Mondrian Emerging Markets Small Cap Equity
Quarterly Update

Emerging Markets Small Cap at a Glance

- Total Product Assets: $936 million
- Composite Inception: November 2011
- Benchmark: MSCI Emerging Markets Small Cap Index
- Maximum Market Cap at Inception: Approximately $1.75 billion
- Weighted Average Market Cap: Approximately $1.6 billion
- Active value-oriented defensive strategy
- Consistent application of income-oriented valuation approach
- Universe: Approximately 2,000 companies
- Number of Stocks: 70-150

Our Organization

- Founded in 1990, with almost 30 years of stable, consistent leadership
- Firmwide Assets: Approximately $55 billion
- Mondrian is employee-owned; approximately half are partners today
- Consistent, income-oriented value discipline has been applied to all products since the firm's inception
- Highly experienced team of 54 investment professionals in London

Why Emerging Markets Small Cap?

- Focus on domestic structural and economic growth trends
- Inefficient asset class
  – Large universe of under-researched companies
- Low correlation
  – Diversification benefits to global portfolios
- Risk
  – A well-diversified portfolio of emerging markets small cap companies is no riskier than a diversified emerging markets mid/large cap portfolio

An allocation to Emerging Markets Small Cap provides potential for higher alpha generation and improved diversification without significant increase in risk level.

The opinions expressed above are Mondrian's views based on proprietary research.

Philosophy

We invest in stocks where rigorous dividend discount analysis isolates value in terms of the long-term flow of dividends. Dividend yield and future real growth play a central role in our decision making process and over time the dividend component is expected to be a meaningful portion of expected total return.

Benefits of Our Approach

Mondrian's approach focuses on providing a rate of return meaningfully greater than the client's domestic rate of inflation. Our portfolios seek to preserve capital during protracted global market declines. Additionally, our portfolio performance seeks to be less volatile than the MSCI EM Small Cap Index and the performance of most other emerging markets small cap managers.

Investment Process

- A value-oriented dividend discount analysis at both the individual security and market level seeks to isolate value across geographic and industrial borders in a unified manner.
- Currency analysis based on a long term purchasing power parity approach, supplemented by shorter-term probability assessment.
- Fundamental research is strongly emphasized. An extensive program of company and market visits enhances initial qualitative and quantitative desk research, both prior to the purchase of a stock and after its inclusion in the portfolio.

Liquidity

- Limits on flows will be utilized to protect investors and assure sufficient liquidity to invest/divest asset flows. This may result in delays to investment and a managed withdrawal schedule.

Performance Summary (USD)

	Composite Gross %	Composite Net %	MSCI EM Small Cap %
Cumulative Periods			
Quarter 4, 2019	8.52	8.26	9.52
Annualized Periods			
1 Year	10.39	9.35	11.51
3 Years	4.85	3.80	6.70
5 Years	0.66	-0.29	2.97
7 Years	2.70	1.73	2.41
Since Inception November 1, 2011 (annualized)	5.38	4.39	3.33

See Important Notes & Disclosures on page 5.

	Composite Gross Return	Composite Net Return	MSCI Emerging Markets Small Cap
Quarter 4, 2019	8.52%	8.26%	9.52%

Market Background

The MSCI Emerging Markets Small Cap Index rose 9.5% in the fourth quarter of 2019 (all returns in USD)

The MSCI Emerging Markets Small Cap Index returned 9.5% in a strong fourth quarter, finishing up 11.5% for the full year 2019. During the quarter, the emerging small cap equity markets benefitted from an easing in geopolitical concerns and optimism surrounding the US and China trade deal. Expansionary monetary policies in a number of markets, US dollar weakness and higher commodity prices further supported the small cap emerging equities' performance.

Latin America was the best performing region over the quarter

Latin America was the best performing region over the quarter, returning 17.8%. The outperformance was led by Brazil, which gained 24.8%, supported by the news on the long-awaited pension reform bill being passed by the Senate in October, continued interest rate cuts and positive economic indicators signalling an economic recovery. Mexico also fared well, up 10.0%, aided by currency strength. Europe, Middle East and Africa returned 10.8% during the quarter. Within the region, South Africa fared particularly well, rising 19.2%, benefitting from the strong performance of the Materials sector and the rand. Poland and Russia were also notably strong, up 15.7% and 11.1% respectively, while the rest of the region lagged the broader Index. Asia was the worst performing region over the quarter, albeit still rising 7.6%. Export-oriented South Korean and Taiwanese equity markets outperformed, gaining 11.6% and 10.8% respectively. The easing of trade tensions following the announcement of Phase One Trade deal with the US, which is due to be signed in mid-January 2020, supported the Chinese equity market in December. In the proposed trade deal the US has agreed to delay the new tariffs as well as to reduce already implemented tariffs on $120bn of Chinese imports from 15% to 7.5%. China in return has agreed to increase its purchases from the US. Despite the December outperformance, the Chinese equity market lagged the broader Index over the quarter, retuning 7.2%. India also underperformed, albeit still up 5.1%, as concerns over economic growth and higher crude oil prices weighed on equity returns and the rupee. Thailand and Indonesia were the weakest markets within the region, declining by -3.3% and -4.3% respectively.

All sectors registered gains over the quarter

Health Care was the best performing sector over the quarter, increasing 14.6%. Information Technology rose 14.3%, boosted by optimism around continuing 5G technology rollout. The Materials sector also delivered strong returns, gaining 14.1%, helped by higher commodity prices. The Financials and Real Estate sectors, both up 5.7%, as well as Industrials, up 5.6%, lagged the strong broader Index over the quarter.

Exchange rate movements had a positive impact on US dollar returns

Most major currencies strengthened relative to the US dollar during the fourth quarter. The South African rand was the best performing currency, appreciating by 8.4%. The Mexican peso and Brazilian real were also notably strong, gaining 4.6% and 3.5% respectively. In Asia, the Taiwanese dollar and South Korean won strengthened by 3.5% and 3.4%, respectively; whilst the Indian rupee was weak, depreciating by -0.7%. The Turkish lira was the worst performing currency over the quarter, declining by -5.1%.

Performance Attribution for the Fourth Quarter

The Emerging Markets Small Cap net Composite gained 8.3% during the fourth quarter, performing in line with its defensive characteristics and delivering significant upside capture amid strong equity markets. The portfolio benefitted from positive stock selection in China and South Korea as well as its positioning in Thailand and the Czech Republic. The portfolio's lack of exposure to the Chilean market further added to performance. The biggest detractors during the quarter were the portfolio's underweight exposure to the strong Brazilian and South African markets as well as stock selection in the Philippines.

Performance Attribution for 2019

The emerging small cap equity markets registered gains in the first quarter of 2019, supported by investors' optimism towards US Federal Reserve's decision to slow its pace of monetary tightening. The sentiment turned negative for the next two quarters where persistent concerns over global trade and slowing economic growth weighed on equity markets' performance with a subsequent strong rebound in the fourth quarter over easing trade tensions. The Emerging Markets Small Cap net Composite provided significant downside protection in the periods of volatility but was unable to fully capture the rally experienced towards the end of year.

The Emerging Markets Small Cap net Composite gained 9.4% for the full year of 2019, underperforming the Index by 1.9%. During the year, the portfolio benefitted from strong stock selection in India, Poland, Thailand, Taiwan and South Korea as well as its underweight exposure to the weak South Korean market and the won. The portfolio's lack of exposure to the Chilean market further added to performance. The portfolio was held back by its underweight positions in the strong Brazilian and Taiwanese markets as well as stock selection in the Philippines.

Investment Outlook

A New Decade, But It's Déjà Vu All Over Again

Following the Global Financial Crisis (GFC), we finally saw a synchronized global cyclical recovery in 2016 and 2017 which paved the way for a gradual normalization of monetary policy across the globe, led by the Fed with its ending of quantitative easing (QE). There were expectations that a change in the discount rate would alter risk appetite bringing normalization in financial markets. However, this has now been derailed with the resumption of QE in some cases and an easing bias across both developed and emerging economies – déjà vu!

Prolonged accommodative financial and liquidity conditions have led to slow progress in deleveraging and lax implementation of structural reforms to improve productivity. Inadequate social safety nets to cater for those disadvantaged by globalization and automation alongside asset inflation against an environment of modest economic growth drove wealth inequalities, creating social issues with implications to politics, stability and growth. Unless these issues are resolved, and without significant improvements in productivity and structural reforms, we believe developed economies will face a path of lower trend growth, modest inflation and lower short-term policy rates relative to history.

Indeed, trend growth across developed economies has fallen since the GFC, with sluggish investment cycles keeping productivity levels relatively low. This was reflected in the recent short-lived cyclical recovery from late 2016 to mid-2018 which was muted relative to previous cycles.

It was expected that growth would moderate led by both the US and China due to fading effects of US tax reforms and China's attempt to deleverage and restructure its state-owned enterprises (SOEs), local government and financial institutions. However, the slowdown has been further exacerbated by trade tensions between the US and its trading partners, primarily China. This has affected sentiment, confidence and the investment cycle with implications on manufacturing activity and global trade impacting aggregate global demand. Up until now, global growth has hinged on a single engine – household consumption – kept resilient thus far by low interest rates, healthy employment and wage growth. Monetary easing and fiscal stimulus will provide further support to offset the slowdown caused by trade tensions.

However, fiscal stimulus in the US is likely to be constrained given its fiscal indebtedness and therefore is unlikely to provide significant impetus to accelerate growth. Further, Chinese authorities have not shown willingness to undertake an aggressive fiscal stimulus response as it attempts to strike a balance between growth and financial stability. Unlike previous slowdowns, fixed asset investment has not been as aggressive and much reliance placed upon the shoulders of local governments. Further, the responsibility of rescuing distressed banks also falls onto local governments as opposed to central government at a time when the former's source of tax revenue is impacted by the slowdown in the economy and property market. Thus far, the Chinese government has implemented a range of policies including tax cuts and credit easing for small and medium-sized enterprises to contain unemployment as well as personal tax cuts to support household consumption. While China is likely to benefit from its stimulus, we may observe some episodic stresses unless its policy gets aggressive. In addition, the recovery in the Eurozone has not been strong and has been impacted by a slowdown in external trade. The Eurozone is therefore unlikely to provide a lift to global growth with its resumption of QE even if Germany undertakes an aggressive fiscal spending policy. As a result, we believe global growth is likely to remain modest given the absence of a boost from the world's two largest economies – the US and China.

Relatively stronger growth in the US and its safe haven status is likely to maintain the strength in the US dollar despite its overvaluation, which will pose challenges for international equities including emerging markets.

Throughout the decade since the GFC, we have observed that periods of strong dollar and/or rise in bond yields in the US exposed the vulnerabilities of a number of emerging economies faced with weak balance of payment, high fiscal indebtedness and financial imbalances due to currency mismatch including those with inflexible labor policies failing to attract sustainable domestic and foreign direct investment. Whilst there has been disappointment with the pace of reforms and credible policy frameworks across the major economies resulting in below trend GDP growth, we recognize the potential for attractive growth prospects as these economies undergo industrialization, urbanization as well as growing middle class population with economic advancement creating demand for goods and services.

Slowing global growth, political uncertainties and trade protectionism are likely to limit the performance across broad international equity markets including emerging markets, valuations of equities and currencies outside the US are relatively attractive. On the other hand, corporate profit margins in the US appear to have reached their peaks, valuations are rich and a strong US dollar limits further upside. This makes international equities, particularly the inefficient emerging small cap asset class, compelling to a US-based investor, offering appealing alpha-generation opportunities. Market uncertainties with tail risks present opportunities for a manager like Mondrian which adopts a disciplined investment approach focused on targeting real rates of return, downside protection and minimized volatility.

The Mondrian Emerging Small Cap equity portfolio adopts a diversified and balanced approach capturing attractively valued investments with well capitalized balance sheets, enjoying structural growth opportunities with sustainable business models and strong cash flows to support growth and dividend payments. This strategy aims to deliver both downside protection during periods of volatility as well as upside capture during periods of optimism.

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Quarter 4, 2019

Characteristics

	Mondrian	MSCI EM Small Cap
Total Product Assets	$936 million	—
Number of Holdings	91	1,653
Weighted Average Market Cap	$1.6 billion	$1.3 billion
Median Market Cap	$1.2 million	$711.0 million

Sector Allocation

	Mondrian %	MSCI EM Small Cap %
Communication Services	4.0	3.9
Consumer Discretionary	13.0	14.3
Consumer Staples	13.3	6.0
Energy	1.2	2.3
Financials	4.5	9.6
Health Care	15.3	9.0
Industrials	17.5	14.0
Information Technology	9.6	16.2
Materials	10.6	11.1
Real Estate	6.4	8.5
Utilities	2.8	5.1
Cash	1.8	–
TOTAL	100.0	100.0

Country Allocation

	Mondrian %	MSCI EM Small Cap %
Latin America	**9.6**	**15.4**
Brazil	4.4	10.5
Mexico	3.2	2.8
Peru	2.0	–
Europe, Middle East & Africa	**13.0**	**14.0**
Czech Republic	1.6	0.1
Estonia	1.2	–
Kuwait	1.6	–
Poland	2.3	1.1
Saudi Arabia	2.8	2.5
Slovenia	0.8	–
South Africa	0.8	4.9
UAE	1.0	0.6
United Kingdom	0.9	–
Asia	**75.6**	**70.6**
North Asia	**34.6**	**46.5**
China/Hong Kong	18.9	10.6
South Korea	6.2	15.5
Taiwan	9.6	20.4
South Asia	**41.0**	**23.6**
India	28.6	13.2
Indonesia	3.9	2.1
Malaysia	3.1	3.3
Philippines	2.7	1.0
Thailand	2.6	4.0
Cash	**1.8**	**–**
TOTAL	100.0	100.0

Portfolio Managers

Ormala Krishnan
CIO Small Cap Equities

Graeme Coll
Senior Portfolio Manager

Mondrian utilizes a team approach to making investment decisions. The individuals listed above represent several key members of the team.

See Important Notes & Disclosures on page 5.

Important Notes & Disclosures

1. Mondrian claims compliance with the Global Investment Performance Standards (GIPS®). Mondrian is a value-oriented defensive manager seeking to achieve high real returns for its clients. All products utilize an income-oriented value discipline. Mondrian's methodology is applied consistently to markets and individual securities, both bonds and equities. The Emerging Markets Small Cap Equity Composite includes US dollar based discretionary fee paying portfolios, measured against the MSCI Emerging Markets Small Cap Index net of US withholding taxes. The portfolios are invested primarily in small capitalisation publicly traded companies based in an emerging market, or deriving a majority of revenue within emerging market economies. The MSCI Emerging Markets Small Cap Index assumes the reinvestment of dividends after the deduction of withholding tax and approximates the minimum possible dividend re-investment. To receive a complete list and description of composites and/or a presentation that adheres to the GIPS standards, contact Mondrian Investment Partners (U.S.), Inc at 215-825-4500.

   For the month of inception, November 2011, the composite consisted only of a Mondrian seed capital portfolio which is non-fee paying and had no external investors. The portfolio was managed and operated identically to external portfolios, and portfolio accounting was performed in conjunction with independent Fourth parties.

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2. This Quarterly Update contains supplemental information which complements the Mondrian Emerging Markets Small Cap Equity Composite GIPS compliant presentation. Additional information is available upon request.

   Total Product Assets may consist of multiple composites. Performance for the main composite for the product is shown.

3. Accounts may not be included in the main composite for reasons such as client domicile or client specific investment restrictions.

4. Calculations for P/E, P/B, dividend yield, sector country allocations and market caps are based on generally accepted industry standards. All characteristics are based on a representative account and derived by first calculating the characteristics for each security, and then calculating the weighted-average of these values. The details of exact calculations can be provided upon request.

5. Past performance is not indicative of future results. An investment involves the risk of loss. The investment return and value of investments will fluctuate.

6. There can be no assurance that the investment objectives of the strategy will be achieved.

7. All characteristic data provided is produced using Mondrian's accounting system data.

8. Performance results marked "Gross" do not reflect deduction of investment advisory fees but are net of transaction costs and withholding tax. Investment returns will be reduced accordingly. Performance returns marked "Net" reflect deduction of investment advisory fees and are calculated by deducting a quarterly indicative fee from the quarterly composite return. The indicative fee is defined as being the effective fee rate (or average weighted fee) at the composite's minimum account size. Actual net composite performance would be higher than the indicative net performance shown because some accounts may have sliding fee scales and therefore lower effective fee rates.

9. Views expressed were current as of the date indicated, are subject to change, and may not reflect current views. Views should not be considered a recommendation to buy, hold or sell any security and should not be relied on as research or investment advice.

10. This Quarterly Update may include forward-looking statements. All statements other than statements of historical facts are forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those reflected in such forward-looking statements.

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