Q3 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 479,175,450
Strategy: USD 970,302,262

Fund Performance

	Fund Gross	MSCI EM
September	-13.1	-11.7
Q3	-16.1	-11.4
YTD	-32.2	-26.9
1 Year	-33.4	-27.8
3 Year (ann)	-0.4	-1.7
5 Year (ann)	-0.4	-1.4
Incep. (ann)	5.6	1.1

Returns are gross of fees in USD

Fund Value (USD mil) 479

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 sharply in Q3 amid a perfect storm of Fed rate hikes, dollar strength and global recession fears. The fund produced a negative absolute return, underperforming its benchmark.

Performance

The fund finished behind its benchmark, with outperformance in Argentina and UAE more than offset by underperformance in China and Korea.

Market Background

EM equities sold off sharply in Q3 amid a perfect storm of Fed rate hikes, dollar strength and global recession fears.

Outlook

EM equities have been very weak amid a deteriorating global macro picture, a decidedly hawkish Fed, and a strong dollar. Added to these global headwinds are EM-specific risks, particularly China and its property market woes. Most indicators of short-term sentiment are now extremely bearish, be it RSI measures, cash balances, or options market positioning. At the time of writing in early October, we have just seen equity markets lurch higher, despite a lack of meaningful catalysts, which also demonstrates that positioning is light. Against this backdrop, it is certainly possible that a bear market rally could become self-sustaining in the short term, but ultimately we believe it is unlikely that we have seen the market lows for this cycle. Indeed, earnings downgrades are likely to get sequentially worse as we move into 2023 as the weight of higher inflation and interest rates bears down on consumers and corporates alike.

In China we see an extreme valuation case for continuing to hold our core ADR positions in Alibaba and 360 Digitech. We believe the PCAOB auditing development represents a positive step forward, though clearly the proof will be in how the actual audit of Alibaba proceeds. Given that valuations seem to be completely disconnected from fundamentals, we see limited downside from here, but accept that having patience and a 'plan B' such as the dual primary listing that Alibaba is pursuing will be critical. We also recognise that risks relating to the property market and tensions over Taiwan are growing. Set against these downside risks are the potential for upside surprises following the Chinese Communist Party Congress. For example, there is considerable optimism around the potential for a better balance to be struck in the new core leadership team, with Wang Yang recognised as a leading economic reformer. There is also a small likelihood of a slight relaxation of covid controls, albeit at this stage the government appears to be sticking with its zero-covid policy.

Korea stands out as the cheapest market in Asia, trading at 0.8x trailing P/B and 8x forward P/E. It is traditionally regarded as a cyclical play on the global economy, and with a high degree of export dependency that view is valid. However, we also believe that Korea is favourably exposed to one of the most attractive structural opportunities globally, namely the EV battery sector. We have exposure to Hansol Chemical, a leading manufacturer of anode binder and battery tape. Valuations within the EV battery supply chain have become increasingly attractive in our view. Whilst we acknowledge that auto sales face cyclical headwinds, auto volumes have been constrained over the past few years by a lack of supply. Inventories are low, and this should limit the degree to which overall auto volumes fall from here. Meanwhile, governments and auto OEMs remain committed to the phasing out of internal combustion engines. Consequently, the model choice available to those who may wish to purchase an EV will grow substantially over the coming years. Each progressive iteration of battery technology will bring greater range and faster charging, enhancing the core appeal of owning an EV. For example, battery makers will seek to improve fast charging through using silicon anode material. Hansol Chemical aims to profit from this trend by selling such material. We have also added to our Korean memory exposure through SK Hynix as we see the recently announced capex cuts from Micron as a strong indication of supply discipline in the market.

Elsewhere in Asia, we have written at length about our constructive outlook on India, particularly the private-sector banks. We continue to run these positions, but they have performed very well of late, leading us to take some profits in several names.

Moving to LatAm, Brazil is certainly worthy of mention given the ongoing election. Voting results thus far point to a reasonably market friendly outcome in that Lula is likely to win, unless he does something that alienates his core voter base, but Parliament has gone centre-right, which should constrain any extreme policies. We are constructive on the market and added to several positions, but are cognisant that it has performed well, and so we are unlikely to be adding significantly to exposure from here.

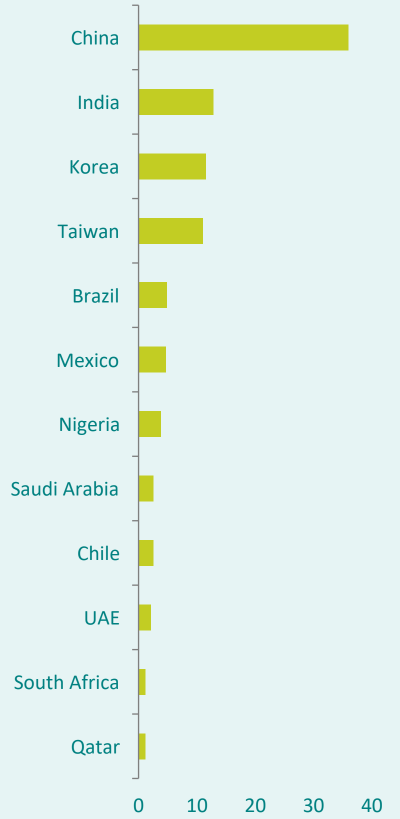
Finally, we retain exposure to Mexico, which is cheap relative to its own history and could be a defensive outperformer in difficult markets as it has been run in a fiscally prudent manner by AMLO. We continue to hold Cemex and Banorte in this market.

TT INTERNATIONAL

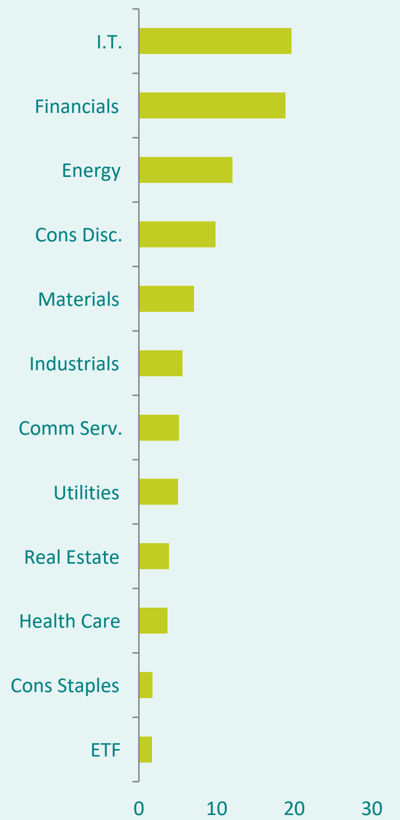
Q3 2022

TT EM UNCONSTRAINED FUND

Absolute Country Weights %



Absolute Sector Weights %



Portfolio Positioning

In China we used strong performance to sell EVE Energy due to concerns over slowing EV demand off a high base in China and efforts by the US to curtail Chinese battery players in the North American market. The proceeds were used to build positions in specialist medical glass producer Shandong Pharmaceutical and Longi. The latter is the world's largest solar wafer and module manufacturer. Solar projects have been put on pause due to a high polysilicon price. However, with the supply of polysilicon likely up 80% YoY in 2023, we believe the price will fall substantially, releasing the pent-up demand for solar installations and benefitting Longi. Another purchase in China was JD Logistics, the cost centre for JD.com that was spun out in an IPO in 2021. It is now transitioning into a revenue centre as its business expands to third party clients and utilisation improves. Tight Covid controls in China benefit JD Logistics as more clients need delivery, warehousing and logistics services, but look to cut costs by employing larger operators with scale benefits. Since its IPO last year, JD Logistics has already transitioned from a loss making entity to one that is generating profits, and should continue to grow the bottom line as its scale ramps up.

Conversely, we took some profits in our Indian Financials after strong performance.

Finally, we bought South African bank Absa. It used to be owned by Barclays, which recently sold the final block of its stake, thereby removing the overhang on the shares. Absa has underperformed relative to sector peers over the past few years. However, it has recently seen an inflection point in its market share, and we see an opportunity to reduce the cost base.

Stocks

Below we highlight a major winner and a major loser:

IndusInd Bank

IndusInd Bank is a mid-sized Indian bank with particular strengths in auto financing. The bank benefits from one of the highest PPOP/Assets ratios in the Indian banking system. In recent years, the bank experienced high credit costs due largely to problems in the corporate book, which suppressed its ROE. However, with credit quality much improved and the bank having increased its NPA coverage, as well as having built up its floating provisions, we believe that it is well placed to again be one of the most profitable banks in India. We like the exposure to auto financing because it is a high ROA business where IndusInd has a leadership position. It is also an area that should offer substantial long-term growth since autos and trucks in particular are underpenetrated categories in India. We also believe that the bank has done a good job of starting to address its relative weakness on the deposit side, with a move to attract more granular deposits. However, the shares have performed very well recently and we locked in some profits.

Jia Yuan

Jia Yuan is the leading EV battery copper foil manufacturer in China. Thanks to its close relationship with CATL, Jia Yuan is the market leader in ultra-thin 4.5um copper foil, which helps to improve energy density and supports high voltage charging. The stock underperformed as its long-anticipated growth-funding capital raise acted as an overhang. The whole EV space has also generally been under pressure due to fears over the impact of slowing global growth on auto sales. The Chinese EV space has performed particularly poorly as the US IRA is designed to benefit EV supply chain companies operating outside of China by making batteries ineligible for subsidies if components are made in China. We believe that Jia Yuan is very cheap on 11-12x forward earnings for a business that can grow almost 50% a year. Korean rivals are trading at 3-4 times this multiple. We continue to hold the stock and await catalysts in the form of EV penetration growth, an 800V fast charging roll-out, and high energy density demand from new battery technology.

Q3 2022

TT EM UNCONSTRAINED FUND

Performance Attribution Q3 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	Ujjivan Financial Services	India	Financials	0.72	√
	IndusInd Bank	India	Financials	0.69	√
	Banorte	Mexico	Financials	0.42	√
	EMAAR Properties	UAE	Real Estate	0.39	√
	Sungrow Power Supply	China	Industrials	0.34	√
Top Detractors	Alibaba Group	China	Consumer Discretionary	-1.14	√
	KWG Living Group	China	Real Estate	-0.83	√
	Savannah Energy	Nigeria	Energy	-0.83	√
	Jia Yuan	China	Industrials	-0.79	√
	360 Digitech	China	Financials	-0.60	√

Highlights

- The fund finished behind its benchmark, with outperformance in Argentina and UAE more than offset by underperformance in China and Korea.
- Globant rebounded from oversold levels.
- EMAAR Properties traded higher in Q3. Its hotels and malls in UAE are performing strongly, and real estate prices have been firm.
- Jia Yuan underperformed as its long-anticipated growth-funding capital raise acted as an overhang.
- Our Chinese property management companies struggled amid ongoing stress for Chinese developers.
- At the sector level, outperformance in Communication Services and Financials was outweighed by underperformance in Energy and Real Estate.
- Our Indian Financials performed well due to accelerating loan growth and benign credit costs.
- S-Oil and SK Innovation struggled as oil refining margins have fallen from record levels earlier in the year. We believe that margin levels will rebound again, particularly as supply is not increasing due to a lack of investment in refineries as a result of the green energy transition.

TT INTERNATIONAL

Q3 2022

TT EM UNCONSTRAINED FUND

Portfolio Breakdown (%)

	TT EM Unconstrained		MSCI EM
	30 Jun	30 Sep	30 Sep
Czech Republic			0.1
Egypt	0.1		0.1
Greece			0.3
Hungary			0.2
Kuwait			0.9
Nigeria	4.3	3.8	
Poland			0.5
Qatar	1.1	1.1	1.3
Saudi Arabia	1.7	2.5	4.8
South Africa	0.0	1.2	3.5
Turkey			0.4
UAE	1.5	2.1	1.4
EMEA	**8.7**	**10.8**	**13.3**
China	40.8	36.0	31.3
India	13.7	12.8	15.3
Indonesia			2.2
Korea	9.1	11.6	10.7
Malaysia	1.0		1.5
Philippines			0.7
Taiwan	9.1	11.0	13.8
Thailand			2.1
Emerging Asia	**73.6**	**71.4**	**77.7**
Argentina	1.2		
Brazil	4.7	4.8	5.8
Chile	2.2	2.5	0.6
Colombia			0.1
Mexico	4.2	4.7	2.2
Peru			0.2
Latin America	**12.3**	**12.0**	**9.0**
Cash	5.3	5.9	
Total	**100.0**	**100.0**	**100.0**

Sector Allocation (%)

	TT EM Unconstrained		MSCI EM
	30 Jun	30 Sep	30 Sep
Communication Services	4.7	5.2	9.7
Consumer Discretionary	11.8	9.8	14.0
Consumer Staples	1.6	1.7	6.6
Energy	13.8	12.1	5.3
ETF	1.0	1.7	
Financials	17.1	18.9	22.6
Health Care	0.6	3.6	3.9
Industrials	6.8	5.6	5.8
Information Technology	16.4	19.6	18.3
Materials	10.9	7.1	8.7
Real Estate	4.8	3.9	2.0
Utilities	5.1	5.0	3.2
Cash	5.3	5.9	
Total	**100.0**	**100.0**	**100.0**

Top 10 Stocks

June 30, 2022

Security	Country	Weight %
Alibaba Group	China	8.5
TSMC	Taiwan	8.3
Savannah Energy	Nigeria	4.3
360 Digitech	China	4.1
Tencent	China	4.1
Samsung Electronics	Korea	3.3
Reliance Industries	India	2.6
Barrick Gold	Chile	2.2
Eletrobras	Brazil	2.1
Oil and Natural Gas Corp	India	1.9
Top 10 Positions		41.6
Top 20 Positions		57.9
No. of stocks		61

September 30, 2022

Security	Country	Weight %
TSMC	Taiwan	9.2
Alibaba Group	China	7.4
Samsung Electronics	Korea	4.5
360 Digitech	China	4.1
Savannah Energy	Nigeria	3.8
Tencent	China	3.8
Barrick Gold	Chile	2.5
HDFC Bank	India	2.5
Reliance Industries	India	2.2
EMAAR Properties	UAE	2.1
Top 10 Positions		42.1
Top 20 Positions		60.2
No. of stocks		62