GLOBAL EMERGING MARKETS

REFLECTIONS ON A DECADE

OCTOBER 2021 FOR INSTITUTIONAL, PROFESSIONAL AND WHOLESALE INVESTORS ONLY

INTRODUCTION

As we approach the end of 2021, we celebrate a decade of investment team tenure for the Martin Currie Emerging Markets strategy. To mark this anniversary, the investment team reflects on some notable investments and developments during the period.

Global Emerging Markets have changed dramatically in the last ten years; their traditional investment case, heavily centred on physical resources and cheap labour, is no longer valid. These nations have shifted away from resource-heavy industry towards the service industry, and within the sectors themselves we have also seen significant changes.

This broader shift is reflected in the MSCI Emerging Markets Index and our portfolio focus has changed as a result. Ten years ago, almost half of the portfolio allocation was weighted toward energy and financials (mostly local banks) and less than a quarter toward consumer and IT sectors. Today, this balance has reversed and individually, both IT and consumer sector weights have doubled. Indeed, IT companies have the largest sector allocation in the portfolio.

Structural changes, demographics, greater affluence and swathes of STEM graduates have enabled emerging markets to nurture some truly world-leading Intellectual Property (IP) companies which form a key part of the global economy. These are the companies which have driven the growth and changing composition of the portfolio over the decade. We believe that we have succeeded in identifying some of the great companies helping to shape the innovative and exciting asset class we know today, and which can capitalise on some of the key trends which have emerged during the period.

Strong economic growth from China and India, as well as technology-led growth in South Korea and Taiwan, meant many of the decade's best opportunities were found in Asia. We identified many successful companies that drove the advancement of digitalisation and capitalised on positive disruption of traditional industries. Their ambition helped shape the innovative and exciting asset class we know today.

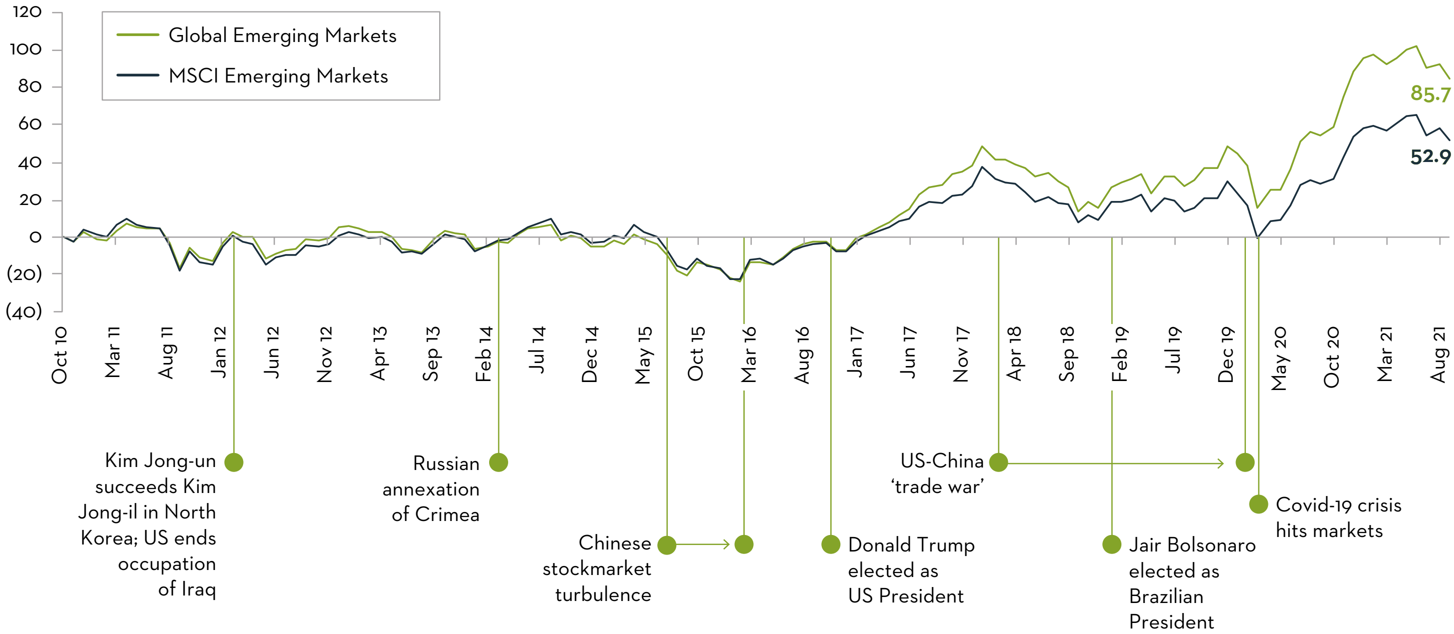
On the corporate side we saw the creation of a new breed of internet-based giants and the rise of emerging market technology companies to become global leaders. There has also been an increased focus on responsible investing with asset owners, investors and corporate management teams all working to improve outcomes across a range of ESG topics.

The strategy has participated in these exciting developments through the consistent application of our investment philosophy, with the importance of digitalisation and the continued rise of China proving to be recurring features in our stock picking. China's rise to prominence has brought about a noticeable change in the asset class. Its GDP growth, benchmark index weight and stock market opening via Hong Kong have increased the opportunity set dramatically and changed the dynamics within emerging markets more broadly.

Our investment philosophy has been a key benefit to our clients. Our focus on stocks capable of delivering sustainable growth is what has led us to our best opportunities in the last decade.

This philosophy has supported strong stock performance across a diverse range of countries and sectors. We will continue to apply our investment philosophy to position ourselves well for future opportunities.

Global Emerging Market gross composite returns (US$) since manager tenure to 30 September 2021



Past performance is not a guide to future returns. The return may increase or decrease as a result of currency fluctuations.

Source: Martin Currie. All data presented is the Martin Currie Global Emerging Markets US$ composite. Gross data is presented without deducting investment advisory fees, broker commissions, or other expenses that reduce the return to investors. The figures provided includes the re-investment of dividends. MSCI Emerging Markets Index used as benchmark. Since manager tenure date is 1 October 2010. The performance record noted above is clear representation of the Global Emerging Market strategy performance over the periods shown. Performance information since inception in complete 12-month periods is available upon request. Performance data is supplementary to the GIPS disclosures provided at the end of this document.

As part of our company analysis, we assess exposure to the mega themes of demographics, sustainable planet and technology. We believe these themes and their sub-themes have been key drivers of change in emerging markets and will remain so in coming years. Technology, for example, extends beyond legacy software systems and includes many fantastic businesses such as those behind the mobile smartphone - from producing the memory chips, the handsets themselves, to the apps that are used on them. Looking forward, digitalisation is one of the most powerful trends driving change and creating opportunities within the emerging market asset class.

In the following pages we discuss how digitalisation is reshaping the emerging markets landscape and the implications for the financial sector specifically. We also reflect on how our long-term approach allows us to capitalise on opportunities which the market has not yet recognised. As the risks and challenges in emerging markets have changed, so too has our approach to ESG and engagement. We demonstrate how this has developed, allowing us to go deeper with investee companies. We also share how our investors have been able to join the journey travelled by exciting, emerging market companies who are world-leaders in terms of innovation and IP.

In the years ahead we expect to see the continuation of change driven by the mega themes we identified, particularly with regards to sustainability, and we look forward to diverse and interesting new opportunities emerging as a result.

THE GLOBAL EMERGING MARKETS TEAM

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DIGITAL DISRUPTION AND THE FUTURE OF FINANCIALS

Ten years ago, the strategy's allocation to financials was dominated by local banks. We have witnessed the evolution of financial companies, as well as the products they have offered during this period. Today, although we hold the same number of financial companies, 13, they are very different - we have exposure to leading providers of microfinance in Indonesia and South America, digital IP-leading banks in Russia and India, as well as Chinese insurance which is a market that has grown significantly in the last ten years as the overall level of wealth of nations has increased. A major change in the portfolio's history is the development of the financial sector and the impact of technology on it. Digital disruption has blurred sector lines, allowing emerging markets to develop much of the best financial sector intellectual property (IP) in the world.

Unlike ten years ago, digital is the front and centre of analysis for financial companies, rather than simply an agenda item. Financials have embraced technology and technology firms have competed with more traditional financials – mobile banking apps enabling penetration into underbanked areas or payment apps integrated with leisure apps are two examples. As technology businesses grow, we can expect future big tech to eat into the profits of the traditional financial sector. Financials need to innovate and embrace technology to compete with the new economy businesses which present a hybrid of financials, technology and telcos. Further disruption is found in the impact of demographics on banking customer loyalty – loyalty has been threatened by demographics and emerging markets have the strongest demographics (especially through young and growing populations) so are particularly sensitive to change.

Some truly innovative new economy emerging market financial firms have attempted to reshape their businesses to embrace these megatrends rather than combat them. **HDFC Bank**, held since 2013, is a prime example of the embrace of technology in Indian banks. HDFC are the leading retail bank in India, benefitting from reaching underbanked regions and prioritising their lending to key sectors including micro businesses, education, housing, infrastructure and renewable energy. Through our engagement we have understood the importance the company places on their digital efforts, constantly striving to remain ahead of the curve. Their digital strength helps to enable them to reach unbanked areas – a rural farmer is much more likely to have a smartphone than a bank branch.

Newer portfolio additions such as **TCS Group** in Russia are world-leading in terms of digital financial services. It is a new breed of digital bank, preserving an entrepreneurial, technology culture rather than a financial one: staff have an average age of 27, half work remotely, strict net present value (NPV) overlay on every piece of business. Their 30-40% return-on-equity in an underpenetrated market makes them one of the most profitable financial or fintech or technology companies in the world. Despite their differences, both TCS and HDFC have a clear digital strategy, investing in their technological infrastructure and further blurring the lines between technology and financial firms. It will be exciting to see how these sectors continue to change over the next decade and how they adapt to the evolving space.

TCS Group thematic mapping

Sustainable planet

Infrastructure

Demographics

Live longer, live healthier

Financial inclusion

Urbanisation

Technology

Cloud & data revolution

Digital disruption

AI & automation

IP leadership

HDFC Bank thematic mapping

Sustainable planet

Infrastructure

Demographics

Financial inclusion

Urbanisation

Technology

Cloud & data revolution

Digital disruption

AI & automation

IP leadership

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CAPITALISING ON A LONG-TERM VIEW

Over the decade in which we have managed the portfolio, we have often benefited from a very long-term view. We believe that this helps to highlight the value added by our research process, our ability to recognise an opportunity which the market at large has not identified or priced in.

In our analysis of Indian paint company, **Asian Paints**, we found that there was a strong long-term investment case. The company is the market leader in the Indian paint market with over 50% market share. The paint market itself is experiencing structural growth due to increasing households and rising incomes, shortening the re-painting cycle and encouraging premiumisation. The changes in the paint market are driven by the same broader changes in the region itself over the past decade. Furthermore, we expect the Indian government targets for building millions of affordable homes combined with the tax reforms to help shift the market from an unorganised to an organised one, helping volume growth. At first glance the growth in a paint stock may seem to reflect the traditional view of emerging markets as an asset class, however when you scratch beneath the surface you see that it too reflects key aspects of the 'new' story of the asset class – growing affluence among households and government investment in modernisation.

In our analysis, whilst we found that the stock was valued highly by the market, we did not believe that the market was correctly pricing in the important long-term structural growth opportunity we identified. As the market is consolidated with just four key players, Asian Paints' majority market share would enable it to be the main beneficiary of structural growth. We have held Asian Paints in the Global Emerging Markets portfolio since early 2015. The operational performance and resultant change in stock price suggest that the company is 'growing into' its valuation. We believe our holding in this stock reflects our philosophy of finding undervalued quality growth stocks with long-term sustainable returns. It has played out with our investment in Asian Paints – the market believed it was too expensive but our analysis suggested a high valuation was justified. The holding has also benefitted from its longevity in the portfolio, compounding growth. This enables us to continue to take a differentiated view to the market and for our investors to benefit from the consistent application of our philosophy.

Asian Paints thematic mapping

Sustainable planet

Resource efficiency

Infrastructure

Demographics

Urbanisation

Vanity & Leisure

"We expect the Indian government targets for building millions of affordable homes combined with the tax reforms to help shift the market from an unorganised to an organised one, helping volume growth."

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OUR CHANGING APPROACH TO ENGAGEMENT

A key aspect of our approach is our willingness to engage with companies over a long period of time. We are prepared to partner with companies and advise them on their ESG journey. Because of our long-term approach and our consistent willingness to engage, we have been able to go deeper with our engagements over the years. This is a key evolution of our approach to engagement over the past ten years and has led to more fruitful discussions and outcomes and a better understanding of the companies in which we invest. We have also observed the openness of many emerging market companies to engagement. Together, these present a win-win from the company point of view and that of our clients. When engaging, we have become more systematic and targeted in our approach. Specifically in the identification of areas for engagement, tracking and scoring. This has allowed us to build upon our conversations with companies – they are clear on what we are trying to achieve because of this consistency – and we are able to point to specific outcomes for clients.

Leading Peruvian financial group **Credicorp** is one of the few companies we have consistently held in the portfolio over its ten-year life. Our longstanding relationship has resulted in an extensive history of constructive engagement with management. Early in our relationship we introduced senior management to best banking practice in other markets where we had strong relationships with leading banks, for example in South Africa. This led to a group sustainability review and a benchmarking exercise, resulting in Credicorp's adoption of the Equator Principles (January 2013), a global framework for managing environmental and social risk in project financing. Additionally, Credicorp published its Stakeholders Relations Policy (October 2014) which committed the bank to promote a client-based culture internally, recognising the risks of mis-selling to an unsophisticated customer base. Recently, our engagement has been focused on the level of technological expertise within senior management and the board of directors, as well as the sustainable management of their microfinance business. Going forward, banks must increasingly adapt to remain relevant to their clients as the prevalence of digital technology brings opportunities but also threats around business model disruption. Credicorp's receptiveness to our feedback and clear willingness to improve its ESG credentials has been central to our strong conviction in its prospects.

We continue to work with Credicorp and introduce them to other respected companies in relevant business areas; most recently **Bank Rakyat Indonesia** (BRI), which has a world-leading microfinance business. Our intention is for these businesses to benefit from sharing best practices in areas such as data security, customer lending and digital technology with the aim of building more sustainable businesses.

Credicorp thematic mapping

Sustainable planet

Infrastructure

Demographics

Financial inclusion

Urbanisation

Technology

Digital disruption

BRI thematic mapping

Demographics

Financial inclusion

Urbanisation

Technology

AI & automation

IP leadership

Although a newer addition to our portfolio than Credicorp, we have similarly leveraged our relationship with BRI around voting especially. For most AGMs and special meetings over the years there were consistently areas where we required more information to make an informed voting decision on behalf of our clients. Our relationship and history of engaging with them means that we continue to get the information we need quickly and consistently. Other areas where our engagement approach has benefited clients is company disclosure and learning/development. The partnership between BRI and Credicorp around best business and ESG practices was enabled by our having long-term, deep relationships with both companies.

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EMERGENCE OF WORLD-LEADING IP

The past decade has seen the emergence of many world-leading IP companies in emerging markets. The combination of a highly educated workforce, youthful populations readily embracing digital transformation, and adaptive and innovative management teams has resulted in emerging market companies which truly have no global peers. One of these companies is **TSMC**, the largest semiconductor foundry in the world with its primary business in the manufacture and market of integrated circuits used in computers, communications, consumer electronics, automotive and industrial equipment industries.

TSMC is a household name among emerging market investors and there is good reason for this. Over the last decade of emerging market growth and the global digital revolution, the company has moved up the value chain as a real IP leader and one could easily say that it epitomises the emerging market opportunity. As a semiconductor manufacturer, TSMC benefits directly from the rise of digital in society and it has invested in its business sufficiently to capitalise on that opportunity. As an enabler of technology, it has no risk of product obsolescence. With its growth has come innovation, helping the company to become a key supplier to many global companies. Consider the huge leaps in digital that have taken place in the past ten years such as the smartphone, smartwatch, self-driving cars, tablets or robotics. We have witnessed how the company has been an active beneficiary of this rapid digitalisation in both emerging markets and the rest of the world. As one of only a few stocks we have held in the portfolio since inception, we have travelled this journey with TSMC, as have our investors. In many ways the company showcases the best that emerging markets has to offer and yet can offer still.

TSMC thematic mapping

Sustainable planet

- Resource efficiency
- Electric vehicles

Demographics

- Live longer, live healthier
- Urbanisation
- Vanity & Leisure

Technology

- Cloud & data revolution
- Digital disruption
- AI & automation
- IP leadership

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LOOKING FORWARD

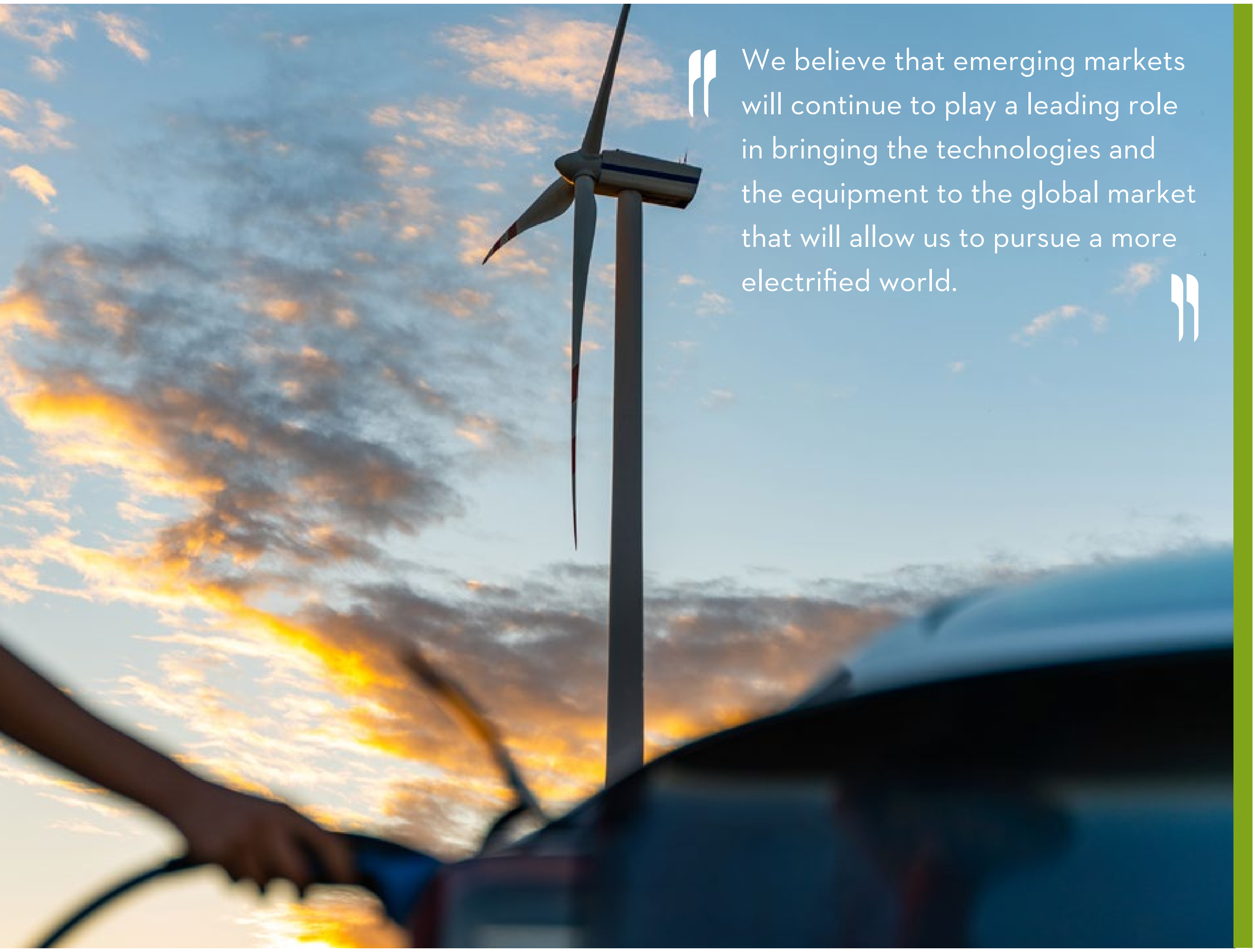
As we look forward to the next ten years, we expect to monitor closely the growing affluence and consumerism in Southeast Asia. Technology has already begun to accelerate the shift in Southeast Asia, not only because of greater accessibility but also a broadening the range of services available. We think that this is set to continue and that it will be further encouraged by consumer demographic in the region. The roughly 668 million consumers[1] in the region are rising in number and are composed of young populations with a high propensity to use digital solutions. This has already been witnessed in the rise of platform/internet businesses where some apps are almost a one-stop-shop for the average young consumer's every need: instant messaging, social media, e-commerce, gaming, mobile payments etc. It is no wonder, then, that the competition within and evolution of the space and the demographic will create more opportunities for innovation.

We also expect to see a continued rise in prominence of China, as well as the importance of (or the increased focus on) climate change. Although these are very broad topics and expectations, they may have a deep impact in many industries and for many years.

In terms of more specific opportunities over the next decade, we believe that the theme of electrification will be key. Electrifying our power needs has a huge role to play in the next phase of decarbonisation and the pathway towards net zero. We have seen this in the prominence of emerging market companies in the EV supply chain but we think they still have much more to offer. We believe that emerging markets will continue to play a leading role in bringing the technologies and the equipment to the global market that will allow us to pursue a more electrified world. We also believe that emerging markets will be big consumers of that product as well. Our strategy can look forward a very exciting future ahead.

We would also like to take this opportunity to thank all our investors, past and present, for joining us on this journey. We hope that you are delighted with the performance we have delivered and we look forward with confidence at the opportunities which lie ahead. Once again, thank you for your support.

[1]World Bank, population estimate as at 2020.



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- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. Accordingly, investment in emerging markets is generally characterised by higher levels of risk than investment in fully developed markets.

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Global Emerging Markets	Fee (%)
Pooled funds	0.75
Minimum investment £1m	
Segregated Mandates	
First US$50m, £40m, €45m	0.75
Next US$50m, £40m, €45m	0.65
Next US$100m, £80m, €90m	0.65
Next US$150m, £120m, €135m	0.60
Next US$350m, £280m, €315m	0.55

	Total Return %		Annualised Volatility three years			Account performance			
	Composite	BMark	Composite	Index	No. of A/Cs	Highest	Lowest	Market Value (Bin)	Total Firm's Assets (Bin)
2020	27.02	18.69	21.31	20.06	15	28.79	23.72	4.077	11.519
2019	28.88	18.90	15.41	14.33	14	29.97	26.24	3.312	8.473
2018	-16.60	-14.25	15.44	14.65	12	-15.24	-17.85	1.990	7.188
2017	49.15	37.75	15.70	15.43	10	51.55	47.91	2.165	8.509
2016	12.56	11.60	16.55	16.22	8	12.93	11.64	1.062	6.672
2015	-12.64	-14.60	14.69	14.34	10	-12.35	-13.04	1.020	7.735
2014	-6.62	-1.82	16.09	15.27	12	-6.21	-7.16	1.240	8.836
2013	-4.06	-2.27	19.44	19.47	11	-3.40	-4.84	0.874	9.225
2012	21.57	18.63	21.67	21.87	10	22.52	20.51	0.464	7.745
2011	-15.28	-18.17	23.74	25.56	7	-15.33	-15.50	0.211	9.330

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