

2019 REVIEW

MIRABAUD - EQUITIES GLOBAL EMERGING MARKETS

PERFORMANCE UPDATE

Global Emerging Market (GEM) equities, represented by the MSCI Emerging Net Total Return USD Index, rallied 18.4% in 2019 after declining -14.6% in 2018. Mirabaud - Equities Global Emerging Markets I cap. USD (the Fund) performed broadly in line with the benchmark index, rising +18.2%. During 2019, the three most significant contributors to performance were:

- Sunac China Holdings Ltd – Shares in the Chinese property developer rose 83% in 2019 as the company benefited from the falling interest rate cycle, strong sales, NAV-accretive M&A activity, a large and growing land bank, falling gearing and valuations which were low compared with in the past.
- MMC Norilsk Nickel PJSC – The Russian miner of nickel, palladium, platinum, copper and other minerals rallied 63%. The company benefited from a shortage in many of its products and the corresponding surge in the commodity prices. Investors were also attracted to the high single-digit dividend yield.
- Yandex – Shares in the Russian internet search engine company rallied 59%. During the year Yandex managed to grow its market share on Android smartphones at the expense of Google, it grew its online advertising business and turned a profit with its online taxi business.

The three largest detractors from relative performance during 2019 were:

- TSMC – Taiwan Semiconductor Manufacturing Company rallied 47% in 2019. The Fund held shares until end of April 2019 when they were sold on valuation (2 standard deviations above historical average). However, valuations continued to become even more stretched and the Fund suffered from not holding this index heavyweight during the remainder of the year.
- Baidu – The leading Chinese internet search engine reported 1Q19 results in line with market expectations but gave a weaker than expected 2Q19 outlook. The stock dropped almost 25% in two trading days, breaching the Fund's stop loss rule, thus the Fund exited the position.

Performance provided as at close of business 31 December 2019. Source: Mirabaud Asset Management Limited and Bank of America Merrill Lynch Asia & GEM Monthly Wrap 2 January 2020. **Past performance is not indicative or a guarantee of future returns.**

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- Samsung Electronics – Shares in the Korean hardware company rose 44% in 2019, benefitting from a rebound in the memory semiconductor business. The Fund did not hold a position in this index heavyweight, thus suffering relative underperformance as a result. However, the Fund instead benefited from holding a large position in SK Hynix, which is a competing Korean memory semiconductor company. Shares in SK Hynix rallied to a similar extent to Samsung Electronics.

YTD MARKET REVIEW

GEM equities started the year well with a rally of +10% in 1Q19. As the US-China trade war escalated GEM equities lost -4% over the next two quarters before rallying close to +12% in the final quarter due to positive developments on the trade front and further global monetary policy easing.

Asia ex-Japan

Asia ex-Japan equities advanced +18.2% in 2019 driven primarily by China (+20.9%) and the tech-heavy Taiwanese stock market (+31.5%) which largely moved in tandem with the progress on the US-China trade talks. The Fund was overweight China for most of the year but underweight Taiwan. The worst performing Asian markets were Malaysia (-5.2%) and Pakistan (+3.3%). The Fund had no exposure to either in 2019.

Besides the US-China trade war, 2019 was notable for a number of other events. For example, Hong Kong experienced months of violent pro-democracy protests, which

dragged the local economy into a recession. Hong Kong closed the year up 7.0%. India also suffered from political upheaval which began with a military conflict in February in the aftermath of a terrorist attack in Kashmir. The incumbent Bharatiya Janata Party (BJP) won the general election held in April and May, but then faced political backlash after the scrapping of Article 370 in Jammu and Kashmir. The passage of the Citizenship Amendment Act and the National Register of Citizens gave investors another reason to be cautious. By the year-end, Indian equities finished just 6.1% higher.

Korean equities rose 10.4% in 2019 but were heavily skewed by the outperformance of the technology sector (including Samsung Electronics and SK Hynix). The export-driven country struggled in the midst of the global trade war and the dispute between South Korea and Japan over the issue of forced wartime labour compensation.

Finally, the ASEAN markets, having performed well in 2018, lagged in 2019 despite all cutting their interest rates to boost their local economies.

EMEA

Russia was the best performing market in EMEA in 2019 and rallied 41.0%. The equity market and Russian currency was supported by a strong recovery in oil prices, the gradual fading of sanctions risks and looser monetary policy as inflation weakened. The Fund was overweight Russia equities through its holdings in Norilsk Nickel, Yandex and Lukoil.

Other EMEA markets which performed well

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were Greece (+39.8%) and Egypt (+38.9%). The Fund had zero exposure to Greece but was overweight Egypt through the holding in Commercial International Bank of Egypt.

South African equities rose +7.4%. The bailout of the struggling state owned utility, Eskom, increased the probability of a ratings downgrade. Despite the re-election of Cyril Ramaphosa there was little progress with reforms and hence foreign outflows from South African equities reached a 20 year high.

The worst performing markets in EMEA were Poland (-8.2%), Qatar (-4.5%) and the Czech Republic (-0.1%). The Fund had zero exposure to these three markets during the year.

Latin America

The two best performing markets in LatAm in 2019 were Colombia (+25.9%) and the index heavyweight Brazil (+22.1%). The Fund did not have any exposure to Colombia, which represents less than 0.5% of the index. During 2019 the Fund was also modestly underweight Brazil, detracting from relative performance. President Bolsonaro managed, despite the odds, to push through key fiscal policy reforms, which helped to restore investor confidence and revive modest economic growth over the year.

In Mexico, the second largest LatAm market, equities rose just 8.0% due to a period of weak economic growth and trade uncertainty with its largest partner, the USA.

The worst performing markets in LatAm were Argentina (-22.6%) and Chile (-18.6%). The Fund had zero exposure to either in 2019.

From a sector perspective, all GEM sectors advanced over the year. The best performing sectors were Information Technology (+37.6%) and Consumer Discretionary (+34.0%) whereas Materials (+2.3%) and Health Care (+2.7%) lagged.

Portfolio positioning

By end December our largest overweights were Russia, Mexico, Egypt and China. The biggest underweights were South Africa, Brazil, Taiwan and Saudi Arabia. From a sector perspective, the Fund was overweight Financials, Real Estate and Consumer Discretionary while being underweight Industrials, Health Care and Energy.

Summary & Outlook

We believe the medium to long-term investment case for GEM equities is very positive. GEM equities remain relatively under-owned, in our view, and are attractively valued compared with global equity markets, whilst having a strong outlook in terms of earnings. The past year was very eventful with a heightened level of political risk and trade tensions. We expect the political calendar in 2020 to be quieter with fewer political elections taking place in the GEM markets. With the US and China having signed phase 1 of the trade pact, we hope concerns surrounding trade disputes are now past the worst. As always, we remain focused on investing in quality companies with structural growth opportunities whilst being cognisant of managing the risks within the current environment.

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Net Annual Performance (%)	2014	2015	2016	2017	2018	2019
Mirabaud - Equities Global Emerging Markets I cap. USD	-5.67	-13.64	7.12	43.90	-19.45	18.18
MSCI Emerging Markets TR Net USD	-2.19	-14.92	11.19	37.28	-14.58	18.44



DANIEL TUBBS - HEAD OF GLOBAL EMERGING MARKETS AND ASIA EX-JAPAN EQUITIES

- Joined Mirabaud in 2012 with industry experience since 1997.
- Previously Co-Head of Emerging Markets Equity at Blackrock.
- BA, Accountancy with European Studies; CFA Charterholder; ACA

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