

# Mondrian Emerging Markets Equity

## Quarterly Update

### Emerging Markets at a Glance

- Total Emerging Markets Assets: \$6.4 billion
- Total Product Assets: \$6.2 billion
- Product Inception: August 1996
- Active value-oriented defensive strategy
- Consistent application of income oriented valuation approach
- Number of Stocks: Approximately 40-60
- Annual turnover is generally 30-50%

### Our Organization

- Founded in 1990, with 30 years of stable, consistent leadership
- Emerging strategy started in 1996
- Firmwide Assets: Over \$49 billion
- Mondrian is employee owned; approximately half of employees are partners today
- Consistent, income-oriented value discipline has been applied to all products since the firm's inception
- Highly experienced team of 56 investment professionals in London
- Dedicated Emerging team of 8

### Performance Summary (USD)

	Composite (Gross) %	Composite (Net) %	MSCI EM %	MSCI EM Value %
<b>Cumulative Periods</b>				
Quarter 2, 2020	15.48	15.28	18.08	13.83
<b>Annualized Periods</b>				
1 Year	-7.76	-8.40	-3.39	-15.74
3 Years	-0.79	-1.48	1.90	-2.64
5 Years	1.18	0.48	2.86	-0.80
7 Years	0.89	0.19	3.22	0.21
10 Years	3.00	2.29	3.27	0.66
Since Inception (August 1996)	7.95	7.20	5.67	—

### 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.

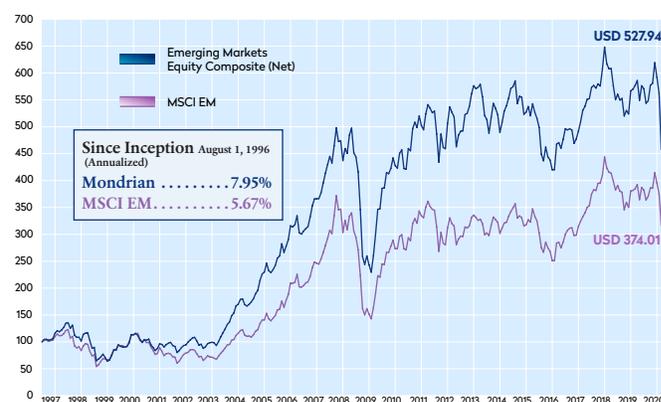
### Benefits of Our Approach

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 has historically been less volatile than the emerging benchmarks and most other emerging equity managers.

### Investment Process

- A value oriented dividend discount analysis at both the individual security and market level isolates value across geographic and industrial borders in a unified manner.
- 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.

### Cumulative Returns (USD) August 1996 = 100



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	Composite Gross Return	Composite Net Return	MSCI EM	MSCI EM Value
Quarter 2, 2020	15.48%	15.28%	18.08%	13.83%

## Performance Highlights and Key Attributes

### Emerging Markets rallied following COVID-19 Q1 sell-off

The MSCI Emerging Markets Index rose 18.1% as global stock markets staged a strong recovery in response to economies coming out of lockdowns enforced by the COVID-19 pandemic. Governments and Central Banks, particularly in the US and other major economies, launched huge monetary and fiscal stimulus packages in response to the economic consequences of COVID-19 that helped to support stock prices. All regions posted strong positive absolute returns, with little difference across regions and most major markets. Latin America (+19.1%) and EMEA (+18.9%) both marginally outperformed, while Asia (+17.8%) performed largely in line with the index return. Within Asia, China slightly lagged despite posting a positive absolute return of 15.3%. China however remains the standout best performing market in the asset class year-to-date. The net composite lagged the strong index return but outperformed the Value benchmark.

### Top-down allocation was negative for the quarter

Country allocation and currency effects both detracted from relative returns. The underweight allocations to the outperforming South African (+27.1%) and Brazilian (+22.8%) markets held back returns, along with a negative impact from overweight positioning in China which lagged. Offsetting this to a limited extent was underweight exposure to the Middle East and Malaysia (+13.6%) given their respective underperformance.

### Sector allocation was neutral; wide performance dispersion across sectors

As was the case during the first quarter, there was a clear divergence in performance between the sectors viewed as beneficiaries of COVID-19 compared to the sectors regarded as most negatively impacted. Health care (+37.4%) and communication services (+23.3%) were again amongst the best performers compared to the more cyclical and economically sensitive financials (+7.6%) and real estate (+6.0%) sectors. The portfolio's overweight allocation to health care and underweight exposure to real estate added value, albeit held back by negative stock selection, offset by the underweight allocation to the communications services sector.

### Stock selection negative; primarily driven by China and Brazil

The continued dominance of Growth stocks (+22.1%) over Value (+13.8%) across the asset class was no clearer than within China, with the outperformance of some high growth consumer discretionary stocks in particular detracting from relative performance. This negative impact was amplified by the relative underperformance of several portfolio positions. Financials Ping An Insurance and China Merchants Bank both lagged in line with the wider financials sector, and consumer staple names Tingyi and WH Group underperformed. In Brazil relative returns were held back by a similar dynamic of some portfolio holdings lagging other sectors that rallied more strongly in the Brazilian market. More positively, Indian stock selection made a positive contribution to investment performance. Reliance Industries gained 53.3% as the company announced partnerships with strategic investors including Facebook buying into the company's Jio platform, further helping Reliance's strategic objectives of advancing its digital ambitions while deleveraging the balance sheet. In addition, HCL Technologies, Indiabulls and Bajaj Auto were also strong outperformers. Lastly, South Korean holding LG Chem continued to outperform given increased optimism for the outlook of its battery business.

## Investment Strategy and Portfolio Positioning

The main highlights of the strategy being adopted for the account are:

- A long term, defensive, value stock orientation. Amongst undervalued companies, the portfolio has a focus on strong companies within their sectors and markets, and those that generate sustainable positive free cash flow with a healthy balance sheet.
- Overweight exposure to China. We believe the China market has attractive long term dynamics and a high proportion of robust, world-leading, and stable companies. China also has support measures in place, and effective control by government to better navigate through the current global pandemic. Also overweight India and Russia.
- Underweight in EMEA and Latin America given unattractive risk adjusted valuations. Zero exposure to Saudi Arabia and Central Eastern Europe, underweight to South Africa.
- Overweight exposure to IT, health care and consumer staples where attractive valuations should be supported by a combination of strong balance sheets, long term structural growth drivers, and increased penetration of products and services. Also overweight insurance and energy driven by stock specific positioning of respective leaders in their space.
- Underweight positioning in more cyclical areas such as banks, real estate and industrials where risk adjusted valuations mostly remain challenged.

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### Characteristics (All information is as of June 30, 2020)

	Mondrian	MSCI EM
Weighted Average P/E (trailing 12 months)*	13.1x	16.0x
Weighted Average P/B	1.6x	1.6x
Weighted Average Dividend Yield	3.1%	2.6%
Number of Holdings	49	1,385
Weighted Average Market Cap	\$138.5 billion	\$127.2 billion
Median Market Cap	\$21.1 billion	\$3.2 billion

### Sector Allocation

	Mondrian %	MSCI EM %
Communication Services	11.1	13.5
Consumer Discretionary	14.9	17.4
Consumer Staples	9.4	6.5
Energy	8.4	6.0
Financials	21.2	19.1
Health Care	5.7	4.3
Industrials	—	4.7
Information Technology	22.1	16.9
Materials	4.9	6.9
Real Estate	1.2	2.6
Utilities	—	2.3
Cash	1.1	—
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Country Allocation

	Mondrian %	MSCI EM %
<b>Asia</b>	<b>82.5</b>	<b>79.2</b>
China	46.8	41.0
India	11.7	8.0
Indonesia	1.5	1.5
South Korea	11.7	11.6
Taiwan	10.4	12.3
Thailand	—	2.3
Other Asia	0.4	2.7
<b>Europe, Africa &amp; Middle East</b>	<b>7.9</b>	<b>12.8</b>
Russia	4.5	3.2
Saudi Arabia	—	2.7
South Africa	2.3	3.8
Other EMEA	1.1	3.1
<b>Latin America</b>	<b>6.5</b>	<b>8.0</b>
Brazil	3.4	5.1
Mexico	2.1	1.7
Other Latin America	0.9	1.1
<b>Developed Markets</b>	<b>2.0</b>	<b>—</b>
<b>Cash</b>	<b>1.1</b>	<b>—</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*Due to small negative PEs on Embraer and Suzano, overall PE numbers are distorted. Excluding Embraer and Suzano from calculations would give the portfolio PE 12.4.

### Portfolio Managers

<b>Andrew Miller</b> Chief Investment Officer – Emerging Markets Equities	<b>Clive A. Gillmore</b> Chief Executive Officer & Group Chief Investment Officer
<b>Ginny Chong</b> Senior Portfolio Manager	<b>Gregory Halton</b> Senior Portfolio Manager
	<b>Boris Veselinovich</b> Senior Portfolio Manager

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

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## Important Notes & Disclosures

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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 Equity Composite includes US dollar based discretionary fee paying portfolios, measured against the MSCI EM Index net of US withholding taxes. The portfolios are invested in non-US based equities with the allowance for hedging. The MSCI EM 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.
2. This Quarterly Update contains supplemental information which complements the Mondrian Emerging Markets Equity Composite GIPS compliant presentation. Additional information is available upon request.
3. Total Product Assets may consist of multiple composites. Performance for the main composite for the product is shown. 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 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 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.
11. This introductory material is for informational purposes only and is not an offer or solicitation with respect to any securities. Any offer of securities can only be made by written offering materials, which are available solely upon request, on an exclusively private basis and only to qualified financially sophisticated investors. The information set forth herein is a summary only and does not set forth all of the risks associated with the investment strategy described herein.
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