Q2| 2018

Emerging Markets Equity

Objective

The Emerging Markets Equity Strategy objective is to outperform the MSCI Emerging Markets Index over the long term by utilizing a concentrated, low turnover, fundamental, bottom-up, relative value approach. By focusing on companies whose stocks sell at a discount to an estimate of their underlying business values, portfolios are constructed with a buffer that should shield investors from protracted stock price declines while offering significant appreciation potential.

"We believe having in-house equity and debt expertise, augmented by the macroeconomic research of a classically trained economist on staff, gives us a competitive advantage in today's investing landscape."

Portfolio Managers

Cindy A. New, CFA
Robin R. Kollannur, CFA

Inception Date

January 1, 2016

Strategy Profile

Perf. Benchmark…………..MSCI EM Index
Style………………………………Relative Value
Market Cap……………………….……All-Cap
Range of Markets………………………10 - 20
Range of Holdings……………………..25 – 50
Cash Position……………………….………0 - 5%
Name Turnover……………………….20-60%

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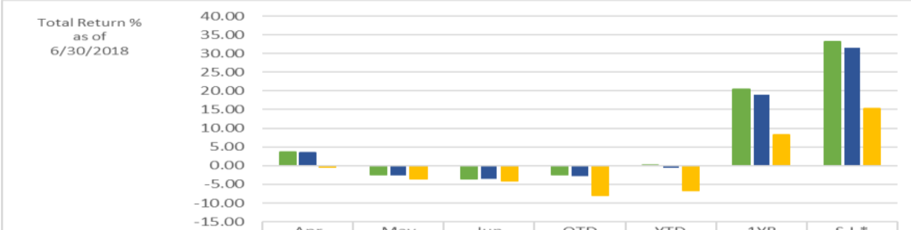
PERFORMANCE:



	Apr	May	Jun	QTD	YTD	1YR	S.I.*
RVX EM (gross)1	3.64	-2.46	-3.51	-2.46	0.01	20.47	33.16
RVX EM (net)2	3.54	-2.56	-3.61	-2.75	-0.61	19.01	31.50
MSCI EM Index (net div.)	-0.44	-3.54	-4.15	-7.96	-6.66	8.20	15.22

SOURCE: RVX ASSET MANAGEMENT, BLOOMBRG AND MSCI
**RETURNS 1 YEAR + ARE ANNUALIZED*

1. THE PERFORMANCE REFERENCED ABOVE IS FOR THE RVX EMERGING MARKETS HYPOTHETICAL MODEL PORTFOLIO, NOT A LIVE INVESTED PORTFOLIO. PLEASE REFER TO THE BACK PAGE FOR FURTHER VALUABLE INFORMATION REGARDING THE LIMITATIONS OF HYPOTHETICAL MODEL PERFORMANCE.
2. NET PERFORMANCE IS NET OF HYPOTHETICAL MANAGEMENT FEES AND TRADING COSTS.

COMMENTARY:

Currency volatility led by a strengthening U.S. dollar, political upheavals, and fears of a global trade war weighed heavily on emerging markets in 2Q. The MSCI Emerging Market Index (gross) was down -7.86% for the quarter vs. the S&P 500 return of 2.93% and the MSCI EAFE (gross) return of -0.97%.

From a country standpoint, Brazil and Turkey were the worst performers for the quarter. Brazil faced a crippling national strike of truckers and oil workers that led to a devaluation of the currency and forced the country to cut GDP forecasts for the year. Significant currency volatility and high inflation impacted Turkey's equity markets; political uncertainty around upcoming elections also hurt sentiment. Top performers included the smaller countries of Colombia and Qatar, both beneficiaries of higher oil prices. In Qatar's case, a lowering of foreign ownership limits also led to market inflows.

From a sector standpoint, Information technology and Health Care were the strongest performers while Financials and Industrials were the worst. The MSCI EM Value Index (gross) underperformed the MSCI EM Growth Index (gross) for the quarter with a -8.83% return vs. -6.92%.

Within our sector positioning, we remain comfortable with our overweight energy position and are even looking to increase our exposure to this space. We continue to believe that we are in a long-term bull market for oil prices. We also expect prices to be volatile in the short-term, which gives us a great opportunity to increase our positioning during quick downturns. The market continues to underestimate how tight oil supply really is and how low spare capacity has gotten, and therefore how vulnerable prices are to unexpected disruptions. This is evidenced by the quick drop in prices last month after Saudi Arabia agreed to increase production, followed by a quick rise as the market realized that any increase would not significantly move supply/demand dynamics in the near-term. We expect this manic-depressive behavior to continue, as it really shows that many market participants are still holding onto the "lower for longer" mantra without adjusting that thesis for new information. This also may be a reason why the rise in energy stocks have lagged the rise in energy prices, a phenomenon we expect to be reversed in the coming quarters.

Because of worries around a looming trade war, the Chinese renminbi depreciated against the U.S. dollar last quarter, despite increased liquidity from the lowering of its reserve requirement ratio. This currency move, as well as a slowdown in domestic demand indicators, led to a downturn in Chinese equities. We remain comfortable with our China positioning, even with this short-term negative news flow as we have very little exposure to companies with U.S. tariff issues. We also think China stands to benefit from the U.S. adopting a more nationalistic stance on the global stage. As the U.S. retreats from many longstanding alliances, China has been more than able to fill the void with new treaties and multi-lateral agreements capitalizing on its "One Belt One Road" initiative. Another policy, "Made in China 2025", has been driving significant R&D spending in technology, infrastructure, and health care. Regardless of these positive developments, sentiment around a potential full-scale trade war may continue to drive down equity prices in the near term. If the trade war does escalate, there is a potential for the U.S. dollar to depreciate (in response to China's recent depreciation), which would in turn be generally positive for the overall emerging markets asset class and especially oil prices.

The recent downturn has given us the opportunity to initiate positions in areas where we were significantly underweight, namely technology from a sector perspective and Russia from a country perspective. Having just come back from a productive country visit, we also added an additional name in Greece and remain excited about its risk/reward metrics.

Overall, emerging market equities are showing higher earnings growth with more favorable valuation metrics than developed market counterparts: MSCI EM trades at 11.28x forward P/E vs. 13.64x for MSCI EAFE. A lot of the catalysts for the strong dollar may have already played out (tax policy, repatriation of profits), and we would not be surprised if Europe and Japan begin to tighten monetary policy to negate the effects of rising U.S interest rates, which in turn could lead to a rally in emerging markets. Key risks will include a further strengthening dollar, rising interest rates, election uncertainty (Brazil elections and U.S. midterms), and geopolitical risk (escalation of U.S. – Iran tensions).

Investment Process

Identify Stocks

- *Value characteristics*
- *No illiquid, highly leveraged, or distressed securities*

Proprietary Database

- *Ranks undervalued stocks using multi-factor model*
- *Approximately 650 stocks by decile monthly*
- *Model inputs validated by team*
- *Broad industry and country representation*

Fundamental Analysis

- *Top 30% of Database are research candidates*
- *Focus on sustainable cash flow and dividends*
- *Identifiable catalysts for appreciation*
- *Analyst recommendation on intrinsic value*

Decisions

- *Systematic process*
- *Portfolio construction*
- *Risk management*
- *Weekly investment meetings*

Execution

- *Timing*
- *Goal is to minimize trading costs*

Portfolio Characteristics

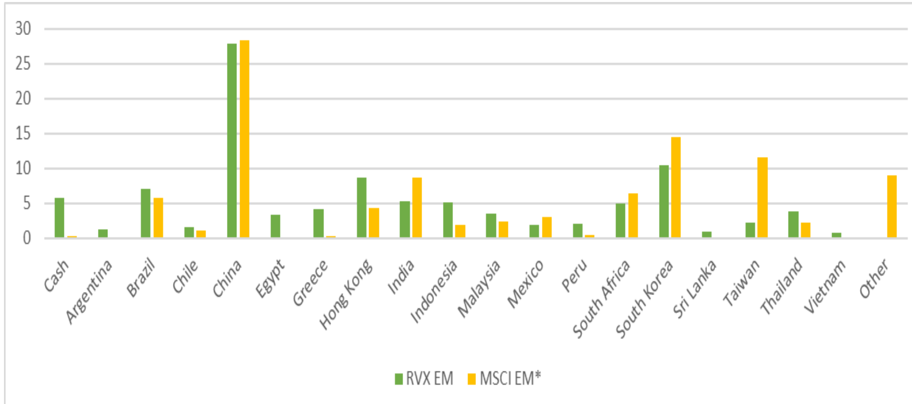
Dividend Yield................................3.2%
(P/E) Ratio (trailing)........................15.7
(P/E) Ratio (forward).......................12.0
(P/CF) Ratio..5.2
(P/B) Ratio..1.3
Holdings...47
Countries..18
Top 10 Weight..............................28.6%
Name Turnover (Trail 12-mth)....28.8%

TOP TEN HOLDINGS:

Security	Country	Sector	Mkt Cap (US$ MM)	%Wgt
CNOOC LTD-SPON ADR	*China*	*Energy*	77,049	3.31
CHINA PETROLEUM & CHEM-ADR	*China*	*Energy*	116,423	3.26
ZTO EXPRESS CAYMAN INC-ADR	*China*	*Industrials*	14,562	3.19
EMBRAER SA-SPON ADR	*Brazil*	*Industrials*	4,665	3.03
SANDS CHINA LTD	*China*	*Consumer Discretionary*	43,202	2.70
ALIBABA GROUP HOLDING-SP ADR	*China*	*Information Technology*	475,171	2.69
PETROCHINA CO LTD -ADR	*China*	*Energy*	204,531	2.64
SASOL LTD-SPONSORED ADR	*South Africa*	*Materials*	22,777	2.61
CHINA LONGYUAN POWER GROUP-H	*China*	*Utilities*	6,473	2.61
DAIRY FARM INTL HLDGS LTD	*Hong Kong*	*Consumer Staples*	11,890	2.60

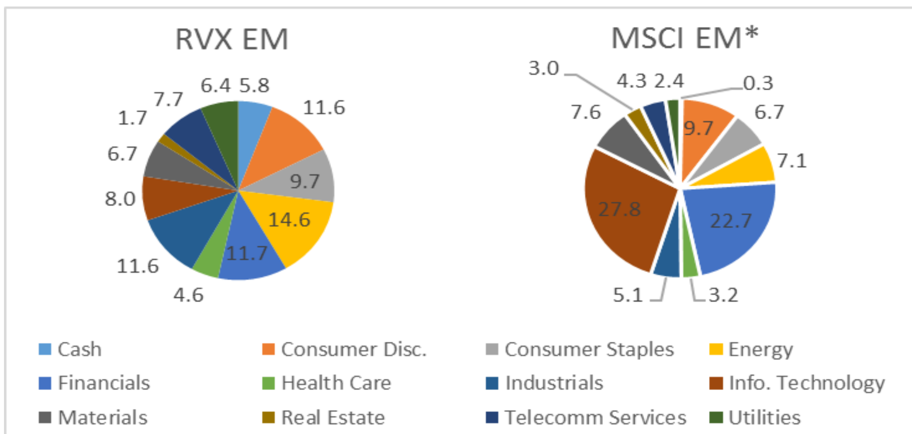
SOURCE : RVX ASSET MANAGEMENT AND BLOOMBERG, INFORMATION BASED ON A MODEL PORTFOLIO

COUNTRY WEIGHTINGS:



**Ishares MSCI Emerging Markets ETF used as a proxy for the MSCI Emerging Markets Index*
SOURCE : RVX ASSET MANAGEMENT AND BLOOMBERG, INFORMATION BASED ON A MODEL PORTFOLIO

SECTOR WEIGHTINGS:



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