Performance

The Frontier Markets Class A shares returned 0.24% in November, outperforming its reference benchmark, MSCI Select Frontier & Emerging Markets Capped Index, which returned -0.26%. Class I shares returned 0.16% for the period.

Attribution and Positioning

During the period the fund outperformed its reference index.

Contributors to relative performance included an underweight exposure to Blom Bank (not held by the portfolio), which fell sharply after one ratings agency put the bank on a downgrade watch list. Another agency downgraded all Lebanese banks following the political developments in the country and the downgrade of the government’s rating. Additionally, NMC Health (portfolio weight: 2.70%) gained as the company made progress on its share buyback program and changes to management compensation.

Detractors included TMG Holdings (portfolio weight: 3.12%), which reported weak results as sales came in short of expectations on the back of falling demand for the company’s new luxury residential project. In addition, DP World (portfolio weight: 2.93%) fell on news that a ratings agency had downgraded the company’s outlook to negative, mainly due to a slowdown in the UAE’s non-oil sectors, but also as a result of the company’s increased leverage given recent acquisitions.

During the period, a position was initiated in Commercial Bank (portfolio weight: 2.19%), while positions in Bank of Georgia, Emirates NBD Bank and Nagacorp were sold.

Allocation effects are residual to the stock selection process. At the country level, effects were positive given an underweight exposure to Lebanon. At the sector level, effects were negative given an underweight exposure to Consumer Discretionary.
Market Review

Frontier markets (FM) equities finished relatively flat for November, with our custom reference index, the MSCI Select Frontier & Emerging Markets Capped Index, down 0.3% (USD).

At the country level, Lebanon was the worst performer as a result of the ongoing political paralysis and anti-government protests. The Philippines also lagged peers over the period after a spate of negative corporate earnings revisions.

At the opposite end of the spectrum were Kuwait, which gained on anticipation of MSCI upgrading the country to Emerging Market (EM) in December, and Morocco, which gained on positive macro data.

Outlook

The long-term outlook for FM remains positive. Improvements in fundamentals coupled with economic development and low penetration of goods and services across FM should allow for further gains in corporate earnings.

Valuation relative to profitability continues to look attractive for FM compared to both EM and developed markets (DM). Opportunities in FM are domestically driven, leading to historically low correlation to each other, to EM and to DM, which could provide potential portfolio diversification benefits.

We are mindful of risks in the current environment, which are primarily exogenous to FM, but may lead to increased market volatility in the short term. At the forefront are US-China trade talks, economic transition in China, the robustness of the global economy as a whole and geopolitical risk.

As fundamental investors, we are able to uncover quality companies that are delivering earnings growth and sustainable returns while trading at an attractive valuation to build a diversified FM portfolio.
Risks to Consider

- Past performance is no guarantee of future results.
- There is no assurance that a portfolio will achieve its investment objective or will work under all market conditions. The value of investments may go down as well as up and you may not get back the amount originally invested. Portfolios may be subject to certain additional risks, which should be considered carefully along with their investment objectives and fees.
- Equity investments fluctuate in value based on changes to an individual company’s financial condition and overall market conditions.
- Investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets.
- Frontier markets generally have smaller economies or less developed capital markets than traditional emerging markets, and therefore investing in frontier markets can magnify the risks of investing in emerging markets.
- Derivative instruments. Derivatives can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on performance.

Benchmark

The Fund’s primary benchmark, the MSCI Select Frontier and Emerging Markets Capped Index has been developed by MSCI for the Adviser and, in terms of geography constituents, includes the 29 geographies that are part of the MSCI Frontier Markets Index classification as well as seven small emerging market “crossover” geographies (namely Colombia, Egypt, Pakistan, Philippines, Peru, Qatar, and United Arab Emirates) that are also included within the MSCI Emerging Markets Index. The MSCI Select Frontier and Emerging Markets Capped Index is a free float-adjusted market capitalization index designed to measure equity market performance in the aforementioned geographies. The MSCI Frontier Markets Index is an “industry standard” index that captures large- and mid-cap representation across 29 frontier market geographies. The index is a free float-adjusted market capitalization index that is designed to measure equity performance of frontier markets. Index returns assume reinvestment of all distributions and do not reflect fees or expenses or taxes.

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