FUND COMMENTARY SICAV

Eastspring Investments - Global Emerging Markets Dynamic Fund

February 2022

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 fell in February as the conflict between Russia and Ukraine escalated, further heightening the ongoing inflationary pressures and building on the weaker sentiment earlier in the month amid the prospect of the ramp up of interest rates by major central banks. Russia had previously begun to build up troops on its border with the Ukraine, with further troops reported to have arrived in neighbouring pro-Russian Belarus towards the end of January. President Putin subsequently announced his recognition of two pro-Russian breakaway regions in eastern Ukraine, sending troops into the region, whilst a full scale campaign began on 24 February with Russian forces using missile and artillery attacks, and striking major Ukrainian cities including the capital Kyiv. The US, UK and EU, as well as allies, announced a range of sanctions and restrictions, including expelling key Russian banks from SWIFT. European and emerging market equities underperformed in this environment, in USD terms, whilst Asia and Japan were relative outperformers. Commodities rallied, with Brent crude prices closing the month at over US$100.

The MSCI emerging market (EM) index returned -3.0% in USD terms in February, underperforming developed market peers. Among emerging markets, EM LatAM was the key outperformer while EM EMEA lagged.

EM Asian markets returned -2.4% in USD terms in February. Chinese equities returned -3.9% in USD terms over the same period, amid the sporadic COVID-19 outbreaks within the countries. Despite that, China's manufacturing PMI slightly improved from 50.1 in January to 50.2 in February, following the rising demand and expectations for further stimulus measures to be announced in the first week of March. Meanwhile, Taiwan equities delivered -2.5% in USD terms in February as the ongoing Russia-Ukraine crisis has instilled fears that Beijing could also invade the island.

ASEAN markets were among the outperformers in February, significantly outperforming both Emerging Markets and Emerging Markets Asia. The gains were led by Indonesia and Malaysia markets. The Indonesia market saw continuous foreign inflows due to MSCI rebalancing. Separately, Malaysia's trade saw supply-side disruption and held back January exports while imports accelerated off recovering domestic demand and business.

Elsewhere, MSCI India returned -4.1%, the worst performing country in Emerging Markets Asia. Headline CPI rose to 6% year-on-year in January from 5.6% in December driven by a low base and increase in food prices. Trade deficit moderated to three-month low of US$17.9bn in January-22 (7.9% of GDP) from US$21.7bn in December-21 (8.8% of GDP) as imports slowed faster than exports. Within imports, the slowdown was broad-based but led by lower oil import growth. Separately, India announced its budget during the month and confirmed the government's stated objectives of financial consolidation and capex-driven growth.

Outside of Asia, LatAM continued its outperformance of other Emerging Market regions delivering +4.7% in February, while EMEA was dragged lower by the Russia-Ukraine crisis with the region returning -10.3% for the month. Higher commodity prices supported LatAM markets with Brazil and Chile outperforming and Peru delivering the region's best returns of +8.3%. Brazil saw stronger

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economic data point to a recovery of economic activity while the central bank hiked the SELIC rate to 10.75%. In EMEA the escalating Ukraine crisis saw Russia equity markets and currency collapse, delivering -52.7% return in USD terms, while other eastern bloc markets such as Hungary (-26.9%) and Poland (-12.3%) also fell. Saudi Arabia, UAE and Qatar markets rallied with the oil price.

Key Contributors

Overweight position in Abu Dhabi Commercial Bank added value during the month as the stock rallied on higher oil prices. This well capitalised bank has a strong management team delivering solid returns on equity. We believe this high-quality company is undervalued relative to long term earnings potential.

The Fund's underweight position in Tencent contributed to relative performance over the month as the company came under further scrutiny from the potential of heightened regulatory pressure, which highlighted their elevated expectations and high valuation.

The Fund's relative performance benefitted from not owning Russian energy stock Gazprom. The company's stock price collapsed in late February following Russia's invasion of Ukraine. MSCI subsequently confirmed the removal of all Russian equities from the MSCI Emerging Market Index on 9 March 2022.

Key Detractors

The Fund's one position in Russia, Sberbank, was the largest detractor to relative performance as the impact of Russia's invasion of the Ukraine hit all stocks in the market. As of February month-end the Fund had no direct exposure to Russia equities.

The Fund's overweight holding in Naspers detracted from performance in the month as its largest equity holding in Tencent was negatively impacted by fears of heightened regulatory pressure in China. We continue to like Naspers for its relatively attractive valuations and its exposure to a diversified portfolio of attractive emerging market e-commerce platforms.

Brazil's Empresas CMPC was a detractor during the month. is a Chilean pulp and paper company that owns forestry assets mostly in Chile, Brazil and Argentina. Having seen strong price opportunity as pulp prices fell and Chilean country risk rose due to presidential elections, we added in late 2021. With conservative assumptions for pulp prices and stabilisation of political outlook, we see substantial upside in our valuation models relative to long term sustainable earnings.

Fund Activity

During the month we sold out of Russia's Sberbank, Banco Bradesco and China Life Insurance. We added a new position in Uni-president China and increased positions in Ping An Insurance Group and Bangkok Bank.

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Strategy and Outlook

As ongoing events in Ukraine rock global and emerging markets, we continue to closely monitor the Fund's holdings and the broader market for direct and indirect impacts.

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

The start to 2022 has seen value stocks continue to outperform as investors have been prepared to take a longer investment horizon while questioning high valuations on many quality and growth stocks.

Many cyclical stocks are well set to benefit from global investment in the real economy, notably in relation to decarbonisation, while higher interest rates are likely to be supportive of attractively valued stocks relative to their peers.

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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