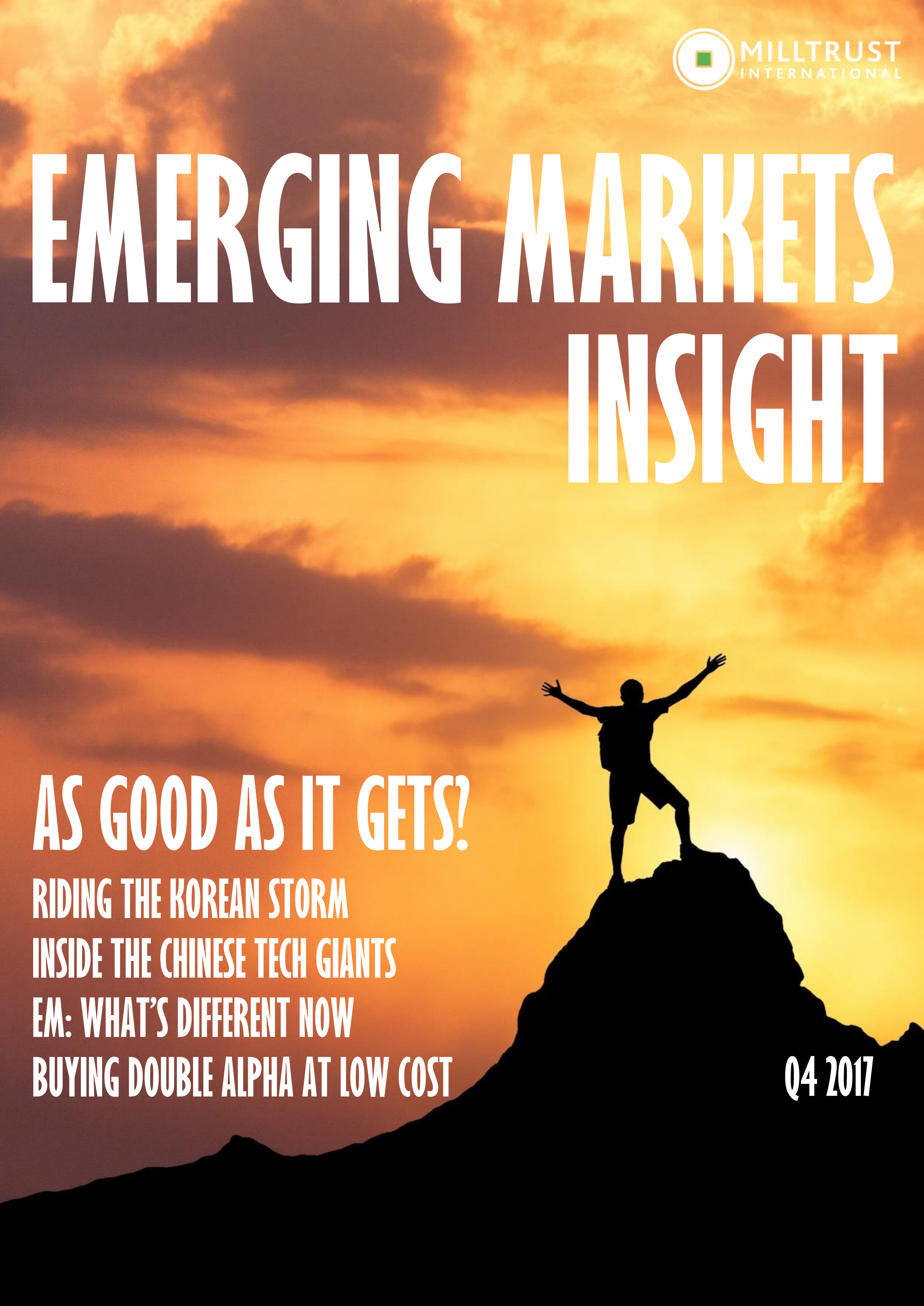

MILLTRUST INTERNATIONAL

EMERGING MARKETS INSIGHT

AS GOOD AS IT GETS?

RIDING THE KOREAN STORM

INSIDE THE CHINESE TECH GIANTS

EM: WHAT'S DIFFERENT NOW

BUYING DOUBLE ALPHA AT LOW COST

Q4 2017

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Issue at a Glance

Is this, as Eric Anderson writes in this issue of *Emerging Market Insight* (p. 4), as good as it gets?

In a year when global emerging market equities have already gone up by 30% in nine months, significantly outperforming major developed market indices, investors are beginning to voice questions over valuations and the road ahead.

Yet the seeds are strong for the continuation of the outperformance trend and this edition explores some of the most relevant dynamics in greater detail, ranging from the increasing prominence of 'new economy' TMT stocks to the changing role of China.

Indeed, it is a testament to investor confidence at this stage in the cycle that North Korean geopolitical tensions, which theoretically had the potential to scupper South Korean and wider Asian equity markets, produced only a modest – and largely temporary – impact. Seoul-based John Kim of Korea Investment Management shares a local perspective on page 6.

Finally, Milltrust have launched the Milltrust Global Emerging Markets (GEMS) Fund: a new fund vehicle under the firm's ICAV QIAF Umbrella. The new fund follows the same flagship multi-manager strategy that the firm has been managing for over five years which seeks to maximise returns in EM equities by exploiting both bottom-up stock selection by local specialist teams and top-down country allocation. See page 9 for more details.

We hope that you enjoy the read and look forward to a strong Q4.
- The Milltrust team

"In 2008, commodity stocks represented a third of the EM index. Today they represent an eighth."
Eric Anderson, p.8

"Ironically, as confrontation [with North Korea] ramps up, we see less uncertainty as there are fewer and fewer options to be considered."
John Kim, p.6

" With the One Belt One Road strategy, which is central to President Xi Jipeng's foreign policy, China really is now the driver of growth across the whole region."
Simon Hopkins, p8

"The net result is that the base cost to an investor in our [new GEMS] Fund is the same or lower than the cost of holding a passive fund elsewhere."
Firm Spokesman, p9

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UCITS Hedge Awards 2017

Long/Short Equity – Latin America
Best Performing Fund in 2016
Milltrust Latin America Fund
(Milltrust International)

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UCITS Hedge Awards 2017

Long/Short Equity – Asia
Best Performing Fund in 2016
Milltrust ASEAN Fund
(Milltrust International)

New Allocation Shifts

Eric Anderson, Head of Investment Solutions, Milltrust International

"The growth has been broad-based, which adds to the longevity of the cycle."

The 2017 bull run in emerging market equities has shown no sign of abating through the third quarter, thanks in large part to Chinese growth and the strong performance of the TMT space. As of September, EM markets were up nearly 30% in US Dollar terms, with 40% of that performance coming from China and 45% from internet stocks.

Investors may now wonder: is this as good as it gets for emerging markets? Is the best of the bull run now behind us? The data, in our view, strongly suggests a continuing trend.

Global trade, an important indicator of EM outperformance, is expanding in both volume and value terms, led recently by increasing demand from the US. A number of countries such as Russia and Brazil have underperformed due to political reasons, while others including Taiwan and South Korea are trading at a discount. Yet, overall, the growth has been broad-based, which generally adds to the longevity of the cycle. Today, 80% of the countries are in an expansionary mode, versus fewer than 50% two years ago. The developing countries continue to benefit from a weaker dollar, while global investors are showing a greater appetite for non-US assets, thanks in part to the uncertainty of the US fiscal situation.

Emerging markets also provide high real yields, less expensive currencies and economies with strong external balance sheets. Although tighter global monetary policy does pose a risk, the Fed is moving slowly and Europe remains accommodative.

Continues on page 5

Relative Country Views

Snapshot of our relative positioning and asset allocation view on a 3-to-6 month view relative to the MSCI Emerging Markets Index.

Country/Region	--	-	Neutral	+	++
China	☐	☐	☐	■	☐
South Korea	☐	☐	■	☐	☐
India	☐	☐	■	☐	☐
South Africa	☐	■	☐	☐	☐
Brazil	☐	☐	☐	■	☐
Russia	☐	☐	☐	■	☐
Indonesia	☐	☐	■	☐	☐
Mexico	☐	☐	☐	■	☐
Philippines	☐	■	☐	☐	☐
Thailand	☐	☐	■	☐	☐
Turkey	☐	■	☐	☐	☐

"On China we continue to hold a neutral position"

With the fundamentals in mind, Q4 sees the Milltrust team EM country allocations remaining broadly similar to Q3.

On **China** we continue to hold a mildly overweight position – a stance that we have retained through recent months, despite many investors predicting a Chinese collapse. The country has a closed banking system, a closed financial sector and a relatively high (and domestically-financed) savings rate, all of which allows the Chinese to let credit growth increase at an above-trend rate without increasing the risk of a sharp slowdown in the short-term.

Meanwhile, we maintain neutral-to-overweight positions in the trade-oriented economies of **South Korea, Mexico and Taiwan**, which are the obvious beneficiaries of the global trade cycle. Over the medium-to-long term, we continue to favour countries with strong domestic growth drivers such as **India** and those undertaking positive structural reforms (Argentina, Mexico, India) that lay the foundation for greater private investment and diversified growth. However, short-term challenges keep India as a neutral relative position vis-à-vis the other EM countries on a 3 to 6 month view.

With the diplomatic crisis in the **Gulf** continuing to rumble on we continue to be modestly underweight, although we do believe that some exposure to this region is increasingly important as we count down to a final decision on Saudi Arabia inclusion in the MSCI indices.

Finally, North Korea is evidently the major geopolitical story in Asia this year, although the ongoing news has not dampened our exposure to the wider region.

Below is a summary of Milltrust views for some of the key markets in the developing world.

China	The forthcoming economic slowdown is likely to be moderate, while government policy may become more supportive for the financial sector. There are signs of deceleration in the industrial economy but the overcapacity problem is starting to ease, which should help earnings growth.
South Korea	Nuclear missile tests by North Korea have unnerved investors but the economic fundamentals are strong, stocks are cheap and South Korea has good exposure to the improving global trade cycle.
India	The economic headwinds are likely to turn into tailwinds for earnings over the next year, while policy will remain supportive. The combination of strong GDP growth and stable politics will continue to attract inflows. The RBI's hawkish bias will limit, but should not prevent, further easing.
Brazil	Despite all the uncertainties in the political sphere, macroeconomic conditions continue to improve. Inflation has been very low, opening room for aggressive cuts in interest rates. Economic activity has started to show timid signs of recovery led by consumption and commodity exports.
Russia	An improving economy and declining inflation are positive for stocks over the medium term. Russia also offers some of the cheapest valuations in EM with a declining cost of equity. However, China's slowing housing market and softer oil prices limit the short term upside for Russia stocks.
Indonesia	The main positive drivers are still in place including: strong GDP growth, sound monetary policy, progress on structural reform implemented by the strong economic team that President Jokowi has put in place.
Mexico	In the absence of further shocks, the hiking cycle has reached its final stage. Mexican manufacturing production and exports, should continue to underpin domestic output, job creation and overall growth momentum. Valuations are also now attractive.

Riding the Geopolitical Storm

with John Kim, Product Specialist, Korea Investment Management

"Ironically, as confrontation ramps up, we see less uncertainty"

The geopolitical tensions surrounding North Korea reached new heights in the third quarter, creating a noticeable dent in regional equity markets. South Korea suffered the greatest impact, with a 4% stock price drop in late July. EMI caught up with Seoul-based investment management firm, Korea Investment Management, to find out more.

EMI: How severely have the tensions in the Korean peninsula affected equity markets? What is the discount on South Korean stocks now?

"Tensions have remained high since North Korea's ballistic missile tests in late July, with an additional missile launch over Japan's Hokkaido Island and an H-bomb test. U.S. President Donald Trump responded with strong rhetoric and military demonstrations close to the border.

"Ironically, as confrontation ramps up, we see less uncertainty as there are fewer and fewer options to be considered. While risk of military collision is still on the table, we do not envisage action being taken as both sides are fully aware of the costs of such a step. Since the armistice in 1953, North and South Korea have had several confrontations but none of them extended to a war; North Korea always moved one step back once it got too serious.

"The market reaction has also been reasonably measured. In late July, sizeable foreign profit-taking activities pulled the index down about 100pts, or 4%. Yet the market then recovered almost half of that loss in September.

"In summary, we do see knee-jerk reactions on North Korea-related issues, but it has made little impact on mid-term investor sentiment. As for valuations of South Korean equities, we believe that the market is discounted by about 30% based on both 12MF P/E and P/B. The MSCI Korea index and MSCI Asia ex-Japan index are affected not only by geopolitical tensions on the peninsula but also by Korean corporate governance concerns."

EMI: Although the heightened geopolitical risks have damaged investor sentiment, where are the best opportunities to make money in South Korean equities, especially if these risks linger on for a while longer?

"Since 2005, there have been more than a dozen North Korea-related issues that caused a 20-to-300 bps fall in the market on the next trading session. Most of the time, the market rebounded within two weeks. Learning from these experiences, local institutions tend to use geopolitical corrections as a buying opportunity and, so far, that strategy has played out quite well.

"In addition, despite the heightened risks caused by recent political and military tensions, Korean

continues on page 7

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"We believe this new administration will result in a revitalisation of domestic consumption"

Riding the Geopolitical Storm

...continued from page 6

equities seem to be consistently driven by leading Korean corporates and the global economic recovery. Market participants these days are more focused on the level of companies' valuations, including the Q4 2017 corporate earnings outlook. The MSCI Korea index is, so far, the second best-performing index in the Asia Pacific region, next to China, posting approximately a 30% return YTD with levels of foreign ownership of KOSPI at an all-time high. The healthy market sentiment generates plenty of opportunities to create alpha."

EMI What will be the repercussions of recent political scandals?

"Former South Korean president Park Geun-hye is on trial until 17th October for abusing her power and colluding with a conspirator, Choi Soon-sil, to pressure major South Korean companies into paying tens of millions of dollars in bribes in return for business favours. Prosecutors recently asked to extend the trial period, since she is facing a total of 18 charges.

"President Moon, who was elected in May 2017, is now in the final stages of forming his cabinet and ministerial appointments appear to be pretty evenly distributed among politicians, bureaucrats and experts from the private sector.

"The new administration intends to prioritise job creation in both public and private sectors, encouraging SMEs and entrepreneurs, strengthening development in technologies and improving the welfare state.

"Their ultimate goal, of course, is to boost levels of domestic consumption, which have remained sluggish through recent years, and achieve a more balanced economy. They recognise that the export-driven economic model has not benefited all households through a trickle-down effect and new policies are required. We believe that this will result in a revitalisation of domestic consumption in the near future."

Inside the Chinese Tech Giants

Alexander Kalis – Managing Partner & Head of Investments

Chinese technology and e-commerce stocks have been the darlings of the investment world this year, thanks to rapidly changing consumer behaviour and a huge adoption rate by Chinese millennials.

Unlike the companies that characterised the excesses of the dot.com bubble, the key firms – Tencent, Alibaba, Baidu and so forth – have real cash flows and earnings, as well as clear visibility on further monetisation of business lines ranging from video streaming to news services.

There are key differences between the Chinese market and the domestic US tech and e-commerce sectors. One interesting distinction is the greater concentration of online activity in the hands of the leading firm – Tencent. Its online online social platforms such as Wechat and QQ command the lion's share (55%) of domestic Chinese users' digital time, with Alibaba and Baidu commanding 10% and 5% respectively. In contrast, Google, Facebook, and Amazon are much more fragmented, with a 28%, 21%, and 2% market share respectively, across their domestic US user base.

This deep penetration lends support to Tencent's notoriously high valuation, underpinning its tremendous potential for strong future growth. Yet Alibaba is also fast becoming an integral part of Chinese society. Alipay, their online and mobile payment platform, now accounts for 50% of all third-party payments in China and many stores no longer accept other forms of payment. The company recently announced an upgraded outbound tourist service platform with partners from over 20 countries.

One of the favourite stock picks of the Milltrust Keywise China Fund is graphics chip maker Nvidia, which is involved in important advancements in AI, cloud computing and autonomous driving. The firm generates more than half its revenues from China and has seen its shares rise 69% this year and more than five-fold since 2015, thanks in part to the increased use of pictures and videos in the mobile internet era.

Pictured: Eric Anderson, Simon Hopkins and AssetTV's Jenny Hammond

EM: What's Different Now?

with Milltrust's Simon Hopkins (CEO) and Eric Anderson (Managing Partner)

"In 2008, commodity stocks represented a third of the index. Now they represent an eighth."

The emerging market equity boom of 2017 has highlighted intriguing changes and different dynamics in the developing countries. From the rising importance of technology stocks to new forms of Chinese influence across the wider Asian region, this bull market is not like the last.

The fundamental changes are set to continue, with major countries set to join the most popular indices and investors wondering how best to take advantage of the resulting shifts.

AssetTV recently interviewed Milltrust seniors Simon Hopkins and Eric Anderson. Here, EMI brings you some of the highlights.

AssetTV: Simon, what's your take on the lay of the land in emerging markets right now?

Simon Hopkins: "In the context of Asia, where I sit, the big elephant in the room has been China. With the One Belt One Road strategy, which is central to President Xi Jipeng's foreign policy, China really is now the driver of growth across the whole region. It's a very exciting initiative, which has already seen assets flowing into South East Asia and Pakistan. India is also keen to participate.

"I think this is going to open up trade and improve investment flows across the whole region as China increasingly becomes the dominant power across the whole world. In the context of their sphere of influence, which is Asia, they want to open up trade routes and protect those trade routes, which does give rise to some political issues, but this is very much part of China's emergence as the pre-eminent power in the region."

AssetTV: Eric, what is the significance of the changes we are seeing to the MSCI EM Index?

Eric Anderson: "If you had woken up half-way through the year and looked at the oil price which has had its worst start in 19 years, you would have assumed based on history that EM would have had a poor start given the old school way of thinking of *where commodities go, EM goes*. Yet emerging markets have had their best start since 2009

"A lot of that starts from back in November 2014, when the weight of technology stocks overtook the weight of energy and material stocks (which are symbolic of the EM commodity story) in the index. If you look back at 2008, during the full swing of the commodity cycle, commodity stocks represented a third of the index whilst technology stocks represented one-tenth. Last month, technology stocks represented a quarter of the index and the commodity stocks represented less than an eighth.

"This shows you the shift from old economy stocks to new economy stocks, representing an important new driver in the Emerging Markets.

Continues on page 9

"The MENA region can no longer be ignored by investors"

EM: What's Different Now?

...continued from page 8

AssetTV: What does the China A-Shares story add to the mix?

That's a great development, which really shows us the recognition of Chinese reforms. The change will add more liquidity to the market, encourage more institutional investing and, as international institutions get more involved, promote a much more rational market.

"What's important to note from an international investor's prospective is that there is not much research available that covers the 220 stocks coming into the index. Most of it is still in mandarin. Among the top 5 large brokerage houses, only 1 of them covers all of these stocks.

"As an investor, this makes it particularly important to use a local manager, who speaks the language and is on the ground. We have a philosophy of using local managers throughout our Global Emerging Markets programme.

"Another major change which we expect to see to the MSCI EM Index in the relatively near future is the inclusion of **Saudi Arabia**. Up until now, investors could largely ignore the MENA region, given that it accounts for less than 2% of the index with Qatar, Egypt and UAE.

"With Saudi Arabia potentially taking up 7% of the index, depending on what happens with Aramco – bringing it in line with India and making it bigger than Brazil – it can no longer be ignored by investors.

"Its inclusion in the index may only be 1 to 2 years from now but the story starts today. In fact it started last year, which is when we launched our MENA fund. The active money - which is three times greater than passive money in these regions - is already in Saudi Arabia."

Watch the interview in full using this link:
https://www.asset.tv/player/milltrust-international-player/202192

Buying Double Alpha

New Fund Launch

Milltrust has launched the **Milltrust Global Emerging Markets (GEMS) Fund**: a new fund vehicle under the firm's ICAV QIAF Umbrella. The new fund follows the same flagship multi-manager Emerging Markets equity strategy that the firm has been managing for over five years.

The GEMS Fund offers different share classes to investors including a low fixed fee option. "We have addressed the cost issue that investors often use as an excuse not to buy an actively-managed fund," says a firm spokesperson. "The net result is that the base cost to an investor in our Fund is the same or lower than the cost of holding a passive fund elsewhere. The low management fee is accompanied with a performance-related element which is only paid on an annual basis should the Fund beat the market; this aligns the interests of investors and managers."

The core underlying investments of the Fund primarily comprise of allocations to the individual Milltrust country/regional Emerging Markets UCITS Funds: a platform structure designed to address important investor concerns regarding the double-layer of fees and low transparency often associated with multi-manager products. These underlying funds are run by locally-based investment teams who have an informational edge in their respective markets.

"There are two ways to outperform when managing your investments in Emerging Markets equities: one, by getting your stock selection right and, two, by correctly managing your geographical exposure," says a firm spokesperson. "The bottom-up approach – primarily the evaluation of single businesses – is certainly easier to grasp. The top-down route, on the other hand, tends to appear more complex and fewer investors tend to exploit it."

The London-based Milltrust team will be responsible for allocating between the different regional teams. They will use quantitative modelling techniques and qualitative analysis to establish the geographical allocations for the fund, while continuing to provide allocation advice for their advisory mandates.

Milltrust Products Overview

Milltrust International is focused on delivering a high-quality range of Emerging Markets investment funds and solutions. Through an active management and multi-manager specialist approach, we aim to deliver long-term outperformance and sustainable risk-adjusted returns.

In line with today's investor requirements, Milltrust provides access to their products through a transparent, regulated and risk-controlled single custodian platform, known as the Emerging Markets Managed Accounts ("**EMMA**") platform.

	Regional EM Funds	Global EM Solutions
Strategy (Inception Date):	• Milltrust Keywise China Fund (June 2012) • Milltrust India Fund (March 2013) • Milltrust ASEAN Fund (January 2013) • Milltrust Latin America Fund (June 2012) • Milltrust SEDCO MENA Fund (May 2016)	• Milltrust Global Emerging Markets Managed Accounts ("**GEMMA**") Portfolio (June 2012) • Milltrust Global Emerging Markets ("**GEMS**") Portfolio (June 2012)
Strategy:	• Long-biased, actively-managed and benchmark agnostic investment strategies • Portfolio of high conviction ideas • Bottom up fundamental company analysis	• Multi-manager approach, investing across a selection of regional specialist investment teams • Active country-rotation, tilting the portfolio towards the more favourable economies
Structure:	OEIC; Daily liquidity; Regulated by Irish Central Bank (UCITS); Segregated managed accounts also available.	Available through a segregated managed account or through a daily liquid regulated structure (ICAV or UCITS).
Investment Teams:	The Funds are managed by locally-based investment teams that have an important informational edge in their respective regions. • China: Keywise Capital Management • India: UTI International • ASEAN: Lion Global Investors • Latin America: Itau Asset Management • MENA: SEDCO Capital	The geographic allocation is managed by the Investment Solutions team at Milltrust International with the underlying country sleeves managed by the Milltrust regional investment teams and other specialist regional teams (covering South Korea, Russia, South Africa & Turkey) who have demonstrated a significant informational edge in their respective region.

Awards:

Morningstar Ratings:

- ASEAN Fund: ★★★★★
- India Fund: ★★★★
- Latin America Fund: ★★★
- China Fund: ★★

the hedgefund journal UCITS Hedge Awards 2017

Long/Short Equity – Asia
Best Performing Fund in 2016
Milltrust ASEAN Fund
(Milltrust International)

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Long/Short Equity – Latin America
Best Performing Fund in 2016
Milltrust Latin America Fund
(Milltrust International)

WealthBriefingAsia SINGAPORE AWARDS 2016 — SHORTLISTED

FAMILY WEALTHREPORT NEW YORK AWARDS 2015 — INNOVATIVE CLIENT SOLUTION — WINNER Milltrust International Group

WealthBriefing EUROPEAN AWARDS 2015

WealthBriefing GCC REGION AWARDS 2014 — INNOVATIVE CLIENT SOLUTION — WINNER Milltrust International

WealthBriefingAsia AWARDS 2017 — SHORTLISTED

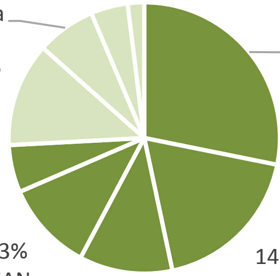
Milltrust Performance Update

The Milltrust Global Emerging Markets Managed Accounts ("GEMMA") Portfolio and the Milltrust Global Emerging Markets ("GEMS") Portfolio (June 2012) are composite portfolios comprising the real track record of the underlying regional Funds. The performance below is what would have been achieved by investors who invested in accordance with the historical recommended weightings of Milltrust International during the period from June 2012.

Returns are net of underlying regional Fund fees:
As of July 31, 2017

	Last 3 Months	Annualised Return	Cumulative Return
GEMMA*	8.67%	7.85%	48.67%
GEMS	7.47%	9.52%	61.18%
MSCI EM Index	9.42%	5.81%	34.49%

Last 3 months return by regional Funds:
Net Returns



*GEMMA is the composite portfolio that consists only of the regional Milltrust EM Funds (in **dark green** in the pie chart)

For more information on our EM Fund range, please visit: www.emmaplc.com

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