FIM EM Frontier Fund

Quarterly Newsletter March 2024

FIM Partners

Strategy Description

The FIM EM Frontier Fund is an open-ended fund incorporated in the Cayman Islands. The Fund seeks to provide long-term capital appreciation by monetizing domestically driven secular themes in Frontier markets via investments in listed equity securities of companies operating in these markets. ESG factors are taken into consideration in the Fund's investment decisions.

The Fund is managed by an experienced investment team with over 150+ years combined experience, having worked across the institutional spectrum (private equity, investment banking, sell-side and DFIs) in Frontier and Emerging Markets. The core investment team have been together for over 7 years and possess deep personal and professional roots to the frontier region.

Portfolio Description & Fund Terms

Managers	Hedi Ben Mlouka Sandeep Srinivas	**Mgmt Fees**	1.5% p.a.
Inception	January 2013	**Perf Fees**	15%
Domicile	Cayman	**High water mark**	Yes
Structure	Open–ended	**Prime Broker**	HSBC
Liquidity	Quarterly	**Administrator**	BNY Mellon
BBG Ticker	FIMEMFB KY Equity	**ISIN**	KYG3430X1043

Net Performance vs. Benchmark (annualized with the exception of MTD & YTD)

Period Performance	MTD	YTD	1 Year	3 Year	5 Year	ITD
FIM EM Frontier Fund	0.9%	9.8%	23.0%	8.2%	8.7%	7.8%
Benchmark (MSCI FEM)	2.1%	5.0%	11.4%	-0.6%	-2.6%	-1.7%
Excess Return	-1.2%	4.8%	11.5%	8.9%	11.3%	9.5%

Calendar Year Performance	2018	2019	2020	2021	2022	2023
FIM EM Frontier Fund	-15.9%	12.7%	14.2%	24.8%	-14.1%	10.2%
Benchmark (MSCI FEM)	-16.8%	10.6%	-5.8%	2.2%	-20.8%	7.9%
Excess Return	0.9%	2.1%	20.0%	22.6%	6.7%	2.3%

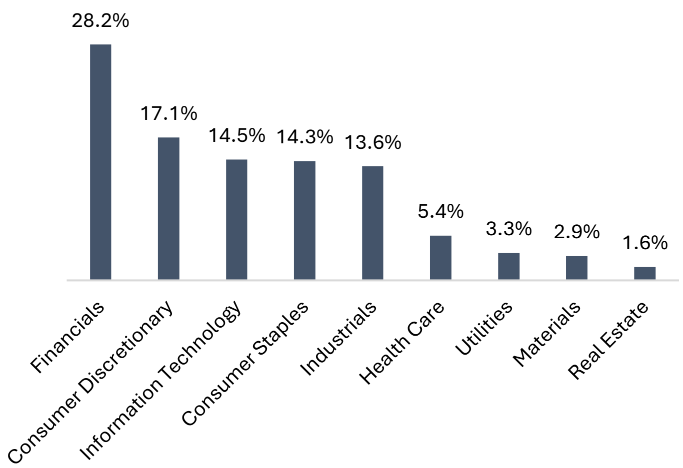
Key Statistics (as of 28 March 2024)

Statistic	EM Frontier Fund	MSCI Frontier EM
ITD Total Return	133.2%	-17.8%
Sharpe	0.32	-0.34
Standard Deviation	13.6%	15.3%
Max Drawdown	-28.7%	-45.0%
Up Capture	88.7%	
Down Capture	42.9%	

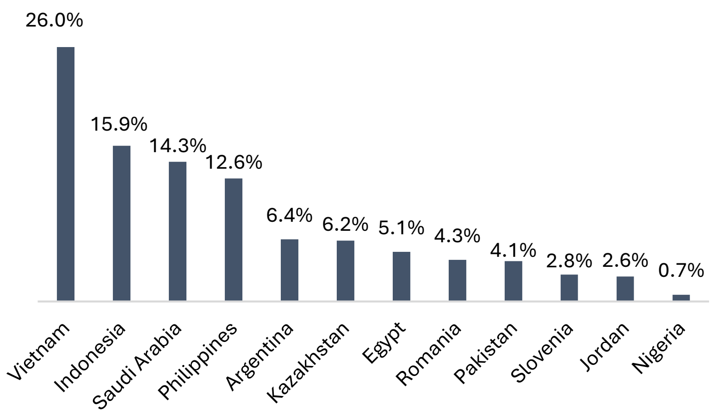
Portfolio Characteristics (as of Q1 2024)

Characteristic	EM Frontier Fund	MSCI Frontier EM
Number of Securities	34	232
Active Share	73.7%	-
P/E Forward 12 months	14.5	10.9
ROE	26.7%	14.2%
Earnings Growth	19.5%	14.2%
Weighted Avg Market cap	6,554	11,022

Sector Breakdown (ex-cash, as of 31 March 2024)



Country Breakdown (ex-cash, as of 31 March 2024)



* Performance for the month of March is calculated as of 28 March 2024. All performance figures for FIM EM Frontier Fund are net of fees. The fees applied to the gross performance for this newsletter are representative of the Class B USD share class with management fees of 1.5% and performance fees of 15.00%. The Class B USD share class was launched on 1st April 2018. Therefore the net performance stated in this newsletter up to 31st March 2018, is internally calculated on the actual gross performance of the fund, applying the fee structure of the Class B USD share class. January 2013 performance starts on the 8th (inception date of the fund). The fund statistics are calculated vs. the MSCI FEM as an indicative benchmark. Source for all indices and market data is Bloomberg.

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Manager Commentary

In the first quarter of 2024, our fund reported 9.8% returns, predominantly driven by our investments in Vietnam and Saudi Arabia, while Egypt and Argentina lagged behind.

Egypt unveiled its long-awaited devaluation to EGP50/$ which then rallied back to EGP47/$ as roughly $10bn of portfolio money flowed into the local bond markets; thanks to $57bn (15% of GDP) being promised by the UAE and other international bodies. Elsewhere, the new market-friendly finance minister in Pakistan is advancing privatisation of the national airline and seeking a longer-dated bigger IMF deal. As we head into April, we're watching the pick-up in oil prices, which hints at a stronger than expected global recovery, and end-March CNY weakness which could have repercussions for Asian currencies.

The research team travelled across Asia to Vietnam, Thailand, and Indonesia; met over 60 managements & policy makers.

In **Vietnam**, the health of the economy hinges on exports and the job market, while food inflation is influenced by rice and pork prices, and domestic energy inflation is tied to global oil prices. These factors significantly sway consumer behaviour and corporate earnings. In 2023, substantial job losses in export-oriented industries like textiles and footwear, coupled with ongoing real estate debt issues and political change, tempered consumer confidence. Consequently, consumers gravitated towards products or retail channels offering enticing promotional deals, sought more affordable alternatives, and opted for bulk purchases to cut costs. The FMCG sector, including staple items, experienced a decline, with dairy consumption dropping by nearly 5% yoy. In discretionary spending, lower demand was evident in real estate transactions and home interiors. Despite nominal retail sales growing just over 7% yoy, consumers exhibited a heightened propensity to save, reflected in a savings rate surpassing 40% (up from around 30% pre-pandemic) and a surge in bank deposits by 14% yoy.

Moving into 2024, we anticipate that improving job opportunities and contained inflation will bolster consumer confidence. Already, signs of stability are emerging in the job market, with new job creation inching up by approximately 1-1.5% yoy, and monthly wages growing at a rate of around 5% yoy. Further, the sustained uptick in exports, coupled with a resurgence in tourism, should fuel job creation and economic growth. Inflation remains under control at around 4% yoy, primarily attributed to moderation in pork and crude oil prices. While the banking sector appears to have weathered the storm of non-performing loans stemming from real estate developers, there remains a lingering risk of elevated credit provisioning. We may witness some volatility relating to politics, but overall we are more confident than 2023, for this year. We see lucrative opportunities in consumer and real estate sectors.

Our fund is strategically invested in businesses poised to benefit from a resurgence in domestic consumption. We prioritize companies that demonstrate leadership within their respective sectors, a characteristic that often sees them gaining market share during turbulent times. Over the past two years, this trend has held true. For instance, our portfolio includes a jewellery retailer that achieved flat revenue growth in 2023 amidst a 15% decline in national jewellery consumption. Despite headwinds, the company expanded its store network by approximately 11% and introduced new sub-brands targeting a younger demographic. Additionally, our multi-category retailer implemented measures to optimize its delivery model, resulting in improved sales-per-store and positioning the grocery chain for breaking even in 2024. We commend the management's resilience and transparency during challenging periods, traits exemplified by their willingness to acknowledge mistakes, adapt business models, and communicate openly with shareholders. In Vietnam's grocery sector, which commands an annual spending of USD 55-60 billion, the dominance of the unorganized sector presents barriers to entry for organized players; unorganized operators operate on a lower cost base attributable to low or absence of occupancy cost as most of them operate through a temporary roadside kiosk, and most of them don't pay taxes; another challenge for an organized operator is to ensure timely and quality supply of fresh food, unlike developed countries, Vietnam lacks a nationwide fresh food supplier on which the company can rely on to secure standard quality supply. We believe our portfolio company is poised to overcome these challenges, potentially capturing a significant market share by addressing key pain points.

We travelled to **Thailand** to meet with local corporates, policy makers, and industry experts. The country has faced several challenges since the advent of the pandemic given the integral role of tourism in the economic engine; tourism accounted for 19% of GDP in 2019 with 39 million visitors during the year compared to a local population of 70 million. Complicating sentiment and domestic consumption have been the constrained government spending at the behest of a long-drawn-out election process in 2023. These challenges have reflected in the equity market performance with the local index down 20% in US$ terms since the end of 2019. But green shoots are emerging on the horizon stemming from: (i) tourism recovery with 33-35 million visitors expected in 2024 supported by stimulus measures such as temporary visa-free entry for citizens of China, Taiwan, India and Kazakhstan, and relaxed entry conditions for Russian travellers, (ii) the government has embarked on a US$ 17bn stimulus package (3.5% of GDP, 6% of private consumption) that includes US$ 14.2bn for a one-time $300/person digital cash handout for ~50mn of the population and US$ 1,400 taxable income deduction for households earnings more than $2k/month, and US$ 2.8bn for the Competitiveness Enhancement Fund. The tourism recovery appears on track with 9.4 million visitors in 1Q23 with Chinese tourists leading the pack with 1.8 million visitors; an encouraging sign that easing visa conditions are achieving the desire impact.

Our meetings reflected optimism around the recovery of tourism and boost to domestic consumption from the proposed fiscal stimulus measures with the passing of the government budget deemed integral to revive upcountry spending. The diversification of supply chains was also a prominent theme with a leading semiconductor player sharing insights of its Taiwanese parent's plans to relocate production out of China into Thailand. A similar trend is also evident in the Thai EV ecosystem with three new Chinese EV manufacturers recently committing to establishing manufacturing operations in the country, taking the total to six now. As a result, corporates within the ecosystem ramping up investments to attract a growing customer base and build optionality for a potential fast-track transition away from conventional energy. We were surprised by the acceleration in EV penetration (2nd highest in ASEAN after Singapore) and are incorporating potential FDI/spillover impact on the Thai economy in our base case assumptions. These developments resonate well with our thematic outlook for the region where we see ASEAN being a key beneficiary of the diversification of global supply chains away from China. Needless to say it was a fruitful visit, and we came back with a number of interesting names for our research pipeline across the consumer, healthcare, and Industrials space.

Manager Commentary

Indonesia is on a path of strategic economic growth, focusing on infrastructure development outside Jakarta. The economic direction of Indonesia is likely to continue despite change in political leadership, supported by long-term planning. The fiscal landscape appears to be shifting towards a modestly higher deficit range of 2.5% - 3% of GDP for the 2025-2029 period, primarily to accommodate the expansion of social programs like the Free Lunch Program. This strategic increase in fiscal spending is anticipated to support GDP growth, maintaining it around the 5% mark, by stimulating both direct investments in food production and subsequent consumer spending multipliers. Over the long run, our meeting with the Ministry of Investment, highlighted a 20-year master plan to quadruple the country's per capita income. We expect fiscal spending to gain traction post September 2024, after the appointment of the new President.
In the near term, Indonesia faces an inflationary challenge, as seen in March's inflation rates that exceeded expectations due to significant increases in food prices. This situation poses a risk to consumer spending, continuing a trend observed in 2023, where the consumer food category saw a modest value growth of +5% yoy but a volume decline of -3% yoy, and the FMCG category experienced +4%yoy value growth without volume growth.

A notable standout is our Indonesian dairy and packaged foods manufacturer that closed the year on a strong note with +17% YoY earnings growth with a particularly strong final quarter where earnings rose a staggering 51% YoY supported by 25% YoY revenue growth and +250bps EBITDA margin expansion. We remain optimistic on the long-term prospects of the company considering its merely scratching the surface in terms of General Trade (GT) penetration. Although the company has grown its GT footprint to 120k outlets at an impressive 42% 3-yr CAGR, established competitors have a 2-3x higher footprint implying significant growth headroom. Our recent discussions with management indicate an impressive new product pipeline portfolio that ensures that growth prospects are not merely dependent on GT footprint expansion. In a recent meeting with the CFO, management shared an interesting anecdote of a soft serve ice cream product testing where they set up kiosks in popular malls and offered free toppings to customers if they shared an image of the product on their personal TikTok and Instagram accounts along with their designated hash tags. This marketing masterpiece led to the product tasting going viral on social media leading to long customer queues and reinforcing our confidence in management's innovative prowess.

For FY24, the company targets a YoY sales growth of 10-20%, emphasizing volume growth while avoiding price increases to maintain competitiveness amidst external uncertainties. The company's growth strategy is firmly rooted in key focus areas such as UHT milk and yogurt stick products, alongside expanding distribution channels to ensure wider market reach. Planned new product launches, including flavor extensions and more affordable stock-keeping units (SKUs), are poised to deepen market penetration and attract a broader consumer base. Moreover, the company stands to benefit indirectly from initiatives like the free milk program proposal, designed to increase dairy consumption among children, thereby supporting long-term growth prospects without jeopardizing its core adult consumer base.

We maintain a positive outlook on Vietnam, Indonesia, Kazakhstan, and Saudi Arabia. We are closely monitoring developments in Pakistan, Kenya, and Peru, where we have identified businesses of interest and will re-engage when we gain greater macroeconomic and political confidence.

We construct our portfolios as a conglomerate of quality businesses with the ability to consistently earn a return on capital that is significantly higher than their cost of capital across cycles. This is possible only when these businesses offer unique products and services that are in high demand and difficult to replicate by the competition. We strongly believe that this investment philosophy will reap high returns across business cycles.

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