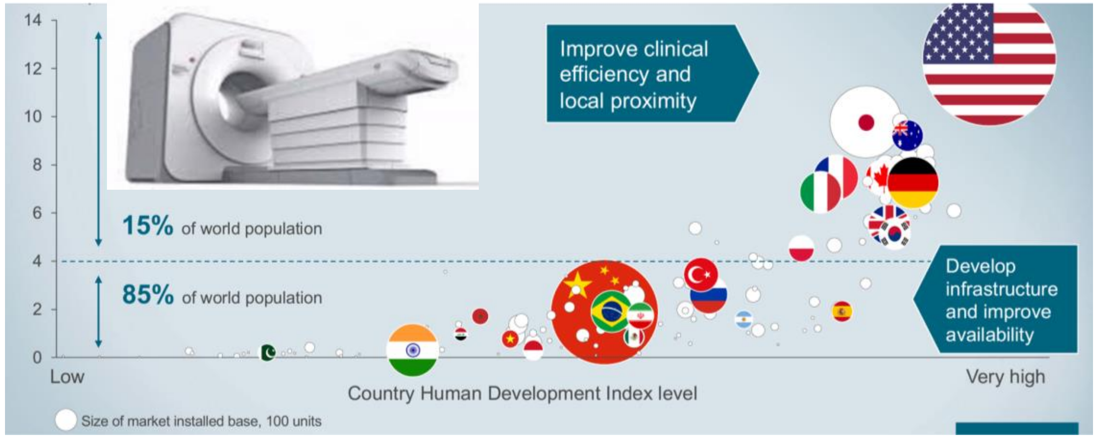

**The market cap fell from $3.8B in Mar-21 down to $900M currently. AKM was trading on a 35x PE pre-pandemic, down to 23x**


Source: Capital IQ as on January 18, 2022, Figures in the chart are in Chinese Yuan, title are in USD

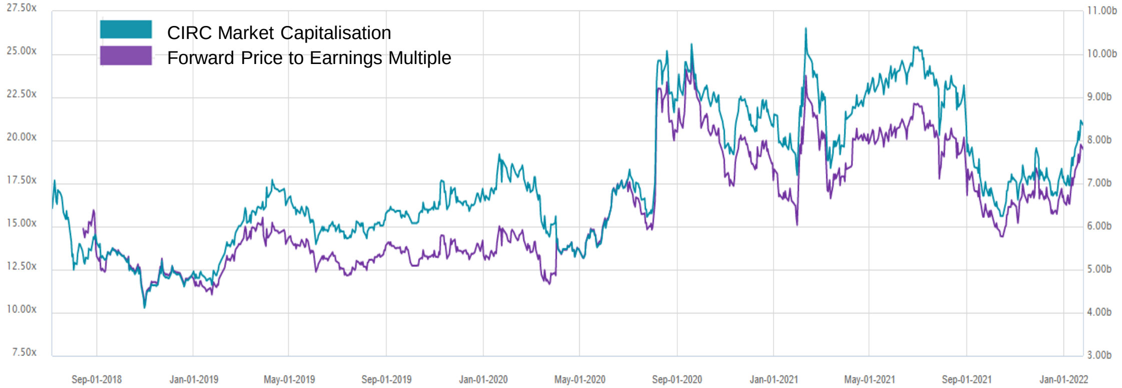
# CIRC: RISE IN CHINA’S RADIO-THERAPY EQUIPMENT MARKET

- China Isotope and Radiation Corporation (CIRC) is the leader of the radio-pharmaceutical industry in China. Demand is tied to diagnostic and treatment of cancer.
- Cancer patients access to radiotherapy is far more restricted in China and EM relative to developed economies. CIRC partners with nuclear reactors to secure it’s supply. Average return on capital in the past 5 years was over 50%.
- Extending into the radiotherapy equipment market, CIRC will be the first local linear accelerator manufacturer via its JV with Accuray from USA (51% CIRC/49% Accuray). The first “domestic” Linac is expected in 2H 2022.
- Our view is that CIRC is well positioned to capitalise on the inevitable rise in radio-therapy equipment in EMs in the coming years.

**There are fewer machines per 100 people in EM, even though EM constitute 85% of the world’s population. Demand for radio-therapy equipment set to surge**



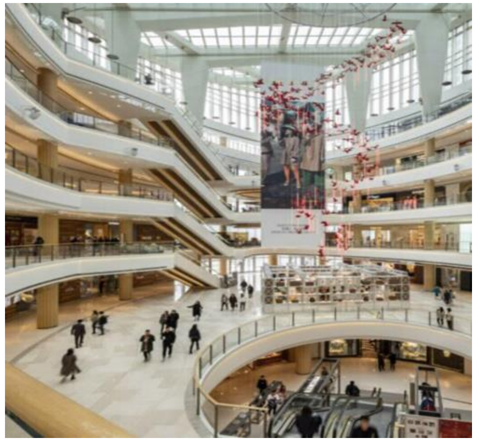

**CIRC’s market cap has re-bounded strongly but is still 15% below its pre-pandemic level. With a large TAM, we see significant upside in the business**



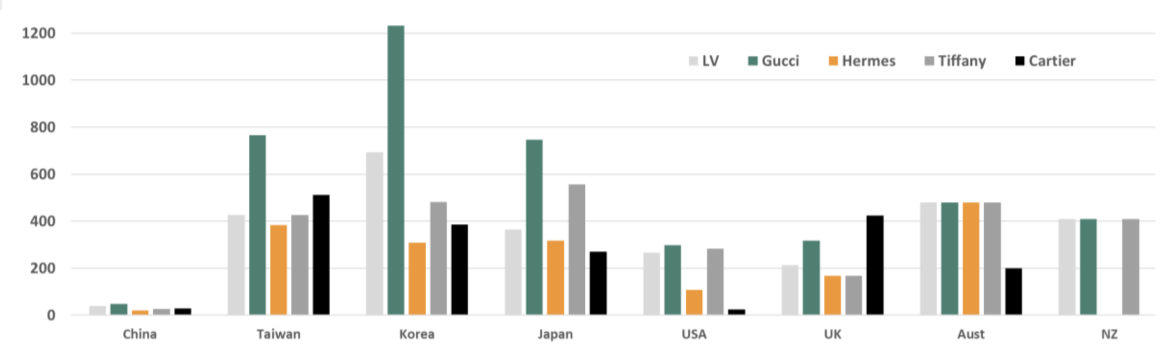

Source: CIRC, Elekta, Capital IQ as on January 18, 2022, Figures in the chart are in HKD

# HANG LUNG PROPERTIES: BRINGING LUXURY SHOPPING BACK TO CHINA

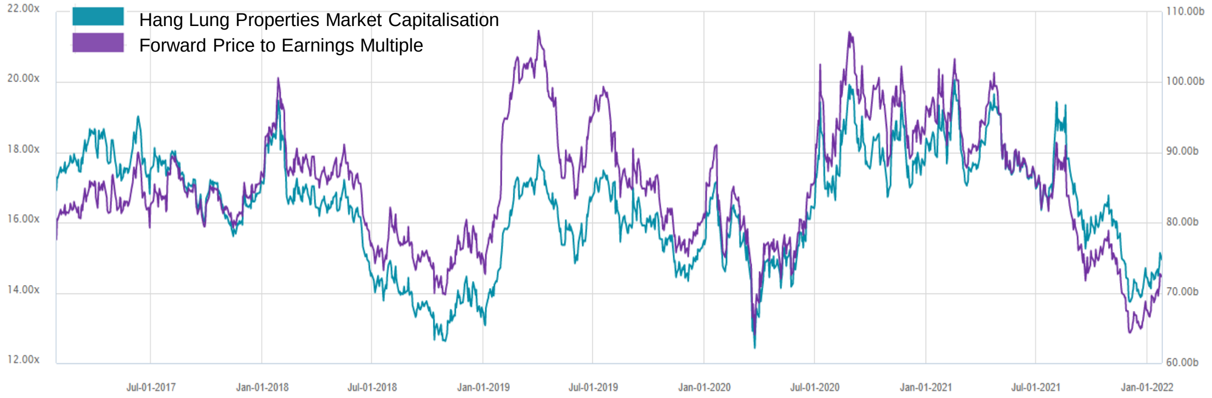
- Hang Lung Properties is a property developer in Hong Kong.
- The majority of luxury spending dollars in China has been spent offshore for cheaper and more diverse offerings. This trend is now reversing.
- Brick and mortar stores are essential for luxury retailing and marketing. Luxury brands are now starting a renewed store expansion wave in China, but suitable luxury store space is limited.
- Hang Lung can capitalise on this opportunity. Rents in Hang Lung Properties luxury malls in China are a fraction of rent costs in Hong Kong luxury malls.

**China has the fewest luxury stores per thousand residents**




**Hang Lung Properties' share price has come-off over 23% in just the last 6 months. The business is trading at a forward PE of 14x, with significant upside as malls re-open and demand for luxury goods continues to grow**




Source: OxCap Research, Company notes, Capital IQ as on January 18, 2022, Figures in the chart are in HKD

# AIDIGONG: CHINESE MATERNITY AND CHILD HEALTH CARE

- Traditionally, new mothers returned home after giving birth and the baby was taken care of by the parent's along with the family.
- A new trend is rising from the adoption of scientific approaches to provide care to newborns and new mothers.
- Aidigong is a post-natal maternity and childcare centre in China that offers a safe, yet luxurious environment for post-birth recovery for both new mothers and their children.
- China's recent policy changes are geared towards encouraging more births and creating a safe environment for families.
- Centres like Aidigong not only provide high quality care through nurses and specialists, but also focus on the physical and mental health of the mother.
- Our view is that the next 10 years will be the golden decade of the postpartum care service industry development. Spending on postpartum recovery is encouraged in China and would be a tailwind for postpartum care providers such as Aidigong.

**Aidigong has built a robust support network for new mothers in China**

**Aidigong is not profitable currently but pivoted to an asset-light model in 2019 where they lease hotel rooms for over 10 years and build luxurious facilities. With the government support on increasing the birth rate, there is significant growth potential**


Source: Company notes, Capital IQ as on January 18, 2022, Figures in the chart are in HKD

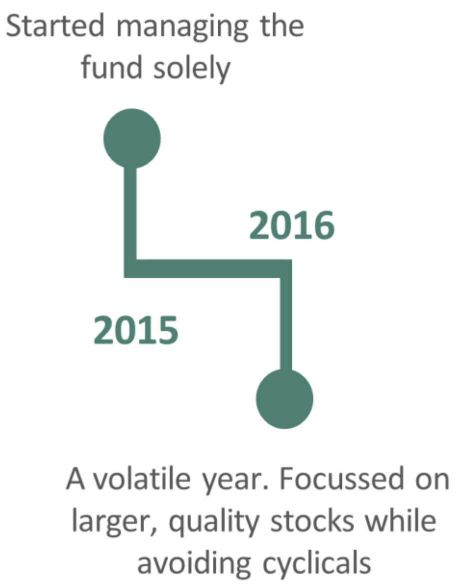
OX CAPITAL MANAGEMENT

OX CAPITAL MANAGEMENT

# SECTION 6:

# NAVIGATING THE MARKET IN RECENT YEARS

# NOTES FROM DR. JOSEPH LAI: NAVIGATING THE MARKET OVER THE PAST 5 YEARS




## BACKDROP

- 2015: Became the sole fund manager and inherited 100+ stocks
- Focussed on cleaning up the portfolio to build a high-conviction concentrated portfolio
- 2016: The world, specially EM, was slowing down
- China experienced a stock market bubble in 2015. Regulators tried stabilising it by putting in circuit breakers. This had the opposite effect
- Chinese currency was under pressure - negative for all of EM

## WHAT I DID

- 2016: Started with 85% exposure
- Reduced positions, concentrated portfolio and kept a high cash level till the end of the year
- Low exposure to China (28% vs 45% index)
- Focussed on large number of quality stocks, fewer cyclicals which are prone to downside risk
- Ended the year with +90% exposure because the markets were cheap and Chinese stimulus started to have positive impact on activities

# NOTES FROM DR. JOSEPH LAI: NAVIGATING THE MARKET OVER THE PAST 5 YEARS

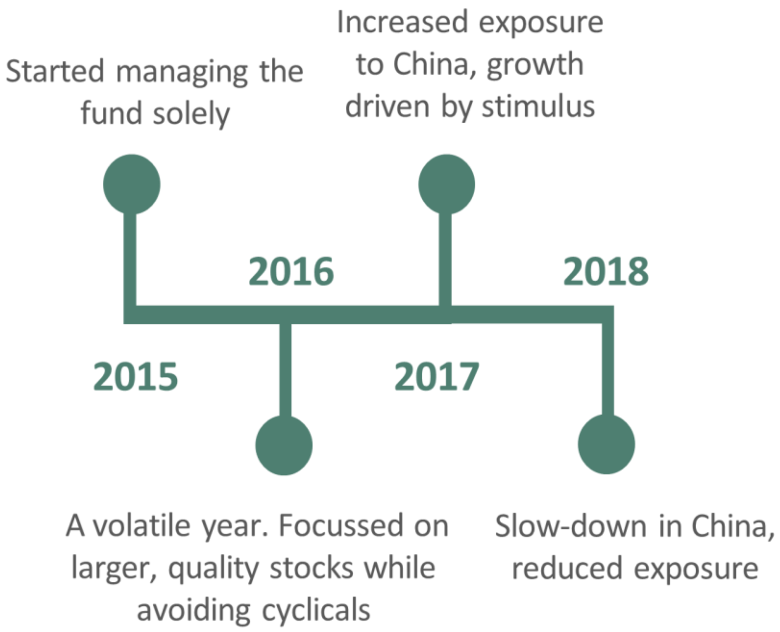

## BACKDROP

- 2017: Chinese stimulus took hold, economic activity in EM improved. Most of the market had given up and missed the rally
- As the year progressed, the market caught on. No more concern about the Chinese currency
- Chinese regulators focused on improving governance of the market, particularly for MSCI inclusion

## WHAT I DID

- 2017: Started with 90% exposure
- Increased exposure to China - cash level was close to zero at the beginning of the year
- Key exposure to long-term winners in Internet (Alibaba, Tencent), Financials (Ping-An Insurance), Home Appliances (Midea) and White Spirits (Jiangsu Yanghe).
- Also invested in smaller internet stocks (58.com, Sina), cyclicals coming into economic reflation (Samsung), lenders (Kasikornbank in Thailand) and EV battery manufacturers (LG)
- Ended the year with 90% exposure

# NOTES FROM DR. JOSEPH LAI: NAVIGATING THE MARKET OVER THE PAST 5 YEARS




## BACKDROP

- 2018: Growth in EM impacted by China's de-leveraging
- In a slowing EM, what contributed negatively were cyclicals (Samsung, Yanzhou Coal, Kasikornbank) and the smaller stocks (3SBio, Bharti, Baidu, Sina)

## WHAT I DID

- 2018: Started with 90% exposure
- Noticed a consumer slowdown in China in April '18. Sold Alibaba
- As activity started slowing further, reduced exposure. Invested position went down
- Quality stocks became expensive in '17 and came down in value as much as the cyclicals in '18. With trade war rhetoric rising out of the Trump administration, took a conservative view on the prospects in EM
- Ended the year with 80% exposure

# NOTES FROM DR. JOSEPH LAI: NAVIGATING THE MARKET OVER THE PAST 5 YEARS


## BACKDROP

- 2019: The US election process triggered tensions of a trade war between the US and China
- Markets were obviously impacted - China, commodities and EM generally were particularly sensitive

## WHAT I DID

- 2019: Started with 80% exposure
- Kept little cyclical exposure. Used the sell-off in the market to buy quality growth stocks, that would do well in a slowing environment and be long-term winners irrespective of the outcome of the trade war
- Reduced exposure in China, increased exposure in countries that would benefit from the movement of supply chain – Vietnam, Thailand, Taiwan, Korea
- Ended the year with +90% exposure

# NOTES FROM DR. JOSEPH LAI: NAVIGATING THE MARKET OVER THE PAST 5 YEARS


## BACKDROP

- 2019: The US election process triggered tensions of a trade war between the US and China
- Markets were obviously impacted - China, commodities and EM generally were particularly sensitive 2020: Turmoil triggered by COVID-19
- I first heard about an 'atypical pneumonia' during a visit to China in Jan '20. It is not uncommon to hear about outbreaks of infections diseases, but the lockdown in Wuhan had the country on high alert
- New case numbers started declining in Wuhan, I thought the outbreak was contained. However, when COVID-19 spread to Italy, I knew the global markets were about to face a Black Swan event

## WHAT I DID

- 2020: Analysed earnings estimates and noticed the Chinese markets weakening. Hedged against the market by shorting the Chinese market early
- Closed the shorts when new case numbers started dropping in China
- When COVID-19 spread to Italy, bought net exposure down to 50% (combination of selling stocks and index shorts worth AUD 2-3B)
- When we saw credit creation impulse in Apr '20 in the US and China, we added to quality growth in the internet. Q3, rotated to financials, a beneficiary of reflation and inflation in '21