KLS Emerging Markets Fund

Objective

The Fund's main objective is to seek to achieve and preserve above average long-term real capital returns. The portfolio manager, Ed Butchart, aims to realise this objective through a policy of investing primarily in a diversified portfolio of securities which meet their definition of emerging market securities and in their derivative instruments, whilst managing overall foreign exchange exposure. Typically, the Fund will hold 25 - 40 equity long positions. The fund is actively managed and not managed by reference to a benchmark.

Commentary

Fund NAV slipped 0.4% in July as markets digested a second successive 75bp Fed rate hike as well as the ECB's first interest rate increase in eleven years. The dollar began the month strongly before a subsequent pullback, whilst Wall Street staged a rebound after the prior month's weakness. China's efforts to promote a property upturn were hampered by reports of borrowers threatening to withhold mortgage payments on properties that have been sold but not yet delivered by cash-strapped developers. A Politburo meeting towards month-end stressed the importance of completing such projects but offered no major new stimulus policies and re-emphasised the commitment to zero Covid policies.

HDFC Bank was the biggest positive contributor, adding 0.3% to NAV. 1Q FY23 results saw strong lending growth (22% YoY), with a notable upturn in retail loan demand. Fee income surprised on the upside, with strong card spending, whilst net interest margin was flat QoQ but likely to improve from here on policy rate hikes and mix effects. Overall, profit after tax was up 19% YoY despite high MTM treasury provisions. The central bank also indicated that it has no objections to the proposed merger with HDFC.

BPO leader Genpact added 0.2% to NAV. The company's Analyst Day provided reassurance about Genpact's ability to withstand strong wage inflation, a key concern for the stock this year. This was confirmed in the latest set of quarterly results, reported post month-end, with profits some 10% ahead of consensus. During the Analyst Day, management also highlighted its ambition to deliver a 10%+ organic revenue CAGR over the medium term, with Supply Chain management and Risk being key growth drivers that can prove resilient even in an economic downturn.

Food retailer Dino Polska also added 0.2% to NAV, catalysed by strong results at industry peer Biedronka, including exceptional like-for-like growth of 22.5% YoY. Food inflation in Poland has been in double-digits for some time now, but strong wage growth is allowing food retailers to pass on most of the cost increases to consumers. Analysts are likely to have to revise up their like-for-like sales growth assumptions for Dino.

China Mengniu Dairy detracted 0.3% from NAV as China re-imposed Covid-related restrictions in various cities during the month. The yoghurt and milk beverages businesses (roughly 40% of sales) are most impacted and will likely record negative YoY sales growth for 1H 22 overall, bringing group revenue growth down to the low to mid single digits, compared to the typical low teens run rate. Some risk remains around the 2H outlook regarding the extent of ongoing restrictions but we continue to see current valuation levels as an attractive entry point for this Compounder.
Continued overleaf

Fund Details

Launch Date:	18th April 2017
Fund Size:	$53.5m
Fund Structure:	UCITS
Domicile:	Ireland
Min Investment:	Class SI : $20,000,000 Class I: $100,000
Currencies:	USD (base); GBP, EUR, CHF (all hedged)
Management Fee:	Class SI: 0.95% Class I: 1.3%
Pricing:	Daily
Liquidity:	Daily
Manager:	KBA Consulting Management Limited
Investment Manager:	Kepler Partners LLP
Portfolio Manager:	Ed Butchart
Inv. Universe:	Emerging Markets
UK Reporting Status:	Yes
Country Registrations:	Ireland UK Germany Spain Switzerland (QI)

Commentary Continued

Auto dealer Zhongsheng detracted 0.4% from NAV. After some initial excitement sparked by the easing of lockdown restrictions and the introduction of tax cuts to spark auto demand, the market has started to fret about the rising retail discounts apparently being offered on new cars. Less attention appears to be being given to the after-sales business, which contributes the majority of profits and has shown strength throughout the Covid lockdown period. We retain a position.

In aggregate, our stock long positions generated a small gain during the month, but this was offset by losses incurred on hedges. The world economy is clearly slowing. Yet inflation rates are sufficiently elevated at present to keep major central banks hawkish, whilst China's recovery efforts struggle to gain traction. As such, we retain a cautious approach to risk at present, and used a small bounce in markets in the second half of the month to add to hedges in index futures (such as H shares and South Africa Top 40) as well as in currencies (such as INR and ZAR). Thus we retain significant exposure to cash or cash proxies, and are running only limited net equity exposure.

Performance*

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2022	-2.4	0.4	-1.4	-6.5	-0.0	-5.0	-0.4						**-14.6%**
2021	0.7	2.1	-2.4	0.9	0.4	0.4	-3.7	7.0	-3.5	2.0	-6.0	0.7	**-2.0%**
2020	0.0	-6.3	-6.9	4.1	2.8	6.2	5.1	6.6	-3.4	2.6	9.6	7.0	**28.8%**
2019	5.4	1.5	3.0	0.2	-4.5	3.8	0.7	-0.6	-0.8	1.6	-1.4	8.5	**18.1%**
2018	7.1	-2.7	-0.5	-0.5	1.4	-1.4	-0.4	-4.3	-6.5	-5.1	1.2	-5.4	**-16.5%**
2017				3.5**	3.9	2.1	4.3	1.0	0.3	3.3	1.5	5.1	**27.9%**

*Fund performance is net return of USD SI Class. Return figures are since inception on 18th April 2017. All figures as at 29th July 2022. Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise and you may not get back the amount of your original investment.

**April 2017 performance is part-month only, starting with the inception of the fund on 18th April 2017.

Source: Kepler Partners LLP

Top Ten Long Equity Positions

COMPANY	WEIGHT (%)	COUNTRY	SECTOR
HDFC Bank	4.8%	India	Financials
China Mengniu Dairy	3.8%	China	Consumer Staples
AIA Group	3.7%	Hong Kong	Financials
Wal Mart de Mexico	3.6%	Mexico	Consumer Staples
Chailease Holding Company	3.3%	Taiwan	Financials
Bank Central Asia	3.3%	Indonesia	Financials
Proya Cosmetics	3.0%	China	Consumer Staples
TSMC	2.9%	Taiwan	Information Technology
Bidvest Group	2.9%	South Africa	Industrials
KT Corporation	2.1%	South Korea	Communication Services
Total	**33.3%**		

Source: Kepler Partners LLP

Country Exposures

COUNTRY	EQUITY LONG	EQUITY SHORT (%)	EQUITY INDEX (%)	NET EXPOSURE (%)	GROSS EXPOSURE (%)	DELTA ADJUSTED NET EXPOSURE(%)
Poland	1.8			1.8	1.8	1.8
Qatar	1.5			1.5	1.5	1.5
Saudi Arabia	1.1			1.1	1.1	1.1
South Africa	4.5		-7.0	-2.5	11.5	-2.5
United Arab Emirates	1.6			1.6	1.6	1.6
Total EMEA	**10.4**	**0.0**	**-7.0**	**3.4**	**17.4**	**3.4**
China	11.3			11.3	11.3	11.3
India	4.8		-1.6	3.1	6.4	3.1
Indonesia	5.3			5.3	5.3	5.3
Total Emerging Asia	**21.4**	**0.0**	**-1.6**	**19.8**	**23.0**	**19.8**
Hong Kong	3.7		-11.9	-8.2	15.6	-8.2
South Korea	2.1			2.1	2.1	-0.4
Taiwan	6.3	-0.5	-3.9	1.9	10.6	0.3
Total Developed Asia	**12.0**	**-0.5**	**-15.7**	**-4.2**	**28.3**	**-8.3**
Argentina	1.2			1.2	1.2	1.2
Brazil	0.5			0.5	0.5	0.5
Mexico	4.6			4.6	4.6	4.6
Total Latin America	**6.3**	**0.0**	**0.0**	**6.3**	**6.3**	**6.3**
United States	1.8			1.8	1.8	1.8
Total North America	**1.8**	**0.0**	**0.0**	**1.8**	**1.8**	**1.8**
Emerging Market	0.0		-7.6	-7.6	7.6	2.4
Total Global	**0.0**	**0.0**	**-7.6**	**-7.6**	**7.6**	**2.4**
Total	**51.9**	**-0.5**	**-32.0**	**19.5**	**84.4**	**25.4**

As at 29th July 2022. The potential total net and gross figures exclude any potential FX overlays. Typically FX overlays are held for hedging local currency exposures, although please note that local currency exposures are not by default automatically hedged. Source: Kepler Partners LLP

Equity Exposure*

	WEIGHT (%)
Longs	62.0%
Shorts	-36.6%
Total Net Exposure	**25.4%**

*Including Equity Overlay Positions (delta adjusted)

Individual Equity Longs

	LONG (%)	SHORT (%)
Positions >4%	4.8%	0.0%
Positions 2-4%	30.6%	0.0%
Positions <2%	16.5%	-0.5%
Total	**51.9%**	**-0.5%**

Individual Equity Holdings

No. of long positions	24
No. of short positions	1

As at 29th July 2022
Source: Kepler Partners LLP

Net Sector Exposure*

SECTOR	WEIGHT (%)
Communication Services	6.7%
Consumer Discretionary	1.6%
Consumer Staples	14.2%
Financials	18.2%
Index	-26.1%
Industrials	2.9%
Information Technology	6.5%
Materials	0.0%
Real Estate	1.6%
Total Net Exposure*	**25.4%**

Share Classes

	NAV PER SHARE	ISIN	INCEPTION DATE
Class I USD	122.31	IE00BYPZZN52	06/07/2017
Class I EUR	104.68	IE00BYPZZP76	23/08/2017
Class I GBP	99.12	IE00BYQ00673	24/11/2017
Class I CHF	79.16	IE000VBAFA36	03/11/2021
Class SI USD	135.96	IE00BYQ00780	18/04/2017
Class SI GBP	124.89	IE00BYQ00905	18/04/2017

As at 29th July 2022
Source: Kepler Partners LLP

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