



# Emerging Markets Small Cap Equity

## Objective

The Emerging Markets Small Cap Equity Strategy objective is to outperform the MSCI Emerging Markets Small Cap 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

March 1, 2017

## Strategy Profile

Perf. Benchmark.....MSCI EMSC Index  
Style.....Relative Value  
Market Cap.....Small-cap  
Range of Markets.....20 - 40  
Range of Holdings.....50 - 100  
Cash Position.....0 - 5%  
Name Turnover.....50 - 100%

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## PERFORMANCE:



SOURCE: RVX ASSET MANAGEMENT, BLOOMBERG AND MSCI

1. THE PERFORMANCE REFERENCED ABOVE IS FOR THE RVX EMERGING MARKETS SMALL CAP 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:

Emerging market small cap equities underperformed the broader emerging and frontier markets as a whole during Q3. The MSCI Emerging Markets Small Cap Index was down -4.21% for the quarter vs. the MSCI EM return of -1.09% and the MSCI FM return of -1.98%. Thailand and Mexico were the top performing countries for the quarter, while India and China were the main laggards. From a sector standpoint, Health Care and Materials were the strongest performers while Information Technology and Consumer Discretionary were the worst.

While volatility has returned to equity markets in 2018, we have always seen such environments as opportunities to improve our portfolio of companies. As a by-product of our fundamental, bottom-up process, from a sector positioning standpoint we continue to remain underweight the Information Technology sector. As a result, our largest country underweights are in the tech-heavy countries of Taiwan and South Korea. As trade rhetoric heats up and global supply chains come under greater scrutiny, small-cap technology companies in these countries may be negatively impacted. Generally, they would not have the scale or diversification of larger players to alter their business models, where the impact of a trade war in one area could be somewhat mitigated by diversification in product or geographic lines.

Given our large underweight to these areas, our model portfolio subsequently outperformed the MSCI EM Small Cap Index for 3Q. For example, we currently have roughly a 1.5% weight to Taiwan while the Index is over 19%. As this market continues to sell off, we may start looking for new ideas in this space. Regardless, we are continuing to find value in “domestic demand” small-cap companies that are more dependent on local economic trends: we currently have over a 23% weight to Consumer Discretionary while the Index is under 15%. Our new idea pipeline is focused on Brazil and Mexico, where recent election results have been received positively by equity markets. We are also “bottom-fishing” for new ideas in Turkey, where the economic crisis has somewhat abated.

For Q4, key risks will include ripple effects from a potential further devaluation of the Chinese renminbi, a near-term spike in oil prices that would cause fiscal pressure for countries that are net oil importers, rising global interest rates, election uncertainty, and geopolitical risk (escalation of U.S. – Iran and U.S. – China tensions). Recent EM Small Cap underperformance relative to U.S. equities has been the worst we have seen in many years. The rise in U.S. interest rates, a growing realization that the fiscal situation in the U.S. has deteriorated, and the potential for a U.S. mid-term election outcome that creates political gridlock all may help with a reversal of this recent underperformance.

## 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

## Contact Information

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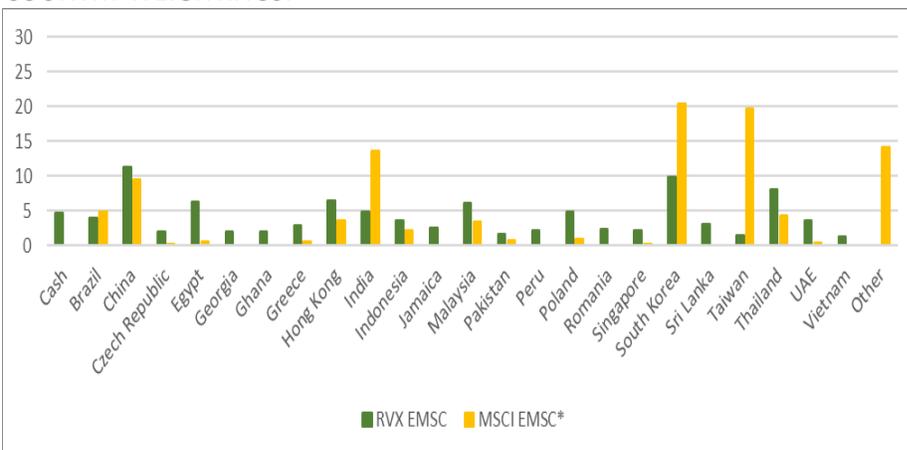
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## TOP TEN HOLDINGS:

Security	Country	Sector	Mkt Cap (US\$ Mil)	% Wgt
BEAUTY COMMUNITY PCL	Thailand	Consumer Discretionary	1,121	3.33
WARSAW STOCK EXCHANGE	Poland	Financials	506	2.69
DOOSAN HEAVY INDUSTRIES	South Korea	Industrials	1,574	2.67
GRACEKENNEDY LTD	Jamaica	Consumer Staples	444	2.54
MEGA LIFESCIENCES PCL	Thailand	Health Care	997	2.54
CHINA LONGYUAN POWER GROUP-H	China	Utilities	6,757	2.41
SOCIETATEA NATIONALA DE GAZE	Romania	Energy	3,243	2.40
MY EG SERVICES BHD	Malaysia	Information Technology	1,502	2.31
VENTURE CORP LTD	Singapore	Information Technology	3,716	2.21
AMATA CORP PUBLIC CO LTD	Thailand	Real Estate	796	2.19

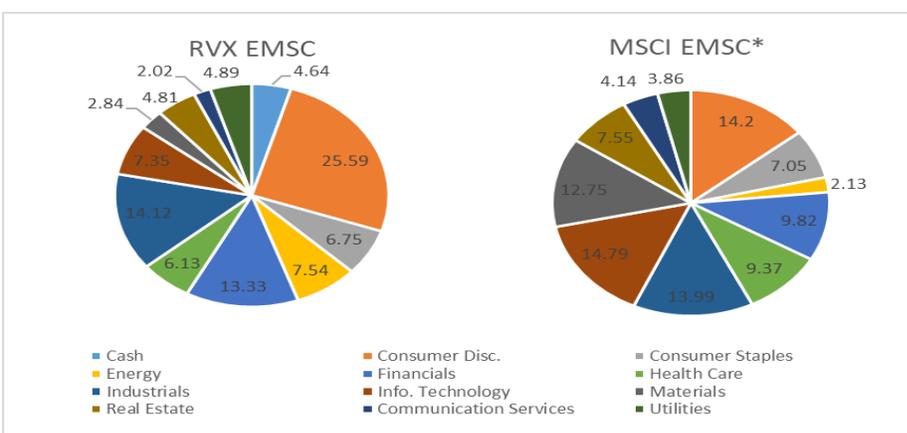
SOURCE : RVX ASSET MANAGEMENT AND BLOOMBERG, INFORMATION BASED ON A MODEL PORTFOLIO

## COUNTRY WEIGHTINGS:



\*Ishares MSCI Emerging Markets Small Cap ETF used as a proxy for the MSCI Emerging Markets Small Cap Index  
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## SECTOR WEIGHTINGS:



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

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The hypothetical model performance shown herein is based on simulated or hypothetical trades made by RVX for the referenced hypothetical model containing investments of the type RVX generally expects to purchase for accounts utilizing its emerging markets and frontier markets strategies (although there may be potentially significant differences which may affect performance). The assets which formed the basis for the hypothetical performance were invested in a style currently expected to be so similar to the fund or a real portfolio utilizing RVX's strategy that RVX believes this information to be relevant to prospective clients. The U.S. dollar is the currency used to express hypothetical model performance. All hypothetical model performance shown herein is not necessarily based on the same types of gains. Hypothetical model performance figures shown herein include reinvestment of all dividends, interest, and capital gains, are pre-tax averages of individual year's results (unless otherwise indicated), are based on end-of-day data, and are presented gross of advisory fees and estimated commission fees. All hypothetical model results are estimated, unaudited, subject to adjustment, and not intended to comply with AIMR-PPS™ or GIPS guidelines. Furthermore, hypothetical model results may not reflect the correct impact, if any, that certain market or economic factors might have had on RVX's decision making if RVX were actually managing a client's money. No hypothetical model performance is a guarantee of future results, and no representation is being made that any fund or account of RVX will or is likely to achieve profits or losses similar to those shown or described herein. Bear in mind that if hypothetical model performance results were for the funds or a client's actual portfolio, RVX's advisory fees and fund trading costs, fees and expenses (including custody, third party administration fees, audit fees, legal fees, etc.) would materially decrease such returns