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December 2019 – A Sino-US trade truce for a year-end rally!



In December, emerging markets recorded strong performance (+5.6% in €, +7.5% in \$), outperforming the US market (S&P +0.9% in €) and European markets (Stoxx 600 +2.1%). Over the whole year, emerging markets delivered decent performance: +21% in € vs. S&P at +31% and Europe +23%. Amongst emerging markets, Russia, Brazil and China increased over 30% while Argentina, Chile, Poland, Turkey and ASEAN underperformed. We applaud the good performances of index heavyweight stocks: Alibaba +55%, TSMC +47%, Samsung Electronics +44% and Tencent +20%. As the year ends, international investors reassured by the US-China Phase One trade deal have returned. With this initial agreement, Donald Trump shall not threaten with new tariffs in the short term which is good news. This normalization of Sino-US trade relationship should, in our opinion, enable the dollar to reverse its upward trend (see chart on the left) which is another positive factor for emerging markets. In this context, EM growth could accelerate in 2020 (return of confidence, re-stocking, introduction of 5G, ongoing monetary easing). This environment is therefore positive for equities. After recording a 8% decline in 2019, corporate earnings should grow again, especially in the technology sector.

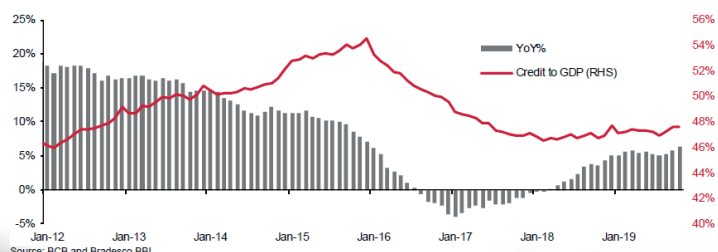
Stock Focus: Bradesco (assets of \$325bn, revenue of \$25bn, market capitalization of \$65bn, 2% of GemEquity)



Bradesco is the second largest private bank in Brazil with \$325bn assets and a \$90bn loan book. Brazil is 100% of Bradesco revenue. Founding family Aguiar controls 16.7% of capital. In 2016 it acquired HSBC Brazil for \$5.2bn. The bank counts 4,600 branches in Brazil and 42M clients. 48% of net revenue come from financial intermediation, + 9.5% yoy as of 9M19. Loan book is composed as follows: 38% individuals (+19% yoy as of 9M19), 43% large corporates (+5%) and 18% SMEs (+8%). Thanks to the mix, Core NIM has been sustained at 7%.

Year 2019 is marked by various digital initiatives. The bank launched its online banking offering under the brand NEXT. It reached 2M clients, of which 80% non-account holders of Bradesco. In addition, Bradesco has so far been the largest deployment of IBM-WATSON banking system globally. This AI-enabled platform should help the bank to better know their clients and adjust offerings accordingly.

Bradesco generates 36% of its net revenue from commissions, performing poorly as of 9M19 at +2.5% yoy. Compared to Itau, asset management has been underperforming in 2019, mainly due to lack of internal equity funds, but they recently shifted to open platform structure. The bank commands 24% of insurance premia in Brazil. Insurance, pension funds and bonds grew +14% yoy as of 9M19 to 16% of net revenue. YTD net recurring income grew +22.3%. Operating expenses have been pressured by voluntary departure program (3,500 people) and branches



closure. Management is confident the trend will reverse in 2020. We like bank's social policy: employee turnover is low at 10%, 51% of employees are women and 26% are black people.

Fund performance

In December, GemEquity rose 6.2%, outperforming its index, the MSCI Emerging index (dividends reinvested), which rose 5.6% in €. **Over the year, GemEquity delivered 28.8% in €, outperformed its index by 8.2%.**

Over the month, our underweight of small Latam markets and South Africa have slightly affected our performance. However, our underweight India and the Asean region and especially our overweight China, Brazil and Russia have contributed in a positive manner. We note the strong performance of **Tencent** which has partially caught up with its 2019 underperformance.

Fund positioning

Over the month we further increased our **technology exposure to 22.6% of the fund** and have therefore increased our exposure to South Korea (from 10 to 12.5%). **Samsung Electronics** and **SK Hynix** account for 9.1% of the portfolio on a combined basis. In South Korea, we have also initiated a position in steel maker **POSCO** (1.4% of GemEquity), which further increased our cyclical exposure. As a matter of fact, we expect Chinese demand for steel to increase in 2020. POSCO seems to us the best steel player, especially from an ESG perspective. Also, as a part of cyclical exposure, we increased our banking positions: **Sberbank** in Russia, which is now 2.5% of fund and both **Itau** and **Bradesco** in Brazil (4% of GemEquity on a combined basis).

In order to finance these purchases, we took profit on Chinese growth names, such as Kweichow Moutai (closed the position), Wuliangye and Foshan Haitian (halved investments). We have also reduced our investment in the Chinese insurance sector. As a result, our exposure to China has been cut from 37.5% to 35.7%.

The cash balance at 1.4% (vs. 3.4% at the end of August) has largely been reduced over the last couple of months. GemEquity is now 98.6% invested (65% in growth stocks and 34% in cyclicals).

				Valuation		
2019 PER (X) :		25.4	2019 EPS growth (e) :		20.8%	
2020 PER (X) :		19.5	2020 EPS growth (e) :		22.1%	
Dividend Yield :		2.0%	(based on Bloomberg consensus)			
				Performance		
	1 Month	YTD	1 Year	3 Years	5 Years	Annualized since inception
I-share (€)	+6.2%	+28.8%	+28.8%	+38.6%	+63.7%	+8.6%
R-share (€)	+6.1%	+27.7%	+27.7%	+35.1%	+56.6%	+7.7%
Index (€)	+5.6%	+20.6%	+20.6%	+30.5%	+42.1%	+5.7%
Category (€) (*)	+4.5%	+21.6%	+21.6%	+23.8%	+30.3%	+4.4%
I-share (\$)	+7.9%	+26.5%	+26.5%	+49.0%	+53.4%	
R-share (\$)	+8.0%	+25.4%	+25.4%	+43.7%	+45.9%	
Index (\$)	+7.5%	+18.4%	+18.4%	+38.9%	+31.4%	
Statistics - GemEquity I-share (3 years in €)						
GemEquity Volatility		14.4%	Beta	1.03	Tracking Error	3.80
Index Volatility		13.5%	Alpha	+1.3%	Info Ratio	1.23
Sharpe Ratio		0.96	Annualized		Source : Bloomberg	

(*) Bloomberg BAIF UCITS OEF EMKT EQ: This index represents the average of emerging market equity funds. GemEquity is UCITS compliant. (***) Risk-free rate used in the Sharpe ratio: 10 years German Bund. The index is the MSCI Emerging Market Index (divident reinvested). GemEquity is primarily invested in equities and presents a risk of capital loss. Past performances do not guarantee future performances. This document, intended for professional investors, is not of a contractual nature. It may not be reproduced, distributed or passed on to third parties in whole or in part without the prior written authorisation of Gemway Assets SAS. The purpose of this document, which is commercial in nature, is to inform investors of the fund's characteristics in a simplified way. For more information, please refer to the KIID or consult your usual contact. Management fees are included in the performance. In Switzerland, the Fund has appointed as Swiss Representative Oligo Swiss Fund Services SA, av. Villamont 17, 1005 Lausanne, Switzerland, Tel: +41 21 311 17 77, email: info@oligofonds.ch. The Fund's paying agent is Banque Cantonale de Genève. In respect of the Shares distributed in or from Switzerland, the place of performance and jurisdiction is Lausanne (Switzerland).