Miltenberg Capital

PCFS - MILTENBERG EMERGING RESPONSIBLE EQUITY FUND

Emerging and Frontier Markets Equity

October 2023

General Information

Inception Date	31 May 2023
Base Currency	US Dollar
Domicile	Luxembourg
SICAV	PCFS S.A.
Regulatory Structure	UCITS (Luxembourg)
SFDR Classification	Article 8
AuM of the Sub-Fund (USD Millions)	5.1
Annual Management Charge	1.50%
TER (Indicative Total)	2.50%
Distribution Policy	Accumulating
Dealing Frequency	Daily at NAV before 10:00am CET
NAV (31 October 2023)	Share Class A EUR: EUR 93.438
	Share Class B USD: USD 92.641
Minimum Subscription	Share Class A EUR: EUR 5,000
	Share Class B USD: USD 5,000
Investment Manager	Miltenberg Capital Ltd (Mauritius)
Management Company	Pure Capital S.A. (Luxembourg)
Administrator	Caceis Investor Services Bank S.A. (Luxembourg)
Custodian	Caceis Investor Services Bank S.A. (Luxembourg)
Auditor	PricewaterhouseCoopers (Luxembourg)
Fund Manager	Philippe Koch, CFA

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Website	https://www.miltenbergcap.com/
Prospectus	Prospectus Weblink
PRIIPS KID - Share Class A EUR	Share Class A EUR KID Weblink
PRIIPS KID - Share Class B USD	Share Class B USD KID Weblink
Sustainability-Related Disclosures	SFDR Weblink

Share Class Identifiers	Share Class A EUR	Share Class B USD
ISIN	LU2575956847	LU2575956920
Bloomberg Ticker	MILTAEU LX	MILTBUS LX

Investment Objective

Long-term capital growth through investments into a concentrated portfolio of selected equity securities of listed companies domiciled or active in emerging and frontier markets. Promotion of primarily social characteristics through investments into listed companies that cater to the needs and well-being of the emerging consumer.

Investor Profile

Investors who want to participate in the opportunities offered by investments into equity securities of listed companies domiciled or active in emerging and frontier markets and who plan to maintain their investment over the long term, with a minimum holding period of 5 years.

Summary Risk Indicator

1	2	3	**4**	5	6	7

Lower Risk ← → Higher Risk

SRI for minimum holding period of 5 years. Please refer to the Risk Level and Specific Risk Warnings at the end of this document.

Constraints

Max. Country Exposure	33%
Max. Sector Exposure	33%
Max. Local Currency Exposure	33%
Max. Small- and Mid Cap Exposure	33%

UCITS 5/10/40 rule is applicable for the sub-fund.

Performance

The sub-fund was launched on 31 May 2023. As per "ESMA Guidelines on marketing communications under the Regulation on cross-border distribution of funds", the historical performance of a financial product that has been in existence for less than one (1) year cannot be displayed under any circumstances.

Allocation

Top 10 Holdings		Currency Exposure	
Ace Hardware Indonesia	4.7%	US Dollar	15.5%
TBC Bank Group	4.0%	Thai Baht	14.0%
Walmex	3.9%	South African Rand	13.3%
Nu Holdings	3.8%	Indonesian Rupiah	13.0%
Assai	3.8%	Philippines Peso	8.2%
Sanlam	3.7%	British Pound	7.2%
VinaMilk	3.7%	Mexican Peso	6.9%
Standard Bank Group	3.6%	Indian Rupee	6.7%
Bumrungrad Hospital	3.6%	Vietnam Dong	6.3%
HDFC Bank	3.5%	Brazil Real	5.8%
		Others	3.2%
Total	**38.4%**	**Total**	**100.0%**

Country Allocation		Sector Allocation	
Thailand	14.0%	Consumer Staples	29.4%
South Africa	13.3%	Financials	20.9%
Indonesia	13.0%	Consumer Discretionary	17.9%
Brazil	9.6%	Health Care	17.1%
Philippines	8.2%	Communication Services	8.5%
Mexico	6.9%	Cash	6.2%
India	6.7%		
Vietnam	6.3%		
Others	15.9%		
Cash	6.2%		
Total	**100.0%**	**Total**	**100.0%**

Portfolio Statistics[2]

Valuation Metrics		Risk Metrics	
Price-to-Earnings Ratio	**20.6x**	Maximum Drawdown	**N.A.**
Price-to-Book Ratio	**5.3x**	Sharpe Ratio	**N.A.**
Dividend Yield	**2.7%**	Volatility	**N.A.**
Free Cashflow Yield[3]	**5.8%**		

Fundamental Metrics		Responsible Investment Metrics	
Return on Equity	**23.7%**	Share of Independent Directors	**50%**
Return on Invested Capital[3]	**18.0%**	Share of Female Directors	**22%**
Operating Margin	**18.6%**	UNGC Participation	**43%**
Operating Profit CAGR 5Y	**13.3%**	Share of Controversies	**33%**
Net Debt/EBITDA[3]	**0.5x**	Number of Controversies	**10**

Market Cap (USD Millions)		No. of Holdings	**30**
Median Market Cap	**5,543**		
250 < Market Cap ≤ 1,500	**15.5%**		
1,500 < Market Cap ≤ 10,000	**53.5%**		
Market Cap ≥ 10,000	**31.0%**		

Top 3 Contributors		Bottom 3 Contributors	
Dino Polska	**0.43%**	Mobile World Investment	**-0.99%**
Nu Holdings	**0.42%**	MTN Group	**-0.67%**
Clicks Group	**0.19%**	Grupo Bimbo	**-0.53%**

No. of Portfolio Companies addressing specific SDGs

SDG	No.	SDG	No.	SDG	No.	SDG	No.
3 Good Health and Well-Being	20	4 Quality Education	19	5 Gender Equality	21	8 Decent Work and Economic Growth	26
9 Industry, Innovation and Infrastructure	19	10 Reduced Inequalities	21	12 Responsible Consumption and Production	20	13 Climate Action	18

No. of Portfolio Companies addressing other SDGs:

SDG 1: No Poverty: 11	SDG 11: Sustainable Cities & Communities: 9
SDG 2: Zero Hunger: 12	SDG 14: Life below Water: 2
SDG 6: Clean Water and Sanitation: 10	SDG 16: Peace, Justice & Strong Institutions: 15
SDG 7: Affordable and Clean Energy: 14	SDG 17: Partnership for the Goals: 16

[1] Performance Net of Fees. No Share Class Hedging for Share Class EUR
[2] Inclusive of Cash except Responsible Investment Metrics and Market Cap
[3] Excl. Financials

Fund Manager Comment for October 2023

Global Equity Markets

The theme of "U.S. Treasury securities are our government bonds but your problem" continued in October as U.S. equity markets outperformed the rest of the world. Yields on benchmark 10-year U.S. Treasuries jumped by another +36bps during the month and briefly hit the psychologically important level of 5.00%, before retreating slightly towards the end of October. The drop in the S&P 500 of -2.2% was more modest compared to the Stoxx Europe 600 (-3.7% in US$ terms) and the Nikkei (-4.5% in US$ terms). As for Chinese equity markets, the Hang Seng China Enterprises Index declined by -4.5% in US$ terms as troubled Chinese property firm Country Garden defaulted on a US$-denominated bond. Interestingly, the US$ remained broadly flat against major global currencies during October despite the spike in U.S. long-term interest rates. While making calls on such macro variables is not our approach to investing, we agree that a weaker US$ has often helped to improve investor sentiment for emerging markets in the past, and vice versa. As for oil prices, the front-end futures contract for Brent crude oil dropped by -8.3% in October despite the escalating conflict between Israel and Hamas. Initial market reaction to this humanitarian tragedy suggests that the probability for a wider regional war in the Near and Middle East remains low at this stage.

Portfolio Countries

News and events at the portfolio country level were muted in October.

Elections in Poland held on 15 October saw the ruling coalition losing the majority in the Sejm while an opposition coalition won the majority in the Senate. It is now widely expected that a coalition of centre-left and left parties will form the new government. Equity markets rallied strongly in October on the outlook for a new government that will be less confrontational with the EU, with the WIG20 Index jumping by +16.4% in US$ terms. Meanwhile, CPI for September (Final) and October (Preliminary) came in at +8.2% YoY and +6.5% YoY, respectively. The only position of the sub-fund in Poland, supermarket chain Dino Polska, was the largest positive contributor in October after having been the largest negative contributor in September.

Portfolio Companies

The quarterly earnings season took off in October as 15 of the 30 portfolio companies reported results. Out of those 15 companies, 11 companies were beating sell-side analyst estimates. That said, better earnings than expected provided no or very limited short-term support to share prices in an overall weak market environment.

As usual, we like to remind investors that we do not see any value in forecasting quarterly earnings per share, let alone trading in securities on earnings releases. The quarterly earnings season is a good opportunity for us to assess the operational environment of portfolio companies and to engage with management, that's it.

Ace Hardware Indonesia, the largest holding of the sub-fund, reported strong top- and bottom line results for 9M 2023. Net sales increased by +12.2% YoY, with even growth rates across the three main segments Home Improvement, Lifestyle and Toys. Geographically, growth was strongest in the ex-Java region. Management highlighted that demand in the Home Improvement segment remains ~10% below pre-Covid-19 levels, with expectations of further normalisation in FY 2024. Gross margin stood at 48.1%, a slight deterioration to previous quarters, while EBITDA margin and EBIT margin came in at 17.9% and 11.5%, respectively. EPS increased by +37.3% YoY.

Vinamilk managed to beat market expectations for Q3 2023 as EPS increased by +8.3% YoY. Total revenue declined by -2.6% YoY due to lower purchasing power of the Vietnamese consumer and reduced pricing power for dairy products in the current trading environment. An expansion of +2.4% in gross margin to 41.9% on the back of lower prices for imported materials supported growth in the bottom line. Mobile World Investment reported disappointing earnings for Q3 2023. Revenue stabilised with a growth of +2.8% QoQ but decreased -5.4% YoY as discretionary consumer demand in Vietnam remained subdued. Net profit dropped by -95.7% YoY on the back of further deterioration in EBIT margin. The clearing of excess inventory at the leading consumer electronics retailer in Vietnam is ongoing and will likely continue in Q4 2023. The only bright spot remained the grocery subsidiary BHX where revenue increased by +17.9% YoY and reached 25.7% of group revenue at the end of September. Management announced in October that the company is in advanced negotiations to sell a stake of ~20% in BHX for an equity valuation of US$ 1.5 billion to US$ 2.0 billion, which represents 63% of the current market capitalization of the group at the lower end of the range. This prospect failed to excite investors in October as the position in Mobile World Investment was the largest negative contributor to performance of the sub-fund.

HDFC Bank reported overall robust earnings for Q2 2024, the first quarterly release for the merged entity. Net revenue increased by +89.1% QoQ while EPS remained flat QoQ on back of the increase in share count after merging HDFC Ltd into HDFC Bank. The net interest margin declined from 4.1% during the previous four quarters at the old standalone entity to 3.6% in Q2 2024 for the merged entity. The decline was driven by an increase of 0.8% in cost of funds, with the consolidation of the wholesale funding base of HDFC Ltd being the likely driver. We would expect cost of funds to decline in the quarters ahead as management will endeavour to partly replace wholesale funding with cheap retail deposits. This has been one of the drivers of the merger all along and represents an important KPI for us to track. Asset quality remained stable during the quarter, with the gross non-performing asset ratio standing at 1.3% against 1.4% in June 2023. Annualised ROE came in at 16.2% for the quarter.

Over in South Africa, drug and beauty store chain Clicks Group reported decent earnings for FY 2023 that ended on 31 August. Turnover (excluding vaccinations) increased by +8.2% YoY, EBIT margin came in higher at 8.7%, and adjusted diluted HEPS were up +11.5% YoY. ROIC stood at 28.4% and thus at the higher end of the medium-term target range of 20% to 30%. Top-line growth was particularly strong in the Beauty and Personal Care segment (+18.3% YoY), now the largest segment with a share of 31.0% of group turnover. MTN Group will provide its trading update for Q3 2023 in November but already warned investors on an additional impact of US$ 94 million from the devaluation of the Nigerian Naira in Q3 2023. MTN Nigeria further received an order from the Tax Appeal Tribunal in Lagos to pay US$ 73 million of allegedly unpaid taxes, though MTN Nigeria will appeal against this order. For context, the amount claimed represents ~9% of FY 2022 net income of MTN Nigeria. Those announcements weighed on the share price of MTN Group in October.

The two Latin American hypermarket businesses owned by the sub-fund, Assai in Brazil and Walmex in Mexico, reported Q3 2023 results that exceeded market expectations. Gross sales of Assai grew by +21.9% YoY as management reported ongoing market share gains. EPS declined by -51.7% due to an increase of +67.5% in net finance costs. The increase in net finance costs was driven by a lower impact of capitalized interest expenses for new and renovated stores during the period. This accounting effect will however not affect cash interest paid by the company in FY 2023. Assai finished Q3 2023 with 276 stores of which 52 were opened during the last 12 months. As for Walmex, net sales increased by +7.7% YoY, gross profit posted a growth rate of +10.8% YoY while EPS was up +12.2% YoY. Management informed shareholders that the company received a notification from Mexican anti-trust regulator COFECE who concluded after a three-year probe that the company has abused its market power. Walmex has now 45 days to reply to this accusation. Management expressed confidence in the earnings release that the actions of the company have benefited clients, club members and the communities in which the company operates. As a tangible sign of confidence, management announced that the relaunch of the US$ 5 billion share buy-back programme has been approved by the Board of Directors. We will await the final ruling of COFECE before deciding on the course of action on behalf of the sub-fund.

After a month of a broad-based global equity market sell-off and a host of results published by portfolio companies, we like to assure investors that the underlying fundamentals of the portfolio remain strong. That said, any further increase in long-term U.S. interest rates might affect the valuation of the portfolio negatively in the short term. This macro driver, which has shown to affect equity markets around the globe, remains firmly beyond our control. We manage a practically fully-invested portfolio of solid consumer-focused responsible businesses active in developing countries and will certainly not engage in trading strategies based on movements in U.S. interest rates. What we can say is that current market valuations of portfolio companies as well as real interest rates and real effective exchange rates prevailing in portfolio countries should provide comfort for long-term investors into the sub-fund.

Risk Level

Risk Level (SRI): 4

The Summary Risk Indicator (SRI), in accordance with the Key Information Document (PRIIPS-KID), allows the level of risk of this product to be assessed in relation to others. It indicates the likelihood of losses in the event of market movements or the inability of the sub-fund to pay you. This indicator ranks the risk on a scale of 1 to 7. A low score indicates lower risk but potentially lower return. A higher score will lead to higher risk but potentially higher return.

The level of risk indicated is not a guarantee and may change over time. It also assumes that you keep the product for 5 years. The risk may be significantly different if you sell the product at an early stage, and you may get a lower return.

Specific Risk Warning

The sub-fund will invest mainly in large and medium capitalised securities but may also participate in small and micro capitalised opportunities. The aggregate exposure to small and micro capitalised securities will not exceed 33% of the Fund's net assets.

Further, the sub-fund will not invest into securities with a market capitalisation of less than USD 250,000,000. The securities of small-capitalization and mid-capitalization companies are generally considered to have a greater capacity of appreciation but involve greater risks than those associated with larger and more established companies. These companies could be more inclined to extreme market and economic conditions. They are likely to be subject to higher-than-average volatility due to high degree of concentration, greater uncertainty (as less information is available), less liquidity and/or due to greater sensitivity to changes in market conditions. Both small-capitalization and mid-capitalization companies often have narrower markets and more limited managerial and financial resources than larger and more established companies. Consequently, smaller companies may find themselves unable to generate new funds to support their growth and development. They may lack vision in management, or they may develop products for new, uncertain markets. Therefore, their performance could be more volatile as they face greater risk of business failure. Securities of such issuers may lack sufficient market liquidity to enable a Fund to effect sales at an advantageous time or without a substantial drop in price. As a result, they may be subject to more abrupt or erratic price movements (for example securities of small-capitalization and mid-capitalization may decline in value whereas securities of more established companies are increasing in value). The market capitalisation bracket of a security is determined with reference to the domestic stock market, or where this is not applicable with reference to a relative index as follows: •

Large-cap securities are those that account for the top 60% of the capitalisation of a domestic stock market or relative index;

Mid-cap securities represent the next 20% of a domestic stock market or relative index;

Small-cap securities make up the next 10% of a domestic stock market or relative index; and •

Micro-cap securities make up the remainder of a domestic stock market or relative index.

Investors in sub-funds which pursue small and small- and mid-capitalization strategy agree to bear these risks.

Emerging Markets Risk: The sub-fund will invest in equity securities in emerging and frontier markets. Such equity securities may involve a high degree of risk and may be considered speculative. Risks include but are not limited to (i) greater risk of expropriation, confiscatory taxation, nationalization, and social, political and economic instability; (ii) the small current size of the markets for equity securities of emerging and frontier markets issuers and the currently low or non-existent volume of trading, resulting in lack of liquidity and in price volatility, (iii) certain national policies which may restrict the sub-fund's investment opportunities including restrictions on investing in issuers or industries deemed sensitive to relevant national interests; and (iv) the absence of developed legal structures governing private or foreign investment and private property. In addition, the fund will invest into equity securities denominated in local currencies of developing countries. Risks related to exposure to currencies of developing countries include but are not limited to (i) small size of local currency markets resulting in reduced liquidity, (ii) capital controls that could make it impossible to convert local currencies to EUR or USD and repatriate dividend or sales proceeds, and (iii) large currency devaluations undertaken by central banks or governments of developing countries in which the sub-fund may invest that result in an adverse impact on the Net Asset Value of the sub-fund.

Specific Exchange Rate Risk: Share classes of the sub-fund are not hedged against currency fluctuations. Investors investing into share classes of the sub-fund bear exchange rate risk. Exchange rate risk is a form of risk that arises from the change in price of one currency against another. The performance of unhedged share classes are therefore affected by movements in currency movements.

The sub-fund can suffer losses which reduces its Net Asset Value per share.

The Company does not guarantee or protect the capital invested.

The risk factors described above are not exhaustive.

The risk profile of the sub-fund is suitable for an investment horizon of over 5 (five) years.

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Glossary

Maximum Drawdown: Percentage highlighting the largest theoretical loss for an investor during the lifetime of the sub-fund.
NAV: Price of a share of the sub-fund in the respective currency at the indicated date.
Number of Controversies: Number of portfolio companies that had controversies during the last 5 years.
SDGs: Sustainable Development Goals. A collection of 17 interlinked objectives designed to serve as a "shared blueprint for peace and prosperity for people and the planet, now and into the future".
SFDR Classification: Sustainable Finance Disclosure Regulation (SFDR) 2019/2088. EU Act that requires asset managers to classify funds into categories, Article 8 funds promote environmental and social characteristics while Article 9 funds have sustainable investments as a measurable objective.
Share of Controversies: Portfolio companies that had controversies during the last 5 years as a percentage of the total portfolio excluding cash.
Share of Female Directors: Unweighted median percentage of female directors on the board of directors of portfolio companies.
Share of Independent Directors: Unweighted median percentage of independent directors on the board of directors of portfolio companies.
Sharpe Ratio: Sharpe ratio measures the excess return over the “risk-free rate” in the base currency of the sub-fund divided by the standard deviation of this return. It thus shows the marginal return per unit of risk. The higher (lower) the Sharpe ratio, the more (the less) risk-taking is rewarded. A negative Sharpe ratio does not necessarily mean that the portfolio posted a negative performance, but rather indicates that the sub-fund had a lower return compared a “risk-free” investment.
SICAV: Société d’Investissement à Capital Variable (Open-ended investment company with variable capital)
SRI: Specific Risk Indicator
TER (Indicative): Total Expense Ratio. Measure of total expenses of the sub-fund in relation to its average assets which is expressed as an annualized percentage. Expenses include all management, custody, administrative, audit, and other fees and any profit-related fees. Broker commissions are excluded from TER. TER changes with movements in underlying AuM due to fixed expenses of the sub-fund.
UNGC Participation: Portfolio companies that participate in the United Nations Global Compact (UNGC) as a percentage of the total portfolio excluding cash.
Volatility: Annualized percentage range of price variation of the return of the fund and the denominator of the Sharpe Ratio. Generally, investors equate a higher volatility with a higher level of risk.

Disclaimer