Nikko AM Asia Ex Japan Equity Fund

April 2024 Supplementary Information

Top 10 Holdings

Country	Portfolio Weight
Taiwan Semiconductor Manufacturing Co Ltd	9.49%
Samsung Electronics Co Ltd	8.36%
Tencent Holdings Ltd	4.64%
Reliance Industries Ltd	4.33%
Samsung Biologics Co Ltd	3.05%
Havells India Ltd	2.25%
Godrej Properties Ltd	2.11%
Hindalco Industries Ltd	2.08%
Indusind Bank Ltd	2.06%
Pb Fintech Ltd	1.88%

Top 10 Currencies

Country	Portfolio Weight
Hong Kong Dollar (HKD)	22.41%
Indian Rupee (INR)	20.12%
New Taiwan Dollar (TWD)	19.28%
South Korean Won (KRW)	14.56%
Chinese Renminbi Onshore (CNY)	8.88%
United States Dollar (USD)	6.95%
Indonesian Rupiah (IDR)	4.79%
Philippine Peso (PHP)	1.98%
Singapore Dollar (SGD)	1.03%
European Monetary Unit (EUR)	0.00%

Market Review

The rally at the start of the year has given way to concerns that central banks will not ease monetary policy as quickly as previously hoped due to sticky inflation, in addition to heightened geopolitical risks lurking in the background. The US dollar was markedly higher against most Asian currencies, but regional equities ended April in the green following strong performance out of China. The MSCI Asia Ex Japan Index gained 1.3% in US dollar (USD) terms.

China stocks rose 6.6%, driven by a series of supportive measures aimed to promote the “high-quality” development of China’s capital market. The evaluation criteria for companies seeking to list in China will be enhanced, including requiring companies to disclose their dividend policy. Chinese authorities will also strengthen oversight of listed companies. In economic news, China’s first-quarter economy grew stronger than expected, driven mainly by robust growth in high-tech manufacturing. Gross domestic product grew by 5.3% year-on-year (YoY) and 1.6% quarter-on-quarter (QoQ). Consumer prices grew by 0.1% YoY in March, dipping to close to zero again. Hong Kong stocks (+5.2%) rebounded after a weak start to the year, after China’s market regulator announced that it will facilitate Hong Kong listings by Chinese companies and will expand the Stock Connect cross-border investment scheme to enhance the city’s status as an international financial centre.

In South Korea (-5.8%), the central bank kept its key policy rate at 3.5%, a level it characterised as restrictive, flagging that it might be difficult to reduce rates this year. South Korea's GDP growth accelerated in the first quarter (+1.3% QoQ and +3.4% YoY), boosted by increased construction activity and higher private spending. Taiwan (-2.3%) saw its economy expand 6.5% YoY during the March quarter, benefitting from the increase in global demand for the hardware underpinning artificial intelligence (AI) technologies. Correspondingly, exports jumped 18.9% in March, the fastest pace in two years. Index heavyweight TSMC beat revenue and profit expectations in the first quarter, buoyed by continued strong demand for advanced chips.

In ASEAN, central banks are bracing for more turbulence from a stronger US dollar, and policymakers have talked up the stability of their currencies over the month. The Philippines (-5.8%) kept its key interest rate at 6.5%, but sounded more hawkish, ruling out rate cuts before the third quarter. Thailand (-1.3%) held its benchmark rate steady at 2.5%, citing ongoing worries over household debt and views that monetary policy would have limited effect on resolving structural economic problems. Meanwhile, Indonesia (-8.5%) lifted its benchmark interest rate by 25 basis points to 6.25%, emphasising the need to strengthen the Indonesian rupiah stability against deteriorating global risks. Singapore (+4.0%) was the standout performer this month as the Monetary Authority of Singapore kept its exchange rate-based monetary policy unchanged. Policy continuity is also expected as Singapore will welcome a new Prime Minister starting 15 May, as incumbent Prime Minister Lee Hsien Loong prepares to step down.

Indian equities (+2.3%) found support from the strong performance of the banking and auto sectors, fuelled by impressive March quarter earnings. The Reserve Bank of India (RBI)’s monetary policy committee kept its key lending rate unchanged at 6.5%, while India's annual retail inflation rate eased in March to a five-month low of 4.85% YoY. Voting has also begun in India’s general election and will continue over the next six weeks, in seven phases, until 1 June. India's prime minister Narendra Modi and his Bharatiya Janata Party are widely expected to win a third term in power.

Investment Review and Outlook

The Fund returned 0.4% in April in USD terms, behind the benchmark’s return of 1.3%. Stock selection in China and the Philippines detracted, while some offset was provided by India and Taiwan.

Reference to any particular securities or sectors is purely for information only and does not constitute a recommendation to buy, sell or hold any securities or to be relied upon as financial advice in any way.

South Korean majors Samsung Electronics and Samsung Biologics, which are conviction positions, were a drag on performance for the month. Despite continued strong fundamentals, these stocks lagged the benchmark on profit taking and better performance elsewhere. We maintain the weighting to both for now. In the China healthcare space, shares in Chongqing Zhifei, a leading vaccine manufacturer and China Medical Systems, a pharmaceutical player, were under pressure following weak results. The latter now trades with an 8% yield and historical low in valuations for what should be a temporary setback.

On the flip side, a problem stock in Taiwan for the Fund earlier in the year is bouncing back. Shares in Silergy Corp, a leading Asian analog tech player, were up some 30% following better results and guidance at global bellwether Texas Instruments. Our engagement with the company's Chairman also allayed concerns on inventory overhangs and the company's participation in future growth verticals such as Edge AI and Autos. In India, shares in Godrej Properties, Hindalco and PB Fintech were well bid with strong pre-sales momentum, rising aluminium prices and an earlier-than-expected turn to profitability supporting each respectively.

During the course of the month, we made a few stock specific changes—most notably in the materials sector where we see increasing demand from both grid investments and new data centres, together with several production outages supporting both the copper and aluminium markets. Continued mergers and acquisitions by commodity majors suggest we are not alone in our view on the outlook for copper. Aluminium is further supported by efforts to tighten the most heavily polluting producers. We added back Merdeka Copper Gold in Indonesia and topped up our position in India-based Hindalco, which also owns and operates one of the largest aluminium recycling businesses globally, Novelis.

Elsewhere we exited our position in Chongqing Zhifei, as the issues raised in its recent earnings miss may take longer to turn around. We also exited our position in China Oilfield Services given negative fundamental changes in the offshore rig market and future demand from Saudi Arabia. On the flip side, we initiated new positions in Metrobank of the Philippines, as we believe the stock is overlooked for the turnaround in business operations whilst paying a handsome 6+% dividend yield on its return back to growth. We also added Indian fast-food operator and Yum franchise owner Devyani International. The industry is emerging from a multi-year downturn and set to expand rapidly in what is still one of the lowest penetrated countries for fast food.

What a difference a month makes. In the US, instead of seven rate cuts in 2024, the interest rate outlook has changed to one that questions the probability that the Fed's next move is a rate hike. This has changed expectations for the US dollar, which remains strong. Asian central banks are feeling the pressure to shore up their currencies. The central bank of Indonesia moved first, surprising the markets with a 25-basis-point rate hike. All-in-all, we are not yet out of the inflationary woods. Whereas the earlier outlook was for North Asia to ride the boom in demand in AI, the market has turned cautious and started to reward value instead of growth. We are in a period of changing expectations.

The Chinese government has stepped up its support for the property market, sparking a renewed and much awaited rally in the Chinese equity markets. Even though demand for property remains weak, the government is committed to delivering residential properties that were paid for. Consumer sentiment and confidence should improve as households receive their completed properties. In other positives, Chinese President Xi Jinping is expected to travel to Europe to shore up support for China's main export markets for its green technology, electric vehicles and solar.

In India, national elections are underway, and we should see incumbent Prime Minister Narendra Modi elected to a third term. On the monetary policy front, the RBI has kept rates flat and the currency stable. While pockets of smaller capitalisation stocks were starting to look overly expensive relative to fundamentals, we do not believe that is the case across the broader index and when compared to the positive fundamental change and sustainable returns on offer at individual companies. We remain overweight India and have several new ideas under evaluation.

In ASEAN and Indonesia, economic activity remains relatively robust but inflationary pressures are building, which might be a good for Thailand which is emerging from deflation. The strong dollar is also weighing on the ASEAN currencies. For the most part though, the ASEAN region remains an attractive part of Asia. The likes of Indonesia and the Philippines offer growth, while the likes of Singapore offer a high dividend yield and the potential for structural reform at the state-owned companies, unlocking shareholder value.

The world is fast entering another consumer tech cycle. This time, it is being driven by consumer devices with AI capabilities. This trend should drive another upgrade cycle as AI-capable devices require newer chipsets. Taiwan and Korea are the tech (read semiconductor and related) manufacturing centres of the world and will be beneficiaries of the new cycle. The runway is a long one as AI-capable tech goes from being in high-end devices to mass-market devices. We all await that killer-app to drive the next wave of growth.

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Risk Information

Risk and Reward Profile						
Lower risk						Higher risk
Potentially lower reward						Potentially higher reward
1	2	3	4	5	**6**	7

The Sub-Fund promotes certain environmental and social characteristics within the meaning of article 8 of the SFD Regulation but does not have a sustainable investment objective.

Currency risk - this exists when the Sub-Fund invests in assets denominated in a different currency. A devaluation of the asset's currency relative to the currency of the Sub-Fund will lead to a reduction in the value of the Sub-Fund.

Counterparty risk - the possibility that the counterparty, such as brokers, clearing houses and other agents be unable to perform its obligations due to insolvency, bankruptcy or other causes.

Liquidity risk - investments that could have a lower level of liquidity due to (extreme) market conditions or issuer-specific factors and or large redemptions of shareholders. Liquidity risk is the risk that a position in the portfolio cannot be sold, liquidated or closed at limited cost in an adequately short time frame as required to meet liabilities of the Sub-Fund.

Operational risk - due to issues such as natural disasters, technical problems and fraud.

Emerging markets risk - the risk arising from political and institutional factors which make investments in emerging markets less liquid and subject to potential difficulties in dealing, settlement, accounting and custody.

Investing in China risk - the Sub-Fund intends to gain exposure to the financial securities of the People's Republic of China ("China") without directly investing in the PRC (excluding Hong Kong). Investments in China will be sensitive to any political, social, economic, legal and regulatory developments which may take place in or in relation to China, which may adversely impact on the securities markets in China as well as the performance of the Sub-Fund.

Derivative risk - the Sub-Fund may use derivatives as described in the Objectives and Investment Policy. Use of derivatives results in higher chances of loss due to the use of leverage, or borrowing. Derivatives allow investors to earn large returns from small movements in the underlying asset's price. However, investors could lose large amounts if the price of the underlying assets moves against them significantly.

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect Risk - the Sub-Fund may be investing in China "A“ shares via the Shanghai-Hong Kong Stock Connect and Shenzhen- Hong Kong Stock Connect which may entail additional clearing and settlement, regulatory, operational and counterparty risks.

Sustainability Risk - The risk arising from any environmental, social or governance events or conditions that, were they to occur, could cause material negative impact on the value of the investment. Specific sustainability risk can vary for each product and asset class, and include but are not limited to: Transition Risk, Physical Risk, Social Risk and Governance Risk.

Credit risk - is the possibility that a bond issuer will fail to pay interest and principal in a timely manner.

Important Information

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Information sources include Bloomberg, Brown Brothers Harriman (Luxembourg) S.C.A., SMBC Nikko Bank (Luxembourg) S.A., Nikko Asset Management Asia and Nikko Asset Management Co., Ltd. All information as of 30 April 2024.

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