



## Emerging Market Equities: Is This The Turning Point?

**June 2022**

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# Where Is The Bottom?

Emerging Market equities underperformed US Equities over a decade – will there be a Turnaround?

Over the past one year, the MSCI EM Index declined by 21% vs S&P 500's decline of 2.6% [as of May 16, 2022]. We face this question frequently from our investors: *Have we reached the bottom?*

- EM earnings growth lagged that of the US equities. US earnings were boosted by corporate tax cuts and policy stimulus, but the derating in EM equities far outstrips the lag in EM earnings
- Past market attempts of reversals in EM Equities were frustrated by fresh negatives from macro/policy/geopolitical developments
- Many investors have exited/heavily trimmed China positions – concluding that China is an “uninvestable market” – as a result, China is “under-owned”
- ***We see light at the end of the tunnel***, we are nearing the bottom, in our view, and it is time to get constructive on EM exposure.

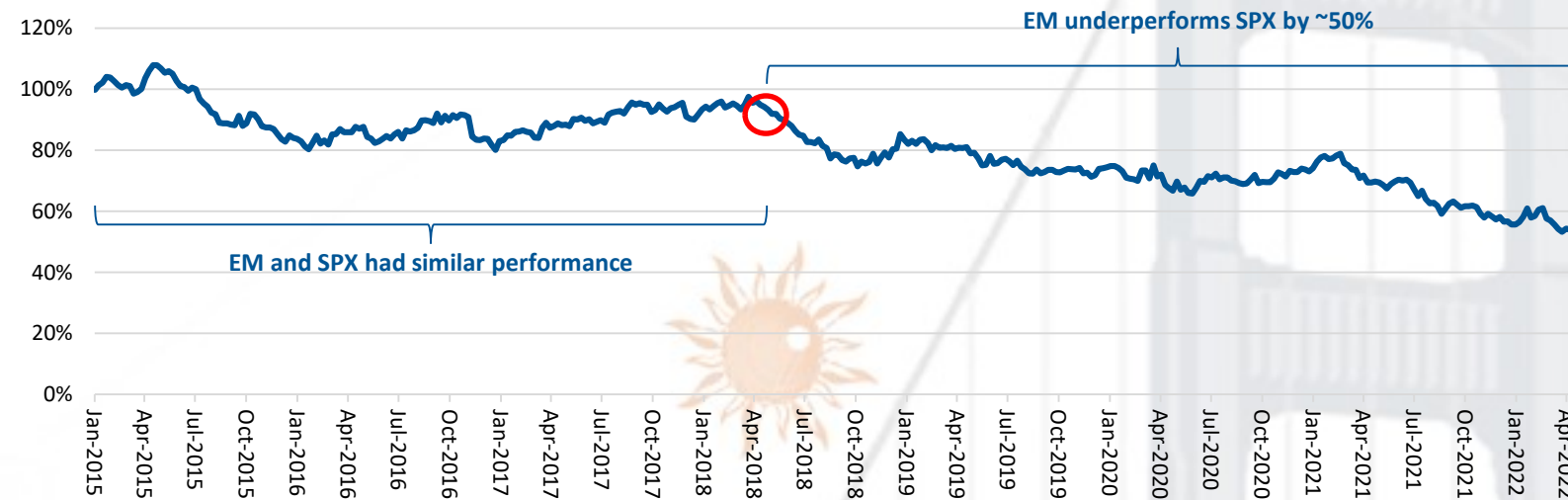
**Amid pessimism – we see significant opportunities:**

- Valuations are at attractive levels.
- ***We expect substantial policy stimulus*** announcements in coming months and quarter from China, ***that should prompt a turnaround.***

EM = Emerging Markets. MSCI EM is the MSCI Emerging Markets Index. SPX is the S&P 500 Index which is the stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States. MSCI is the Morgan Stanley Capital International organization that creates Indexes. MSCI EM is the Emerging Markets Index compiled by MSCI.

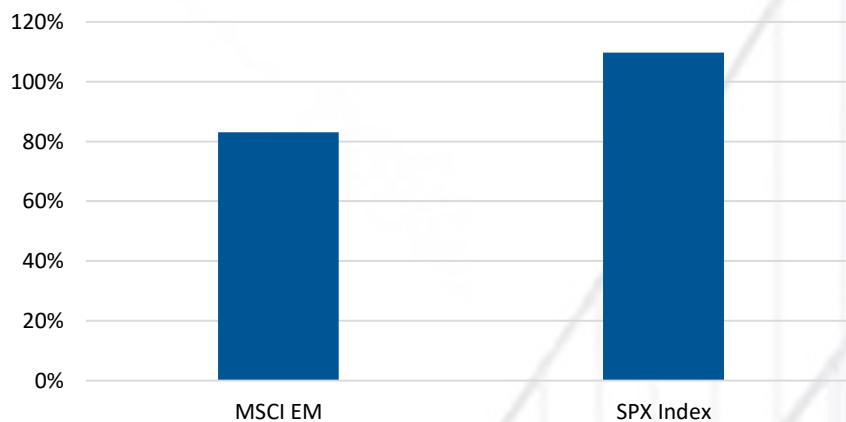
# EM Performance ... Gone from Poor to Worse

MSCI EM performance relative to SPX Index



Source : Bloomberg

Cumulative EPS growth (2015-2022)



Source : Bloomberg

## Past Four Years of Terrible Performance

- Bulk of the MSCI EM Index's (MXEF) underperformance happened since 2018
- Between 2015 and current year – MXEF EPS grew 83% lagging the S&P's EPS growth of 110%
- However, MXEF Underperformed S&P 500 by 46% since Mar 2018

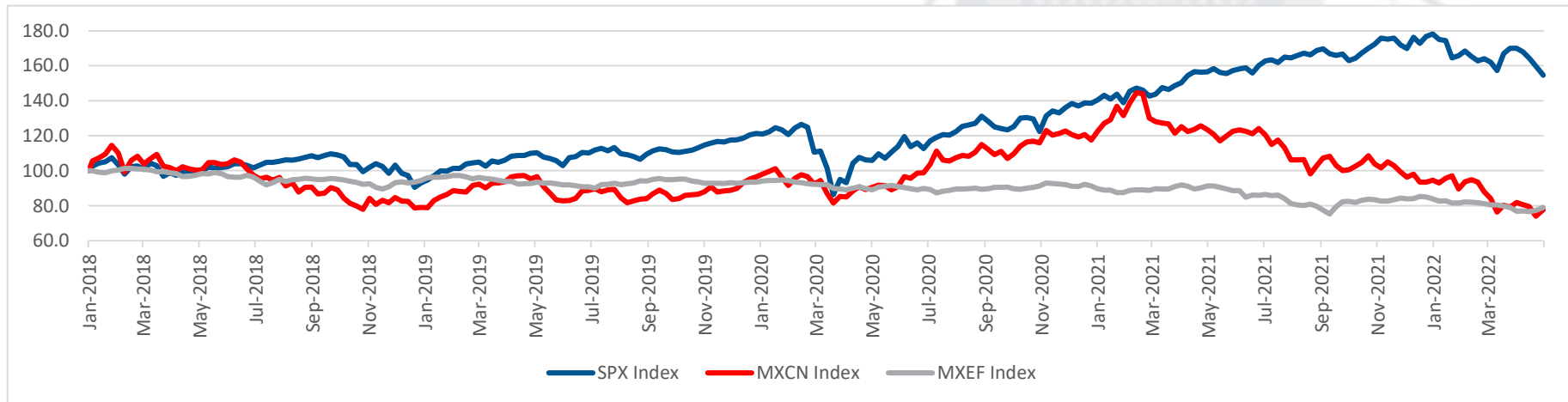
EM = Emerging Markets. MSCI EM is the MSCI Emerging Markets Index (also known as MXEF).. SPX is the S&P 500 Index. EPS is earnings per share. MSCI is the Morgan Stanley Capital International organization that creates Indexes. MSCI EM is the Emerging Markets Index compiled by MSCI.

The background of the slide features a light gray, stylized illustration of the Golden Gate Bridge. The bridge's towers and suspension cables are visible, extending from the bottom right towards the top left. Overlaid on the left side of the bridge is a bright orange sun with a circular center and radiating lines representing rays.

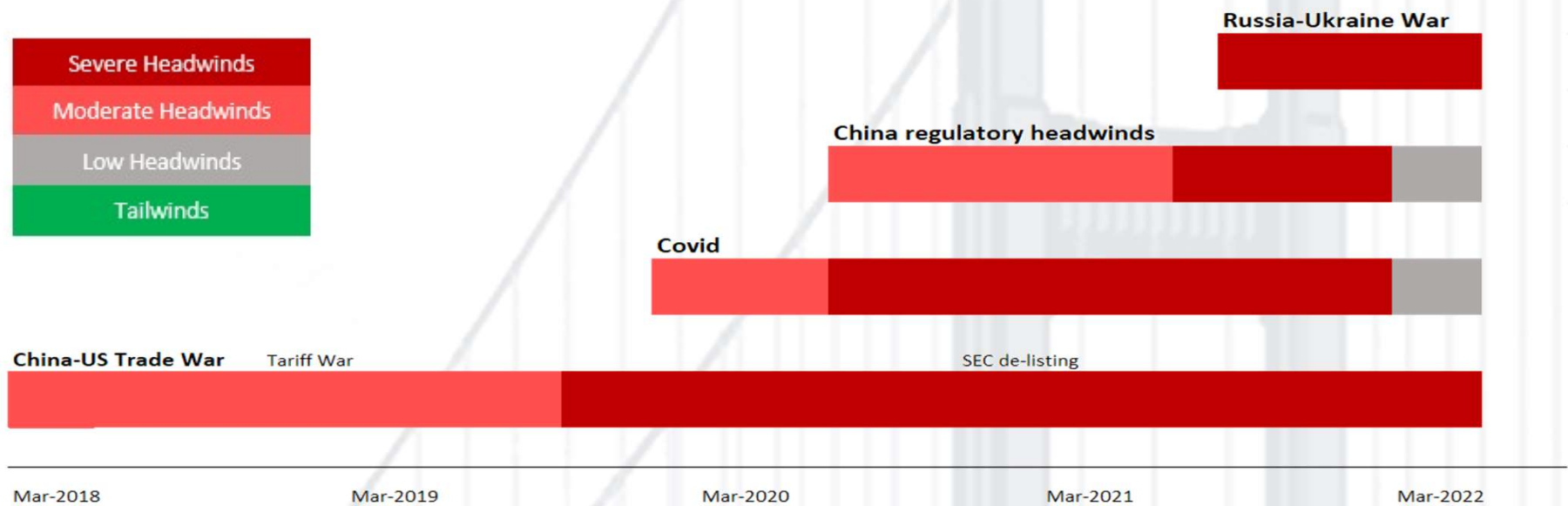
## **Four Headwinds That Explain EM Underperformance**

# Since 2018 - The Key period When EM Equities Hurt

MSCI China underperformed SPX materially since 2018



Source : Bloomberg



# 1. The Trade War And The Challenges To Globalization



## Threat to Globalization

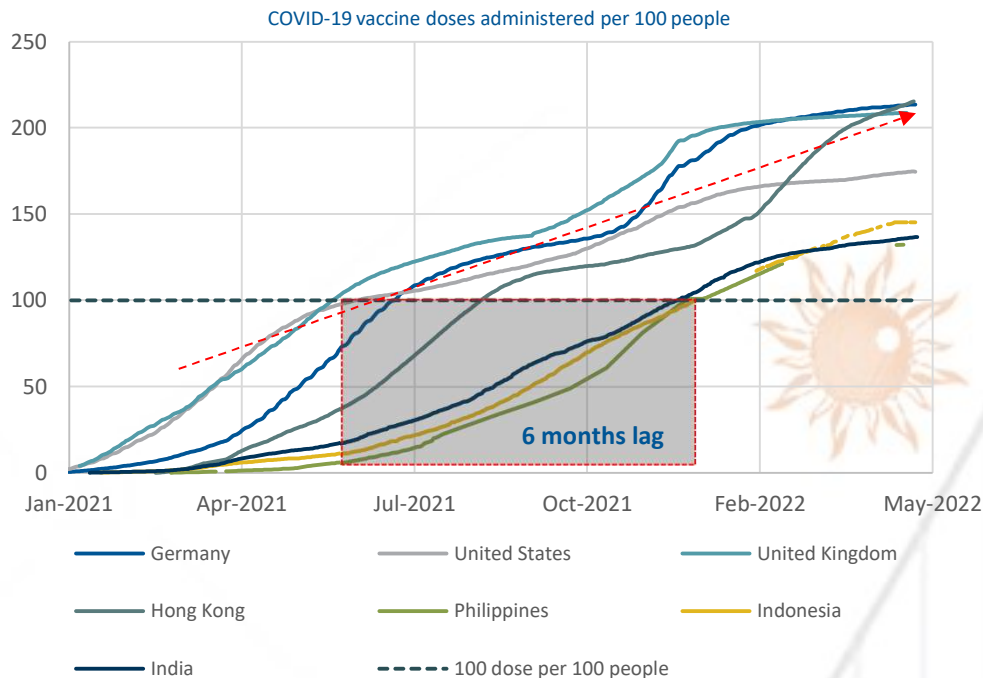
- Trump Administration embarked on an unprecedented “trade war” against China. Allegations on China included unfair trade practices and currency manipulation
- Talks to resolve the trade dispute were unsuccessful. US started imposing tariffs on China’s imports. China retaliated, but the trade balance was steeply tilted in favor of US on the tariff war
- Further, the SEC stirred the fear of delisting of the US listed Chinese companies for audit-compliance reasons.
- US investors and companies viewed this as a challenge to globalization and shunned China-based assets.
- Relocation of businesses from China to other parts of the world gathered some steam, but the progress has been marginal
- MSCI China declined 33% between Jan 2018 and Jan 2019!

Source: Peterson Institute for International Economics, BBC research, Bloomberg

MXCN Index is the MSCI China Index. The term MSCI China means the MSCI China Index

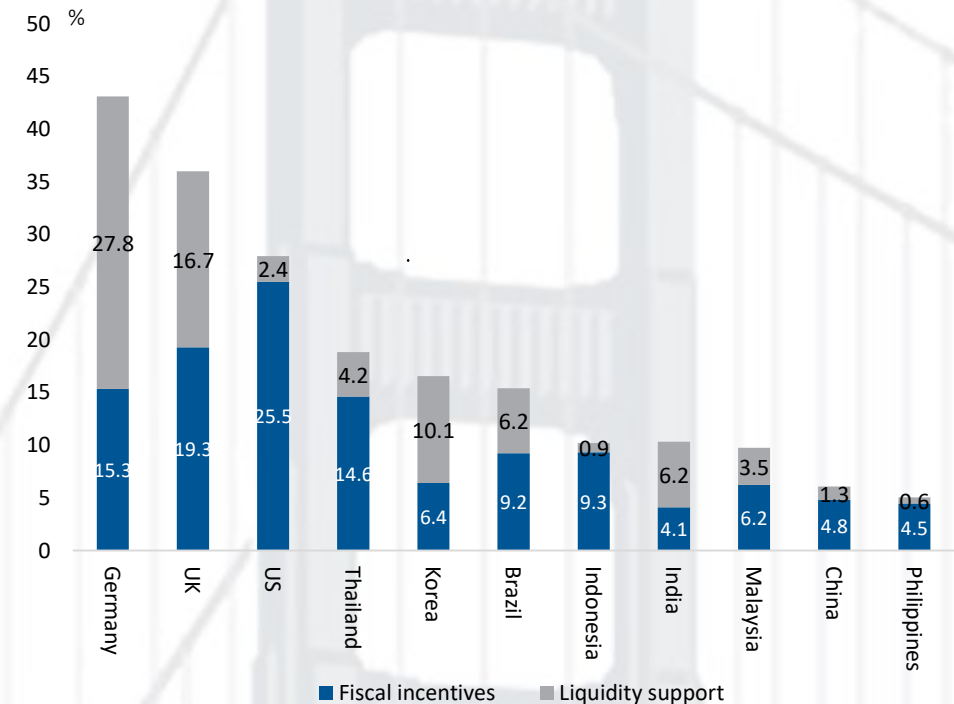
## 2. Covid Vaccination Rates and Stimulus in EM vs. Developed Markets

### Vaccination rates across EM have improved now



Source : Official data collated by Our World in Data

### 2020 fiscal stimulus as a % of 2020 GDP



Source : Bloomberg

### EM was slower in securing and administering Vaccines

- The Western World secured and administered vaccines faster than the developing countries
- Lingering Covid menace hurt economic activities in EM
- Unlike the developed world, China and other EMs did not pump-prime their economies with any sizable fiscal/monetary stimuli
- Further, China is currently going through another covid surge with top tier cities facing complete lockdown with China's adamant "Dynamic Zero Covid" policy



# 3. Regulatory Headwinds Damaged Investors' Confidence

## Key policy announcements in China

Date	Event/Policy summary	Sectors Impacted
Aug-20	Three red lines regulation for property developers	Real Estate
Sep-20	President Xi Jinping announced a pledge to make China Carbon neutral in 40 years	Energy
Dec-20	The PBoC, CBIRC, CSRC, and the State Administration of Foreign Exchange conducted regulatory interviews with Ant Group's de facto controller Jack Ma, Chairman Ji Xiandong, and President Hu Xiaoming. Later, Ant Financial Group's IPO was suspended	Platform Economy
Jul-21	The State Internet Information Office issued an announcement titled "Network Security Screening on Didi", Didi was forced to take down from the App market	Platform Economy
Jul-21	China allows third child and provides incentives for childcare	All Sectors
Jul-21	Strict regulation on K-13 education	Education
Jul-21	Regulation on incentive algorithms and ask for minimum wages + insurance for gig workers	Restaurants, Platform Economy
Jul-21	New laws on data privacy and data safety	Platform Economy
Jul-21	Control land premium in centralized land auction	Real Estate
Aug-21	State Media comments online gaming as "Mental Opium"	Online Gaming
Aug-21	President Xi Jinping makes Zhijiang a testbed for common prosperity. Announces quantitative policy targets that include GDP/capita, and urban-rural wage gap etc.	Consumer
Aug-21	Evergrande faced debt crisis. With time past, more and more real estate enterprises has showed a debt cri	Real Estate
Sep-21	Macau government launched a public consultation from Sep 15 to Oct 29 on a proposed amendment to the current gaming law	Macau Gaming
Sep-21	Tighter controls on coal mining and industries consuming high energy	Energy
Oct-21	National People's Congress announced it approved the rollout of a pilot property tax in certain regions in April 8, 2022 game version number began to issue. Game license approval has been suspended for nine	Multiple sectors
Apr-22	months since last July. 14,000 game-related companies were written off between July 2021 and the end of the year	Game

Source : Chinese government announcements



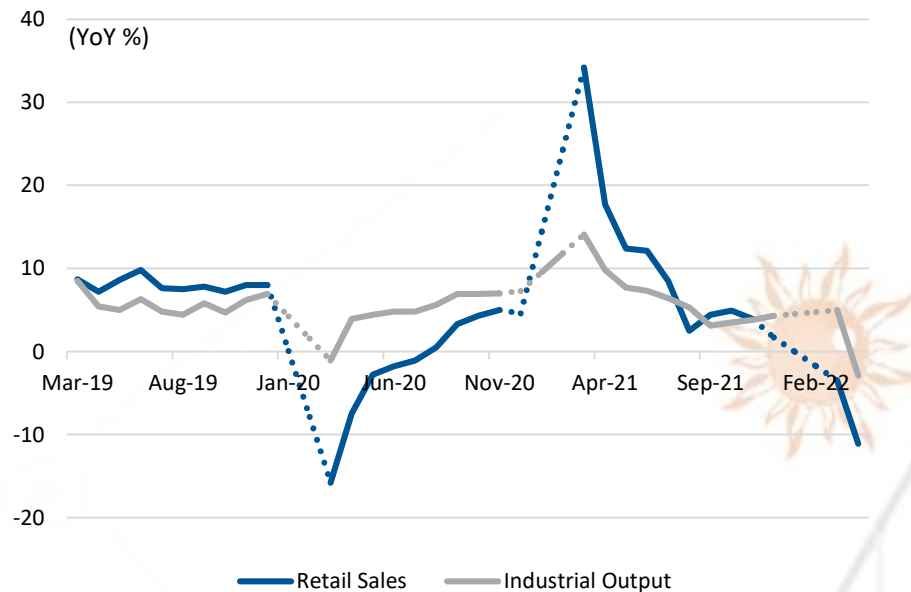
## 4. Underperformance Accentuated By War, And ...

### **Geopolitical Uncertainties hurt Investors' Risk Appetite**

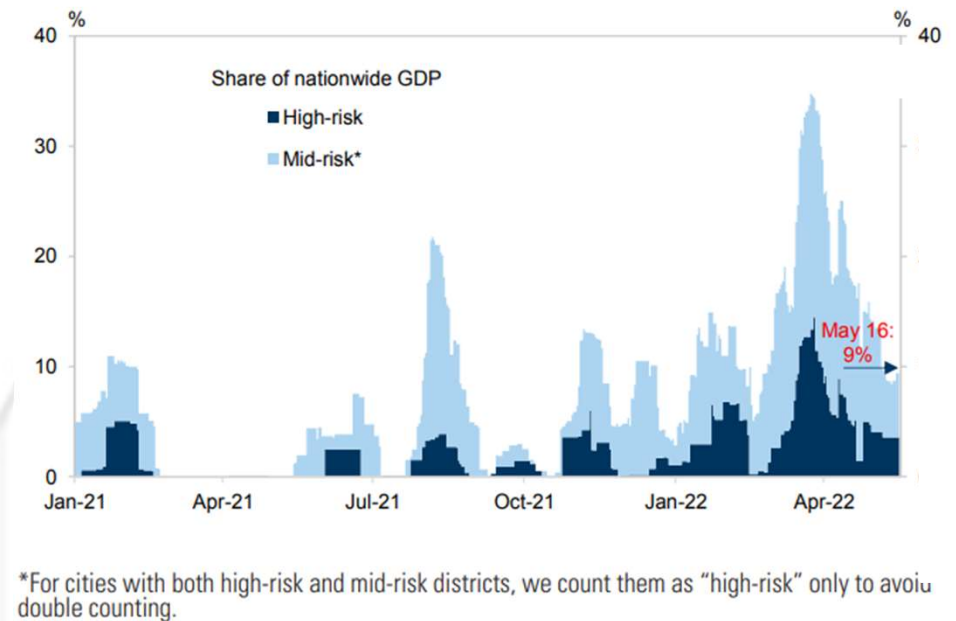
- The sharpest divergence and EM underperformance came during this period
- MSCI China lost another 26% between February 21, 2022 and March 15, 2022
- Much of Asia [Asia is 78% of the MXEF Index] are energy importers and manufacturing-heavy – dependent on commodities
- China's alignment with Russia didn't help. Also, Russia's Ukraine invasion raised concerns of a possible similar move by China in Taiwan
- Negative market sentiment was further fueled by a renewed covid surge in China [see next slide]

## 4. ... A Renewed Covid Surge in China

Covid and lockdowns drive China into contraction for a second time



Share of GDP affected by Covid lockdowns



### Severe Economic Slowdown in China

- Since March 2022 Mainland China faced the worst covid outbreak since early 2000.
- China implemented lockdowns from Jilin in the north to Shenzhen in the South. Shanghai remained in a state of lockdown through April, followed by Beijing. Nationwide, around 327.9mn people in more than 40 cities were impacted by lockdowns.
- Economic indicators in China point at a slowdown.
- MSCI China lost another 26% between February 21, 2022 and March 15, 2022.

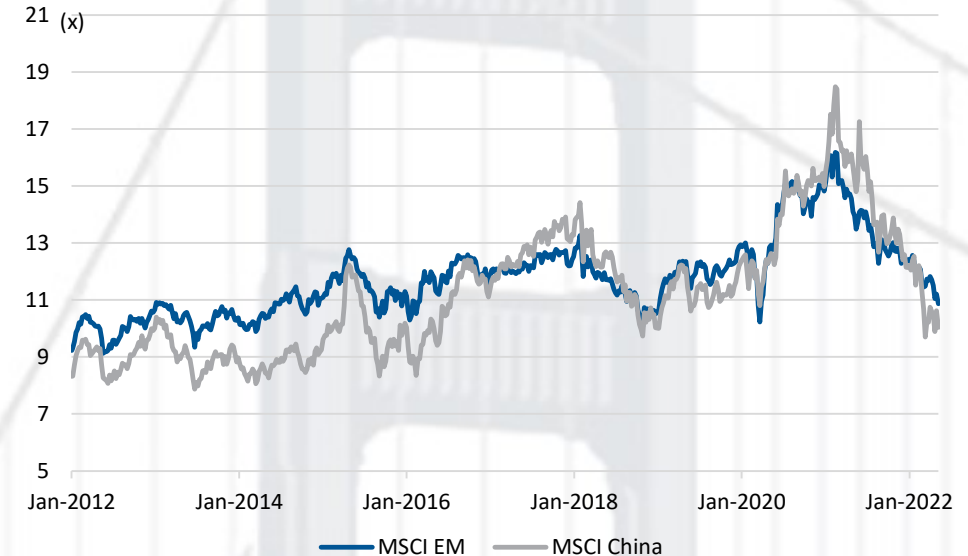
# Valuations are Attractive

Shanghai Composite - 1 Year forward PER



Source : Bloomberg

MSCI EM, MSCI China - 1 Year forward PER



Source: Bloomberg

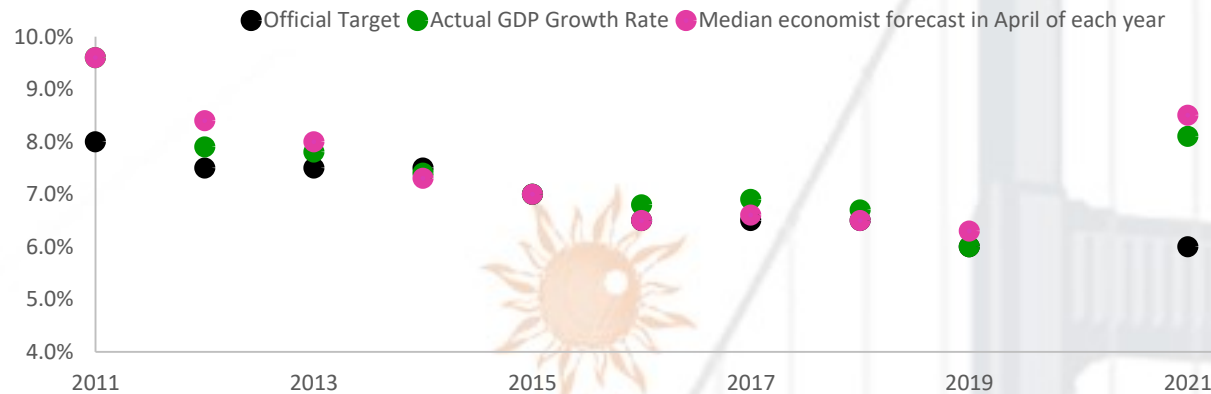
- Cheap valuations: China is trading at its lowest PE valuations since 2016. China Valuations are also at near 7 year low levels of discount relative to MXEF valuations.
- EM Valuations have been attractive for past several years – we believe a turnaround in relative performance of EM equities would require strong catalysts

The background of the slide features a light gray, stylized illustration of the Golden Gate Bridge. The bridge's towers and suspension cables are visible, extending from the bottom right towards the top left. In the upper left quadrant, there is a small, orange sun with radiating lines. Overlaid on this background is the title text in a dark blue, sans-serif font.

## Catalysts For A Turnaround In EM Equities

# Pay Heed To The Chinese Policymakers ... Do Not Fight The Regime!

**Economists forecast China growth below target for the first time since 2014**

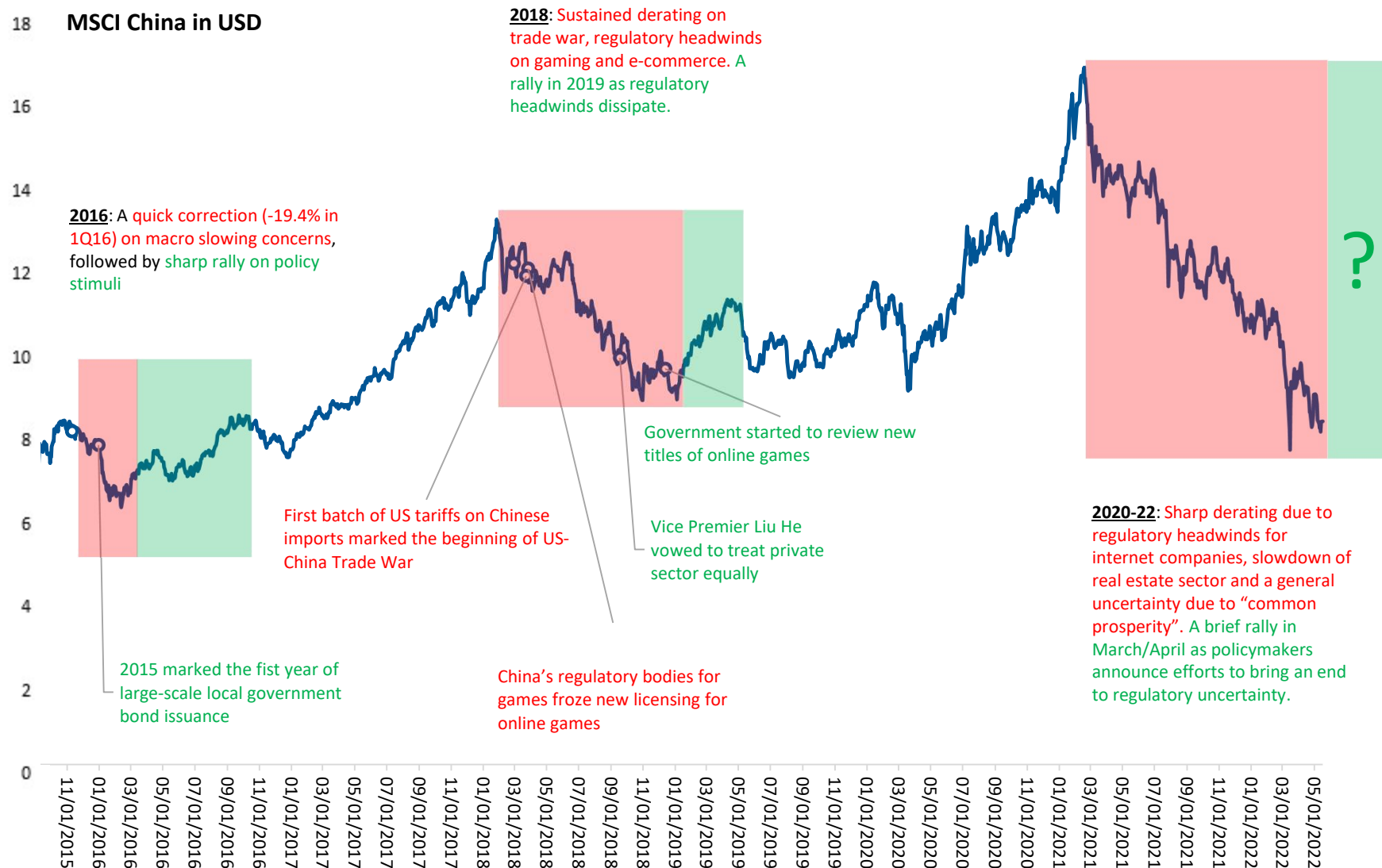


Source: Bloomberg surveys, China National People's Congress documents

Note: No official target was given in 2020. If official target given as a range, middle of the range is used

- President Xi's regime surprised market observers and set 2022 GDP growth target at 5.5% in March 5, 2022
- Economic slowdown with rising commodity prices, war uncertainties and the subsequent fresh covid outbreak makes the target appear absurd!
- China has a history of setting growth targets, and the regime aggressively works towards achieving such targets. It would be gravely embarrassing for the regime to miss the target in 2022 – the year of the 20<sup>th</sup> CCP Congress, the year of President Xi's reappointment in office, in our view
- Subsequently, policymakers in China have made strong statements of policy stimulus to defend the GDP growth target

# China Policy Stimulus Has Been Potent In Recent Past



Left Side Axis is the price of the MSCI China Index (MXCN) in US Dollars. The MSCI China Index captures large and mid cap representations across China A share, H share, B share, Red Chips, P chips and foreign listings (e.g., ADRs). There are 744 constituents – and the index represents about 85% of the China Equity Universe. (definition source: MSCI – 04/29/2022)



# Catalysts For Turnaround Ahead

## Recent measures to support economy and resolve delisting issue:

- March 2022, State council sets 2022 GDP growth target of 5.5%
- The 25-member Politburo of the Communist Party **promised the roll out of tax cuts and more supportive policies** for the economy in end April 2022
- Earlier in mid-April, the People's Bank of China (PBOC) issued **23 measures to ease liquidity**. The PBoC stated that banks should support “the reasonable financing demands” of LGFVs.

**US-China Dialogue on Resolution of the Delisting issue:** In a draft proposal, Chinese regulators proposed to change a rule that will allow foreign auditors to inspect Chinese firms. This is an important step to prevent delisting of Chinese companies in US exchanges.

**Biden Regime may reverse some of the tariff hikes** imposed on Chinese imports during the trade war to tame inflation – this is speculative at this point, but feasible.

# China Policy Actions – What to Expect?

- President Xi's administration will be focused on strengthening China's competitive position in key strategic sectors.
- The Strategic sectors include high-end manufacturing, green technology, semiconductor production, electric vehicles, rural and agricultural development as identified in the Made-in-China 2025 initiative and the 14th Five-Year Plan.
- The focus would remain on promoting common prosperity and mass consumption.
- We expect an interim departure of China's policy focus from deleveraging of the economy [embarked on in late 2017]. Off Balance Sheet budget initiatives of the State/Provincial governments/LGFVs might be back in force ahead.
- The Communist Party has promised spending and tax cuts amounting 4.5trn Yuan [4.5% of GDP] – we would expect that number to be upped ahead.

**To achieve the targeted 5.5% GDP growth in 2022 amid the severe covid slowdown, we expect substantial policy stimulus [equiv. to at least 5-7% of GDP ahead] in China. This would be a combination of GST relaxations, tax cuts, funding through SoE dividends, spending by provincial governments, off balance sheet transfers, and also through private corporate contributions**

# Key Risks

- Inadequate stimulus measures in China would perhaps be the biggest risk factor to a turnaround. President Xi's regime has to follow up on the assertions of the stimulus packages and also on their promises to be market supportive and to refrain from ad hoc restrictive regulatory headwinds against the large platform tech companies.
- The evolving geopolitical developments – with Finland and Sweden bidding for NATO membership and with the threats of retaliatory actions from Putin, are reasons for risk-off bets and negative for EM Equities.
- We expect the covid surge in China to subside in coming weeks, however, a prolonged outbreak across cities would pose serious risks to China's economy and on the overall sentiment in EM equities.

## Fundamentals are Key

We believe active management and bottom-up stock selection is key to navigating uncertain markets.

- We utilize a rigorous and disciplined research process to develop a deep understanding of a company's fundamental to help identify emerging market leaders.
- Strong domain knowledge is important to the long-term success of an investment. Our boots-on-the-ground analysts allow us to identify inefficiencies in the markets and find opportunities not covered by other investment managers.
- Focus on long-term investment horizon with an emphasis on high quality companies with attractive valuations, reasonable growth, and place significant emphasis on earnings visibility. We do not believe money is made by timing the market; rather money is made with time invested in the market.



# Fundamental Research – Example\* ➡ Great Wall Motor – 2333 HK

## Investment Thesis:

### ➤ Description

- Great Wall Motor (GWM) is the largest SUV manufacturer in China. GWM sold 1.28mn cars in 2021 (EV sales: 137k units), taking over 10% volume share in China SUV market. Its Haval H6 has been the best-selling SUV model in China for years. GWM has developed multiple brands (WEY, Ora, Tank, Pao) to enter different sub-categories.

### ➤ Early mover in EV

- GWM's EV launch pipeline (both BEV and PHEV) is also robust and arguably better than peers.
- Recently, it launched a mass market EV sedan – Ora that has rapidly gained market share.

### ➤ Premiumization is a structural tailwind

- Younger generation Chinese are increasingly buying premium products (including autos) of some local brands. GWM has been able to establish as one such local brand.
- Its premium priced crossover brand - Tank – has gained market share in a space usually dominated by foreign firms.
- Thanks to product portfolio upgrade, GWM's ROE increased to 11% in 2021 from 8.4% in 2019.

## Valuations

- GWM has derated along with its peers due to poor near term visibility. It trades at a PE ratio of 11.7x (NTM) for a 2YF Adjusted EPS CAGR of over 30%.

General Information	
Ticker	2333 HK
Stock Price (HKD)	12.78
Market Cap (USD,M)	15,036
Sector	Automobiles
P/E NTM	11.7x

	Financials		
	Dec-21A	Dec-22E	Dec-23E
Revenue (RMB,M)	136,405	157,259	186,844
EBIT Margin	2.6%	3.2%	4.5%
Net Debt/EBITDA (TTM)	-2.4x	1.1x	0.4x
ROE	11%	12%	16%

Source: Bloomberg 05/17/2022



Source: proprietary model. As of 05/17/2022

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NTM is next twelve months. P/E is Price to Earnings Ratio. Net Debt is cash left if all debts are paid off. EBITDA is the earnings of a company before Interest, Taxes, Depreciation and Amortization. TTM is Trailing Twelve Months. ROE is Return on Equity. 2YF is Two Years Forward. CAGR is Compound Annual Growth Rate. SUV is Sport Utility Vehicle. HKD is Hong Kong Dollar. RMB is Chinese Renminbi. EBIT Margin is Earnings Before Interest and Tax. The letter "A" after date is actual results. The letter "E" after date is estimated results. BEV is battery electric vehicle. PHEV is Plug-in Hybrid Electric Vehicle.



# Scorecard – Example\* Great Wall Motor – 2333 HK

SCORECARD : Great Wall Motor			
CATEGORY	MAX SCORE	SCORE	COMMENTS
Quality of Franchise	12	10	We believe GWM is the leader in China local auto brands. It has the largest market share (9% in terms of sales volume) in China SUV market. It has a comprehensive proprietary brand portfolio, including best-selling SUV brand Haval, dominant GW pickup brand, rising EV brand Ora and premium crossover brand Tank, etc. Besides, GWM has proprietary car battery and autopilot system technology.
Internal Functions	6	4	GWM has a track record of successfully developing and positioning new brands/products to fill niche demand amid fierce competition. Besides, GWM has demonstrated its long-term vision with its early entry in EV and Smart Auto segment, as well as its oversea franchise expansion.
Revenues	8	7	Above industry growth with intense EV/PHEV new model pipeline.
Margins/Expenses	4	2	The company has GM at 16-17%. Cost pressure levelling off and brand premiumization will help future GM improvements.
Earnings	8	6	Market share expansion and margin improvements will lead to over 30% EPS growths in next 2FY.
Cash Flow & Balance Sheet	8	5	The company will have capex plans to cater for EV transition. But its net gearing will keep below 30%, a manageable level.
Management	16	13	The management is a professional team that has had a good track record.
Valuation	18	17	Trading at 12-month forward P/E of 11.7x.
Free Float & Liquidity, Quality of Ownership	10	4	The management team hold over 50% stake. Free float is 13%
Disclosures and Management Communications	5	5	Adequate disclosure, detailed guidance.
Capital Structure & Track Record	5	5	
	<b>100</b>	<b>78</b>	

Source: proprietary model. As of 05/17/2022 The scorecard is a Sunbridge Capital Partners proprietary method to rank companies for consideration in the investment process. The Max Score column shows what the highest number possible is for an element being considered (such as Revenues or Earnings). The Score column shows the ranking assigned by the investment team at the given time noted.

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# Fundamental Research – Example\* ➡ Yum China: 9987 HK

## Investment Thesis:

### ➤ Description

- Yum China (YUMC) was spun off from Yum! Brands. Yum China, is the largest QSR group (by revenue) in China. It has over 11,750 restaurants (KFC: 8,168; Pizza Hut: 2,590) by 2021-end, with full-year net openings of 1,282 stores. KFC and Pizza Hut together contribute to 90% of its revenue.

### ➤ Strong branding and mature business model provide high visibility of future business

- KFC is the largest QSR brand in China. It had a ~5% market share in 2019. MacDonald's was a distant second with nearly half of its market share. In addition, Pizza Hut is the most popular pizza chain in China.
- China's QSR market is highly fragmented. Local cuisines and restaurant styles dominate. That said, western QSRs have gained market share and have proved as scalable business models.
- Yum China, in particular, has been successful by localizing its offerings. Its supply chain management is also arguably superior to its peers. During 2020-21, the company managed to open 2,588 new stores (many are small-format stores designed for delivery business) amid COVID disruption.

### ➤ Near term headwinds – Inflation and Zero Covid

- Increasing cost of raw materials and staff costs have impacted its margins in 2H21. In addition, 2022 had been impacted by widespread lockdowns in key cities due to a string zero covid policy in China.
- The company has the ability to increase prices to offset cost inflation. Easing of lockdowns should help in reviving its SSSG.

### ➤ Valuations

- The valuation of 9.4x 2023E EV/EBITDA and 21x 2023E PER are 1SD and 0.9SD lower than 5-year average level, respectively.

Source: proprietary model. As of 05/17/2022

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EV/EBITDA is the ratio of Enterprise Value to Earnings Before Interest, Taxes, Depreciation and Amortization. PER is Price to Earnings Ratio. SD is Standard Deviation. AUM is Assets Under Management.

General Information	
Ticker	9987 HK
Stock Price (HKD)	320.2
Market Cap (USD,M)	17,190
Sector	Restaurants
P/E NTM	26.2x

	Financials		
	Dec-21A	Dec-22E	Dec-23E
Revenue (USD,M)	9,853	10,477	12,507
EBIT Margin	7.7%	6.2%	9.1%
Net Debt/EBITDA (TTM)	-0.9x	-0.1x	-1.4x
ROE	14%	6%	9%

Source: Bloomberg 05/17/2022



YumChina



COFFII & JOY

LAVAZZA  
TORINO, ITALIA, 1895

烧范儿



# Scorecard – Example\* YUM China– 9987 HK

SCORECARD : YUM China			
CATEGORY	MAX SCORE	SCORE	COMMENTS
Quality of Franchise	12	10	KFC and Pizza Hut is the leading quick-service/causal dining restaurant brand in China. However, the competition in QSR (Quick Service Restaurants) is intensified. Especially in the food delivery where QSR has succeed in launching the new McDonald's delivery app.
Internal Functions	6	5	YUM China had a net addition of 329 stores in 1Q22, and a whole year guidance to add a net 1000-1200 stores despite of COVID. Moreover, YUMC is agile in shifting to community purchasing and retail packaged food in lock-down cities with changing macro environment.
Revenues	8	5	YUM China 1Q22 revenue/net income of US \$2.67bn/US\$100m (+4%/-57% YoY). SSSG (Same Store Sales Growth) down to below -20% in March and April due to the resurgence of COVID in China.
Margins/Expenses	4	3	With commodity inflation, wage and utility cost as well as increasing rider cost, margins are under pressure. With strong brands and high operation efficiency, Yum China will be able to pass the increase in costs to customers.
Earnings	8	5	With sales dragged by the resurgence of COVID in April, they have a guidance of potential net loss in Q2. If lockdown policies could ease and Chinese government should re-focus on economy, Yum China's operating performance would recover strongly.
Cash Flow & Balance Sheet	8	8	YUM China has a healthy cash position of US\$ 3.7 billion as of end 1Q 22 to sustain operations and handle contingencies.
Management	16	15	In response to the COVID resurgence and lock-down in China, the company has been actively promoting promotional strategies, consolidating and enhancing digital capabilities, increasing new retail business and exploring other brand potential, which in all shows a great management ability.
Valuation	18	16	The valuation of 9.4x 2023E EV/EBITDA and 21x 2023E PER are 1SD and 0.9SD lower than 5-year average level, respectively.
Free Float & Liquidity, Quality of Ownership	10	9	Free float is 95.56%, and a diversified Institutional holders hold 90.94% of the total stock.
Disclosures and Management Communications	5	5	YUM China has a detailed and in-time disclosure.
Capital Structure &Track Record	5	5	YUM China is in net cash position.
	<b>100</b>	<b>86</b>	

Source: proprietary model. As of 05/17/2022. The scorecard is a Sunbridge Capital Partners proprietary method to rank companies for consideration in the investment process. The Max Score column shows what the highest number possible is for an element being considered (such as Revenues or Earnings). The Score column shows the ranking assigned by the investment team at the given time noted.

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# Fundamental Research – Example\* ➡ JS Global – 1691 HK

## Investment Thesis:

### ➤ Description

- As one of the top 5 global small home appliance companies, JS Global operates 3 brands, including Shark, Ninja, and Joyoung. Shark and Ninja take roughly 30% share of US vacuum and kitchen appliances market, respectively. Joyoung has roughly 35% share in China food preparation appliances market.

### ➤ Strong brand portfolio and excellent expansion track record

- All three brands under JS Global have strong presence within their own category in their target markets. The high recognition of these brands is an important intangible asset.
- New product expansion track record: Shark developed robot vacuum cleaner in 2017; Ninja more than doubled its sales during 2019-2021, driven by new multi-function cooker and air fryer.

### ➤ Ample head room for future growth

- China vacuum penetration is low. Shark has been trying to expand in China.
- Shark Ninja made breakthrough in UK in 2020 and is entering to other European countries.
- Shark is exploring new personal care appliances categories.

### ➤ Valuations

- JS Global trades at a PE ratio of 7.6x (NTM) for a 2YF Adjusted EPS CAGR of over 20%.

General Information	
Ticker	1691 HK
Stock Price (HKD)	8.74
Market Cap (USD,M)	3,891
Sector	Household Appliances
P/E NTM	7.6x

	Financials		
	Dec-21A	Dec-22E	Dec-23E
Revenue (USD,M)	5,151	5,636	6,768
EBIT Margin	11.2%	11.1%	12.3%
Net Debt/EBITDA (TTM)	0.4x	-0.3x	-0.2x
ROE	21%	18%	21%

Source: Bloomberg 05/17/2022

**Shark | NINJA**

**Joyoung 九阳**

Source: proprietary model. As of 05/17/2022

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# Scorecard – Example\* JS Global – 1691 HK

SCORECARD : JS Global			
CATEGORY	MAX SCORE	SCORE	COMMENTS
Quality of Franchise	12	10	We believe JS Global is the leader in global small appliance market. The three brands operated by JS Global (Shark, Ninja, and Joyoung) all have high brand recognition in respective categories. Shark and Ninja take roughly 30% share of US vacuum and kitchen appliances market, respectively. Joyoung has roughly 35% share in China food preparation appliances market.
Internal Functions	6	5	JS Global has demonstrated strong new product expansion track record: Shark developed robot vacuum cleaner in 2017; Ninja more than doubled its sales during 2019-2021, driven by new multi-function cooker and air fryer; Joyoung started with blender, then expanded to cooking appliances.
Revenues	8	7	Above industry growth with product portfolio expansion and country expansion.
Margins/Expenses	4	2	The company has GM at 37%. Cost pressure levelling off and increase in Vietnam production (free of US tariff) will help future GM improvements.
Earnings	8	6	Market share expansion and margin improvements will lead to over 20% EPS growths in next 2FY.
Cash Flow & Balance Sheet	8	5	The company's net gearing ratio is below 20% and it has no massive capex plans.
Management	16	13	Shark Ninja was acquired by JS Global (owned by Joyoung founder) in 2017. Afterwards the CEO and core management team still stayed with Shark Ninja.
Valuation	18	17	Trading at 12-month forward P/E of 7.6x.
Free Float & Liquidity, Quality of Ownership	10	8	The founder hold over 40% stake. Free float is 25%.
Disclosures and Management Communications	5	5	Adequate disclosure, detailed guidance.
Capital Structure & Track Record	5	5	
	<b>100</b>	<b>83</b>	

Source: proprietary model. As of 05/17/2022. The scorecard is a Sunbridge Capital Partners proprietary method to rank companies for consideration in the investment process. The Max Score column shows what the highest number possible is for an element being considered (such as Revenues or Earnings). The Score column shows the ranking assigned by the investment team at the given time noted.

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# Fundamental Research – Example\* ➡ Sea Limited – Singapore

## Investment Thesis:

### ➤ Description

- Sea Limited is a leading e-commerce and fintech firms in Southeast Asia and Taiwan. In addition, it is one of the largest global players in mobile gaming. It is expanding its e-commerce business to Latam.

### ➤ Structural Tailwinds in Ecommerce

- Ecommerce penetration in Southeast Asia is relatively low (3-20% across countries in 2020 vs 18%/35%% in US/China). Shopee is a top-2 player in many Southeast Asian markets and Taiwan. It is a key beneficiary of 20%+\* industry CAGR over 2021-25 in this region. In addition, it is expanding to Latam.
- Its profitability is improving fast. Mgmt. has guided for breakeven in SEA and Taiwan by 2023.

### ➤ Gaming business is a cash cow

- Its runaway hit – mobile game Free Fire - has significant cash flows that has historically allowed SEA to build scale in its e-commerce and fintech businesses.
- As FreeFire matures, SEA has invested in other gaming IP and studios to diversify.

### ➤ Cheap valuations

- We value SEA on SOTP. The implied value for its Gaming (10x PER) and E-commerce (2x P/Sales) are among the cheapest in its history and vs peers.

Source: proprietary model. As of 05/17/2022

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P/Sales is Price to Sales Ratio. SOTP is Sum of the Parts.

General Information	
Ticker	SE US
Stock Price (USD)	70.33
Market Cap (USD, M)	39,366
Sector	Communication Services
P/Sales NTM	2.5x

	Financials		
	Dec-21A	DEC-22E	DEC-23E
Revenue (USD, M)	9,955	13,479	18,242
Revenue (YoY)	127.5%	35.4%	35.3%
EBIT Margin	-15.9%	-18.6%	-10.0%
EBIT (YoY)	NM	NM	NM
ROE	NM	NM	NM

Source: Bloomberg 05/15/2022





# Fundamental Research – Example\* Sea Limited – Singapore

CAF SCORECARD : [Sea Ltd] [SE US Equity] [April 2022]			
Category	Max Score	Score	Comments
Quality of Franchise	12	12	SEA Limited is one of the largest internet conglomerates in Southeast Asia, with a leading presence in gaming, e-commerce, and financial services. It dominates the E-commerce market share across Southeast Asia along with its gaming division Garena.
Internal Functions	6	6	The company has grown organically and has leading market share in majority of market it operates. Company's internet gross orders have grown at a CAGR of 117% and its gaming quarterly active user have growth at a CAGR of ~60% over 2018-21.
Revenues	8	7	Company's E-commerce GMV has grown at a CAGR of ~88% 2019-21 compared to Southeast Asia's GMV growth of ~33% CAGR, on the back of market share gains and penetration in newer geographies.
Margins/Expenses	4	2	The company has been able to improve take rate (revenue earned as a % of GMV) from 1.9% in 2018 to 6.5% in 2021. Company overall expenses have gone up in-line with needs of the company to invest in scaling up its growth businesses.
Earnings	8	6	The company being in growth phase needs investment to scale up which leads to the company incurring cash losses, but it has been able to improve on operating metrics, E-commerce vertical made a positive gross margin of 14.3% in 2021 compared to negative gross margin of -9.2% in 2019. The gaming business is inherently cash flow positive with gross margin of ~72% in 2021.
Cash Flow & Balance Sheet	8	5	The company is a net cash company led by equity infusion. The company continues to invest in its businesses which will require capital in future as well.
Management	16	15	Management has been to scale the company very fast, over 2018-2021 the company has grown revenue at a ~129% CAGR on the back of market share gains, newer geographies as well as higher digitization spend post pandemic.
Valuation	18	15	The company operates in 3 different segments of E-commerce, gaming and digital financial services all having different growth profile and profitability metrics. The individual businesses are valued separately and a SOTP is performed. On a consolidated basis the company is trading at a price to sales of 2.5 times 1 year forward revenue.
Free Float & Liquidity, Quality of Ownership	10	8	The company's ownership is quite diversified with a good mix of institutional ownership.
Disclosures and Management Communications	5	3	The company does quarterly analyst calls and investor meetings, while disclosure levels are adequate there is scope for improvement in individual business disclosures
Capital Structure & Track Record	5	4	The company has diluted its shareholding in the recent past to meet its cash flow needs as it is in the growth investing stage
	100	83	

Source: proprietary model. As of 05/17/2022. The scorecard is a Sunbridge Capital Partners proprietary method to rank companies for consideration in the investment process. The Max Score column shows what the highest number possible is for an element being considered (such as Revenues or Earnings). The Score column shows the ranking assigned by the investment team at the given time noted.

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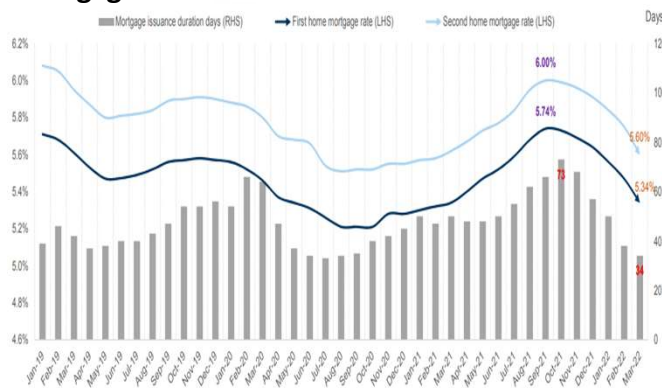
# China Stimulus – Small Measures Thus Far

## Major project investment plan by provinces

Province	Share of national GDP (%)	Scheduled project (#)	Scheduled projects (% yoy)	Scheduled investment (RMB bn)	Scheduled investment (% yoy)
Guangdong	10.9	1,570	12.5	900	12.5
Jiangsu	10.2	247	2.9	559	1.1
Shandong	7.3	2,000	25	-	-
Zhejiang	6.4	843	36.4	1,097	138.3
Henan	5.1	1,794	30.9	1,300	18.2
Sichuan	4.7	700	-	790	-
Hubei	4.4	456	48.5	304	47
Fujian	4.3	1,587	-2	617	8.2
Hunan	4	309	2.7	453	7.9
Shanghai	3.8	173	4.2	200	15.6
Anhui	3.8	8,897	13.3	1,657	12
Hebei	3.5	695	1.9	250	-11.1
Beijing	3.5	300	0	280	0.8
Shaanxi	2.6	620	13.6	463	10
Jiangxi	2.6	3,455	12.7	1,180	22.9
Chongqing	2.4	850	-4.9	357	1.1
Guangxi	2.2	1,996	15.8	401	27.8
Shanxi	2	518	1.2	-	-
Guizhou	1.7	3,347	-17.8	645	-12.9
Tianjin	1.4	676	-3.7	216	2.9
Gansu	0.9	234	12.5	223	18.5
Hainan	0.6	152	17.8	86	9.5
Ningxia	0.4	766	-32.8	201	30.4
Qinghai	0.3	730	-	200	-
<b>Total</b>	<b>74.7</b>		<b>6.0</b>		<b>16.9</b>

Source : Chinese local government announcements

## Mortgage rate declined for 6 consecutive months



Source : Beike, Rong360, Zhuge, Centaline, CREIS, Gao Hua Securities Research

## ➤ Infrastructure Investment:

- The 2022 budget suggests fiscal expenditure growth will rebound to 8.4% yoy in 2022 from 0.3% in 2021.
- Local governments' target infrastructure investment amount in 20 provinces for 2022 increased by 16.9%.
- To support such aggressive plans, Premier Li required local governments to fulfil the annual local government special bond (LGSB) issuance quota (RMB3.65tn) by September, and to use LGSB as equity capital to attract more private investment.

## ➤ Real Estate:

- By Mar 2022, China mortgagee rate has declined for 6 consecutive months with cumulative 40bp/40bp drop for first/second home buyers. On May 14th, PBOC lowered the lower limit of mortgage rate by 20 basis points.
- By early May, over 80 cities has eased curbs on housing purchase.
- To reduce property developers' solvency risk, China Banking Regulatory Commission urged normalization of bank loan issuance for property developers and excluded property projects M&A loan in "3 red lines" requirements. In Apr 29<sup>th</sup> Politburo meeting, Xi urged better utilization of property presale deposit.

## ➤ Consumption:

- On two sessions, Premier Li vowed to cut taxes and fees by Rmb2.5tn in 2022 (2021: Rmb1tn; during 2016-2020: Rmb8.5tn)
- In Feb, the State Council issued the 14th Five-Year Plan for Promoting Agricultural and Rural Modernization, where replacement of home appliances and subsidies for furnishing and car purchasing in rural area are encouraged.
- Before May holiday, Shenzhen government issued Rmb400mn consumer voucher on JD and Meituan platforms, followed by many other cities in at least 23 provinces.
- On May 13<sup>th</sup>, Ministry of Human Resources and Social Security announced Rmb500 per employee subsidies for SMEs who have suffered from COVID containment.

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The Advisor has contractually agreed to waive its fees and/or pay for operating expenses of the Fund to ensure that the total annual fund operating expenses (excluding any taxes, leverage interest, brokerage commissions, dividend and interest expenses on short sales, acquired fund fees and expenses as determined in accordance with Form N-1A, expenses incurred in connection with any merger or reorganization, and extraordinary expenses such as litigation expenses) do not exceed 1.62% and 1.37% of the average daily net assets of the Investor Class Shares and Institutional Class Shares of the Fund, respectively. This agreement is in effect for a period of two years following the reorganization of the Predecessor Fund, which occurred on July 9, 2021, and It may be terminated before that date only by the Trust's Board of Trustees. Please view the Fund Prospectus for more information regarding fees and expenses.

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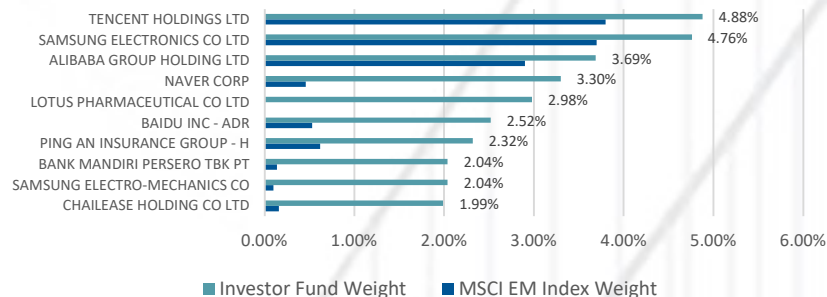
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TOP HOLDINGS (% NET ASSETS) AS OF 3/31/2022



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