TT INTERNATIONAL

Q1 2022

TT EM UNCONSTRAINED FUND

Fund Information

Portfolio Managers
Robert James | Niall Paul

Target Return
5% outperformance per annum on a three-year rolling basis

Expected Capacity
USD 1.25bn + USD 200m for existing clients

Benchmark
MSCI Emerging Markets Index

Typical Tracking Error
6-10%

Fund Inception
June-2015

Assets under management
Fund: USD 672,408,079
Strategy: USD 1,331,002,890

Fund Performance

	Fund Gross	MSCI EM
March	-3.4	-2.2
Q1	-11.1	-6.9
1 Year	-18.9	-11.1
3 Year (ann)	8.4	5.3
5 Year (ann)	8.5	6.4
Incep. (ann)	10.4	4.9

Returns are gross of fees in USD

Fund Value (USD mil) 672

Inception 26/06/15

Markets

Source: MSCI/ TT International. Fund return is Gross of Fees. Index return is the Total Return with Gross Dividends reinvested.

EM equities sold off as Russia invaded Ukraine, sending commodity prices soaring. The fund saw a negative absolute return, underperforming its benchmark.

Performance

The fund finished behind its benchmark, with outperformance in Russia more than offset by underperformance in China, Saudi Arabia and South Africa.

Market Background

EM equities sold off as Russia invaded Ukraine, sending commodity prices soaring.

Outlook

It has been a tumultuous first quarter for equity markets, with Russia committing the biggest act of aggression on European soil since the Second World War. As Lenin famously remarked: "There are decades where nothing happens; and there are weeks where decades happen." Russia's invasion of Ukraine has turbocharged the spike in commodity prices across the board and already appears to have catalysed a momentous shift in global energy policy. The inflation genie may finally be out of the bottle, with central banks scrambling to shift their monetary policy stance in an attempt to regain control. Meanwhile, Chinese equities experienced a violent sell-off due to the prospect of widening lockdowns to contain COVID, as well as the overhang of potential further regulation in the Tech sector. They then rallied sharply after Beijing encouraged regulators to issue market-friendly policies to "invigorate the economy". The extent of the relief rally suggests that markets are interpreting the Chinese State Council's comments as similar to Mario Draghi's watershed "whatever it takes" speech that saved the euro.

We had been increasing exposure to China as we felt that valuations had got to attractive levels and that the factors which had been casting a shadow over the market would gradually improve, most notably COVID, the property cycle and the regulatory backdrop. Unfortunately China's zero-COVID policy is being severely tested by a rapidly expanding outbreak. The country is making progress with MRNA vaccine development and rollout, but this will take time. Meanwhile, although we have seen signs of easing in the property market, sales have not yet picked up. We expect further easing to stabilise the market, but the government may need to row back from its focus on price control, which is part of the "property is for living not speculation" drive. Where we have far higher conviction is in the regulatory backdrop, which we believe will now become sequentially more favourable. It is very encouraging to see efforts by Beijing to co-operate with the US and allow auditing of US-listed Chinese ADRs. We are also hearing from various sources, including our investee companies, that ADRs will be split into two camps according to whether the companies have access to state secrets. Those that don't will be able to co-operate much more freely with the US. Clearly the ADR issue has been a substantial source of pain for the fund, which is frustrating as the fundamentals of many of our ADR holdings have improved materially. As the regulatory backdrop slowly improves, we believe this will be a significant catalyst for the portfolio. It is also important to note that the companies in China which have outperformed this year have tended to be banks and stodgy SOEs. These are precisely the types of companies that the fund typically avoids in favour of more dynamic private businesses. We are confident however that once Beijing's market and growth friendly policies are implemented and risk appetite improves, many of our private sector holdings will lead the rally. Similarly, whilst our Chinese renewable energy names have struggled against a risk-off backdrop, we believe their structural growth opportunity has actually been enhanced by recent events. Again we see significant pent-up performance in these names.

Another source of outperformance should be the portfolio's increasing exposure to Energy and Materials, given the surge in commodity prices following Russia's invasion of Ukraine. We believe that the supply impact of the green energy transition is exacerbating the fundamental tightness in the oil market, meaning that prices should remain elevated. Many oil companies are actively encouraged by investors to return capital or invest in renewable energy rather than drilling for more oil. Consequently, non-OPEC oil supply appears to be peaking, while OPEC is delivering below its quota. We are therefore seeing spare capacity fall and inventories drawing down at a time of the year time when they are usually increasing. We have energy exposure through Savannah Energy, Petrobras, S-Oil, Reliance Industries, Thai Oil and ONGC. These companies should offer substantial dividend yields and therefore protect the portfolio on the downside in potentially challenging market conditions.

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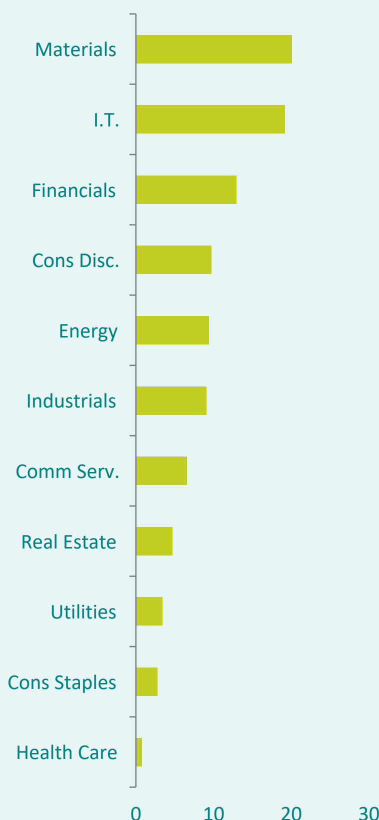
Absolute Country Weights %

Absolute Sector Weights %



Portfolio Positioning

Over the quarter we looked to increase the portfolio's exposure to Energy and Materials, given the spike in commodity prices. In the Energy sector we bought Petrobras, Thai Oil and S-Oil, which should be beneficiaries of the elevated oil price.

In the Materials sector we bought urea producer OCI, as well as Yunnan Aluminium and Korean steelmaker POSCO. As part of its drive to lower emissions, China has limited its capacity in both the aluminium and steel industries. At the same time, many smelters in Europe are struggling to operate due to high energy prices. Consequently, pricing power should remain high, particularly as aluminium is a key component in Electric Vehicles, where demand continues to grow rapidly. At just 0.4x book value, POSCO is one of the cheapest steel producers in the world.

Another related purchase was Barrick Gold, which is one of the cheapest gold producers in our universe.

Elsewhere we added substantially to Alibaba, Tencent and Meituan. Chinese Internet companies have been hit by a perfect storm of regulatory tightening and a slowing economy. However, recent comments from Beijing suggest that the government intends to stabilise growth and ease its regulatory stance. At the same time, many of these companies have announced measures to rationalise costs. In our view the stars are now aligning for significant outperformance from Chinese Internet companies as a stronger economy should lead to higher topline growth, the effect of which will likely be magnified in the bottom line due to cost cutting measures, while less intervention from Beijing should catalyse a re-rating from very depressed levels. Indeed, on our numbers Alibaba is trading on close to 5x core earnings.

Conversely, we looked to reduce our cyclical Tech exposure as we believe that pressure on consumer purchasing power from higher inflation and a slowing global economy could dent demand for electronics. Moreover, Tech margins are currently very high, but could see pressure in the second half of 2022 as new foundry capacity comes online. This has been the key bottleneck in Tech supply, and once it eases up the sector as a whole could face margin pressure, particularly those areas most closely associated with foundry-related supply constraints. We therefore cut SK Hynix and ASE Technology. For similar reasons we reduced Hyundai Motor, which also has a finance business that will likely see higher NPL formation as the global economy slows.

We also sold Delta Electronics, which we owned for its EV exposure. Many EV-related names have struggled due to concerns over rising input costs. Delta Electronics has held up relatively well, so we decided to exit the position as we felt it could soon come under pressure.

Finally, we cut all exposure to Russia as we became increasingly concerned about the prospect of an invasion of Ukraine.

Stocks

Below we highlight a major winner and a major loser:

OCI

OCI is a leading producer of urea and therefore performed well against a backdrop of sharply higher fertiliser prices. Producing fertiliser typically requires gas, the price of which is so high that many European suppliers are currently unable to operate. OCI enjoys fixed-cost gas input in North Africa, and also has US operations that buy gas at much more favourable rates than European ones. At the same time, corn, wheat and soy prices are extremely elevated, meaning farmers can afford to pay more for fertiliser. Thus, demand is strong, supply is constrained and OCI has advantaged gas costs. As such it appears very well positioned.

360 Digitech

360 Digitech is an online lender operating in China. It has exposure to the subprime segment and is starting to make inroads into the SME sector. Historically, 360 has used its own balance sheet to lend, but is slowly transitioning to an asset-light model where it uses banks' balance sheets and takes a fee. Consequently, returns are becoming more stable, with lower associated risk. Over time this should lead to a re-rating. 360 had a very strong 2021, growing earnings by around 60% on the back of impressive volume and margin expansion. While regulatory pressure may slow such stellar growth, we still believe that earnings can sustainably expand at over 20% a year. 360 has a ROE of over 30%, yet trades at just 3x earnings and 0.8x book value. Such mispricing is due to concerns about potential regulation and ADR risk. We believe that both factors are more than captured in the price; even with further regulation we expect strong growth, while ADR risk is being mitigated as 360 is working on a secondary listing in Hong Kong.

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Performance Attribution Q1 2022

On this page we identify where your portfolio added or subtracted value, relative to the benchmark.

Stock Selection (%)

	Stock	Country	Sector	Management Effect (%)	TT Held
Top Contributors	Savannah Energy	Nigeria	Energy	0.78	√
	Glencore	South Africa	Materials	0.68	√
	Zijin Mining	China	Materials	0.64	√
	Sberbank	Russia	Financials	0.55	√
	Lukoil	Russia	Energy	0.46	×
Top Detractors	360 Digitech	China	Financials	-0.95	√
	Iclick Interactive Asia	China	Communication Services	-0.63	√
	Yandex	Russia	Communication Services	-0.57	√
	Pylon Technologies	China	Industrials	-0.51	√
	EVE Energy	China	Industrials	-0.48	√

Highlights

- The fund finished behind its benchmark, with outperformance in Russia more than offset by underperformance in China, Saudi Arabia and South Africa.
- The fund benefitted from its lack of exposure to Russia.
- OCI performed well as it is a key beneficiary of higher urea prices.
- 360 Digitech struggled amid general concerns about ADRs and the Chinese economy.
- At the sector level, outperformance in Energy, Consumer Discretionary and Materials was overshadowed by underperformance in Financials, Industrials and Communication Services.
- The war in Ukraine has turbocharged commodity price spikes across the board. The fund's holdings in Savannah Energy, Glencore, Zijin Mining and ONGC all performed well against this backdrop.
- Energy storage system provider Pylon struggled due to concerns around rising raw material costs pressuring margins.
- Russia-based Yandex sold off sharply in the Communication Services sector.

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Portfolio Breakdown (%)

	TT EM Unconstrained		MSCI EM
	31 Dec	31 Mar	31 Mar
Czech Republic			0.2
Egypt		1.8	0.1
Greece			0.2
Hungary			0.2
Kuwait			0.8
Nigeria	2.5	3.4	
Poland			0.7
Qatar		1.2	1.0
Russia	3.0		3.6
Saudi Arabia		0.9	4.2
South Africa	1.5	1.7	4.1
Turkey			0.3
UAE		1.6	1.4
EMEA	**7.0**	**10.5**	**13.1**
China	35.2	35.4	30.0
India	13.3	14.0	13.1
Indonesia		1.5	1.7
Korea	15.6	9.4	12.6
Malaysia		0.7	1.5
Pakistan			0.0
Philippines			0.8
Taiwan	17.1	12.4	16.1
Thailand		0.7	1.9
Emerging Asia	**81.3**	**74.2**	**77.7**
Argentina	1.8	1.9	
Brazil	3.6	4.3	5.8
Chile		0.4	0.5
Colombia			0.2
Mexico	2.5	3.6	2.3
Peru			0.3
Latin America	**8.0**	**10.2**	**9.2**
United States	**0.0**	**2.1**	**0.0**
Other	**0.0**	**1.4**	**0.0**
Cash	3.7	1.5	
Total	**100.0**	**100.0**	**100.0**

Sector Allocation (%)

	TT EM Unconstrained		MSCI EM
	31 Dec	31 Mar	31 Mar
Communication Services	5.6	6.6	10.1
Consumer Discretionary	8.3	9.7	12.3
Consumer Staples	2.6	2.8	5.8
Energy	7.1	9.4	4.8
Financials	11.7	12.9	22.1
Health Care	1.8	0.8	3.9
Industrials	8.4	9.0	5.4
Information Technology	31.1	19.2	21.6
Materials	13.6	20.1	9.4
Real Estate	2.7	4.7	2.1
Utilities	3.6	3.4	2.6
Cash	3.7	1.5	
Total	**100.0**	**100.0**	**100.0**

Top 10 Stocks

December 31, 2021

Security	Country	Weight %
TSMC	Taiwan	8.7
Samsung Electronics	Korea	7.1
Tencent	China	3.8
Alibaba Group	China	3.5
360 Digitech	China	3.0
SK Hynix	Korea	2.8
Cemex	Mexico	2.5
Savannah Energy	Nigeria	2.5
Delta Electronics	Taiwan	2.4
ICICI Bank	India	2.4
Top 10 Positions		38.8
Top 20 Positions		57.4
No. of stocks		59

March 31, 2022

Security	Country	Weight %
TSMC	Taiwan	8.9
Alibaba Group	China	6.6
Samsung Electronics	Korea	4.7
Tencent	China	3.9
Savannah Energy	Nigeria	3.4
360 Digitech	China	2.8
Barrick Gold	United States	2.1
Renew Energy	India	2.1
Ternium	Mexico	2.1
Yageo	Taiwan	2.0
Top 10 Positions		38.5
Top 20 Positions		56.3
No. of stocks		65

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