

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 737,898,290

Strategy: USD 1,425,908,293

Fund Performance

	Fund Gross	MSCI EM
December	0.1	1.9
Q4	-1.8	-1.2
2021	-1.8	-2.2
1 Year	-1.8	-2.2
3 Year (ann)	17.5	11.3
5 Year (ann)	14.0	10.3
Incep. (ann)	12.8	6.3

Returns are gross of fees in USD

Fund Value (USD mil)	738
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Inception 26/06/15

Markets

USD Returns, Q4 2021



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

EM equities fell in Q4 due to fears over Fed policy tightening and the potential impact of the new Omicron variant. The fund saw a negative absolute return, underperforming its benchmark.

Performance

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

Market Background

EM equities fell in Q4 due to fears over Fed policy tightening and the potential impact of the new Omicron variant.

Outlook

Overall we remain reasonably constructive on EM equities in 2022. Despite strong earnings growth, EM equities generally underperformed global markets last year and now trade at an even more significant discount. This was largely due to a perfect storm in China consisting of tighter regulation and an economic slowdown tied to property market weakness and a zero COVID policy. However, we believe that all these factors will incrementally improve in 2022. We retain exposure to Chinese property management companies, where we expect fundamentals to reassert themselves as sentiment surrounding the property developers improves. We also continue to own many Chinese clean tech companies such as Yunnan Energy, EVE Energy and Pylon Technologies.

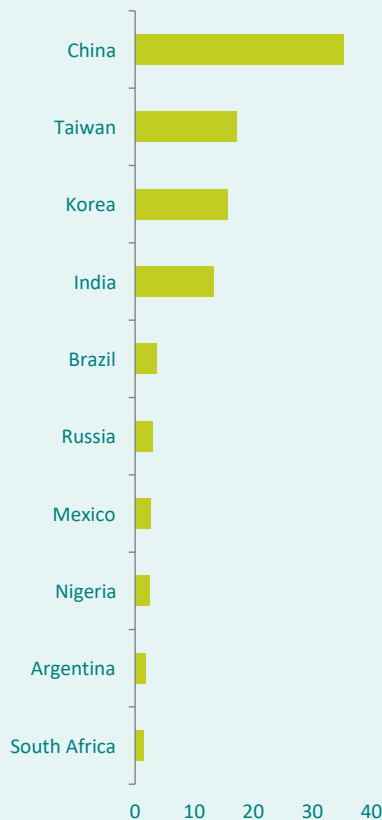
India was one of the stronger performing markets in 2021, and for good reason; we still expect to see virtuous new cycles take hold in property, capex and bad debts. In our view, the best way to gain exposure to this continues to be through the Financials, which are still far cheaper than the consumer names. The fund has significant exposure here, as it does to technology, particularly in Korea and Taiwan. Within this thematic we are particularly overweight memory and the autos supply chain.

Outside of Asia we have reasonably limited exposure to Brazil going into an election year. At some point this year we are likely to increase exposure once it becomes clear who will win the election and the market has digested this. Inflation and interest rates are likely to peak and then start to fall, allowing growth to pick up at a time when the political situation is settling down.

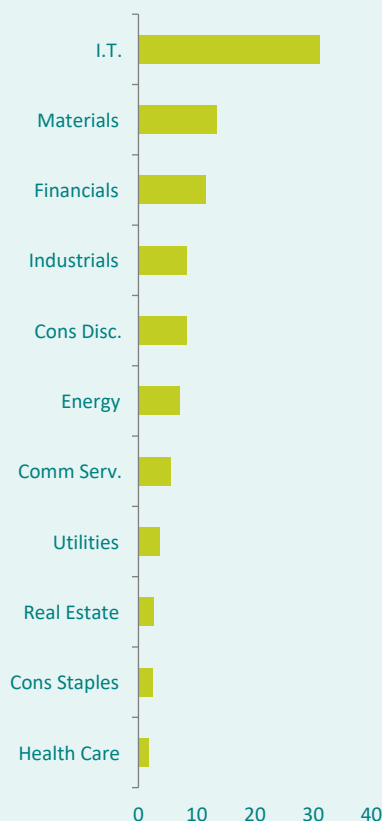
The main risks in 2022 are persistent inflation, Fed rate hikes, ongoing spats between the US and China, and heavy handed government reactions to COVID. Of these risks, inflation is probably the most significant, with the Fed seemingly becoming more hawkish as a result. We foresee several US rate hikes this year, which could test many of the richly valued mega-caps. Importantly, we believe that the portfolio is well positioned for higher inflation and interest rates, should they come to pass. Indeed, it is cheap versus EMs more broadly and very cheap in a global context, largely eschewing exposure to long duration stocks with limited earnings and 'blue sky' valuations. Clearly however, potential concerns over the pace of US tightening could lead to more widespread market volatility, and so we are also beginning to look at adding several outright defensive positions to protect the portfolio in such a scenario.

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Absolute Country Weights %



Absolute Sector Weights %



Portfolio Positioning

Over the quarter we bought Guangdong Jia Yuan, a Chinese copper foil manufacturer. While battery technology is changing quickly, one of the inputs that is likely to remain consistent for some time is copper foil. The market's perception is that Korea has the leading copper foil technology, but Guangdong Jia Yuan is one of only two Chinese players that are commercialising the leading 4.5 micrometre foil technology. Despite this, it trades at a big discount to its Korean rivals.

We also bought Yunnan Energy, which makes separators for battery cells. It is the dominant player globally, with a market share of over 40%. Incumbent players such as Yunnan are benefitting from a lack of investment in the sector, which is allowing them to generate supernormal profits. Yunnan is currently making a 50% gross margin and we think such high profits can be sustained because we expect the lack of investment to persist.

Another purchase was China Three Gorges New Energy, a 100% pure play green genco. We believe it is attractively priced for the scale of growth on offer. Its installed capacity should increase from 20 gigawatts at the end of this year to 55 gigawatts by 2025. Very few utilities globally will add as much capacity over the next 4 years. It is also benefitting from the top-down catalyst of the Chinese central bank offering discounted lending programmes for decarbonising companies. Finally, the energy crisis in China is forcing the liberalisation of energy prices, which should result in China Three Gorges New Energy receiving higher tariffs on new projects.

Finally in China we added to Alibaba. Regulatory uncertainty had caused us to be underweight, but we feel that the worst of the uncertainty is now behind us and that the stock now looks cheap after a substantial correction.

Conversely, we took some profits in EVE Energy and Pylon after strong performance.

Outside of Asia, the Turkish macro situation has deteriorated substantially. Having felt that valuations were at rock bottom earlier this year, unfortunately the recent political interference in monetary policy from President Erdogan has caused a sharp sell-off in the currency and equity market. We suspect that the macro backdrop will continue to deteriorate, prompting the central bank to eventually raise rates by 200-300bps, at which point the currency may sell off more as the market tries to force the central bank's hand for a more meaningful rate rise. Turkish policymakers are in a hole and are still digging. We cut all exposure over the quarter.

We also reduced our exposure to Brazil by selling Petrobras. We believe that the market will struggle to sustainably perform until the middle of next year when rates have stopped being hiked and we have more visibility on the presidential elections. Petrobras is a politically sensitive stock because of the government's ability to alter its fuel pricing policy.

Finally we bought Russian internet company Yandex as we see it as an undervalued structural winner in the space. We believe it will become the number 1 e-commerce player in Russia because it has a funding stream from its search business that should enable it to outspend the current leaders, Wildberries and Ozon.

Stocks

Below we highlight a major winner and a major loser:

Globant

Headquartered in Argentina, Globant is a software developer that is heavily focused on user experience and the digitalisation of businesses. It has been a key beneficiary of the pandemic as many bricks and mortar businesses with limited or no digital offering decided that they needed to digitalise their approach. Globant has a high-quality list of customers including Disney and EA Sports. We believe it will grow at over 25% for a number of years. Globant recently faced some index-related selling pressure as Argentina was kicked out of the frontier markets index. This prompted a significant correction that allowed us to pick up the shares at a more attractive level. Since COVID, the pace of hiring at Globant has increased significantly, which is indicative of the strong demand environment and opportunity set that the company enjoys. We expect this pace of hiring to continue in the medium-term, allowing top line growth to exceed that of recent years.

A-Living Services

China-based A-Living Services provides property management services including security, cleaning, gardening and maintenance. The shares continued to suffer from negative sentiment in the wider property sector. We retain exposure as we expect fundamentals to eventually reassert themselves once sentiment surrounding the property developers improves. We may already be seeing tentative signs of that as Powerlong raised some US dollar debt in December. It was at a high cost, but the mere fact that it was able to access the US dollar bond market is a positive signal. Other developers will hopefully be able to follow suit. A-Living is a fast-growing, cash generative businesses with a significant proportion of recurring revenue. It trades on just than 4.5x 2022 earnings, with over 40% of its market cap in cash.

Performance Attribution Q4 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	Unimicron Technology	Taiwan	Information Technology	0.93	√
	EVE Energy	China	Industrials	0.50	√
	SK Hynix	Korea	Information Technology	0.50	√
	Arctech Solar	China	Industrials	0.49	√
	Yijiahe Technology	China	Industrials	0.45	√
Top Detractors	VNET Group	China	Information Technology	-1.17	√
	KWG Living Group	China	Real Estate	-1.16	√
	Pinduoduo	China	Consumer Discretionary	-0.62	√
	Kingsoft Cloud	China	Information Technology	-0.58	√
	Renew Energy	India	Utilities	-0.55	√

Highlights

- The fund finished behind its benchmark, with outperformance in Korea and Taiwan more than offset by underperformance in China and India.
- SK Hynix rebounded strongly on signs that memory prices have bottomed.
- Taiwan-based Unimicron performed well due to continued tightness in the ABF substrate market, with positive pricing trends and the potential for it to add more capacity that is subsidised by its customers.
- VNET sold off due to concerns about a slowdown in data centre growth in China, as well as general concerns around ADRs/VIE structures.
- HDFC Bank struggled amid a generally weak period for Indian Financials.
- At the sector level, outperformance in Industrials and Consumer Discretionary was overshadowed by underperformance in Real Estate and Communication Services.
- EVE Energy performed well due to strong volumes and market tightness in the battery cell space.
- The fund benefitted from being underweight Alibaba, which was hit on ADR concerns.
- Our Chinese property managers continued to be caught up in the negative sentiment surrounding the property sector.

Portfolio Breakdown (%)

	TT EM Unconstrained		MSCI EM
	30 Sep	31 Dec	31 Dec
Czech Republic			0.1
Egypt			0.1
Greece			0.2
Hungary			0.2
Kuwait			0.6
Nigeria	1.7	2.5	
Poland			0.8
Qatar			0.8
Russia	2.3	3.0	3.6
Saudi Arabia			3.3
South Africa	1.3	1.5	3.2
Turkey	1.5		0.2
UAE	0.1		1.1
EMEA	6.9	7.0	14.2
China	38.7	35.2	32.4
India	12.2	13.3	12.5
Indonesia			1.4
Korea	15.3	15.6	12.8
Malaysia			1.4
Pakistan			0.0
Philippines			0.7
Taiwan	17.7	17.1	16.1
Thailand			1.7
Emerging Asia	83.9	81.3	79.0
Argentina		1.8	0.0
Brazil	5.8	3.6	4.0
Chile			0.4
Colombia			0.2
Mexico	2.0	2.5	2.0
Peru			0.2
Latin America	7.8	8.0	6.8
Other	0.4	0.0	0.0
Cash	1.1	3.7	
Total	100.0	100.0	100.0

Sector Allocation (%)

	TT EM Unconstrained		MSCI EM
	30 Sep	31 Dec	31 Dec
Communication Services	4.6	5.6	10.7
Consumer Discretionary	6.1	8.3	13.5
Consumer Staples	1.3	2.6	5.9
Energy	6.3	7.1	5.6
Financials	8.9	11.7	19.4
Health Care	3.5	1.8	4.2
Industrials	11.3	8.4	5.1
Information Technology	36.7	31.1	22.7
Materials	12.6	13.6	8.6
Real Estate	5.2	2.7	2.0
Utilities	2.5	3.6	2.4
Cash	1.1	3.7	
Total	100.0	100.0	100.0

Top 10 Stocks

September 30, 2021			December 31, 2021		
Security	Country	Weight %	Security	Country	Weight %
TSMC	Taiwan	7.8	TSMC	Taiwan	8.7
Samsung Electronics	Korea	6.6	Samsung Electronics	Korea	7.1
Tencent	China	3.6	Tencent	China	3.8
360 Digitech	China	2.6	Alibaba Group	China	3.5
Renew Energy	India	2.5	360 Digitech	China	3.0
VNET Group	China	2.5	SK Hynix	Korea	2.8
KWG Living Group	China	2.4	Cemex	Mexico	2.5
SK Hynix	Korea	2.3	Savannah Energy	Nigeria	2.5
Delta Electronics	Taiwan	2.3	Delta Electronics	Taiwan	2.4
ICICI Bank	India	2.3	ICICI Bank	India	2.4
Top 10 Positions		34.7	Top 10 Positions		38.8
Top 20 Positions		53.2	Top 20 Positions		57.4
No. of stocks		70	No. of stocks		59

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