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Lazard Emerging Markets Core Equity
As of March 19, 2020

Performance covers the past two-week period, 6 March – 19 March, and is presented gross of fees, in Canadian dollar terms, and is sourced from Factset.

Performance:

- -21.7% (Desjardins EM Core) vs -20.3% (MSCI EM Index): -140 bps
- Attribution from Country Perspective:
    - Brazil (-65 bps): holdings across the consumer discretionary (C&A Modas), industrials (Azul, CCR), and financials (Banco do Brasil, BTG Pactual, IRB Resseguros) sectors detracted the most over the period
    - India (-40 bps): exposure to Indian materials (UPL, Hindalco Industries) was negative
    - South Africa (+50 bps): less exposure to South Africa, particularly 0% exposure to financial and materials companies, was helpful
    - Korea (+40 bps): no exposure to materials and industrials companies within Korea, as well as less exposure to the consumer discretionary sector, was additive
- Attribution from Sector Perspective:
    - Financials (-140 bps): Brazilian (Banco do Brasil, BTG Pactual, IRB Resseguros), Colombian (Bancolombia), and Phlippine (BDO Unibank) financial exposure was most negative over the period
    - Materials (-50 bps): Indian (UPL, Hindalco Industries) and Chinese (China National Building Materials) exposure detracted from returns
    - Industrials (-45 bps): exposure to the airline industry in Brazil (Azul) and Mexico (Grupo Aeroportuario del Pacifico) has hurt relative performance
    - Communication Services (+50 bps): exposure to Brazilian telecom services (Telefonica Brasil) and Chinese gaming/internet platforms (NetEase, Tencent) was positive

Positioning Changes:

- Recent trades in the portfolio include selling out of a Korean crude oil refiner as the collapse in oil demand has delayed the timeline of our investment thesis, and selling out of a global provider of tubular steel products to the shale gas industry. We also exited two banks within Thailand, a Taiwanese chemicals business, and a Korean consumer discretionary company on lower upsides going forward.
- We added to one Russian energy holding due to its high dividend yield even under a weaker oil and Ruble environment, as well as increased our position in a Korean semiconductor business as it continues to benefit from strong server demand, maintains a conservative capital-spending plan, and has a strong balance sheet. We also added to a multinational consumer goods company, a Polish gaming company, and a Taiwanese semiconductor foundry. We also initiated a position in a Taiwanese manufacturer of networking and communication equipment.

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PM Thoughts:

- Earnings estimates have come down significantly. Prior to the COVID-19 pandemic, 2020 earnings growth for the MSCI EM Index was between 14-15%, with earnings revisions moving higher. Recently, however, earnings revisions have turned increasingly negative. Earnings growth estimates for the MSCI EM Index are now at 0% for 2020 with the sharpest declines across the energy, materials, and consumer staples sectors.
- Emerging markets depend on growth, and the economic growth premium was expected to begin to move back into EM's favor over developed markets this year. That has likely been delayed until the latter half of this year or potentially 2021. Similar comment for earnings growth – earnings growth was expected to recover this year and exceed the earnings growth of the developed world, but that recovery has been delayed.
- PMI figures had also been increasing prior to the spread of COVID-19 with more than 50% of economies registering improving manufacturing PMI and new order figures over the previous month. While China's February's manufacturing PMI figure dropped significantly, it will be crucial to monitor the recovery in the coming months as the spread of COVID-19 throughout the country has slowed and as production has resumed with capacity over 90% for China's major industrial enterprises (ex-Hubei province).

The MSCI Emerging Markets Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of emerging markets country indices including: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

The index is unmanaged and has no fees. One cannot invest directly in an index.

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