Santander Go Asian Equity

12 / 2025

Fund commentary

Performance overview:

Emerging Asia ex-Japan markets rose in the fourth quarter of 2025, capping a fine year.

Performance was supported by technology-oriented markets in Asia, particularly Korea and Taiwan, while returns from China were positive but slightly weaker in comparison. India also contributed positively and mildly outperformed the aggregate index.

A weaker US dollar and a shift toward less restrictive US monetary policy provided a supportive backdrop for emerging Asian markets.

Drivers of fund performance:

The fund outperformed the benchmark in December but modestly underperformed over the quarter.

For the quarter, allocation at the market level proved to be detrimental to returns, largely due to the overweight exposure to China. However, stock selection had a positive effect, with the fund's Chinese stocks adding value against the benchmark.

On a sector basis, selection was neutral. It was weak in industrials but contributed positively in IT and financials. Allocation weighed on performance, with the underweight to consumer discretionary and communication services having a negative impact on returns.

In terms of stock performance, the strongest returns came from the positions in Samsung Electronics (Korea), SK Square (Korea), and ASE Technology (Taiwan).

The weakest performers were the zero weighting in SK Hynix (Korea), the underweight to TSMC (Taiwan) and the overweight position in Alibaba (China).

Portfolio activity:

During the month, we added to our position in Mediatek (Taiwan) in anticipation of a pickup in revenues from AI ASIC chips. We topped up our position in Zijin Mining (China) given expectations for continued strength in gold prices, and switched from China Construction Bank (China) in China to CTCB Financial (Taiwan) on more attractive valuations. We also trimmed our position in Quanta Computer as we consolidate our position in ODM manufacturers.

Outlook/positioning:

Asian equities delivered a strong rally in 2025, supported by a broad improvement in global risk appetite, expectations of US policy easing, and still benign liquidity conditions. A weaker US dollar also supported regional currencies and encouraged capital inflows. That said, performance dispersion remains wide beneath the headline: North Asia led gains, driven by demand tied to AI related capital expenditure and valuation recovery in sectors with fundamental upside (e.g., commodities, defense, and industrial leaders). Meanwhile, parts of the domestic Asia story—such as India and ASEAN—continue to face uneven recoveries and sector specific headwinds.

The fund remains overweight China/Hong Kong. Despite a challenging macro backdrop, we continue to identify bottom up opportunities with expectations of better earnings delivery and valuation support. We are overweight China industrials, preferring companies with strong global competitive moats and export capabilities, including leaders in batteries, power relays, inverters, and construction machinery. The fund is also overweight commodities, supported by our view of further potential USD weakness—we favour gold and copper. In healthcare, we focus on companies with strong out licensing pipelines and leadership in CDMO. Our AI exposure in China is selective: we prefer better run private internet companies with potential to monetize AI applications. We also take a balanced approach by maintaining exposure to high dividend yield companies with potential to improve total shareholder returns.

Korea and Taiwan continue to benefit from their pivotal roles in the global AI supply chain. Foundry and memory leaders have retained strong competitive positions amid the global AI build out. However, after an extended rally that has pushed Taiwan valuations toward the upper end of historical ranges, we are taking a more measured approach—taking profit from selective AI supply chain names where we see less favourable risk reward. We are currently underweight Taiwan and neutral on Taiwan technology, adopting a selective stance. Beyond foundries, we prefer AI exposure through component companies with higher entry barriers, including power supply, high grade CCL, and select globally competitive IC design houses. In Korea, we remain overweight memory players and broadly neutral on the overall market. Outside of tech, we favour global leaders in power transformers, defense, and healthcare, where we hold overweight positions.

India remains one of Asia's most compelling long term growth stories, but near term return prospects are moderated by elevated valuations and overly optimistic consensus earnings expectations following strong gains in 2023–2024. Given still demanding valuation levels despite muted performance year to date, we remain selective and maintain our underweight position. Within India, we are overweight consumer discretionary, expecting a GST cut to support a gradual recovery in consumption. We are also overweight selected high quality private financials and real estate operators. Telecom is another preferred sector, supported by sustainable ARPU increases and a stable competitive landscape.

Across ASEAN, fundamentals and valuations present a mixed picture. The fund remains overweight Singapore and underweight ASEAN ex Singapore. Singapore's political stability and consistent policy framework remain attractive for long term investors seeking stability via total returns. We favour the banking sector, which stands to benefit from sustained wealth inflows as the city further strengthens its role as a regional safe haven and wealth management hub. For ASEAN ex Singapore, our exposure focuses on companies with strong balance sheets and high dividend yields, with potential for improved total shareholder returns.

Following the year to date strength, aggregate valuations for Asian equities now sit modestly above long term averages. Markets are pricing in an extended period of monetary easing and sustained earnings growth, much of it anchored to AI related themes across semiconductors in Korea and Taiwan and selective technology and internet franchises in China. Looking ahead, key upside drivers could include: Continued progress toward Fed rate cuts, a softer US dollar, and ongoing accommodative monetary policies across Asian central banks; Sustained AI investment across hardware and platform ecosystems; and Global investors' desire to diversify beyond US mega caps.