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RankiaPro

THE MAGAZINE FOR FUND PROFESSIONALS

Susanne Bolin Gärtner

Head of Fund and Manager Selection at Danske Bank

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Privy to

Investing in bespoke funds

SPECIAL INSIGHT - EMERGING MARKETS

Our Global Select hunters' diverse strategy helps them to skirt storms.

Introducing the Artemis Funds (Lux) – Global Select fund.

AS ANY PILOT will tell you, four engines are better than two. Get trouble in one – or even two – and there are still enough to carry you home. A similar philosophy informs our Global Select hunters' strategy. As the name suggests, the trio – Simon Edelsten, Alex Illingworth and Rosanna Burcheri – are highly selective in their approach. Hunting only the 'best of breed'. Yet they also believe in diversity, with no one stock typically making up more than 3% of the portfolio. Some might see this as a defensive mindset, but all financial investments involve taking risk and in the hunters' view it's simply enhancing the balance between risk and return. Enabling them to maintain a high active share in the face of localised squalls.

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Helping you make better investment decisions

Miguel Arias
CEO and cofounder of Rankia

This third edition of the magazine focuses on the most researched and relevant topics within the asset management industry at a time when the global economy looks to emerge and rebound from one of the most severe recessions in history. Our goal, as it is with each edition, is to provide useful and insightful information for all asset management professionals, from analysts, to fund selectors and managers, who look towards RankiaPro to stay up to date with current industry trends.

In the past two quarters we have observed the critical role central banks play when faced with an economic crisis, and the continued impact central bank policies will have on markets through economic stimulus packages will remain at the forefront of the conversation and have an important effect on investment strategies.

The first Opinion section of the magazine discusses small cap investing, and how, despite a disappointing performance in the first half of 2020, small caps have demonstrated a remarkable resilience, and how going forward, a favorable rate environment will likely lead to increased M&A activity for small cap prospects.

Our Special Insight section covers Emerging Markets, and the increasingly interesting investment opportunities and potential high returns emerging economies present. In our second Opinion section we double down on China, not only the largest emerging market but an increasingly dominant world player.

In the over three decades since their inception, ETFs have experienced a tremendous rise in popularity, fueled by the integration of computerized and algorithmic technologies. However, in an environment of persistently low rates, investors seeking returns and portfolio outperformance are looking at ETFs and wondering how the strategy can deliver more alpha. Our section on passive investing helps shed light on the future of ETFs.

To close of this edition, we look outside the box and present alternative investments that live up to the name alternative – wine & whisky. With investors seeking alternative sources of returns, and in combination with favorable megatrends, thematic alternative funds in wine and whisky have never had a more opportune time to shine.

How do we do it?

EUROPEAN, SPANISH & PORTUGESE MAGAZINE WITH TOP INVESTMENT IDEAS AND LEADING OPINIONS

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You can access the RankiaPro digital magazine anytime through any media app. Stay informed on the latest financial news and read the opinions of global leaders in the asset management industry. In this edition, we feature the top industry news, in-depth analyses of the major trends in the industry, plus a special on Emerging Markets. At RankiaPro we strive to help your day-to-day as an investment professional.

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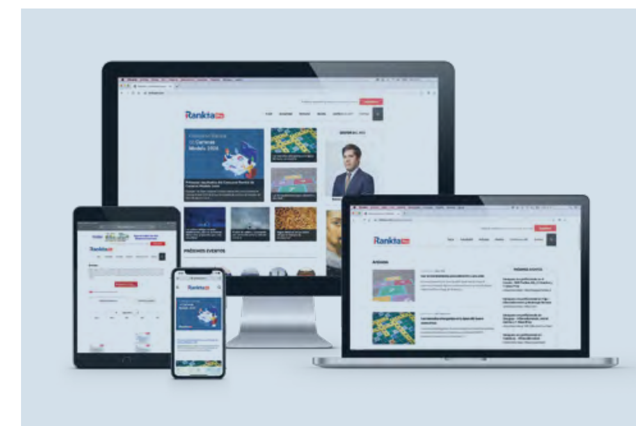

WEB: LATEST NEWS, OPINIONS, ANALYSES FROM THE FUND INDUSTRY

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Horizontal information exchange and peer to peer dialogues are shaping how professionals make their investment decisions. At RankiaPro we have pioneered the democratization of information since the launch of our first magazine in 2017. At RankiaPro you will find the latest news, investment ideas, market analyses as well as interviews and collaborations from the top players. Meet your peers in the European investment community.

MEETINGS: NEW DIGITAL EVENTS

www.rankiapro.com/rankiapro-meetings

Our aim is to link fund selectors to talented fund managers across all asset classes through our newly launched European-wide digital events. We offer two types of interactive online events for our clients: Conference Call with Fund Selectors and RankiaPro Meetings. During our Conference Calls, Funds Selectors share their opinion on the current top funds on a call open to the public, while in our RankiaPro Meetings, Asset Managers present their funds to an exclusive group of Fund Selectors, in a closed, invite-only setting.

We will be waiting for you!

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Discover the latest appointments around the European asset and wealth management industry.

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Susana Bolin Gärtner is the new Head of Manager and Fund Selection at Danske Bank, where she brings extensive experience in ESG and sustainability investing to the leading Nordic asset manager. Read about how she believes in standing up for what you believe in.

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Despite their high return potential, small-caps still only account for around 15% of the global equity universe. In this section of the magazine, our professionals discuss the potential value that small caps can bring to portfolios.

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Emerging markets

Since Emerging Markets, both equities and fixed income, continue to present investors with a long, complex list of both opportunities and challenges, in this Special Insight, RankiaPro examines the current EM investment landscape with the input of several European fund selectors specialized in Emerging Markets.

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Investing in China

Our China experts talk about the current state of Chinese equities, China's regulatory environment, market recovery and economic strategy for the following part of the year.

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Private Banking in Luxembourg

In this section of the magazine we hear from the leaders of some of Luxembourg's largest firms about how they are adapting to changing investor needs.

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The future of ETFs

With the help of Amundi, HanETF, HSBC, iShares and State Street Global Advisors, we explore the future of ETFs.

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Bespoke Funds

We shed light on alternative investments that go beyond the more common real estate or commodities asset classes - investments in wine and whiskey.

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RankiaPro

How the Asset Management industry is changing?

Hanneke Smits

BNY Mellon announced that Mitchell Harris, CEO, will retire as of the 1st of October. Hanneke Smits will replace him as CEO of the asset management firm.

Lane Prenevost

With nearly 25 years in the industry, Lane brings a wealth of multi-asset experience. Lane will start his new role on 1 September and will be based in London.

Sophie Bigeard

After nearly 17 years at OFI Asset Management, Sophie Bigeard has joined Quaero Capital in June 2020.

Bruno Piffeteau

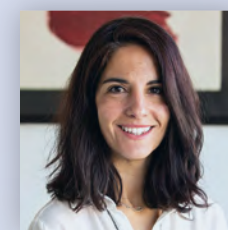
Based in Paris, he will be responsible for a team of local professionals with expertise and proficiency in the French market.

Elisa Alonso Sanz, Bob Hendriks and Olivier Leguay

ABN Amro Investment Solutions (AAIS) announced the appointments of Elisa Alonso Sanz as Chief Operating Officer, Bob Hendriks as Chief Commercial Officer and Olivier Leguay as Chief Administrative Officer, which came into effect July 1st.

Marco Morelli

Monte dei Paschi di Siena, loses its CEO, Marco Morelli, as he becomes Executive Chairman of AXA Investment Managers and member of AXA's Management Committee, taking over from Gérald Harlin, who will retire.



Patricia Justo

T. Rowe Price has reinforced its Iberian team with the new incorporation of Patricia in June. For the past 14 years, Patricia was the director of fund selection at A&G Private Bank.

Borja Aguiar

The French independent manager Amiral Gestion incorporates Borja Aguiar to the Iberia team, together with Pablo Martínez Bernal, Head of Sales for Iberia.

United Kingdom

Netherlands

France

Spain

Italy

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SEE ALL APPOINTMENTS →

Central Banks adapting to new situations

The real challenge facing the FED and ECB

Darren Williams
Director of Global Economic Research, AllianceBernstein

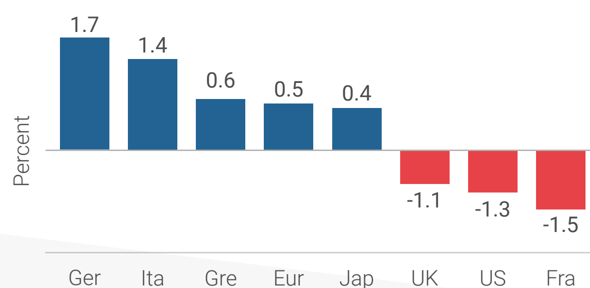
Covid-19 is supplying the catalyst for a **secular change in the role of central banks.** With public-sector balance sheets under enormous pressure, the overriding goal is to provide governments with ammunition to fight the virus. And that means keeping bond yields pinned close to, or below, zero for the foreseeable future.

Public sector balance sheets weren't in great shape coming into the coronavirus crisis, and they're soon going to look an awful lot worse. At the end of last year, the combined government debt of the G7* group of large industrial nations stood at almost 120% of gross domestic product (GDP). That's higher than at the end of either the first or second world wars. This year, with budget deficits soaring, this number is likely to rise to something like 140% of GDP.

There was a time —and it's not that long ago— when these debt ratios would have been considered unsustainable. But with central banks helping to hold interest rates close to zero, that's not the case today. But just **how low do interest rates need to be for the major developed economies to remain solvent?**

To explore this point, we calculated debt-stabilizing interest rates (DSIRs) for a number of countries. This shows the average cost of funding needed to keep the debt-to-GDP ratio stable and it's driven by three variables: the level of debt itself, the size of the primary budget balance (excluding interest payments) and projected nominal GDP growth. For illustrative purposes, we use the International Monetary Fund's 2021 forecasts for government debt and the primary balance, together with our own projections for nominal GDP growth.

ULTRA-LOW RATES ARE HERE TO STAY



Source: Haver Analytics, IMf and AB

The most obvious point is that the DSIRs for the UK, the US and France are negative. This doesn't mean that the Fed will push its policy rate into negative territory—indeed, we continue to think that unlikely. But it does mean that government debt will move onto an explosive path unless the average cost of funding is kept very, very low—particularly in countries with negative DSIRs. And that's where central banks come in.

In recent months, **most central banks have either launched, reopened or expanded large-scale government-bond purchase programs.** This is similar to the policy response seen during the GFC but with important differences. The coronavirus crisis response has been far faster and broader: the US Federal Reserve bought $1.7 trillion of Treasury debt since February, something which took five years to accomplish during the GFC. And we expect more to come. The goal is different, too: **central banks now talk much more openly about the link between their purchases and government financing costs.**

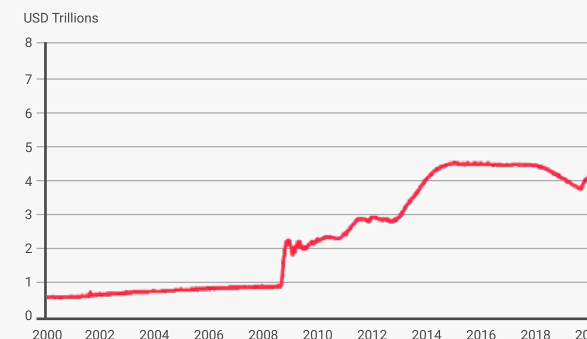
In time, governments and voters will have to decide how best to deal with very high levels of public-sector debt. Default, austerity and higher inflation are among the possible options (our money is on the latter). Or they could choose to downplay the significance of government debt, as advocates of modern monetary theory advocate. But those are questions for another day. And until then, what's important is that interest rates and bond yields are likely to remain incredibly low.

**The G7 is Canada, France, Germany, Italy, Japan, the UK and the US.*

Mobeen Tahir
Associate Director, Research, WisdomTree

The US Federal Reserve (Fed) released detailed minutes on Wednesday, August 19, from its meetings held over 28-29 July. The Fed **recognised the economic risks and uncertainties ahead and reiterated its commitment to employ all necessary tools to support the US economy.** It maintained its target federal funds rate at 0 to 0.25% and remained in favour of maintaining the flow of credit to households and businesses broadly at the current pace.

US FEDERAL RESERVE TOTAL ASSETS



Source: Bloomberg. Data as of 20 August 2020. Historical performance is not an indication of future performance and any investments may go down in value.

How the market reacted

Notably missing from the Fed's minutes was any mention of 'yield curve control' – a tool which would effectively put a cap on treasury yields. At WisdomTree, our assessment of the impact of Fed's policy on asset markets is as follows:

- **A continuation of existing tools of monetary accommodation is a dovish stance from the central bank.** We do not expect the Fed to employ additional unconventional tools of accommodation at this stage.
- The market's reaction so far has been muted. Equities pulled back slightly on Thursday, August 20, but it seems unlikely that global equity markets are perceiving the Fed's policy announcement as hawkish. **Treasury yields remain low and US dollar continues to be weak – both signs of dovish central bank policy.**
- The Fed may also be discreetly waiting to see how the fiscal stimulus deal from the government pans out before making meaningful revisions in its current policy stance – and rightly so.

Fed's real challenge

The biggest challenge facing the Fed in the coming months (and years) is to sketch a roadmap for closing the floodgates of liquidity. At this point in time it might seem like a 'nice problem to have'. But given long and variable lags between policy implementation and impact on the economy, these are issues the Fed needs to be thinking about now. And despite the reliance of asset markets on monetary accommodation as a propellant, **the Fed will need to tighten policy as unemployment falls and inflation rises closer to the Fed's desired 2% target.**

The key risk in the above scenario is markets being spooked unnecessarily – remember the 'taper tantrum' of 2013 when panic ensued in markets as the Fed announced it was putting breaks on its quantitative easing program? The best way for the Fed to avoid such an outcome is to manage market expectations with carefully articulated forward guidance. If markets – rather than economics – dictate monetary policy, the Fed's ability to control inflation may be undermined in coming years. **Strategic investors holding inflation hedges such as gold and broad commodities would be well positioned in such a scenario where US inflation may exceed well beyond the Fed's desired 2% target.**

Selector´s point of view

Interview with a leading female figure in business

Susanne Bolin Gärtner

Head of Fund and Manager Selection at Danske Bank

Head of Manager and Fund Selection at Danske Bank as per January 2020. For the last 10 years I held the position as Head of Fund Selection & ESG external funds Folksam. I am proud of having delivered a **sustainable guided selection of funds ranked highly among peers together with my team.** Prior to that I have held several senior positions within bank and insurance companies.

I am also the Board chairman of Swesif (an independent association that has its purpose in sustainable investments) and in the Investment Committee for Barncancerfonden (Child cancer foundation). In my spare time I am a devoted Yoga and Pilates instructor.

Taking a brief look at your working life, what would you highlight about your professional career?

I am proud to have joined Danske Bank this year and gotten the opportunity to build a strong Nordic team bringing my earlier experience into the process including my experience with ESG and sustainability. Besides my new role I will continue my position as a board member and recently also the **chairman of Swesif** (an independent Swedish association that has its purpose in sustainable investment) and also my position as a **member of the Finance Committee of Barncancerfonden (The Swedish Childhood Cancer Foundation).**

I have been within banking and insurance for my whole career. After university, a long time ago, I actually started within trade finance and merchant banking, including being a country manager for Asean and a secondment in an Australian Bank in Sydney. Then, after some years, I made a U-turn you might say and switched over to the sell side and unit linked insurance. And from there my interest for funds has just grown over the years. And **switching to the buyside having built fund offers both within unit-linked insurance and banking for many years now, always having the end-client in mind.**

At my previous employer Folksam (Swedish insurance company), I was heading up fund selection for the last decade. My prime task was to **develop the fund strategy and build a fund selection team over the years.** I am proud of having worked with consistent engagement with all the external fund managers and fund companies to make the fund offer sustainable and ESG integrated in all the chosen funds on the fund plattform. So concluding my mission at Folksam, together with my team we delivered a top-performing fund offer within unit-linked insurance that was in the range of top-3 in best-performing fund offers and also got acknowledged for the highest ratings for sustainability works. That made the perfect timing for me to take on a new challenge.

I am proud of having worked with consistent engagement with all the external fund managers and fund companies to make the fund offer sustainable.

How did you day to day life changed in the past months, due to remote working?

I started in Danske Bank in January 2020, and as my fund selection team is based out of Copenhagen (Lyngby) today and myself out of Stockholm I started scheduling my weeks with three days per week in Copenhagen to get to know my team and also physically meet as many stakeholders and colleagues as possible. That worked out well but came to an abrupt stop in mid-March when I was in Copenhagen and supposed to attend and be part of hosting an event (in the industry) in Copenhagen. Abruptly all external events and travelling was stopped in Danske Bank, and so I had to travel back to Stockholm, and have been working from home since the week after that.

I soon started daily team meetings on Skype with my colleagues in order for us to communicate on a daily basis. **For me this really was a good thing, we were all on equal terms calling in, not like some people sitting in a meeting room having me calling in.**

Now we have 15 min daily talks on Skype (every one calling in from their own desk) in the mornings and on Fridays one-hour meetings on Teams so we are "live". My team and I find this a good way of working together, but in Denmark my colleagues are back in the office, so I am keen to stay connected and hopefully be able to plan visits during autumn.

What is the greatest challenge as a fund selector?

There are so many good funds in the constantly growing universe so the biggest challenge is actually keeping up with ongoing monitoring as well as looking out for prospect funds. The combination of quantitative and qualitative evaluation of funds and managers is always a balance. When evaluating a fund manager "look beyond communication skills". By that I mean that some fund managers are very good at promoting their products while others might be more focused on delivery. Then there is sustainability and ESG, how this is actually integrated in the process and how the managers are involved and "believers" if you will.

Lastly, **stick to your choices, remember why a fund was chosen and be longterm. Dare to challenge funds that do not perform, decide how many "bad quarters" are allowed before changing funds.**

What sustains your drive within the industry?

The role as a fund selector is evolving all the time and being able to make a difference is really inspiring. You are fortunate to be part of the discussion in media and meeting different fund managers bringing new approaches to asset classes and so on. You follow the markets and not the least engage with sustainability.

Working with external funds gives you the benefit of getting inspiration and new ideas from fund managers, the industry, markets, peers etc. You also engage with the fund managers on how they integrate ESG in the investment process and how they engage with underlying investments. Never a dull day. You got to have the genuine interest in funds because if you do not read market news and fund reviews in your free time it would be very hard to fit the work into normal office hours. I see it more like an interest that you also benefit from privately. A couple of years back it was not so common to discuss sustainability and fund performance in the same meeting, but this is something I have also been working a lot with.

What aspects do you consider most important when selecting a fund for a portfolio?

With the quantitative review including risk-adjusted returns, consistency, drawdowns etc then moving on to the qualitative due diligence and value how you think, the fund will perform going forward. **The evaluation of sustainability and ESG in the process can also be very indicative how engaged the fund manager is in these issues.**

Within the fund selection process, which task is the most time consuming?

I would say it is the qualitative part. Once you have screened down the universe and landed on say three candidate funds. You do the due diligence process and meeting with managers and then come to recommending one fund to proceed with. This is important team work within fund selection and you can have fruitful discussions coming to a conclusion that you all have to live with going forward. Now with Corona, we are not able to meet the fund managers physically, so in one way the meetings are more effective on skype. Having said that there are pros and cons not meeting managers, if you already have an existing relationship this works easier of course.

What advice would you give to young women starting a career in Business? Do you see any shifts in the representation of men and women in leading roles?

Follow your interests. If it happens to be investments and funds, this is actually beneficial these days as the industry is looking at gender much more now than before. You might see that the representation of women in higher positions are a bit scarce, but this is changing and there are many very qualified women in the industry. So do not be afraid to stand out and communicate your views on issues that you think are important, feel free to speak up!

Do not be afraid to stand out and communicate your views on issues that you think are important, feel free to speak up!

Small Caps, Big Opportunities

The added value of Small Caps in portfolio's

Despite the risky reputation of small cap investing, and the current concerns about the lack of quality, small-caps can deliver high returns as an asset class and this is reflected in the interests of institutional investors and fund selectors. Individual small-cap stocks offer higher growth potential, and small-cap value index funds have been shown to outperform the S&P 500 in the long-run. Small-caps currently account for around 15% of the global equity universe. One of the advantages of small-cap stocks in times of crisis is that, although they are very sensitive to economic sentiment, they have the potential to recover faster than large-caps as the economy turns around, allowing investors to capitalize on the potential gains.

In this section of the magazine, our professionals discuss the potential value that small caps can bring to portfolios.

Michel Iglesias del Sol
Head of Investment Strategy at Kempen Capital Management

Why Small Caps can be of great value in portfolios

Stocks of smaller companies, small caps, have recently been in the spotlight due to their disappointing performance during the COVID-19 sell-off. The MSCI World Small Cap Index underperformed the MSCI World Index by more than 7% in March, and by 9% over the first quarter of this year. **Small caps have shown a strong recovery however in the second quarter, highlighting their sensitivity to economic sentiment.**

The returns in the first six months of 2020 illustrate a well-known fact about small caps: **they display more volatility than large cap stocks.** The question then becomes whether an investor can expect to be rewarded for this higher risk? Looking at historical data, the answer to this question appears to be a convincing yes. Since the 1940s, US small caps (where we have the longest available data series) have, on average, returned 1-2% p.a. more than large-caps. This compounds to a substantial difference over time. Over the last twenty years, small caps have outperformed large caps by more than 2% p.a. in Europe, North America and the Pacific.

We can point to several reasons to explain this outperformance. For example, **the focussed and more flexible business models of smaller companies, or low interest rates, which have boosted M&A activity** (which small caps investors can profit from).

The higher performance of small caps is often linked to the so-called size effect. This size effect (or size factor), together with the value effect first demonstrated by Fama and French, entails that stocks of smaller companies will outperform large cap equities in the long run. Other factors such as momentum, quality and low volatility were identified later.

Contrary to these other factors though, it is important to notice that **small cap equities actually represent a genuinely different universe**, compared to the familiar large cap equity indices. Well-known indices such as the MSCI or FTSE World index typically only contain large cap and mid cap stocks. This means that an investment in small caps will add new stocks to a portfolio, increasing diversification. Put differently, factor strategies will generally only lead to different preferences and weights within a large cap portfolio. But small caps will add new stocks to the mix. You do not need to believe in the added value of factor investing, to appreciate the benefits from small caps.

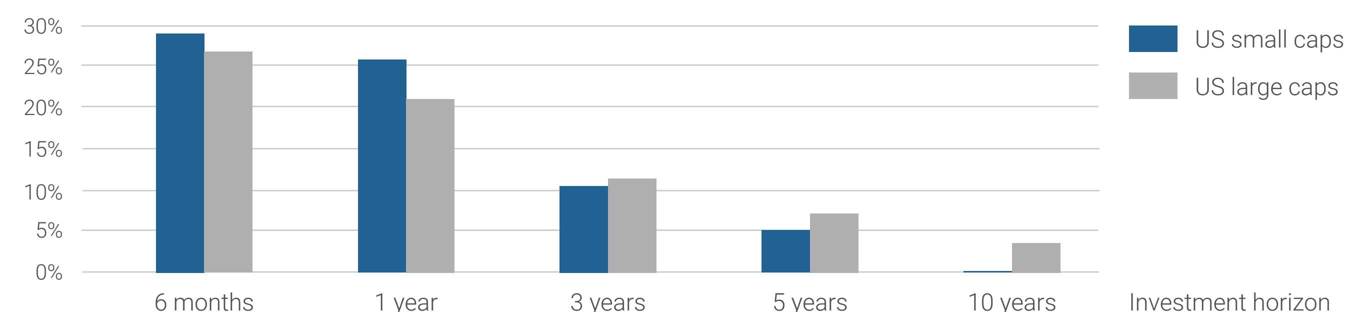
Still, **small caps are an often overlooked part of the equity market and most investors are significantly under-allocated to this asset class.**

> **Globally, there are many more small caps than large caps, offering a large opportunity set.**

Yet there are relatively few analysts and investors who monitor and analyse small caps. Moreover, there are greater differences in characteristics and quality in the small caps universe. We therefore prefer an active approach when we invest in small caps, which allows us to fully benefit from the potential in small cap stocks. For an engaged investor with a long term view, volatility does not equal risk, it provides opportunities.

PERFORMANCE OF SMALL-CAP AND LARGE-CAP STOCKS POST WORLD WAR II

Chances of negative returns are lower for small-caps as investment horizon increases.



Source: Kempen, Kenneth French US return data, 1946 - May 2020.

Global Small Caps: why you should hire specialists

Investing in active Global Small-Cap funds is attractive. From an asset allocation point of view, historical data suggest there is a premium to be made by investing in Small-Caps.

In the USA, **US Small- Caps averaged an annualized premium of more than 1% since the 1940's.** Global Small-Cap equity investing is a newer asset class, and the results are promising. The MSCI Global Small Cap Index generated an annualized return of 8.0% since the millennium compared to 4.7% for the large-cap heavy MSCI World Index*.

The most cited reason for the existence of the small-cap premium is **lower liquidity** of the shares, the so-called liquidity premium.

Other research suggests that **outperformance** is also driven by the fact that smaller companies are:

- Attractive take-over candidates.
- Active as market leaders in niches which grow fast.
- Have a strong alignment of interest, evidenced by operational focus and management/founders having substantial skin in the game (ownership).

Pieter Laan
Head of external manager selection at IBS Capital Allies

So, we have an asset class that could earn a premium, but why should we exploit this via active management? The answer is two-fold. First, the percentage of active managers that outperform the index is high (see graph). Morningstar analysis shows that long-term, around 40-45% of the Global active Small-Cap managers outperform their index. In 2020 that number is above 50%, which shows that many managers are navigating their portfolios well through the COVID-19 storm. Second, the availability of passive solutions is limited. Most Small-Cap indices consist of several thousand stocks (the tail being very illiquid) which makes it a costly exercise to replicate.

Apart from performance there are also several qualitative reasons why investors would do well to choose for active management in Global Small-Caps.

INVESTMENT UNIVERSE

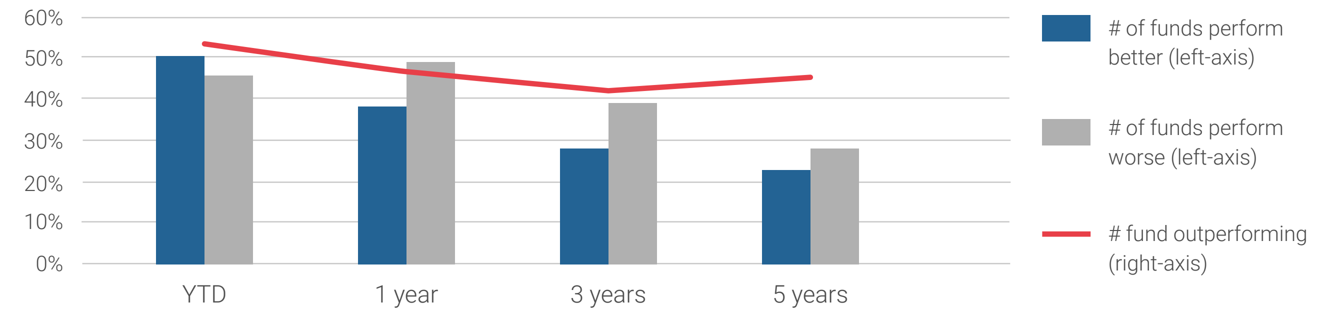
To start with the first one, the MSCI World Small-Cap Index consists of around 4200 stocks. A large investment universe has a few advantages for managers as there are more companies to pick from and it is easier to run a high active share.

RESEARCH

Most smaller companies are being followed by only a handful of sell-side analysts. Hundreds of stocks have no coverage at all. This creates inefficiencies which can be exploited by portfolio managers and analysts who are willing to go the extra mile to analyze companies in- depth. It makes for instance less sense to spend weeks analyzing Apple as analyst number 60 as that view would probably not materially differ from the consensus view.

DISPERSION

Differences in quality, balance sheets and earnings tend to lead to larger valuation differences within Small-Caps. This dispersion leads to overreaction either way and creates opportunities for active managers.



Source: Morningstar, YTD as of end of June*

Given the attractive characteristics of Global Small-Cap Funds, why are they not more popular than they are now? That probably has to do with the fact that there is no such thing as a free lunch, also not in Small-Caps. **The main caveats of Small-Caps are volatility and illiquidity.** During strong downturns, Small-Caps suffer more, and liquidity dampens. This is YTD also the case as Small-Caps lag their larger counterparts. As long-term investors we acknowledge these negative characteristics yet remain invested to realize the long-term premium the asset class possesses.

At IBS Capital Allies, **we conducted a Global Small-Cap search about 18 months ago for our fiduciary (advisory) clients.** During the search we met 22 fund managers. What we noticed is that most of the fund managers are fundamental bottom-up stock pickers with a focus on quality and growth characteristics. The number of quant- and value managers in the universe is low. We have selected the following three funds for our clients: **Silvercross Global Small-Cap Fund** (managed by a team that works in another IBS subsidiary), **Columbia Threadneedle Global Smaller Companies Fund and Baillie Gifford Worldwide Discovery Fund.**

Each of these funds has a very strong long-term track record. All three have a quality growth bias and at first sight may look similar. But when analyzing the underlying philosophy and portfolios, we notice clear differences between the strategies which regards to concentration, turnover and sector allocation. The overlap in holdings between the three funds is limited.

- **SilverCross** runs the most concentrated portfolio with around **30 stocks.** The PM's running the strategy are seasoned investors. They are not trying to time the market. Their goal is to build a buy-and-hold portfolio of high-quality companies that generate attractive long-term returns. The team includes a native Japanese analyst, which is differentiating factor as a lot of Japanese companies still do not report their numbers in English.
- **Baillie Gifford** (50-70 stocks) has a focus on initially immature, entrepreneurial companies that can disrupt/transform the niche they are active in (the Large-Caps of tomorrow). Internally the team speaks about 'transformational growth investing'. 1/3 of the portfolio consists of companies that are pre-profitable/close to break-even (50% is Healthcare related, FDA approval is not a requirement). This is a clear differentiating factor compared to most peers that shy away from these types of companies to avoid blow-ups. The turnover in the strategy (approx. 10%) is extremely low.
- **Columbia Threadneedle** tends to have the most diversified portfolio of **around 70 to 80 stocks.** Their investment process is purely bottom-up. Dynamic sector and regional weightings reflect bottom-up opportunities, rather than a top down view. The team has an emphasis on understanding the industry structure and the company's business model to assess the existence of a strong moat. The size of the investment team is a strong differentiator. Most Small-Cap funds are managed by three to five PMs/analysts. The investment team of Columbia Threadneedle is composed of 10 investment professionals split over four regional teams (Europe, US, UK & Japan).

We currently monitor around 80 Global Small-Cap funds with the help of our external data provider (Morningstar). All selected funds currently score first quartile on a 1-, 3- and 5-year basis. In line with our expectations we saw that the asset class as a group is struggling in terms of absolute performance YTD due to the COVID-19 crisis. It is comforting to notice that all three managers we selected are outperforming the index by a wide margin (>10%). This is also the proof in the pudding that hiring specialists within Global Small-Caps makes perfect sense.

Data from 01/01/2000 till 30/06/2020, measured in USD.

EMERGING MARKETS

How European fund selectors are investing in Emerging Markets.

While developed markets suffered uncharacteristic turbulence starting with the March sell-off that caused investors to re-think their investment strategies, Emerging Markets (EM) investors did not experience much they had not already seen.

A historically volatile asset class, EM investors understand that to be invested in the asset class means to take on additional risk. To many investors, the high growth and high return potential of EM make that additional risk a bearable trade-off.

Now, with Emerging Market equities and currencies within touching distance of erasing their pandemic-fueled losses of 2020, we evaluate the future of the investment strategy.

The ongoing threat of a health disaster caused by the virus, and the resulting effect the virus has had on EM economies has forced more responsibility onto the governments to step in and prevent an unmitigated disaster. In countries with weak political and financial systems, what will the path to recovery look like? Many emerging market economies have so-far withstood the pressure, but how long can we expect that to last?

Since Emerging Markets (EM), whether it be in equities or fixed income, continue to present investors with a long, complex list of both opportunities and challenges, in this Special Insight, RankiaPro wanted to examine the current EM investment landscape with the input of several European fund selectors specialized in Emerging Markets.

Bernard Aybran

CIO Multi Management, Invesco

Emerging equity is one of the very few areas where it can pay off to go active rather than sticking to an index-tracking instrument: last year, according to the latest SPIVA report, half Emerging market equity funds outperformed their benchmark. While this statistic might seem unimpressive at first look, **it is actually way better than most other major categories of equity funds: in 2019, around 80% of European, US and Global equity funds underperformed their benchmarks.** Hence, an "agnostic" fund investor, with no specific prejudice in favor or against active management, had better chances to be rewarded for his or her manager research in the Emerging space than in any other major region.

This higher proportion of outperforming funds is even more interesting as the relative performances are measured on a net basis and Emerging funds have on average higher fees than developed markets funds. Is there any specific feature that makes Emerging stocks different from others? To answer this question, there is theory, practice, and common sense.

In theory, **it is worth going back to the academic roots of passive investing: the efficient market hypothesis.** According to this approach, the "market" can't be beat because it is efficient, which means that all available information is already embedded in the share prices.

Still, this assumption comes with a major pre-requisite: the markets that are considered there have to be liquid, ie stocks have to be tradable for very low costs at any point in time, without too much problems trading, whether regulatory or linked to the market infrastructures. This pre-requisite is obviously less fulfilled on most Emerging markets than on most major developed markets. As a consequence, less "efficient" markets mean they are less difficult to beat.

In practice, last year, 2019, exhibited some specific features that made it possible for more active fund managers to outperform the Emerging markets equity index. In particular, for an active investor to outperform the index, some level of dispersion is needed in the performances, whether between countries, sectors or specific stocks. As a matter of fact, there has been dispersion between all Emerging markets in 2019: considering only the five biggest individual Emerging countries, the performance spread between India and Taiwan was close to 30% over the year. Hence, going underweight India and overweight Taiwan paid off quite a bit. The performance spread is even wider between sectors. **In other words, strong macro bets did pay off in the Emerging space last year.**

That being said, over three to five years, between 80% and 90% of actively managed funds underperform their index. In the Emerging space like in others, fund selectors have also to rely on common sense to invest according to the financial conditions that are prevailing at one particular moment.

Sean Thompson

Managing Director at CAMRADATA

Our latest research has shown that **economic growth in some Emerging Markets is growing faster than in many advanced economies.** The BRIC countries, as well as some countries in the early stages of developing a strong economy in Asia, Latin America and Africa offer investors the potential for rewarding returns.

But it is no longer possible to put countries that typically are called 'emerging markets' in one bucket, as their economies and stock markets have acted very differently in recent times.

That said, whilst they may act differently **one key driver of asset prices across most**, if not all emerging markets is the dollar, which tends to make their stock markets quite vulnerable in volatile markets especially as you would expect US investors to sell up their overseas assets and invest back in the US.

However, it would appear the pandemic has actually provided some degree of liquidity in the global markets. This should boost emerging markets in the medium term and provide investors with some **high growth and good investment returns in selected areas of the emerging markets.** This will require some good active management to generate returns in excess of the market average.

The IMF predicted in June that GDP would contract by 5% across emerging economies in 2020, excluding China, before rebounding to 4.7% growth in 2021. However, in spite of these predictions we are seeing continued interest in emerging markets, demonstrated by activity in CAMRADATA Live – our tool which allows institutional investors to search investment products.

In Q1 2020 total search activity in Emerging Markets totalled 253 searches with EME making up nearly 50% of those searches, **whereas in Q2 this increased to 2,077 searches with nearly three quarters of the searches being done in EME.**

Asia is a particular focus in the emerging spectrum, although historically many investors have had a heavy home-country bias, tilting their allocations towards what's familiar.

However, through greater education and opening of minds and borders, this bias is shifting and enabling new opportunities where companies aren't viewed purely on their current status, but how they might look in five to 10 years from now.

Emerging market countries are potentially better positioned today to withstand increasing funding costs of debt, as a result of **improved external imbalances and a more stable debt profile.** Furthermore, public debt levels in some emerging market countries could be said to look more favourable when compared to developed markets.

With most of the world's population living in emerging markets, and rapidly becoming "consumers", we are on the cusp of a high octane new industrial revolution on a scale the world has not yet experienced. For investors this presents great potential for high growth and diversification.

Kim Catechis

Head of Investment Strategy at Martin Currie

The premise for investment in emerging markets has long been based on faster economic growth, young demographics and the wealth of natural resources. In practice, faster economic growth does not translate automatically into higher equity returns. Large sections of the economy are simply not represented in the stock market. Demographics are only an advantage if you are developing labour-intensive industries, like garments and footwear, or if your education system is strong and your people are relatively highly skilled. And finally, natural resources are not shared out equally, so can be a blessing and a curse, economically speaking.

What's really important for investors is to focus on how a country is organised and identify where positive change is happening; simplistically, falling inflation and structural reform. There are three prerequisites to a positive development trajectory: **Strong (or at least sustainable) sovereign financials to enable policy options, sound technocratic capability to design the most appropriate policy options and political will, to execute these policies.** That will allow good companies the space to grow and increase their returns over time.

Outlook

At first sight, these countries do not appear well placed to deal with the twin challenges of global economic recession and COVID-19. This impression is due to the **heterogeneous nature of the asset class.** For example, one of the historic sources of economic dislocation for developing countries, external debt, is currently estimated at around $7 trillion which is roughly equivalent to 225% of EM reserves. However, the dispersion hidden in those numbers is significant and continues to grow. Turkey, whose economy has been governed in an erratic manner for the last 12 years now has external debt that is around 600% of its FX reserves. China's external debt is around 50% of FX reserves. Turkey accounts for less than 0.5% of the MSCI EM index. China is the largest country constituent, at 36%. So, Turkey does not impact the whole asset class.

The **oil market** is clearly struggling, with a supply glut and a demand collapse jointly forcing prices downwards and providing a ceiling for the next 6-9 months at least. The main beneficiaries are the East Asian economies, namely China, South Korea, Taiwan and India.

Considering such factors as financial resilience, government and institutional capacity, sensitivity to low oil prices and evidence of healthcare security, **the countries that are best placed are China, South Korea and Taiwan.** They are advanced in the process of dealing with COVID-19, and have been successful; so, **their economies are on a path to recovery and they get an extra boost because they are beneficiaries of low oil prices.** However, they are highly integrated in global supply chains and need their clients in other parts of the world to navigate COVID-19 in order to be able to get back to normal.

India, Indonesia, Malaysia and Philippines, have rising case numbers, and we know the testing coverage is suboptimal. The most challenged at this point are Mexico, Saudi Arabia and Russia, all dependent on oil revenues and less obviously coping with COVID-19. Brazil, which should have been in a better place by now, has been hampered by a lack of leadership from the top.

We are presently overweight the Technology sector. Some emerging markets countries now have leadership in technology innovation and their consumers are early adopters. We believe **the pandemic will only speed up the shift to cloud computing, e-commerce and Work from Home**, which will be supportive for the technology sector.

FUND SELECTORS

David Karni

Head of fund selection and advisory at BCC Risparmio & Previdenza

Investing in the emerging market space is not an option, a spicy appendix of a portfolio; **is a strategic part of the allocation.** If we approach the theme from the macro perspective we have had enough evidences in the last few years that emerging markets will drive the world economy in few years, if we look from the age of working population, or from world GDP contribution, or use of commodities, all these indicators are moving into the same direction, more weight on emerging economies.

One point is still a doubt in **investing in emerging equities**: the correlation between developed and emerging indices. More precisely the driving force of USA indices above the others. Why should we invest in something that behaves like US indices with less performances? My answer is that we are in a transition phase, and if it was true in the past, even recent, i think it will change in the next years because **the emerging markets are increasing in diversification by sectors, countries and the companies are moving in the right direction** regarding the governance, transperence, attention to shareholders. One point in favour is ,and i think will be more in the future, the relative absence from the main global indices. I don't think we will see emerging markets take the lead in the weights, but **15% is a small percentage with respect to the relevance of the area and the economies involved.**

To invest in the area we choose to mix our approach selecting different investment process and styles. In particular i'd like to highlight 2 opposite philosophies.

The first fund is the **Schroders Global Emerging Markets** that use a mixed top-down/bottom-up process. Historically emerging markets equities was all and foremost bottom-up pure stock picking stories, with local presence from several analysts that know all the details of the companies in their country. I think that we have to complement this knowledge (that is essential) with a view for the region, for the country, from the political point of view, from the global trade evolution point of view. The other key point for Schroder's fund is a mix of quantitative analysis and qualitative one. Of course the aim of this fund is not to overperform by finding the next 1000% return small cap, is more to give a diffusive exposition to the market trying to capture some overperformance from allocation.

The second fund has **UBS Global Emerging Markets Opportunity** with the opposite approach and is definitely trying to find few companies that can explode, anticipating the market and following the growth of the company during years, with high conviction and low turnover. In this case we seek exclusively for alpha, knowing that this product will have higher tracking error, extreme active share with respect to the market, under and over performance during different times.

BCC Risparmio&Previdenza

Oriana Mezini

Senior Fund Analyst

Emerging Markets equities offer good investment opportunities giving exposure to its demographics, growth, domestic consumption and transition from manufacturing to services. The region itself represents the majority of the world population and as these economies grow, their currencies become more stable and their capital markets deepen they can offer good growth opportunities to long-term investors. Two of the emerging markets funds that can capture these positive growth dynamics are RWC Global Emerging Markets fund and the Ashoka India Opportunities fund.

RWC Global Emerging Markets fund

One of my preferred Emerging Markets fund is the RWC Global Emerging Markets fund. It is managed by an experienced Emerging and Frontier Markets investment team having worked together at Everest Capital prior to joining RWC in 2015.

One of the unique features of the team's investment approach is the top-down macro and thematic research which helps to dynamically drive direction and research focus. The weight they put on these top-down factors is the team's biggest differentiator. Through the **top-down analysis** (macro, thematic and geopolitical considerations), they aim to identify tailwinds and headwinds allowing them to position the portfolio towards favourable return factors.

The fund follows a **Growth at Reasonable price (GARP) style** and it is invested in 50-60 positions. All Cap approach, but liquidity constraints tend to ensure that the fund is not heavily invested in small cap. It is index agnostic and has a consistent high active share.

Given the GARP characteristics coupled with the bias towards smaller size companies (mid to large versus large to mega cap), we would expect the fund to perform better in market environments where growth is better rewarded.

Ashoka India Opportunities

The Ashoka Indian Opportunities fund is a high conviction, unconstrained Indian equity portfolio, managed by White Oak Capital Management, providing **high quality all cap exposure to the Indian equity market** and the team's long established stock picking expertise.

It is run by Prashant Khemka who was previously CIO and lead portfolio manager of the Goldman Sachs India Equity fund. Prashant founded his own firm White Oak Capital Management in 2017 and set up the Ashoka India Opportunities fund.

A high quality manager, well-run India fund and well-resourced. Strong relative performance delivered since inception in all market environments including the recent sell-off triggered by the shut-downs due to the virus.

The investment strategy is long only with a long term absolute return focus. It follows a simple yet powerful investment philosophy of investing in businesses based on stock selection, rather than betting on macro. The two critical pillars of their investment philosophy are business and valuation.

François Gazier

Head of Asset Allocation and Fund Selection at Haussmann Patrimoine

Emerging Markets suffered from large outflows during the first half of 2020 and some of them are still hardly hit by the Covid-19, especially in Latam. However, we think that emerging markets from the north of asia, which have re opened their economy earlier **are relevant in a global asset allocation.**

Since the end of march, the performance of the CSI 300 and TWSE index are ahead of the MSCI World Index and S&P 500. Although the macro outlook is still uncertain and even after this rally, valuations remain attractives. The forward P/E ratio shows a higher discount rate relative to developed market equities than historical average.

A weakening dollar, and the dollar liquidity with new facilities offered by the FED to Mexico, Brazil and South Korea are welcomed. Fiscal policy has eased and could go further, especially in China. **EM are under owned and when focusing on the China A shares**, this market takes advantage from the MSCI inclusion.

Considering this region of Asia, on the main negative side of the global picture, apart from the general Covid-19 second wave risk (surging in Hong Kong), approaching the US elections, political tensions are back and this issue may enhanced volatility in the meantime.

In terms of fund selection, the implementation of our convictions comes through **GemEquity from Gemway Assets and First State China Growth fund from First State Investments** (Hong Kong). Their proven track records and active shares, combined with ESG approach meet our criteria.

- **GemEquity is managed by Bruno Vanier and his team based in Paris.** Bruno is one of the rare French specialist on equity emerging markets with a long tenure. Accessibility to the team through regular meetings and active report from their frequent travels (in usual time) and case study are welcomed. At the beginning of the year, Gemway Assets has managed to obtain the french state «ISR» label (Investissement Socialement Responsable) meeting the ESG criteria.
- **First State China Growth is managed by Martin Lau** as lead manager since 2002. The investment strategy focuses on quality growth compagnies. Track record and integrity of the management are pointed out as key in the investment process. As long term investors, the turnover is low (around 25%) and there too, active share is high and the the firm is engaged on ESG matters. The fund allows a significative part of his allocation to A shares (27% at the end of June), which correspond to our global picture and convictions mentioned above.

Jean-Baptiste Fargeau

Fund Analyst at BLI - Banque de Luxembourg Investments

With the Covid-19 pandemic spreading around the world, Developed as well as Emerging Markets and Economies have been impacted. But the concern can be deeper for Emerging Markets as their health system is often weak with old and small infrastructures. The same issue exists regarding their economies, with governments having less room and fiscal power than Developed Economies to support growth and keep unemployment artificially low. And again the same analysis for their central banks which are unable to fund tons of public debt without losing investors confidence.

We have seen the market reaction when Latin America has been severely hit by the pandemic. The local currencies sold off, especially for Brazil where the response to the Covid crisis is chaotic. So far, more than 100 countries have asked for the IMF emergency help since the crisis started.

But reasons for hope still exist. The main central banks around the world (Fed, ECB, BOJ) are all engaged in a process of maximum accommodation, with low rates policies and assets purchase programs to support market liquidity. In this context, this gives room for Emerging central banks to lower rates as well. In average, since the beginning of 2020, rates have been cut by 185 bps (ex China and Argentina). The massive action of the Federal Reserve increasing the monetary supply by 23% this year must be deflationary for the USD, which in contrast must be beneficial for EM currencies.

Considering all these points, **an investor that aims to invest in Emerging Markets Debt must be very selective.** For this matter, we have selected for few years now two funds which generate a better return than their respective sub-asset class average, with less volatility.

These two strategies use an SRI approach to select the countries they invest in. In local currency within the sovereign space we use the **DPAM L Bonds Emerging Markets Sustainable fund** and in the hard currency sovereign space the **Candriam SRI Bond Emerging Markets fund.** Before assessing countries on financial and economic terms, both funds use a best-in-Class/ Best-in-Universe ESG selection process including economic, social, environmental and governance factors. Moreover, they both exclude non democratic regimes from their universe.

Over three years, these two strategies succeed to generate a better performance, with a lower level of risk than the average of funds in their sub asset class, and they also minimize losses in periods of stress. This characteristic was again visible in the February/ March sell-off this year.

BLI BANQUE DE LUXEMBOURG INVESTMENTS

** Data of the article is as of end of June.*

Ilaria D'Ascenzio

Head of Fund Research at BNP Paribas Private Banking

Emerging markets could be the protagonists of the second half of 2020. Although they are also hard hit by Covid-19, the outlook remains good, especially in the Asian market which was the first to be hit but also the first to emerge from it. **In EM we can expect earnings growth greater respect to the developed ones.** Also, most emerging currencies are still undervalued, which is why we continue to prefer investments in local currencies. Finally, the low inflation pressure push the EM central banks to increase their existing QE if it is not enough the demand.

I have no doubt about the choice of a sustainable equity fund, **Vontobel Fund - mtx Sustainable Emerging Markets Leaders.** The fund manager has been able to manage very well minimizing the losses and protecting by the drawdown. At the same time He outperforms the benchmark not only during the March reversal but in its long track record, demonstrating that the application of sustainable equity filters improves the risk/return profile.

In my opinion, the same view is not true for bonds. The application of too rigorous sustainable filters can cause strong performance distortions. The best way to evaluate the fund in this asset class is to divide them in two different list, sustainable and not. For this reason I focused my attention on the not sustainable fund, but just for esg-compliant ones. Therefore, my preference is for an **Invesco Emerging Markets Local Debt Fund.** Across multiple time horizons, the fund manager has reached often an excellent risk/ return ratio, still applying ESG filters to the investment process. Considering risk/return profile the Invesco fund was the best, proving to have limited drawdown during market downturn but at the same time being able to capture market upside during risk on phases. This is achieved using an investment process where the risk is allocated in an asymmetric way: allocation of risk ex ante is linked to expectation of the macroeconomic environment and seeks to maintain a low tracking error and high volatility in risk-on periods and a high tracking error and low volatility in risk-off periods. At the same time the volatility of the fund should not exceed that of the benchmark. In an asset class like the emerging market debt in local currency this strategy has proven to have lower drawdown with respect to the benchmark and peers but simultaneously to capture the market upside in risk on phases.

This year has been especially complicated for everything and everyone, financial markets included. Everything is dominated by Covid-19 and its consequences. **This is a year full of records.** We saw a first quarter where there was literally nowhere to hide and we faced the fastest sell-off in history, which was followed by an equally historical positive second quarter.

The **level of coordination and the speed** with which central banks and governments authorized aid to economies is **particularly remarkable.** From the very beginning, most of the help has been put in place. All this unprecedented amount of money has served to calm down markets to the point that the recovery has been record-breaking.

On the other hand, these months **have served to accelerate trends** that have long been on the table such as digitalization, energy transition and new ways of consumption.

Of course, **it has reminded us of China's importance in the world economy.** They were the first to suffer from the crisis and possibly the first to come out with a recovery that does look like a V-shaped.

Emerging markets clearly face challenges due to Covid-19, particularly as a result of headwinds to global trade and falling commodity prices. However, most of their central banks have also been quick to implement expansionary monetary policies in response to the pandemic. On average, we have seen similar rate cuts as developed countries. The objective of these programs might just seek to alleviate market tensions arising from the risk-off movement but the result is a well-supported bond market, and benefits seen from QE carried out by central banks in the developed world.

In the fixed income space, in a zero interest rates era, we would favor segments that can generate carry. We do see value in emerging markets debt as it offers higher real yields than developed market bonds. We believe it is possible to build a portfolio with attractive yields and moderately low duration risk. At this point, we can use a good blended emerging debt fund that can buy government and corporate debt such as **Neuberger Berman Short Duration Emerging Market Debt Fund.**

Juan Luis Luengo

Fund Selector at Santander Private Banking

On the equity side, if we look at sectors, we would prefer those that are coming out stronger from this crisis (Technology and Healthcare) and countries less dependent on commodity prices. Again, China appears to be the best option to consider in meeting these requirements. A good way to bring China together with one of the new trends that are accelerating such as New Consumers should be **Fidelity China Consumer.**

In short, by investing in emerging markets **we can take advantage of higher real yields** and we can play on the **new trends** that have been accelerated in recent months.

We do believe that the **Asia-Pacific area is the one that has more growth potential during the next years** thanks to a mix of demography, innovation and political support offered by the governments to improve the economic growth in their respective countries.

Of course **China is the main Country that will drive this growth** and in the next years we could observe a surpass, in terms of contribution to global GDP, on the United States as the most important country worldwide. China is showing a stratification of the society: a new middle class is emerging and is driving the internal consumption of the Country, as well in the Asia-Pacific Area. China is also the driver for the market that is forming intra-countries in the Asia-Pacific Area, we do believe that this area could grow sensibly and take an important stake of the global trade market.

Regarding the **Healthcare sector**, the Chinese one is increasing a lot because the government is supporting this kind of segment and technologically speaking China is not that far from the United States. This sector is very interesting in terms of fundamentals and valuations and it can reach the importance of the US one in a very short period. That's why we do like to have a focus on this sector in particular.

To conclude, both of these funds (**Banor Greater China Equity** and **BB Adamant Asia Pacific Healthcare**) were selected in qualitative and quantitative terms.

On Quality terms **we like the fund managers because they have an approach that is not at beta with the biggest and most famous Chinese companies,** instead they are focused on the fundamentals and potential growth of the companies in which they decide to invest.

Speaking on the Quantitative selection, as you will see they both **overperformed their respective benchmarks with a lower volatility** with a strong performance in a long term perspective, this is exactly what we were looking for.

Frame Asset Management Team

To invest in Emerging Markets we choose a mixed approach by selecting multiple different investment processes and styles. In particular, I'd like to highlight 2 opposing philosophies: Schroders Global Emerging Markets and UBS Global Emerging Markets Opportunity.

David Karni, *Head of fund selection and advisory at BCC Risparmio & Previdenza*

Emerging markets could be the protagonists of the second half of 2020. I have no doubt about the choice of a sustainable equity fund, Vontobel Fund - mtx Sustainable Emerging Markets Leaders, and for the bond market my preference is for Invesco Emerging Markets Local Debt Fund.

Ilaria D'Ascenzio, *Head of Fund Research at BNP Paribas Private Banking*

The emerging funds we currently use are: GemEquity, managed by Bruno Vannier and his team from Gemway Assets, and First State China Growth Fund. We recently came in Hermes Global Emerging Market Equity Fund, with our dedicated fund of fund (Haussmann Patrimoine Convictions) for which we act as financial advisors within a partnership with the multi asset management team of Rothschild & Co.

François Gazier, *Head of Asset Allocation and Fund Selection at Haussmann Patrimoine*

An investor that aims to invest in Emerging Markets Debt must be very selective. For this matter, we have selected in the local currency sovereign space the DPAM L Bonds Emerging Markets Sustainable and in the hard currency sovereign space the Candriam SRI Bond Emerging Markets.

Jean-Baptiste Fargeau, *Fund Analyst at Banque de Luxembourg Investment*

Two of the emerging markets funds that can capture these positive growth dynamics are RWC Global Emerging Markets fund and the Ashoka India Opportunities fund.

Oriana Mezini, *Senior Fund Analyst*

In the fixed income space we can use a good blended emerging debt fund that can buy government and corporate debt such as Neuberger Berman Short Duration Emerging Market Debt Fund. On the equity side, A good way to bring China together with one of the new trends that are accelerating such as New Consumers should be Fidelity China Consumer.

Juan Luis Luengo, *Fund Selector at Santander Private Banking*

The strategies that we like the most on Emerging Markets is the Banor – Greater China Equity and BB Adamant Asia Pacific Healthcare. Both of these funds were selected in qualitative and quantitative terms.

Frame AM Team

INVESTMENT FUND	ISIN	CATEGORY	CURRENCY	PERFORMANCE YTD	PERFORMANCE 3 YEARS
EQUITY FUNDS					
Ashoka India Opportunities	IE00BD3RLY95	Indian Equity	USD	4,58%	–
BB Adamant Asia Pacific Healthcare	LU1587985497	Global Emerging Markets Equity	EUR	30,19%	23,64%
Fidelity China Consumer	LU0594300179	Equity China	USD	15,39%	9,63%
First State China Growth Fund	IE0008368742	Global Emerging Markets Equity	USD	8,31%	12,80%
GemEquity	FR0011274984	Global Emerging Markets Equity	EUR	5,86%	6,93%
Hermes Global Emerging Market Equity Fund	IE00B3DJ5M15	Global Emerging Markets Equity	EUR	-2,03%	5,70%
RWC Global Emerging Markets Fund	LU1324053443	Global Emerging Markets Equity	EUR	-2,41%	0,97%
Schroders Global Emerging Markets	LU0106252546	Global Emerging Markets Equity	USD	-3,29%	4,45%
UBS Global Emerging Markets Opportunity	LU0399011534	Global Emerging Markets Equity	USD	-3,61%	–
Vontobel Fund - mtx Sustainable Emerging Markets Leaders	LU0571085686	Global Emerging Markets Equity	USD	-3,17%	5,05%
FIXED INCOME FUNDS					
Candriam SRI Bonds Emerging Markets	LU1434519689	Global Emerging Markets Bond	USD	-3,49%	4,12%
DPAM L Bonds Emerging Markets Sustainable	LU0907928062	Global Emerging Markets Bond	EUR	-6,92%	1,27%
Invesco Emerging Markets Local Debt Fund	LU2014293232	Global Emerging Markets Bond	USD	-9,41%	-0,33
Neuberger Berman Short Duration Emerging Market Debt Fund	IE00BDZRXT69	Global Emerging Markets Bond	USD	2,05%	3,59%

Source: Morningstar, data as 31/08/2020

A RIGOROUS APPROACH TO EMD INVESTING

Neuberger Berman Emerging Markets Debt Strategies

We offer a full range of emerging markets debt capabilities, managed by our 35-member team, one of the largest in the industry. Adopting the same principles as our broader fixed income team, with a research-focused approach, multiple alpha sources and controlled risk, our global team benefits from a consistent, disciplined process. We believe this equips us to tap into the full potential of this diverse asset class.

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EQUITY FUNDS

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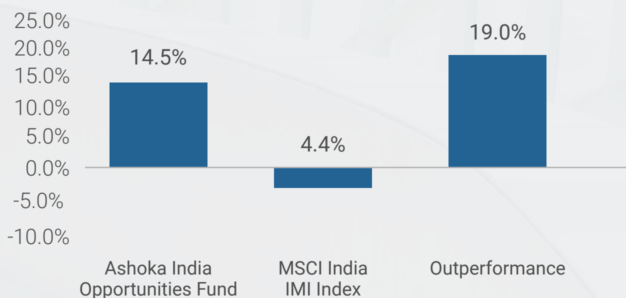
ASHOKA INDIA OPPORTUNITIES

Prashant Khemka
Founder

ISIN: IE00BD3RLY95
Category: Indian Equity

Ashoka India Opportunities Fund, **managed by White Oak Capital Partners** (Singapore), has emerged as the top performing fund in its category since inception, beating its peers and the benchmark by a wide margin. White Oak manages and advises approximately $2bn of India dedicated capital.

Cumulative performance (USD), net of fees since inception (19 Dec 2018 - 30 July 2020)



A key driver of the strong outperformance is the **unique investment culture at White Oak.** The investment philosophy is that outsized returns are earned over time by **investing in great businesses at attractive valuations.** It is a rigorous, fundamental, bottom-up, stock selection based approach of investing in businesses rather than betting on macro. To be considered great a business should possess three attributes: **(a) superior returns on incremental capital, (b) scalable, (c) well managed in terms of execution and governance.**

The team strives to buy these businesses when they are available at a substantial discount to their intrinsic value. White Oak's unique, proprietary, CLEIR™ (Capital-light Excess Investment Return) analytical framework provides insights into economic cash flow generation characteristics and the intrinsic value of a business. The team shuns the use of **PE or EV/EBITDA** multiples, because **such metrics can be very misleading and lead to wrong decisions.**

What truly stands out is the depth and breadth of investment experience on the team. Collectively the team has over 100 years of research experience across India, US, emerging markets and frontier markets, having analysed approximately 3,000 companies globally. This uniquely sets White Oak apart from any other India specialist. The local presence on the ground in India helps to conduct an extensive 360-degree programme of meetings and due diligence – a critical aspects of the investment process. This includes meeting senior management, customers, suppliers, competitors, ex-employees and industry experts. A local presence also gives us an edge in less widely researched pockets of the Indian market **including mid-caps and off-benchmark stock**, which are extremely fertile for generating outsized returns due to greater inefficiencies that exist there.

Other big differentiator for us has been our strong focus on corporate governance. It is one of the key attributes we look for in a great business. India, like any other emerging market, exhibits a wide spectrum of corporate governance standards. Over the past years several Indian managers have burnt their fingers by investing in companies with questionable governance standards. However, the team, equipped with a deep knowledge of Indian equities accumulated over multiple economic and market cycles, has been able to steer clear of these fraudulent traps so far.

Under this overarching investing framework, the portfolio **majorly consists of companies that are industry leaders with dominant positions in the segments that they operate in.** These businesses tend to have strong balance sheets and robust cash flow characteristics. In today's highly uncertain environment, business resilience matters more than ever and therefore we think that the portfolio is **well positioned to weather this storm and come out stronger on the other side.**

Also, the disruption caused by **Covid-19 has exposed the vulnerability of global supply chains and the over-dependency on China.** We believe there will be an accelerated shift of manufacturing out of China as companies, and countries at large, look for credible alternatives to de-risk and diversify their exposures. India will be a beneficiary of the resultant realignment in industries such as electronics manufacturing, pharmaceuticals and specialty chemicals. Ashoka India Opportunities Fund is invested in dominant Indian companies in these industries that stand to gain from this shift.

BB ADAMANT ASIA PACIFIC HEALTHCARE

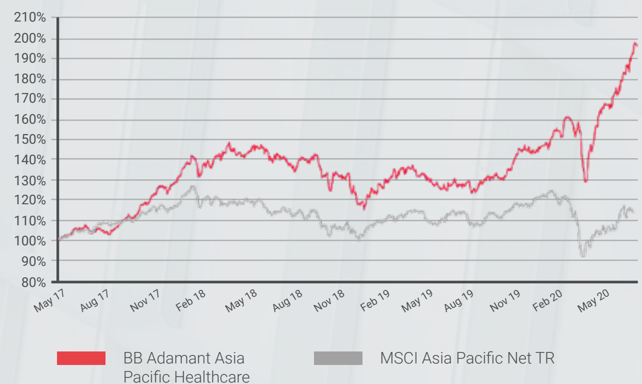
Remo Krauer
Fund Manager

ISIN: LU1587985497
Category: Global Emerging Markets Equity

Asia is impossible to overlook when glancing at world maps of, say, population density or GDP growth rates. About 60% of the world's population, or 4.5 billion people, live in Asia. **Asian countries account for nearly 40% of world economic output and more than 50% of world GDP growth.**

BB Adamant Asia Pacific Healthcare invests in the **emerging markets of Asia and in technology leaders operating out of Japan.** Geographically, the largest country exposure in the fund is currently China, which accounts for about 40% of the fund's invested assets, followed by Japan at 30%. The fund's portfolio is rounded out with investments in India, Korea, Australia, New Zealand, Malaysia and Thailand. This investment strategy makes the fund a perfect vehicle for participating in the **fast growth of Asian healthcare markets, which are growing twice as fast as the regional GDP.**

From an investor perspective, the BB Adamant Asia Pacific Fund has generated very good returns. As of June 30, 2020, the fund had gained more than 90% in value in USD since its launch at the end of April 2017 and **outperformed the MSCI Asia Pacific Index by about 80%:**



There are several reasons for the fund's strong performance. Both short and long-term trends have boosted Asian healthcare stocks.

Coronavirus: Positive trigger for healthcare stocks

Asia's healthcare sector will in many ways emerge from the coronavirus crisis stronger than before because healthcare firms from the region – whether manufacturers of simple rubber gloves or companies with cutting-edge vaccine development programs – are playing a key role in overcoming the pandemic. The use of **online initial patient assessment platforms has taken off**, too, which is a major reason why Chinese hospitals were not overwhelmed by an influx of patients during the peak of the viral outbreak. Companies such as Alibaba Health and Ping An Healthcare are likely to experience another burst of growth going forward thanks to strong demand for telemedicine, online prescription services and online drug ordering platforms.

"Made in China" strategy helps the Chinese healthcare industry

China wants to grow its innovation capabilities and human capital, while also developing market economy institutions and safeguarding intellectual property. A "Made in China" strategy has been formulated to promote the country's self-sufficiency in key technology areas. **China has defined ten prioritized industries that have been earmarked for structural transformation and expansion.** The biomedical and medical device industries are among these ten industries. China is allocating tremendous amounts of resources to these industries and a burst of innovation is expected. Already the second-largest drug market in the world, **China is well on its way to becoming a major global center for drug discovery.**

Technology-driven innovation from Japan

In Japan, high levels of research and development for medicines and, in particular, medtech products such as stents, catheter systems and medical imaging systems, go hand in hand with global innovation leadership. Olympus is one example of a Japanese innovation leader. **It commands a 70% share of the global market for endoscopy products.** One of its recently launched innovations is a 3D gastrointestinal endoscopy system that incorporates CAD technology for enhanced visualization of blood vessels and software features that are compatible with artificial intelligence applications.

EQUITY FUNDS

FIDELITY CHINA CONSUMER

Hyomi Jie
Fund Manager

ISIN: LU0594300179
Category: Equity China

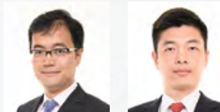
The fund aims to achieve long-term capital growth through investing primarily in equity securities of companies having their head office or exercising a predominant part of their activities in China or Hong Kong. These companies are involved in the development, manufacture or sales of goods or services to consumers in China. The fund may invest its net assets directly in China A and B Shares.

The fund manager aims to run a concentrated portfolio, focusing on stocks that have a high return profile and the capability to deliver sustainable growth over the long term. She believes markets tend to either underestimate or overestimate the impact of change, which creates investment opportunities in businesses that she knows well. The position sizes are based on stock specific factors and portfolio level risk assessment, and the portfolio is likely to offer a more stable cash flow and better earnings growth profile, and a lower balance sheet risk versus the market.

The fund manager is positive about the coming months for chinese consumption. As China's economy reawakens from lockdowns, domestic consumption is becoming a bigger driver. Most travel destinations remain off-limits, and as Chinese people's savings have increased, so has their pent-up demand and desire to treat themselves. She thinks the re-shoring of overseas spending by affluent Chinese consumers will propel domestic spending in a few key areas: online services, premium offerings and homegrown brands. While part of this spending will be a short-term boost from releasing pent-up demand, she thinks a significant portion will also be structural and sustained. Fidelity estimates this 're-shored' consumption could amount to roughly US$150bn this year and US$100bn in each of the coming 3 years. Therefore, identifying the longer-term beneficiaries of this trend could be a meaningful investment strategy within the Chinese consumer space.

It is also worth mentioning that within China, rising international tensions have had the effect of boosting national sentiment, and this is being expressed in consumption patterns. Sportswear brand Li-Ning is one beneficiary of this heightened patriotism - once considered an outdated company, it's now seen as hip and its recent designs prominently featuring traditional Chinese elements have been well-received. The reshoring of consumer demand is also backed by a growing perception that Chinese brands are improving in terms of design and quality. The fund manager thinks the trend is only going to accelerate further, as Chinese people continue getting wealthier and upgrading their consumption patterns.

FIRST STATE CHINA GROWTH FUND



Martin Lau & Winston Ke
Portfolio managers

ISIN: IE0008368742
Category: Global Emerging Markets Equity

We adhere to a long-established investment process, focusing on quality of management, franchise and financials. A key part of our investment process is meeting with management teams of the companies we own or might wish to own. In an average year we conduct around **1,600 meetings, of which 300-400 are in China.** We have been investing in these markets since the establishment of our team in 1988 and have owned some portfolio companies for decades. We believe these long-standing relationships have provided us with a better level of access to management than we would otherwise experience.

We believe that China equities should be able to deliver attractive shareholder returns over the long term. Our portfolio holdings – high quality companies supported by fundamental growth drivers – will undoubtedly be rocked by current market sentiment. However, our investment **style is generally suited to these uncertain times, as "quality" tends to hold up relatively well amid volatile markets.** Against the backdrop of heightened market anxiety and uncertainty surrounding the coronavirus, we believe it is more important than ever to maintain a steady hand and focus on the long-term opportunities.

We do not have to own any company (or sector, or country) that does not meet our quality criteria, as we construct portfolios on a bottom-up basis and without regard to benchmark weightings.

Our portfolios tend to be relatively concentrated, which **allows us to focus on identifying companies with capable management teams and evidence of strong corporate governance.** Once we are satisfied with management quality, we assess the quality of franchise (barriers to entry, pricing power, competitive advantages) and analyse the financials (how solid are the balance sheet, cash flow and earnings?).

As long-term shareholders, we look for management teams that are well-aligned with minority investors and respect all stakeholders, both in good times and bad. This is especially important in emerging markets, where corporate governance standards are still evolving. **In China, we rely on the integrity of founder-managers and their stewardship of these businesses.** Many privately-owned companies are largely owned by the founders, who remain actively involved in operations and decision-making.

Other than Governance, we are also mindful of Environmental and Social issues that make up the ESG trinity. China has introduced a number of policies to encourage a more sustainable level of growth. In cities, residential coal-power is being phased out in favour of cleaner, natural gas. **Wind and solar power and "green energy" industries such as New Energy Vehicle (NEV) batteries have been boosted by subsidies and favourable government policies.** Water conservation is also high on the agenda, as companies and citizens look for ways to reduce wastage. This has thrown up a number of investment opportunities (as well as challenges).

Due to China's geographical size and large population, its economic growth can have a huge impact on the environment and climate change. As long-term, responsible investors, we view it as part of our responsibility to guide our clients' capital towards more sustainable outcomes.

There are several reasons for the fund's strong performance. Both short and long-term trends have boosted Asian healthcare stocks.

EQUITY FUNDS

GEMEQUITY

Michel Audeban
Managing Director

ISIN: FR0011274984
Category: Global Emerging Markets Equity

Our company Gemway Assets, founded by Bruno Vanier (investment side) and Michel Audeban (development side), is an entrepreneurial management company focus on Emerging Market Equities. GemEquity fund's objective is to seek long-term performance through exposure to companies mainly listed in emerging countries. In its stock selection process, GemEquity will favour companies exposed to the increasing purchasing power of the emerging countries population.

Our **investment philosophy is as follows:**

- Focus on sustainable business models compliant with our ESG-SRI policy.
- Favour structural growth (sustainable Free Cash Flows generators).
- Follow closely the global economic & monetary cycle.
- Avoid over-paying: critical analysis of growth potential.
- Have strong convictions but do not die with them.

Main risks

We are witnessing a return of Sino-US trade tensions, particularly over technology. In addition, the situation in Hong Kong adds further tensions. Finally, we must not forget the US elections in November. **All these elements therefore give volatility to Chinese stocks in the short term.**

As regards to the Covid-19 outbreak, the situation remains worrying in Latin America and India, but is under control in North Asia.

Investment strategy

- In China, the recovery has been gradual since March with a pick-up in investment and good performance in real estate sector. **Production is almost back to normal.** However, there are uncertainties about employment and consumption remains cautious.
- Brazil is now the epicenter of the virus. Significant declines (-60 to -70%) were observed on many stocks. **GDP growth forecasts are very poor with a drop from -3 to -5% in the first half of 2020. Interest rates have been further lowered and inflation at the lowest for 20 years (2%), not to mention the fall of the real.** Management therefore believes that the rebound in activity should be quite strong in the future if the health situation improves.
- In India, the virus impact is very strong, and investments are now declining.

It is true that global growth will be negative in 2020. But states and central banks are intervening massively. This unprecedented increase in global liquidity favors the price of risky assets like emerging equities. A 2nd epidemic wave is unfortunately possible in Asia, but states remain vigilant. **We remain confident and optimistic about the second half of 2020.**

During this crisis, we believe that winners are clearly internet companies (digital, e-commerce,) tech and health. The overweight in the internet/tech securities (53% of GemEquity as of end of July) has allowed the fund to outperform. The key convictions of the managers are more particularly in Korean and Taiwanese technology, Chinese sustainable consumption, and Chinese communication.

We strongly believe in the structural development of these companies and continue to favour them despite their recent increase.

HERMES GLOBAL EMERGING MARKET EQUITY FUND

Kunjal Gala
Co-portfolio manager

ISIN: IE00B3DJ5M15
Category: Global Emerging Markets Equity

We look for high-quality companies that have efficient and sustainable business models, as well as good prospects for future growth. **We purchase these firms when they are attractively priced, which means we stand to benefit if they rise in value and reduce the risk of their price falling.** We also take into consideration the economic environment in which a company operates. This means that we tend to favour emerging economies that provide conditions which support growth.

Over the past decade, we have sought to act as responsible investors in emerging-market equities, and our goal is to create and manage portfolios of future-proof companies that can tackle sustainability challenges as they arise. **We recognise that developing markets have a long way to go in this respect, but as responsible investors, we can contribute to their evolution over time.**

Companies' management teams must be willing to confront sustainability challenges with energy and conviction, while not separating this from their responsibility to generate value for shareholders. We are cognisant that management teams' scope of action is limited. As such, we look for clear evidence of awareness, vision and forward thinking on issues such as climate change, natural resource depletion and employee wellbeing, among other issues. We avoid companies whose management turns a blind eye to sustainability challenges or pays mere lip service to ESG, failing to incorporate concrete action plans into their long-term strategy.

Market outlook

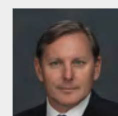
Emerging markets have rallied strongly from the March bottom, driven initially by unprecedented monetary and fiscal stimulus and lifted further by the gradual relaxation of lockdowns as markets anticipate an economic recovery in the second half of 2020. Markets continue to trend higher despite a tug of war going between fears of a second wave of virus infections and delays to the economic recovery on the one hand and positive economic data, stimulus and hopes of a breakthrough in treatment on the other. **Emerging markets are down only ~2% YTD having recovered most of the first quarter losses and are trading at 1.6x PB which is +1 Std deviation above its long term average valuation vs S&P 500 at 3.4x PB** which is +2 Std deviation from its long term average.

It is important to look beneath the index level for both opportunities and risks, and to be aware that many companies aren't starting the second half of this year where they were at the beginning of the year, even though some indices may give that impression. Emerging market value stocks are down 12% this year, while growth stocks are up 10%. **The broadening of the recovery has extended investor interest to more economically sensitive value sectors, currently trading at low valuations** (at one-point trading close to global financial crisis levels). Market sentiment has improved, and the focus has shifted to a sharp rebound in economic activity.

However, investors must weigh the possibility of further economic damage if there is a second wave of Covid-19 and economies move towards lockdown again. Also, the timing and efficacy of vaccines under development is far from clear. Overall, business and consumer sentiment remain low and tensions between the US and China are rising over Huawei and Hong Kong. In our view, the world is likely to remain in a slow-growth environment after the initial economic rebound. Accordingly, the Fund remains mainly focused on quality growth companies. **Marginally, we are adding to cyclical positions where we believe there is enough margin of safety and the company may benefit from medium/long-term catalysts.** Medium to long term, Emerging Markets still represent a secular investment story with a new growth cycle in technology, led by 5G; social demographic changes with an expanding middleclass population; urbanisation and smart cities with new infrastructure and an improved service economy.

EQUITY FUNDS

RWC GLOBAL EMERGING MARKETS FUND



John Malloy
Co-Head of Emerging and Frontier Markets

ISIN: LU1324053443
Category: Global Emerging Markets Equity

Emerging markets have undergone a period of adjustment over the last few years. Several factors including recent US-China trade disputes, geopolitical tensions and the outbreak of Covid-19 have resulted in a near-term deterioration in sentiment towards the asset class despite its structural tailwinds. Long term, the prospects for emerging markets remain bright. **Emerging markets are home to c.85% of the world's population with young and increasingly well-educated populations.** Emerging market economies also remain key drivers of global growth with some of the world's most innovative companies. Below we outline why emerging markets are attractive from a macroeconomic, bottom-up and thematic perspective.

Macroeconomics

Central banks and governments in developed markets continue to provide economic stimulus at unprecedented rates. History shows that the expansion of developed market central bank balance sheets has resulted in large capital inflows into emerging markets. Secondly, we believe that Covid-19 related stimulus, **the resulting US fiscal deficits and an improvement in the global growth outlook will be some of the factors that will likely lead to a weaker dollar over the medium term.** Furthermore, emerging market currencies, especially in Brazil, India, Russia, Turkey and South Africa, have stabilised and remain competitive considering a recovery in current accounts as export market share remains well-supported.

Themes

Mobility and discretionary-related themes such as EM travel and tourism will take time to recover from the effects of Covid-19. However, many secular growth opportunities remain present in emerging and frontier markets.

Bottom-Up, Fundamental Analysis

While Covid-19 will have a material impact on earnings for 2020, emerging market corporates have a significant positive growth gap relative to developed markets. Additionally, emerging market equities trade at a material discount on a price to earnings and price to book basis. Lastly, **balance sheets are strong with over 35% of emerging market corporates holding net cash.**

Technology Disruption

We remain positive on companies that are disrupting traditional industries, creating new business models and increasing competitive moats. This includes e-commerce, internet media, advertising and online food delivery companies. Examples include Latin American e-commerce front-runner, Mercado Libre, Russian Internet giant, Yandex and Delivery Hero, a leader in food delivery in emerging markets.

5G

Mobile data consumption is doubling every 18 months. The implementation of 5G technology will provide increasing connectivity to the emerging world. 5G uses higher frequency bands and requires more hardware. We think that companies in the semiconductor supply chain will benefit such as Mediatek, TSMC and Win Semiconductors.

Copper, Sustainable Energy and New Auto Technology

The electrification of the global economy and the move away from carbon-related industries will likely have many beneficiaries. **Materials such as copper, cobalt and uranium are key beneficiaries due to constrained supply and elevated demand.** We remain on the outlook for copper producer, First Quantum Minerals, cobalt producer, Zhejiang Huayou Cobalt and uranium leader, Kazatromprom.

Risks

There remain risks to our thesis: we have been monitoring Covid-19 closely and despite significant progress made in various emerging markets, a second wave could affect the timing of a global economic recovery. Lastly, **trade tensions and the upcoming United States Presidential Elections could disrupt investor sentiment towards emerging markets.**

SCHRODERS GLOBAL EMERGING MARKETS

Schroders

Thomas Wilson
Head of Emerging Markets Equities

ISIN: LU0106252546
Category: Global Emerging Markets Equity

Many investors are attracted to emerging market companies for their high growth and investment returns potential.

For those investors comfortable with the higher risk involved, the question is how to invest in these countries. We believe that it is worth investing through an **active fund manager**, with the potential for above average market returns. At Schroders, we have an **experienced team at the helm of the Schroder ISF Emerging Markets fund**, which has been doing very well since 2004. In 10 years, the fund has generated a return of 36.8% (compared to 27.6% for its benchmark, the MSCI EM NR) and in 5 years, 11.96% (compared to 4.5% for the index)*. The fund aims to outperform its index through active management that integrates environmental, social and governance factors.

We believe there are five compelling reasons to use active management to invest in emerging markets.

- Firstly, **active managers can capitalise on the index evolution.** With the potential for future performance, the ability of active investors to anticipate changes in benchmarks and invest outside the index is valuable. It can enable active managers to identify and take advantage of attractive investment opportunities before passive funds.
- Another important factor is the higher proportion of retail investors versus institutional investors, as this makes **the market more inefficient and increases opportunities** for active investors.
- A third factor to consider is that **the dispersion of country and stock returns has been structurally wide**, creating opportunities for active managers to generate higher returns by maintaining greater exposure of their fund to better performing countries and stocks than the index, and maintaining lower exposure to, or avoiding, worse performing ones altogether.
- The penultimate reason we identify is **the possibility of better integrating ESG factors into investments.** Some index tracking products often seek to exclude companies that do not meet certain ESG standards. However, these methods are often backward looking, depend on the quality and consistency of data and do not place any value on engagement with companies. Third party companies provide ESG ratings, but there is little consistency between the different providers.
- Finally, **the performance of active versus passive funds in emerging markets is favourable**: according to data from Copley Fund Research, in the five-year period ending in December 2019, around two-thirds of active managers outperformed passive products.

*** Data for Class C Acc in USD as of May 31, 2020*

EQUITY FUNDS

UBS GLOBAL EMERGING MARKETS OPPORTUNITY

Geoffrey Wong
Head of emerging markets and Asia-Pacific equities

ISIN: LU0399011534
Category: Global Emerging Markets Equity

The strategy seeks to capture the best ideas of the sector analysts in a high conviction portfolio of **25 – 35 stocks** using a disciplined, bottom-up investment process.

Extensive proprietary fundamental research is the foundation for our investment process. The investment process begins with in-depth research conducted by analysts who are sector specialists. Internally generated research, focused on longer term value drivers at the company, industry and country level, is used to estimate fundamental value for stocks, upon which investment decisions are made. Our objective is to develop unique insights that enable us to have a clearly differentiated investment thesis against the consensus in the market. An important part of this is our ability to seek out unconventional sources of information. We cover all sectors and the majority of the market capitalization within each of these sectors. This broad coverage enables us to identify both overvalued and undervalued securities. Risk is integral to the process and all portfolios are monitored to ensure we are not taking uncompensated risks.

Concerning the impact of the Coronavirus crisis, significant economic and earnings impact in the short-term is expected due to Covid-19 where recession is the base case now. Markets likely to remain volatile and difficult to predict, depending on the evolution of the outbreak and the potential second wave in select region, as well as the extent of policy support globally. In the long-term, we believe the underlying secular trends in EM should outweigh the near-term losses. At the sector level, a series of trends are seeing an acceleration which can benefit companies with the right offering e.g. an accelerated offline-to-online shift across businesses, growing demand for automated solutions and continued supply chain shifts among others. We look for companies that are strong enough to withstand severe economic dislocation for a prolonged time. At the same time, we also aim to identify those companies which have the most upside as and when the situation normalizes. With respect to the resurfacing tension between US and China, we cannot rule out elevated volatility in the short-term. However, **geopolitical risks are an ever present reality of investing in EM.**

However in the long run most geopolitical events have proven not to have any meaningful lasting impact on markets. That is not to say that none do however – and the trade and tech related conflict between the US and China is certainly a major risk factor that we are monitoring. Still, we remain confident in fundamental, long-term changes playing out in emerging markets and our strategies are focused on quality companies associated with them.

VONTOBEL FUND - MTX SUSTAINABLE EMERGING MARKETS LEADERS

Vontobel

Roger Merz
Head of mtx Emerging Markets, Portfolio Manager

ISIN: LU0571085686
Category: Global Emerging Markets Equity

Following a two-year period during which returns on invested capital (ROIC) in global emerging markets expanded, we now expect ROIC to decline in 2020 before a recovery in 2021 sets in. How strong the recovery will be and which form it finally takes **– V-shape, U-shape or even W-shape – is still difficult to assess.** However, as in other crises through history, companies with superior profitability, leading business models and strong balance sheets should get even better and emerge from the crisis stronger. The competitive positioning gap should undoubtedly widen versus those companies with questionable business models and a weak track-record of operational performance.

Based on our assumptions, **the better competitive position should allow these leading companies to capture more future growth ("access to growth")**, thus giving them the ability to "outgrow" the average company in emerging markets. In addition, very loose monetary and fiscal policies should be supportive of equity markets. Interest rates are at record lows and in many regions, even negative, forcing investors into higher yielding assets, including equities.

There are several reasons for the fund's strong performance. Both short and long-term trends have boosted Asian healthcare stocks.

Leaders tend to stay leaders

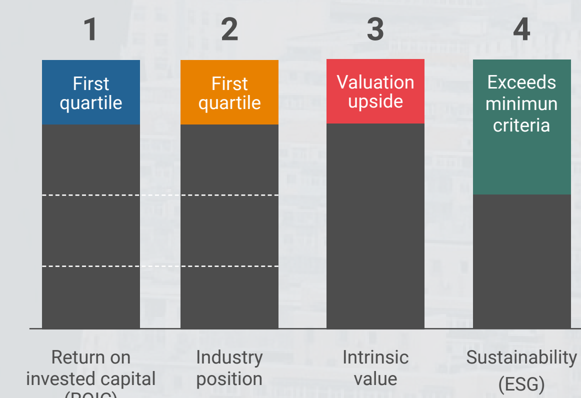
Dynamic growth rates in emerging markets have produced many profitable businesses in this region. **Market participants** are often **slow to fully acknowledge high ROICs, which we consider an important share price driver.** This failure on the part of the market creates opportunities for active investors.

We believe that by using systematic screening as well as fundamental research, it is possible to spot portfolio candidates with:

- Above-average quality in terms of ROIC, industry positioning and ESG
- Above-average growth
- Aelow-average valuation.

Profitable companies with a superior industry position are able to invest into future growth – and their stocks often reflect this. Moreover, such leaders tend to stay leaders.

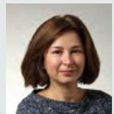
A strong four-pillar framework to distinguish leading companies



Uncertainty about the path ahead given the complex relationship between the spread of the virus, the effectiveness of virus containment and economic support policies, and the behaviour of investors will play a role during the second half of the year. As mentioned previously, we expect industry leaders to weather the Covid-19 storm better and to emerge stronger. Currently we find attractive opportunities in industries like **Gaming, E-Commerce and Gas Utilities.** Although country allocation is a residual of our stock selection process, most part of these companies can be found in China, Korea and Taiwan.

FIXED INCOME FUNDS

CANDRIAM SRI BONDS EMERGING MARKETS



Diliana Deltcheva
Head of Emerging Market Debt

ISIN: LU1434519689
Category: Global Emerging Markets Bond

The Candriam SRI Bond Emerging Market strategy **combines our Sustainable Sovereign analysis, and our EM Debt investment approach.** The investment process incorporates three steps:

1. To define the eligible sustainable investment universe, the ESG team analyses all issuers through Candriam's in-depth country **ESG model** based on assessing four sustainability pillars: **How a country manages its Human Capital, Natural Capital, Social Capital, or Economic Capital.** The investment team then chooses investments within the most credit worthy and most sustainable emerging market countries.
2. The second step consists of f**undamental analysis and asset selection.** The investment team performs structured and disciplined bottom up analysis on the eligible investment universe focused on assessing sovereign or corporate creditworthiness, local rates and EM currency mix of fundamental, valuation, or technical drivers. The fundamental analysis also includes a structured study of ESG criteria, which are vital in our understanding the true value of a credit.
3. Finally Portfolio construction combines **bottom up investment convictions with top-down views on the external environment for risk** to arrive at the final portfolio. The investment team performs a top-down analysis of external or asset class specific drivers to assess the overall risk environment. This analysis ensures an adequate risk allocation in a heterogeneous EMD universe. All implemented views are in line with the specific opportunity risk level and level of conviction and in line with internal risk guidelines. All strategy risks are monitored continuously on ex-ante and ex-post basis.

DPAM L BONDS EMERGING MARKETS SUSTAINABLE

Michaël Van der Elst
Senior Portfolio Manager

ISIN: LU0907928062
Category: Global Emerging Markets Bond

The rebound observed between mid-March and the first week of June has stalled. Despite additional central bank actions across the EM investment universe, the rate component in local currency markets posted a rather flat performance in June.

The FX component did not do well, especially for Latin American countries. There is an evident correlation between the number of new COVID-19 cases and currency performances. Uruguay, which is the least affected country in the region, was the only country with a positive FX return.

We believe that EM FX are at historically cheap levels, especially for commodity-exporting countries. A good indicator is the improving copper price, reflecting a rebound in economic activity. While there is usually a strong link with EM FX, the latter have been lagging in the past three weeks. This suggests that the global USD shortage, while diminishing, is still ongoing. The unprecedented rise in the US money supply will however have an impact on the USD. We believe that this will at least temper a further increase in the USD in the months ahead and even weaken the USD over the longer term.

In the short term, **we remain cautious because of the safe-haven status of the greenback.** We are convinced that having a well-diversified portfolio with a focus on quality is more important than ever. **We prefer countries that are best positioned to weather the storm and are able to launch fiscal stimulus programs**, while we avoid countries that combine high (USD-denominated) debt levels and negative real rates.

INVESCO EMERGING MARKETS LOCAL DEBT FUND

Hemant Baijal
Head of Multi-Sector Portfolio Management and Fund Manager

ISIN: LU2014293232
Category: Global Emerging Markets Bond

In emerging markets we see two groups of potential opportunities in the fixed income universe.

First, there are countries where central banks are likely to continue lowering interest rates. We anticipate that most markets will fall into this category. Although it is difficult to assign a magnitude to future rate cuts, we believe that the countries with the highest monetary margin are Mexico, Russia and India, and those with the lowest margin are Colombia, Brazil, South Africa, Indonesia and Malaysia.

The second group of opportunities is the emerging countries where the interest rate curves have become steeper due to funding tensions in the US dollar market. We believe that these types of opportunities exist in the rate curve of India, Brazil, South Africa and Indonesia, where central banks want to reduce long-term borrowing costs and relax financial conditions that have tightened dramatically.

Regarding currencies, due to the adjustment of the growth scenarios in recent months, **the US dollar and other developed currencies have appreciated considerably against the currencies of emerging countries**, which have lost an average of 14% in the last year[1]. The effective real exchange rate (REER) for an emerging market currency basket is at its lowest levels since the early 2000s. These undervaluation levels are typically found only after a crisis, when emerging currencies tend to be relegated. **We believe that the dollar could fall once financing pressures are alleviated**, a trend accentuated by the increase in the US fiscal deficit and a reduction in interest rate differentials against other currencies.

Before Covid-19 we believed that emerging market assets offered attractive opportunities and now, after the recent actions of the Federal Reserve, which have removed some of the longer-term difficulties for assets in those markets, **we maintain a constructive stance on this class of assets for the next two years.**

Investment process - Emerging Markets Local Debt strategy

We believe the unique character of locally denominated debt in emerging markets calls for a different look at risk management and manager skill. **We seek to maximise potential returns from market exposure to attractive yield and income opportunities that go hand in hand with the relatively higher risks of this asset class.** Concurrently, we believe in harnessing manager skill to minimise downside potential, even at the opportunity cost of avoiding certain trades that could result in above-market returns. We think that the tracking error is an inadequate measure of volatility, because it gives equal treatment to the positive and negative differences between a portfolio and its benchmark. Given our aim to reduce volatility throughout the emerging market cycle, **we propose the following loss-mitigation strategy, maintaining a low tracking error and high volatility in risk-on periods and maintaining a high tracking error and low volatility in risk-off periods.**

[1] *Source: Bloomberg, as of May 31, 2020*

FIXED INCOME FUNDS

NEUBERGER BERMAN SHORT DURATION EMERGING MARKET DEBT FUND

NEUBERGER | BERMAN

Drijkoningen Rob
Managing Director and Co-Head Emerging Market Debt

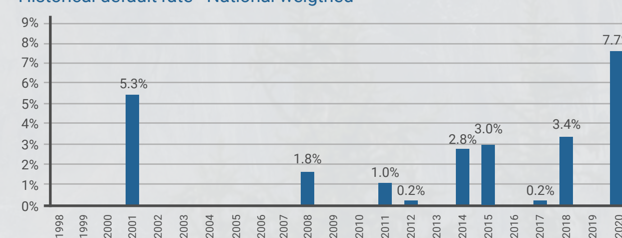
ISIN: IE00BDZRXT69
Category: Global Emerging Markets Bond

The Coronavirus pandemic brought the world economy to a standstill, **triggering a material drop in first and second quarter global GDP growth.** We expect the recovery that has already set in to strengthen further though it will take more than a year to recoup the lost GDP. This expectation is predicated on the assumption that the virus remains largely contained in the coming months and country wide lockdowns are not resumed in core economies, and growth is supported by aggressive policy stimulus efforts globally.

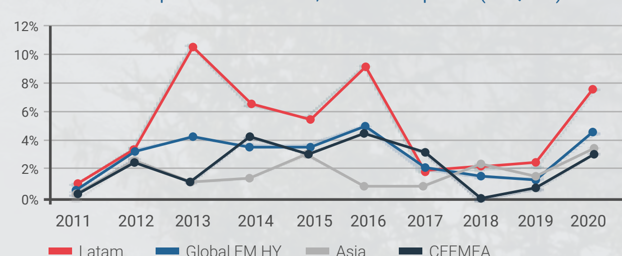
Fundamentals across emerging markets have deteriorated due to the pandemic with several emerging economies entering recession. However, we see a recovery in 2021, with GDP growth **expected to return to positive territory** (2020: -0.7% vs 2021: +5.0%) **and a rebound in export growth** (2020: -11.6% vs 2021: +3.7%). Despite a notable uptick in public debt ratios, rising from 58% in 2019 to 66% this year and 68% in 2021, we believe that they remain manageable for most EM countries; Meanwhile, we continue to see benign inflation dynamics in aggregate (2020: 2.5% vs 2021: 3.0%). We are also optimistic about pricing stability in the metals & mining sector, particularly in iron ore and steel, given higher infrastructure spending in China and supply side constraints. Further, we confirm our expectations that Brent prices will remain range bound in the second half at $35-$45 per barrel.

A recent concern in hard currency markets is the **rise in defaults across sovereigns and corporates.** Defaults for 2020 YTD are at historical highs for sovereign debt, but we expect few additional countries to announce restructuring through the remainder of the year. In the high yield corporate space our bottom-up analysis suggests **a default rate of 4.6% for 2020 due to the economic impact related to Covid-19 pandemic**, lower commodities prices, and lockdown measures imposed across many EM countries. Half of these defaults have already occurred for the year and many of the remainder are likely to be in the high yielding issuers across Latin America. The market has largely priced in these events.

Historical default rate - National weigthed



Historical EM Corporate Default Rate, as % HY Corporate (ex-Quasi)



The Neuberger Berman Short Duration Emerging Markets Debt fund is poised to take advantage of **the current environment as it focuses on countries can companies that can meet their short term obligations.** The fund has a total return objective of cash + 3% over a market cycle taking advantage of steady yields and some spread tightening. It maintains an average investment grade quality and duration profile of 2 years (+/- 0.75 years). Finally, the fund currently yields 4.0% (as of 31 July 2020) a decided premium to developed markets where yields are likely to remain in low to negative territory for the foreseeable future.

RankiaPro

Attend in our next conference call

Fund Selectors – ESG Investing

Anders Bertramsen
Head of External Products at Nordea Asset Management

Susanne Bolin
Head of Fund and Manager Selection at Danske Bank

Arnaud Bergeot
Analyst on US Equities strategies at ABN AMRO

Nordea ASSET MANAGEMENT | Danske Bank | ABN·AMRO

15, Sep 2020 04:00pm

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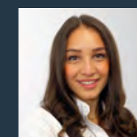

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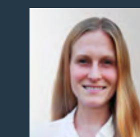

Sarah Robbins,
Investor Relations Manager Western Europe
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Investing in China

Chinese equities: the outlook remains favorable

China is one of the fastest growing emerging markets in the world. After posting high single-digit growth over the past two decades, the country was expected to surpass the United States and become the world's largest economy over the next few years. However, Covid-19 caused a significant disruption to business and consumer activity in China as well as global supply chains resulting in headwinds for revenues and profits.

China has been on an easing path in terms of monetary and fiscal policies. Although monetary policy was easier than pre-Covid levels, China's response was muted relative to the developed world. In the following section of the magazine our China expert professionals will talk about the current state of chinese equities, China's regulatory environment, market recovery and economic strategy for the following part of the year.

May Ling Wee
China Equities Portfolio Manager at Janus Henderson

The coronavirus **caused significant disruption to business and consumer activity in China as well as global supply chains** resulting in headwinds for revenues and profits. Chinese equities sold off when it was evident the health authorities failed to contain the outbreak in Wuhan and subsequently as Covid-19 spread to the rest of the world. From their March lows, Chinese equities have performed strongly as macroeconomic indicators in 2Q showed a better than expected pickup in activity post February's shutdown. **Sentiment has been bullish on the expected recovery in economic growth and corporate earnings in the 2nd half of the year.** The offshore market (MSCI China Index) and onshore market (CSI300 Index) are up 15.6% and 15.6% year-to-date (to 6 August) in US dollar terms.

China's market recovery

The overall economy has recovered to pre-Covid levels in the 2Q but the extent of recovery varies among economic segments.

China's post Covid-19 recovery, reflected in production indicators post lockdown, appears to be steady as factories caught up on orders missed during the shutdown and construction activity restarts. However, consumption, especially in services, still remains below 2019 levels. This is largely due to **social distancing and fear of infection but also a weaker macro environment and lower income expectations.** The real estate sector has held up well in terms of home buyer sales and investment by developers. **Infrastructure investment is now showing positive growth** after 1Q's decline and an uplift in infrastructure activity is expected in the rest of the year. Infrastructure and real estate investment have been instrumental in the recovery so far, the export sector too has done better than expected as China's factories restarted production before the rest of the world.

China's economic strategy

China has been on an easing path in terms of monetary and fiscal policies. Although monetary policy was easier than pre-Covid levels, China's response was muted relative to the developed world.

Local governments first turned to the real estate market by easing on home purchase restrictions as a means of shoring up demand. A few cities are **now beginning to tighten on their local property markets as activity and prices have recovered.**

Regulators are beginning to speak of "financial risks" as they do not want an asset bubble forming against a weak macroeconomic backdrop. We expect overall credit to stay loose still, potentially at lower growth rates than in the first half of year but still better than in 2019. Infrastructure investment is likely to pick up this second half of the year. While China's exports benefited from being first out of Covid's lockdown, **this gain in global trade share could be less in the rest of the year.** China will need to rely on its domestic economy and consumption even more as China-US frictions are escalating as we write. The upgrading of its industrial sectors and its own supply chains will continue. We do not expect a significant change in monetary and fiscal support despite the economy showing a recovery to pre-Covid levels in the second quarter.

Andrew Tong

Senior Portfolio Manager at Invesco

In 2Q, China A share market was up by more than 10% with domestic economic recovery driven by both effective control of the pandemic and policy support. The National People´s Congress, the **highest organ of state power and the national legislature of the People's Republic of China**, set in May the tone of loosening monetary policies targeting small and medium enterprises (SMEs) and fiscal stimulus focusing on new infrastructure projects and job creation.

Chinese stocks have been helped by government support (on July 6, the state-owned China Securities Journal published a front-page piece advocating the importance of a **"healthy bull market"**). This indicates that Chinese authorities are keen to support continued flows into the stock market. There are myriad reasons why: **Chinese companies need capital to increase their competitiveness in a variety of areas including finance and technology.** In addition, given the pandemic and ongoing trade tensions between the US and China, self-reliance has become a higher priority to ensure the country may have more control over its destiny.

Chinese stocks were also helped by improving confidence in China's ability to control Covid-19. This not only increases confidence in China's ability to control a second wave, but it suggests China could execute a relatively robust economic recovery. For example, the **June Caixin services Purchasing Managers' Index for China clocked in at 58.4, up from 55 in May[1].** Now, it's unlikely that the recovery for the Chinese manufacturing sector will be as strong as the services side of the economy given China's reliance on foreign trade. In 3Q, we expect the domestic economy to recover back to close to normal level before the pandemic, but the pandemic spread overseas could continue to put pressure on China's export sectors. However, **China's overall economic recovery could still be very solid, and we believe that sentiment is likely to continue to support Chinese equities.**

Positioning and outlook

Our investment strategy aims to harness systematic premium from multiple factors in the market while controlling for risk and transaction costs by an efficient portfolio construction process. We focus on companies that display a balanced appeal of valuation, quality, momentum and sentiments. On the sector front, we prefer to have a higher relative exposure towards materials and consumer staples where we find better opportunities. Covid-19 has costed RMB3.5 trillion in retail sales so far[2], or 4.5% of GDP, but the main indicators are recovering and quickly going back to pre-Covid levels. We think that, in this recovery environment focused in the domestic demand, those industries could be the most benefited. At the end of June, our largest positions are food & leverage, with around a 15% of the strategy portfolio. Other cyclical sectors, which we believe will benefit from this macro scenario, are banks and materials (both close to 9% of the strategy).

[1] Source: Caixin Media, as of May 31, 2020
[2] Source: CEIC, Gavekal Data/Macrobond, as of June 30, 2020.

Dale Nicholls

Portfolio Manager of Fidelity China Special Situations PLC

We believe there are strong investment opportunities in Chinese stock markets. China's recovery is gathering pace after the extensive lockdown seen in the first quarter of 2020. On a policy front China has taken a gradual and measured approach and therefore retains scope for further policy support. While **the pandemic is likely to moderate global growth in 2020, China is well positioned to recover given the normalisation of economic activity and strong responses to limit further outbreaks.** There are no changes to the longer terms trends around structural change which continue to unfold and therefore, even at a milder pace of overall activity, there remains opportunities for growth with the shifts in demand patterns occurring. The impact of the virus is likely to accelerate several of the structural shifts already underway, such as the shift to ecommerce and various online services. A significant weighting in such holdings should see the Trust benefit from such trends. Over the **12 months to 31st May 2020, the Trust's NAV registered 29.0% in returns, outperforming its reference index which delivered 16.5% over the same period.** Meanwhile, the Trust's share price rose 27.7% over the same period. Adding to performance was the Trust's high-conviction holding in China Meidong Auto Holdings. Its focus on lower-tier cities, a strong portfolio of luxury brands, strong revenues from after sales services and an improvement in new car sales margins contributed to its healthy sales and profits. Leading carrier-neutral internet data centre services provider 21Vianet Group also added value, supported by the addition of self-built cabinets, robust demand for its cloud services and expectations for increased demand from fifth-generation (5G) applications. Noah Holdings held back returns amid weaker transaction volumes following the COVID-19 outbreak.

Fidelity China Special Situations seeks out investments in:

- Companies with good long-term prospects.
- Cash generative businesses.
- Companies controlled by strong management teams Ideally these factors are not well understood by the market, and are therefore not reflected in valuations.

We also focus on smaller companies as these tend to be less well researched and, therefore, more mispriced. However, smaller companies tend to be higher risk, so risk management is key and meeting company management teams is essential in order to understand them and monitor their progress. He also stresses that **investors must take a long-term view, and patience is sometimes required for these factors to be recognised.** Overall, the manager looks for undervalued companies that can deliver over the long-term.

Bin Shi

Head of China Equities,
UBS Asset Management

More than six months after the first lockdown measures due to Covid-19, China is on its path of recovery. China was the first country to be faced with the pandemic and had to take very drastic actions, such as enforcing working from home, social distancing, closure of bars/restaurants and public meeting spaces etc. The authorities also used technology to tackle the virus. Smartphone apps helped track user's movements and gauge whether the user had been put at risk by being close to areas with high rates of infection. Today, government authorities are much better prepared than they were before and will have a more effective way of handling any outbreaks in the future.

Not back to normal, but on its way

China's economy was hit severely and in the first quarter, GDP dropped. The government hasn't set a new GDP target, which we believe is a prudent response. Giving targets to local governments runs the risk of local officials rushing to enact policies to beat the target, which may not be good for the economy in the long run.

We don't really focus too much on GDP numbers, we are more focused on long-term fundamental trends like urbanization or China's aging population. These trends will remain intact, despite the disruption caused by the pandemic.

The long-term strategy

Chinese equity markets saw a sharp correction during the peak of the pandemic, but have rebounded strongly. Year-to-date as of the end of July, the UBS Equity China Opportunity Fund has delivered a positive performance of 17.7% (net of fees, P-acc share class), clearly outperforming the broad Chinese offshore market. This has once again shown the value of a local and experienced investment team doing "boots-on-ground" research and focusing on quality.

We maintain our focus on long-term themes such as China's rebalancing into services and consumption, the increasing share of discretionary spending and premiumization, increasing spending on R&D and technology leading to innovations and market consolidation within segments. Our positive outlook for Chinese equities is based on the following facts:

- We are confident in **fundamental, long-term changes** playing out in China; our portfolios are focused on industry leaders that are likely to outperform over the next three to five years.
- Cash is extremely important from investors' perspectives. The **large and cash rich companies** will most likely be the last ones standing.
- We still have a decent cash buffer and are **prepared to make portfolio changes** at appropriate price points.

And let's not forget that the world is still underinvested in China. With a share of 18.8% of global GDP[1], its weight in the MSCI All Countries World Index is only 4.2%[2]. This will change over time.

[1] *Source: IMF: World Economic Outlook (WEO), Gross Domestic Product (GDP), current prices in USD, estimates, October 2019.*
[2] *Source: MSCI data as at 31 December 2019.*

Anthony Wong

Portfolio Manager China A Shares fund at Allianz Global Investors

China has been "first-in and first-out" of the Covid-19 outbreak. Nevertheless, as of the end of July, China is seeing its highest number of daily new Covid cases since March, with two specific clusters in the north. It seems very likely that such local outbreaks will continue to pop up but the success in bringing a previous outbreak in Beijing under control in June has led to a new containment strategy, designed to ring fence the risk areas without having entire cities grind to a halt. The country's swift reaction demonstrated China's preparedness and ability to manage the situation in a way that minimizes economic disruption. The result has been a visible recovery of economic activity while the risk that future pandemic waves have a significant financial market impact currently seems quite low.

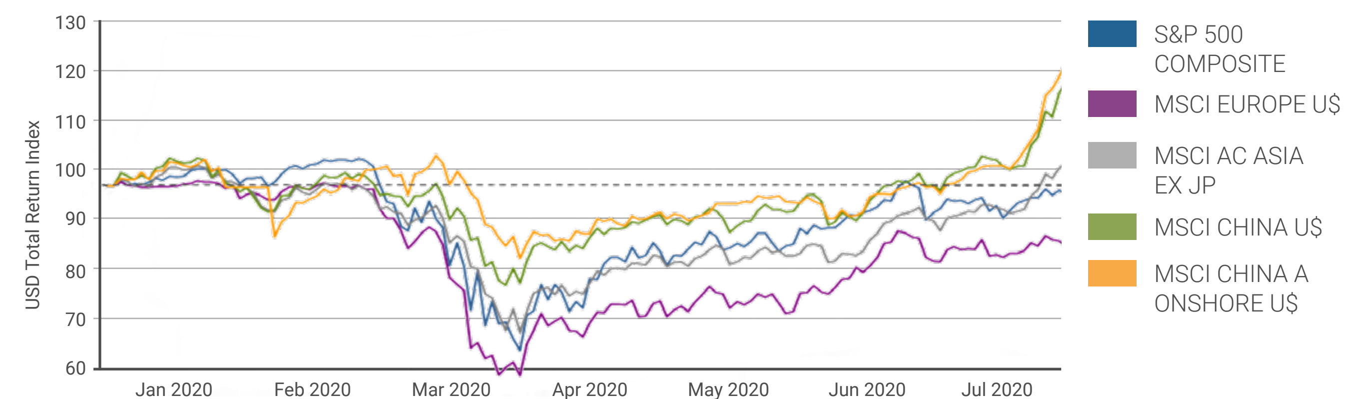
China's Q2 real GDP came in well above expectations at +3.2% year-on-year, rebounding sharply from the negative Q1 reading. Based on our interaction with companies, **most listed corporates are already operating at 90% to full capacity. The exception is the service sector,** where social distancing means that activities such as dining out and travelling are still at very subdued levels. Echoing this macro response, recent corporate earnings in China have been stronger than expected. As a result, **2020 should see positive low single-digit earnings growth with a stronger rebound in 2021.** While this falls short of earnings growth expectations at the turn of the year, positive growth numbers are scarce globally. **The economic and earnings recovery in China appears to be well ahead of the rest of the world.**

The main driver of the markets are China retail investors, with daily turnover in China A markets rising to record high levels. While the rally may have gone a little too far too fast, and some consolidation would be healthy, we see this as a very different situation to the boom-and-bust experience in China A-shares in 2015, when China A shares more than doubled in the space of eight months before collapsing by close to 50%.

Overall, given the positive liquidity environment, supportive government policy, and the long term need for foreign investors to increase their China exposure, we remain constructive on the long-term outlook for China A shares. Indeed, **over the long-term, we are convinced that Chinese equity markets should continue to improve in terms of the quantity and quality of investment opportunities,** thanks to the continuous efforts to develop more institutional and transparent capital markets.

This should, in turn, facilitate the development of domestic innovation, especially in the "new infrastructure" space: **5G networks, industrial internet, inter-city transportation and inner-city rail systems, data centers, AI, ultra-high voltage, and new energy vehicle charging stations.** It is estimated that cumulative investment into these projects could amount to USD 2.1 trn over the next five years.

GLOBAL EQUITY MARKETS RELATIVE PERFORMANCE YTD (USD)



Source: Refinitiv DataStream, Allianz Global Investors, as of July 29 2020. Past performance is not indicative of future results.

Private Banking in Luxembourg

How private banks are adapting to changing investor needs

The challenges facing the global private banking sector are not recent, they have been looming for some years. The adoption of digital technologies and threat from innovative business models forcing management fees into question have resulted in established firms proactively looking ahead and anticipating industry shifts.

Luxembourg, as the leading private banking centre in Europe, has embraced this new era of increased transparency, cross-border management and growing government scrutiny, and has used it as an opportunity to adapt their value proposition to prioritize, above all else, customer satisfaction.

In this section of the magazine we hear from the leaders of some of Luxembourg's largest firms about how they are adapting to changing investor needs.

Gregor Bollen

Regional Head Northern Europe at Citi Private Bank

In the last 10 years, **Luxembourg has become more international**, with a multitude of management companies, as well as single- and multi-family offices specialized in offering cross-border wealth structuring solutions for wealthy individuals and families globally. And there are good reasons for that.

EU, as well as non-EU clients are looking at Luxembourg as an **entry point for their European investments**, leveraging the increasing expertise of professionals available in the country. It is therefore not surprising to see that more and more families are not only using Luxembourg as a jurisdiction to structure their wealth, but they are also making investment decisions locally. This creates an interesting eco system of service providers and investment expertise.

The Luxembourg government and regulators understood that very early on and have always set high standards with regard to EU regulation, which is one of the reasons why Luxembourg has really become an attractive location for institutional clients. Luxembourg's ability to cope with the international regulatory framework and its wide array of professionals, who are familiar with cross-border regulations, was one of the key points influencing our decision to open our European client hub for global wealth management in the Grand Duchy.

Technology is also a key driver. The regulatory environment, MiFID II for example, calls for banks to become more digital. At the same time, banks are being challenged by new entrants in the market, technology, algorithms, robo-advisors and artificial intelligence. However, we are convinced that clients still seek that personal touch in delivering relevant information. **Tech can however help deepen the relationship and improve the customer experience.** Luxembourg, as a strong supporter of Fintech startups, is therefore a good place to be.

Luxembourg also has very clear and strong ambitions for the future: **financing a sustainable future.** Most of our clients, if not all, have a very strong moral compass and want to give back to the community in some way, shape or form, going strongly into sustainable finance, philanthropy, or other types of alternative investments. The focus is really on **impact investing** which looks for positive outcomes compared to socially responsible investing which focuses on avoiding the negative.

The Luxembourg ecosystem can really cater to those clients that have cross-border needs which they cannot always find in their local private bank.

The Private Bank is Citi's latest line of business to open in Luxembourg, where the company is celebrating its 50th anniversary in 2020.

Luxembourg is a powerful eco system of service providers and investment expertise.

Stéphane Pardini
Deputy CEO and Head of Private Banking at Edmond de Rothschild (Europe)

Covid-19 has accentuated existing trends in private banking in Luxembourg, **namely low rates and the ever-increasing regulatory pressure weighing on the sector's overall profitability.** This health crisis has widened the gaps between companies that were less well equipped to cope and those that had a resilient business model and a solid positioning.

Edmond de Rothschild has been reviewing its value proposition for a number of years now to adjust to long-term industry trends and cater to a more exacting client base.

We have highlighted both **the sophistication of our advisory and discretionary management offerings and our long-term active management approach.** The latter focuses on the real economy and tangible assets, such as real estate and private equity, which are now central to any global asset allocation.

While this new value proposition is founded on the Group's DNA – rooted in agility and entrepreneurial spirit – it is also supported by the assets offered by Luxembourg, where Edmond de Rothschild has been present for more than half a decade.

The Grand Duchy is in fact a highly attractive setting for the private equity and real estate industries, as the country has investment vehicles that are suited to these asset classes (SICARs, SIFs and, more recently, RAIFs, which are frequently adjusted and improved to take into account investors' needs). Furthermore, the country enjoys political and fiscal stability and a triple-A rating, putting it on a solid footing to compete internationally.

Luxembourg is the leading private banking centre in the eurozone with nearly EUR 400 billion in assets under management. As a signatory of many bilateral double tax treaties, the Grand Duchy attracts assets from families and businesses from all over the world seeking stability and security.

From its Luxembourg base, Edmond de Rothschild deploys its entire value proposition to support prominent families established in different jurisdictions.

> **Edmond de Rothschild has been reviewing its value proposition for a number of years now to adjust to long-term industry trends.**

Christoph Müller
Head of Private Banking at VP Bank (Luxembourg) SA

Private Banking and investor's needs: Changes and Chances

Increased customer and investor expectations, digitisation and stricter regulation pose major challenges for the financial sector. VP Bank sees exciting opportunities in them.

The banking environment has changed dramatically, especially in recent years. Investor expectations have risen significantly. In addition to a personalised range of services, **the need for independence is becoming increasingly important.** Investors and customers are mobile and reachable and want to be able to access the bank's services and information from anywhere and at any time. They are also demanding greater transparency, both with regard to decisions affecting their portfolio and with regard to advice. A further development is the wealth of regulations that have had to be implemented since the near collapse of the financial system in 2007.

Digitisation as a development engine

The ongoing digitisation process is a strategic discipline for VP Bank. It is specifically used to **ensure maximum client satisfaction while simultaneously increasing the profitability of the Bank.** Internally, the Bank harmonises Group-wide business processes, harmonises IT services and data and reduces complexities in the product and system landscape.

Investors and customers have responded positively to these adjustments. This applies, for example, to the modernisation of existing online services. VP Bank has technically modernised and redesigned its website in recent years, the e-banking system was optically redesigned and equipped with new functionalities. In addition, the advisors are to be given more time for their clients through targeted measures. **The greatest customer benefit lies in a hybrid advisory model that cleverly combines proven personal advice with modern technologies and digital services.**

The future of consulting in private banking

Every investor must be convinced that his banking partner has its finger on the pulse of the times and picks up on trends with noticeable customer benefits. VP Bank therefore continuously identifies current trends and actively supports its clients.

There is often talk of Robo-Advisory, but there are limits to machines. This is where VP Bank's hybrid advisory model comes into its own. **Although clients today have a great affinity for new technologies, many of them ultimately want individual advice that addresses all their personal goals.** This requires an empathetic understanding of their specific situation as well as the provision of individual and first-class solutions. A Robo Advisor - representing human specialists - simply cannot offer selected services in this form.

The banking business of the future will be build on existing core competencies such as asset management, asset planning and investment advice. However, **banks will need to give them a digitally compatible format to meet client needs.** It will also be necessary to make services more transparent and measurable so that they can be evaluated on the basis of various criteria.

In this process, VP Bank is open to new ideas, looks ahead and actively exploits the opportunities offered by change.

How to invest in financial markets in an increasingly uncertain environment.

In a context of economic and financial uncertainty, linked to Covid-19, the question of 'how to invest' is a key concern for investors. Here are some basic principles to avoid pitfalls.

Damien Petit
Head of Private Banking Investments, Banque de Luxembourg.

Determine the right risk profile

Although volatility is normal, it does not affect all investors in the same way. It is therefore vital to carefully determine the investor's aversion to risk (and loss). The investment strategy must suit the investor's risk profile. **A more defensive and therefore less volatile asset allocation will automatically reduce the expected return**, especially with negative interest rates in the eurozone.

Portfolio diversification

First, geographical diversification. At Banque de Luxembourg, our strategic equity allocation is based on a regional economic weighting (GDP) rather than market capitalisations. Overfocusing on one region can be risky.

Next, diversify the equity portion with small and mid-caps, too often overlooked by investors. Companies with a market capitalisation of less than **EUR 15 billion represent around 40% of the equity exposure of our managed portfolios.** Some advantages: they are less likely to be tracked by analysts and may be of interest for larger groups seeking growth opportunities.

Selecting quality assets

Invest in quality assets. For our equity investments, companies must satisfy several criteria, including a transparent business model and one or more sustainable competitive advantages (technology, patents, large distribution network, etc.) that ensure high profitability, and strong cash flow generation.

For bonds, we avoid high yield debt issued by companies with a fragile balance sheet structure.

Investing in quality assets – at a reasonable price – avoids capital losses.

A long-term approach

The investment horizon is particularly important. Time is the investor's best friend. Volatility automatically decreases over the investment horizon. Thus, the annualised return of the S&P 500 is far less volatile over a 30-year period than over 1 and 10-year periods.

Tactical adjustments

Long-term investing does not, however, preclude limited tactical overweighting and underweighting of asset classes. These portfolio adjustments are based mainly on absolute and relative valuation levels.

Never lose sight of the price

Once again, it is vital to take a long-term view. While performance and market valuations are not closely correlated in the short term, **over a 10-year period paying a high price generally results in a low realised return, and vice versa.**

Investors should pay close attention to the price paid as this is a key determinant of long-term return.

This portfolio construction approach, based on simple, systematically applied principles, protects investors against emotional and cognitive biases: conformism, complacency, illusion of control, etc.

The very favourable risk-return ratio of the portfolios under management confirms the effectiveness of this approach over time.

At Banque de Luxembourg, our strategic equity allocation is based on a regional economic weighting (GDP) rather than market capitalisations.

Meetings Europe

Bringing together the best minds in investing.

6 | October 2020

Mark Rogers,
Head of Investments at Montanaro AM

10:00h - 10:30h

Tristan Elwell,
Co-Founder and Portfolio Manager at ECO Advisors

10:30h - 11:00h

Philip Ritman,
Portfolio Manager and Head of Solutions at Storebrand

11:00h - 11:30h

Ted Franks,
Fund Manager and George Latham, Managing Partner at WHEB AM

11:30h - 12:00h

Joe Mares,
Portfolio Manager at Trium Capital

12:00h - 12:30h

Our new online meetings were created to introduce oneself with the RankiaPro investment community.

For more information about this event, please contact:

Liliana Varona,
Investor Relations Manager Northern Europe

liliana@rankiapro.com

Sarah Robbins,
Investor Relations Manager Western Europe

sarah@rankiapro.com

The future of ETFs

The next generation of passive investments

The attractiveness of ETFs have only increased since their inception in the late 1980's, and it is understandable why. ETFs represent an easy way to introduce diversification within a portfolio, providing broad exposure to sectors or markets, while offering the investment industry's lowest management fees. However, in our current economic environment, investors seeking returns and portfolio outperformance are looking at ETFs and wondering how the strategy will evolve. In this section we explore the future of ETFs alongside Amundi, HanETF, HSBC, iShares and State Street Global Advisors.

Climate – the next generation of ESG ETF investing

Fannie Wurtz
Head of Amundi ETF, Indexing and Smart Beta

Recently investor interest in sustainability has grown exponentially, in fact in February this year EPFR data showed that **ESG-aligned equity funds globally had witnessed growth of over €60billion in twelve months – while non-ESG equity funds had suffered outflows of almost three-times as much.** We have seen this trend for sustainability reflected within the ETF market in Europe; in the first half of 2020 European ETF flows were close to flat overall but this hid almost €12billion in outflows from funds tracking non-ESG indices while inflows into ESG ETFs surpassed €11billion.

But why, and what next? There are a number of reasons for the growth of ESG, one being **awareness of issues and a growing need for transparency, we also see increasing regulatory requirements for investors to consider ESG as part of their investment approach.** However, perhaps the most influential reason lately is performance. It became very apparent during the market volatility this year that sustainable investment strategies offered strong performance.

Recent MSCI analysis compared various levels of ESG integrated indices to the parent index and all of them performed better than the parent in Q1 of this year, in fact the SRI, ESG leaders and ESG universal versions of the MSCI All Country World index have **outperformed the parent index over the year-to-date as well as three- and five-year periods.** Rather than sacrifice performance, it seems investors may benefit from the inclusion of ESG.

When it comes to what's next, we continually listen to how the needs of investors are evolving and study developments across the industry. For 2020 and beyond we see a strong interest in climate change. Since the advent of the 2015 Paris Agreement when the world came together to agree to limit global temperature increase this century to 2°C above preindustrial levels, investors have wrangled with how to invest for positive climate impact. For some investors the existing climate or low-carbon investment solutions leave them wanting due to cost, breadth or depth. Now, with the introduction of new climate index labels in the EU regulation, investors have a new way to make a difference. With two level of labeling – Paris Aligned Benchmarks (PAB) with 50% decarbonisation targets for those seeking to respond urgently to the climate issues, and Climate Transition Benchmarks (CTB) with 30% decarbonisation targets for investors seeking to have a measurable impact on climate change while retaining a more diversified portfolio. These new climate change indices can be implemented using a variety of vehicles; **investors now have the opportunity to incorporate climate-positive "off-the-shelf" index products into their portfolios.** The Amundi ETF climate strategies, as part of a broader responsible investing suite, offer climate-positive investing with all the usual advantages of using an ETF.

Where passive meets active

2020 is **the 20th anniversary of ETFs in Europe** and over the last two decades these products have shaken asset management's cage, gaining over $5 Trillion of assets.

ETFs and indexes Active ETF assets are currently small given the size of the overall industry, but growth is strong. Active ETF AUM has seen more than 2 years of consistent asset growth, reaching a high in January 2020 of $162 Billion across the 779 Active ETFs available globally. It's evident that if high quality active managers could combine their strategies with the attractive qualities of ETFs then both the manager and investor could win – but a new solution is needed.

In 2019, the SEC approved a new approach to support the **creation of non-transparent ETFs**, opening the door for active managers to benefit from the distribution power of the ETF wrapper- and Europe is set to follow suit. But aren't ETFs supposed to be transparent and track an index? We say no.

At HANetf we believe that **ETFs are simply a wrapper and are not defined by the strategy they follow.** Any liquid strategy or asset class – active or indexed - can be accommodated within the ETF wrapper which will then deliver that strategy to investors in the modern format they want.

The tremendous growth of ETFs, and the variety of new ideas coming to market demonstrates that advisers, model portfolio managers and end investors want a wide variety of tools, both active and passive, to help them meet their investment objectives, and they want them in an ETF format. Of course, ETFs are not a panacea for an underperforming active manager, but they do offer managers delivering real value the chance to rapidly extend their distribution and reach new types of investors.

In the last 20 years, **ETFs have helped investors to gain access to new asset classes, sectors, themes and strategies- some of which were never available before. ETFs have done this while reducing costs,** increasing tradability and making it easier to construct portfolios. It's time to bring these benefits to the active management space, giving investors the active strategies they want in the wrapper they prefer, and enabling active managers to unleash the distribution potential of ETFs to help grow their businesses. It's time for non-transparent ETFs.

Hector McNeil
Co-CEO of HANetf

The tremendous growth of ETFs, and the variety of new ideas coming to market demonstrates that advisers, model portfolio managers and end investors want a wide variety of tools, both active and passive.

Olga De Tapia
Global Head of ETF Sales at HSBC Global Asset Management

Smart Beta for a sustainable future

When reflecting on the growth of passive investing, it is fair to say that it has been quite a journey. As the asset management industry has grown, **client expectations have changed and the demand for low-cost, innovative solutions has increased.** Beginning with "vanilla" products that tracked traditional benchmarks, passive investment vehicles have evolved to become more complex, tailored and cognisant of market trends. Alongside the "rise of passive", **sustainable investing is the most recent trend to reach asset management**, as investors seek to capitalise on the favourable regulatory backdrop and shifting patterns of consumption. Empirically, we can see the substantial growth of sustainable investing as sustainable funds[1], collectively, now account for over $1 trillion of assets (Morningstar, 2020).

The Sustainable ETF space is quickly becoming crowded. From our perspective, future opportunities lie within sustainable smart beta. **Smart beta is typically characterised as a systematic investment style that lies between active and passive management.** Like passive investments, smart beta has seen extremely rapid growth in recent years, with multi-factor strategies in particular showing clear benefits of diversification and the potential to enhance returns across a variety of economic regimes.

Smart beta includes rules-based investment strategies that deliver exposure to risk premia, such as size, low volatility or momentum. As these individual factors perform differently in different economic regimes, multi-factor strategies manage the correlations between them to outperform across the cycle. At HSBC Global Asset Management, we leverage a 3-tiered process in order to deliver optimal results for clients that are invested in our multi-factor strategies (see below).

What makes smart beta a mechanism to deliver ESG solutions?

The reasons why smart beta is an attractive approach to sustainable investing are twofold. First, its rules-based nature **allows for clarity and transparency** in what environmental, social and governance (ESG) inputs are being used, allowing for targeted ESG exposure. Second, as a data driven strategy, smart beta is well placed to **benefit from the continued improvement in the quality and quantity of ESG disclosure across the market.**

ESG factors can be used in portfolio construction, in order to achieve attractive risk-adjusted returns and reduce downside risk. As an example, at HSBC Global Asset Management, we have done extensive research into how carbon can be used as a factor within smart beta strategies. The simplicity of using carbon footprint metrics as a proxy for exposure to climate risk has made it a popular choice. Given that carbon emission data are now widely available (through increased disclosure, more accurate estimates and improvements in Scope 1, 2 and 3 greenhouse gas emissions reporting) there is an opportunity to treat it as a factor. We find that combining a low-carbon tilt with enhanced corporate engagement allows investors to support the transition to a low-carbon economy.

[1] Defined by Morningstar as funds that abide by environmental, social and governance (ESG) principles. Data accessed 11.08.2020. Source: https://www.ft.com/content/27025f35-283f-4956-b6a0-0adbfd4c7a0e

A THREE TIERED APPROACH TO FACTOR INVESTING

1	Construct	▪ Create factor composites with weighted sub definitions ▪ Weighted on 'explanatory' relevance of factor ▪ Careful management of stocks with multiple risk dimensions	Advantages: ▪ Increased explanatory power and more robust calculation across the universe
2	Combine	▪ Combination designed to benefit from independence of each factor ▪ Consider factor tilts to benefit from regimes	Advantages: ▪ Each factor contributes to the overall score effectively ▪ Benefit from factor regimes
3	Calibrate	▪ Maximise the portfolio exposure to desire factors ▪ Minimise idiosyncratic risk at the stock level ▪ Customised to client constraints	Advantages: ▪ Delivers optimal portfolio given risk, constraints and objectives

Source: HSBC Global Asset Management, September 2020.

Javier Garcia Diaz
Head of Asset Managers Iberia at BlackRock

2020: Turning point in growth of fixed income ETFs

In the past 30 years, the growth of ETFs has mainly been due to the use of these vehicles as instruments for equity investments. However, as this product has evolved, increasing in transparency and accessibility, it has also become one of the most commonly used tools by institutional investors for accessing fixed income markets.

More specifically, both fixed income managers and multi-asset investors have identified ETFs as excellent instruments to ensure efficient exposure to different segments of the fixed income market, also helping them to build up diversified and liquid portfolios.

With the outbreak of the Covid-19 pandemic and subsequent economic crisis, we have once again witnessed a time of debate over the reaction and impact of fixed income ETFs in a situation of extreme volatility and strain. The main issue to assess was whether ETFs would stand up under the pressure of a heavily-traded market, and even more importantly, whether they would be responsible for exacerbating price drops on the underlying market.

Once again, however, as can be seen from the record inflows seen in recent months, fixed income ETFs have proven to play a critical role in providing liquidity and transparency to a fixed income and acting as a source of real-time price discovery.

The rapid uptake of fixed income ETFs by institutional investors shows the growth potential of these vehicles. In just one year, fixed income ETFs have grown by 30%, reaching $1.3 trillion in assets under management (AUM)*; nevertheless given that they currently represent just 1% of the global fixed income market, at BlackRock we believe they still have plenty of potential for growth and could easily reach $2 trillion in AUM by 2024**.

What have institutional investors recently used these vehicles for?

1. Tactical asset allocation
2. Alternative to credit derivatives
3. Liquidity management
4. Transition between active management products
5. Management of inflows and outflows
6. Meeting of sustainability goals via fixed income ESG ETFs

** At end June 2020*
*** BlackRock, "Primed for Growth: Bond EFs and the Path to $ Trillion", June 2019. There is no guarantee that any forecasts made will materialise.*

Ben O'Dwyer
Multi-Asset Strategist, SPDR ETF EMEA Strategy and Research team

Time to hedge via ETFs

Over the last 10 years, **the growth of ETFs in Europe has largely been driven by allocation to broad Equity exposures**, with ETFs that track indices such as the S&P 500, MSCI World and MSCI Emerging Markets indices swelling in size as investors consistently pour money into these instruments.

While Equity investors tend not to hedge their currency exposure, preferring to accept the embedded currency risks, **recent large-scale FX events**, such as the GBP devaluation following the Brexit vote and CHF appreciation following the abandonment of fixed exchange rate.

More recently, the **sharp depreciation in USD** and expectations that this could be a continued trend for the currency, has brought sharp attention to investors, as USD exposure makes up more than 60% of most global equity exposures. Therefore USD depreciation can have a material impact i.e. for EUR investors.

The other trend pushing investors towards hedged exposures is a reduction in the cost of hedging. The cost to hedge is made up of the interest rate differential and 'dollar basis'. Both have substantially reduced in the last month as the Fed was forced to aggressively cut rates to combat the impact to economic growth of the coronavirus.

ETF Providers are therefore likely to try and participate in the rising **demand for currency hedged exposures** going forwards, by launching hedged instruments or newly hedged share classes on their popular Equity products.

However, launching currency hedged ETFs raises issues from regulatory perspective, due to recently-introduced **ESMA regulations** that introduce the following constraints to UCITS funds:

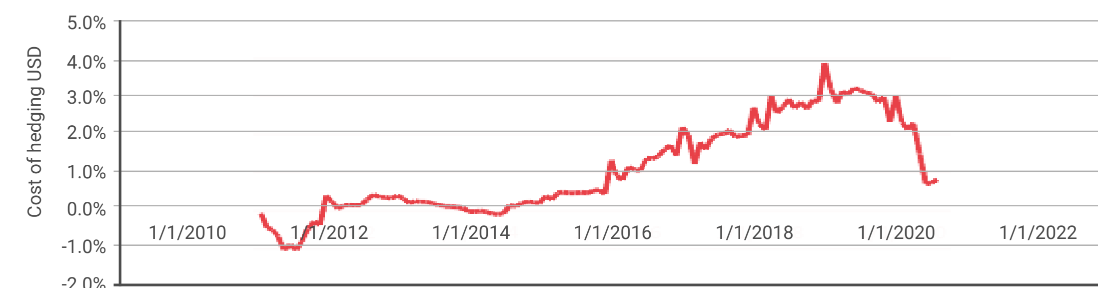
- Over-hedged positions must not exceed 105% of the share class NAV.
- Under-hedged positions must not fall short of 95% of the portion of the NAV of the share class which is to be hedged.

Single equity exposure ETFs (e.g. S&P 500 index) are more prone to breach these boundaries: A currency hedged fund or share-class tracking a standard monthly hedged benchmark is more prone to unexplained tracking error during periods of increased volatility. SPDRs resolved this situation developing the **first hedged benchmark** that incorporates the regulatory requirements, i.e. the **S&P 500 EUR Dynamic Hedged Index.**

Dynamic hedged indices rebalance on a monthly basis but include a mechanism to ensure that the index does not become over-hedged or under-hedged over a certain percentage threshold. For the S&P 500 EUR Dynamic Hedged Index , that threshold is 5% (hedge ratio between 95% and 105%), the index will be adjusted at the close of the following business day, to reset the hedge ratio back to 100%.

The SPDR S&P 500 EUR Hedged UCITS ETF (Acc) (Ticker SPPE GY) allows managers flexibility to switch hedging preference within the vehicle in a cost and operationally efficient manner, without having to execute the operation in the secondary market of the instrument. At a TER of 12bps, the SPDR ETF is the cheapest among the physically replicated exposures.

COST OF HEDGING US DOLLAR FOR EURO BASED INVESTORS



Source: Bloomberg as of 30 June 2020. Past performance is not a guarantee of future results.

Bespoke Funds

The added value of alternative asset classes in portfolios

We would like to shed some light on some alternative investments that go beyond the more common real estate or commodities asset classes - investments in wine and whiskey. The question could arise, why would someone invest in such a bespoke underlying asset like wine or whiskey? The answer is simple.

It has been proven that investments in wine and other spirits can outperform traditional markets and are a differentiating way to generate higher returns. Wine as an asset class has traditionally been associated with low risk levels and growing value growth over time thanks to its uniqueness as an asset that is consumed - the supply of the world's best wines shrinks every year as they are consumed, driving the price upwards.

Whisky also has unique status as an investment because of its longevity, meaning it maintains or even increases in value over time, compared to other consumable alternative investments. Unlike cars and watches, which deteriorate in normal conditions, aging whisky increases its quality. This means that the longer collectors keep hold of their best bottles, the higher their possible returns. With over 150 active distilleries, Scotch whisky is a hugely popular alcoholic investment.

With an exceptional performance in 2019, and persistent growth over the past five years, the whiskey market is booming. The RW Apex 1000 index, which tracks the price performance of the top 1,000 bottles of rare whisky, has appreciated by 162.91% since 2014, outstripping gold by over 150% and the FTSE by over 160%.

Javier Pérez
Global Equities Portfolio Manager at March AM

Why invest in a wine related fund?

March Int. Vini Catena is the only **thematic fund on the market that invests in the wine and spirits value chain.** In both cases, strong growth has been maintained since 2010, both in volume and value. Also in both cases there is a trend towards "premiumization", consuming more and more products of higher quality and price. The slow, but continuous, process of concentration of both sectors will support the achievement of economies of scale, cost reductions and optimization of distribution networks that will make the leading companies even stronger, improving profits and returns for the shareholder.

The fund benefits from several mega trends: population growth, the urbanization process, the rise of the middle classes (wine and spirits being clear "aspirational" products). Additionally, the new consumption habits of "eco" (sustainable) products, being the cultivation of the vine a very good way of preserving the rural environment and the environment, also represents a clear tail wind for the companies in the fund.

Some of the main advantages as an investment that the fund currently provides are: the lower volatility it presents compared to the global indexes; great diversification through unique and in some cases non-replicable assets, latent growth potential of the wine industry (with low penetration rates still in the Asian market); and especially in the current environment, **the stability of wine consumption during the lock-down is surprising**, highlighting the surge in online sales of wine during the quarantine reaching similar levels of Christmas holidays, according to different leading suppliers in Spain.

March Int. Vini Catena benefits from several megatrends: population growth, the urbanization process, and the rise of the middle classes with growing purchasing power. The fund is very well positioned to deliver interesting returns leveraging from such global changes.

Christian Svantesson

Founder and CEO,
The Single Malt Fund

Number one alternative investment - whisky, the liquid gold

Whisky has been reported to be the most lucrative of all alternative investments over the past 10 years, according to Knight Frank's Wealth Report and its Luxury Investment Index, with an aggregated appreciation of +564%. Further, whisky has shown to have a very low correlation to other assets, specifically the stock market. Hence, in these uncertain and volatile times, the world is flocking to invest in whisky.

The Single Malt Fund, with jurisdiction in Sweden, is the world's only regulated fund investing in whisky. It is under supervision of the authorities, and regulated according to the EU directives for Alternative Investment Funds. This ensures total transparency and maximum security for the individual investor.

With the outstanding historic performance of whisky as an investment, the fundamentals are all aligned for continued growth in the coming 10 years. Demand is being driven by new consumers in emerging markets and by premiumization in mature markets. Industry experts foresee no let up in this demand.

At the same time, supply is limited and production is naturally slow. In fact, the world is running out of old whisky. The global whisky industry **has invested in recent years significantly in production capacity in order to meet increasing demand.** However, these investments will not be realized in ready supply for many years to come. A production cycle of 12-15 years is not unusual for finer single malts. Meanwhile, the imbalance of demand/supply will continue to drive prices. **The Single Malt Fund invests only in the liquid itself, in bottles and casks of rare and limited edition whiskies.** Thanks to consumption, these whiskies get even rarer over time.

One of the unique advantages that The Single Malt Fund has, being a regulated fund, is that it operates as a professional entity in a consumer goods industry. In practice, it allows the fund to source and buy (invest) directly from distilleries. **This means the fund can buy "at a trade margin", below the official market/consumer price.** This trade margin gives the fund an immediate appreciation on its investment – a unique business model for any fund.

The Single Malt Fund partners with some of the world's best and well renowned whisky experts to assist in its sourcing, investments and sales. Headquartered in Dublin, Ireland, it also has an **Advisory Board of whisky experts spread out across the globe to reflect and capture various trends of the industry and market.**

The fund is a closed end fund, with a life span of 6 years (approximately 5 years remaining). After one year of operation, the gross stock appreciation was 32%. The targeted net return for the investor is 16% per annum, on average, over the fund's life.

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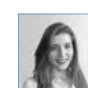
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