

December 2021

INVESTMENT OBJECTIVE

The Fund seeks long-term capital appreciation by investing in a concentrated portfolio of common equities domiciled within global emerging markets. Employs a relative valuation, priced focused approach to identify and exploit behavioral mispricing and market inefficiencies.

FUND DETAILS

Reference Index

MSCI Emerging Markets Index

Portfolio Manager

Andrew Cormie

Returns are MSCI Index total returns, in US dollar terms, unless otherwise stated.

Market review

Global equity markets snapped back in December. Investors continued to weigh the impact of the new Omicron virus strain, inflationary fears and the prospect of less accommodative policy from central banks going forward, but this gave way to optimism for 2022 and a "Santa rally" as the period drew to a close. The S&P 500 and MSCI Europe closed at record highs during the month. Broad Asia and emerging markets stocks posted positive returns but underperformed developed markets, with the ongoing weakness of Chinese equities pulling down the wider indices. Negative developments in the Chinese property sector, ongoing regulatory reforms and the "common prosperity" drive have continued to weigh on sentiment.

The MSCI emerging market (EM) index returned 1.9% in USD terms in December, underperforming developed market peers. Among emerging markets, EM LatAM was the key outperformer while EM Asia lagged.

EM Asian markets returned 1.3% in USD terms in December. Chinese equities continued to weaken in December, returning -3.2% in USD terms. Despite that, China's factory activity edged up from 50.1 in November to 50.3 in December. The slight growth margin suggests more economic headwinds in the new year, pressuring policymakers to provide various support measures. Meanwhile, Taiwan equities delivered 5.5% during the month. Hong Kong expects its economic growth to reach 6.4% for 2021, making a recovery from a pronounced recession. During the New Year's address, Taiwan's president Tsai Ing-wen has outlined the four pillars for stable governance for 2022, namely 1) continuing global engagement, 2) maintaining economic momentum, 3) strengthening social security network, and 4) safeguarding the nation's sovereignty.

Southeast Asian markets saw divergence in performance in December with outperformance in Thailand and Malaysia and underperformance in the Philippines. Specifically, Bank of Thailand's monetary policy meeting re-emphasized support for the economic recovery alongside the three objectives of growth, inflation, and financial stability while the Philippines's daily COVID cases rose sharply over the holidays. Elsewhere, India returned 3.8% in the month of December, outperforming the emerging markets despite weaker macro figures. India's November CPI came in 4.9%, weaker than market's expectations, driven by downward surprises by food and fuel. Unemployment rates rose to a four-month high of 7.9% on top of the rising concerns of the new Omicron variant cases.

Elsewhere, EM EMEA returned 2.0% in USD terms during the month while EM LatAm returned 4.6%. Mexico, Czech, Thailand and Saudi Arabia were key outperformers in December. Mexico's Banxico hiked rates by 50bps while economic indicators confirmed weak momentum. On the other hand, Chile was the worst-performing country declining -9.3% as earnings revisions came in the lowest across Emerging Markets. During the month, EM currencies made little ground versus the USD. The Mexican Peso, Czech Koruna and Polish Zloty were the strongest performers while the Russian Ruble was the weakest.

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Key Contributors

LG Display outperformed in December on news of a potential supply of LCD and OLED panels to Samsung and OLED panels to Apple in 2022. We previously added the position when the market was focused on issues relating to oversupply and resulting pressure on LCD panel prices over the last few years. However, LG retains its strong competitive position in this sector and has been ramping up its OLED business effectively. We believe there is further upside potential from here.

The Fund does not own China's internet commerce group Alibaba and this added to relative performance during the period as the stock underperformed. At these levels, we regard the stock as expensive and see many more attractively valued opportunities elsewhere.

Samsung Electronics added to relative performance in December as concerns over semiconductor slowdown eases. The team initiated a position in Samsung a few years ago following share price weakness. Our analysis suggests that the market's assumptions for a decline in Samsung's Memory business had been overly pessimistic and is well priced in. We continue to like the company for its strong balance sheet and high-quality management team.

Key Detractors

An overweight to Tongcheng-Elong Holdings Ltd detracted from relative performance in the period. The domestic online travel agency had de-rated amid the pandemic and gave us an attractive entry point in early 2021. Recent sentiment has been weak despite solid earnings delivery and we believe the company is well placed to benefit from a recovery in domestic tourism.

VIP Shop detracted value over the month as the stock underperformed. We added the position earlier in 2021 at an attractive valuation as the market grew cautious about the company's growth outlook and cost increases. We believe this company has a strong outlook with a high return on equity and the market is underpaying for their long-term sustainable earnings potential.

The Fund does not own a position in Taiwan Semiconductor Manufacturing which detracted from relative performance as the company's share price continued to outperform in December. We believe that the company's shares trade at an excessive valuation relative to its sustainable earnings.

Fund Activity

During the month we sold out of India's Zee Entertainment Enterprises.

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Strategy and Outlook

Global emerging market equities continue to offer stock specific valuation opportunities and remain cheap relative to the developed markets of the west.

We continued to see value stocks outperform in 2021 as investors have been prepared to take a longer investment horizon while questioning high valuations on many quality and growth stocks. Many cyclical stocks that outperformed are well set to benefit from the ongoing global economic stimulus, pent up consumer demand and a renewed focus on decarbonisation related investment.

The valuation anomaly within global emerging markets between value and quality / growth stocks remains near extreme levels and the Fund is well positioned to capture the opportunity as it unfolds.

We continue to follow our disciplined valuation driven approach with a longer-term investment view to identifying investment opportunities across global emerging markets.

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