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Emerging Markets Opportunities

Country level factors are becoming a powerful indicator of potential returns

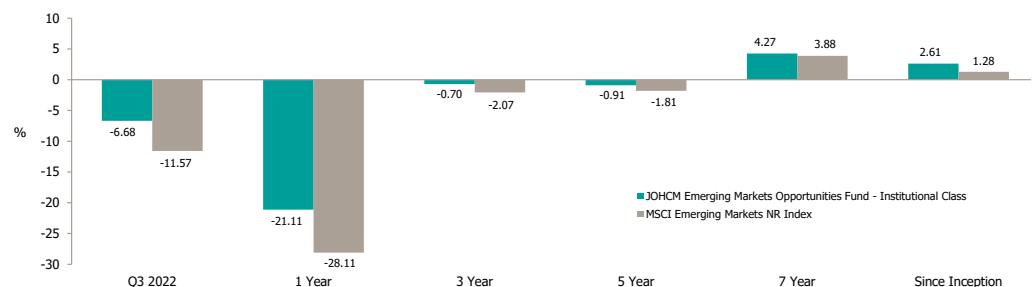
We believe next year looks good for Emerging Markets with an expected decline in rates and the US dollar. But some investors are better placed than others. JOHCM’s Emerging Markets Opportunities team explains why.

Higher US rates and a US dollar have recently curbed EM returns, since they tend to depreciate other currencies, weaken US demand and draw capital out of EM economies. As inflation comes under control, it’s expected that rate rises will decelerate and the US dollar will eventually weaken. That’s good news for EM investors. But there is another change that may benefit some emerging markets investors more than others: country level factors are again becoming a powerful indicator of potential returns.

Investment managers that focus on top down, country level analysis should be able to take greater advantage of the changing conditions. Why? Country factors typically dominate style and industry factors in driving emerging markets returns. This contrasts with developed markets which tend to have more features in common. Emerging Markets feature a wider range of political systems, demographic trends, industrial composition, resource endowments and economic development. That’s where JOHCM’s Emerging markets team starts its analysis.

During the Covid period extraordinary monetary policy settings and falling bond yields drove the importance of style and industry factors. This is reversing now and we are seeing country factors reassert traditional dominance. This has coincided with a strong relative performance with the JOHCM Emerging Market Opportunities fund, as you can see below:

Performance – Total Returns (USD) as of September 30, 2022



Source: JOHCM, JOHCM Emerging Markets Opportunities Fund performance shown net of fees as of September 30, 2022 – Past performance is not a reliable indicator of future performance. Inception date Nov 20, 2012.

Performance drivers and positioning

This performance has driven the fund's strategy of holding countries that are well suited for a given investment environment and avoiding those that are not. The fund currently holds only nine of the 24 countries in the index. These include countries such as Brazil, Mexico and Indonesia which have bucked the trend of broader emerging market weakness. All three made positive returns in 2022.

Fund managers James Syme, Paul Wimborne and Ada Chan each draw on more 20 years of experience in emerging market investing. They see clear signals that these markets are shifting into a virtuous circle of upswings in domestic demand which typically drive multi year periods of outperformance. A similar environment drove the last surge in investor demand for Latin America (prior to the GFC). These economies have taken more than a decade to rebalance and repair.

Now another opportunity emerges. The fund's performance has also been helped by the team's decisions on China. The fund has been underweight in China as multiple headwinds including Covid zero and regulatory pressure on the property sector weighed on markets.

James, Paul and Ada are keeping a close eye on Beijing, however. There are signals of a shift in policies that have weighed on the economy and market. It is too soon to overweight this market. Economic growth, the liquidity and credit environments and the currency outlook all remains negative. But if policy becomes more supportive this could in combination with historically cheap valuations drive an opportunity.

JOHCM Emerging Markets Opportunities fund's emphasis on liquidity and the agility to shift quickly between markets will be a key factor in taking this opportunity when the time is right.

Emerging markets outlook

High US rates and a strong US dollar are traditional headwinds to emerging markets as a whole though as noted above there are countries bucking this trend. It will take a shift in expectations around the US Fed's hiking cycle to remove this headwind. So far JOHCM Emerging Markets Opportunities fund has been able to preserve capital relative to the benchmark.

We believe this puts the fund in a relatively good place when the rebound in the asset class comes through. We expect that, as always, owning the right countries will be important for performance in that period. This is reinforced by the reestablishment of country factor dominance. It is also aligned with our country driven strategy, which has driven long term outperformance.

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

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure the equity-market performance of emerging markets. The MSCI Emerging Market Index consists of the following 24 emerging-market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. Indices mentioned are unmanaged statistical composites of stock-market performance. Investing in an index is not possible. Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days at www.johcm.com or by calling 1-866-260-9549 or 1-312-557-5913.

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 JOHCM (USA) Inc. and distributed through JOHCM Funds Distributors, LLC. The JOHCM Funds are not FDIC-insured, may lose value, and have no bank guarantee.

Past performance is no guarantee of future results.

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.

The views expressed are those of the portfolio manager as of December 2022, 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.

