



Asia Pacific ex-Japan

Market context

Asia capped off a fourth straight month of gains on the back of growing hopes of a soft landing for the US economy and looming interest rate cuts. Chinese equities held their ground despite continued bearish sentiment amid a challenging economic recovery and investor appetite for more stimulus. South Korea and Taiwan's chip making firms come under pressure towards month-end following Nvidia's underwhelming guidance. Elsewhere, despite concerns over stretched valuations, Indian equities posted a small gain, buoyed by positive economic prospects, and a surge of retail investors into the country's stock market, although there were signs of heightened volatility throughout the month.

In commodities, oil endured a volatile month – on the demand side, downward price pressure stemmed from growth concerns in the US and China, but this was partly offset by the risk of supply disruptions from the potential broadening of the conflict in the Middle East. Gold was relatively strong, as rising expectations that the US Federal Reserve would lower interest rates pushed the price of the precious metal above US\$2,500 per Troy ounce for the first time.

To read more, please click [here](#) or visit the Insights section of www.ninetyone.com

Performance

The Strategy outperformed the MSCI Asia Pacific ex-Japan over the month, gross and net of fees*.

Stock selection in financials was the biggest contributor to relative performance. Malaysian banking giant CIMB rallied on a strong set of results, an attractive dividend declaration and positive guidance. Indian financial services provider PB Fintech outperformed on strong results and soaring insurance sales.

Within consumer discretionary, not holding PDD was the biggest contributor to relative performance. The stock suffered its biggest-ever single-day pullback (and down nearly 30% during the month) after it released disappointing profitability guidance despite a strong beat on Q2 earnings. In information technology, Asustek Computer outperformed on strong Q2 financials which showed a beat on revenues and margins due to strong sales of AI servers.

More negatively, in communication services, Chinese internet giant Tencent Music Entertainment Group reported weak subscriber growth in its Q2 results.

Within IT, Zhongji Innolight was the leading detractor, despite strong Q2 results, dragged down by contagious sentiment from Nvidia sell-off. We exited the shares. SK hynix was also impacted by this.

In industrials, Makalot Industrial pulled back after 2Q24 results missed expectations due to delayed shipments following logistics issues.

*Where performance is gross of fees, returns will be reduced by management fees and other expenses incurred. Net performance is net of highest institutional segregated portfolio management fee.

Not all securities held have been discussed. For further information on how the overall strategy performed during the period covered, please reference the relative performance noted in the Performance review section.

Past performance does not predict future returns; losses may be made.

Outlook

The historical underperformance of Asian equities against MSCI AC World (ACWI) over the past five years has been down to the very strong performance of the US (+159%) and the poor performance of China (-15%). Recent performance has shown signs of improvement and in the most recent quarter Asia ex Japan has outperformed ACWI. Looking forward, not only are the earnings growth expectations for Asia superior but expectations are being revised upwards at a superior rate. From a valuation perspective, Asia is trading at a discount to its own history and a 27% discount to ACWI on a PE basis. The recent pullback in valuations, when combined with continued strength in fundamentals and a weaker US dollar, have historically offered the opportunity for Asia to outperform as an asset class. We believe there are a number of catalysts to drive further outperformance.

Firstly, in China there are signs that earnings expectations are bottoming out with upward revisions to profits this year. A number of economic growth headwinds may lift. In the property market, although excess inventory remains an unresolved issue, the government is taking action to support the sector. The export side of the economy is now showing signs of bottoming out. The government has rolled out policies to support domestic consumption by cutting interest rates and providing consumer goods replacement incentives and electric vehicle subsidies.

The second reason for our optimism is India. The long-term growth dynamic is positive, underpinned by a strong housing cycle, government production-linked incentives and infrastructure spending, expanding road, rail and port infrastructure. The Indian elections are now behind us, with a Modi government elected for a third term to continue its pro-growth, pro-reform agenda. Thirdly, the ability of AI to drive a new level of growth in the Asian technology sector will benefit stocks in South Korea, Taiwan and China where much of the global tech supply chain is centred. This is not just about companies directly supplying the AI hardware supply chain but could expand more widely to drive replacement cycles in consumer technology. Indeed, we are seeing a broadening out of earnings growth in the Asian technology supply chain.

Finally, there is the potential to improve shareholder returns and valuations of companies listed in Korea – where companies have historically traded at large discounts – through a recently announced “value up” program. Through this program, the Korean Financial Service Commission and Stock Exchange have expressed a desire to replicate the successes of the Tokyo Stock Exchange reforms which are partly behind the recent outperformance of the Japanese stock markets.

All of these are good reasons to buy the Asian equity market. We believe a disciplined bottom-up investment approach focusing on quality, valuations, earnings catalysts and share price momentum is essential to capture these changing dynamics.

Specific risks: Geographic / Sector: Investments may be primarily concentrated in specific countries, geographical regions and/or industry sectors. This may mean that, in certain market conditions, the value of the portfolio may decrease whilst more broadly-invested portfolios might grow. Currency exchange: Changes in the relative values of different currencies may adversely affect the value of investments and any related income. Derivatives: The use of derivatives is not intended to increase the overall level of risk. However, the use of derivatives may still lead to large changes in value and includes the potential for large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. Equity investment: The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. Emerging market (inc. China): These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

Important information

This communication is provided for general information only. Nothing herein should be construed as an offer to enter into any contract, investment advice, a recommendation of any kind, a solicitation of clients, or an offer, marketing or solicitation with respect to any particular strategy, security, derivative, services or investment product. The information may discuss general market activity or industry trends and is not intended to be relied upon as a forecast, research or investment advice. The economic and market views presented herein reflect Ninety One's judgment as at the date shown and are subject to change without notice. Views and opinions presented herein will be affected by changes in interest rates, general market conditions and other political, social and economic developments. There is no guarantee that views and opinions expressed will be correct and may not reflect those of Ninety One as a whole, different views may be expressed based on different investment objectives. Although we believe any information obtained from external sources to be reliable, we have not independently verified it, and we cannot guarantee its accuracy or completeness. Ninety One's internal data may not be audited. Ninety One does not provide legal or tax advice. Reliance upon information in this material is at the sole discretion of the reader. Investors should consult their own legal, tax and financial advisor prior to any investments. Past performance should not be taken as a guide to the future. Investment involves risks; losses may be made.

Any decision to invest in strategies described herein should be made after reviewing the offering document and conducting such investigation as an investor deems necessary and consulting its own legal, accounting and tax advisors in order to make an independent determination of suitability and consequences of such an investment. This material does not purport to be a complete summary of all the risks associated with this Strategy. A description of risks associated with this Strategy can be found in the offering or other disclosure documents. Copies of such documents are available free of charge upon request.

This is not a buy, sell or hold recommendation for any particular security. Individual security performance does not represent the Strategy performance. There is no guarantee that the Strategy is currently investing and/or will invest in the securities in the future. The portfolio may change significantly over a short period of time. Forecasts are inherently limited and are not a reliable indicator of future performance.

In the US, this communication should only be read by institutional investors, professional financial advisers and their eligible clients, but must not be distributed to US persons apart from the aforementioned recipients. In Australia, this document is provided for general information only to wholesale clients (as defined in the Corporations Act 2001). For Funds within the Strategy that are registered for sale in Switzerland, copies of the Prospectus, latest annual and semi-annual Report & Accounts, Articles of Incorporation and Key Investor Information Documents may be obtained from the Swiss Representative and Paying Agent, CACEIS Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich, Switzerland.

For distribution into Asia, this material should only be sent to professional investors, institutional investors and other qualified investors as defined by relevant local laws and regulations, and not to be distributed to the public or within a country where such distribution would be contrary to applicable law or regulations. It is strictly for the recipient's use only and should not be reproduced or distributed to any other persons without prior written consent from Ninety One. If you are not an intended recipient you must ignore this material and take no action based on the information in it. In Hong Kong, it is for professional investors only, issued by Ninety One Hong Kong Limited and has not been reviewed by the Securities and Futures Commission (SFC). In Singapore, it is for institutional investors only, issued by Ninety One Singapore Pte Limited (company registration number: 201220398M) and has not been reviewed by the Monetary Authority of Singapore. In the People's Republic of China (the "PRC"), it can be directed only at certain eligible PRC investors as prescribed by applicable PRC laws. In Taiwan, it is for professional institutional investors only. In Indonesia, Thailand, the Philippines and Brunei, it is for institutional investors and other qualified investors only. This material has been issued to you upon your request, without any marketing or solicitation activities conducted by Ninety One.

Except as otherwise authorised, this information may not be shown, copied, transmitted, or otherwise given to any third party without Ninety One's prior written consent. © 2024 Ninety One. All rights reserved. Issued by Ninety One.