

The Rising Stars of Tomorrow: EM Small Cap

Quarter 4, 2019

In a world of low and negative yields, an overvalued US\$ and volatile sentiment on global trade, we pose three simple questions:

1. What is the most inefficient area of the global equities universe?
2. What has the highest alpha potential?
3. Which area of global equities is due a cyclical rebound?

The answer to each of these questions could well be “EM Small Cap”. We believe the opportunity on a 3-5 year horizon is more compelling than any other area of the equities universe and we are not alone in thinking this...

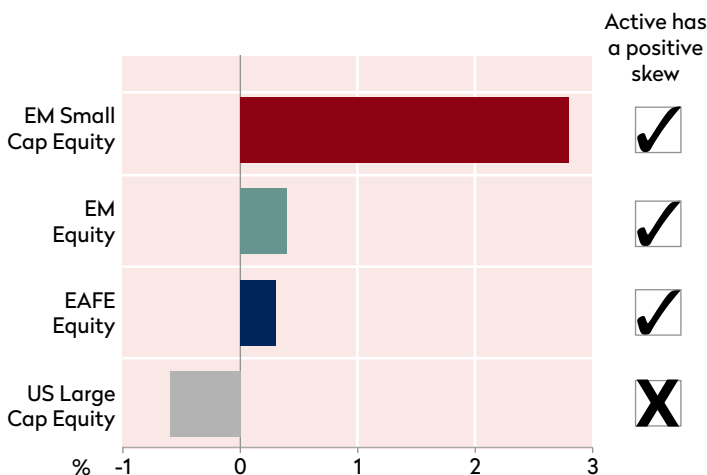
The Compelling Case for EM Small Cap

- **Inefficient:** Median manager has generated higher outperformance than other equity asset classes — EM All Cap, EAFE, and US Large Cap Equities (see Exhibit 1).
- **Under-exploited:** Investments are a tiny fraction of that invested in EM All Cap
- **Conviction:** 62% of US asset allocators polled at a recent EM Conference rank it within the top three asset class opportunities over 3-5 years¹
- **Cyclical rebound expected:** EM Small Cap has underperformed and is due a cyclical bounce
- **Similar risk to EM All Cap:** The EM draw-downs of the last 10 years have been very similar between EM Small Cap and EM All Cap (see Exhibit 2)
- **Capture EM’s rising stars:** The rising stars of tomorrow will, by definition, be small and mid-cap names, likely undetected by fundamental managers and missed by factor-oriented quants

Exhibit 1: The Extreme Inefficiency of EM Small Cap

Median active manager has outperformed net of fees

(Median performance 10-years ending September 2019)



Sources: Rothko Investment Strategies, eVestment and MSCI.

Notes: The returns presented on this page are net of management fees and include all active managers in the eVestment database within each market segment that provided return data for a full 10-year period (September 2009 – September 2019). Net fees: “Headline” fees in eVestment were discounted by asset class based on the findings of a Callan survey (2016). Past performance is not a guarantee of future results.

Exhibit 2: The Muted Risk of EM Small Cap

China sell-off (2015)

MSCI EM, MSCI EM SC Total Return



Sources: Rothko Investment Strategies and MSCI.

Notes: Cumulative total return of the MSCI EM Index and MSCI EM Small Cap Index in the largest drawdown of the MSCI EM Index in the last ten years. Past performance is not a guarantee of future results.

The Rising Stars of Tomorrow: EM Small Cap?

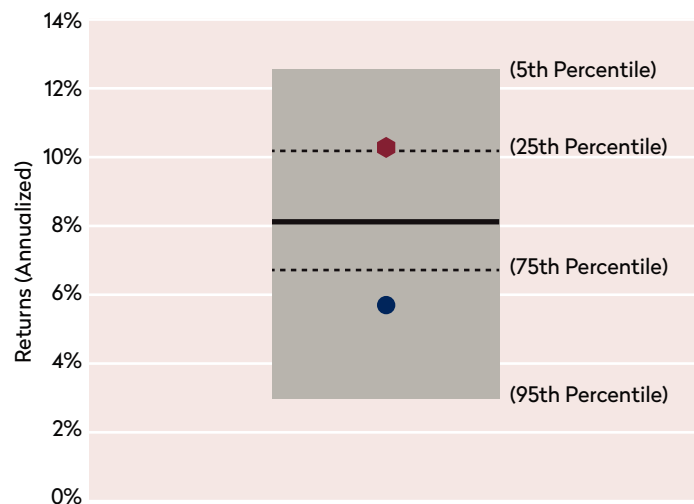
Quarter 4, 2019

How to Access?

- **Active:** Active strategies consistently outperform passive in the EM Small Cap space
- **Quant (but not as you know it):** Quantitative strategies also tend to outperform fundamental
- **... But avoid factor-quants:** The last 18 months in EM have seen misfiring factors, factor reversals and whip-saws. Using factors in EM comes with a health warning
- **Proven alpha generators:** Bottom-up, alpha focused quantitative approaches (a very small number) have performed incredibly well over the past five years. This is likely to continue
- **Invest early in new, proven strategies:** EM Small Cap is capacity constrained. Get into good new strategies before you can't

We believe that Rothko EM Small Cap represents an excellent investment opportunity available in the EM space currently and we present our past performance to support the point. Invest now while capacity remains...

Exhibit 3: Peer Universe Performance
EM Small Cap Universe



Four Years Ending December 31, 2019

	Returns
● Rothko EM SC (Gross of Fees)	10.2%
Rothko EM SC (Net of Fees)	9.1%
● MSCI EM SC Index	5.6%
No. of Observations	30

Source: Rothko Investment Strategies, MSCI and InterSec.

The Rising Stars of Tomorrow: EM Small Cap?

Quarter 4, 2019

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.

This document may include forward-looking statements. All statements other than statements of historical facts are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “may,” “will,” “should,” “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those reflected in such forward-looking statements.

This document is an internal research paper. The material is for informational purposes only and is not an offer or solicitation with respect to any securities. Any offer of securities can only be made by written offering materials, which are available solely upon request, on an exclusively private basis and only to qualified financially sophisticated investors.

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.

This document is solely owned by and the intellectual property of Rothko Investment Strategies and Mondrian Investment Partners Limited. It may not be reproduced either in whole, or in part, without the written permission of Rothko Investment Strategies and Mondrian Investment Partners Limited.

Rothko Investment Strategies is a trading name of Mondrian Investment Partners Limited.

Mondrian Investment Partners Limited
Fifth Floor, 10 Gresham Street, London EC2V 7JD, UK
London +44 207 477 7000
Philadelphia +1 215 825 4500
www.mondrian.com

Registered office as above. Registered number 2533342 England.

For your security and for training purposes, telephone conversations may be recorded. Mondrian Investment Partners Limited is authorised and regulated by the Financial Conduct Authority. Mondrian Investment Partners is a trademark of Mondrian Investment Partners Limited.

The Rising Stars of Tomorrow: EM Small Cap?

Quarter 4, 2019

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)
2015	-11.56	-12.19	-10.07	N/A	N/A	1	N/A	3.5	0.01	56,857
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

Accompanying Notes Concerning Performance Calculation and GIPS Compliance

- This composite was created in April 2015.
- 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 Market Small Cap Equity Composite includes US dollar based discretionary fee paying portfolios, measured against the Morgan Stanley Capital International Emerging Markets Small Cap Index, or an equivalent Index net of US withholding taxes. The portfolios are invested primarily in small capitalisation, publicly traded companies based in an emerging market, or deriving a majority of revenue within emerging market economies.

Since inception to date, the Rothko Emerging Market Small Cap Equity Composite has consisted only of a seed capital portfolio, which was 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 0.95%; thereafter at 0.90%. Minimum segregated portfolio size is currently US\$50 million (or fees equivalent thereto).