



# Frontier Markets Equity

## Objective

The Frontier Markets Equity Strategy objective is to outperform the MSCI Frontier 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

December 31, 2015

## Strategy Profile

Perf. Benchmark.....MSCI FM Index  
Style.....Relative Value  
Market Cap.....All-Cap  
Range of Markets.....10 - 20  
Range of Holdings.....25 - 50  
Cash Position.....0 - 5%  
Name Turnover.....20-40%

## PERFORMANCE:



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

1. THE PERFORMANCE REFERENCED ABOVE IS FOR THE RVX FRONTIER 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:

The first quarter was a solid one for the RVX Frontier Markets Equity strategy, outpacing the MSCI Frontier Markets Index 12.37% vs 6.87%.

In our model portfolio, Ghana and Cambodia were relative outperformers for the quarter while the laggards were Sri Lanka and Bangladesh. Our overweight to Energy was a key contributor from a sector standpoint. Many of our holdings listed in non-Frontier countries that have the majority of revenues and/or earnings from Frontier countries also did well during the quarter; top performers included Thai Beverage which has Vietnam exposure with its acquisition of Saigon Breweries, and China-based Anton Oilfield Services which has significant exposure to Iraq.

While the 4th quarter and 2018 overall was negative for frontier, we entered 2019 with a high degree of optimism around our portfolio positioning. While the return of volatility was the key event of 2018, we have always seen such environments as opportunities to improve the quality of our portfolio, as drawdowns are usually indiscriminate and sometimes irrational. For example, we added to our Energy overweight during a period of heightened volatility in 4Q 2018. We had entered 2018 with the base scenario of oil prices continuing to gradually rise, given the drawdown of global inventories, a normalizing of shale projections, and further geopolitical tensions in the Middle East. Energy prices have rebounded in 2019 given recent OPEC and Russia compliance on production cuts, and political instability around key producers Venezuela, Libya, and Nigeria. We expect the next few quarters to show continued support for energy prices and a gradual resumption upwards, especially as spare capacity remains tight. Another factor that would create upside risk include slower US shale growth and the unwinding of hedging activity that impacted the sector in 4Q 2018. Stock performance within the sector has lagged the underlying commodity’s price performance, which we have also encountered in prior rallies. Market participants are generally underweight the sector and given the magnitude of the price drop in 4Q 2018, consensus has not formed yet that the recent rally has staying power. Regardless, nothing has changed our fundamental view and we are maintaining our overweight.

We have been closely watching Chinese economic data for signs of a slowdown, given the impact on funding for China’s One Belt One Road (OBOR) policy, and the potential for negative knock-on effects to frontier market countries linked to OBOR. Worries about a protracted trade battle between the US and China seems to have abated, and our base scenario is an agreement amenable to both sides. We would expect the Chinese equity rally to continue, as recent economic data has been positive. While market participants are discussing the ramifications of the inverted yield curve in the US for emerging and frontier markets, we believe it is too early to call for a potential slowdown. Emerging and frontier markets already been underperforming the US since the aftermath of the global financial crisis in 2009, while fundamentals have been relatively improving over the last few years.

Going forward, we expect frontier markets to relatively outperform other asset classes, given a combination of high economic growth rates, reasonable valuations (our portfolio trades under 10x current earnings with a 3.7% dividend yield), and rising energy and commodity prices. Potential changes to the MSCI FM Index (graduations of Argentina and Kuwait) over 2019 may create dislocations and buying opportunities among other index constituents.

**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 buy 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.....3.7%  
 (P/E) Ratio (trailing).....9.7  
 (P/E) Ratio (forward).....9.4  
 (P/CF) Ratio.....7.3  
 (P/B) Ratio.....1.6  
 Holdings.....28  
 Countries.....16  
 Top 10 Weight.....48.1%  
 Name Turnover (Trail 12-mth) ....18.0%

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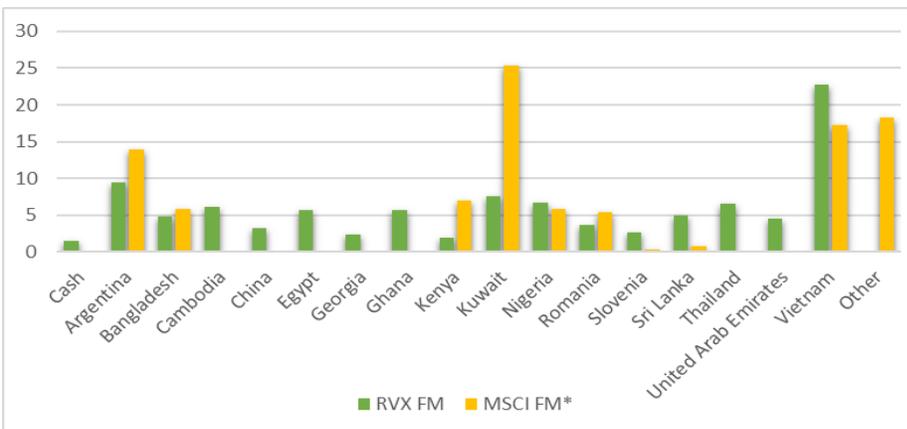
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**TOP TEN HOLDINGS:**

Security	Country	Sector	Mkt Cap (US\$ MM)	%Wgt
NAGACORP LTD	Cambodia	Consumer Discretionary	6,072	6.06
VIETNAM ENGINE & AGRICULTURA	Vietnam	Industrials	3,014	6.00
KOSMOS ENERGY LTD	Ghana	Energy	2,500	5.65
VINACAPITAL VIETNAM OPPORTUN	Vietnam	Funds		5.10
NATIONAL BANK OF KUWAIT	Kuwait	Financials	19,032	5.01
ARAMEX PJSC	United Arab Emirates	Industrials	1,897	4.55
MOBILE WORLD INVESTMENT CORP	Vietnam	Consumer Discretionary	1,620	4.42
THAI BEVERAGE PCL	Thailand	Consumer Staples	15,677	3.83
OMV PETROM SA	Romania	Energy	4,752	3.72
FPT CORP	Vietnam	Information Technology	1,204	3.71

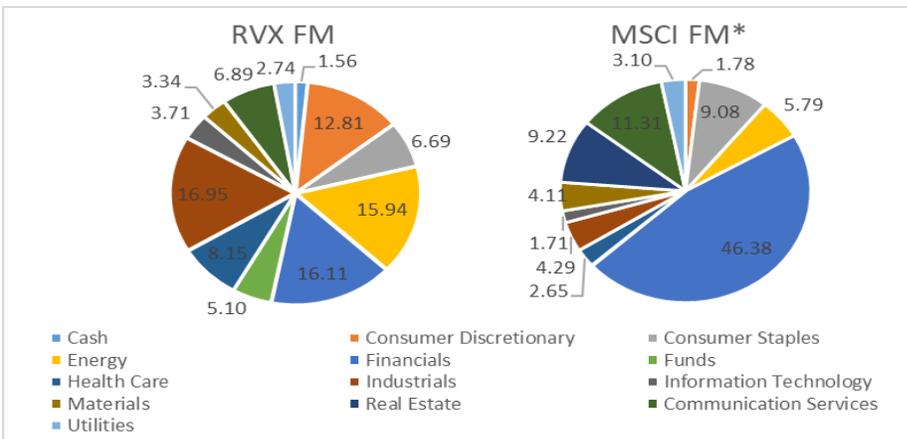
SOURCE : RVX ASSET MANAGEMENT AND BLOOMBERG, INFORMATION BASED ON A MODEL PORTFOLIO

**COUNTRY WEIGHTINGS:**



\*ISHARES MSCI FRONTIER 100 ETF USED AS A PROXY FOR THE MSCI FRONTIER MARKETS INDEX  
 SOURCE : RVX ASSET MANAGEMENT AND BLOOMBERG, INFORMATION BASED ON A MODEL PORTFOLIO

**SECTOR WEIGHTINGS:**



\*ISHARES MSCI FRONTIER 100 ETF USED AS A PROXY FOR THE MSCI FRONTIER MARKETS INDEX  
 SOURCE : RVX ASSET MANAGEMENT AND BLOOMBERG, INFORMATION BASED ON A MODEL PORTFOLIO

**RVX Model Portfolio Hypothetical Performance/Gross of Fee Returns:** This material includes information related to the gross and net (hypothetical) performance of the RVX Frontier Markets Equity strategy. The performance results included in this material related to RVX's model are hypothetical returns which have been compiled by RVX. The model performance results do not represent actual trading and that they do not reflect the impact that material economic and market factors contributed to the Adviser's decision-making if RVX were actually managing clients' money pursuant to the depicted model.

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.