NEW FRONTIERS EQUITY

Commentary 30 September 2020

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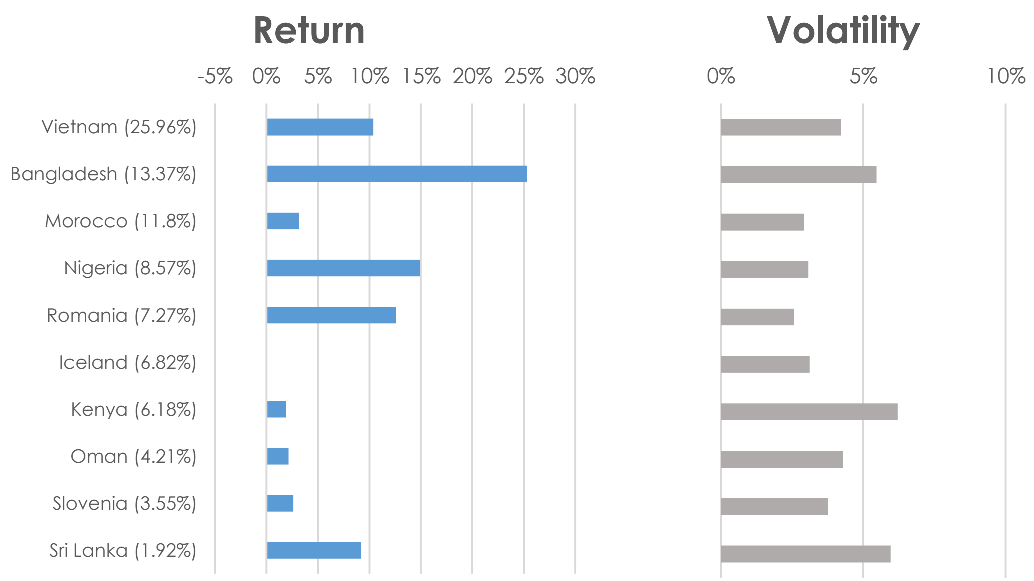
In the third quarter of 2020, the fund returned 6.91% compared to 8.65% for the benchmark (FTSE Frontier Index).

Towards the end of the second quarter of 2020, our proprietary model assessing investment flows signalled to increase the exposure to Frontier Equity Markets. This has allowed us to position our portfolio and therefore to participate to the rebound occurred in Frontier Markets after the deep correction due to the COVID-19 crisis.

It is worth noticing that the positive performance registered by Frontier Markets has not been driven by just a few heavy-weighted countries, but it added up from almost all FTSE Frontier Index constituents. Figure 1 shows returns and volatilities for the top 10 weighted countries within the FTSE Frontier Index (accounting for roughly 90% of the Index) over the third quarter. Even more important is that the growth has proved to follow a fairly stationary trend over the last months. This is a confirmation that institutional investors have identified a good entry point in these markets, which in other terms, means they are putting a constant buying pressure on them.

Figure 1: 3Q20 returns and volatilities for the top 10 weighted FTSE Frontier Index constituents



Note: Data based on 1-month rolling returns over the quarter 30/06/2020-30/09/2020. Numbers between brackets represent countries' weight within FTSE Frontier Index as of 31/08/2020.

Source: Bloomberg, FTSE

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Frontier Markets companies have maintained approximately the same growth as before the pandemic broke out, and in turn, they are now cheaper than in many years. From an investor's point of view, it means an excellent opportunity to buy long-term stable returns at a very attractive price.

During September we increased our exposure to Pakistan, which has surprised positively in its macroeconomic updates and has been attracting significant investment flows. Also, low valuations offered us the opportunity to add interesting names in the Middle East at discounted prices.

From a socio-political point of view, it is important to remember that Frontier Countries are amongst the ones to have better addressed the pandemic, while many developed markets are either still struggling or about to face new forms of lockdowns. This, along with a low or negative interest rate environment, expected rising inflation and political uncertainty in key developed countries, makes Frontier Markets a good diversification option for investors who are becoming increasingly concerned by stretched valuations in developed markets.

Given these premises, we are confident that Frontier Markets will keep providing excellent investment opportunities over the next months.