

Emerging Markets Select 1Q19 Commentary

April 10, 2019



The Emerging Markets Select strategy seeks to provide long-term capital appreciation by investing primarily in emerging market companies. The strategy has a distinct bias towards 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. All attribution numbers are presented on a gross basis unless otherwise specified.

Review

The strategy returned +15.35% (net) during the first quarter, outperforming the MSCI EM Index ("EM") by 5.43% and the MSCI EM Asia Index ("EMA") by 4.24%.

On a country level, the strategy's exposure to China and Hong Kong ("HK") has contributed 4.20% relative to EM. The team's selective Taiwan exposure has also added 92bps relative outperformance followed by the Philippines with 91bps of relative outperformance. China/HK and Taiwan were hit hard through 2018 over US-China trade related issues, and the positive directionality of the talks towards the end of 2018 and into 2019 lent support to the markets. Away from headline trade issue, China simultaneously embarked on a series of sector reforms in 2018 that, while long-term positives in the team's view, contributed to short-term volatility throughout the year. As certain sectors saw incremental policy resolutions towards the end of the year such as a restart of approval for game licenses or a reversal of the May 18' solar policy and indicated future subsidy support, markets turned positive. China also pledged the implementation of tax cuts this year in a bid to further boost the vitality of market entities, increase urban and rural personal incomes, and expand capacity for consumption. The Philippines market bounced back sharply as inflation stabilized and then moderated, and rice imports from Thailand & Vietnam began in December 2018. The overweight to China/HK, Philippines and selective Taiwan exposure were major contributors during this period.

On a sector level, information technology contributed 2% to the quarter's relative performance to EM and consumer discretionary +1.80%. Within the consumer discretionary space, the sources of different industries' outperformance have been diverse. White goods and autos stabilized on the expectation of policy support and the government rolling out new policies in the new year, which happened in early 2019. Consumer segments across the region have done well on the expectation that consumption would remain strong on the back of elections in Indonesia in 2019 as well as with moderating inflation in the Philippines. Information technology found support in valuations, China trade talks and positive tailwinds of Chinese regulatory reforms, and expectations of a new 5G upgrade cycle. The team continued to hold names in these sectors during periods of volatility as the long-term fundamentals remained intact.

Past performance is not indicative of future results, and there can be no assurance that comparable results will be achieved.

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Outlook

Following a challenging 2018, markets reached their lows in late October 2018. Despite the 14% bounce in the broader market (+23% for the strategy over the same period), the MSCI EM Index is trading at 12.5x forward earnings based on consensus estimates. We believe valuations remain reasonable at these levels.

The more dovish stance of the Fed is a positive for emerging markets, and EM Asia currencies have mildly appreciated YTD against the dollar while other currencies such as the Turkish Lira and Argentinan Peso are under pressure. While oil prices have moved up since the December 2018 lows, they remain well below the October 2018 peak.

Elections across Asia are a current focus – elections in Thailand are currently underway, and Indian elections are scheduled for April 11th to May 19th. Indonesia will go to the polls mid-April, and midterm elections will happen in the Philippines in May. The team is currently looking for new opportunities on the back of Thai elections and has been tweaking the India weight & portfolio composition in response to the region's dynamics.

The team continues to monitor the developing news flow around the US / China trade talks and remains cautiously optimistic about the eventuality of a deal. As noted in our 2019 EM Outlook, monitoring and implementation of any roadmap on trade reforms milestones on China would be challenging. The team remains concerned regarding the longer-term clash for tech dominance between the two nations, among a host of other geopolitical issues that could flare up through 2019.

The team remains focused on engaging with corporate managements, scouring the marketplace for information, and undertaking the fundamental due diligence that has been a core source of strength since the strategy's inception. An emphasis on the long-term investment horizon of the strategy and emerging markets as a whole is always worth remembering, particularly during challenging market cycles.

	1Q19	2018	SI ¹
Emerging Markets Select Strategy Composite*			
Gross	15.81	-22.45	11.50
Net	15.35	-23.68	9.66
MSCI EM	9.91	-14.58	4.47
MSCI EM Asia	11.11	-15.45	7.25

1. Inception date: 12/31/2011

	Avg. Wt.	Contrib. to Perf.**
Top Detractors		
Alibaba Group	3.26	-0.21
Anta Sports Products	0.15	-0.11
HDFC Limited	0.62	-0.07
Larsen & Toubro	1.33	-0.06
Ctrip.com International	0.10	-0.06

Top Contributors

Wuliangye Yibin	1.34	1.00
Ping An Insurance	4.05	0.78
Win Semiconductors	1.11	0.71
Sunny Optical Tech	2.18	0.63
Great Wall Motor Comp.	2.15	0.61

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.

IMPORTANT DISCLOSURES

COMPOSITE AND INDEX DEFINITIONS

The 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 all discretionary accounts managed in the Emerging Market Select strategy. The accounts included in the composite reflect accounts managed by the Emerging Markets Select 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.

PERFORMANCE DISCLOSURES

Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss. Returns for less than one year are not annualized. Gross Performance results do not reflect the deduction of management fees or other expenses. Net performance results are calculated using the actual highest total fees and expenses charged to any investor account, fund, or other investment vehicle using this strategy (collectively, the "accounts"), including management fees and all other expenses. Returns reflect the reinvestment of all dividends and capital gains. The actual management fee and expenses paid by an account may be higher or lower. Returns are listed in U.S. dollars. Performance of the composite is provided for illustration purposes only and should not be construed as performance of a particular account.

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