ROTHKO

MONDRIAN INVESTMENT PARTNERS LIMITED

Don’t Blink...

Quarter 1, 2020

The current crisis has turned the world upside down but some aspects are likely to be similar to lesser crises passed. The crux: Valuations available in Emerging Markets Value names and Emerging Markets Small Cap, we feel present “once in a generation” upside. Now is no time for allocators to blink…

- **Emerging Markets (EM) are poised to outperform Developed Markets (DM).**
- **EMs demographics are supportive of a better crisis…**
- **…while the SARS experience in Emerging Asia is beneficial for EM.**
- **An expected second (bigger) infection peak in China is not enough to derail this story.**
- **Value is a dog in a crisis… until it is very much not…**

Firstly, we review how Value has tended to underperform early in a crisis, to then resurge later. Secondly, we highlight the case for moving overweight to EM. In spite of the virus’ Chinese origins, this is principally a first world crisis. Thirdly, we suggest China’s peak hasn’t yet arrived and will be significant, yet not an impediment to an EM overweight. And finally, we discuss how all these aspects reflect on the once in a generation upside offered by EM Value names (Yes, Value!) and EM Small Cap also.

Hold for the Value Snap! It’s Coming…

A bet against value in a crisis has rarely worked out well. Yes, value names tend to be hurt in the early phase of EM market drawdowns, but the eventual Value snap has been a phenomenon to behold. We note that in the last four major drawdowns in EM of the past two decades -2008, 2011, 2015 and 2018 (see *Exhibit 1*):

1. Growth names outperformed in the opening weeks (and sometimes months) of EM market sell-offs.

2. Value started to outperform Growth after 4 months (median).

3. The more intensive the market fall, the stronger Value tends to bounce back.

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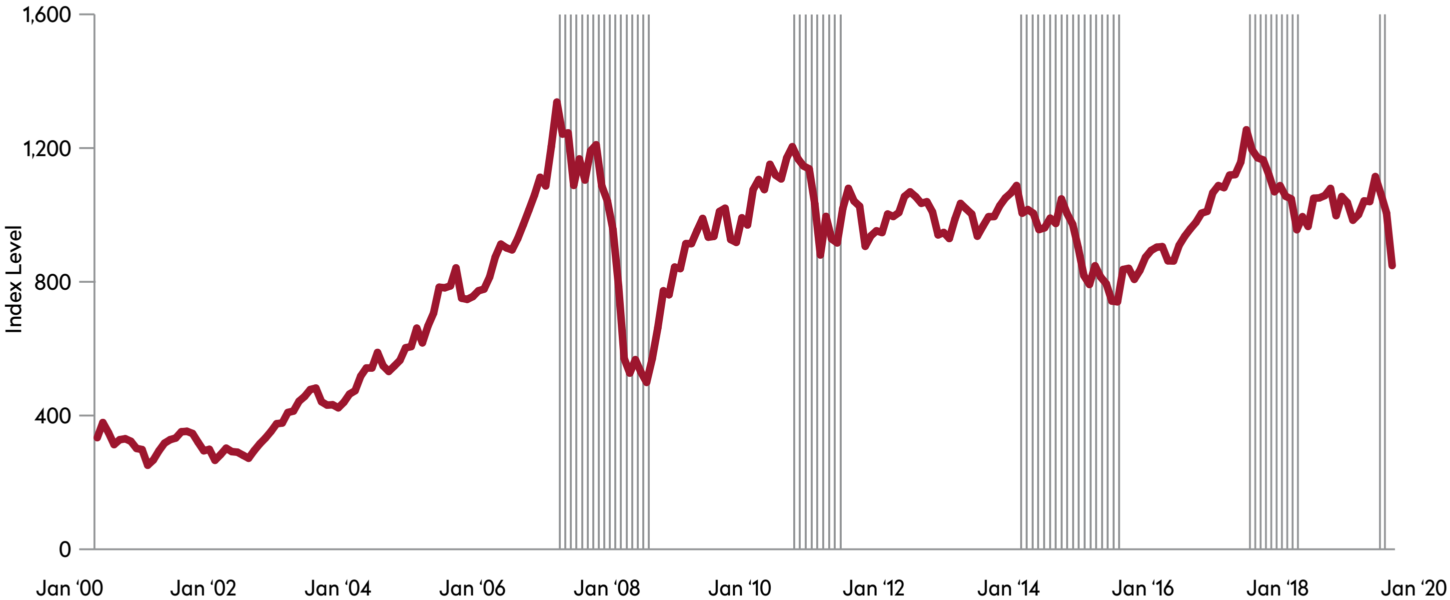
Exhibit 1: Last 4 Major Draw-Downs in EM Since January 1, 2000

MSCI EM Index



Sell Off Phase 1 and Phase 2: Value Comes Through...

	Start of EM Market Fall:	Oct 31, 2007	Apr 29, 2011	Sep 30, 2014	Dec 29, 2017	Dec 31, 2019	Average
Phase 1*	Value Relative Return	0.00%	-0.81%	-4.22%	-1.51%	-5.83%	**-2.47%**
	Months (maximum 6)	0	3	5	5	3	
Phase 2**	Value Relative Return	3.77%	1.12%	0.13%	4.40%	??	**2.35%**
	Months (maximum 6)	6	5	5	5	??	
	Total Performance	3.77%	0.30%	-4.09%	2.83%	??	
	Sell-off Intensity	-17.42%	-23.89%	-10.63%	-20.71%	-23.87%	

***Phase 1**: Market peak level to month when Value weakest monthly performance versus growth (or a maximum of 6 months after the peak level).
****Phase 2**: Value weakest monthly performance since the peak index level (or a maximum of 6 months after the peak level) until Value's performance peaks versus Growth (up to a maximum of 6 months).

Source: Rothko Investment Strategies, MSCI.

Value: From Doubts to Resurgence

In the first phase of each of these sell-offs, EM Value has underperformed EM Growth by about -2.5% on average. However, once EM Value bottoms out (between 2 and 6 months into the drawdown), a snap-back has generally occurred, with Value outperforming Growth in the second phase.

During the past four major drawdowns, Value outperformed Growth by over +2.3% in the second phase. Furthermore, the larger the Value sell-off in the first phase, the larger the subsequent Value snap has tended to be. This time is different but the reasons Value will probably bounce are probably not. Value has simply been oversold from a level of historic undervaluation at the start of this crisis. If you share the view that many governments around the world will shield their economies from the worst ravages of destruction to economic capacity, and you believe that EMs that cannot do this will be shielded from the worst of the virus' impact simply by their demographics, you will probably share our view as well. Now is the time to look to shift into Value strategies in EM to benefit from what we see as an inevitable resurgence.

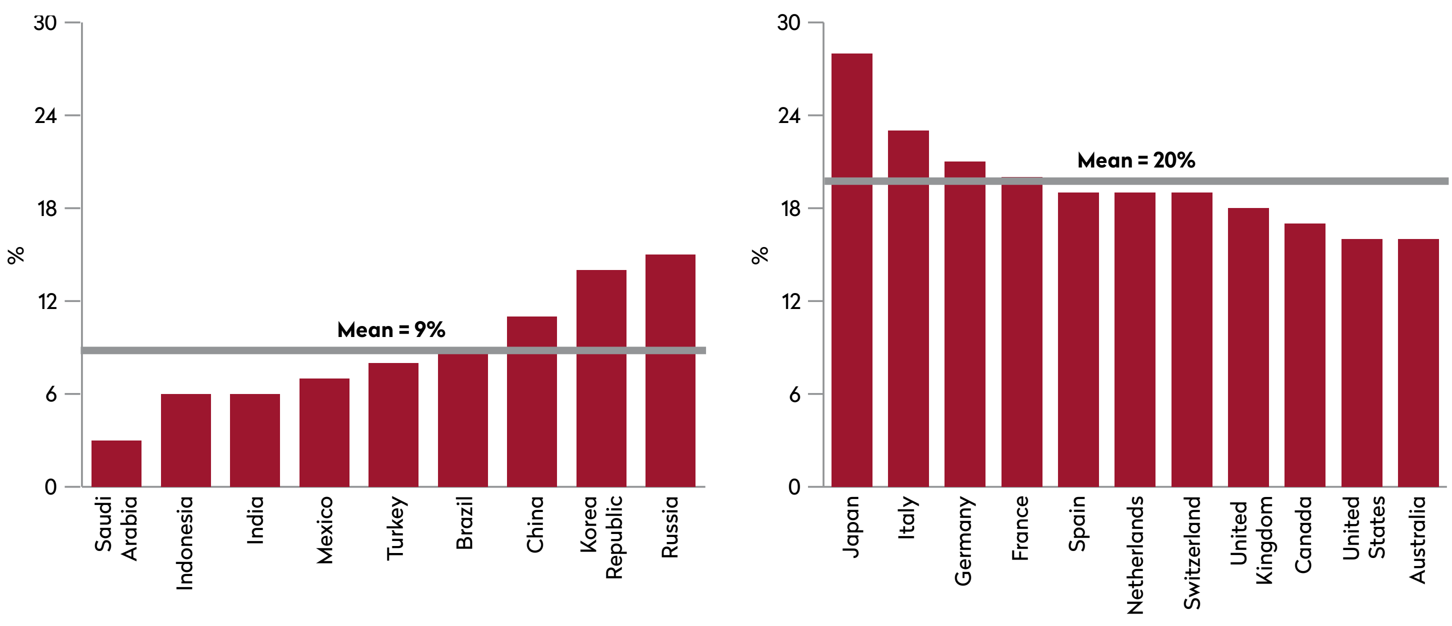
Covid-19: Mainly a First World Problem?

While Value in EM is expected to bounce back, as in previous EM drawdowns, what about EM as an asset class, in particular versus DM? The IMF, a leading source of economic statistics and analysis for virtually every country and economy in the world, recently concluded that the Covid-19 pandemic and related efforts to curtail its spread and impact would cause the world to “experience its worst recession since the Great Depression”. It forecasts that overall world economic output will shrink -3.0% in 2020, with the greatest impact being felt in advanced economies including Europe (-6.6%), Japan (-5.2%), and the US (-5.9%). Governments around the world have the painful choice of prioritising human suffering over economic damage. However, we believe EMs are less likely to have to compromise their economies than DMs and, ultimately, shall fare better on the other side of this crisis.

EM Demographics Indicate a More Limited Economic Impact

Much is not understood about Covid-19 and the illness it causes, but it is clear that the old are more exposed than the young. This means that those countries with older populations will suffer a greater human cost than those with younger populations. In general, countries within EMs have younger populations than those within DMs. The proportion of chronically ill is also far lower in EM, and therefore, there is a far lower human cost to this virus tobalance against economic damage. As can be seen from *Exhibit 2*, EMs have a mean 9% of their populations over the age of 65, versus a mean of 20% in DMs, which naturally means that EM countries are more likely to favour their economies in this balance than DM countries. (Frankly, many EMs do have much poorer health care systems than DMs, and do not have the luxury of prioritising the human cost against the economic). These favourable demographics in EM are supportive of a lower human cost, less onerous lockdowns, and ultimately a more limited economic impact.

Exhibit 2: Percentage of Over 65s in Emerging and Developed Markets

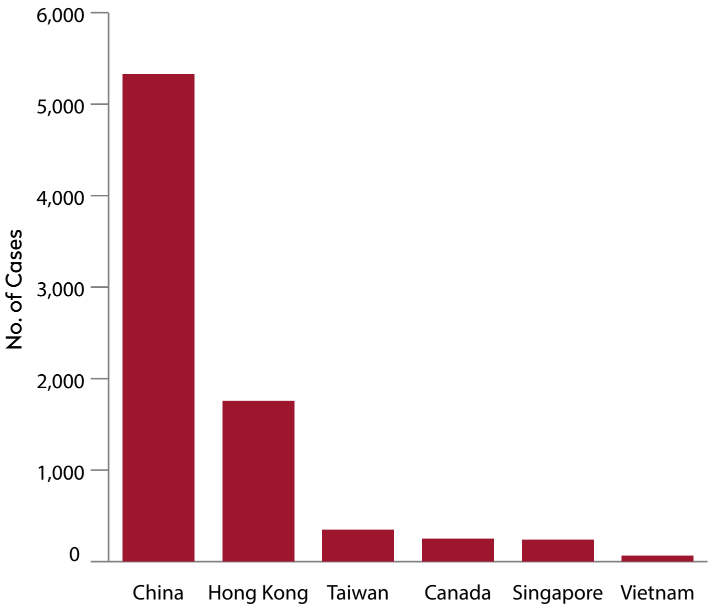


Source: World Bank.

In addition, a number of Asian countries such as China, Hong Kong and Taiwan experienced the SARS epidemic within living memory (2002-2003) – see *Exhibit 3* – and thus appear to have been better at limiting the spread of Covid-19. Hong Kong, Taiwan and Singapore have all seen lower infection rates than Western countries.

However, we do not accept that China has seen an end to the virus and fully expect a second spike in cases. The calculus of economy versus human cost is likely to remain though, even for China (see *Exhibit 5* for our expectations of peaking infection rates).

Exhibit 3: SARS Cases: November 2002 — August 2003

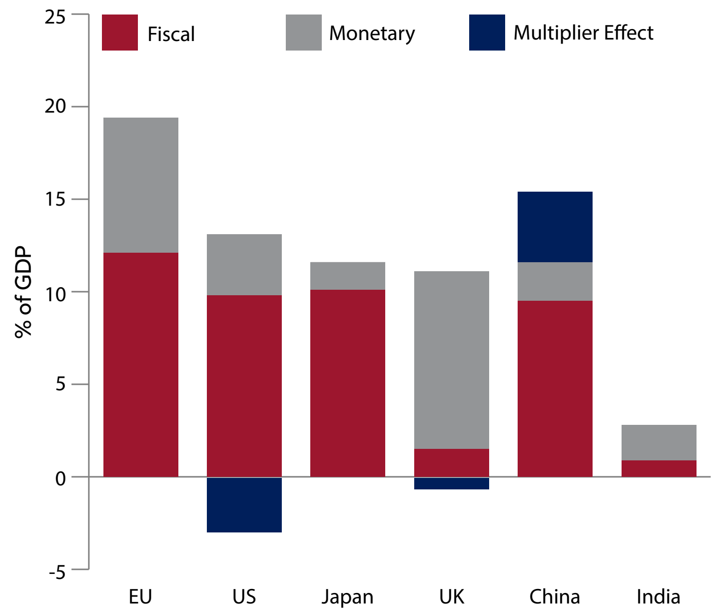


Source: "Summary of probable SARS cases with onset of illness from November 1, 2002 to July 31, 2003". World Health Organization, April 21, 2004.

The Chinese are also not leaving anything to chance (including the facts relating to infection rates, most likely) and have proposed a package worth 15% of GDP as a stimulus measure (see *Exhibit 4*). In spite of the China-virus jibes from Mr Trump (and there is no denying this virus is of Chinese origin), the recent Trump-Xi telephone call tells us all we need to know about the mutual need in the US-China relationship.

Unfortunately, this will not allow China to escape the inevitability of a secondary spike in infections which, we believe, will peak in Q3 (discussed below). However, the cost will be less for China and EM more broadly than it will be for DM, and specifically, the EU.

Exhibit 4: Shock and Awe: Stimulus to Rival 2008



Source: IMF.

Chinese Reporting Called into Question

While China has seen a dramatic reduction in the number of confirmed new coronavirus cases in recent weeks, one cannot help calling into question the reliability of the data, particularly given the extent of coronavirus-related censorship, and punishment of whistleblowers, that contributed to the initial spread of the virus.

Scepticism around China's reported numbers has been widespread throughout the crisis, and images of thousands of urns outside funeral homes in Hubei province has driven further public doubt in Beijing's reporting. On top of this, the Chinese government has repeatedly revised its methodology for counting and reporting its coronavirus cases and deaths. If China's reporting were true, the nation would have less cases and deaths than a number of European countries, as well as the US, despite Wuhan being the origin of the virus.

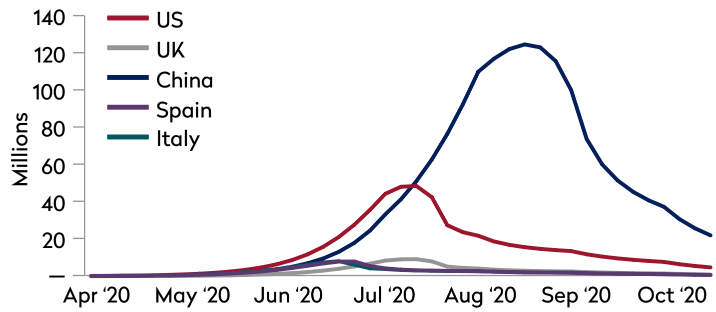
We are cautious on China for this reason. However, we do believe that EM in general will be better able to weather the coronavirus storm compared to DM, as outlined above.

China's Hidden Peak (is No Impediment to EM)

Infection peaks will vary by country but generally, the larger the population and the more onerous the containment measures, the longer the infection will take to peak. This means, owing to measures introduced to supress the virus combined with the world's largest population, China is likely to be the last major economy to see a peak in infections (see *Exhibit 5*). We believe this will come within a month of the US, sometime in mid/late August. The US, with a higher infection rate evident, is likely to see a peak in infections in mid/late July. Basel University's and our own epidemiological models have provided a highly credible basis to investigate our views.

While we expect many EM countries to be able to "afford" expediencies in their containment, as a result of their demographic advantage, it remains the case that investments need to weather potential lockdown implementation until August this year. This is the reality Rothko has evolved to encompass as our modelling framework has been evolved over the crisis.

Exhibit 5: Peaks before recovery



Source: Rothko Investment Strategies, John Hopkins University.

Note: Combining our team's deep competencies in data science with some of our original training in computational Biology, we used a very similar model to that developed by Imperial College, with many of their assumptions used to drive an estimation of the peaks in infections. Taking the observed infection rate, R0=2.3, we also overlaid an assumption that coronavirus will see a reduction in infection rates on a par with seasonal flu as we enter the northern hemisphere spring and summer. We also assume population immunity and a low reinfection rate (10%) and a typical infection function. Fatality rate is assumed to be 0.7%, infection cycle of 5 days on average.

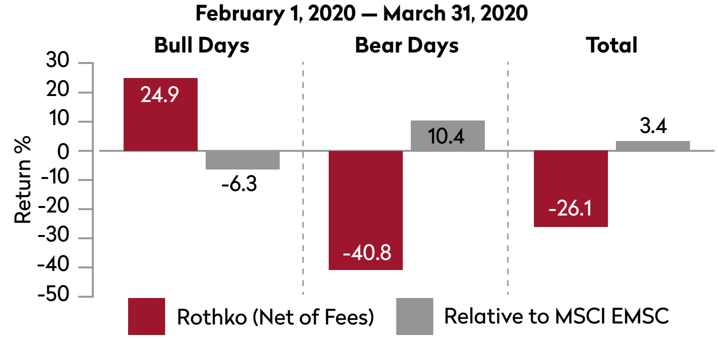
EM All Cap and Small Cap: Now a Multi-Generational Opportunity?

Even simplistic P/E and P/B metrics suggest that relative value in EM is at the highest level of opportunity than we have seen for many, many years and the opportunity to move into solid names with demonstrable economic moats (as Rothko identifies companies of value) within a higher beta asset class is a hugely compelling option at this point. We believe a multi-generational opportunity has presented itself to EM investors and now is the time to take exposure to highly objective, fundamental, Value-oriented EM strategies, especially those with exposure to EM Small Cap.

We have noted the case for EM Small Cap recently and it is even more compelling now. The Rothko EM All Cap strategy favors small caps, not only for their alpha generating potential, but also for the fact that small names are by definition the 'rising stars of tomorrow' often undetected by fundamental managers and factor-based quants (please refer to our Q4 2019 piece "Rising Stars of Tomorrow"). Furthermore, an analysis of the Rothko EM Small Cap strategy illustrates the strong defensiveness our investment approach offers (see *Exhibit 6)*. Our ultimate goal is to participate in market upswings and strongly defend in market downturns - the key characteristics, we believe, in exploiting the `saw-toothed', growth potential of emerging markets over the long-term.

Exhibit 6: Rothko EM Small Cap: Leveraged Beta for the Recovery?

February 1, 2020 — March 31, 2020



Source: Rothko Investment Strategies, MSCI.

The returns presented are net of advisory fees and other expenses associated with managing an investment advisory account. Past performance is not a guarantee of future results. Bear day is defined as a day where the index showed a negative US$ return, Bull day is defined as a day where the index showed a positive US$ return. Bear (Bull) day performance is calculated by only including returns in days where the index fell (rose) in the period in US$ terms. For full performance data, please refer to the accompanying GIPS disclosure document.

Rothko EM All Cap and EM Small Cap: The Switch that Made a Career?

Rothko's AI has evolved to focus on survivability of companies, as well as compelling valuations. These focuses seek to stand Rothko's strategies in good stead for the bumpy road ahead and also the eventual recovery. We believe Rothko's approach provides allocators with a fabulous opportunity to rotate into a defensive EM equities strategy, perhaps most compellingly EM Small Cap. When the recovery comes, this switch could be the making of allocator careers for the next decade.

Disclosure

Views expressed were current as of the date indicated, are subject to change, and may not reflect current views.

Views should not be considered a recommendation to buy, hold or sell any security and should not be relied on as research or investment advice.

The information was obtained from sources we believe to be reliable, but its accuracy is not guaranteed and it may be incomplete or condensed. All information is subject to change without notice.

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Past performance is not a guarantee of future results. An investment involves the risk of loss. The investment return and value of investments will fluctuate. There can be no assurance that the investment objectives of the strategy will be achieved.

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Disclosure — Rothko Emerging Markets All Cap Equity

Annual Performance

Year	Total Gross USD Return (%)	Total Net of Fees USD Return (%)	Benchmark USD Return (%)	Composite Standard Deviation (%)	Standard Deviation (%)	Number of Portfolios	Composite Dispersion	Assets (USD millions)	% of Firm Assets	Total Firm Assets (USD millions)
2013	-1.15	-1.32	1.83	N/A	N/A	1	N/A	8.1	0.01	70,356
2014	0.32	-0.38	-2.19	N/A	N/A	1	N/A	8.1	0.01	64,102
2015	-10.92	-11.54	-14.92	N/A	N/A	1	N/A	7.2	0.01	56,857
2016	18.52	17.70	11.19	16.04	16.07	1	N/A	8.5	0.01	59,033
2017	28.56	27.67	37.28	15.65	15.35	1	N/A	10.9	0.02	62,751
2018	-10.93	-11.55	-14.57	13.61	14.60	1	N/A	6.1	0.01	47,789
2019	13.58	12.79	18.42	12.10	14.17	2	N/A	12.6	0.02	54,401
2020 (to Mar 31)	-27.78	-27.90	-23.60	16.29	17.12	2	N/A	9.1	0.02	41,480

Accompanying Notes Concerning Performance Calculation and GIPS Compliance

- This composite was created in October 2013.
- Past performance is not a guarantee of future results.
- A complete list and description of all firm composites is available on request.

Mondrian Investment Partners Limited ("Mondrian") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Mondrian has been independently verified for the periods 1 January 1993 to 31 December 2018.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards.

The Firm is defined as all discretionary portfolios managed by Mondrian.

Mondrian is a value-oriented defensive manager seeking to achieve high real returns for its clients. Mondrian equity mandates apply one of two styles: 'Mondrian' portfolios invest mainly in securities where rigorous dividend discount analysis identifies value in terms of the long-term flows of income. Mondrian's methodology is applied consistently to markets and individual securities. 'Rothko' portfolios are designed to be value-orientated with defensive characteristics.

The Rothko Emerging Markets All Cap Equity Composite includes US dollar based discretionary fee paying portfolios, measured against the Morgan Stanley Capital International EM or equivalent Index net of US withholding taxes. The portfolios are invested primarily in publicly traded companies based in an Emerging Market, or deriving a majority of revenue within Emerging economies. Shares may, however, be listed on more developed exchanges.

Since inception to date, the Rothko Emerging Markets All Cap Equity Composite has consisted only of seed capital portfolios, which were non-fee paying and had no external investors.

Portfolios are valued on a trade date basis using accrual accounting. Returns are calculated using the modified Dietz method and then weighted by using beginning-of-period market values to calculate the monthly composite returns. Portfolio returns are calculated net of irrecoverable withholding tax on dividend income. New portfolios are included in the first full month of investment in the composite's strategy. Terminated portfolios remain in the composite through the last full month of investment. Additional information regarding the valuing of portfolios, calculating performance, and preparing compliant presentations are available upon request.

Composite and benchmark standard deviation are measured as the rolling 3 year annualised standard deviation of monthly returns. The dispersion of annual returns of portfolios within the composite (Composite Dispersion), is measured by the standard deviation of the equal-weighted returns of portfolios represented within the composite for the full year. Composite Dispersion is not presented if there are less than five portfolios in the composite during the year.

Performance results marked "Gross" do not reflect deduction of investment advisory fees. Investment returns will be reduced accordingly. For example, if a 1.00% advisory fee were deducted quarterly (0.25% each quarter) and the three year gross annual returns were 10.00%, 3.00% and -2.00%, giving an annualized return of 3.55% before deduction of advisory fees, then the deduction of advisory fees would result in three year net annual returns of 8.91%, 1.98% and -2.97% giving an annualized net return of 2.52%.

Performance returns marked "Net" reflect deduction of investment advisory fees and are calculated by deducting a quarterly indicative fee from the quarterly composite return. The indicative fee is defined as being the effective fee rate (or average weighted fee) at the composite's minimum account size as set out below. Actual net composite performance would be higher than the indicative performance shown because some accounts have sliding fee scales and accordingly lower effective fee rates.

Mondrian's investment advisory fees are described in Part II of its Form ADV. A representative United States fee schedule for institutional accounts is provided below, although it is expected that from time to time the fee charged will differ from the below schedule depending on the country in which the client is located and the nature, circumstances requirements of individual clients. Net performance in the table above calculated using the following representative fee scale: the first US$50m at 0.70%; the next US$50m at 0.60%; thereafter at 0.50%. Minimum segregated portfolio size is currently US$50 million (or fees equivalent thereto).

Disclosure — Rothko Emerging Markets Small Cap Equity

Annual Performance

Year	Total Gross USD Return (%)	Total Net of Fees USD Return (%)	Benchmark USD Return (%)	Composite Standard Deviation (%)	Standard Deviation (%)	Number of Portfolios	Composite Dispersion	Assets (USD millions)	% of Firm Assets	Total Firm Assets (USD millions)
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2016	16.24	15.14	2.28	N/A	N/A	1	N/A	4.1	0.01	59,033
2017	27.59	26.39	33.84	N/A	N/A	1	N/A	5.2	0.01	62,751
2018	-15.80	-16.60	-18.59	12.58	14.01	1	N/A	4.4	0.01	47,789
2019	18.02	16.91	11.51	12.64	12.98	1	N/A	5.2	0.01	54,401
2020 (to Mar 31)	-29.22	-29.39	-31.37	17.26	18.66	1	N/A	7.4	0.02	41,480

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