Quarterly Commentary
Q3 2022

CRUX ASSET MANAGEMENT

Fund Managers: Ewan Markson Brown & Damian Taylor

CRUX China Fund

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Fund Performance

The CRUX China Fund returned -13.1%, outperforming the MSCI China All Shares index, which fell 13.7% over the quarter.*

In terms of company specific attribution over the third quarter 2022, the main detractors to fund performance were from passenger vehicle manufacturer Li Auto, technology company Dada Nexus, and battery and automotive manufacturer BYD Ltd.

The main positive contributors to fund performance came from drilling and well services company China Oilfield Services and solar inverter manufacturer Sungrow Power. We also benefitted from not owning the large internet benchmark names such as Tencent and Alibaba.

*Source: FE FundInfo 30.06.22-30.09.22 Bid-Bid in GBP, TR, net income re-invested.

Attribution Stock Level Q3 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
China Oilfield Services +0.39	Li Auto -1.42
Sungrow Power Supply +0.23	BYD -1.29
Pindouduo +0.15	Kuaishou Technology -1.18
Shenshen Envicool Tech +0.15	Contemporary Amperex Tech -1.07
Bethel Automotive Safety +0.07	Dada Nexus -1.02

Source: Bloomberg

Changes to the portfolio

Over the quarter, we increased our exposure to consumer discretionary names and companies exposed to the electric vehicle value chain. We slightly reduced our exposure to the healthcare and financial sectors.

Highlighted new stock buys:

Thunder Software Technology: We are increasingly of the belief that the next great opportunity in the huge shift to electric vehicles will be in the software space, and specifically in the operating systems developed for the next generation of semiautonomous and fully autonomous electric vehicles. Thudersoft is a Chinese provider of "middleware" solutions. It is using its experience in mobile phone solutions to build a formidable moat in this highly specialised space in the automotive industry.

Starpower Semiconductor: Starpower is a leading Chinese Insulated Gate Bipolar Transistor (IGBT) designer specializing in industrial and new energy applications. We believe that power semiconductors will have a much more important role in automotive and industrial products as the electrification of everything trend continues. Starpower is also building a capability in Silicon Carbide (SiC) modules, which will see increasing demand in the NEV space over the next couple of years.

Market Cap

	Fund
>$50bn	18.9%
$15bn-50bn	28.1%
$2bn-15bn	39.2%
<$2bn	8.8%

Source: CRUX Asset Management as at 30.09.22

Outlook

The key questions facing investors as we enter the fourth quarter of 2022 have changed little from the end of Q1. We continue to find economies and markets hinging on the actions of three key characters: Putin, Xi, and Powell. The debates about the decisions they make, each so intertwined with each other, has whipsawed markets around, increasing volatility in all asset classes.

However, over the course of the last quarter we have seen developments in the spheres where our three main protagonists operate which gives us slightly more clarity into the shape of the new investing regime we find ourselves. Powell has elucidated his resolve to bring inflation under control and deflate hopes of a monetary pivot (and in so doing is increasing the chance of recession and negative financial events). Xi has continued to pursue zero-Covid policies and rein in capitalistic exuberance in the name of Common Prosperity (albeit, a pathway towards partial-Covid normality is highly likely to have appeared before year-end). Putin has seen his grip on Ukraine slip (with short-term implications of significant military escalation and longer-term outcomes surrounding the end of the Russian empire).

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What does this mean for investors? Ignore the noise and look for resilience. Interest rates and hence equity risk premia are likely to be structurally higher over the next five-plus years than over the last ten. This means, for us, a greater focus on free-cash flow generation and growth, a lowered five year exit multiple and a greater discount for companies needing financing. It means ever-greater government involvement in economies and markets (especially in the West) as they attempt to prevent liquidation and market clearing. This should eventually lead to weak currencies and greater economic variability.

We are still some time away from seeing an end to US dollar appreciation and the peak of US Fed funds, as we are yet to see peak inflation in the West. However, as we saw recently in the UK, central banks will be forced to monetise their governments' debts in any sign of financial crisis, as those governments continue to expand fiscal policy to maintain social cohesion at home. We remain watchful for events that would force Powell to pivot and hence a weaker USD.

Asia is relatively well protected from these bigger trends given lower debt-to-GDP, less Covid intervention (ex-China), less structural inflation, and cheaper valuations. These are all likely to result in Asia Ex Japan becoming an increased investment destination once market sentiment improves.

What hasn't changed is our belief in the mega-trends; the digitalisation and electrification of everything. Just as Covid accelerated the digital transformation for online commerce and customer interactions, we believe the world is accelerating towards an electric future. With the electric and soon-to-be autonomous vehicles front and centre of this change. We are early in this transformation and currently, recessionary environments are going to slow it down. However, this is the best time to be analysing and looking for investments within this growth space.