EMERGING WEALTH STRATEGY MONTHLY SUMMARY
APRIL 2019

RECENT PERFORMANCE Period Ending 4/30/2019	MONTH	YTD	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION (3/31/2011)
GW&K Emerging Wealth Composite (gross)	5.8%	26.1%	3.5%	15.9%	7.2%	5.7%
GW&K Emerging Wealth Composite (net)	5.7%	25.7%	2.5%	14.8%	6.1%	4.7%
MSCI Emerging Markets Index	2.1%	12.2%	-5.0%	11.3%	4.0%	1.4%

Performance returns are based in USD ($) and annualized. Please reference Disclosures for additional details.

The GW&K Emerging Wealth Composite (the "Composite") return before investment management fees and expenses was +5.8% in USD for the month of April. This outperformed the MSCI Emerging Markets Index (MSCI EM) which had a return of +2.1% in USD for the month. For the year to date, the Composite return was +26.1% which outperformed the MSCI EM return of +12.2%. The trailing one-year return for the Composite was 3.9% compared to the MSCI EM return of -5.0%.

On a sector basis in the month of April, positive relative stock selection in the Information Technology sector was the largest driver of outperformance versus the benchmark. Also contributing to positive relative performance was our selection in the Financials, Consumer Staples and Industrials sectors and underweight positions in the Energy, Materials, Utilities and Real Estate sectors. Partially offsetting these positives was the underperformance of holdings in the Consumer Discretionary, Communication Services and Health Care sectors. Geographically, exposure to developed market domiciled holdings added value to relative performance. Within emerging market domiciled holdings, Latin America added value, particularly stock selection in Mexico and an underweight allocation to Brazil. Also within emerging markets, it was the portfolio's holdings in China that added the most value, more than offsetting the underperformance of holdings in India. Finally, within the EMEA region, an underweight allocation in South Africa detracted slightly from relative performance for the month.

We highlight the largest relative contributors and detractors to performance, and stocks that were added or eliminated from the Composite during the month, below. We continue to see the Emerging Wealth Composite fundamentals improving in terms of corporate earnings growth and believe current valuation presents an opportunity to increase allocation. We continue to observe solid earnings growth from the vast majority of Composite holdings and continue reviewing diligently those cases where evidence is coming in differently from our original investment premise. Our full commentary is below.

Top 5 Absolute Contributors:

- **Qualcomm –** The shares performed well after the company settled on favorable terms with Apple setting the stage for a resumption of growth as 5G is rolled out globally.
- **Infineon –** The shares performed well recovering from an over-reaction in late March to reduced guidance. Design wins on electric vehicles provides a strong secular outlook that offsets near-term weakness.

- **Sands China –** The shares performed well with steady improvement in Macau and constructive actions by the government to extend gaming licenses. Sands is very well positioned in Macau focusing development on the mass market which is consistent with government objectives for Macau.
- **Ping An Insurance –** The shares performed well after reporting operating profit growth in excess of 20%. Ping An is well positioned for growth in life insurance, banking and healthcare in China.
- **Kweichow Moutai –** The shares performed well after reporting strong quarterly results indicating that underlying demand is very healthy.

Bottom 5 Absolute Detractors:

- **Samsonite –** The shares were weak as recent guidance suggests earnings growth is challenged near-term.
- **Make My Trip –** The shares were weak in the wake of Jet Airways bankruptcy that could slow volumes on airfares. Company continues to be well positioned in the air travel market.
- **LG Household and Health –** The shares were weak after strong performance year-to-date. The business is performing well with high-end cosmetics growing well in excess of 30% in China.
- **Zee Entertainment –** The shares were weak due to limited near-term visibility on which company will partner with Zee for future development. Content value and production capability position the company well for long-term growth in India.
- **iQiyi** - The shares were weak due to proposed regulatory restrictions on content which could disrupt the near-term schedule.

Purchases:

During the month, we purchased Shoprite Holdings, a well-managed supermarket chain operating in South Africa. The company is positioned for growth in Sub-Sahara Africa as those economies shift from informal to formal structure in the years ahead. Earnings have been challenged near-term due to weakness in the South African economy, which we believe presents an opportunity.

Sales:

There were no sales for the month.

Additional Commentary from Portfolio Managers, Tom Masi and Nuno Fernandes:

Emerging Markets- A Brighter Outlook?

The MSCI EM returned +2.1% in USD in the month of April. For the trailing year, the MSCI EM Index has returned -5.0% in USD. After a challenging trailing twelve months investors are beginning to look over the horizon in 2019. The year has started well. The Federal Reserve shift in stance on interest rates in response to slower growth and minimal inflation has brightened investor spirits globally, which continued through April. Interest rates have moved lower, mitigating concerns about a slowing global economy. In Emerging Markets this shift, combined with progress on trade negotiations and China stimulus, has caused investors to view the asset class more favorably and focus on the long-term growth potential. Emerging market equities continue to trade at an attractive valuation level relative to history and relative to developed markets, which with a dovish stance from the US Federal Reserve on interest rates, will continue to support positive equity markets for the rest of the year. It is our opinion that the combination of low valuation and the potential for improving earnings visibility as the year progresses bodes well for emerging market equities for long-term investors. After a challenging 4Q18 earnings season among companies in MSCI EM index, we have started 1Q19 with an improvement in reported earnings, yet it is too early for conclusions. As for our Emerging Wealth portfolio, we continue to expect 15% earnings growth for 2019 followed by 12% growth in 2020.

Constructive Environment for Emerging Market Equities continues but dependent on several factors

We continue to see signs that emerging market economies, particularly those of Asia, will grow more rapidly than developed market economies and we continue to expect the gap to widen in the years ahead. Increasingly, worldwide consumption will be driven by China and India and will dwarf the United States in terms of world consumption in the relatively near future. We believe inflation will remain subdued in EM economies and that currency risk has been greatly reduced after five years of material underperformance that came to an end in 2015. Valuation continues to be attractive with the MSCI EM trading at 11.5x earnings growth of between 5%-10% expected for 2019.

Emerging Market Equity valuations very attractive

The trailing twelve-month earnings yield of emerging market equities (7.4%) minus developed market equities (5.5%) is 1.9% this month. This is above the average of 1.8% since 1995, suggesting upside potential for emerging markets should short-term concerns subside. Considering the operating leverage still available in emerging market companies, we believe the stage continues to be positively set for emerging market equity performance on an absolute basis and relative to developed market equities over the next three to five years. We believe emerging market equities offer better top-line growth and operating leverage as we are now in the fourth year of corporate margin expansion. Outperformance relative to developed markets could be material in the years ahead particularly for companies exposed to rising per capita income. These companies represent the core of our holdings in the Emerging Wealth Composite.

There is risk

Risks are still centered on trade negotiations between the U.S. and China, on the pace of the rebound in the Chinese economy following monetary and fiscal stimulus in the last twelve months, and to specific elections in 2019, namely India, which are currently ongoing. We expect continued challenges in countries like Brazil, Turkey and South Africa where the pace of reform is stalling. These challenges will be more than off-set by rising middle class income in large population centers – China, India and South East Asia. We believe the US and China will eventually come to a compromise and a new trade deal which will reduce uncertainty in the business community and capital markets will likely respond favorably. Overall, and considering our continued constructive view of the earnings cycle in emerging markets, we see pockets of volatility in markets and interest rates as opportunities for investment in attractive franchises and recommend investors lean in and increase their overall weight to emerging market equities.

Emerging Wealth – Since inception of the Strategy (March 2011)

In the first five years of the Strategy, we were concerned about fundamentals in emerging markets. We noted many times that emerging market valuation was attractive, but not necessarily compelling given the deterioration in fundamentals from very high operating margins. Thus, we had a more cautious view in our stock selection. In early 2016, we observed that the fundamentals in emerging markets were improving after a five-year earnings recession. On a bottom-up basis, we noticed the fundamentals improving in many of the companies we follow closely, and we increased our allocation to best-in-class companies selling at reasonable valuation levels. We are continually testing our expectation for further operating leverage. We remain encouraged by developments in China, which appears to continue to be in a transition phase from dependence on fixed asset investment and exports to consumption-led growth. Volatility around elections in India may provide an opportunity to increase our position in best in class businesses.

Post Script: Notable Research Reports

While our focus is on bottom-up investing, and we place more emphasis on the evidence at the company level and reported numbers as opposed to estimates of future growth, we do from time to time see interesting reports that are worth mentioning and we have highlighted one such report below. Although written a couple years ago, we believe the piece below is in certain senses timeless as it captures important facets of Chinese consumption that will be in place for the next ten years.

- Research Report: *Five Profiles That Explain China's Consumer Economy* **The Boston Consulting Group/AliResearch Institute, Jeff Walters, Hongbing Gao, Vivian Hui, Angela Wang, Jian Yang and Zhibin Lyu, June 2017**

This group of authors gives us an in-depth understanding of five emerging consumer profiles in China: the savvy shopper, the single person, the eco-conscious consumer, the passionate trend seeker, and the connected consumer. The report also reviews the intensity of the economic shift in China towards consumption and the role of a truly connected society facilitated by mobile internet penetration and cheap data.

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Disclosures:

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