



# 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.....20–60%

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**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:**

In 3Q 2019, frontier equity markets as represented by the MSCI Frontier Markets (FM) Index, had mixed performance vs. emerging market and developed market peers: the MSCI FM Index (net) was down -1.09% vs. the MSCI EM Index -4.25% and the S&P 500 +1.70%.

In our model portfolio, Vietnam and Cambodia were relative outperformers for the month while the laggards were Bahrain and Argentina. Our overweight to Consumer Discretionary and Information Technology were key contributors from a sector standpoint, while our Energy and Utilities exposures were key detractors.

From a sector standpoint, we continue to overweight Energy. It has been our long-held thesis that the markets are under-appreciating the geopolitical risks around industry spare capacity, and the recent attack on Saudi Aramco’s facility has confirmed this fear. We do not see a de-escalation here, especially as the U.S. has been maintaining a hawkish stance against Iran. Even with its recent outperformance, we remain excited about Vietnam and expect the country to continue its economic renaissance driven by exports and consumption growth coupled with a stable currency. Our research docket for 4Q is focused on new ideas in Bangladesh, another manufacturing and consumption-led economy with a young population, as well as Eastern Europe, a region the market has been recently ignoring. We are also monitoring upcoming elections in Sri Lanka that may be positive for its capital markets.

China trade sanctions continued to dominate market sentiment in 3Q, as did worries on further weakening of global growth expectations as a result of a protracted conflict. 3Q also saw the U.S. Fed cutting interest rates, the first cut since 2008. Amidst this backdrop, the International Monetary Fund cut its forecast for global growth to 3.0% for 2019, down from the last forecast of 3.2% in July. We would not be surprised if there are further short-term cuts to these global growth estimates. Economic data from many regions remain weak, and many parts of the developed world are also experiencing deflationary forces. India, one of the bellwethers for global growth, has been quietly ratcheting down GDP growth expectations from 5.5% to 5%, for example.

Frontier markets seem to be fairly insulated from these global market worries; we have not observed any significant slowdown in both top-down economic or bottom-up company-specific growth estimates. We are actually seeing stable if not rising estimates in aggregate. Going forward, frontier markets are attractive from a risk/reward standpoint, given a combination of high economic growth rates, a positive credit cycle given relative low debt indicators, young populations with pent-up consumption needs, reasonable valuations (our portfolio trades around 10x current earnings with a 4.6% dividend yield), rising energy and commodity prices, and relative political stability in key frontier market countries such as Vietnam and Kuwait.

**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.....4.6%  
 (P/E) Ratio (trailing).....10.2  
 (P/E) Ratio (forward).....9.5  
 (P/CF) Ratio.....7.1  
 (P/B) Ratio.....1.8  
 Holdings.....28  
 Countries.....14  
 Top 10 Weight.....49.0%  
 Name Turnover (Trail 12-mth) ....20.0%

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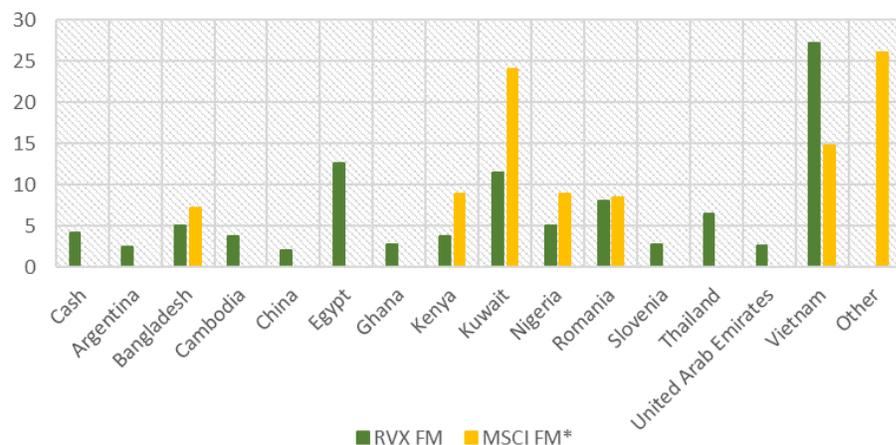
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**TOP TEN HOLDINGS:**

Security	Country	Sector	Mkt Cap (US\$ MM)	%Wgt
MOBILE WORLD INVESTMENT CORP	Vietnam	Consumer Discretionary	2,406	6.54
FPT CORP	Vietnam	Information Technology	1,687	6.22
VIETNAM ENGINE & AGRICULTURA	Vietnam	Industrials	3,144	6.17
NATIONAL BANK OF KUWAIT	Kuwait	Financials	20,012	5.88
VINACAPITAL VIETNAM OPPORTUN	Vietnam	Funds	NA	4.85
OMV PETROM SA	Romania	Energy	5,499	4.24
THAI BEVERAGE PCL	Thailand	Consumer Staples	16,083	3.87
SOCIETATEA NATIONALA DE GAZE	Romania	Energy	3,272	3.83
NAGACORP LTD	Cambodia	Consumer Discretionary	6,789	3.73
CENTAMIN PLC	Egypt	Materials	1,787	3.70

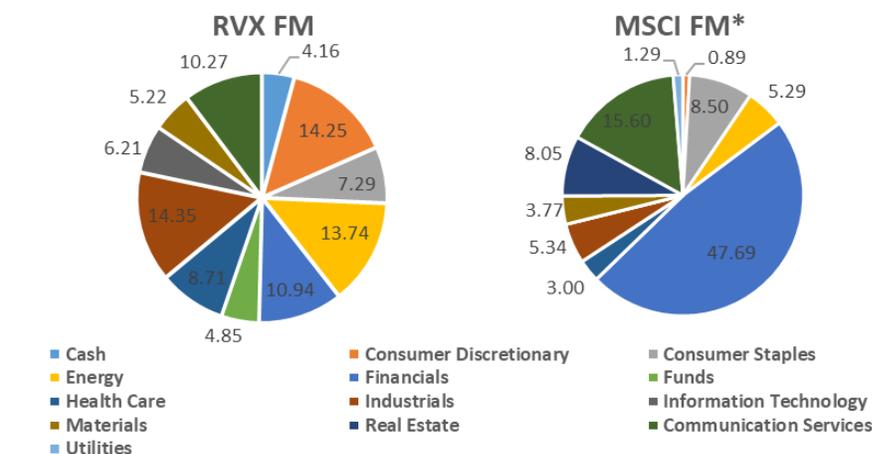
SOURCE : RVX ASSET MANAGEMENT AND BLOOMBERG, INFORMATION BASED ON A MODEL PORTFOLIO

**COUNTRY WEIGHTINGS:**



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

**SECTOR WEIGHTINGS:**



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.