

Fund Information

Portfolio Managers

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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 903,838,553

Strategy: USD 1,629,358,597

Fund Performance

	Fund Gross	MSCI EM
June	3.7	0.2
Q2	9.6	5.1
YTD	18.0	7.6
1 Year	69.2	41.4
3 Year (ann)	20.2	11.7
5 Year (ann)	19.7	13.4
Incep. (ann)	17.5	8.5

Returns are gross of fees in USD

Fund Value (USD mil) 904

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 rallied in Q2 on hopes for a global recovery, but gains were limited by concerns over tougher regulation in China, as well as the prospect of central banks tightening monetary policy in the face of higher inflation. The fund saw a positive absolute return, outperforming its benchmark.

Performance

The fund finished ahead of its benchmark, with outperformance particularly marked in China, Brazil and Taiwan.

Market Background

EM equities rallied in Q2 on hopes for a global recovery, but gains were limited by concerns over tougher regulation in China, as well as the prospect of central banks tightening monetary policy in the face of higher inflation.

Outlook

Our view remains broadly unchanged. Vaccines are proving to be effective, as evidenced by countries such as the UK, where cases are climbing rapidly but hospitalisation and death rates remain low. We believe there will be a shift in policy focus towards deaths and hospitalisations, essentially aiming to live with covid as we do with the flu. This should lead to a faster and fuller normalisation of social distancing requirements, and a rebound in some of the most beaten down parts of the economy such as hospitality and entertainment. Meanwhile, global markets are sending strong signals to the economy that should drive an investment cycle. For example, container shipping rates are very high and commodity prices are well above marginal cost. This investment cycle should be boosted further by abundant liquidity and fiscal stimulus. We therefore expect global growth to remain strong for the next 12-18 months.

Although we recently commented that valuations in some of the most popular areas of the market had become more realistic following a period of consolidation, some of the long duration growth and momentum orientated stocks have now returned to previous highs. Consequently, we again see pockets of the market where we worry about valuation support. Given our valuation overlay, we have limited exposure to these areas, but we have been prudently taking profits in some of our more expensive Tech stocks. We are also mindful that as we move towards Q4, investors will increasingly begin to anticipate Fed tapering. Markets tend to continue rising during these periods of anticipation, but once tightening begins, they often sell off sharply. With this in mind, we have generally been trying to reduce the beta of the portfolio in recent months.

From a geographic perspective, we retain significant exposure to Korea as we see it as a cheap cyclical market with positive earnings revisions. It also offers us exposure to two key themes – memory and the EV battery supply chain. We believe memory prices will remain elevated due to increasing demand from consumers through gaming and watching videos, as

well as from corporates digitalising their businesses.

Elsewhere, we are still big believers in India’s long-term structural story, and maintain significant exposure to Indian Financials. However, outside of the Financials sector, we generally struggle to find value.

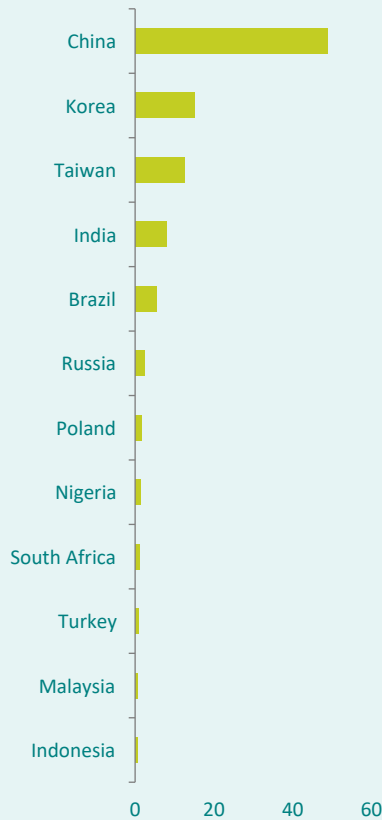
Finally in Asia, we have exposure to Chinese internet-related companies including JD.com, Kingsoft and 21Vianet. We also own online lender 360 Digitech, which continues to produce strong results. Meanwhile, we have exposure to property management companies as they offer an attractive combination of growth, quality and value in our view. However generally speaking, many areas of the Chinese market are either expensive (particularly A-shares) or value traps (banks) in our view. China also has an overhang in terms of the potential for further regulatory tightening, as has already been seen in Property, Internet and Education.

We do not have strong strategic views on LatAm markets at present. Many of the region’s major countries are experiencing delicate political situations. Peru has recently elected an unpredictable left wing President, Chile is going through the process of constitutional convention and looking to reform its mining taxes, while Colombia has seen protracted protests and brutal police crackdowns on the demonstrators. Elsewhere, Mexican President Andres Manuel Lopez Obrador has vowed to forge ahead with his radical shake-up of the country after recent mid-term elections eroded his power base in Congress and the capital, but saw his party capture new ground in regional votes. Finally, the next 12-18 months will likely bring a run off between Lula and Bolsonaro in Brazil. Against an uninspiring top-down backdrop, we are focusing on bottom-up stock selection in these markets, opportunistically owning our favoured Materials names when it makes sense to do so.

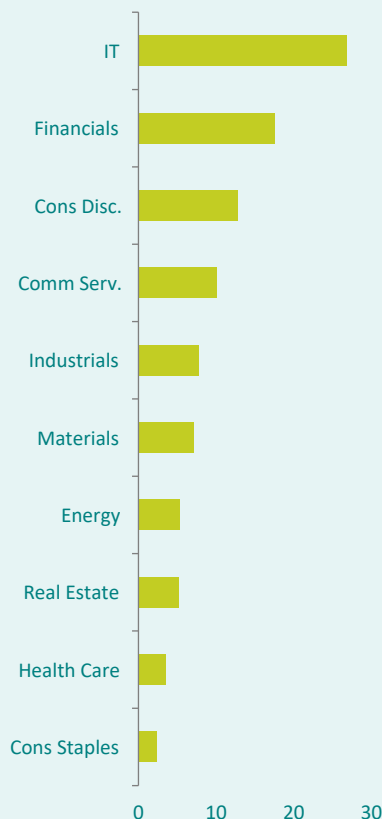
In EMEA, we continue to see Russia as a relatively attractive market at present, given the elevated oil price and the relatively cheap ruble.

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Absolute Country Weights %



Absolute Sector Weights %



Portfolio Positioning

Over the quarter we bought China-listed Zijin Mining, which has a large growth project coming online in the Democratic Republic of the Congo and another one in Serbia. The projects should help to drive strong copper production growth for the next 4-5 years. In a more general sense, we are bullish on copper, given the lack of supply and grade degradation at existing mines, as well as stronger demand from a cyclical global recovery. Demand for copper should also be boosted by the green transition as EVs require more copper than internal combustion engines, while solar and wind power are more copper intensive than thermal power.

Elsewhere we bought Axis Bank as we continue to be constructive on the long-term structural growth opportunity in the Indian Financials sector.

Conversely, we reduced Sea as it was approaching our price target.

In LatAm we purchased Petrobras. Despite market concerns about the company’s pricing policy, Petrobras is actually pricing not far from international parity and is therefore participating in the oil price increase to a good degree. Moreover, its plan to divest the refining assets is largely on track. We therefore believe that market consensus forecasts are now too low. More generally, covid has disrupted capex across a broad range of sectors, which is part of the reason we are seeing inflationary price squeezes in most commodities. This is particularly true in Energy, which is also one of the few industries globally where a lot of the major players are committing to structural reductions in capex, or at least switching capex from extracting oil and gas to building renewables infrastructure. Of course, there are big players like Aramco and state-controlled companies such as Rosneft that will continue to invest heavily, but over the next couple of years we are likely to see a relative underspend on capex in the Oil and Gas sector, which could keep pricing tighter than it might otherwise have been.

Meanwhile we participated in the IPO of Pepco, which sells low cost clothing and homewares, mainly in Poland. It also operates the Poundland brand in the UK and plans to expand this model to other countries in Europe. We see it as a fast-growing, high-quality company with excellent returns on capital and a strong management team.

We also bought Russia-based VTB Bank, where it has become apparent that the earnings recovery is much stronger than the market had anticipated. VTB is seeing a lower cost of risk than most analysts expected, while lending growth is slightly better, and spreads are holding up well. The Russian government, which owns a large stake, is very keen to encourage VTB to increase its dividend payments. When we bought the shares, we estimated that VTB was trading on a 12% forward dividend yield. More generally, with the oil price elevated and the ruble relatively cheap, we believe Russia is an attractive market at present.

Finally, we switched Sibanye into Impala. We remain constructive on PGM miners, but Sibanye is making an acquisition, which can often weigh on the share price in the short term.

Stocks

Below we highlight a major winner and a major loser:

CATL

China-based CATL is the world leader in LFP batteries and also has a strong market position in standard nickel cathode EV batteries. The shares performed well after CATL announced an extension of its supply contract with Tesla from 2022 to 2025. It also launched a new sodium-ion battery, which is expected to be used for energy storage and very low end mobility solutions. More generally, EV sales have been strong globally, providing a healthy backdrop for battery makers.

We believe that CATL can sustain a c.30% share in EV batteries globally. It also has a significant growth opportunity in batteries for grid scale storage. We have developed our own model for EV adoption, and expect penetration rates to be ahead of consensus estimates. In our view, being invested in the larger players such as CATL provides protection against changes in technology. Indeed, not only does CATL have a large R&D budget, but it is also already strongly positioned in two types of battery chemistry. Thus, it should be able to adapt to changes in technological adoption trends. That said, we have reduced the position as it is approaching our price target after a strong move.

21Vianet

21Vianet is the largest carrier-neutral Internet and data centre service provider in China. It is the exclusive operator of Microsoft Azure and Office 365 services in China, and also houses data centres for Bytedance, Tencent, Kuaishou and other Chinese companies. The shares have struggled amid concerns over orders from a large customer and the potential oversupply of data centres due to private equity entrants into the industry.

21Vianet has been a major beneficiary of increasing demand for data centre services during lockdown as people consumed more online content at home. This increase in demand has led to more players coming into the space, prompting concerns about oversupply and pricing declines. We believe this is largely noise as there is insufficient power supply in Tier 1 cities and core areas, which should constrain capacity and benefit the incumbents. Data centres are also typically built using leverage so, while new players may be aggressive on pricing initially, ultimately they will have to exercise price discipline as most will have taken on debt to build these facilities and will need to earn an economic return or go bust.

Performance Attribution Q2 2021

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	360 Digitech	China	Financials	1.78	√
	Sungrow Power Supply	China	Industrials	0.90	√
	Unimicron Technology	Taiwan	Information Technology	0.72	√
	Pharmaron	China	Health Care	0.66	√
	CATL	China	Industrials	0.52	√
Top Detractors	21Vianet Group	China	Information Technology	-0.76	√
	Xiabu Xiabu	China	Consumer Discretionary	-0.38	√
	Kingsoft Cloud	China	Information Technology	-0.36	√
	Dingli	China	Industrials	-0.32	√
	Sunac China Holdings	China	Real Estate	-0.22	√

Highlights

- The fund finished ahead of its benchmark, with outperformance particularly marked in China, Brazil and Taiwan.
- Chinese online lender 360 released strong results that beat expectations on asset quality.
- B2W rebounded from oversold levels in Brazil.
- Taiwanese substrate producer Unimicron performed well. The ABF market is in short supply, meaning pricing dynamics are very strong. The company is enjoying higher volume growth, better pricing, improving margins, and customers that are even partially funding its capex to ensure supply.
- The fund lost out by not owning Korea-based Daum Communication, which is looking to IPO its bank.
- At the sector level, outperformance was particularly significant in Financials, Industrials and Materials.
- Chinese clean tech names such as Sungrow and CATL have outperformed in recent weeks, partly as global EV sales have beaten expectations.
- Pharmaron performed well after it released good results.
- Chinese property company Sunac struggled after it purchased a large amount of land bank in May, which led investors to question whether it was serious about deleveraging.

Portfolio Breakdown (%)

	TT EM Unconstrained		MSCI EM
	31 Mar	30 Jun	30 Jun
	Czech Republic		
Egypt			0.1
Greece			0.1
Hungary			0.2
Kazakhstan	0.8		
Kuwait			0.5
Nigeria	1.4	1.5	
Poland		1.6	0.7
Qatar			0.6
Russia	4.3	2.5	3.3
Saudi Arabia			2.9
South Africa	3.6	1.2	3.5
Turkey		0.9	0.2
UAE			0.7
EMEA	10.1	7.7	13.0
China	44.0	48.8	37.5
India	7.4	7.9	9.9
Indonesia	1.8	0.6	1.1
Korea	15.0	15.2	13.2
Malaysia	0.8	0.7	1.2
Pakistan			0.0
Philippines			0.6
Taiwan	11.7	12.5	13.9
Thailand			1.6
Emerging Asia	80.5	85.7	79.1
Argentina			0.1
Brazil	6.7	5.3	5.2
Chile	1.5		0.4
Colombia			0.1
Mexico			1.7
Peru			0.2
Latin America	8.2	5.3	7.8
Cash	1.3	1.2	
Total	100.0	100.0	100.0

Sector Allocation (%)

	TT EM Unconstrained		MSCI EM
	31 Mar	30 Jun	30 Jun
	Communication Services	9.3	10.1
Consumer Discretionary	13.0	12.8	17.6
Consumer Staples	0.9	2.4	5.6
Energy	4.6	5.4	5.0
Financials	14.8	17.6	17.8
Health Care	3.8	3.5	5.0
Industrials	11.0	7.8	4.9
Information Technology	27.4	26.9	20.4
Materials	7.4	7.1	8.4
Real Estate	6.5	5.2	2.0
Utilities			1.9
Cash	1.3	1.2	
Total	100.0	100.0	100.0

Top 10 Stocks

March 31, 2021			June 30, 2021		
Security	Country	Weight %	Security	Country	Weight %
Samsung Electronics	Korea	7.7	Samsung Electronics	Korea	6.8
TSMC	Taiwan	6.1	Tencent	China	6.4
Pharmaron	China	3.1	TSMC	Taiwan	6.0
360 Digitech	China	3.0	360 Digitech	China	3.6
Tencent	China	3.0	KWG Living Group	China	2.9
SK Hynix	Korea	2.7	Alibaba Group	China	2.8
Naspers	South Africa	2.6	SK Hynix	Korea	2.3
KWG Living Group	China	2.5	B2W	Brazil	2.3
Vale	Brazil	2.5	Delta Electronics	Taiwan	2.2
Delta Electronics	Taiwan	2.4	21Vianet Group	China	2.2
Top 10 Positions		35.7	Top 10 Positions		37.5
Top 20 Positions		53.5	Top 20 Positions		54.7
No. of stocks		66	No. of stocks		65

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