# Portfolio Report

## Overview of markets

Emerging markets collectively declined over the 12 months under review. Although progress in vaccination campaigns and businesses reopening, along with ongoing monetary and fiscal stimulus, aided economic recovery in several parts of the world, others struggled with new COVID-19 variant outbreaks. An accelerated tightening in United States ("US") monetary policy suppressed investors' risk appetite. Higher inflation amidst a spike in commodity prices raised investor concerns as rebounding consumer demand alongside continued supply-chain disruptions drove inflation in many countries to reach the highest levels in decades. Towards the end of the period under review, Russia's invasion of Ukraine further tested financial markets, triggering a series of international sanctions on Russia. The MSCI Emerging Markets Index returned -6.8% in the 12-month period under review, whilst [redacted] delivered a net asset value total return of -17.3% (all figures are total return in sterling). Full details of [redacted] s performance can be found on page 1.

By region, Latin America outperformed its peers in EMEA (Europe, Middle East and Africa) and Asia. Latin America, replete with natural resources and relatively insulated from supply interruptions related to Russia's war with Ukraine, benefitted from higher prices for energy and other commodities. Although the EMEA region lost ground on contagion from Russia's invasion of Ukraine and subsequent sanctions from Western governments, resource-rich South Africa and oil-producing nations in the Middle East benefitted from higher commodity prices. Declines in China were largely responsible for Asia's lagging performance, overshadowing solid returns in India and Taiwan.

**China** was [redacted]'s largest market exposure, although the portfolio remained underweight relative to the benchmark. China was amongst the weakest emerging markets, losing 29% in sterling terms over the 12-month period. Chinese equities retreated under pressure from concerns relating to the impact of additional regulations, particularly in the internet industry, a property market slowdown and new COVID-19 outbreaks, even as the central bank cut key lending rates to support the economy. The government enacted new regulations in a number of industries, including internet and education, which caused considerable investor concern. The regulatory changes in China were announced at a time when the country was seeing a slowdown in its economy and resurgence in COVID-19 cases, which further weighed on equity performance. Equities sharply rebounded near the end of the period after assurances of stock market stability from China's state council.

While regulatory changes in China have elevated market volatility and investor fears of policy risks in the country, we would like to stress that the policies do not have a uniform effect on all companies within a given sector. Therefore, it is crucial to assess the impact of regulatory changes on the long-term earnings power and intrinsic value of companies individually. Other factors, including a resurgence of COVID-19 and rising coal and gas prices, will also be likely to have an impact on economic growth this year. Additionally, we have seen a slowdown in consumption. However, we believe that China's policy makers have multiple and flexible policy tools to underpin the economy. China's increased emphasis on its domestic market and self-sufficiency should support sustainable longer-term growth. China has directed its policies towards developing industries that are likely to benefit broader society—the "greening" of the economy, for example, is likely to be a tailwind for industries related to electric vehicles and renewable energy. We also expect digitalization to remain an important theme in China.

[redacted]'s second-largest market position was in **South Korea**, where the portfolio was overweight versus the benchmark. South Korean equities declined by 14% during the reporting period. The resurgence of COVID-19, stricter social distancing measures and weak market sentiment surrounding technology stocks weighed on equity prices. South Korea ended the period near a historically low unemployment rate of under 3% largely due to government spending. The country is

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an export powerhouse, and several South Korean exporters are of global importance, supplying vital hardware. However, rising commodity prices and supply chain bottlenecks have put pressure on the semiconductor and battery makers that comprise South Korea's growth sectors. Uncertain global economic issues could lead to a slower-than-expected recovery in key macroeconomic indicators. Concerns about regulations also remain, whilst geopolitical tension with North Korea and the possibility of future COVID-19 outbreaks warrant close attention.

The **Taiwanese** market outperformed the wider benchmark, ending the reporting period with a return of nearly 12%. TEMIT's overweight allocation to Taiwan was largely attributable to exposure to the island's semiconductor industry. Technology's role as a key economic engine has only strengthened during the pandemic. Moreover, semiconductor chips have become a growing part of almost all consumer goods with the semiconductor industry experiencing a cyclical and secular boom as growing digitalisation powers a surge in demand. Some of Taiwan's manufacturers are counted amongst the largest and most advanced foundries in the world and partner with and produce chips for clients globally, with few competitors able to progress to the next level of technology. Despite increased market concerns that Russia's invasion of Ukraine could potentially increase cross-strait geopolitical risk between China and Taiwan, we expect the current status quo situation to remain unchanged.

Equities in **Brazil** rose sharply in the final three months of the reporting period to end the 12-month period with double-digit gains. Brazil's monetary policy has been amongst the most aggressive in emerging markets. In the second half of 2021, fiscal uncertainties, depreciation in the real, increased political noise, rising inflation and pockets of commodity weakness weighed on the Brazilian market. However, higher commodity prices, a stronger real and undemanding valuations led to renewed fund inflows in 2022. However, political uncertainty and fiscal challenges created volatility in the equity market, as did concerns that rising inflation and a tighter monetary policy could hinder the overall economy. Brazil's long-term growth recovery and business environment could be further supported by the continuation of economic reforms, privatisations and concessions, all of which the government has been focusing on but remain difficult to materialize ahead of presidential elections in October 2022. As the world's fourth-largest commodity exporter, the commodity price surge amidst global supply concerns from Russia's invasion of Ukraine has been beneficial for Brazil's commodity exports, economy and market. We also believe that Brazil's economic growth could surprise on the upside, aided by efficiencies arising from a thriving internet economy.

**India** was [redacted]'s fifth largest exposure at the end of March 2022. The Indian market remained on an upward trend over the majority of the 12-month period. Stocks, however, declined in early 2022, as rising oil prices weighed on the economic outlook for the country as it is a major oil importer. A moderation in oil prices and expectations of policy continuity with the ruling government party's election in key states in March led equities to rebound off their 2022 low, to end the reporting period with double-digit gains. Digitalisation in India has been advancing at a rapid pace since 2016, due to government initiatives, inexpensive mobile data and a significant step-up of venture capital and private equity funding. Companies related to the internet and digital economy have also been gaining prominence on Indian stock exchanges, providing exciting investment opportunities and diversifying the overall market. Over the longer-term, we expect to see continued growth in Indian earnings due to positive demographics, continued private sector penetration in segments like finance and health care, digitalisation from a low base, and supply-chain diversification supported by government policy. We believe that long-term fundamentals remain robust in view of increasing consumer penetration, growing formalisation of the economy, a reform push and a stable government.

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[redacted] had maintained an overweight exposure to Russia relative to the benchmark prior to Russia's invasion of Ukraine. Equity prices were on an upward trend in the first seven months of the reporting year, returning over 25% in sterling terms. Despite its strong market performance, however, Russia remained one of the most undervalued markets in Europe as well as globally. Rising oil prices, appreciation in the rouble and a faster-than-expected economic recovery buoyed the stock market. Brewing tensions with Ukraine however, started weighing on equity prices in Russia. We remained generally positive in our outlook on investment opportunities in Russia, given the belief that diplomacy could resolve the issue. We believed that Russia's internally focused economy and policy flexibility (given twin surpluses in its fiscal and current accounts) continued to provide a conducive environment for companies operating domestically.

Post the invasion and the implementation of extensive sanctions from the West, stock prices and the Russian rouble declined sharply. Russia's resilience to financial shocks has also been affected by the freeze of some of its central bank's international reserves. Index compilers MSCI and FTSE dropped Russia from their benchmarks in early March at a zero-value, due to non-fulfilment of market accessibility requirements. Although trading in the domestic market resumed in late-March, following a trading suspension on 28 February, foreigners remained barred from selling, while trading in Russian American and Global Depositary Receipts (ADRs/GDRs) listed in international exchanges also remained suspended at the time of writing. Given these facts, on 4 March 2022, Russian company securities were fair valued at zero by the [redacted] Valuation Committee. In concluding upon a zero value, the continued uncertainty in the market, restrictions on trading the shares both onshore and offshore, and a lack of any price discovery mechanism to provide indications of residual value were all considered.

## Investment strategy, portfolio changes and performance

The following sections show how different investment factors (stocks, sectors and geographies) accounted for [redacted]'s performance over the period. We continue to emphasise our investment process which is described in more detail on pages 24 to 30 and that selects companies based on their individual attributes and ability to generate risk-adjusted returns for investors, rather than taking a high-level view of sectors, countries or geographic regions to determine our investment allocations.

In the portfolio, we remain positioned in long-term themes including consumption premiumisation, digitalisation and technology. We focus on companies reflecting our philosophy of owning superior quality businesses, with long-term sustainable earnings power and share prices at a discount to intrinsic worth. We see elevated levels of leverage as a risk and continue to avoid companies with weak balance sheets.

Whilst the immediate outlook may be volatile, this approach should help us best navigate the ongoing pandemic and geopolitical instability. Over time, we expect the long-term fundamentals of our holdings to remain intact and to produce attractive returns for investors.