JOHCM Emerging Markets Opportunities Fund

EMERGING MARKETS SPOTLIGHT

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As both the country first into the 2020 Covid crisis, and one of the (predominantly Asia-Pacific) countries that has seemed to manage the pandemic well, China was the first emerging market to show economic recovery in mid-2020. This partly came from the general normalization of domestic conditions, with lockdowns removed, but also came on the back of a marked shift to a more stimulative monetary and fiscal policy. The long period of tighter policy that had been put in to slow the build-up of debt in the Chinese economy was eased in the first quarter of 2020, helping drive the construction and real estate markets through the rest of the year.

From an equity market point of view, a significant additional boost was the heavy weight in internet and technology service businesses in Chinese equity markets; even at the start of 2020, this group of companies made up over 37% of the index weight in the MSCI China index. The significant boost to gaming, online media consumption and e-commerce from Covid, coupled with strong investor preference for this sector, drove strong performance from these stocks and lifted the overall market higher.

At the present time, however, we see some challenges to Chinese equities, and have responded by reducing our weight in the country, especially in the light of some of the highly attractive opportunities we find in other markets.

First of these challenges are the signs of a slowdown in Chinese activity in the last quarter of 2020. This is by no means a crisis, but PMI data through the year end came in below consensus expectations, and November retail sales, while up 5.0% year-on-year, indicated that there has still not been a bounce back in the Chinese consumer to make up for the downturn in the spring. These stand in contrast to several other large emerging markets, where data continue to surprise as recoveries come through. Other indicators, like parcel delivery volumes and traffic congestion, also suggest a softening of activity in November and December. Outside China, Korean exports were up 12.0% year-on-year in December, but Korean exports to China rose only 3.0%.

This softness has also come through in earnings estimates, with consensus estimated of company earnings for many Chinese companies being trimmed in the last three months, at exactly the period when it seems the global economy is accelerating and consensus earnings estimates are being revised higher in many emerging countries. Significantly, China lagged Korea and Taiwan in the last quarter on this measure, having tracked them through most of the rest of the year.

The other set of challenges concern politics and policy, both within China and internationally. Domestically, the fallout continues from Alibaba founder Jack Ma's speech in October in which he criticized Chinese regulators. Those regulators promptly cancelled the planned US$37bn listing of digital financial services company Ant Group (which Jack Ma is also a founder shareholder of). In December, the state began a full-blown antitrust investigation into Alibaba. This has caused a sharp decline in the share price of Alibaba, and related weakness in other Chinese internet and technology service businesses, as investors adjust to what may be a more difficult operating environment.

This has happened at broadly the same time as the US government has been ratcheting up restrictions on US investors investing in Chinese state-owned enterprises, principally by targeting the US secondary listings of such companies. A presidential executive order in November prohibits new investments in securities of Chinese businesses that the US government believes have links to the Chinese military. This could potentially hit many listed companies, but in the first instance has led to the delisting from the New York Stock Exchange of the shares of three state-owned telecom companies (and the removal of those securities from the MSCI China and MSCI EM indices). Of particular concern is that the executive order may also affect US investors' stakes in other US-listed Chinese companies,

*ZAR = South African rand

Source for all data JOHCM/Bloomberg (unless otherwise stated).

including most of the internet names, and also products such as ETFs and derivatives based on various Chinese equity indices, including the Hong Kong Hang Seng Index.

We had already reduced exposure to US-listed Chinese SOEs in the portfolio in 2020, selling CNOOC, Sinopec and China Mobile. We have further reduced our weighting in China, partly in response to the various concerns highlighted above, and also partly in response to the much better macro environments we find in some other emerging markets.

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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 Foreside Financial Services, LLC. The JOHCM Funds are not FDIC-insured, may lose value, and have no bank guarantee.

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