

# Emerging Markets Small Cap Investment Outlook

## Recent Performance Review

### 2023

Composite Return (Gross)	Composite Return (Net)	Benchmark Return	Relative Return (Gross)
+25.6%	+24.4%	+23.9%	+1.4%

All returns in USD

In 2023, the MSCI Emerging Markets Small Cap Index observed strong gains, rising 23.9%. The Emerging Markets Small Cap Composite provided significant upside capture during the year, gaining 25.6%, outperforming the index by 1.4%.

The outperformance was predominantly driven by the portfolio's strong stock selection in Taiwan and China/Hong Kong. Further, positive contributions stemmed from the portfolio's lack of exposure to the weak South African and Turkish equity markets.

### 2024 Outlook

Global growth has been resilient despite synchronized monetary tightening and elevated inflation. Growth has been supported by the strength of consumer demand on the back of tight labor markets, excess savings and in some cases homeowners' equity. Corporate balance sheets have also supported investment. However, we believe that there will likely be a near-term slowdown in global growth due to the lagged effects of global synchronized monetary tightening. Dwindling excess savings along with the moderation of wage growth as we undergo a slowdown will also contribute to a deceleration in consumer spending, contributing to weaker growth. Increased fiscal debt which was used to support economies during Covid will in our opinion, limit future fiscal spending especially in developed markets with the exception of economies facing elections in the near term as governments pander to populism. This will only serve to exacerbate indebtedness, with implications on long-term growth.

Post Covid, supply chain bottlenecks with shortages and inventory overhang coupled with rapid normalization in monetary policy have impacted companies to differing degrees in terms of their revenue, profitability and indebtedness.

We believe that as normalcy returns, global growth in the medium- and long-term will revert to its post- Global Financial Crisis path of modest growth in the absence of adoption of significant reforms and improvement in productivity.

India on the other hand is a fast-growing economy, which is currently the fifth-largest in the world, and is on track to be among the top three by the end of the decade. Several factors underpin this economic strength. These include sizable and growing foreign exchange reserves due to exports and foreign direct investments as India benefits from a multi-year investment cycle based on China +1 supply chain diversification strategies, its young and growing labor force, the deleveraging of Indian corporate balance sheets and increasing localization through the "Make in India" program. Economic growth will be further supported by rising urbanization. Thus, India is evolving from a consumption-oriented economy towards a dual-engine economy led by investment and consumption.

The portfolio's significant overweight position in India is focused on companies that are beneficiaries of fixed asset investment led by the private sector, urbanization and home ownership, and public sector infrastructure investment as well as household consumption growth. This is further complemented by exposure to the outsourcing trend within pharmaceuticals, speciality chemicals and the technology sector.

In contrast, China's growth will continue to remain tepid absent significant stimulus. Household confidence continues to be weak due to the negative wealth effect, and mixed policy signals do not alleviate private sector confidence.

This will be further weighed on by continued geopolitical tensions as well as concerns on local government finances driven by the weak property market affecting land sales activity thereby impacting revenue generation and debt repayment. Domestic

#### Mondrian Investment Partners Limited

Sixty London Wall, Floor 10, London EC2M 5TQ, UK • Telephone +44 (0) 20 7477 7000 • [www.mondrian.com](http://www.mondrian.com)

Registered office as above. Registered number 2533342 England. For your security and for training purposes, telephone conversations may be recorded. Mondrian Investment Partners Limited is authorised and regulated by the Financial Conduct Authority.

politics does not warrant confidence with corruption crackdown which is essentially 'purging' to maintain the political powerbase of President Xi resulting in policy paralysis. Against a backdrop of modest domestic growth supported by incremental measures, growth is dependent on exports as global growth recovers supporting China's new manufacturing sectors.

The Chinese segment of the portfolio continues to remain defensive and the portfolio has a neutral position. The team remains constructive, balancing its views on domestic politics and ensuing geopolitics against attractive valuations. The portfolio continues to identify attractively valued opportunities benefiting from structurally growing areas such as renewables, electrification, digitalization including smart cities and smart grid as well as supply chains that are beneficiaries of localization as China pursues its ambitions of self-sufficiency.

We believe an environment of protracted modest global growth drives the search for yield and investments providing growth. This favors investments in an inefficient asset class such as emerging markets small cap which offers structural growth. Over the long-term, performance has favored small cap relative to large cap:

### Cumulative Performance Returns (USD) of MSCI EM Small Cap and MSCI EM Indices



Source: MSCI

Data shown from January 1, 2001 to Quarter 4, 2023. December 2000 = 100

Further, the small cap asset class with its large universe of relatively under-researched and often mispriced stocks creates alpha generation potential which can be realized through a methodical approach within active management.

Mondrian's disciplined and adaptive investment framework utilizes detailed fundamental analysis encompassing extensive top-down and bottom-up understanding of economics, currencies, sectors/industries and other financially material information to value companies using an inflation-adjusted dividend discount methodology. This framework incorporates scenario analysis to identify attractively valued companies with a positive skew of outcomes, in order to achieve target real rates of return with downside protection.

The Mondrian Emerging Markets Small Cap broad portfolio strategy remains unchanged. The 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 progressive dividend payments.

## Disclosures

---

This Emerging Markets Small Cap Investment Outlook 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.

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.

Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing, or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent. Calculations for characteristics such as P/E, P/B, dividend yield, sector country allocations and market caps are based on generally accepted industry standards. Any characteristics referenced are based on a representative account from the Mondrian Emerging Markets Small Cap composite 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. Characteristics including the likes of those listed in the above point are not reliable indicators of future results.

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

The information was obtained from sources we believe to be reliable, but its accuracy is not guaranteed and it may be incomplete or condensed.

It should not be assumed that investments made in the future will be profitable or will equal the performance of any security referenced in this Investment Outlook. Examples of securities will represent only small part of the overall portfolio and are used to illustrate our investment approach. Any holdings are subject to change and may not feature in any future portfolio. More information on holdings is available on request.

Past performance is not indicative of future results. An investment involves the risk of loss. The investment return and value of investments will fluctuate, and you may not get back the amount you originally invested.

Returns presented are gross of advisory fees and other expenses associated with managing an investment advisory account. Actual returns will be reduced by such fees and expenses.

Unless otherwise stated, all returns are in USD.

All references to index returns assume the reinvestment of dividends after the deduction of withholding tax and approximate the minimum possible re-investment, unless the index is specifically described as a “Gross” index

Mondrian Investment Partners Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number: 149507). Mondrian Investment Partners Limited is also registered as an Investment Adviser with the Securities and Exchange Commission (registration does not imply any level of skills or training).

# Disclosure

## Emerging Markets Small Cap Equity Composite

### MONDRIAN INVESTMENT PARTNERS

## Annual Performance

Year	Total Gross USD Return	Total Net of Fees USD Return	Benchmark USD Return	Composite Standard Deviation	Benchmark Standard Deviation	No. of Portfolios	Composite Dispersion	Total Composite Assets (USD mn)	% of Firm Assets	Total Firm Assets (USD mn)	Total Firm Assets and Advisory Assets (USD mn)
2014	9.47%	8.44%	1.01%	12.81%	14.04%	2	N/A	1,232.7	1.92	64,102	69,429
2015	-8.39%	-9.25%	-6.85%	11.64%	13.48%	2	N/A	1,125.4	1.98	56,857	62,158
2016	-2.16%	-3.08%	2.28%	12.82%	14.33%	2	N/A	1,187.7	2.01	59,033	64,257
2017	21.66%	20.52%	33.84%	12.02%	14.36%	1	N/A	887.3	1.41	62,751	69,504
2018	-14.17%	-14.97%	-18.59%	12.31%	14.01%	1	N/A	640.2	1.34	47,789	53,740
2019	10.39%	9.35%	11.51%	10.23%	12.98%	1	N/A	420.7	0.77	54,401	61,316
2020	20.82%	19.69%	19.29%	18.50%	23.45%	1	N/A	264.5	0.48	54,894	58,974
2021	18.22%	17.11%	18.75%	17.03%	21.89%	1	N/A	52.9	0.09	56,088	60,479
2022	-16.02%	-16.81%	-18.02%	19.38%	23.96%	1	N/A	41.7	0.10	43,300	47,087
2023	25.59%	24.41%	23.92%	13.75%	15.62%	1	N/A	26.0	0.06	45,344	49,058
5 Years (Ann.)	10.71%	9.67%	9.92%	<ul style="list-style-type: none"> <li>This composite was created and inceptioned in November 2011.</li> <li>Past performance is not a guarantee of future results.</li> <li>A list of composite descriptions, pooled fund descriptions for limited and broad distribution pooled funds and the policies for valuing investment, calculating performance and preparing GIPS reports are available on request.</li> </ul>							
10 Years (Ann.)	5.48%	4.48%	5.34%								
Since Inception (Ann.)	7.13%	6.12%	5.33%								

## Accompanying Notes Concerning Performance Calculation and GIPS® Compliance

Mondrian Investment Partners Limited ('Mondrian') claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Mondrian has been independently verified for the period 1 January 1993 to 31 December 2022. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Firm is defined as all discretionary and non-discretionary portfolios managed by Mondrian. Mondrian is a value-oriented defensive manager seeking to achieve high real returns for its clients. Mondrian invests mainly in securities where rigorous dividend discount analysis identifies value in terms of the long-term flows of income. Mondrian's methodology is applied consistently to markets and individual securities, both bonds and equities.

The Emerging Markets Small Cap Equity Composite includes U.S. dollar based discretionary portfolios, measured against the Morgan Stanley Capital International Emerging Markets Small Cap Index, net of 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.

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 third parties.

Total Firm Assets are assets for which the firm has investment management responsibility. Composite assets are assets for composite qualifying portfolios for which the firm has investment management responsibility. Firm advisory assets are assets for all strategies within the firm for which Mondrian provides investment recommendations only; trading and implementation of the investment decisions is independent.

Portfolios are valued on a trade date basis using accrual accounting. Returns are calculated using the modified Dietz method and then weighted by using beginning-of-period market values to calculate the monthly composite returns. Portfolio returns are calculated net of irrecoverable withholding tax on dividend income. New portfolios are included in the first full month of investment in the composite's strategy. Terminated portfolios remain in the composite through the last full month of investment.

Composite and benchmark standard deviation are measured as the rolling 3 year annualised standard deviation of gross monthly returns. The dispersion of annual returns of portfolios within the composite (Composite Dispersion), is measured by the standard deviation of the equal-weighted returns of portfolios represented within the composite for the full year. When the composite consists of four or fewer portfolios for the full year, no dispersion measure is presented.

Performance results marked "Gross" do not reflect deduction of investment advisory fees. Investment returns will be reduced accordingly. For example, if a 1.00% advisory fee were deducted quarterly (0.25% each quarter) and the three year gross annual returns were 10.00%, 3.00% and -2.00%, giving an annualized return of 3.55% before deduction of advisory fees, then the deduction of advisory fees would result in three year net annual returns of 8.91%, 1.98% and -2.97% giving an annualized net return of 2.52%.

Performance returns marked "Net" reflect deduction of investment advisory fees and are calculated by deducting a monthly indicative fee from the monthly composite return. The indicative fee is defined as being the effective fee rate for a segregated account at the composite's minimum segregated account size as set out below. Actual net composite performance would be higher than the indicative performance shown because some accounts have sliding fee scales and accordingly lower effective fee rates.

Representative fee schedules and expense ratios as at 31st December 2022 for segregated accounts and pooled vehicles are provided below, although it is expected that from time to time the fees charged will differ from the below schedule depending on the country in which the client is located and the nature, circumstances and requirements of individual clients. The fees for segregated accounts will be charged as follows: the first USD50 million at 0.95%; thereafter at 0.90%. Minimum segregated account size is USD50 million. For Limited Partnerships, the following fees will be charged: the first USD50 million at 0.95%, thereafter at 0.85%. Minimum Limited Partnership account size is USD2 million. The total expense ratio is 1.11%.