

Fiera Capital Emerging Markets 3Q Commentary

October 10, 2018



The Emerging Market strategy seeks to provide long-term capital appreciation by investing primarily in emerging market companies. The strategy has a distinct bias towards Asian emerging market economies, with relatively large and young populations, rising per capita income, rapid urbanization, and robust savings and investments. The portfolio is weighted towards domestic demand themes, such as information technology, consumer companies, or export sectors which we believe possess long-term sustainable comparative advantages. While actively managed by country, sector and company exposure, the aim is to keep a low portfolio turnover.

The EM strategy declined by 8.31% during Q3 2018, underperforming the MSCI EM Index ("EM") by 722 bps and the MSCI EM Asia Benchmark ("EM Asia") by 648 bps. Year to date, the Fiera Capital Emerging Markets Strategy has returned -17.21%, underperforming EM by 9.53% and EM Asia by 10.42%. Relative to EM, stock selection was a major negative contributor during the third quarter. Allocation and currency were also detractors during the quarter.

The strategy's underperformance was due to weakness in our China/HK, India and Taiwan holdings costing us -308 bps, -146 bps, and -123 bps respectively. We remain overweight to Asian markets compared to the MSCI EM Index, and thus the global pullback in EM and EM currencies has created distributed weakness across all our holdings. From a sector perspective, Information Technology and Financials (our two heaviest allocations) cost us the most: -206 bps and -147 bps respectively. Our Consumer staples exposure contributed 26 bps to performance. Relative to EM, the strategy outperformed in the EM markets where we continue to hold no exposure, such as Turkey, which contributed 15 bps, or where we remain underweight the benchmark, as in South Africa, which contributed 38 bps. All contribution to performance numbers noted are on a gross basis.

From a trading perspective this quarter, we increased exposure to China's Internet/social media sector by adding two ADR positions and increased our weightings in domestic China auto manufacturers. We also initiated a position in the Chinese alcoholic beverage sector. In India, we increased our exposure to financials/life insurance and industrials. We decreased exposure in some China & Taiwan tech hardware manufactures and exited Korean advertising and life insurance segments. From a country allocation level, our weightings have largely stayed the same. Our India exposure increased by about 75 bps and our exposure to Indonesia was reduced by 64 bps. Our cash level remains the same at approximately 9.75%.

EM Asia has underperformed US markets 2018 YTD. The contributions to this are manifold. US-China tariff war concerns have raised uncertainty levels, for one, and oil prices have stayed stubbornly high. However, we maintain that our long-term thesis on Asia's fast-growing, consuming middle class remains intact. We believe that China will seek to avoid a tariff war with the US, and China's measured direct retaliation thus far speaks to that conjecture.

Anindya Chatterjee
Senior Vice President,
Lead Portfolio Manager

FIERA CAPITAL EMERGING MARKETS EQUITY STRATEGIES

Emerging Markets Select
Anindya Chatterjee

Global Emerging Markets
Mark Bickford-Smith &
Ian Simmons

Frontier Markets
Dominic Bokor-Ingram &
Stefan Bottcher

Latin America
Ian Simmons

Eastern Europe
Julian Mayo

Africa
Sharat Dua

Middle-East & North Africa
Dominic Bokor-Ingram &
Stefan Bottcher

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We expect China to continue to show caution and restraint in this matter. China has far more retaliatory options towards the US other than import tariffs. US companies have made nearly \$600bn of direct investments in China – building plants, facilities and joint ventures – since the Global Financial Crisis. China, as we all know, is the largest creditor to the US government. Confrontation of the two largest economies would be devastating for both, as well as the global economy, and diplomatic dialogue between the two nations is the ultimate goal. We speculate that we are likely to see some measures to narrow the trade gap (the success of which would remain debatable), including greater access to Chinese markets for US manufacturers and service providers. The tariff rift may also act as a catalyst to accelerate financial market reforms. Domestically, China can accelerate its market reforms and provide fiscal stimulus to support its asset markets and real economy in the meantime. We believe a focus on infrastructure or tax cuts are some of the most feasible and likely fiscal initiatives. In the near term, we expect policy uncertainties to prevail, which may continue to hurt EM Asia market sentiment. We continue to focus on domestic consumption demand, which is less affected by currency and trade shocks. Our posture for the coming months is defensive: we plan to take advantage of unreasonable short-term declines in the market due to policy uncertainties and are currently holding nearly 10% cash – enough to capitalize on market declines that present an opportunity.

	3Q18	YTD 18	SI*
Emerging Markets Strategy Composite*			
Gross	-7.95	-16.20	11.25
Net	-8.31	-17.21	9.41
MSCI EM	-1.09	-7.68	4.55
MSCI EM Asia	-1.83	-6.79	7.68

*Inception date: 12/31/2011

	Avg. Wt.	Contrib. to Perf.**
Top Detractors		
Sunny Optical	2.87	-1.18
Airtac International	1.55	-0.60
Taiwan Semiconductor	0.72	-0.57
AAC Technologies	1.79	-0.50
China Medical Systems	1.48	-0.46

Top Contributors

China Railway	1.53	0.43
MY EG Services	0.58	0.31
Ping An Insurance	3.39	0.30
Beauty Community	0.39	0.25
Nagacorp	1.49	0.23

The holdings identified do not represent all of the securities purchased, sold or recommended. Information on the calculation methodology and a listing of every holding's contribution to the composite's performance during the period is available upon request.

*For information about the composite, see disclosures.

**Contribution is relative to the benchmark.

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss. Please refer to Important Disclosures on the next page for an overview regarding performance, the composite definition, Index Comparisons and other important information.

COMPOSITE AND INDEX DEFINITIONS

Fiera Capital Emerging Markets Strategy seeks long-term capital appreciation by investing in quality companies in emerging markets. The team's opportunistic process seeks to capitalize on underlying regional macro trends and global macrodynamics which, combined with fundamental bottom-up security selection, may result in more concentrated regional investments. The composite, created in December 2017, is composed of discretionary accounts in the highest fee fund vehicle of the strategy. The accounts included in the composite reflect accounts managed by the Emerging Markets team and benchmarked against MSCI Emerging Markets Index and the MSCI Emerging Asia Index. None of the accounts in the composite use leverage.

Benchmark indices are provided so that a strategy's performance can be compared with the performance of well-known and widely recognized indices. A strategy's holdings may differ significantly from the securities that comprise the index. It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns.

MSCI Emerging Markets Net Total Return Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

MSCI Emerging Markets Asia Net Total Return Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Asian emerging markets.

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