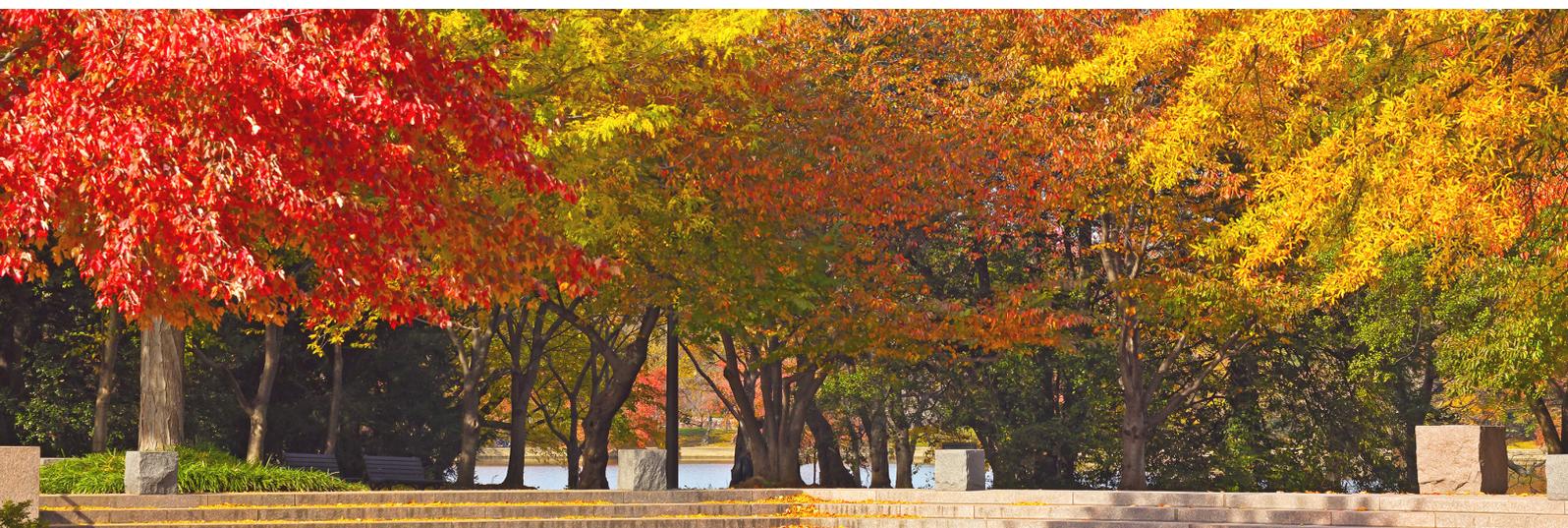


The First Hundred Days - An engagement update

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Despite whipsawing global markets, our engagement traction with portfolio companies continues to build momentum. Our opportunity set remains in rude health – companies are awash with cash whilst valuations have corrected meaningfully. Our Active Engagement approach, which seeks to unlock hidden value in partnership with portfolio companies, offers a potent lever to drive forward returns.

‘The First Hundred Days’ leans on historical symbolic significance of what the future might look like. Assessing our first three months, we are encouraged by a number of meaningful engagement outcomes. However with clear inbuilt latency in the portfolio, we are even more excited about what’s next to come.



The important role of true Active Management

As we have articulated before¹, true active management must be much more than active share and style biases. For us, active management must fully integrate the tool of engagement across the portfolio to unlock as well as drive greater market recognition of that fundamental value. Our approach focuses on investing exclusively in emerging market companies for which potential change through engagement is central to the investment thesis. The focus on ‘change’ is critical. Not only does it imply a business is underestimated, and hence undervalued, but it is also close to impossible to replicate through passive strategies since they are by nature backward looking.

We’ve further argued² that investors must remain vigilant about a potential novel form of ‘engagement-washing’ emerging. We believe Active Engagement should remain the central driver of a business’ investment thesis and return profile, rather than an afterthought once something has gone wrong. It should be deployed across the portfolio rather than in portfolio pockets on a case by case basis. Bespoke action plans should be crafted that address the most material issues to unlock hidden value and drive greater market recognition of it, rather than a singular reliance on proxy voting.

Franklin D. Roosevelt coined the term ‘The First Hundred Days’ in 1933. It helped benchmark political progress aimed at resolving the significant problems facing the United States. It has since been adopted by a long list of political figures – with varying degrees of success – to help measure their early accomplishments. Having completed our first three months, we are encouraged. But with clear latency existing in our portfolio today, we are even more excited about the coming period ahead.

¹<https://gibam.com/insights?asset%5B%5D=emerging-markets&year=>

²<https://gibam.com/insights/active-engagement-activism-our-roadmap-for-driving-more-impactful-change>

Engagement in progress - The First Hundred Days

Our first hundred days have been productive with some important engagement outcomes materialising. Our engagement process with companies is typically a 36 month process and begins prior to our point of initial investment. We believe that each incremental step compounds to help drive the wider company transformation. We have outlined some highlights below:

One of our portfolio companies, **an Indian consumer business**, has seen its valuation dampened by a complex group structure with multiple cross holdings despite clear franchise strength. Our engagement has focused on simplifying this structure alongside seeking to unwind these cross holdings, a move which we believe will lower the company's implied cost of capital. Following our engagement, shareholders have voted for a motion put forward to address this. The impact has been a positive share price reaction as the market ingests a 10% net profit uplift through positive synergies and a lower implied cost of capital.

Another Indian portfolio company, **a digital engineering and technology IT services business**, had seen its valuation impaired due to ownership of an underperforming non-core, capital intensive product manufacturing unit. Our engagement focused on encouraging the company to divest from this venture and to use the proceeds to scale up and reinvest into the Sales function of their core business. By doing so, we believe that the company can increase its long term compounding power and unlock shareholder value. Since engaging with the company, they have recently announced their intention to partially divest from this business. This has been met with a positive reaction from the market and sell side coverage.

In Brazil, a **manufacturing business in the Industrials sector** had set ambitious GHG emission reduction plans which we encouraged to be included as a key metric for determining management variable compensation. Following our engagement, the company has incorporated and structured these targets into management's bonuses. We believe that this aligns incentives with their wider Sustainability strategy and can help drive lower their market implied cost of capital over the longer term. The company has been a top three contributor to the fund's attribution since inception.

Engagement with one of our portfolio companies, **a South African pharmaceutical retailer**, has focused on formulating a more ambitious medium-term growth plan. We believed that the company's lack of urgency put them at risk of missing attractive opportunities both domestically and abroad. We believe that a more ambitious and clearly articulated reinvestment plan would improve the long-term compounding power of the business. Following our engagement, we were encouraged to see the company re-address its reinvestment priorities and recently increased its store expansion plan from 900 to 1,200 stores. This resulted in a strong market reaction following earning upgrades.

One of our other **South African portfolio companies is a global consumer internet group**, and one of the largest technology investors in the world. Our engagement with this company has focused on addressing their NAV discount, which at the time of investment was well above its 10-year average. To address the discount, we suggested that management compensation be linked to discount metrics such as NAV growth per share. We further suggested that the company reduce its holdings in certain investments in order to use the proceeds to initiate a significant buyback program. We believe that these steps would increase the long-term compounding power of the business. Following our engagement, the company has made progress on both initiatives with our interaction focusing on other areas of discount management. The share price saw a very sharp rally following the announcement of these changes.

The deep market correction in China this year has thrown up a number of attractive bottom up opportunities, with clear engagement upside. One of our holdings is **a Chinese semiconductor manufacturer** operating in the image sensor market. Our engagement has focused on improving ESG disclosure and encouraging the company to produce a Sustainability report.

We believe doing so would enable the company to benefit from a lower implied cost of capital over time. Since becoming a shareholder, the company has taken on a number of suggestions and released an ESG report. It has subsequently been upgraded by MSCI ESG with a target of multiple upgrades ahead.

Since becoming shareholders of a leading **Chinese IT software and solution supplier for financial institutions**, we have been engaging with them on a variety of governance and capital allocation issues. The company has negligible English reporting and limited ESG disclosure, and holds an inefficient amount of cash on its balance sheet. Accordingly, our engagement has focused on addressing these issues. We believe addressing both areas will help increase both the long term compounding power of the business and lower its implied cost of capital. Since beginning our engagement process, we have seen the company take actions to address all three of these concerns: increasing the level of English reporting, a separate ESG report and initiating a buyback program.

Turbulent market conditions and a challenging inventory adjustment cycle has meant that one of our companies, **a Taiwanese semiconductor design businesses**, has seen its share price fall materially. Given the strength of the business, we believe that this is an opportunity for the company to initiate a significant share buyback program and put to work the large amount of cash on its balance sheet. We believe that this is an efficient use of capital given market conditions, and a move which will increase the long term compounding power of the company. Since becoming shareholders, the company has announced a buyback program which was met favourably by the wider market.

And finally, our engagement with **an Indonesian food and beverage business** has focused on raising governance practices in line with best-in-class global peers. By incorporating better perceived governance structures, we expect the company to benefit from a lower implied cost of capital. Since engaging with the company on the topic of diversity, they have added their first female director to the Board, an important initial step within our wider Governance plan for the company.

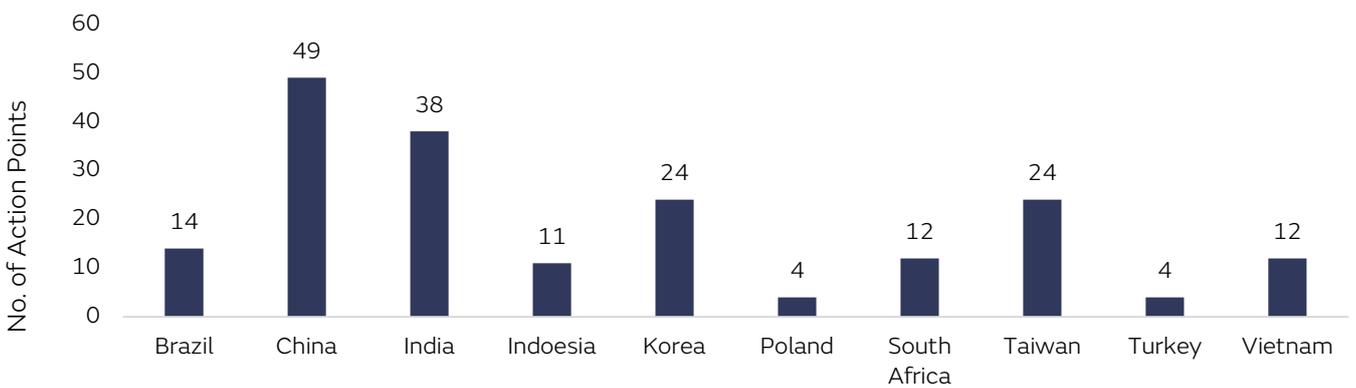


Looking beyond the First Hundred Days - What's next?

There is much to do. As we move into 2023, we are excited about the 'trapped' shareholder value that exists in the portfolio and the engagement steps ahead to unlock it. This latency, when combined with the increasingly interesting wider emerging market opportunity, has the potential to be a foundation of strong forward returns to come.

On a portfolio level, our engagement Action Points (192 Action Points in total) focus on an improvement in Disclosure (21% of portfolio Action Points), Governance (34%), Human Capital (3%), Strategic Capital Allocation (31%) and Sustainability (11%). From an impact perspective, 44% of Action Points seek an improvement in compounding power, whilst 56% of items focus on reducing the business' market implied cost of capital. Combining an improvement in compounding power alongside reducing a company's market implied cost of capital is central to re-rating the justified valuation multiple. On a country basis, China and India dominate with 49 and 38 Action Points respectively.

Summary of our Engagement Roadmap



Source: GIB AM Analysis

Whilst history judged Franklin D. Roosevelt's First Hundred Days favourably, not all equivalent periods have passed so auspiciously. John F. Kennedy ordered the ill-fated Bay of Pigs invasion 87 days into his Presidency; Gerald Ford fully pardoned Richard Nixon for his Watergate involvement after a month with problematic consequences; whilst the less said about Liz Truss and her roadmap for 'unorthodoxy', the better.

But with a portfolio of companies defined by receptive and increasingly well aligned management teams, we are increasingly hopeful that this period passed foretells promise ahead.

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