Fund: United Global Emerging Markets Opportunity Fund

As at 30 November 2022

Performance Update

For the month of November, the Fund MYRH class registered a return 12.68%.

Stock selection within Consumer Staples and Materials added value while stock selection in Energy and Communication Services detracted. In contrast, our holdings in Eicher Motors, Banco Bradesco and Banorte detracted. Eicher and Banorte both fell after strong performance in previous period. There were no stock specific newsflow. Banco Bradesco on the other hand underperformed on worse than expected quarterly results.

On the other hand, top contributors are Nasper N, Country Garden Svcs and Ping An Insurance. Country Garden Services rose after the central government announced a more comprehensive rescue package for property developers through bank financing which will in turn benefit the real estate services sector. Similar driver as for Country Garden Services, Ping An Insurance H stock had been overly penalized on its risk exposure to the property market.

Strategy Moving Forward

Looking ahead, the geopolitical and macro environment remains volatile despite the strong reversal from October. Still, among the encouraging measures recently announced by China, the COVID relaxation is the most significant in the short-term, coupled with an overall attractive valuation relative to its own history. This raises the expectation of an orderly reopening which will boost consumer spending and resumption of economic activity that have been affected by stringent lockdowns, quarantines, and mass testing. It could also improve property demand where the government’s supply-side stimulus so far have had limited impact. In the near term, we are watching for changes in COVID management, the PCAOB audit inspection outcome for Chinese ADRs, the US Secretary of State Blinken’s visit to China and December’s Politburo meeting followed by the Central Economic Work Conference. In the longer term, we remain positive on several fronts. China still produces more STEM post-graduates than any other country and the country’s technical capability and innovative capacity is reflected by the rising number of patent applications and grants. However, we also bear in mind certain risks. Investors have been worried about a perceived shift in the new top leadership’s focus towards objectives which that might imply more redistributive policies, curtailment of free private enterprise, and weigh on economic growth. We believe it is too early to draw definitive conclusions and, now that the top leadership team for President Xi’s third term is in place, we will monitor the Chinese government’s focus on economic growth, as well as its stance towards the private sector and entrepreneurs.

Outside China, process of re-opening and recovering is well underway for other parts of Asia. These economies are also expected to benefit from the outsourcing story brought about by the China-plus-one and to some extent, also as European industry and manufacturing get impacted by energy shortages. Supply chain shifts are typically gradual, but we are already seeing the emerging effects of this in Southeast Asia and India.

With respect to India, the government has also put in place certain initiatives such as production-linked incentive scheme and corporate tax cuts to capture some of the manufacturing diversification out of China, which should drive economic growth.

Indonesia is another country that has put in place reforms to position it to benefit from supply chain diversification. Compared to other markets in the region, it is also better placed to benefit from higher energy and commodity prices, with Indonesia and Malaysia being the only two net commodity exporters in the region. Indonesia also has a large domestic economy which could act as a demand buffer in a global slowdown. There have also been initiatives to build out the EV supply chain given Indonesia’s nickel ore supply.

Outside of Asia, valuation remains depressed in Eastern Europe. The economies in the region are doing better than expected despite the circumstances, not last due to help from increasing funds from the EU, worth up to 3% of GDP in the coming years. The Middle East should be benefiting from higher for longer with respect to energy prices, as well as structural reforms. However, given the valuation, active stock selection continues to be the key in this region. With respect to LATAM, Brazil was very quick to tighten the monetary policy, so as a result the inflation has been already falling during 2022. Therefore, Brazil might be among the first countries to cut rates in 2023 – this could help to maintain the economic momentum during 2023. Still, we need to monitor the risk coming from the latest election. Having said that, given the conservative congress and senate, there should be some good balance to the leftish leaning president.

In terms of positioning, we continue to overweight Financials because of our bottom-up stock picking. Elsewhere, we continue to overweight Indonesia as we see further upside from our bottom-up stock picks in a favorable environment describe earlier.

Stock Commentary

Stocks	Country	Sector	Remarks
Naspers N	South Africa	Consumer Discretionary	• Naspers N outperformed due to continuing growth of its NAV per share (due to buybacks and expected distribution of Meituan shares by Tencent) as well as increased management's focus on profitability within its ex-Tencent portfolio of assets.
PTT Exploration and Production	Thailand	Energy	• We topped up to PTTEP to make this positioning more meaningful given its attractive valuation.

Fund Classes

Fund Classes		
MYR Hedged Class	USD Class	SGD Hedged Class

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