

# New Capital Asia Future Leaders Fund



Monthly Commentary | As of 30 September 2024

## Executive summary

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### Key events in market

China and Hong Kong markets significantly outperformed the index in September as authorities embarked on their most aggressive stimulus measures in years. Taiwan, Korea and the accompanying IT sector also underperformed as concerns arose that weaker PC and smartphone demand was leading to inventory buildups after months of destocking. The China/HK rally was particularly driven by Consumer Discretionary, Property and Internet.

### Key performance & positioning updates

The Fund was up 6.3% in the month of September, 2.2% behind the benchmark (MSCI AC Asia ex Japan Net Total Return USD Index). Country allocation was negative due to our off benchmark exposure in Vietnam and overweight in India that both underperformed. Sector allocation was neutral as our overweight in Consumer Discretionary was offset by our overweight in underperforming IT.

## House view

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After another brief correction at the start of the month, global stock markets hit new all-time highs at the end of September. The MSCI All Countries Index rose 2.4% for the month, bringing its year-to-date gain to 19.1%. Government bond yields remained at their lowest levels in 15 months on the prospect of looser monetary policy.

Commodity prices, except for oil, rose on a mix of elevated geopolitical tensions – gold – and the announcement of measures to support the economy in China – industrial metals. Finally, the currency market saw the yen, sterling and yuan renminbi lead the recovery of major exchange rates against the US dollar.

In September, several important economic policy steps were taken. First, the Federal Reserve began easing interest rates with a 0.50% cut, higher than market expectations, signalling a shift in focus from fighting inflation to supporting the labour market and economic growth. In addition, Chinese authorities announced a broad package of fiscal and monetary measures aimed at supporting the real estate market and domestic demand.

Another factor that supported markets is the decline in oil prices. Despite the worsening crises in the Middle East and Ukraine, crude oil supply remains more than sufficient to meet demand, which remains moderate, also by virtue of the growing availability of energy from renewable sources. The prospect of lower inflation, in the absence of new shocks, fuels the hope of a prolonged period of interest rate cuts and moderate bond yields.

## Fund performance and positioning

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The Fund's underperformance during the month was relatively broad based across Taiwan, Korea, Hong Kong and India. In India, high internet performers such as PB Fintech and Makemytrip were weak as investors took profit and rotated into China internet. Given the fundamentals remain strong, we took this rotational opportunity to add to these names. We have had no exposure to the auto sector in India which rallied strongly in the month. This is a sector that has shown notable outperformance over the last two years yet recent months have seen a clear deceleration in volume growth and increasing discounts in four wheel drive thus we expect the sector to have peaked out. In South Korea, underperformance was entirely driven by our large overweight in Samsung Electronics as DRAM (Dynamic Random Access Memory) pricing growth has slowed due to inventory building in PC and smartphone. Samsung is yet to get the real benefit of artificial intelligence (AI) as their high bandwidth memory roadmap has lagged peer Hynix. Taiwan had a weak month for the portfolio as Largan, which provides camera lens to Apple, sold off on weaker than expected iPhone 16 sales. Unimicron, which provides substrates for high end servers, PC and smartphones, continued to be weak. However, we note the inflection potential over the next 12 months as utilization bottomed in Q2 and AI chip contribution started.

In Hong Kong, the Fund has been around neutral the past months with an overweight in Internet. Whilst this helped as Internet performed well, the Fund was also underweight property and offline consumer in China, that equally performed strongly in the last days of the month during the rally. This led to underperformance of about 40bp.

We added Ethos in India during the month. Ethos is a leading luxury watch retailer that is benefitting from the structural

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growth in consumer spending in this area that is far underpenetrated vs. developed markets, typically a later development cycle product to spend income on that is just kicking in now. With such markets dominated by relatively few global brands, having a good relationship and high distribution network to offer in India creates an offering advantage to consumers.



***We added Ethos in India during the month. Ethos is a leading luxury watch retailer that is benefitting from the structural growth in consumer spending in this area that is far underpenetrated vs. developed markets.***



	New Capital Asia Future Leaders Fund	MSCI AC Asia ex Japan Net Total Return USD Index	Difference
1 Month	+6.26%	+8.43%	-2.17%
3 Months	+4.19%	+10.40%	-6.21%
6 Months	+13.11%	+18.72%	-5.61%
YTD	+16.21%	+21.16%	-4.95%
1 Year	+21.02%	+28.95%	-7.93%
3 Years	-14.73%	+1.87%	-16.60%
5 Years	+50.82%	+37.35%	+13.47%
Since Inception Annualised	+10.41%	+6.63%	+3.78%
Since Inception (19/12/2018)	+77.25%	+44.97%	+32.28%

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## Outlook

We have been neutral HK/China the past months as whilst valuations remained attractive, fundamentals (and top down data) started to further deteriorate over the past four months. Manufacturing purchasing manager index's (PMIs) started contracting again, export growth slowed whilst ex auto consumer sales also slowed along with house prices falling in September at their fastest pace since 2014. Uncoincidentally, as in 2014 off that same reason, the PBOC (People's Bank of China) and all authorities released aggressive monetary support announcements that led to a rally beating numerous records with regards to one day moves, brokerage account openings and stock exchange turnovers. Back in 2014, the CSI300 rallied 100% before giving a large portion of this back in 2015. What is clear from the recent announcements beyond the magnitude is the ministry wide coordination of policies unseen before with the timing of announcements out of the usual event calendar showing the

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need for such urgency. The tone and wording was also much more aggressive than prior releases on the need to stabilize property prices. The core measures involve cutting the RRR (Require Rate of Return) of banks, a big 50bp mortgage rate cut, down payment ratio cuts, cheap lending to insurance companies etc with the intention to use such funds to invest and stabilise the stock market and tier 1 capital injections into banks.

Whilst we have had many rate, RRR and down payment cuts in the past year, the magnitude is bigger this time and this is the first time monetary funds are to be used through financial institutions to buy equity. The execution is also accelerated compared to past measures, with most policies such as rate cuts being enacted over the weekend. What investors have been looking for after many failed monetary stimulus attempts, is a shift to demand side fiscal support. There were signs this was a new weapon willing to be used. To follow on from the trade in subsidies in areas such as autos and home appliances that have helped support demand in past months, it was announced there would be a cash handout to the poorest income segments, as well as consumption vouchers for local services such as hotel and dining. There is now the expectations more fiscal incentives plans will be released in due course. Over the first weekend however, Shanghai sold more property in one day as they did the whole prior month. Interestingly on the property side, a leading developer announced they would refund any homebuyer if the price of their off plan home falls from purchase to delivery. Whether this was encouraged by the government or not is unclear, but if this was to become more widespread in the industry, this could be a game changer with regard to finally placing a floor on home prices.

If the market rallies, investors make money, this adds to the wealth multiplier impact that hurt the same consumers on the way down. If you combine that with a bottoming in property prices due to such measures, that will likely be enough to sustainably improve consumer spending beyond the inevitable short term boost from handouts and trade in incentives. The key as always is such property prices trend, and given so many false dawns post policy boosts prior, we would rather stay prudent and wait for clearer signs of such price bottom (given the rate of decline in August) before we start aggressively going overweight.



***Over the first weekend however, Shanghai sold more property in one day as they did the whole prior month.***



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### **Contact us:**

Park House  
116 Park Street  
London  
W1K 6AP  
UK

+44 (0)20 7491 9111  
[enquiries@newcapital.com](mailto:enquiries@newcapital.com)

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