



see money differently

A photograph of an open book with white pages, viewed from a low angle. A white bookmark is visible in the center fold. The background is a light, neutral color.

Nedgroup Investments Global Emerging Markets Equity Fund

Quarter Four, 2020

Executive Summary

Emerging market equities ended the year strongly as successful trials of Covid-19 vaccines boosted confidence in a synchronised global recovery in 2021. The MSCI Emerging Markets index rose 16.09% in local currency terms and 19.7% in US dollars as the greenback fell in response to better global news, which reduced “safe haven” demand for the currency. Colombia was the best performing market, rising 48.8%, while Egypt was the worst with a 4.9% fall. IT was the best performing sector, rising 34.1%, while real estate was the weakest, gaining 6.1%.

Joe Biden’s victory in the US presidential election and the narrow Democrat majority in both houses of Congress are expected to result in further fiscal stimulus and higher corporate taxes, in turn suggesting upward pressure on inflation and bond yields. The feared Covid-19 second wave arrived resulting in further lockdowns across Europe and the Americas requiring government support for individuals, businesses and the economy. However, the approval of a number of vaccines has boosted investors’ confidence in a global economic recovery in 2021 and commodity prices have been rising, signalling inflationary pressures despite near term economic weakness. Corporate pricing power will be key to relative performance in 2021.


Another development, just before year end, was a ‘political agreement’ on an investment treaty between the EU and China. Politicians hope that more direct investment will be allowed into China coupled with market opening that will steer Beijing away from its increasingly nationalistic model. The timing ahead of president-elect Joe Biden’s inauguration suggests the US may be more isolated especially after the sealing of the pan-Asia trade agreement earlier in the quarter. We are concerned that Chinese money measures continued to slow during Q4 2020, suggesting downside risk to consensus economic optimism, although the central bank will probably provide support soon. The government will want favourable economic conditions in 2021, the centenary year of the founding of the Chinese Communist party.

The Chinese authorities announced their first antitrust investigation into a domestic internet company. Alibaba, the country’s biggest tech company, is being examined following the pulling of its subsidiary company Ant’s \$37bn initial public offering, which would have been the largest ever globally. The moves have come after the company’s founder Jack Ma made a speech critical of regulators and state-owned banks. Market concentration, use of customer data and direction of traffic will all be on the regulators’ radar and Ant is already being forced to move its business model towards that of traditional lenders.

Elsewhere in Asia India suffered a deep recession because of strict lockdown measures but bounced back strongly when these were lifted despite still-high virus levels. There has been a welcome fall in inflation, which had remained stubbornly high earlier in the year, squeezing low-income Indians. In contrast Taiwan has successfully limited the spread of the virus making it one of the safest countries and able to avoid lockdowns. Citizens returning to work has been a boost for the economy and the government is using the success to attract international talent from the region.

In Latin America economic damage in Brazil from the virus has been tempered by significant fiscal expansion, which may create problems as public debt to GDP heads up towards 94%, one of the highest levels in emerging markets. The reverse is true of Mexico where populist president Obrador is showing unexpected fiscal restraint with a relatively low budget deficit but this also means the recovery is lagging others in the region.

Our liquidity analysis can be summarised as ‘real money leads the economy while excess money drives markets’. The approach had signalled positively on the global economy and risk markets in early Q2 2020 but is now sending a more cautionary message. The current monetary backdrop and possible weaker near-term economic data suggest reducing cyclical exposure relative to H2 2020 but a stabilisation or revival in real money growth would support the positive message from our cycle analysis, arguing for using any setback in cyclical markets to rebuild positions in anticipation of a strong H2.



2020 has been an unprecedented year with the global pandemic leading to extraordinary policy actions by the global monetary authorities and governments. Many stock markets have hit new highs despite a collapse in earnings leaving valuations above historic averages. The gap between winners and losers has been unusually stark. Our focus remains on buying companies that meet our purchase criteria, which include a high or improving return on invested capital, opportunities to grow organically and resilience to change and technological innovation.

Transactions over the quarter have added to cyclical, raising exposure in industrials, materials and financials at the expense of consumer discretionary. We have moved slightly overweight in Latin America and reduced Asia. Stock and country selection were both positive. Stock picks in China, India, Greece and Mexico were notably strong.

Portfolio Strategy

Emerging market equities ended the year strongly as successful trials of Covid-19 vaccines boosted confidence in a synchronised global recovery in 2021. The MSCI Emerging Markets index rose 16.09% in local currency terms and 19.77% in US dollars as the greenback fell in response to better global news, which reduced “safe haven” demand for the currency. Colombia was the best performing market, rising 48.82%, while Egypt was the worst with a fall of 4.92%. IT was the best performing sector, rising 34.1%, while real estate was the weakest, gaining 6.08%.

Our expected scenario through Q4 was that the global economy would continue to recover strongly resulting in a less favourable excess money backdrop for markets. We therefore favoured cyclical markets / sectors rather than those historically displaying sensitivity to global liquidity. On our analysis, cyclical markets include Brazil, India, Korea, Russia and Indonesia, while Mexico, South Africa, Malaysia, Thailand and the Philippines are liquidity-sensitive. Monetary trends also influence country selection and real narrow money growth has been high relative to history in Brazil, Korea and Indonesia but has lagged in Mexico, China, South Africa, the Philippines and Saudi Arabia. This backdrop supported moves to add cyclical stocks / sectors, with Latin America moving overweight through purchases in Brazil, India also upgraded to overweight, Korea raised to index level and China cut to underweight. The strong performance of cyclical markets and stocks during Q4 and indications from our analysis of a possible temporary slowdown in global activity in early 2021 suggest at least pausing this shift if not taking some profits.

Earnings expectations and revisions improved during Q4 as the approval of a number of vaccines raised expectations for a synchronised global recovery in 2021. The oil price recovered 27% over the quarter as measured by Brent with expectations of a rebound in demand in 2021. Any significant rise in prices above \$50 may revive shale output. In addition, demand may be slower to recover than expected with new lockdowns restricting air travel as well as gasoline and diesel consumption especially if WFH persists. The long-term outlook remains poor as the penetration of electric vehicles rises and authorities seek cleaner alternative sources of power. Refiners have been particularly hard hit in 2020, with costs harder to cut and margins consequently compressed. Plant shutdowns are likely to follow. The portfolio remains underweight in energy, reflecting our belief that the long-term outlook for the oil price is negative as the world shifts away from carbon fuels. In Q4, the prospect of a cyclical economic recovery outweighed the negative secular trends for crude but we expect these to reassert themselves on a sector that typically screen poorly on our economic value added analysis.

In materials, metal prices have been rising with iron ore contracts surging to new highs and copper percentage gains in double digits. A weaker US\$ is helpful making commodities cheaper for holders of other currencies. The scale of stimulus by the global monetary authorities could lead to a rise in inflation in 2021 and the first indications are arguably evident in a range of commodity prices. In chemicals demand and profitability exceeded expectations in Q4 and prices have been rising, with re-stocking helping year-on-year comparisons in 2021 and favouring the cyclical names in the group. We have added in cement and aluminium partly as an inflation hedge expecting prices to be squeezed higher by a combination of low inventory levels, disruptions to supply chains and synchronised global growth, with the Federal Reserve likely to be insouciant about a pick-up in price

pressures. We have also added to LG Chemical in Korea and miner Norilsk Nickel in Russia while retaining Jiangxi Copper in China.

In industrials, capital goods should benefit from a trough in most end markets related to capex and production such as mining and automotive. Cyclical valuations have risen reflecting better sales and improved growth expectations for 2021. Airlines' share prices have also moved in response to the vaccine news – we continue to favour low cost carriers Spring Airlines and Wizz Air. Fleet reductions and slower business demand growth will mean traffic will take a number of years to recover to 2019 levels although Asian carriers have fared much better within the region than others. Aircraft deliveries and aftermarket sales lag traffic recovery so the aerospace companies are reliant on replacement deals partly driven by environmental regulations. We have increased cyclical exposure in the group adding to the likes of Larsen & Toubro in India. We also have exposure to construction through companies such as Sany Heavy Industry. In consumer areas we remain cautious on autos but like travel and leisure related names such as Lemon Tree Hotels in India, casino operator Wynn Macau listed in Hong Kong and Minor International in Thailand. By the end of Q2 2021, we should be looking at a world where vaccines have been rolled out and consumers are beginning to return to normal spending patterns, with substantial pent up demand for travel. In retail demand has finished the year well led by China although there may be a swing back to spending on experiences in H2 2021 as consumers return to cinemas, restaurants and hotels. The pandemic has benefited the food and household products sector.

The food segment continues to be driven by stronger sales in the at-home market led by volumes, with this trend also evident in HPC. We have added brewer Budweiser APAC, which is a play on the premiumisation of beer sales in China, and continue to like Varun Beverages in India and Heineken Malaysia. With regard to index heavyweight Alibaba, the antitrust investigation and postponement of the Ant Financial IPO has tarnished an exciting fundamental story. The strong performance prior to Q4 was a consideration in moving underweight until the regulatory dust settles, and investors can focus back on the company's outstanding investment opportunities and growth prospects.

In financials, banks are a beneficiary of a value rotation with earnings momentum improving due to the cyclical recovery and provisions normalising. The sector remains an attractive way of playing any recovery in Brazil and India. We remain overweight IT and still favour chip makers TSMC and Samsung and Chinese names such as internet data centre operator 21Vianet and enterprise management software developer Kingdee International. In communications we are slightly overweight game maker Tencent but underweight the sector. We are underweight utilities but overweight real estate where we like ESR Cayman which operates integrated logistics locations.

Performance Attribution

3 Months to December 31, 2020	Allocation (%)	Stock Selection (%)	Net Impact (%)
Total	-0.07	4.71	4.64
Emerging Market Asia	-0.63	4.72	4.09
China	0.18	2.80	2.97
Hong Kong	-0.37	0.00	-0.37
Korea, Republic of	-0.17	0.29	0.11
Taiwan	-0.02	0.23	0.21
India	-0.04	1.15	1.11
Malaysia	0.04	0.24	0.29
Philippines	-0.02	0.02	-0.01
Emerging Markets Europe, Middle East and Africa	0.86	0.16	1.02
South Africa	-0.04	-0.08	-0.11
Russian Federation	-0.01	-0.11	-0.12
GCC (Saudi Arabia, Qatar, UAE)	0.57	0.00	0.57
Switzerland	0.43	0.00	0.43
Emerging Market Latin America	0.09	-0.17	-0.08
Brazil	0.31	-0.51	-0.19
Mexico	-0.09	0.34	0.24
Argentina	0.00	0.00	0.00
Frontier Markets	0.08	0.00	0.08
Cash	-0.48	0.00	-0.48

Attribution is presented gross of operating expenses and may differ from figures shown in the

In addition, attribution for foreign strategies is presented relative to gross of withholding tax index returns. Security pricing differences between CCLFG and provider may also result in some added value

The MSCI Emerging Markets index had a buoyant finish to the year, with a quarterly gain of 19.8% in US\$ terms pushing the full year return into strong positive territory at 18.7%. Security selection on the fund drove an even larger rise, building on earlier relative gains for the strategy. This has been a year of unexpected developments in many fields including the pandemic and policy responses to it. Our focus on monetary trends has been helpful in navigating a volatile environment in which Covid-19 and policy responses led to unprecedented moves in economies and asset markets. Returns for the quarter were positive in all ten MSCI sectors, with the strongest gains in IT (+34.1%), materials (+29.8%), financials (+24.3%) and industrials (+21.1%) while the weakest sectors were real estate (+6.0%) and consumer discretionary (+7.4%). Sector selection was broadly neutral with the modest overweights in consumer discretionary and real estate offset by more significant overweights in IT and industrials. Positive security selection was the principal driver of the near 5.5% relative gain.

At the country level, gains in Latin America of 37% in Brazil and 48.4% in Colombia were amongst the strongest in the asset class but the large Asian markets of Korea, Taiwan and India also delivered with rises of 37.2%, 23.2% and 21.2% respectively. In EEMEA, Hungary gained 39.2%, Turkey 30.6%, Russia 22.1% and South Africa 22.2%. Among the more muted performers were the Gulf markets where the strongest country return was UAE which managed a rise of only +10.6% despite a recovery in energy prices (WTI +17.9%). As with sector attribution the majority of the relative gains came from security selection though the zero weighting in the Gulf markets and the timely increase to Brazil and reduction in China were also positive contributors.

Our liquidity analysis had prompted the team to place increased emphasis on economically sensitive securities and economies over the second half of the year and this was rewarded in Q4. We increased exposure to industrial names and this proved well timed particularly in China where Sany Heavy Industries (+46.4%) and Contemporary Amperex Tech (+74.8%) delivered significant gains for the portfolio. In Taiwan the factory

automation company AirTAC International Group (+42.5%) boosted performance. Elsewhere in industrials low cost East European carrier Wizz Air (+55%) and Localiza Rent a car (+32.2%) in Brazil were positive contributors along with the aluminium refiner and power company Mytilineos Holdings (+35.5%) in Greece.

Security selection in financials was the second largest contributor to relative performance over the quarter with four of our holdings delivering a rebound of over 50%. In Brazil the two private sector banks Banco Bradesco (+56.2%) and Banco Itau (+53.6%) were positive contributors as announcements on the approval of vaccines in Europe boosted hopes of an earlier than expected end to the negative environment caused by the global pandemic. Chinese financials gained 16% over the quarter so the 34% gain in private sector China Merchant Bank was positive. Elsewhere Kasikornbank (+55.2%) in Thailand and ICICI Bank in India (+51.2%) helped security selection in a sector we were overweight.

Security selection in IT was also a strong contributor to performance in Q4. Beneficiaries of surging cloud demand did well, with 21Vianet Group (data centres) gaining along with Kingdee Intl Software (enterprise software). In Korea both semiconductor manufacturers Samsung Electronics and SK Hynix both advanced around 52%.

Security selection in consumer discretionary was positive over the quarter as some of our travel related names recovered on the favourable vaccine newsflow. Hotel operators Lemontree Hotels (+45.7%) and Minor Intl (+36.2%) jumped in addition to the previously mentioned Wizz Air and Spring Airlines in China (+28.3%). The biggest news, however, was the self-inflicted fall from grace of China's Alibaba. The platform giant irked the Chinese authorities with an ill-informed rebuke of financial regulators just before a planned listing of its affiliate, Ant Financial. There followed a last-minute cancellation of said IPO along with the launch of anti-trust investigations into the sector. The US listed security declined by 20.8% over the quarter, with the Hong Kong line down 15.6%. We benefitted from an underweight position. Operationally we admire the business but after a number of spectacular years we preferred to deploy capital elsewhere given our current preference for real economy over high duration growth names. The platform businesses have enjoyed a huge boost from pandemic related growth in ecommerce and digital services demand so it made sense to lock in some of those gains for the portfolio. Ant Financial had limited evidence of controls to satisfy a conservative financial regulator and, as elsewhere in the world, internet giants like Alibaba can face plenty of questions regarding their monopolistic positions. Jack Ma's maverick and outspoken nature has long been noted to be a risk factor.

Portfolio activity

Top 10 Purchases

Country	Security	Sector	%
India	ICICI Bank Ltd	Financial	1.53
Thailand	Kasikorn Bank	Financial	1.20
China	Glodon Co Ltd-	Information	0.90
Hong Kong	Budweiser Brewing Co Apac	Consumer	0.89
Indonesia	Semen Gresik (Persero)	Material	0.81
Brazil	Banco Bradesco	Financial	0.81
Taiwan	Giant	Consumer	0.76
India	Housing Development	Financial	0.75
China	Tencent Holdings	Communication	0.75
Korea, Republic of	Hankook Tire & Technology Co	Consumer	0.71

Transactions over the period moved Latin America to a small overweight while reducing Asia. The focus has been on adding to cyclical sectors such as materials, financials and industrials funded from consumer discretionary and communications. In India, we have bought industrial Larsen & Toubro, which makes engineering equipment. Orders in Q3 were strong driven by the domestic infrastructure sector including the high-speed railway project. Investment spending in India is normalising more rapidly than expected with the government focusing on large infrastructure projects and residential real estate also reviving. The company is well placed to benefit from the cyclical recovery and has a strong tendering pipeline. The stock trades at a discount to its historic market relative despite strong long-term earnings performance and an improvement in the return on invested capital from its recent low in 2020. In materials, we have also introduced miner and refiner Hindalco, which is focused on aluminium and copper. A strong volume and margin outlook for its aluminium operator Novelis should drive a deleveraging over the next two years while a higher share of downstream has resulted in lower earnings volatility. Strength in beverage cans and auto body parts should be a secular growth driver offsetting the loss of demand from aerospace. In financials we have reintroduced ICICI Bank, which is India's largest private bank with more than 5,300 branches nationwide. The company is achieving double digit loan growth with net interest margins holding at 3.8%. Fee income is also growing at high single digits and lending is focused on less risky sectors with manageable exposures to unsecured retail and SMEs. Loan activity should normalise with the easing of Covid-19 lockdowns and the group should benefit from increased digital adoption, helping it gain market share and lower its cost-to-income ratios. On the sell side in India we have exited refiner Reliance Industries, which has lagged the recovery in petrochemical and refining stocks in Q4. The company's digital and telecom investments have held the shares back and they are over owned by foreign investors.

Elsewhere in Asia we have bought Thai financial Kasikorn Bank, partly because of its higher exposure than peers to SMEs, many of which operate in tourism. The Thai economy has been hit hard by the pandemic with tourism a large percentage of GDP but the roll out of vaccines should give hope for a return to international travel later in 2021. Non-performing loans will rise but Kasikorn has built up a large provision and is seeking to improve the quality of its book. The company has invested heavily in its digital platform, which should cut costs and help to grow new business, contributing to a recovery in its return on equity that could drive a re-rating.

Top 10 Sales

Country	Security	Sector	%
China	Alibaba Group Holding	Consumer	2.94
Hong Kong	Hong Kong Exchanges and Clearing Ltd	Financial	1.42
China	Joyoung Co Ltd -	Consumer	1.14
China	Jd.Com	Consumer	1.11
Colombia	Bancolombia	Financial	0.93
Taiwan	Hon Hai Precision	Information	0.90
China	Tencent Music Entertainm-	Communication	0.86
China	Sany Heavy Industry Co Ltd-	Industrial	0.85
China	Hundsun Technologies Inc-	Information	0.73
China	Dada Nexus Ltd -	Consumer	0.69

We have also added Semen Gresik (Persero), the largest cement maker in Indonesia with over a 50% market share. Volume demand is driving strong earnings growth, which is being used to deleverage. Government infrastructure projects are resuming, resulting in increased demand for bulk cement, while there has been a moratorium limiting additional cement capacity from new producers, which will support prices. In Korea we have introduced tire maker Hankook, which announced strong Q3 20 results well ahead of consensus. Market share gains and a strong demand recovery are driving revenues and operating profit to above pre-Covid levels as the company's competitive pricing is helping win sales. The group is also taking share in EV tires based on price. In China we have made a number of sales including exiting online retailer JD.com, electrical appliance maker Joyoung, property developer China Overseas Land and Tencent Music. Ecommerce giant Alibaba was reduced significantly following the postponement of the Ant Group listing and antitrust investigation. We have also reduced machinery maker Sany Heavy Industry and taken profits in Hong Kong Exchanges, which may be impacted by the less supportive global liquidity backdrop. On the buy side in China we have added to Tencent where we continue to believe that the company will gain international market share through its leading online game development capability. In Taiwan we have re-introduced bicycle maker Giant as demand for high-end bikes remains strong while visibility at the lower end has improved. The company continues to benefit from sustained growth in global bike demand and increased buying of e-bikes during Covid lockdowns.

On the sell side in Taiwan we have exited consumer electronics maker Hon Hai Precision as a source of cash. In Latin America we have introduced real estate company Multiplan, which is a play on the rebound in shopping malls in Brazil after Covid. The company has a high quality portfolio, which should mean more stable occupancy and a faster rebound in sales. We have also added to Bradesco, Brazil's third largest bank, where there is the potential for reversals of loan provisions. The company is launching new products and services to improve customer service and take market share, and management believes they can grow their loan book faster than the market. On the sell side we have exited Bancolombia where the rebound in return on equity may be slow as the recovery in domestic economy lags others in the region.

Asset allocation

Region	Portfolio (%)	Performance Indicator* (%)	Deviation (%)
Emerging Markets Asia	76.04	79.97	-3.93
China	33.45	39.07	-5.62
Korea, Republic of	13.00	13.47	-0.47
Taiwan	11.77	12.76	-0.98
India	10.20	9.25	0.95
Emerging Markets Europe, Middle East & Africa	5.79	11.64	-5.85
South Africa	0.94	3.47	-2.53
Russian Federation	3.20	2.95	0.25
Emerging Markets Latin America	8.71	7.90	0.81
Brazil	7.47	5.10	2.37
Mexico	1.24	1.73	-0.49
Frontier Markets	0.79	0.49	0.30
Developed Markets	5.72	0.00	5.72
Cash	2.95	0.00	2.95

Sector	Portfolio (%)	Performance Indicator* (%)	Deviation (%)
Energy	1.23	5.02	-3.79
Materials	6.90	7.56	-0.67
Industrials	10.12	4.34	5.79
Consumer Discretionary	17.47	18.34	-0.87
Consumer Staples	4.25	5.86	-1.61
Health Care	1.34	4.73	-3.39
Financials	19.70	17.96	1.74
Information Technology	25.43	20.48	4.95
Communication Services	7.27	11.64	-4.37
Utilities	0.00	2.02	-2.02
Real Estate	3.34	2.05	1.29
Cash	2.95	0.00	2.95

*Performance Indicator: MSCI Emerging Markets NR Index

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The Prospectus of the Fund, the Supplement of its Sub-Funds and the KIIDS are available from the Investment Manager and the Distributor or from its website www.nedgroupinvestments.com

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