TT INTERNATIONAL

Q2 2022

TT ASIA EX JAPAN EQUITY FUND

Fund Performance

	Fund Gross	MSCI Asia ex Japan
June	-6.1	-4.4
Q2	-12.5	-8.9
YTD	-22.5	-16.1
1 Year	-32.7	-24.8
3 Year (ann)	1.5	2.4
Incep. (ann)	-0.1	0.2

Returns are gross of fees in USD

Fund Value (USD mil) 46

Inception 02/05/18

Q2 2022 Attribution

Country Allocation	-1.0
Security Selection	-2.9
Currency Effect	0.0
Management Effect	**-3.9**

Markets

Source: MSCI. Returns are Gross Total Returns in local currency terms for the corresponding MSCI country index.

Asian equities sold off as investors became increasingly concerned about a potential US recession. The fund saw a negative absolute return, underperforming its benchmark.

Performance

The fund finished behind its benchmark, with outperformance in China overshadowed by underperformance in Australia and Korea.

Market Background

Asian equities sold off as investors braced for a potential US recession.

Outlook

The market environment continues to be difficult. However, we believe a turning point is near: Asian markets peaked over a year ago and valuations are well below average on both P/E and P/BV. Even in the US, valuations look much more palatable. But the principal reason for our increasing optimism is that inflation looks to be easing decisively which in turn brings favourable implications for both Fed policy and the dollar.

Why do we think inflationary pressures have eased? The CRB RIND Index, which looks at a basket of demand-sensitive commodities involved in the early stage of the production process, is 11% off its highs and approximately flat over the past 12 months; the prices of many industrial metals are down more than 30% over the past 3 months; and soft commodity prices have also corrected significantly of late. Meanwhile, in areas where there have been supply chain bottlenecks, such as semiconductors, the shortage is easing; the prices of shipping stocks are implying that it will become substantially cheaper to ship a container across the globe; and the bond market is implying a significant easing in inflation, with the US 10-year bond having now retreated 60bps from its mid-June high of 350bps.

Such price action is likely incompatible with a Fed funds rate of 3.25-3.5%, which is what the Fed themselves forecast for the end of 2022. As expectations on Fed rate hikes diminish, then the expected interest rate differential in favour of the US will diminish. This will likely lead to dollar weakness: the dollar, as measured by the DXY Index, is trading at a 10-year high vs its trading partners, despite the fact that its current account deficit is at a post-GFC high of 4%. The direction of the dollar is always critical for Asian markets as any sustained reversal in dollar strength would likely see significant inflows into the region.

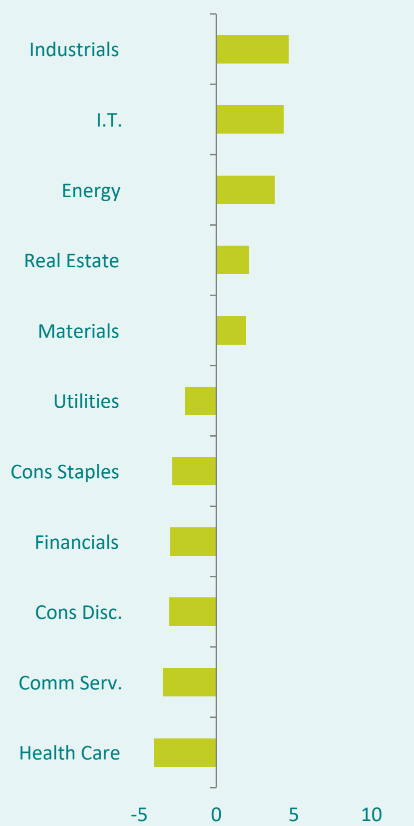
The most obvious risk to our view on inflation is oil. Oil markets do not yet appear to be witnessing significant demand destruction. With inventories very low, and excess capacity dwindling, the market appears genuinely tight. We should also remind ourselves that the tightness in oil markets is occurring at a time when China is still closed to the world – when China eventually opens up, there is scope for a further rebound in jet fuel demand. In our view, the tightness in the oil market had started to become evident even before the Ukraine war primarily due to the green energy transition hitting supply earlier than it is curtailing demand.

A risk to our market view could be a global, or US, recession. With PMIs falling that cannot be ruled out, indeed, most economists seem to be revising up their probability of a recession occurring either this year or next. However, from where markets stand today, it is increasingly hard to worry about a recession. Why? Because that view appears to have been priced into stocks. What other explanation could there be for SK Hynix, a leading memory semiconductor producer, to trade below 0.9x P/BV? It has traded at these levels only 3 times in the past 10 years and in each case rebounded at least 20% in the 6 months following that. TSMC, the leading global semiconductor foundry, is trading at 12x 2023 earnings. To get back to its 5-year average multiple of 19x, earnings would need to be cut almost 40%, which would be as bad as the 2018/19 earnings downcycle, in which their then-largest customer, Hwawei, was hit by US sanctions. Neither Hynix nor TSMC were this cheap during COVID. It is not just tech that is pricing in a recession: Hana Financial is trading on 0.3x BV and a 9% yield and Johnson Electric is trading at 0.5x P/BV and 7x trough earnings. And Indian private sector banks, apart from a brief period during COVID are cheaper than they have been at any point in the past decade.

In taking the view that a recession is increasingly priced in, one obviously wants to be certain that any recession would not morph into a financial crisis. Fortunately, that seems highly unlikely. In Asia, corporate balance sheets are as strong as they have been for a considerable period. Globally, banks are, if anything, excessively capitalised. Lending standards, incredibly lax pre-GFC, are much tighter today. Therefore, if we see a recession then it is likely to be a standard recession, not a financial crisis.

Country relative to Index %

Sectors relative to Index %



Portfolio Positioning

It is impressive that crude has held up so well in the face of a broad-based commodity correction. We added to our energy holdings – namely Karoon and Santos – which price in a long-term oil price of around $50-60. In the case of Karoon, if oil prices sustain at these levels for the next two years, it will have more than 100% of its market cap in net cash.

We have also added two refining stocks – SK Innovation and S-Oil. If anything refined product markets are tighter than crude, and we expect significant earnings upgrades across the sector. Not only do we see substantial upside in our energy holdings, but we also like the protection they will give us in an environment where oil prices rise and challenge our view of peak inflation.

India is one of the countries negatively impacted by a higher oil price which helps explains why GEM managers are on average underweight India for the first time in a decade. However, we believe they are ignoring the much longer list of positives. We expect the banks to have strong earnings upgrades as NIM and credit cost surprise positively. The economy has excellent structural growth prospects: bottoming of the property, capex, and auto cycles; export potential as MNCs diversify from China; import substitution through the PLI scheme; favourable demographics; and geopolitically well-positioned.

Elsewhere have added to Korean and Taiwanese tech over the quarter. As discussed above, we think SK Hynix and TSMC offer incredibly good value.

In China we have taken profits in several of our positions, including two in the renewable space: Pylon and Dacqo. Whilst the demand environment is favourable given the greater push towards renewables in the EU, the valuation for Pylon, a manufacturer of ESS systems, no longer looked attractive to us. We have also taken profit on Daqo, a polysilicon manufacturer. On headline numbers Daqo remains a cheap stock, but polysilicon prices are high in an historical context and significant supply is coming on stream in 2H22. In June we bought one Chinese stock, Uni-President China, a staples company with a net cash balance sheet and a 7% yield. Uni-President benefits both from falling raw material prices and Chinese re-opening.

Stock Focus

SK Innovation (South Korea, Energy)

SK Innovation is a South Korean energy business with a foot in both the hydrocarbon and renewables camps. SK Innovation is the largest refiner in Korea and stands to benefit significantly from the current record-high refining margins. Refined product markets are very tight and, given the paucity of investment in the sector, we struggle to see how that changes. High oil prices and elevated refining margins will encourage consumers to buy EVs, and to that end it is positive that SK Innovation has built SK On into one of the largest EV battery businesses globally, with particular strength in the US where the company has a JV with Ford. SK On is currently loss making, but as it ramps up its Hungarian and US facilities, we believe it will turn profitable in 2023. Therefore, we see SK Innovation as having both near-term and medium-term catalysts. We look at two different methods of dealing with the holding company discount to produce an upside ranging from 65-86% at the current price.

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Performance Attribution Q2 2022

On this page we identify where your portfolio added or subtracted value, relative to the benchmark.

Country Selection (%)

Country	Country Allocation	Security Selection	Currency Effect	Management Effect
Total Portfolio	**-1.0**	**-2.9**	**0.0**	**-3.9**
Equity	**-1.0**	**-2.9**	**-0.2**	**-4.0**
China	-0.3	0.6	0.3	0.7
Indonesia	0.0	0.1	0.0	0.1
Malaysia	0.0	0.1	0.0	0.1
Philippines	0.0	0.1	0.0	0.1
Thailand	0.0	0.0	0.1	0.0
Singapore	0.2	-0.5	0.0	-0.3
Vietnam	-0.3	0.0	0.0	-0.3
Taiwan	0.4	-0.8	0.0	-0.3
India	0.0	-0.5	0.0	-0.5
Hong Kong	-0.2	-0.3	-0.1	-0.6
Korea	-0.2	-0.6	-0.1	-0.9
Australia	-0.3	-1.1	-0.3	-1.7
Other	**-0.1**	**-0.2**	**0.0**	**-0.3**
Non Equity	**-0.1**	**0.0**	**0.2**	**0.1**
Foreign Exchange	0.0	0.0	0.2	0.2
Cash	-0.1	0.0	0.0	-0.1

Highlights

- The fund finished behind its benchmark, with outperformance in China overshadowed by underperformance in Australia and Korea.
- Daqo was a major winner as it is a key beneficiary of elevated polysilicon prices.
- Estun outperformed as there was speculation of order wins from Tesla.
- Chalice Mining struggled due to weakness in copper, nickel and PGM prices, and the risk-off environment being unfavourable to exploration plays.
- Hansol Chemical fell due to weaker sentiment on DRAM and risk that utilisation cuts at Samsung could hit Hansol's ability to sell key product H202.
- Hana Financial fell on general recession concerns despite positive statements from the Korean regulator on banks' ability to buy back shares.

Sector Selection (%)

Sector	Sector Allocation	Security Selection	Currency Effect	Management Effect
Total Portfolio	**-1.6**	**-2.4**	**0.0**	**-3.9**
Equities	**-1.5**	**-2.4**	**-0.2**	**-4.0**
Industrials	0.0	2.1	0.2	2.3
Information Technology	-0.6	0.5	0.1	0.0
Real Estate	0.2	-0.3	0.1	0.0
Health Care	-0.2	0.0	0.0	-0.1
Communication Services	0.1	-0.4	0.0	-0.3
Utilities	-0.1	-0.3	0.0	-0.3
Consumer Staples	-0.3	-0.1	0.0	-0.4
Energy	0.0	-0.7	-0.2	-1.0
Financials	0.0	-1.0	-0.3	-1.2
Consumer Discretionary	-0.4	-1.0	0.1	-1.3
Materials	-0.1	-1.3	-0.2	-1.7
Non Equity	**-0.1**	**0.0**	**0.2**	**0.1**
Foreign Exchange	0.0	0.0	0.2	0.2
Cash	-0.1	0.0	0.0	-0.1

Highlights

- At the sector level, stock selection in Industrials was more than offset by disappointing relative returns in Materials, Consumer Discretionary and Financials.
- As well as Estun, Hainan Meilan, Tongling Jingda and Guangdong Jia Yuan added to performance of Industrials – all Chinese and benefitting to some degree from tentative easing of lockdowns.
- In addition to Chalice and Hansol, LG Chemical was also a drag to our Materials performance. We came away from a recent call with the company more positive on their cathode position and added to the position.

Stock Selection (%)

	Stock	Country	Sector	Management Effect (%)	TT Held
Top Contributors	Daqo New Energy	China	Information Technology	1.21	√
	Pylon Technologies	China	Industrials	0.83	√
	A-Living Services	China	Real Estate	0.55	√
	Estun Automation	China	Industrials	0.42	√
	Hainan Meilan International Airport Co	China	Industrials	0.36	√
Top Detractors	Chalice Mining	Australia	Materials	-1.10	√
	Equitas	India	Financials	-0.53	√
	Unimicron Technology	Taiwan	Information Technology	-0.49	√
	Meituan Dianping	China	Consumer Discretionary	-0.47	×
	Eugene Technology	Korea	Information Technology	-0.43	√

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Portfolio Breakdown (%)

	TT Asia ex Japan		MSCI Asia ex Japan
	31 Mar	30 Jun	30 Jun
Emerging Asia	**1.2**	**1.0**	**0.0**
Australia	4.5	6.9	
China	32.8	34.2	39.4
Hong Kong	3.8	3.7	7.8
India	16.7	17.8	14.2
Indonesia	0.6	0.7	2.0
Korea	18.6	16.5	12.5
Malaysia	1.0		1.6
Pakistan			0.0
Philippines	0.9	0.9	0.8
Singapore	1.9	1.6	3.4
Taiwan	14.5	13.2	16.2
Thailand			2.1
Vietnam	1.7	1.8	
Asia Pacific ex Japan	**95.7**	**96.2**	**100.0**
Pan Asia	**1.4**	**1.3**	**0.0**
Cash	1.7	1.5	
Total	**100.0**	**100.0**	**100.0**

Sector Allocation (%)

	TT Asia ex Japan		MSCI Asia ex Japan
	31 Mar	30 Jun	30 Jun
Communication Services	6.9	7.0	10.4
Consumer Discretionary	13.1	12.8	15.8
Consumer Staples	2.3	2.5	5.3
Energy	2.9	7.4	3.7
Financials	14.2	17.4	20.4
Health Care			4.0
Industrials	10.9	11.3	6.6
Information Technology	29.0	25.7	21.4
Materials	10.3	7.1	5.2
Real Estate	7.3	6.3	4.1
Utilities	1.2	1.0	3.1
Cash	1.7	1.5	
Total	**100.0**	**100.0**	**100.0**

Top 10 Stocks

March 31, 2022			June 30, 2022		
Security	**Country**	**Weight %**	**Security**	**Country**	**Weight %**
TSMC	Taiwan	7.4	TSMC	Taiwan	8.2
Tencent	China	5.0	Tencent	China	5.4
Alibaba Group	China	4.0	Alibaba Group	China	4.9
Equitas	India	3.8	Karoon Energy	Australia	2.8
Samsung Electronics	Korea	3.7	Samsung Electronics	Korea	2.6
Chalice Mining	Australia	2.4	Equitas	India	2.5
SK Hynix	Korea	2.4	Axis Bank	India	2.3
ASM Pacific Technology	Hong Kong	2.2	Yongda Auto	China	2.3
Yageo	Taiwan	2.1	SK Hynix	Korea	2.2
Samsung Electro-Mechanics	Korea	2.1	Hana Financial Group	Korea	2.1
Top 10 Positions		35.1	Top 10 Positions		35.4
Top 20 Positions		53.7	Top 20 Positions		53.7
No. of stocks		61	No. of stocks		60