

Think Different. Think Small.

JOHCM Emerging Markets Small Mid Cap Strategy



Stephen Lew
Fund Manager

We've Seen This Movie Before

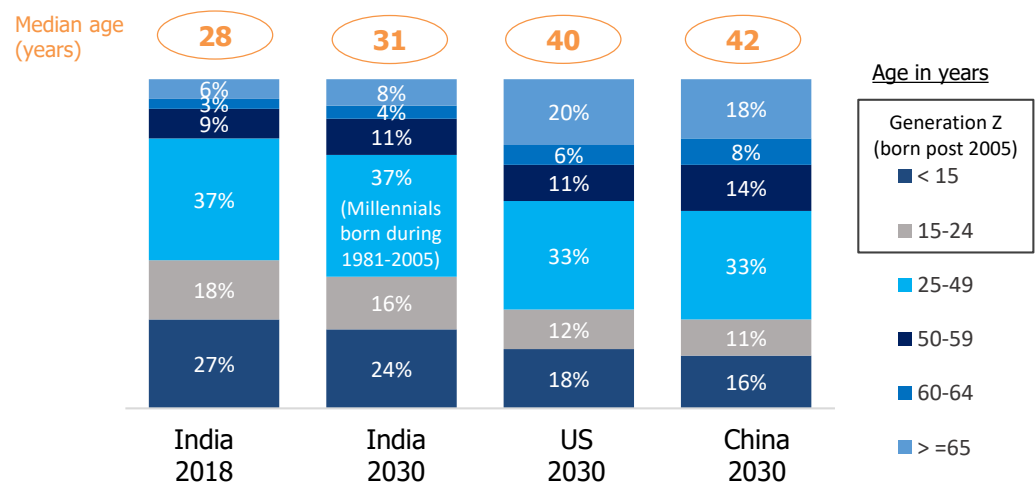
"History repeats itself. So you might wanna pay attention." – Quavo, American musician

Investing in emerging markets can occasionally feel like taking a trip back in time. When we observe the progress of emerging economies, we are likely to see developments that occurred in developed economies decades ago. If we pay attention to this phenomenon, we can see the replication of those tried-and-true developed market business models in emerging markets early and capture meaningful alpha as they mature from small businesses to large enterprises. It's like watching a movie that you've seen before.

One country where this phenomenon is on display is India. With a massive consumer population, India is one of the world's most promising structural growth markets. While the West is wrestling with the challenges of ageing populations and declining workforces, India enjoys the reverse: 50 per cent of its population is under the age of 25 and Millennials and Generation Z will account for 77 per cent of the population by 2030.^{1,2} As they enter their prime spending age and become the largest demographic cohort, Millennials and Generation Z are set to drive Indian consumption growth and make India the third-largest consumer market behind the US and China. Indian consumer spending is expected to grow from US\$1.5 trillion at present to nearly US\$6 trillion by 2030.³

In 2030, 77% of India's population will comprise Millennials and Generation Z

Population by Age cohort



Source: Euromonitor. Age groups 20-64 represent working population.

One Indian company that we have identified as having the potential to replicate a successful developed market business model is a footwear retailer and manufacturer. For those familiar with the US retail scene, you can think of it as a mini-version of Nordstrom, which began life as a shoe retailer and expanded its inventory over time to include clothing, accessories, handbags, jewelry, cosmetics, and fragrances. This Indian company's genesis is similar to Nordstrom in many ways. The company started out as a footwear retailer and is now the one of India's largest footwear retailers and manufacturers. And to fuel further growth the company is broadening its accessories offer as it sees increasing demand for ladies handbags, belts, scarves and other accessories. As it expands from its roots, selling shoes to fashion accessories, it is following a similar development pattern to Nordstrom. We find plenty of companies and business models in the emerging markets small cap space where history is repeating itself.

¹ India Rides the Consumer Wave, ftadviser.com, July 10, 2019. <https://www.ftadviser.com/investments/2019/07/10/india-rides-the-consumer-wave/>

² Future of Consumption in Fast-Growth Consumer Markets: India, Insight Report, World Economic Forum, January 2019. http://www3.weforum.org/docs/WEF_Future_of_Consumption_Fast-Growth_Consumers_markets_India_report_2019.pdf

³ India poised to become third-largest consumer market: WEF, The Economic Times, January 9, 2019. <https://economictimes.indiatimes.com/news/economy/indicators/india-poised-to-become-third-largest-consumer-market-wef/articleshow/67450935.cms>

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The strategy 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 liquidity. The small and mid cap companies the strategy may invest in may be more vulnerable to adverse business or economic events than larger companies and may be more volatile; the price movements of the strategy may reflect that volatility. The strategy may invest in American Depositary Receipts ("ADRs") of foreign companies. Investing in ADRs poses additional market risks since political and economic events unique in a country or region will affect those markets and their issuers and may not affect the U.S. economy or U.S. issuers.

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