PENDAL

Factsheet

Pendal Global Emerging Markets Opportunities Fund

Global Equities

ARSN: 159 605 811

31 August 2022

About the Fund

The Pendal Global Emerging Markets Opportunities Fund (**Fund**) is an actively managed portfolio of global emerging market shares.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the MSCI Emerging Markets (Standard) Index (Net Dividends) in AUD over the long term. The suggested investment time frame is seven years or more.

Description of Fund

This Fund is designed for investors who want the potential for long-term capital growth, diversification across a broad range of global emerging market shares and are prepared to accept high variability of returns. The Fund can invest in shares in a range of emerging markets and may also hold cash.

As manager of the Fund, J O Hambro Capital Management (**JOHCM**) investment process for global emerging market shares aims to add value through a combination of country allocation as well as individual stock selection. JOHCM's country allocation process is based on analysis of a country's economic growth, monetary policy, market liquidity, currency, governance/politics and equity market valuation. The stock selection process focuses on buying quality growth stocks at attractive valuations.

The Fund has assets that are denominated in foreign currencies. This means that changes to the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. The Fund's foreign currency exposure will generally not be hedged to the Australian dollar but JOHCM may do so from time to time. JOHCM does not intend to use currency trading as an additional source of Fund returns.

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives can also be used to gain exposure to assets and markets.

Investment Manager

The portfolio is managed by J O Hambro Capital Management Limited, a wholly-owned subsidiary within the Pendal Group.

Other Information

Fund size (as at 31 Aug 2022)	$243 million
Date of inception	November 2012
Minimum Investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Yearly
APIR code	BTA0419AU

[1] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Fees and costs

You should refer to the latest Product Disclosure Statement for full details of the ongoing fees and costs that you may be charged.

Management fee[2]	1.18% pa

[2] This is the fee we charge for managing the assets and overseeing the operations of the Fund. The management fee is deducted from the Fund's assets and reflected in its unit price.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	1.07	1.17	2.21
3 months	-2.85	-2.56	-2.15
6 months	-5.30	-4.74	-8.23
1 year (pa)	-13.62	-12.60	-16.64
2 years (pa)	4.07	5.31	1.08
3 years (pa)	1.50	2.73	2.14
5 years (pa)	3.44	4.78	3.57
Since Inception (pa)	7.32	8.76	6.74

Country Allocation (as at 31 August 2022)

China	24.0%
India	16.7%
South Korea	11.8%
Brazil	11.6%
Mexico	8.1%
Taiwan	5.8%
South Africa	4.4%
Indonesia	4.1%
United Arab Emirates	4.0%
Other	4.7%
Cash	4.8%

Sector Allocation (as at 31 August 2022)

Consumer Staples	10.7%
Real Estate	5.2%
Financials	23.9%
Materials	9.7%
Industrials	6.2%
Energy	5.4%
Utilities	2.8%
Communication Services	9.1%
Health Care	0.0%
Consumer Discretionary	10.1%
Information Technology	12.1%
Cash	4.8%

Top 10 Holdings (as at 31 August 2022)

Tencent Holdings Ltd.	5.5%
HDFC Bank Limited Sponsored ADR	3.7%
Mahindra & Mahindra Ltd.	3.6%
Samsung Electronics Co., Ltd.	3.6%
State Bank of India	3.6%
Emaar Properties (P.J.S.C)	3.3%
Petroleo Brasileiro SA Sponsored ADR	3.1%
Larsen & Toubro Ltd.	3.1%
Proya Cosmetics Co., Ltd. Class A	2.9%
Tsingtao Brewery Co., Ltd. Class H	2.9%

Risks

An investment in the Fund involves risk, including:

- **Market risk** - The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk** - The risk associated with an individual asset.
- **Emerging markets risk** – The risk of asset price volatility and higher currency, default and liquidity risk from investments in emerging markets.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Currency risk -** Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **Regulatory risk -** The risk that a change in laws and regulations governing an investment or financial markets could have an adverse impact on an investment.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Fund manager commentary

- We prefer those markets we see as heading into upswings, including Mexico and Brazil
- We have, however, deliberately avoided taking a position in Chile, due to what we consider to be key risks in country-driven emerging market investing
- The fund lagged the benchmark in August

Given our overweight positions in Mexico and Brazil, why do we not have a position in Chile, Latin America's third-largest market? The answer to that has two parts, each of which is an example of what we consider to be key risks in country-driven emerging market investing.

As we have written before, in recent years Latin America has seen a broad political shift to the left. Chile has been part of this with the 2019-21 cost-of-living protests seeing 1.2m people on the streets of the capital Santiago in October 2019. This led to a hard-fought presidential election in 2021, won by 35-year-old ex-student radical Gabriel Boric with a platform focused on opposition to capitalism and support for social justice and the environment. As well as this electoral shift to more populist politics, Chile has also faced the prospect of a new constitution. A referendum in October 2020 approved the drafting of a new constitution by a specially elected convention, which has since been drafted. The Boric administration has been particularly critical of the mining and forestry industries, as well as calling for the nationalisation of lithium extraction and a large increase in the role of the state in the economy.

Chile's equity market took these developments badly. Previously, the stable and market-friendly nature of Chilean politics had enabled the market to trade at a valuation premium to neighbouring countries, but the forward price/earnings ratio of the IPSA index fell from an average of 15x in 2011-20 to less than 7x in mid-2022.

The first week of September has seen an improvement in the political outlook, with the final popular vote to approve the new constitution rejecting it by 62% to 38%. This means the current constitution will remain, removing a major source of risk to equity investors and suggesting that President Boric has less room for manoeuvre than when elected.

With reduced risk and valuations at all-time lows, does that make Chile attractive to our investment process? Unfortunately, not at this time, because the economy faces some serious challenges that will need to be overcome before the market can see stronger growth and a lower discount rate.

Followers of our process will know that we consider current-account deficit markets like Chile to be inherently cyclical, with periods of strong growth always followed by crises or slowdowns. Chile has enjoyed strong growth in recent years and is now in the downswing. During the Covid pandemic, the government injected USD 27bn of extra spending into a USD 318bn economy (one of the most generous stimulus packages in the emerging world). This was concurrent with the congress passing legislation allowing the public to withdraw their pension savings early. These two measures combined to drive a consumer boom, with real retail sales in 2021 some 23.6% higher than in 2019.

As is typical for current-account deficit markets with booming domestic demand, both inflation and the current account balance have rapidly become serious problems. Inflation, which since 2010 had not exceeded 6%, has ramped to 13.1% in the year to July; the current account deficit, which had been averaging 3.5% of GDP, expanded to 8.8% of GDP in 2Q 2022.

And, as is almost always the case, the unsustainable inflation rate has caused a sharp currency sell-off (the Chilean peso is down 18.1% against the US dollar since the end of 2019, having at one point in July been down 39.5%), which has in turn required brutal interest rate hikes from the central bank (since mid-2021, the policy rate has gone from 0.5% to 10.75%). Ultimately, the only solution is going to be a drastic slowdown in domestic demand, a higher savings rate and a period of export-led growth to repair the external balance, and we generally seek to avoid being invested in markets that are undergoing slowdown and rebalancing. We prefer those we see as heading into upswings, including Mexico and Brazil.