FUND PROFILE

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ARTEMIS

SMARTGARP GLOBAL EMERGING MARKETS EQUITY FUND

May 2023

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CONTENTS

ARTEMIS SMARTGARP GLOBAL EMERGING MARKETS EQUITY FUND

OUR FUND PROFILES provide an in-depth review of our leading rated funds and are designed to give advisers, paraplanners and analysts an ‘under the bonnet’ view of the fund. In providing more detailed commentary than a standard fund factsheet we believe our fund profiles set the standard for the next generation of research notes, aiding in fund selection and in meeting the ongoing suitability requirements expected by the FCA, and helping ensure firms deliver good client outcomes.

All of our rated funds are subject to rigorous and ongoing scrutiny on both a qualitative and quantitative basis. Our fund methodology is available for download from the RSMR Hub – www.rsmr.co.uk

The **Artemis SmartGARP Global Emerging Markets Equity Fund** has been one of our rated funds since June 2017. It is a long-only, multi-cap strategy focusing on fast growing companies at reasonable valuations. The fund is managed by Raheel Altaf & Peter Saacke who have managed the fund since inception in April 2015. They use a proprietary quantitative system called SmartGARP to rank over 2,500 companies in the investment universe across eight factors. It is a flexible, well diversified approach but the fund will typically hold between 80 and 120 companies at any one time.

Peter Saacke has implemented the SmartGARP process on a global mandate since 2004. The process was found to be particularly effective in emerging markets where there are larger valuation dispersions. It is a tested process which has undergone development over the years, resulting in this fund outperforming both the benchmark and the sector average since inception. The fund’s contrarian positioning, combined with the strong relative performance when its ‘value-orientated’ style has been out of favour, make it a useful addition to an investor’s portfolio.

Graham O’Neill, Senior Investment Consultant, RSMR

Graham began his career in the investment industry over thirty years ago. After graduating from the University of Kent with a Degree in Economic Analysis, History and Policy, he joined London & Manchester, later joining Phillips Drew, then GRE as a UK based fund manager. He then moved to Abbey Life Ireland, where he held the position of CIO running their Managed and large Equity funds. Graham joined RSMR in 2010.

IA GLOBAL EMERGING MARKETS SECTOR

The IA Global Emerging Markets sector comprises funds which invest 80% or more of their assets in emerging market equities as defined by the relevant global emerging markets (‘GEM’) index. The sector contains over 100 funds available for investors and financial advisers to choose from, covering a large variety of investment strategies and styles, including active, passive and enhanced index funds. A number of funds adopt style or market-cap based strategies including value and growth-biased themes, market cap focused or multi-cap strategies. The variation between the funds makes it difficult for an investor to compare them as the strategies will clearly perform differently depending on market conditions. It is important to recognise this when looking at both absolute and relative performance numbers for funds in the sector.

Historically, exposure to emerging markets has allowed investors access to some of the world’s fastest growing countries, but individual growth rates vary. It offers the potential for investors to achieve above average growth albeit with the likelihood of higher volatility. Among the areas of rapid growth, e-commerce is evolving at a pace even faster than the West and has thrown up some exciting investment opportunities. Corporate governance within the region varies hugely but many companies now have a focus on generating returns for minority shareholders and are allocating capital more efficiently.

Whilst the emerging world has not been immune to the volatility in equity markets caused by concerns over the banking sector, in the main, emerging country banks remain better capitalised and on a different growth path to their developed market counterparts. A strengthening US currency over part of the first quarter of 2023 was a temporary headwind to emerging markets, as some countries are financed with US$ debt and imports of energy, materials and food are all effectively priced in the US currency. Emerging markets also are further into their monetary tightening phase than Western counterparts with China in particular in a different stage in its economic cycle with policy being actually eased.Economic prospects for China, as a recovery story, and India and Mexico, as growth stories, in particular look positive.

China has now exited its Zero Covid Policy and has indicated support for areas of the economy hardest hit, including the property market, and has increased fiscal and monetary stimulus. The rebound from the economic slowdown in China is not likely to be rapid, with many Chinese consumers taking a more cautious stance to re-opening, and in fact international air travel in particular has been slow to rebound, a factor behind weakness in the oil price. China has set a growth target of 5% this year, its lowest in decades, but it is a realistic target as the economy slowly recovers.

India continues to offer investors an excellent long-term investment opportunity as home to a fifth of the world’s population, in a country with strong rule of law as the world’s largest democracy. This remains a market with generally very high-quality businesses compared to others in the developing world. India is now investing heavily in its infrastructure with strong levels of new road construction and private sector investment improving airports, gas and power distribution, renewable energy and the railway system. The government has encouraged investment in local manufacturing through attractive tax and labour reforms and there is scope for continued productivity improvements. Improving infrastructure is a large domestic market, and the increasing need for multinationals to diversify global supply chains adds to the long-term positive case for manufacturing in India.

Within Latin America there are a number of well-run companies in Brazil, although there are some concerns in the market about the future economic policies of the Lula administration which was beset by corruption issues during its second term.The market is waiting to see whether the current administration will look to copy the first Lula term or the second one, although in the long term if properly managed the country should benefit from its abundance of certain resources including oil and iron ore, and a favourable environment for the production of soft commodities.Mexico remains well placed to attract inward investment as manufacturers look to expand their non-Asian supply chains with companies such as BMW, Tesla, Foxconn and Advantech all expanding their operations in the country.

Some countries in the Middle East are benefitting from foreign investor money due to their increasing popularity as safe haven states in the emerging world in periods of heightened geopolitical tensions.

Overall, emerging markets are benefitting from a favourable longer-term story and should be supported by their relatively low valuations compared to developed markets. Levels of economic growth relative to the developed world should be a lot stronger over the next five years, as inflation is less elevated than in the West and there remains abundant sources of relatively cheap supplies of labour, especially in non-China Asian countries such as India, Indonesia, and Vietnam.

ARTEMIS

Artemis is owned by Affiliated Managers Group (AMG) and the management team of Artemis. AMG has a majority equity interest (approximately 60%), while the management team and principal employees own the remaining 40%. This is a financial partnership – AMG take a share of the revenues produced by Artemis but do not get involved in the day-to-day running of the business. Artemis is structured as a Limited Liability Partnership (LLP) and currently has 29 partners comprising fund managers and other key individuals at the firm. They believe that a partnership is a flexible and robust structure for an investment management business. The firm manage assets of £24.4bn (Artemis 30 April 2023) across arrange of investment trusts and both pooled and segregated institutional portfolios.

ARTEMIS SMARTGARP GLOBAL EMERGING MARKETS EQUITY

Manager	Raheel Altaf and Peter Saacke
Structure	OEIC
IA Sector	Global Emerging Markets
Launched	8th April 2015
Fund Size	£400.3 1m (30th April 2023)

Fund Management Team

The fund is managed by Raheel Altaf and Peter Saacke using the SmartGARP quantitative process. This process was created by Philip Wolstencroft, another fund manager at Artemis, and has been used to manage equity funds since 2001. The process has been developed over time and is now used across five strategies at Artemis.

- Artemis SmartGARP Global Emerging Markets Equity fund (Raheel Altaf and Peter Saacke)
- Artemis SmartGARP Global Equity fund (Peter Saacke and Raheel Altaf)
- Artemis SmartGARP European Equity fund (Peter Saacke and Philip Wolstencroft)
- Artemis SmartGARP UK Equity fund (Phillip Wolstencroft)
- Artemis SmartGARP Paris-Aligned Global Equity fund (Peter Saacke)

Peter Saacke, Fund Co-Manager (Partner)

Peter Saacke has managed the Artemis SmartGARP Global Equity fund since January 2004 and co-managed the Artemis SmartGARP Global Emerging Markets Equity fund since its launch in April 2015. He joined Artemis in December 2002 from Merrill Lynch, where he worked as an equity strategist from 1999. Peter holds a BA in mathematics & philosophy from the University of Oxford, an MA in economics from Freiburg University and a PhD in economics from Hamburg University. He is a CFA charterholder, a partner in Artemis, and a member of the executive committee.

Raheel Altaf, Fund Co-Manager (Partner)

Raheel Altaf is a partner and has managed the Artemis SmartGARP Global Emerging Markets Equity fund with Peter Saacke since launch in April 2015. A Cambridge graduate in electrical engineering, he joined Fidelity International in 2002 as a quantitative analyst. In 2007 he was promoted to portfolio manager for a range of funds which grew to $2.5 billion. He moved to Fulcrum Asset Management in 2011. In 2014 Raheel joined Artemis to help Philip Wolstencroft and Peter Saacke manage the SmartGARP funds and institutional mandates.

Philip Wolstencroft, Partner

Philip Wolstencroft is a partner, a member of Artemis' management committee and the creator of the SmartGARP investment process which Artemis uses to help choose stocks for four of its funds. He has managed the Artemis SmartGARP European Equity fund since its launch in March 2001 and the Artemis SmartGARP UK Equity fund since July 2010. He joined Artemis in February 2001 from Merrill Lynch, where he was head of pan-European equity strategy. He holds a BA and an MA in economics.

Team Remuneration

All partners and employees at Artemis are incentivised and rewarded in relation to their contribution to the business. Different structures are in place for different types of partner and employee. Raheel Altaf, Peter Saacke and Philip Wolstencroft are partners and share in the profitability of the partnership. The managers are also encouraged to invest in their own funds.

Fund Objectives & Targets

This is a long-only, multi-cap strategy focusing on fast growing companies at reasonable valuations, or growth at a reasonable price. It is a diversified portfolio typically holding 80 to 120 stocks. The fund does not have a specified performance target but benchmarks itself against the MSCI Emerging Markets Index (GBP, NR).

The fund does not restrict its choice in investments either by market cap or industry, but it does operate within guideline limits for risk management purposes. This typically includes +/-10% at the sector level and +/-6% at the country level against the index.

Investment Philosophy

The managers believe that inefficiencies exist in global stock markets because investors do not always act rationally. The investment philosophy seeks to exploit the effect of investors' behavioural biases by being more objective, rigorous and systematic in both the analysis of the company's financial characteristics and in decision making. They do this through a rigorous quantitative analysis process which they believe gives them a significant edge in a constantly changing market environment.

They complement the quantitative stock selection and risk management processes with their judgement by carrying out their own due diligence on individual companies. This includes the verification of output from the quantitative based system. They also construct the portfolio to ensure there is a broad diversification of risks.

Investment Process

The investment process centres around a quantitative process which aims to identify fast growing companies at reasonable valuations across a universe of over 2,500 companies. The managers are seeking companies showing strong characteristics across a range of top-down and bottom-up factors. The quantitative model, SmartGARP, screens the financial characteristics of companies within the universe. It is able to electronically sort large volumes of information on a daily basis as it is updated every night. The objective is to alert the manager to stocks where certain variables are influencing the share price and also to identify the best entry point for investment.

Every company is measured across eight factors and is assigned an overall score where 100 is excellent and 0 is very poor. Stocks with a score of above 90 are considered for inclusion in the fund. The first six of these factors are 'bottom-up' while the last two are 'top-down'. The eight factors are listed below with a number of the measures used by SmartGARP:

1. Growth The measures within the growth factor include return on equity, historical and forecast growth in EPS, sales, cash flows and dividends.

2. Value The measures within the value factor include historical and forecast price/earnings, price/cashflow, dividend yield, price-to-book and enterprise-value-to-EBITDA.

3. Estimate Revisions – this factor considers measures such as changes to EPS forecasts, forecasts adjusted by dispersion, changes in highest/lowest earnings estimates and earnings up and down grades. Consensus forecast changes are monitored as crucial behaviour indicators when evaluating each stock. Estimate revisions have been shown to be a particularly consistent and reliable indicator and therefore carry a double weighting in the aggregate SmartGARP ranking, with all other factors being equally weighted. This SmartGARP factor is looking for companies that are enjoying above average upgrades to profit forecasts.

4. Momentum – this factor looks at the stock price movements including price momentum, price movements over result days and changes in broker recommendations. It is therefore less about the fundamentals on a stock, but more a guide to the fund manager of stock price behaviour. It is aiming to alert the fund manager to stocks where the model might be missing something that is influencing the share price and to identify the best entry point for investment.

5. Accruals –this factor combines a series of measures to assess the degree to which companies make use of accounting standards to enhance reported results. There is some legal accounting leeway which, if used aggressively, increase the risk of disappointing results in the future. They also monitor the extent of directors buying and selling of shares in companies. This SmartGARP factor looks for companies with conservative accounting and directors who are buying shares in the companies they manage.

6. ESG – Finding companies with good or improving ESG characteristics is the sixth bottom-up screen applied by SmartGARP. The process looks for companies with strong ESG credentials and/or those that are showing significant improvements (see separate ESG section).

7. Macro Trends – this factor looks at changes in current and forecast measures such as GDP growth, inflation, bond yields, interest rates, yield curves, commodities and oil prices. These measures are converted into scores for industry sectors and geographies using a sensitivity matrix which is then mapped against the individual stocks in the investible universe. A high score is given to companies if they belong to sectors or regions standing to benefit from the current macroeconomic backdrop.

8. Investor Sentiment – a contrarian indicator which seeks to evaluate how the broad investor community is positioned in their portfolios. Data is extracted from various sources such as published surveys, investor reports and prime brokers, to monitor the behaviour of hedge funds and identify long-only investors' relative sector under/over weights.

The growth and value factors lie at the heart of the SmartGARP model, since the expected return of any financial asset is a function of the current valuation and future growth rate of its cash flows. The value factor varies between being half-weighted and double weighted, depending on the dispersion of valuations in the market and the relative performance of the value style. Revisions are seen as a crucial behavioural indicator which have been consistent and reliable in the past. For this reason, this factor carries a double weighting in the aggregate ranking, while most other factors are equally weighted. The momentum factor acts as a guide to stock price behaviour while the accruals factor aims to scrutinise the reported results of a company. This reduces the risk of investing in companies where figures may be manipulated to misrepresent the financial position. Companies with conservative accounting methods and those where directors are buying shares will score highly on this ranking. The macro trend analysis converts various indicators into scores for industry sectors and geographies using a sensitivity matrix, which are then mapped against the individual stocks in the investible universe. Companies score highly if they belong to a sector or region that stands to benefit from the current macro-economic backdrop. Investor sentiment and ownership is a sector level factor which seeks to evaluate how the broad investor community is positioned in their portfolios. Data is extracted from various sources such as published surveys, investor reports and prime brokers, to monitor the behaviour of hedge funds and identify long-only investors' relative sector under/over weights. Those companies that are under-owned score highly on this measure.

In terms of the stock selection process, the top decile of all companies that are run through the SmartGARP model are available for selection. The managers will then carry out their own stock specific due diligence through other research platforms and through collaborating with the broader equity teams at Artemis. They will validate the data to ensure that it gives a true and fair reflection of the output from the model. Once the stock validation process is complete, the managers will seek to construct a portfolio that is diversified by the number of holdings, sectors, and regions as well as by style and size tilts. In order to ensure the degree of diversification, a number of constraints are put in place including typically +/-10% sector weighting from the benchmark and a +/-6% country weighting from the benchmark. These controls are not hard limits.

The size of an individual holding reflects not just how well it scores on SmartGARP, but also how consistently well it has scored in the recent past. Initial position sizes will typically be small but will increase over time as the manager adds capital to stocks that regularly score highly. Companies are sold when their aggregate SmartGARP score falls below 50 or if there is an adverse news event which contradicts the case for investing in the company. This process leads to a highly dynamic approach whereby portfolio turnover can average over 200% per annum. Liquidity is measured on a daily basis with the managers monitoring the average weekly volume traded in each of the stocks in the universe. This allows them to determine what proportion of weekly volume they own across their funds. The fund also has some currency exposure as the fund's foreign exchange exposure is unhedged.

SmartGARP generates a proprietary measure of the fund's risk profile which is constantly monitored by the fund managers. This assessment of portfolio risk includes measures of stock betas and their value-at-risk, and combines them with a variety of more fundamental measures of the riskiness of companies, such as the historical volatility of their earnings, their interest cover and the dispersion of analyst forecasts.
All fund managers and portfolios are reviewed formally each quarter by Artemis' portfolio review panel and by their Investment Committee. The data reviewed is collated from a variety of sources, most significantly from Style Research Portfolio Analyzer, Statpro, Axioma and SRM. The review concentrates on the portfolios' relative exposures to key fundamental factors, ex-post and ex-ante risk statistics, risk decomposition, changes to asset allocation, plus stress test results and VaRs as viewed over time. The portfolio is analysed in numerous ways to ensure that no unintended risks have built up.

ESG

Finding stocks with good or improving ESG characteristics is the sixth 'bottom-up' screen applied by SmartGARP. As part of the SmartGARP screen, they look for companies with strong ESG credentials and/or those that are showing significant improvements. There are two subcomponents within SmartGARP's ESG component which use data from third parties.

Firstly, they use data from Truvalue Labs. Using natural language processing, Truvalue Labs analyses information from 75,000 sources online (news outlets, NGOs, ESG influencers, specialist journals, academic papers, legal notices) and builds several ESG sub-scores for companies:

- A 'Pulse' score (day-to-day variations based on new items),
- An 'Insight' score (a moving average of the pulse score),
- A 'Momentum' score.

Coverage is extensive (16,000 companies and rising) and compared to more traditional providers, the output is also timely, more objective, is not reliant on company disclosure and less asymmetric as it looks at both negative and positive stories.

The second subcomponent focuses on companies' current and expected future carbon footprints. It does this using estimates for companies' Implied Temperature Rise (ITR). ITR estimates the global warming trajectory a company's current and future expected emissions lie on. Coverage here is excellent too, with estimates of 5,700 companies already available. This subcomponent assigns high scores to companies with lower carbon footprints.

PAST & CURRENT POSITIONING/STRATEGY

The past positioning of the fund has very much been underpinned by the investment philosophy of the managers, which has been to avoid crowded trades and to seek companies that are under-owned and attractively valued. This results in a contrarian approach where the fund can often take underweight positions in larger index constituents, sectors and regions. The flip side of this is that the fund can take higher exposure to areas of the market which may represent smaller weightings in the index including mid and small cap companies. This can result in a higher beta approach compared to other funds within the peer group, as the fund tends to have less exposure to the more expensive segments of the market such as consumer services and technology. Where valuations become stretched in current holdings, the managers will often seek to take profits and re-allocate the capital into companies with more appealing valuations. The fund holds between 80 and 120 names so an individual holding will rarely go above 3.5% and the top 10 names will typically represent between 20% to 25% of the fund.

After a very difficult 2020 when the SmartGARP process was not suited to market conditions, relative performance rebounded strongly in 2021. Some of the top stock contributors included China Suntien, Fubon Financial, and Hansol Chemical whilst not owning or having large underweights to Alibaba and Tencent were also positive.

The managers believed that the stocks held at the value end of the market would continue to see upgrades on a relative basis and helps explain the strong performance of the portfolio in the post pandemic period.In Russia, oil names held included Lukoil, Rosneft, and Gazprom, together with Russian financial Sberbank, and Global Trans, a rail operator which actually had an 11% yield when it was purchased. These names had performed well prior to the invasion of Ukraine.

Over the course of 2022 the war in Ukraine was blamed for many things such as high inflation, but the events of last year were not wholly to do with this single factor, as inflation was already rising. There was a huge cut in supply to the global economy which then combined with pent up demand, so commodity and oil prices surged. The commodity part of the portfolio did extremely well and whilst interest rates rose in the developed world, emerging market central banks had pre-empted this by raising rates in 2021. The environment was therefore supportive of financials and banks with net interest margins improving.

2022 was an environment where energy and commodity stocks performed well and whilst Russian names were hit, stocks such as Petrobras in Brazil were a big positive. When purchased this stock traded on 2.5x PE and delivered 50% of its share price in terms of dividend pay-out over the course of the year – free cash flow at the company is very high and the company is paying this out. It has made limited capex investments so is returning cash to shareholders and the managers suggested that it is unlikely there will be an opportunity like this again. Although Petrobras shares fell 17%, the total return was in excess of 30% in 2022 due to the dividend. SmartGARP had taken an initial position which was then built out fairly aggressively as improving scores confirmed the opportunity and position size peaked at around 4% active. Energy as a sector was also unloved by investors but the fundamentals had improved, and this was the only sector to see positive revisions to analyst estimates. There has been some weakness in the share price since the Brazilian October Presidential election as there were fears that under the new president the government might interfere, and the dividend could see some pressure, but geopolitics is always a potential threat to this company.

The market focus shifted away from growth and momentum to value stocks through 2022. This suited the fund which is very differently positioned from the majority of its peer group. Many emerging market managers focus on high growth and what are deemed quality shares, but this fund takes a contrarian approach to the investment universe and continues to believe that value names can play catchup in terms of share prices. The fund's PE has shifted to around 6x having been as low as 5x, despite an ROE of 13.8% which is ahead of the benchmark. A lot of deep value names were not highly cyclical or low quality and have both high carry from the yield or dividend pay outs and re-rating potential. Favoured markets are China, Brazil, Korea and Turkey and the fund has underweights to India, Taiwan, and Saudi Arabia. There is some exposure to India, but it is the largest underweight at the country level and the fund has not bought any of the new issuance which are often highly rated growth names. The underweight to India was a detractor in 2022 as India has benefitted from supply chain shifts away from China and domestic flows into its equity market have remained robust. However since October 2022 there have been some headwinds to growth, including a weaker currency (Rupee) and the fallout from the Adani Group scandal. The fund currently has about an 8% weighting in the country.

SmartGARP scores suggest emerging market equities remain good value within global equities with earnings improving and there are still high levels of stock score dispersion in the EM stock universe which should present good opportunities for the process. Whilst value has recovered from its lows it still has potential for further catch up, and value stocks in China look particularly attractive.

The fund has an extremely strong value tilt, but despite this it is still showing levels of future earnings growth that are better than the market consensus. The top country overweights are China, Brazil, Korea, Turkey and Colombia, with the largest underweights being India, Saudi Arabia, Taiwan, Malaysia and Qatar. The fund has around 70% invested in Asia, which is an underweight, and is overweight to Latin America. The largest sector overweights are to insurance, banks, food and beverages, tobacco, technology hardware equipment and energy. Semiconductors, materials, software and services, media and real estate are all large underweights. At the stock level seven of the top 10 overweight positions are in financials.

There is a preference for the hardest hit areas of the market such as China, and also Brazil which benefits from globally robust demand for food and metals. Banco de Brazil has reported good earnings and has 25% ROE on 3.5x PE and a 12% dividend yield. Whilst ratings on Brazilian stocks in the short term are constrained by the double-digit level of interest rates (which have the potential to decline going forward) it is helping the value opportunity.

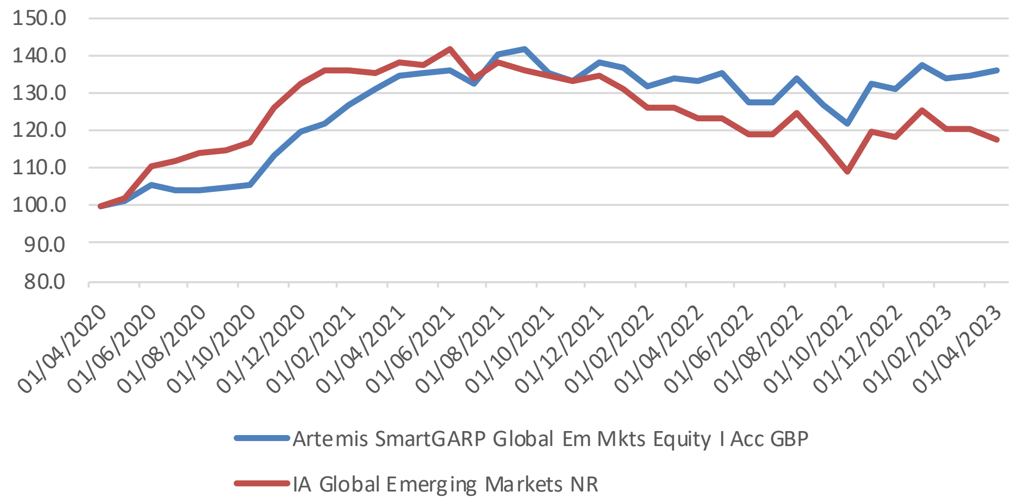
In the more highly rated markets, SmartGARP has been able to find cheaper opportunities such as Redington which is a favoured name in India trading on a PE of only 9.6x and a dividend yield of 3.9%, this is a software company trading at a large discount to the market. Other holdings in India include ITC, the tobacco company, now expanding in fast moving consumer goods, together with Power Electronics & Motors, which should benefit from the pickup in the industrial cycle. There is no exposure to Indian financials and the SmartGARP process has identified emerging market banks in other countries as being more attractive.

Looking forward the output from SmartGARP highlighted the improved prospects for commodity and resource stocks, together with the trends towards higher inflation which were picked up by the macro indicators in 2022. Recession risks have diminished, and the cycle is looking better with China re-opening and a pull-back in inflation in general in the emerging world.SmartGARP is indicating the macro environment favours cyclicality over defensives, and within this retail and travel and leisure are favoured. There is a preference at the sector level for financials and energy which are not harmed by rising inflation, and stocks which can benefit rather than be hit by a higher inflation outlook.

The SmartGARP results in EM have been positive and in fact at the time of writing, just looking at the pure global output from SmartGARP, emerging markets account for 42% of the best ideas of the quantitative screening process. While deep value is traditionally thought as risky and cyclical, fund beta is actually less than 1, and the companies held have defensive characteristics and good balance sheets. Growth and technology are now high beta parts of the market. The team believe it was not normal to have low beta and a large discount to the market, but this is where the market environment is today. The fund has added to cyclicality, and some Taiwanese tech and Korean financials now look interesting. They feel there will be a delayed recession rather than one being definitely avoided. SmartGARP is finding some of the best opportunities in mid cap value in emerging markets as we move into 2023.

PERFORMANCE

Fund vs IA Sector



Source: Artemis

Since the inception of the fund in April 2015 to the end of March 2023, the fund (I accumulating share class net of fees) has returned 64.98%, substantially outperforming both the benchmark returns of 37.39% and the sector average returns of 38%.

During 2022, Russia was a big problem for the fund in that there was a 6% weighting, and the fund was unable to sell in the short window of opportunity after the invasion of Ukraine, so when sanctions were imposed all holdings were marked down to zero. Since then domestically traded lines have rebounded to a degree, so there is a possibility the fund could eventually get something. Despite this the fund outperformed so having taken a 6% hit to NAV 94% of the portfolio performed extremely well as sentiment improved to value and deep value names. Top contributors last year were Petrobras, PICC in China, China Petroleum and Insurance company BB Seguridade. Unsurprisingly the detractors were all Russian names: LUKOIL, Gazprom, Sberbank Russia, Global Trans and Rosneft.

Over the past 12 months exposure to some deep value China names such as China Railways and Financials has been beneficial for the fund. PICC or Peoples Insurance has a dividend yield in excess of 8% and trades on a below 5x PE and performed well when the internet names came under regulatory scrutiny. Post the share price pullbacks, the process highlighted the value now available in internet names which had fallen from favour, and stocks such as Alibaba, Hello Group and Pinduo Duo were purchased in the late summer and autumn after they had been significantly de-rated by the market. From July earnings expectations for Alibaba had stabilised and with the pull back in valuation there appeared to be a lot of upside in the share price. While the fund had held Tencent in the past, this was not re-purchased. Within the domestically listed China ‘A’ share market, Gree Electric was purchased having been hit by negative sentiment to the property sector and lockdowns.

Last year Turkey was actually the best equity market in the world having fallen to very depressed valuation levels, and low interest rates relative to inflation have made bonds unappealing to domestic investors so equities have been purchased as a hedge against inflation. The fund is focused on companies with strong balance sheets, and which will benefit from the weaker currency. The top performing stock in the fund last year was Sisecam Turkey, an industrial conglomerate which rose by 150% and manufactures glass for cars, offices and solar panels. Its costs are in Turkish lira and revenues come from outside Turkey, so profitability has been given a boost and the company is doing well despite the difficult macro environment.

Positive investor flows have returned to emerging markets this year as expectations of much weaker economic growth have not materialised, China in particular has seen companies reporting improving earnings trends. In 2022 quality did not work in emerging markets, especially for high growth stocks, whilst deep value paid off for investors. Although 2020 had been a very difficult year for the fund, the three-year numbers have rebounded strongly and are ahead of the market and sector average.

SUMMARY & EVALUATION

The SmartGARP process has been running for over 30 years and is a quantitative stock screening tool taking in both bottom up and top down inputs looking at fundamental, behavioural and market trends. Companies are scored on eight investment factors and the fund managers then focus on the best opportunities. The process also takes into account ESG factors, first looking at data from True Value labs which looks at news flow sentiment which avoids company green washing and focuses on the most timely news flow from corporates. The process has been further refined to take into account a company's carbon footprint and impact on the environment. The growth dynamic has also expanded to look at other things rather than purely earnings momentum.

The process looks at return on equity and slower moving growth components, including return on capital measures which is believed to be a good predictor of future growth. There have been refinements to the process which focuses most on the bottom-up with some top down components. The investible universe analysed is 2,500 companies with new companies coming to the market in China and elsewhere, and a bigger universe makes the process more effective. The fund also follows 120 frontier companies located in 13 economies which can be up to 10% exposure for the fund although the current weighting is low as the managers do not see the need for additional currency risk from these markets, although the weighting might go up to 5-6%.

The SmartGARP results in emerging markets have been positive and today, just looking at the pure global output from SmartGARP, emerging markets account for 42% of the best ideas of the quantitative screening process. While deep value is traditionally thought as risky and cyclical, fund beta is actually less than 1 and companies held have defensive characteristics and good balance sheets. Growth and technology are now the high beta parts of the market.

After a very difficult 2020 when the fund underperformed by over 14%, there was a very strong bounce back in 2021 with a similar level of outperformance, and the fund declined by roughly half the market fall in 2022. It has outperformed year to date leaving it first quartile over three years and second quartile over five years. The SmartGARP process clearly works extremely well in emerging markets and the team have harnessed the strength of the quantitative output to deliver strong returns to investors. Its positioning in value names makes it differentiated from many of the quality orientated emerging market managers and it remains a useful satellite addition to investor portfolios.

ABOUT US

RSMR
Our Research. Your Success.

Established in 2004 RSMR provides research and analysis to firms working across the UK's personal financial services marketplace.

Our work is completed with total impartiality, without any conflict of interest and delivered to a high professional standard by a team of experienced and highly qualified people.

Working with advisers

We provide specialist research, analysis and support to a diverse range of financial advisers and planners helping them to deliver sound advice to their clients, backed by rigorous and structured research and due diligence.

The main regulatory body in the UK, the FCA, states that personal recommendations made by advisers should be 'based on a comprehensive and fair analysis of the relevant market' and this has led to closer scrutiny of the whole advice process. Our solutions are designed to help advisers meet these challenges whilst recognising that advisory firms require a range of flexible options that best meet their own business needs and those of their clients.

Working with providers

We work with all the leading fund groups, life and pension companies and platform operators across the financial services sector offering straight forward and pragmatic advice to help add value and improve their business performance and efficiency whilst treating customers fairly in line with FCA requirements.

Ratings

Our innovative ratings are now recognised as market leading and cover a broad area of investment solutions including single strategy funds, SRI funds, Multimanager and multi-asset funds, DFMs and investment trusts. Our familiar 'R' logo is now recognised as a trusted badge of quality by advisers and providers alike and a 'must-have' when selecting funds. Our ratings are founded on a strict methodology that considers performance and risk measures but places a greater emphasis on the ability of fund managers to continue to deliver performance in the years ahead. based on our in-depth face-to-face meetings with fund managers across the globe.

We understand financial services and we will work alongside you to deliver tailored solutions that are right for your clients and your business.

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