# Marketing Communication

Miltenberg Capital

## PCFS - MILTENBERG EMERGING RESPONSIBLE EQUITY FUND

Emerging and Frontier Markets Equity

**January 2024**

### 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) | 5.4 |
| Annual Management Charge | 1.50% |
| TER (Indicative Total) | 2.50% |
| Distribution Policy | Accumulating |

| | | |
|---|---|---|
| Dealing Frequency | | Daily at NAV before 10:00am CET |
| NAV (31 January 2024) | Share Class A EUR: | EUR 96.883 |
| | Share Class B USD: | USD 98.697 |
| 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

| | |
|---|---|
| Email | contact@miltenbergcap.com |
| 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 Micro 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** | |
|---|---|
| Bumrungrad Hospital | 5.4% |
| Ace Hardware Indonesia | 4.8% |
| Assai | 4.6% |
| TBC Bank Group | 4.3% |
| Walmex | 4.3% |
| MercadoLibre | 4.3% |
| Sanlam | 3.9% |
| Kaspi | 3.8% |
| Nu Holdings | 3.8% |
| Century Pacific Food | 3.8% |
| **Total** | **43.0%** |

| **Currency Exposure** | |
|---|---|
| US Dollar | 15.0% |
| Thai Baht | 14.9% |
| South African Rand | 13.8% |
| Indonesian Rupiah | 12.0% |
| British Pound | 7.5% |
| Mexican Peso | 7.5% |
| Indian Rupee | 6.7% |
| Brazil Real | 6.6% |
| Vietnam Dong | 6.4% |
| Philippines Peso | 6.2% |
| Others | 3.5% |
| **Total** | **100.0%** |

| **Country Allocation** | |
|---|---|
| Thailand | 14.9% |
| South Africa | 13.8% |
| Indonesia | 12.0% |
| Brazil | 10.4% |
| Mexico | 7.5% |
| India | 6.7% |
| Vietnam | 6.4% |
| Philippines | 6.2% |
| Others | 19.1% |
| Cash | 3.0% |
| **Total** | **100.0%** |

| **Sector Allocation** | |
|---|---|
| Consumer Staples | 30.8% |
| Financials | 22.9% |
| Health Care | 18.9% |
| Consumer Discretionary | 15.8% |
| Communication Services | 8.5% |
| Cash | 3.0% |
| **Total** | **100.0%** |

### Portfolio Statistics[2]

| **Valuation Metrics** | |
|---|---|
| Price-to-Earnings Ratio | **33.1x** |
| Price-to-Book Ratio | **6.1x** |
| Dividend Yield | **2.8%** |
| Free Cashflow Yield[3] | **5.9%** |

| **Risk Metrics** | |
|---|---|
| Maximum Drawdown | **N.A.** |
| Sharpe Ratio | **N.A.** |
| Volatility | **N.A.** |

| **Fundamental Metrics** | |
|---|---|
| Return on Equity | **25.3%** |
| Return on Invested Capital[3] | **19.2%** |
| Operating Margin | **20.2%** |
| Operating Profit CAGR 5Y | **13.1%** |
| Net Debt/EBITDA[3] | **0.5x** |

| **Responsible Investment Metrics** | |
|---|---|
| Share of Independent Directors | **55%** |
| Share of Female Directors | **23%** |
| UNGC Participation | **43%** |
| Share of Controversies | **34%** |
| Number of Controversies | **10** |

| **Market Cap (USD Millions)** | |
|---|---|
| Median Market Cap | **5,400** |
| 250 < Market Cap ≤ 1,500 | **16.9%** |
| 1,500 < Market Cap ≤ 10,000 | **46.0%** |
| Market Cap ≥ 10,000 | **37.1%** |

**No. of Holdings** **29**

| **Top 3 Contributors** | | **Bottom 3 Contributors** | |
|---|---|---|---|
| Ace Hardware Indonesia | **0.62%** | MTN Group | **-0.68%** |
| MercadoLibre | **0.34%** | HDFC Bank | **-0.54%** |
| Cipla | **0.27%** | Airtel Africa | **-0.50%** |

### No. of Portfolio Companies addressing specific SDGs

| | |
|---|---|
| 3 Good Health and Well-Being | **20** |
| 4 Quality Education | **18** |
| 5 Gender Equality | **20** |
| 8 Decent Work and Economic Growth | **25** |
| 9 Industry, Innovation and Infrastructure | **19** |
| 10 Reduced Inequalities | **20** |
| 12 Responsible Consumption and Production | **19** |
| 13 Climate Action | **18** |

**No. of Portfolio Companies addressing other SDGs:**

SDG 1: No Poverty: 10
SDG 2: Zero Hunger: 11
SDG 6: Clean Water and Sanitation: 9
SDG 7: Affordable and Clean Energy: 13
SDG 11: Sustainable Cities & Communities: 8
SDG 14: Life below Water: 2
SDG 16: Peace, Justice & Strong Institutions: 15
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*

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## Fund Manager Comment for January 2024

### Global Equity Markets
Global equity markets had a mixed start in the new calendar year 2024. U.S. equities continued their upward trajectory as the S&P 500 and the NASDAQ posted total returns of +1.7% and 1.0%, respectively. At the other end of the spectrum were Chinese equities, with the Hang Seng China Enterprise Index selling off by another -10.0% in US$ terms.

While some foreign investors may argue that market sentiment for and valuations of their favourite listed Chinese companies cannot get any worse, it seems far-fetched to us to make the same inferences for China that might otherwise have some merit during extended bear markets in well-functioning developed equity markets. Tellingly, the signal eagerly awaited by investors for placing buy orders is for Chinese authorities to intervene in the equity market first. A market where buyers enter not because of appealing valuations for quality businesses but only as a speculation on the back of direct buying of equity securities by the state cannot be considered a well-functioning market. To highlight again, the sub-fund does not hold any positions in Chinese equity securities and does not intend to do so in the foreseeable future. Sadly, we do not expect meaningful changes to sovereign and corporate governance in China anytime soon, despite the almost unparalleled entrepreneurial potential prevailing in the country.

The emancipation of other emerging equity markets from China that we had pointed out in the last Monthly Report was less visible in January. India remained the main beneficiary of the accelerating rotation from China as the BSE S&P 500 returned +2.2% in US$ terms. Most other emerging equity markets, including portfolio countries such as Brazil, South Africa, or Thailand, followed the example of China and finished January in the red.

### Portfolio Countries
January 2024 saw limited events across portfolio countries that we deem worthy to report. With several portfolio countries holding general or presidential elections in 2024, political noise has certainly become more prominent in daily newsfeeds in the beginning of the year. We generally do not focus too much on such noise as it is not considered important for the long-term prospects of our portfolio companies. Countries where we consider sovereign governance risk to be too high are already screened out ex ante in our investment process. That said, we are certainly tracking the political landscape of portfolio countries for any developments that could weigh on the business of our portfolio companies. From all the portfolio countries that hold elections in 2024, South Africa is the only place where we currently see any risk of negative changes to the business environment.

Disinflationary trends across portfolio countries continued towards the end of 2023, as witnessed by CPI numbers released during January. Thai equity markets reacted negatively to the indeed stunning drop in CPI for December 2023 of -0.8% YoY. As expected, the Central Bank of Brazil lowered the Selic rate by -0.50% to 11.25% in January, a move that was largely anticipated by the market. Market observers expect ongoing cuts to the Selic rate into single digit territory during 2024, provided that disinflationary trends continue. IPCA inflation for December 2023 released in January came in at +4.5% YoY, slightly lower than expected. With 10-year yields in Brazil hovering around 10.8% in the beginning of 2024, further decreases in interest should continue to support equity valuations, of course all else being equal. We do not place much weight on the outlook for interest rates but rather want to see portfolio companies in Brazil to continue growing earnings and free cash-flow at a healthy clip.

### Portfolio Companies
The first quarterly results of portfolio companies for the period ending 31 December started to trickle in during January.

VinaMilk reported solid results for Q4 2023 as revenue grew by +3.6% YoY while EPS jumped by +25.3% YoY. Following the trend witnessed in recent quarters, YoY growth in the bottom line was mainly driven by the YoY expansion in gross margin as input cost inflation softened further. Gross margin decreased however by 0.7% to 41.2% QoQ for seasonal factors as per management guidance.

Further in Vietnam, Mobile World Investment managed to stabilize top-line growth in Q4 2023 as revenue increased by +2.7% YoY despite the ongoing rationalisation of the store network. Given ongoing inventory liquidation and fixed asset write-offs for the closure of 200 stores during the quarter, the business remained barely profitable in Q4 2023. We would expect an uptick in profitability more towards H2 2024 once store network rationalisation and inventory liquidation have run their course.

Cipla reported strong results for Q3 2024 as global revenue increased by +14% YoY while PAT rose by +33% YoY. All 3 geographical regions (One India, U.S., and South Africa) witnessed healthy double-digit top-line growth during the quarter. Management also pointed towards the highest quarterly EBITDA margin ever recorded (26.3% excluding the disposal of QCIL in Uganda). Shares of Cipla rallied by +8.4% in INR terms in January on the back of the results. On the governance side, the company announced that Executive Chairperson Samina Hamied, the key representative of the founder family on the board, will step down on 31 March and become a non-executive director. This announcement might have provided further tailwinds to the share price in January since the founder family is reportedly looking for a strategic buyer since a while now. Potential bidders cited in the press in 2023 were Torrent Pharma and several international and regional private equity investors, but no further M&A-related news transpired so far in 2024.

We are purchasing quality businesses for the long term on behalf of the sub-fund at a valuation we consider comfortable based on our own estimate of intrinsic value. Such an investment approach requires patience and staying power in times of temporary mark-to-market losses. Only a fundamental deterioration in the business or structural flaws in our investment thesis would force our hand to sell portfolio companies at a realised loss.

The underwhelming share price performance of HDFC Bank in January provides a good practical example to showcase investors how we deal with situations where our investment thesis has not (yet) worked out as initially expected.

HDFC Bank reported results for Q3 2024 in January that were poorly received by the market, leading to a drop in the share price of -14.4% in INR terms during the month. We were surprised by the outsized drop as a deterioration in some key performance metrics for the merged entity – a reduction in net interest margin, a sharp increase in the loan-to-deposit ratio, and a temporarily elevated cost-to-income ratio due to integration costs – could be already inferred from standalone numbers for HDFC and HDFC Bank back in 2023. Net interest margins could only decline for the merged entity vs. standalone HDFC Bank once the structurally higher cost of funds of HDFC were consolidated. A net interest margin of 3.6% in Q3 2024 vs. 4.3% for the standalone entity in Q3 2023 does not come as a surprise to us and is nothing to worry about in our view. Once the merged entity manages to mobilise more retail deposits, cost of funds will come down and net interest margins should improve. The tepid growth in deposits (+1.9% QoQ but +2.9% QoQ for retail deposits) vs gross advances (+4.9% QoQ) was indeed the main soft spot in the quarterly results as per our reading. But we did not expect miracles from management a mere six months after formal completion of the merger. We consider the ability to replace wholesale funding with retail deposits a key rationale for the merger of HDFC with its banking subsidiary back in June 2023. The timing of the merger has been prescient since the Reserve Bank of India (RBI) has recently tightened regulatory and capital requirements for non-bank lenders in India, which would have been applicable to the standalone non-banking entity HDFC as well. We acknowledge that the market is impatient to see improvements in net interest margins, the cost-to-income ratio (64% in Q3 2024) and the loan-to-deposit ratio (112% as of the end of December 2023) in the quarters ahead. This process and the resulting catalyst for the share price of HDFC Bank might take longer than expected. On the flip slide, we do not expect that even a more aggressive retail deposit mobilisation will weigh further on net interest margins. We remain comfortable to hold on to the position in HDFC Bank on behalf of the sub-fund. It still represents one of the best retail financial services opportunities in India in our view.

## 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