

# RBC Asia Pacific ex-Japan Equity Fund



## Commentary as at December 31, 2023

Asian equities excluding Japan registered gains in 2023, driven by strong returns in South Korea, Taiwan, and India. South Korean and Taiwan benefited from demand for technology hardware used in the development of artificial intelligence. India gained on solid economic growth, relatively benign inflation, a pro-business government and ample bank credit. China and Hong Kong underperformed as China's economy remains weak given the depressed property market, which dented consumer and business confidence.

Sector allocation had negative impact on the Fund's relative returns due to the portfolio's underweight position in the Energy sector and overweight allocation to Consumer Discretionary. The negative impact of these allocations was offset somewhat by the positive impact of a below-benchmark allocation to the Real Estate sector. Returns were aided by strong security selection in the Information Technology and Real Estate sectors, offset by weaker security selection in Financials.

The top individual contributors to the Fund's performance over the period were SK Hynix, a South Korean supplier of memory chips; Varun beverages, which produces, bottles, and distributes PepsiCo's beverages in India; and Tata Motors, an automotive company that makes commercial and passenger vehicles. Aside from the Tata brand, Tata sells cars under Jaguar Land Rover mark. The stocks that had the most negative impact on returns were APAC, which produces Budweiser and is the largest Asian brewery by sales; and Ping An Insurance, a Chinese insurer.

Asia's economic growth remains solid given stable domestic demand and healthy exports, particularly of semiconductors. Asia's labour market remains healthy, with job gains and steady growth in incomes adjusted for inflation. India, Indonesia, and the Philippines are forecast to be the fastest-growing economies with the region in 2024, while China faces a significant challenge in public confidence, coupled with an aging population and record-high youth unemployment. Expectations for the Chinese economy remain low, but any success toward stabilizing the economy and housing market will be a boost for the region. There is good news in Australia, where higher interest rates have so far crimped inflation without pushing the economy into a recession.

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