Emerging Markets

This is a financial promotion. Your capital is at risk, the value of investments may fall and rise and you may not get back the full amount you invested. Past performance is not indicative of future returns.

Emerging Markets Long Equities

We are establishing a +2% overweight to emerging market equities versus our Strategic Asset Allocation with a focus on China. This translates to a 5.5% overall allocation to EM equities at the portfolio level and a 19.6% allocation to EM equities within long equities versus 12% in our SAA and in our global equity benchmark. We have a meaningful +2.5% portfolio-level overweight to China within this allocation, and 12.5% of long equities vs. 3.6% in the benchmark, due to its size and importance of relative to current benchmark weighting, our constructive view on its economic growth prospects over the long term, the attractive entry point available today even for high quality companies and our access to high alpha potential managers. Our remaining EM exposure comprising 7% of long equities is dedicated to India and other emerging Asian markets, which we prefer to non-Asian markets due to their domestic demand driven markets with stronger long-term outlooks. We prefer to access our Asian exposure through a combination of specialist Chinese and Indian managers and select pan-Asian strategies. For clients insisting on a broader EM allocation, to include Latin America, Africa and Eastern Europe, we access that exposure through low cost quantitative EM strategies.

Emerging Market Equities 2018 Performance

Broad EM equity markets underperformed DM equities in 2018 after significant outperformance in 2017. In the first 9 months of 2018, EM equities, as measured by the MSCI Emerging Markets Index, were down -7.7% in US dollar terms while DM equities were up+6.6%. This underperformance was driven by tighter US monetary conditions after the US Federal Reserve raised rates twice during this period, combined with the threat of escalating trade conflict between the US and China and local political concerns. Countries with large current account deficits (e.g., Turkey and Argentina) were particularly hard hit. This trend reversed in the last quarter of the year as investors began to expect weaker growth in the developed world and consequently less monetary tightening. In Q4 2018, EM was down another -7.5% versus -13.4% for DM, offsetting some of the relative underperformance earlier in 2018 but still leaving EM equities lagging DM by -7% for the full year (Exhibit 2).

Within EM, there was wide dispersion in individual countries' equity market returns, although broadly speaking, Latin American countries fared better than Asian ones. China and Chinese A-shares were hit particularly hard during 2018, driven by trade war fears, while countries like Brazil fared better driven by favourable local political outcomes.

Looking at long-term performance, EM equities have underperformed DM equities on a 5- and 10-year basis even in local currency terms (Exhibit 3). The strong relative earnings growth that had been expected by many to propel EM equities returns over DM

Exhibit 1
Our policy portfolio contains a 3.5% allocation to Chinese equities at the overall portfolio level, representing a +2.5% overweight position

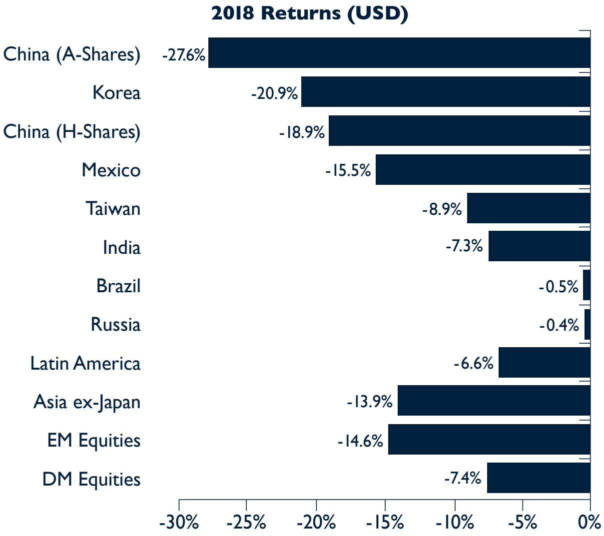
Allocation to:	Percent of: Total Portfolio	Long Equity Portfolio	MSCI ACWI	Emerging Market Equities Portfolio	MSCI EM
China	3.5%	12.5%	3.6%	63.6%	30.0%
Rest of EM Asia	2.0%	7.1%	5.0%	36.4%	41.7%
Rest of EM	0.0%	0.0%	3.4%	0.0%	28.3%
Total EM	5.5%	19.6%	12.0%	100.0%	100.0%

Source: *Partners Capital, Bloomberg.*

US-20231103-3210869

Exhibit 2

Emerging market equities underperformed in 2018 with wide dispersion in returns across countries and regions



Source: *Bloomberg*

has failed to materialise. At the same time, EM has been experiencing higher levels of commodity price volatility and rising political risk, while the US and other developed markets have seen steady growth and have benefitted disproportionately from the global franchise value of US technology companies (e.g., Apple, Google, Microsoft and Facebook). Given the high cost of hedging EM currency risk, we evaluate the investment prospects of EM equities in USD terms. Over longer horizons, EM currency exposure has both reduced the returns and increased the volatility of EM equities, greatly diminishing their attractiveness.

Emerging Markets Outlook

EM equities have been trading at a valuation multiple discount to DM equities since the 2013 "taper tantrum," (Exhibit 4) and we expect this discount to be a fair reflection of the economic, policy and currency risks existing in EM today. Following 2018, the discount to DM equities has in fact narrowed, which does not provide a compelling valuation case for us to go significantly overweight broad EM. Additionally, there are numerous policy unknowns, both local as well as geopolitical, which limit our enthusiasm for broad EM equities. Besides the uncertainty about the US/China trade conflict, there are local risks in major EM countries, including upcoming elections (e.g., India) or new governments trying to implement reforms (e.g., Mexico and Brazil). Other major EM economies like South Korea and Taiwan are heavily exposed to the outcome of US/China trade negotiations. We therefore prefer selectively allocating to certain dislocated country or regional markets where current valuations do not reflect our long-term fundamental outlook. We view China, in particular the Chinese A-shares market, as such an opportunity.

Comparing valuations of select EM countries versus their long-term history, we find China (in particular A-shares) and Mexico to be most attractively valued (Exhibit 5). China has a compelling fundamental story, backed by capital market reforms, a powerful tech sector comprising one-third of the market, strong demographics and gradual rebalancing towards a more consumption-based economy. We find the Mexican market to be too small and narrow, at just 26 stocks with $145B aggregate market capitalisation in the MSCI Mexico Index, to warrant a standalone allocation.

Exhibit 3

EM equities outperformed DM equities over 15 years but underperformed over 5 and 10 year periods

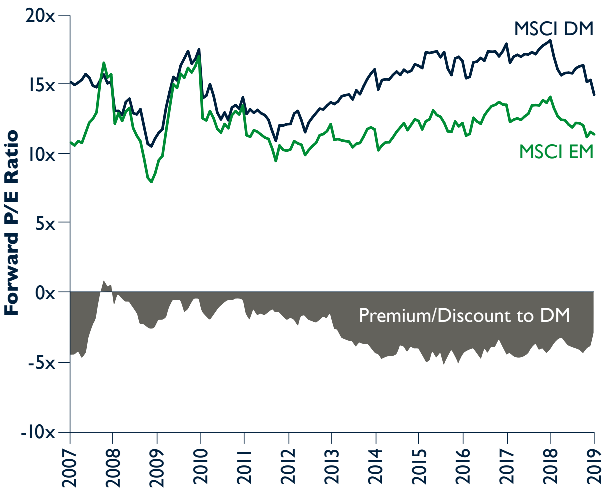
	MSCI Emerging Markets (Local Currency)			MSCI Emerging Markets (USD)			MSCI World		
	Returns	Volatility	Sharpe Ratio	Returns	Volatility	Sharpe Ratio	Returns	Volatility	Sharpe Ratio
3 years	8.8%	10.9%	0.63	9.2%	14.6%	0.5	6.8%	9.6%	0.5
5 years	5.0%	11.0%	0.27	1.6%	15.1%	-0.02	6.4%	10.0%	0.44
10 years	9.6%	13.5%	0.56	8.0%	19.2%	0.31	10.3%	12.4%	0.67
15 years	9.0%	16.1%	0.43	7.9%	21.3%	0.28	6.6%	12.7%	0.36

Source: *Bloomberg, Partners Capital. Data as of 31December 2018. Returns represent compounded annualised returns over the relevant period. Volatility calculated as annualised standard deviation over the relevant period. Sharpe Ratio calculated assuming a risk-free rate of 2%.*

US-20231103-3210869

Exhibit 4

EM equities currently trade at a 2.9x P/E multiple discount to DM



Source: *Bloomberg. Data as of February 5, 2019.*

We are also constructive on Indian equity markets, although we do not find the current entry point as attractive as with China. We are cautious on the other major Asian economies of South Korea and Taiwan largely due to their proximity to China, exposure to the risk of supply side disruption if the US/China trade conflict worsens and narrower valuation buffer.

We have minimal exposure to emerging markets outside Asia. We see heightened risks in Brazil after the recent rally in Brazilian assets, with the MSCI Brazil Index up +13% in Q4 2018. The reason for this rally was the election of Jair Bolsonaro as President, with his pro-market reforms which are expected to improve foreign investment and bolster the Brazilian Real. The new government's plans on reform are heavily dependent on pushing through complex pension reforms through a fractured Congress. We therefore expect some downside risk in Brazilian equities if the expected reforms are delayed. We view most other significant markets outside Asia, like Russia, as largely uninvestable due to political and currency risk, oil and other commodity price sensitivity and narrowness of the market.

Investment Strategy

We are establishing a meaningful overweight to China within EM, allocating 12.5% of long equities to this market vs. 4% in the MSCI global equity benchmark. At the portfolio level, this translates to a 3.5% position in Chinese public equities and a +2.5% overweight relative to our SAA. We are investing this allocation in Chinese private companies benefitting from domestic demand growth in industry sectors such as technology, consumer, healthcare and education, and we generally avoid state owned enterprises, commodity driven businesses and basic industries.

Exhibit 5

China (in particular A-shares) and Mexico have the lowest current market valuations relative to history of major emerging markets

Country/Region	12M Forward P/E	10-year Median P/E	PE (Deviation from 10 year Median)	Return on Equity	2018 Returns (USD)
India	20.68	17.76	16%	13.00%	-7.3%
Brazil	12.50	12.12	3%	11.50%	-0.5%
Korea	10.06	9.89	2%	10.30%	-21.1%
China (H-Shares)	11.27	11.28	0%	13.70%	-18.9%
Taiwan	13.77	14.4	-4%	13.50%	-8.9%
Russia	5.86	6.17	-5%	15.90%	-0.4%
China (A-Shares)	10.26	12.93	-21%	13.00%	-27.8%
Mexico	13.82	17.65	-22%	11.10%	-15.5%
EM Equities	12.00	12.05	0%	13.00%	-14.4%
DM Equities	14.81	15.63	-5%	13.60%	-8.2%

Source: *Bloomberg. Data as of 5 February 2019*

US-20231103-3210869

Our investments in this area are through active managers focused on these segments of the market, both Chinese specialists and Pan-Asian managers and select tactical trades in undervalued areas like technology.

Our investment in China is underpinned by our constructive view on its economic growth prospects over the long term combined with the attractive entry point available today even for high quality companies. We believe that the market has overreacted to the domestic growth slowdown and US trade conflict. We explain our relatively positive views on continued economic growth along with our perspective on the US trade war in detail in the macro chapter on China. Our overweight to Chinese domestic equities is driven by the following fundamental rationale:

— **Strong medium-term growth outlook despite trade and political uncertainty:** We believe that the Chinese economy will be grow at 5.5-6.0% p.a. over the next few years, with China's share of global GDP growth expected to rise from 27.2% to 28.4% by 2023. The recent trade tensions have resulted in short-term concerns on China's growth outlook and partially driven the underperformance of Chinese equities in the last 12 months. We believe that the medium-term growth headwind from continued US/China trade conflict and other political issues is much less than what is apparently weighing on markets.

— **Upside from US/China trade deal:** We believe that the likelihood of a US/China trade deal is higher than consensus probabilities priced into the market. We could see a meaningful "relief rally" in Chinese equities from a positive if imperfect outcome to the current trade negotiations. In addition, a thaw in trade tensions between the US and China would provide a sentiment boost which would support China and other EM (mainly China-linked) economies.

— **General EM tailwind from US Federal Reserve policy pivot:** The recent policy announcement by the US Federal Reserve not only lowers borrowing costs for EM debt in US Dollars, but it also relieves any pressure on local EM borrowing, as EM countries will not need to raise their local interest rates to protect their currencies if US rates do not rise. We believe this effect would benefit China as well as other emerging market economies.

— **Exposure to the domestic consumption economy:** Chinese equities benefit from encouraging demographics. The country has low household leverage, a growing middle class of 300 million people and should benefit from a shift towards consumption-led growth. Historically these obvious features of the Chinese economy had been well priced in, but this no longer appears to be the case.

— **Large and liquid market:** Greater China has $12 billion of market capitalisation and is larger in size than either Japan or the EU. Chinese A-shares represent 45% of the $12 billion. This includes over 3,600 publicly-traded companies listed onshore.

— **Attractive valuations:** P/E ratios for the CSI 300 index are nearly one standard deviation below the 5-year average. Certain sectors such as consumer discretionary and IT now trade more than one standard deviation below the average. We see these low valuations even for companies that we and our managers believe to be high quality businesses.

— **Diversification benefits from investing in onshore equities:** Chinese A-shares have low correlations to global markets (0.40 to S&P 500 and 0.43 to MSCI World).

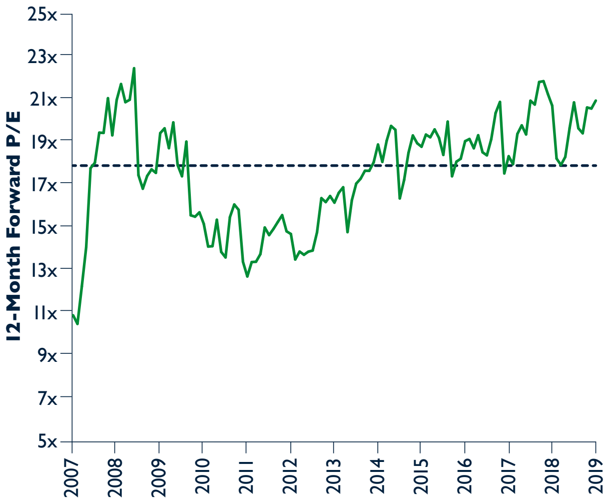
In addition, we believe that technical factors around index inclusion and market access should drive international fund flows into Chinese markets in the future and provide a tailwind to equity returns. China's allocation within MSCI's indices does not fully reflect its current economic importance and public equity market size given the low "inclusion factor" currently awarded to Chinese A-shares in MSCI's benchmarks. We expect MSCI to continue to increase its inclusion factor for Chinese equities in coming years, potentially driving $300 billion of inflows into the market from benchmark tracking funds. We also see benefits from the continued liberalisation of the Chinese A-share market through constructs such as the Hong Kong – Shanghai / Shenzhen Stock Connect providing expanded market access for international investors.

Finally, we see a significant alpha opportunity investing in China. Bloomberg estimates that 80% of China A-share trading is driven by retail investors, who generally have very short time horizons, which should bode well for professional, long-term investors. According to our research, institutional asset managers have been able to generate 10-15% annualised alpha in the China A-shares market over the past five years. We believe that high quality Chinese specialist managers should continue to be able to exploit these market inefficiencies to generate significant outperformance in this market.

Our remaining EM exposure comprising 7% of long equities is dedicated to India and other emerging Asian markets, which we prefer to non-Asian markets due to their domestic demand driven economies with stronger long-term outlooks. We hold exposure to Indian equities due to superior growth prospects and a more domestically oriented economy. Given the upcoming general elections, where current Prime Minister Narendra Modi is up for re-election, we are maintaining a balanced stance on India overall. While Modi is expected to get re-elected, he is unlikely to repeat the sweeping victory of 2014, which will make it harder to push through his reform agenda. Additional headwinds could come from rising oil prices which would further pressure the Indian rupee, as well as rich valuations (Exhibit 6). We selectively invest in other Asian markets through Pan-Asian managers employing a fundamental bottom-up stock picking approach to identifying attractive companies in the region. We note that Asian markets comprised 73% of EM market capitalisation as of 31 December 2018, so we are comfortable avoiding the remaining 27% ex-Asia markets primarily composed of Brazil, South Africa and a much smaller Russia as explained above.

Exhibit 6

Indian Equities are trading at a premium to their long-term average valuations



Source: *Bloomberg*

For those clients who require broad EM exposure with high liquidity, our preferred solution is a quantitative equities fund which has limited tracking error versus the benchmark but provides a modest amount of expected alpha. Quantitative strategies include tight risk management processes as part of their portfolio construction, with limits on sector, country and style deviations, and are available with low fees and high liquidity. We also use low-cost passive trackers for tax-efficient investments or short-term portfolio management.

US-20231103-3210869

DISCLAIMER

Copyright © 2023, Partners Capital Investment Group LLP

Within the United Kingdom, this material has been issued by Partners Capital LLP, which is authorised and regulated by the Financial Conduct Authority of the United Kingdom (the "FCA"), and constitutes a financial promotion for the purposes of the rules of the Financial Conduct Authority. Within Hong Kong, this material has been issued by Partners Capital Asia Limited, which is licensed by the Securities and Futures Commission in Hong Kong (the "SFC") to provide Types 1 and 4 services to professional investors only. Within Singapore, this material has been issued by Partners Capital Investment Group (Asia) Pte Ltd, which is regulated by the Monetary Authority of Singapore as a holder of a Capital Markets Services licence for Fund Management under the Securities and Futures Act and as an exempt financial adviser. Within France, this material has been issued by Partners Capital Europe SAS, which is regulated by the Autorité des Marchés Financiers (the "AMF").

For all other locations, this material has been issued by Partners Capital Investment Group, LLP which is registered as an Investment Adviser with the US Securities and Exchange Commission (the "SEC") and as a commodity trading adviser and commodity pool operator with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Future's Association (the "NFA").

This material is being provided to clients, potential clients and other interested parties (collectively "clients") of Partners Capital LLP, Partners Capital Asia Limited, Partners Capital Investment Group (Asia) Pte Ltd, Partners Capital Europe SAS and Partners Capital Investment Group, LLP (the "Group") on the condition that it will not form a primary basis for any investment decision by, or on behalf of the clients or potential clients and that the Group shall not be a fiduciary or adviser with respect to recipients on the basis of this material alone. These materials and any related documentation provided herewith is given on a confidential basis. This material is not intended for public use or distribution. It is the responsibility of every person reading this material to satisfy himself or herself as to the full observance of any laws of any relevant jurisdiction applicable to such person, including obtaining any governmental or other consent which may be required or observing any other formality which needs to be observed in such jurisdiction. The investment concepts referenced in this material may be unsuitable for investors depending on their specific investment objectives and financial position.

This material is for your private information, and we are not soliciting any action based upon it. This report is not an offer to sell or the solicitation of an offer to buy any investment. While all the information prepared in this material is believed to be accurate, the Group, may have relied on information obtained from third parties and makes no warranty as to the completeness or accuracy of information obtained from such third parties, nor can it accept responsibility for errors of such third parties, appearing in this material. The source for all figures included in this material is Partners Capital Investment Group, LLP, unless stated otherwise. Opinions expressed are our current opinions as of the date appearing on this material only. We do not undertake to update the information discussed in this material. We and our affiliates, officers, directors, managing directors, and employees, including persons involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy and sell, the securities, or derivatives thereof, of any companies or funds mentioned herein.

Whilst every effort is made to ensure that the information provided to clients is accurate and up to date, some of the information may be rendered inaccurate by changes in applicable laws and regulations. For example, the levels and bases of taxation may change at any time. Any reference to taxation relies upon information currently in force. Tax treatment depends upon the individual circumstances of each client and may be subject to change in the future. The Group is not a tax adviser and clients should seek independent professional advice on all tax matters.

Within the United Kingdom, and where this material refers to or describes an unregulated collective investment scheme (a "UCIS"), the communication of this material is made only to and/or is directed only at persons who are of a kind to whom a UCIS may lawfully be promoted by a person authorised under the Financial Services and Markets Act 2000 (the "FSMA") by virtue of Section 238(6) of the FSMA and the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (including other persons who are authorised under the FSMA, certain persons having professional experience of participating in unrecognised collective investment schemes, high net worth companies, high net worth unincorporated associations or partnerships, the trustees of high value trusts and certified sophisticated investors) or Section 4.12 of the FCA's Conduct of Business Sourcebook ("COBS") (including persons who are professional clients or eligible counterparties for the purposes of COBS). This material is exempt from the scheme promotion restriction (in Section 238 of the FSMA) on the communication of invitations or inducements to participate in a UCIS on the grounds that it is being issued to and/or directed at only the types of person referred to above. Interests in any UCIS referred to or described in this material are only available to such persons and this material must not be relied or acted upon by any other persons.

Within Hong Kong, where this material refers to or describes an unauthorised collective investment schemes (including a fund) ("CIS"), the communication of this material is made only to and/or is directed only at professional investors who are of a kind to whom an

US-20231103-3210869

unauthorised CIS may lawfully be promoted by Partners Capital Asia Limited under the Hong Kong applicable laws and regulation to institutional professional investors as defined in paragraph (a) to (i) under Part 1 of Schedule to the Securities and Futures Ordinance ("SFO") and high net worth professional investors falling under paragraph (j) of the definition of "professional investor" in Part 1 of Schedule 1 to the SFO with the net worth or portfolio threshold prescribed by Section 3 of the Securities and Futures (Professional Investor) Rules (the "Professional Investors").

Within Singapore, where this material refers to or describes an unauthorised collective investment schemes (including a fund) ("CIS"), the communication of this material is made only to and/or is directed only at persons who are of a kind to whom an unauthorised CIS may lawfully be promoted by Partners Capital Investment Group (Asia) Pte Ltd under the Singapore applicable laws and regulation (including accredited investors or institutional investors as defined in Section 4A of the Securities and Futures Act).

Within France, where this material refers to or describes to unregulated or undeclared collective investment schemes (CIS) or unregulated or undeclared alternative Investment Funds (AIF), the communication of this material is made only to and/or is directed only at persons who are of a kind to whom an unregulated or undeclared CIS or an unregulated or undeclared AIF may lawfully be promoted by Partners Capital Europe under the French applicable laws and regulation, including professional clients or equivalent, as defined in Article D533-11, D533-11-1, and D533-13 of the French Monetary and Financial Code.

Certain aspects of the investment strategies described in this presentation may from time to time include commodity interests as defined under applicable law. Within the United States of America, pursuant to an exemption from the US Commodity Futures Trading Commission (CFTC) in connection with accounts of qualified eligible clients, this brochure is not required to be, and has not been filed with the CFTC. The CFTC does not pass upon the merits of participating in a trading program or upon the adequacy or accuracy of commodity trading advisor disclosure. Consequently, the CFTC has not reviewed or approved this trading program or this brochure. In order to qualify as a certified sophisticated investor a person must (i) have a certificate in writing or other legible form signed by an authorised person to the effect that he is sufficiently knowledgeable to understand the risks associated with participating in unrecognised collective investment schemes and (ii) have signed, within the last 12 months, a statement in a prescribed form declaring, amongst other things, that he qualifies as a sophisticated investor in relation to such investments.

This material may contain hypothetical or simulated performance results which have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any client will or is likely to achieve profits or losses similar to those shown. These results are simulated and may be presented gross or net of management fees. This material may include indications of past performance of investments or asset classes that are presented gross and net of fees. Gross performance results are presented before Partners Capital management and performance fees, but net of underlying manager fees. Net performance results include the deduction of Partners Capital management and performance fees, and of underlying manager fees. Partners Capital fees will vary depending on individual client fee arrangements. Gross and net returns assume the reinvestment of dividends, interest, income and earnings.

The information contained herein has neither been reviewed nor approved by the referenced funds or investment managers. Past performance is not a reliable indicator and is no guarantee of future results. Investment returns will fluctuate with market conditions and every investment has the potential for loss as well as profit. The value of investments may fall as well as rise and investors may not get back the amount invested. Forecasts are not a reliable indicator of future performance.

Certain information presented herein constitutes "forward-looking statements" which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "project", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Any projections, market outlooks or estimates in this material are forward –looking statements and are based upon assumptions Partners Capital believe to be reasonable. Due to various risks and uncertainties, actual market events, opportunities or results or strategies may differ significantly and materially from those reflected in or contemplated by such forward-looking statements. There is no assurance or guarantee that any such projections, outlooks or assumptions will occur.

Certain transactions, including those involving futures, options, and high yield securities, give rise to substantial risk and are not suitable for all investors. The investments described herein are speculative, involve significant risk and are suitable only for investors of substantial net worth who are willing and have the financial capacity to purchase a high risk investment which may not provide any immediate cash return and may result in the loss of all or a substantial part of their investment. An investor should be able to bear the complete loss in connection with any investment.

All securities investments risk the loss of some or all of your capital and certain investments, including those involving futures, options, forwards and high yield securities, give rise to substantial risk and are not suitable for all investors.