NEW FRONTIERS EQUITY

INVESTOR LETTER – Q2 2022

Growth decorrelated from other Asset Class. This fund invests primarily in the stocks of companies domiciled in, or conducting most of their business in, the "Frontier Markets". These are less developed and accessible than the emerging markets and include countries such as Kenya, Kuwait, Nigeria, Pakistan, Vietnam and others. Investment decisions are based on qualitative and quantitative analyses that in turn are based on regular assessments of investment flows on the general market and/or of individual companies in which the fund invests.

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During the second quarter of 2022 the fund returned -13.10% compared to the -16.03% of the benchmark.

Despite the unfavourable conditions that characterised the broad market, our risk management system allowed us to cushion the blow. Since February 24th, we have reduced the beta of our portfolio, bringing it to 0.74, allowing us to outperform the benchmark of +3% during the quarter.

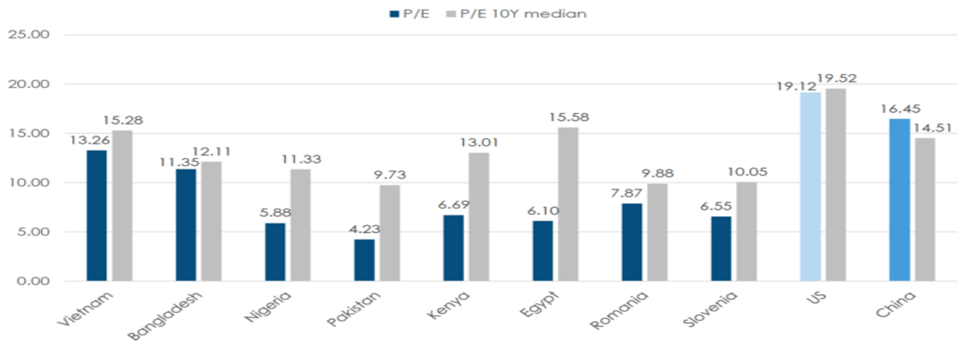
The consequences of the Russia/Ukraine conflict in a fully globalised contest have led to a wild rise in input prices all over the world, triggering interest rates increases in major countries within Developed, Emerging and Frontier Markets.

Although we remain in a climate where further interest rate hikes are expected to curb inflation and mitigate weaker currencies, in our opinion Frontier Markets have an edge, especially when compared to Developed countries. However, the pressure that rising inflation and, more likely, raising interest rates could put on Frontier Markets is something to monitor but not necessarily be concerned about. In fact, Frontier Markets have a better ability to cope with inflated prices than more developed markets.

Historically, inflation has had a stronger impact on more developed countries than Frontier Markets. Literature tells us that inflation negatively affects markets more in the short term than in the long run, having a harsher impact on growth stocks than value stocks. Since interest rates are usually increased to control high inflation, the corollary is that in times of high inflation, growth stocks will be more negatively impacted than value stocks, considering that the cash flows their valuations are based on, will be discounted more. According to MSCI, half of the MSCI World Index is considered to be growth, while for the MSCI Emerging Markets the growth component is even more significant, standing at almost 65% of the index. Frontier Markets, on the other hand, are not classified into value and growth stocks, the latter being a minimal component. This could explain why Frontier Equity Markets, mainly composed of value stocks, usually show a positive correlation with inflation, especially in the long run.

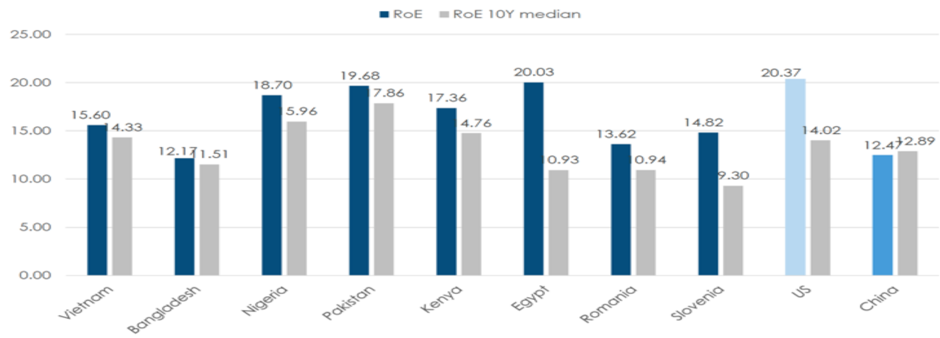
Looking at valuations, Frontier Markets show compelling figures. The below graphs show the P/E and RoE compared to their 10-year median value for our key markets and for the two major economies in the world, US and China.

Exhibit 1: P/E vs. P/E 10y median



Source: Factset

Exhibit 2: RoE vs. RoE 10y median



Source: Factset

Our major stock markets trade at significantly lower P/E than their historical median value, with some exceptional cases such as Nigeria, Kenya, Pakistan and Egypt where stocks trade at a record 48%, 49%, 57% and 61% discounts, respectively (Exhibit 1). On the contrary, in the US, the P/E is not that far from the median value of the last ten years, while China's is trading slightly above. On the other hand, profitability levels remain higher than their median value, except for China. RoEs higher than historical levels (Exhibit 2), but significantly low valuations versus historical levels, indicate that investors have already taken into account a fall in profits, still remain confident that the companies will continue to make a good use of capital and create value (not to mention the powerful recovery potential they have should the world situation return to normal).

Summarising, Frontier Markets' investors have already priced in severe pain, which means that in the next few years these markets should be able to provide acceptable returns even in a very hostile environment.

We keep a keen eye on investment flows to swiftly take advantage in case attractive opportunities arise.

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