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FOR PROFESSIONAL INVESTORS ONLY

# Emerging Markets Spotlight

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Typically, for a focused long-only portfolio that has a highly diversified benchmark, the contribution to aggregate portfolio characteristics from stocks that are held will be much higher than that for stocks that are not held. As an example, a 50 stock emerging market equity portfolio will have an average position size of around 2%; whereas the weight of the median stock in the MSCI Emerging Markets Index is 0.028% (as at 30 November 2019).

At times, though, countries or sectors or groups of stocks will have particularly strong and correlated performance. This will begin to influence the overall characteristics of the index, and a portfolio's relative characteristics will be principally determined by the portfolio's over- or underweight positioning in those stocks.

This is currently the case with regards to the Fund's Chinese internet exposure. Chinese internet stocks (including Naspers, Tencent's South African holding company) have an aggregate 13.8% weight in MSCI EM Index, larger than South Korea, Taiwan, the whole of Latin America, or the combined weight of oil & gas and metals & mining. The Fund's positioning as at the end of November was around 9% in Chinese internet stocks, but, crucially, with no Alibaba and the majority of the Tencent exposure held indirectly via Naspers and Prosus.

This immediately creates a significant portfolio relative skew on market cap. Alibaba is the largest stock in the MSCI EM index, with a market cap of US\$332bn (all market cap data is from MSCI). Tencent is the third largest (market cap US\$243bn), whereas the two names through which the Fund gets most of its Tencent exposure are much smaller (Naspers, a US\$62bn market cap, and Prosus, a US\$33bn market cap).

In addition, the combined effect of the 259 A-shares in the index are also distorting the market cap relative position. For example, Kweichow Moutai A-share has an index weight of 0.21% but a market cap of US\$199bn. Each individual A-share doesn't matter that much for the relative position because the weights are so small, but there are so many of them that it does

start to have a material impact; being zero-weighted A-shares has also had a downward effect on relative market cap.

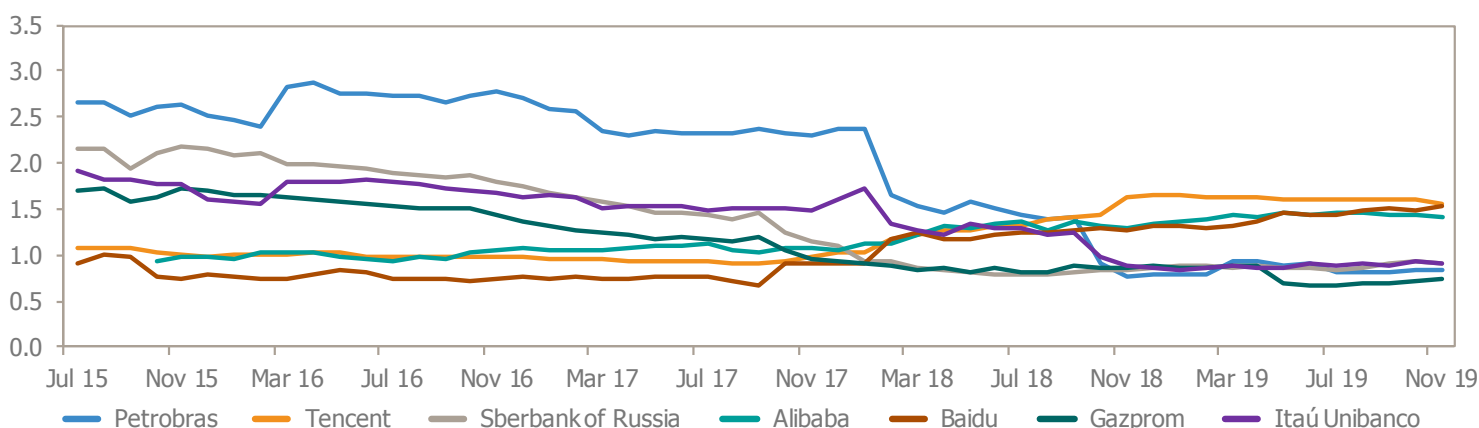
As well as the market cap effect, recent changes in stock behaviour make the portfolio appear defensive relative to the benchmark. It is popularly supposed that some stocks are inherently 'high-beta' and others inherently 'low-beta', whereas in reality observed stock betas are quite dynamic. In recent years there has been a very pronounced shift in trailing betas of leading EM stocks relative to the MSCI EM Index.

In 2016, stocks displaying high betas included traditionally high volatility names such as Brazilian and Russian energy and financial names, whereas the Chinese internet stocks had betas around or below 1.0 (see chart). Through 2017 and 2018 there was a marked shift in observed betas, such that, at the present time, the Chinese internet names have betas around 1.5, while names like Gazprom, Sberbank, Petrobras and Itau Unibanco are well below 1.0. This effect, combined with our more defensive holdings in China and Mexico, brings the calculated portfolio beta below 0.9.

We recognise that the portfolio has a beta below 1.0, and whilst this is not a global directional call, it does reflect, in aggregate, the drag on emerging economies and capital markets from a stronger US dollar and a slowing Chinese economy. However, we strongly feel that the calculated portfolio beta is based on ex-post betas that do not equate to ex-ante betas, and that some of the traditionally high-volatility names in the portfolio (such as Petrobras and Sberbank) are likely to outperform a rising market as their betas revert to historical norms.

Our process does not include a directional component, and portfolio betas are monitored but not targeted. We are happy with our current portfolio positioning and feel that the reported skew in market cap and beta is a statistical anomaly rather than a deliberate investment stance.

Two year trailing betas vs. MSCI EM Index (weekly USD returns)



Source: Bloomberg.

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## JOHCM Global Emerging Markets Opportunities Fund

### 5 year discrete performance (%)

Discrete 12 month performance (%):

	30.11.19	30.11.18	30.11.17	30.11.16	30.11.15
A USD Class	4.26	-9.48	36.76	2.70	-10.16
Benchmark	7.38	-9.34	33.34	7.95	-16.92
Relative return	-2.90	-0.16	2.56	-4.86	8.14

### Past performance is no guarantee of future performance.

Source: JOHCM/MSCI Barra/Bloomberg, NAV of Share Class A in USD, net income reinvested, net of fees as at 30 November 2019. The A GBP Class was launched on 30 June 2011. Benchmark: MSCI Emerging Markets NR (12pm adjusted). Performance of other share classes may vary and is available on request.

### Past performance is no guarantee of future performance.

The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Investing in companies in emerging markets involves higher risk than investing in established economies or securities markets. Emerging Markets may have less stable legal and political systems, which could affect the safe-keeping or value of assets. The Fund's investments include shares in small-cap companies and these tend to be traded less frequently and in lower volumes than larger companies making them potentially less liquid and more volatile. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation. Issued and approved in the UK by J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority. JOHCM® is a registered trademark of J O Hambro Capital Management Ltd. J O Hambro® is a registered trademark of Barnham Broom Holdings Ltd. Registered in England and Wales under No: 2176004. Registered address: Level 3, 1 St James's Market, London SW1Y 4AH, United Kingdom.