MILLTRUST INTERNATIONAL

EMERGING MARKETS INSIGHT

EM RALLY: TIME TO GET BACK IN?

ASIAN TURNING POINT

TRUMP BUMP FADES IN RUSSIA

ALL EYES ON SAUDI MSCI COUNTDOWN

LATEST COUNTRY ALLOCATION CHANGES

Q2 2017

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Issue at a Glance

For many emerging market investors, the first quarter of 2017 has felt almost celebratory. Stock markets have surged along with the post-Trump tailwind. Yet a large portion of institutional and individual investors have remained **on the sidelines** of this rally, reluctant to dip more than a toe in the water. Although the new Presidential era has heralded **a major EM revival**, some fear it may be short-lived.

Protectionism is still the elephant (or, perhaps, the bear) in the room and many investors are wary of increasing EM allocations in light of provocative policy predictions. **US fiscal spending** may prove to be less generous than initially hoped. The painful ride of 2011-15 is still fresh in recent memory.

In March 2016, Milltrust convened an **Emerging Markets Forum**, featuring leading local fund managers who manage portions of the group's Global Emerging Market Solutions (or "**GEMS**") portfolio. The roster included seniors from **Lion**, **VTB** and **SEDCO**: managers of Milltrust's ASEAN, Russian and MENA portfolios respectively. Not all had enjoyed an upswing in Q1. The Russian equity market, for example, was down 5 percent year to date.

In this issue we are pleased to bring you some of their most compelling arguments. In addition, Milltrust's Eric Anderson **reveals how top-down country allocations have changed** from Q1 to Q2. Exposure to China, Latin America (ex-Brazil) and Russia has been pared back, while greater allocations are now in place for the ASEAN region, Brazil, Emerging Europe and MENA.

Aside from performance, the Milltrust team had other reasons to celebrate in Q1, with two "**best performer in 2016**" gongs at the Hedge Fund Journal's UCITS Hedge Awards 2017.

We hope that you enjoy the read and look forward to an event-packed Q2.
- The Milltrust team

"President Trump has been the best thing to happen to emerging markets in a long time"
Eric Anderson, Milltrust, p.3

"The past two quarters have marked a turnaround on EPS downgrades. This earnings recovery is the key to unlocking a long-awaited re-rating in Asian equities"
Gerard Lee, Lion Global Investors, p.7

"Currency volatility has driven fluctuations in consumption and made it hard for businesses to invest... Now, a more stable ruble means that SMEs are able to plan with more confidence"
Tim McCarthy, VTB Capital Investment Management, p.9

"Three years ago we were keen on the consumer sector in Saudi Arabia. Now we're negative"
Yazan Abdeen, SEDCO Capital Management, p.10

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

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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

"So far, emerging markets have been the major success story of 2017."

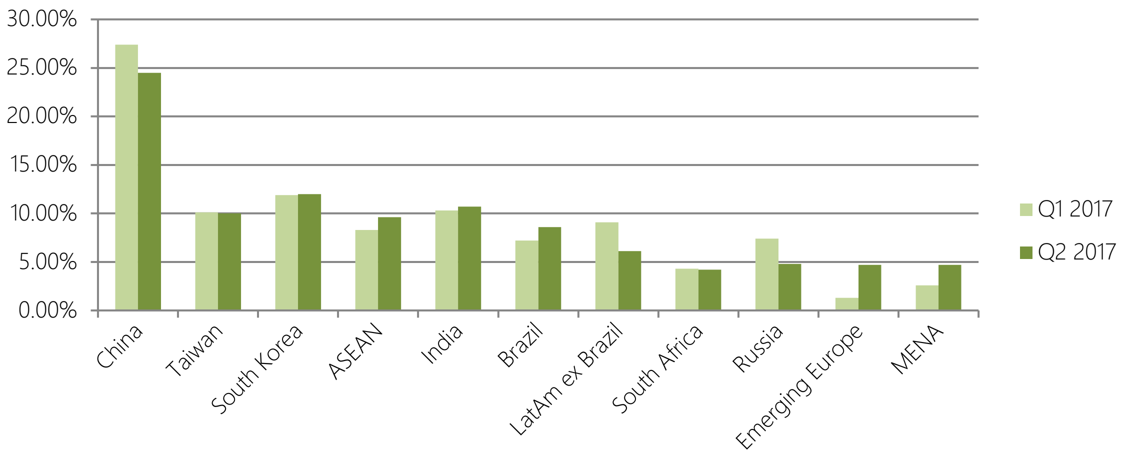
"President Trump has been the best thing to happen to Emerging Markets for a long time," says Milltrust's Eric Anderson. "EM bonds are outperforming DM bonds, EM stocks are up twice as much as DM stocks so far this year and EM currencies have rallied strongly against the US dollar."

The rally may even be reminiscent of the 2003-7 period. "That period was characterised by a Fed hiking cycle, a softer US dollar and looser financial conditions, consistent with what is happening today. Rising rates coupled with strong global economic growth usually produces positive results for emerging markets - that should come as no surprise."

Growth has indeed been markedly stronger in the US and Europe. Anderson also points to stabilising commodity prices, which are also beneficial to many emerging economies. "This has been driven by a combination of positive US growth momentum and a more comfortable outlook on the Chinese economy."

The spectre of protectionism has also become slightly less concerning, in his view, than it appeared three or four months ago. "There are question marks over whether Trump will be able to push through protectionist measures," he says," especially given the difficulties he's already facing on healthcare reform, the travel ban and other key domestic markets."

Country allocations in Milltrust GEMS portfolio



Top 5 convictions:

1. Indonesia
2. India
3. Taiwan
4. South Korea
5. UAE

Country	Q1 2017	Q2 2017	Difference	% Change
China	27.4%	24.5%	-2.9%	-10.7%
Taiwan	10.1%	10.0%	-0.1%	-1.1%
South Korea	11.9%	12.0%	0.2%	1.3%
ASEAN	8.3%	9.6%	1.3%	15.5%
India	10.3%	10.7%	0.3%	3.3%
Brazil	7.2%	8.6%	1.4%	18.9%
LatAm ex Brazil	9.1%	6.1%	-3.0%	-32.5%
South Africa	4.3%	4.2%	-0.1%	-2.5%
Russia	7.4%	4.8%	-2.6%	-35.0%
Emerging Europe	1.3%	4.7%	3.4%	252.7%
MENA	2.6%	4.7%	2.2%	83.7%

"We have seen strong central bank action in Mexico, South Africa and Indonesia."

"Positive external factors will likely benefit higher beta EM assets and those EM countries that are more leveraged to global trade, such as South Korea and Taiwan," he predicts. "The Fed's gradual interest rate hikes and the flat-to-softer US Dollar will also limit the risks facing countries with high current account deficits and US Dollar debt."

These themes have strongly influenced his team's EM country allocation decisions for the new quarter. Yet country-specific issues are frequently more important. "Although strong external factors help to lift the fortunes of most countries, it is often the idiosyncratic, domestic factors that drive outperformance in the developing world," says Anderson.

"We have seen strong central bank action in Mexico, South Africa and Indonesia which has helped stabilise inflation expectations and bond yields. Recent budget announcements in India and South Africa are more growth- and reform-oriented than populist. Both Brazil and Russia are emerging from deep recessions off the back of credible fiscal and monetary policies.

"Turkey, on the other hand, faces a number of political challenges and a successful referendum will bring about a Putin-style government which is probably not a long term positive but would likely bring short term stability."

Readers can read a summary below of the teams' views and outlook for some of the key markets in the developing world.

China	For now, global markets appear to be comfortable with the Chinese macro story. US-China tension have eased and the strong external global demand will give China some breathing room to deal with their internal issues, namely managing their debt and currency whilst maintaining liquidity in their financial markets.
South Korea	Following the impeachment, macro policy will likely remain prudent whoever is elected, but positive micro changes to corporate governance is expected. Improving external demand, particularly for information technology, should continue to deliver relatively strong earnings growth.
India	India is in the middle of their own economic transformation boosted by strong domestic growth underpinned by structural reforms with less exposure to trade, Trump and China. The recent election result has increased investor confidence about the reform program going on in the country.
South Africa	Fiscal and monetary policies will remain tight in the short term and elevated levels of inflation is preventing the central bank from easing. Political risks remain high but improved external demand should provide some boost for growth.
Brazil	The ongoing repercussions of the country's corruption scandal have taken a significant toll on consumption and investment, although Brazil is still expected to emerge from recession in 2017. The continuing progress of structural reforms in Congress has contributed to a reduction in risk perceptions and the aggressive easing cycle should bring relief to corporate balance sheets.
Russia	The economy's successful emergence from recession continues without any removal of sanctions or lift from the easing of monetary and fiscal policies. The stable currency will help contain inflationary pressures which will in part keep driving consumer demand as prices for food and services continue to decline. Monetary policy easing is expected in 1H2017.
Indonesia	Strong fundamentals, particularly with respect to private consumption and exports, are continuing to boost economic growth. The reduction in the basic balance deficit provides the authorities to pursue more monetary policy easing. Continuing structural reforms should be positive for the economy and markets.
Mexico	Following a sharp fall in consumer confidence and an uncomfortable acceleration of prices, the prospects for Mexican economy in 2017 continues to weaken. The economy remains lethargic and tighter monetary and fiscal policies will limit a recovery. However, a positive outcome to the NAFTA discussions would provide a boost.

"In recent years, bullishness on Asia has been more aspirational than realistic."

Asia: Turning Point

Gerard Lee, Chief Executive Officer, Lion Global Investors

"Until two years ago, the world was falling in love with China," recalls Mr. Lee. He was speaking to a select group of investors at the Milltrust Emerging Markets Forum in London on March 10th. "Institutions around the globe had rushed to get their QFIIs and RQFIIs; Stock Connect was launched; the MSCI was considering adjusting major indices.

"Then the world woke up."

A more cynical mood took hold and Asian equity markets bore the brunt of it through late 2015 and 2016.

Although Lee has long been a self-confessed bull on Asia, he describes this sentiment in recent years as "more aspirational than realistic." Indeed, Asian stock markets have been broadly bearish since the global financial crisis. Singapore's main index still trails 30% behind its 2007 level. Japan, Hong Kong and Korea have been largely flat or volatile, despite undeniably attractive valuations relative to the US and Europe and significant corporate deleveraging.

The question on many investors' minds today: *is now the right time to get back in?* "Today I feel more confident than I have done in a long time," says Lee, notwithstanding his serious concerns about President Trump's tenure, which may well bring a surge in protectionism and holds the risk of weaker-than-expected U.S. fiscal spending. "There is significantly more hard data supporting an optimistic outlook," he argues.

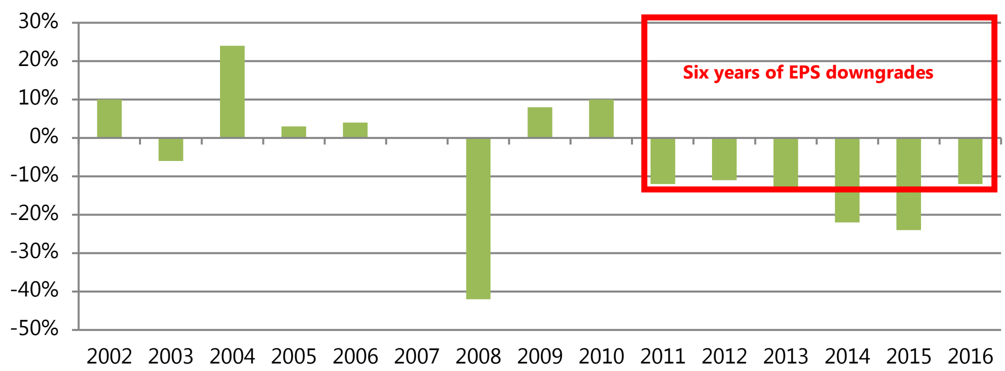
China slump bottoms out as PPI turns positive

"Chinese economic activity is still, along with global growth, the key driver of Asian economic success. Today the picture in China is significantly brighter than it has been for years. The low real interest rates, which fell off a cliff in 2016, have helped to support growth. Recent months have seen a stirring of demand for commodities, on the back of which the Australian dollar has been the highest performing currency of 2017 to date, although some of that is being driven by expectations of greater U.S. demand which may or may not be borne out."

"The most positive sign, perhaps, is the recovery in the producer price index (PPI). This has at last turned positive, suggesting that over-capacity has now peaked in many industrial sectors, especially those with less State Owned Enterprise (SOE) participation. Improving industrial profits on the back of PPI recovery could also signal a pick-up in manufacturing fixed asset investment (FAI) after five years of deceleration."

"We have not yet seen any signs of a recovery in real estate investment. China, for many years, has mostly been a real estate play and it's obvious that they overdid it. This also drove

Revisions to consensus bottom-up EPS forecast for MSCI Asia Ex Japan



Source: Lion Global Investors

"The analysts have been proven wrong again and again"

much of the country's demand for commodities. Yet infrastructure spending has proven more healthy, helping to offset the slowdown on the property side."

An end to the earnings downgrade cycle

"Throughout the past six years (2011-16), Earnings per Share (EPS) on Asian equities have consistently been revised downwards relative to expectations. This has been immensely painful for investors. The analysts have been proven wrong again and again and we have suffered along with the market."

"The past two quarters, however, have finally marked a turnaround. In both quarters the earnings have been revised upwards. This earnings recovery is, I believe, the key to unlocking a long-awaited re-rating in the Asian markets.

Currently we are more positive on countries with better ability to withstand rising interest rates, such as Indonesia. We also believe that Singapore, which has in many ways been at the centre of a perfect storm, is due for a turnaround."

Asian bonds benefit from local appetite

"Hard currency fixed income markets in Asia have undergone a highly significant and, I believe, lasting shift during the past two years." In 2015, nearly half of these bonds were being held by Western investors. In Asia, local demand as dominated by the banks. Yet the change of currency regime in China has led to a surge in mainlanders purchasing dollar-denominated assets. In part, this can be viewed as a reflection of domestic sentiment towards the Chinese currency.

"It is highly probable that this evolution will leave markets less vulnerable to the rises and falls of western institutional investor sentiment. That being said, rising US Treasury yields and a strong USD may well impact return expectations."

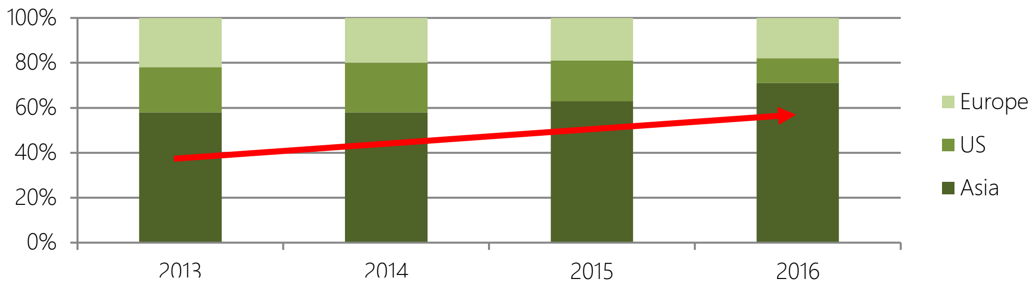
A-Shares: time for courage?

"On the back of a constructive view on the longer-term fundamentals of China, we had worked with investors in 2014, to plan the launch of our China A-Shares Fund. This was scheduled for a launch in mid-2015. However, the A-Shares market was far too exuberant in late 2014 to 2015, so we held back our original plan to launch the Fund at that stage. After the bubble popped in May 2015 we felt it was time to be courageous and launched the fund that began investing in September 2015. It started on a positive note. The market entered into a challenging period in 2016 as investors got cold feet and the market slipped. 2017 has been more positive."

"The development of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect has brought more benefit to the Hong Kong market than to A-Shares. It has essentially provided a channel for mainlanders to move their money southbound; northbound capital flows have been less affected since most relevant institutions had already obtained their QFII status."

Milltrust's Eric Anderson says: "Global markets appear to be happy with China's macro story and strong external demand will give the country some breathing room to deal with debt and currency management challenges. That being said, we are cutting some exposure to China in the GEMS portfolio. We are increasing exposure to ASEAN equities this quarter. The story is especially positive in Indonesia where strong fundamentals, particularly in private consumption and exports, are continuing to boost growth."

Higher Asian participation in Asian USD bonds



Source: Lion Global Investors

Russia: Trump Bump Fades

Tim McCarthy, Co-Chief Investment Officer, VTB Capital Investment Management

"Russian markets are still anticipating a period of better US/Russia relations than under the Obama administration."

Russian equities surged in the aftermath of the US presidential election. There was widespread optimism about better US/Russia relations and that Trump's reflationary fiscal policies, infrastructure projects and lower tax rates would create new demand for commodities and higher global earnings growth.

"It now looks like the Trump administration will have difficulties implementing executive orders or passing legislation for pro-growth infrastructure projects, tax cuts and de-regulation," says VTB Co-CIO Tim McCarthy.

"Russian markets are still anticipating a period of better US/Russia relations than under the Obama administration, but US economic growth expectations and commodities prices may suffer in the event that the Trump administration isn't able to execute. " He was reflecting on a dramatic six months for Russia at the recent Milltrust Emerging Markets Forum on March 10th.

"The market is now down 5% year to date. It looks like the Trump Bump has finished and may even have begun to unwind."

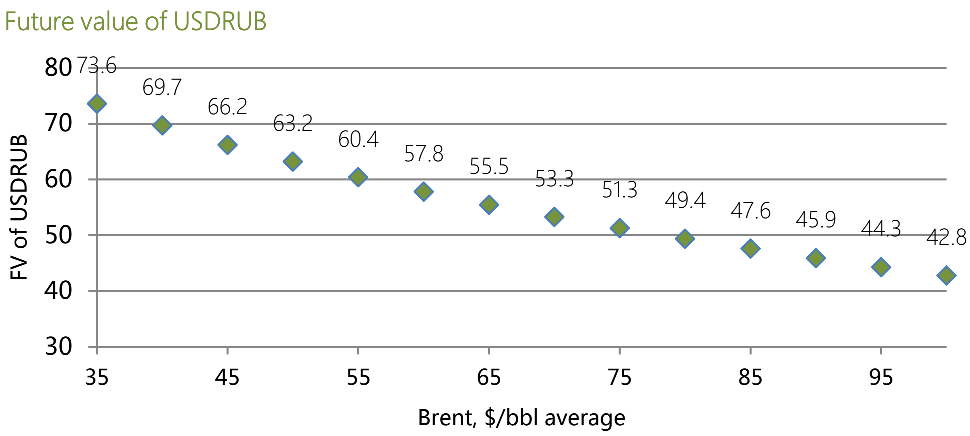
Therefore, although the uncertain political landscape will persist and the probability of continuing sanctions has now increased, investors should not ignore the many positive developments that have been taking place in the form of reduced inflation, higher consumption, currency stability and corporate fundamentals.

As such, VTB is still forecasting healthy economic growth of 1.8% in 2017, assuming average Brent crude oil of $55/bbl, following two years of contraction in 2015 and 2016. Even the firm's "bearish case" is +0.5%.

New stability for ruble, oil

"The ruble has been stronger than many people expected during the last few months," says McCarthy. "Today it is also more stable and predictable than it has been in the past with annualised volatility down to 12% from levels over 40% in the last two years. The ruble is not only highly dependent on oil prices, but it is also supported by strong capital inflows due to very high interest rates. Given USD strength and higher relative real rates in Russia, we believe these inflows will continue."

The stability is also a result of the government's forex purchase programme, which could potentially limit appreciation. "When oil exceeds 40 dollars per barrel, which is the base case estimate used in the budget, the volume of extra USD revenues attributed to higher oil prices is used in ruble sales. The central bank has explicitly stated its intention to build FX reserves to $500 billion. . . .the upside potential of the ruble has been curtailed."



Source: VTB Capital Investment Management

"A re-rating of 10-20% looks quite possible. But going beyond that would require a reduction in geopolitical risk."

This predictability should prove beneficial for Russian companies, McCarthy argues. "Currency volatility has driven fluctuations in consumption and made it hard for businesses to plan and invest. Now SMEs are able to plan with more confidence"

In terms of sector and stock selection, VTB expects that reduced currency volatility should cause equity investors to shift out of exporters and refocus portfolios on the domestic economy. "We like small- and mid-cap. Small cap performance has been recovering. We're optimistic that the consumer boom will come back," says McCarthy.

Equity de-rating

There is an extensive list of arguments for why Russian equities have long been cheap relative to other developing markets. A quick review of earnings multiples, dividend yields and other key markers supports assertions that "Russian equities remain the cheapest among major emerging market peers."

McCarthy points to other strong-points. "There has been significant corporate deleveraging. There have also been notable developments in corporate governance: a new law setting the tone for State Owned Enterprises from the top down will hopefully bring improvements there."

Part of the reason for the overall valuation discount is Russia's above-average skew towards the energy sector, although a significant P/E discount remains even after correcting for this bias.

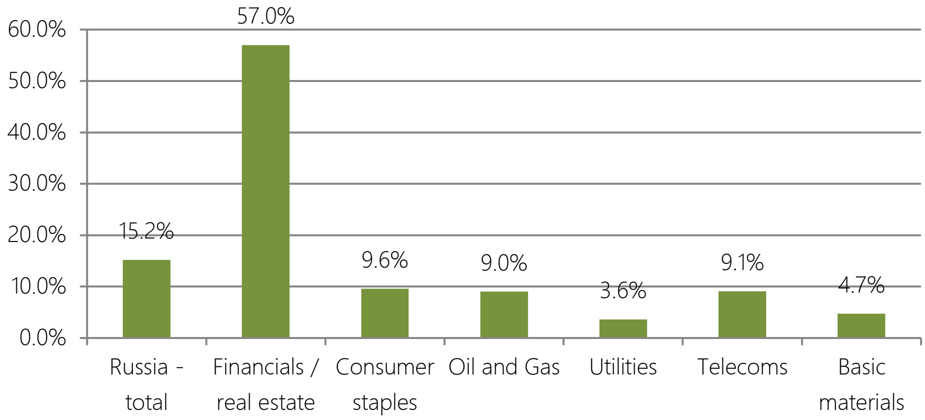
There is, of course, a big difference between claiming that Russian equities are "undervalued" and predicting a widespread correction. "A re-rating of 10-20% looks quite possible," says McCarthy, referring to the P/E discount of Russia relative to other emerging markets, currently sitting at 37% on a sector-neutral basis. "But going beyond that would require a considerable reduction in geopolitical risk."

Passive vs. active

With active Russia-dedicated equity funds continuing to bleed assets in favour of passive equity products, McCarthy is keen to push back. Indeed, passive money now accounts for 40% of Russia-dedicated equity fund AuM. "This has created a wave of inefficiencies," he says. "It should be good for stock selection.

Milltrust's Eric Anderson says: "Shifting dynamics are driving a decrease in Russian exposure in our GEMS portfolio for Q2. We are, however, pleased to see the Russian economy continuing to emerge successfully from recession without any removal of sanctions or any lift from the easing of monetary and fiscal policies. The stable currency will help contain inflationary pressures which will in part keep driving consumer demand as prices for food and services continue to decline."

Next 3Y EPS CAGR (based on in-house DCF models)



Source: VTB Capital Investment Management

MENA: Saudi MSCI Countdown

Yazan Abdeen, Lead Fund Manager, SEDCO Capital

"Last year when we were visiting (Saudi) companies, many seemed confident that they'd return to business as usual. This year it's completely different."

Right now, SEDCO Capital Management invests circa 40% of its Milltrust SEDCO MENA equity fund in Saudi Arabia, although the country represents 65% of listed equities in the region. Yet during the next three years the firm expects to ramp up that exposure significantly, as Lead Manager Abdeen explained on 10th March.

While the much-anticipated Aramco IPO and reduced macro risk play a role in this projected hike, the single most important driving force is the potential addition of the country to the MSCI World Index, which Abdeen now deems "very likely." "MSCI inclusions generally result in significant outperformance, both before and after the announcement date," he says.

Austerity challenge

The past year has been a difficult one in the Saudi market, with a new degree of scepticism creeping into local sentiment. "Last year when we were visiting companies, many seemed confident that the oil price would come back and that they'd return to business as usual," says Abdeen. "This year we're visiting the same companies and it's completely different. It's as if they've all realised that this is a worst case scenario. ... Saudi Arabia in austerity is a completely new concept. Nevertheless, smarter companies are tapping into increasing profitability through efficiency."

The country is currently struggling to address a system rife with inefficiencies. "Efficiency is being addressed at the top level of government downwards. As the Saudi public sector is the largest employer in the country, optimising employment and supporting work force transition to the private sector remains a solid objective to reach fiscal balance by 2020."

Austerity concerns have fed through into equity market volatility and also affected views on sector and stock selection. "Three years ago we were keen on the consumer sector - now we are negative. That being said, consumer companies that are looking towards Egypt and elsewhere could be interesting at the right price."

Abdeen points out that volatility was exacerbated further by the nature of the investor base in this market. "Over 91% of daily liquidity is in retail. These investors crashed the market in 2016 because they didn't like austerity. But smarter institutional money created a strong market surge in late 2016." An influx of institutional money following MSCI inclusion should, he hopes, reduce the severity of such fluctuations.

MSCI decision

An MSCI review on including the Saudi market is expected to take place in May 2017. The base case scenario indicates a decision to be made in June 2018 for an inclusion in 2019. That said, an off-cycle decision could happen and the best case scenario would be a June 2018 inclusion. In theory, the market would make up 3% of the MSCI World index, or 4% if the Aramco listing takes place as planned.

Of course the decision is not a foregone conclusion. The country does not currently tick every box on MSCI's checklist due to the restrictions on foreign ownership. Yet Abdeen expects pragmatism to win out. "At the end of the day, when MSCI makes this decision they will be talking to the big fund managers. Remember - those fund managers raise money from Middle Eastern sovereign wealth funds and central banks."

Countries	Current weight in SEDCO portfolio	Current active weight (relative to MENA listed equity market cap)	Three-year view
Saudi Arabia	43%	-26.22%	Overweight
UAE	23%	10.55%	Overweight
Kuwait	15%	5.23%	Underweight
Egypt	0%	-0.77%	Overweight
Qatar	15%	4.57%	Neutral
Oman	4%	2.15%	Underweight

Source: SEDCO Capital Management

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 + Citywire Ratings:

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

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Long/Short Equity – Asia
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WealthBriefingAsia SINGAPORE AWARDS 2016 SHORTLISTED

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

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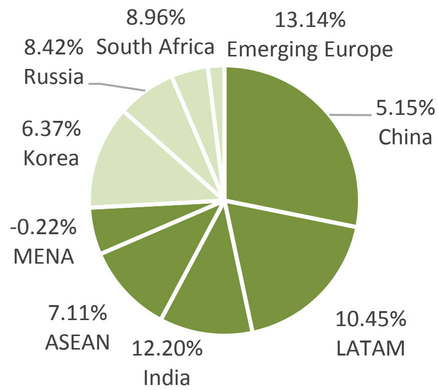
Milltrust Performance Update

The Milltrust Global Emerging Markets Managed Accounts ("GEMMA") Portfolio and the Milltrust Global Emerging Markets ("GEMS") Portfolio (June 2012) are composite portfolios comprising of 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 February 28, 2017

	Last 3 Months	Annualised Return	Cumulative Return
GEMMA*	7.69%	5.79%	30.65%
GEMS	7.57%	7.75%	42.55%
MSCI EM Index	8.94%	2.79%	13.95%

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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