Emerging Markets Spotlight

James Syme, JOHCM Global Emerging Markets Opportunities Fund

We believe that getting country calls right is the biggest driver of successful investment in emerging markets. Currently, India is one of our two favorite emerging markets, with both a strong trend growth rate and the potential for a cyclical economic recovery. This near-term potential is from an upswing in the credit cycle combined with fiscal support.

In recent years, both private-sector credit/GDP and the loan/deposit ratio of the banking system have declined as the Indian economy has delevered, most notably through an undershoot of private-sector capital investment and restrained consumption growth. This decline in leverage stands in marked contrast to the ramp-ups of credit seen in some other emerging markets. More recently, inflation has come in below expectations, giving the central bank policy flexibility. We believe the Indian economy resembles a coiled spring waiting to be released.

We have also been expecting India's government to provide fiscal support for consumption and investment ahead of the 2019 election. In addition, we consider the Modi administration to be the most pro-reform government in any emerging market right now, and see some of the policies (e.g., tax reform, infrastructure investment and improvement, switch to cash benefits for the poorest citizens) as providing direct and visible uplift to economic growth. Government can be the trigger that unleashes the spring.

A double helping of good news

Recently we witnessed two major developments in India that only strengthen our optimism about the Indian economy and, by extension, Indian equities.

The first was the announced recapitalization of the state-owned banks of approximately US$32 billion over the next two years (US$20 billion through recapitalization bonds sold by the government to the banks and then reinjected as equity, cleverly avoiding any liquidity impact, and US$12 billion directly from the fiscal budget). This is by far the most significant move of any recent Indian government to tackle the under-capitalization of the state-owned banks. Banking-sector stocks reacted accordingly with sharp upward moves.

The second, which has received less attention than the bank news, was the announcement the same day of a US$105 billion five-year road-building plan to improve transport infrastructure to allow the economy to more fully benefit from the liberalizing effects of the national goods and services tax (GST). We view these steps as indicative of a government keen to ensure that the positive effects of its reforms are felt before the election.

Above-average valuations justified

While Indian equities are not cheap in an absolute sense, the premium they attract over the average for emerging markets is slightly below its normal level. We believe the strong growth opportunity and the prospects for further reforms justify current valuations. We remain heavily overweight Indian equities, with a focus on domestic sectors including, notably, banks.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund can be found in the Fund's prospectus or summary prospectus, which can be obtained at www.johcm.com or by calling 866-260-9549 or 312-557-5913. Please read the prospectus or summary prospectus carefully before investing. The JOHCM Funds are advised by J O Hambro Capital Management Limited and distributed through FINRA member BHIL Distributors, LLC. The JOHCM Funds are not FDIC-insured, may lose value, and have no bank guarantee.

RISK CONSIDERATIONS: The Fund invests in international and emerging markets. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets. Such risks include new and rapidly changing political and economic structures, which may cause instability; underdeveloped securities markets; and higher likelihood of high levels of inflation, deflation or currency devaluations. Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity

The small- and mid-cap companies in which the Fund may invest may be more vulnerable to adverse business or economic events than larger companies and may be more volatile; the price movements of the Fund's shares may reflect that volatility.

The views expressed are those of the portfolio manager as of November 2017, are subject to change, and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice.