



RIVER AND MERCANTILE  
ASSET MANAGEMENT

# Emerging Market Opportunities ILC Equity Fund

Quarterly Report  
to 31 December 2019

## Fund Objective

The objective of the fund is to achieve long-term capital growth and the security of investments, while maintaining an adequate diversification of risks, by investing in a portfolio of equity securities issued by small and medium-sized companies with their registered office in emerging market countries worldwide. Small and medium-sized companies are defined as all companies with a market capitalization of less than 10 billion USD at the time the investment is made.

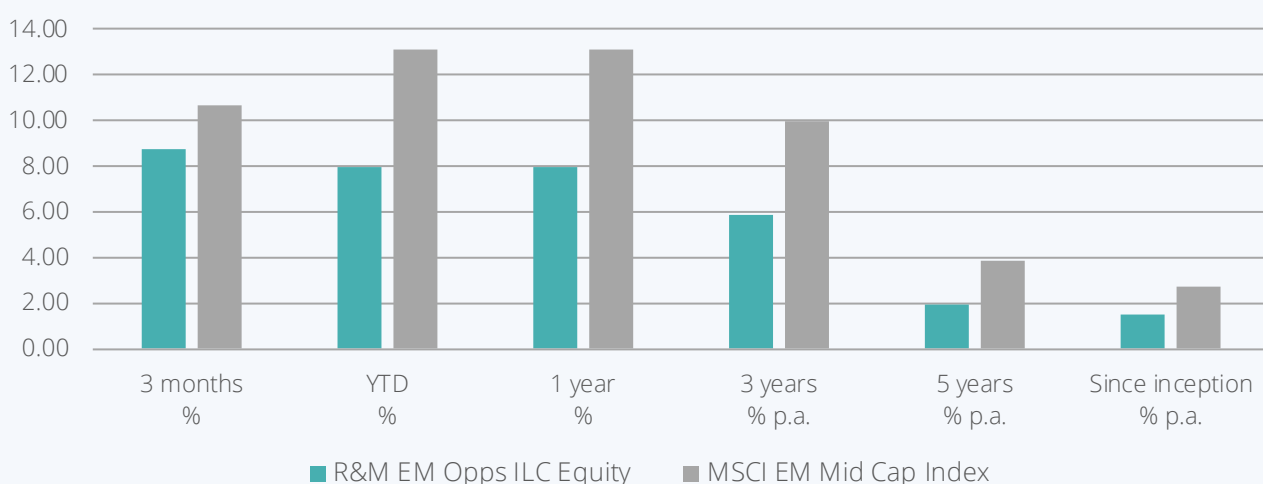
The investment process is driven by a proprietary bottom-up methodology for the stock selection based on the Industrial Life Cycle (ILC) process. The ILC process segments the universe of investable companies according to their life cycle stage and evaluates them accordingly. While stock selection is supported by the ILC process, the final investment decision remains with the Investment Manager.

## Portfolio summary and key risk characteristics

Fund assets under management (AUM)	\$ 18.4m	Return on equity (ROE)	17.3%
Strategy capacity	\$ 1bn	Price/earnings (PE) ratio	12.1
Inception date	1 May 2013	Price/book (PB) ratio	1.8
Number of holdings	65	Dividend yield	3.1%
Active share	90.3%	Weighted average market cap	\$ 4.2bn

## Performance ('EB' class USD accumulation units, net of 0.9% p.a. AMC)

	Cumulative (%)			Annualised (% p.a.)		
	3 months	YTD	1 year	3 years	5 years	Since inception
R&M EM Opps ILC Equity	8.77	7.92	7.92	5.87	1.95	1.46
MSCI EM Mid Cap Index	10.64	13.13	13.13	9.93	3.86	2.72
MSCI EM Small Cap Index	9.52	11.51	11.51	6.70	2.97	1.65



Calendar Year	R&M EM Opps ILC Equity %	MSCI EM Mid Cap Index %	MSCI EM Small Cap Index %
2015 (7 Apr - 31 Dec)	-15.58	-18.45	-13.04
2016	9.92	4.84	2.28
2017	25.21	35.14	33.84
2018	-12.18	-13.11	-18.59
2019	7.92	13.13	11.51

## Investment commentary

### Review

Small and Mid Cap Emerging Market equities turned in a 10.6% gain for the quarter and 13.1% for the year. The key driver of the strong quarter was the partial resolution to the US-China trade war in December, but an additional interest rate cut from the US Fed and other central banks also provided helpful tailwinds. The geographic and stylistic trends set forth earlier in the year persisted, with large cap leading small cap by 9% and Growth beating Value by 13%. The value tilt of the Fund provided headwinds for relative returns, but strong stock selection in late life cycle companies kept the fund close to the index for the year.

The quarter was quite productive in new idea generation. Positioning has been further built in the Indian coal to gas theme with Fading Winner Gujarat State Petronet (GSPL) in India. GSPL is the second largest gas transmission company in India and the largest city distributor in the state of Gujarat. Confidence in Brazil positioning has continued with Growth stage education software provider Arco. Arco will play an important role in the digitalization of private primary school education in Brazil. Other notable additions include real estate developers in the Philippines, Mexico and Greece; all markets with improving economic fundamentals that trade at attractive discounts to their asset values. On the sell side, some gains were taken on the technology hardware side in Taiwan as well as in the Indian IT consultant space as the growth thesis has been played out for now.

### Outlook

Emerging Market equities are likely to build upon the gains from 2019. Central banks remain accommodative, inflation is benign and reforms are ongoing in Brazil (pension), and India (bankruptcy), and China (shadow banking). Fiscal stimulus is underway in South Korea (child care), Mexico (minimum wage), India (corporate tax). A number of South East Asian markets have implemented infrastructure plans ranging from transportation in the Philippines and Malaysia while Indonesia is beginning the ambitious task of moving its national capital from Jakarta to higher ground on the island of Borneo. The combination of improving corporate governance at the behest of investors and governments alike, structural reform, and an accommodative credit cycle augurs well for EM equity performance.

Global PMIs are expected to bottom sometime in the first quarter of the year, thus creating some upward pressure on U.S. rates. Emerging Markets are well positioned for this cyclical improvement and the improved public and private governance in Emerging Markets should provide for a stable Emerging Market FX environment. If this pattern holds, equities should outperform bonds, cyclicals lead defensives, value outperforms growth, and provides a strong chance for small caps in Emerging Markets to begin making up their lost ground.

**Al Bryant**  
Portfolio Manager  
January 2020



## Performance attribution

### Top 10 contributors to return

	Active average weight (%)	Relative contribution (%)
Vipshop Holdings Spon ADR	1.99	0.69
Qualicorp	1.91	0.41
China Lesso Group	1.91	0.39
China Resources Cement Holdings	2.79	0.39
Hansol Chemical Co.	1.13	0.25
PT Media Nusantara Citra	1.24	0.23
Notre Dame Intermedica	1.02	0.19
Sao Martinho	0.75	0.17
Xinyi Glass Holdings	1.69	0.16
China Communications Svcs Cl H	0.96	0.14

### Top 10 detractors from return

	Active average weight (%)	Relative contribution (%)
Telkom	0.76	-0.51
X5 Retail Group	2.97	-0.35
CAP	0.45	-0.35
Krung Thai Bank	1.90	-0.23
Dino Polska	1.81	-0.22
Grupo Comercial Chedraui	0.62	-0.21
PT Indofood CBP Sukses	1.36	-0.20
Ace Hardware Indonesia	1.21	-0.20
Far East Horizon	2.15	-0.20
Co.de Trans.de Energia Eletrica Paulis	1.93	-0.19

### Attribution by region

	Contribution from allocation (%)	Contribution from selection (%)
Asia Pacific Ex Japan	0.06	0.51
Europe	0.03	-0.48
Latin America	-0.08	-0.47
Middle East And Africa	0.06	-0.73
North America	0.07	0.00
Cash	-0.04	0.00
<b>Total</b>	<b>0.10</b>	<b>-1.17</b>

### Attribution by sector

	Contribution from allocation (%)	Contribution from selection (%)
Energy	-0.02	-0.10
Materials	-0.30	0.09
Industrials	0.00	0.80
Consumer Discretionary	0.01	0.61
Consumer Staples	-0.13	-0.19
Health Care	-0.04	0.52
Financials	0.07	-0.90
Information Technology	0.10	-0.93
Communications Services	0.01	-0.31
Utilities	-0.09	0.17
Real Estate	-0.03	-0.36
Cash	-0.04	0.00
<b>Total</b>	<b>-0.47</b>	<b>-0.60</b>

## Portfolio characteristics

### Top 10 holdings

	Fund weight (%)
Lojas Renner	3.51
X5 Retail Group	3.18
Localiza Rent A Car	2.82
Chailease Holding Co.	2.76
International Container Terminal S	2.72
Far East Horizon	2.65
China Resources Cement Holdings	2.52
Chicony Electronics Co	2.49
China Lesso Group	2.49
Wistron Corporation	2.42

### Country weightings

	Fund weight (%)	Benchmark weight (%)
China	17.38	17.29
Brazil	17.11	14.48
Taiwan	14.28	13.22
South Korea	8.45	11.08
South Africa	7.71	7.66
India	5.15	6.73
Philippines	4.88	1.06
Indonesia	3.86	1.95
Russia	3.70	3.24
Poland	3.45	2.20
Other	12.85	21.09

### Sector weightings

	Fund weight (%)	Benchmark weight (%)
Energy	1.24	3.74
Materials	5.26	12.57
Industrials	20.29	15.19
Consumer Discretionary	10.86	11.08
Consumer Staples	10.76	9.54
Health Care	6.90	7.27
Financials	14.10	13.83
Information Technology	10.80	10.73
Communications Services	4.66	4.55
Utilities	10.48	5.12
Real Estate	3.49	6.39
Cash	1.17	0.00



## Important information

The River and Mercantile Emerging Market Opportunities ILC Equity Fund (the “Fund”) is approved by the Commission de Surveillance du Secteur Financier as a sub-fund of the River and Mercantile Investment Funds SICAV, an undertaking for collective investment in transferable securities in the legal form of an investment company with variable capital (société d’investissement à capital variable, “SICAV”). The Fund registered as a “recognised scheme” for the purposes of Section 264 of the Financial Services and Markets Act 2000 (FSMA) of the United Kingdom and shares in the Fund may upon such registration be promoted and sold to the general public in the United Kingdom subject to compliance with FSMA and applicable regulations under FSMA. Potential investors in the United Kingdom should be aware that most of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Fund and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

The SICAV is managed by Multiconcept Fund Management S.A. and distributed by River and Mercantile Asset Management LLP as global distributor. River and Mercantile Asset Management LLP is authorized and regulated in the United Kingdom by the Financial Conduct Authority. River and Mercantile LLC is appointed as investment manager of the Fund and is registered as an investment advisor with the US Securities and Exchange Commission. River and Mercantile LLC’s equity portfolio management business is conducted under the name “River and Mercantile Asset Management ILC Team”.

This material has been prepared by River and Mercantile Asset Management LLP. None of MultiConcept Fund Management S.A., the registrar and transfer agent, the central administration or the custodian of the Fund has independently verified any information contained herein and no party makes any representation or warranty as to the accuracy, completeness, or reliability of such information.

Investors should refer to the latest prospectus of the SICAV (as amended or supplemented) and relevant key investor information document(s) for the Fund for further information (available from our website at [riverandmercantile.com](http://riverandmercantile.com)).

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS.

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