

KING IRVING Sura Pacific Alliance Fund

Quarterly Update: October - December 2019



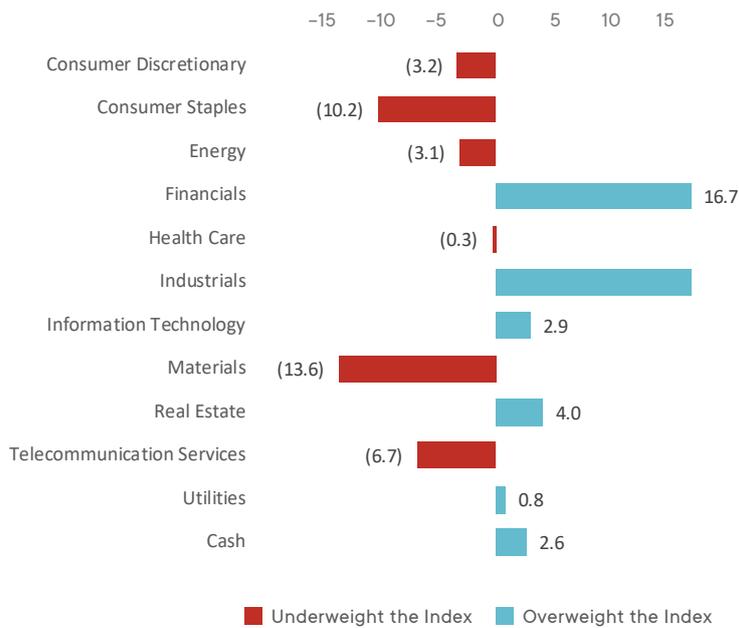
KING IRVING
FUNDS MANAGEMENT

Performance % December 31 2019 in AUD ¹	3 mths	6 mths	1 year	2 years	3 years	Since Incep
Fund Performance	-0.07	0.60	9.22	2.96	7.92	4.83
Index ²	-0.37	-0.87	7.14	0.98	5.32	3.65
Outperformance	0.30	1.47	2.08	1.98	2.60	1.18

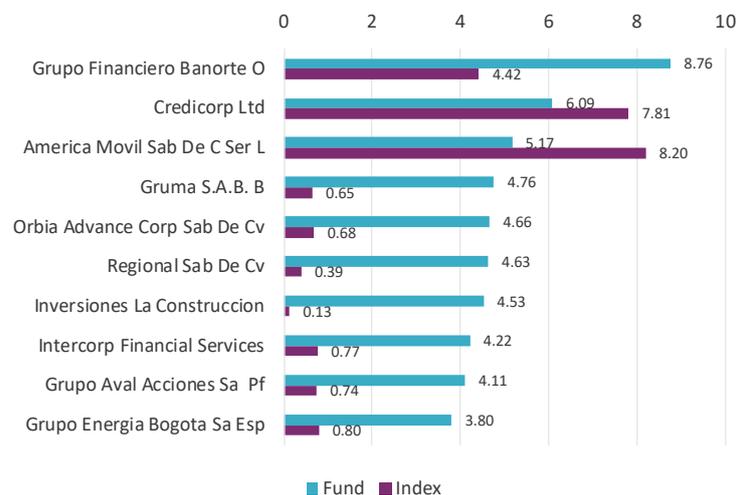
Fund Information

Asset Class	Emerging Market Equities
Inception Date	3 September 2015
Fund Size AUD	\$36m

Sector Allocation vs Index %



Company Allocation vs Index %



Fund Performance

For the three month period to 31 December 2019 the Fund returned -0.07%, this was 30 basis points above the Index. Financial markets experienced continued headwinds during the quarter and in the region both Chile and Colombia faced domestic social unrest. A more solid footing was evident by the end of December.

Sector Allocation versus Index

The Investment Manager, Sura's, fundamental analysis of the companies within the investable universe delivers a portfolio that is relatively benchmark unaware. At the close of the quarter the Fund was more than 10% underweight in Consumer Staples and Materials. The allocation to Industrials is near 10% overweight and the Fund holds a 41% allocation to the Financials Sector – up 5% over the quarter and more than 16% above index weight.

The increase in the Financial Sector holdings was across three stocks; **Banco De Credito E Inversion** and **Inversiones La Construccion** which are both Chilean companies as well as the purchase of around 50,000 additional shares in the Fund's largest holding Mexican **Grupo Financiero Banorte O** around the end of October.

Top Ten Holdings

The Fund is holding five Financial, two Utilities, and one each in the Industrials, Consumer Staples and Telecommunications sectors in the top ten. The five Financial holdings account for 28% of the Fund's assets.

Sustained buying in Financial sector holding **Inversiones La Construccion**, during the quarter, resulted in the addition of 66,000 new units and the stock now the seventh largest in the Fund. The Inversiones La Construccion business primarily involves life insurance as well as pensions, banking and health care. The company listed on the Chile's Santiago Stock Exchange in 2012 and was the country's largest IPO.

Overall the top ten account for 50% of the Fund's assets and are made up of companies from all four of the Pacific Alliance nations. Only three of the Fund's top ten stocks appear in the top ten for the index – demonstrating the Fund's commitment to conviction testing independent of the benchmark holdings.

Fund Commentary

The Pacific Alliance finished the quarter and the year with a solid December. The agreement between China and the US to bring to a halt their ongoing trade war and the Conservative Party's win in the UK election has bought some much needed respite after an uncertain start to the quarter. This long-awaited news drove sentiment and performance for the Pacific Alliance nations, Colombia and Chile, as investor confidence returned to the market.

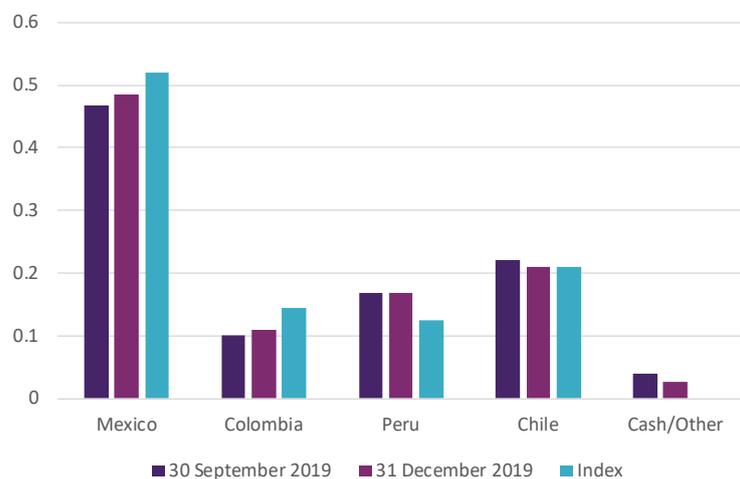
The Telecommunications sector was a solid performer during the quarter while the Fund's negligible allocation to in Consumer Discretionary helped insulate the portfolio from a challenging quarter in that sector.

There are currently 39 holdings in the King Irving Sura Pacific Alliance Fund: four Colombian holdings, five in Peru, 12 in Chile and the remainder invested in Mexico. The Fund has \$36 million under management. The Cash holdings are currently around 2.5% down from 4%, off the back of 24 buy trades across 12 different stocks during the three month period.



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Country Allocation %



Market Commentary

Mexico

A continued shift towards expansionary monetary policy in an effort by central banks to promote spending and avoid stagnation was evident at the beginning of the quarter. The Mexican central bank has reduced rates four times during 2019, including twice during the fourth quarter. The reductions were 25 basis points each and the rate now stands at 7.25%.

During the first part of the quarter investors shied away from Emerging Market economies and sought higher returns from more developed markets. This led to a moderate outflow of assets from the Mexican share market. In line with this growth projections for Mexico were also revised down.

During the last month of the year, the Mexican Stock Market had a positive return, mainly driven by the improvement in commercial tensions between China and the United States, which led to a reversal of the trend from earlier in the quarter, and an increase in demand for quality Emerging Market assets.

While the expectation for growth is subdued, the improvement in terms of local economic activity, greater business confidence and better levels of investment, along with advances in the ratification of NAFTA 2.0 (USMCA) and resolution of both Brexit and the US/China trade dispute, wraps up the quarter on a positive note.

Chile

In Chile the market lost ground in October and November in response to the student protests and subsequent social unrest that began in the middle of October. The protests were initially in response to an increase in public transport fees and expanded more broadly into general strikes.

Investors were unsettled by these events given Chile's standing as a stable emerging markets democracy. The increased perception of risk led investors to demand a higher risk premium, and macroeconomic figures began to reflect the unrest to the extent that the GDP forecast for 2019 was revised down to 2.2%.

In December of 2019 the Chilean stock exchange rebounded strongly in line with the behaviour of global markets. Investor flows returned and the protests decreased considerably in relation to the previous months. The Chilean Peso also performed well.

When and how President Piñera enacts his promised social reforms – to better distribute wealth and opportunity for all Chileans – will inform the markets for the coming year.

Colombia

Colombia has also seen protests during the December quarter with large numbers of people attending marches in the capital, Bogota. The protest organisers were pressing for talks with President Iván Duque to discuss their demands.

Despite the current internal unrest, from an investment viewpoint the bigger picture for Colombia is that it remains one of the most attractive markets in the region. The economic fundamentals continue to show good performance and growth expectations heading into the new decade. This was evident in December when the Colombian market had one of the best performances in the region.

Peru

In November the Peruvian Central Bank cut the official interest rate by 25 basis points to 2.25%. This was the second rate cut for 2019 and follows the trend of many central banks in pursuing expansionary monetary policy to stimulate investment and discretionary spending. December also saw resolution to some of the global issues that had been tying investors hands, as discussed above.

The combined outcome was some confidence returning to the share market with Construction, Mining and Utilities all benefitting, the Financial sector was down for the month.



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Quarterly Comment

The 'new' new NAFTA spells good things for Mexico and the Pacific Alliance.

December was a busy month for progress on trade in key areas across the globe.

- China and the US agreed to a 'phase one deal' to bring to a close the extended period of trade tensions between the two nations.
- Boris Johnson and the Conservative party won the UK election, and the mandate to get Brexit done.

And importantly, on 10 December, the long-awaited new incarnation of NAFTA was signed at the Mexican Presidential Palace by top officials from the United States, Canada and Mexico.

Canadian signatory, Deputy Prime Minister Chrystia Freeland celebrated a win for multilateralism. *"We have accomplished this together at a moment when, around the world, it is increasingly difficult to get trade deals done,"* she said.

The US, Mexico, Canada Agreement (USMCA) will replace the 25 year old NAFTA once it is ratified by the three member countries.

The process is now complete in Mexico; the US House of Representatives has given its approval; and the US Senate and Canadian Parliament are both expected to complete their ratification in early 2020. Once this is done the USMCA will go into effect 90 days later.

"In Mexico, we did our part... Now it is up to the congresses of the United States and Canada to do the same. This is good news," Mexican President Andres Manuel Lopez Obrador said.

A North American trade pact for the 21st Century

Many of the original NAFTA provisions will continue under the new agreement.

Some of the changes include:

- updates to intellectual property, including new terms for digital trade
- increases to the duty-free dairy trade between the US and Canada
- expansion of labour and environment provisions
- changes to the requirement for North American content and minimum wage rules for the car industry.

Mexico introduced new labour laws on 1 May 2019 as part of its obligations for the new USMCA framework. Mexican workers now have the right to participate in collective bargaining and input into wage/labour contract negotiations.

While this provision, in effect, forced the hand of the Mexican Government, the outcome of wages growth and better conditions for workers over time, should help drive consumer confidence and spending. At a more macro level the ratification of the new agreement brings some certainty to the market and should see a new period of investment and growth for the Mexican economy.

Mexico's undersecretary for North America, Jesús Seade, said that this act closes a chapter of political and economic uncertainty not only for Mexico, but for the whole region.

The Mexican Peso and the benchmark stock index were both up in December after news of successful talks and of the signing.

Mexico surpasses Canada as the United States largest trading partner

In 2019 Mexico became the United States largest trading partner. Trade between the two countries totalled US\$617.9 billion for the year, with Canada just behind. The trilateral USMCA accounts for more than US\$1.2 trillion in annual trade.

Of note, the balance of trade between Mexico and the US is around US\$100 billion in Mexico's favour for 2019. The strong trade result for Mexico was further supported by the tariff war between China and the US which continued through 2019. US businesses looked to other markets for labour and manufacturing as the situation with China wore on.

For the **Pacific Alliance** the free trade agreement between Colombia, Chile, Peru and Mexico means the whole region can benefit from the resolution of the USMCA uncertainty and Mexico's strong trade position with the US.

United States - Main Trading Partners 2019





KING IRVING Sura Pacific Alliance Fund

About The Fund

The King Irving Sura Pacific Alliance Fund offers wholesale Investors a high performing Emerging Markets capability, which is under-represented in Global Emerging Markets portfolios due to a lack of local knowledge and presence. Portfolio construction aims to provide downside protection in times of turbulence. The Fund is suitable for use as either a high performing GEM satellite to a GEM capability and/or to counteract risks associated with other Emerging Market regions (eg Asia).

The Investment Objectives

To provide investors with high growth and some income over the medium to long term by investing in equities of companies located in the fast growing Pacific Alliance, Mexico, Colombia, Peru and Chile, the leading economic region in Latin America.

The Investment Strategy

The Fund will invest in equity securities predominantly listed, or to be listed, on the securities exchanges of countries forming part of the Pacific Alliance, the economic powerhouse of Latin America.

The Investment Philosophy and Process

Emerging Markets are inherently inefficient given their developing status, with high volatility relative to Developed Markets. The Investment Manager aims to exploit these inefficiencies to generate alpha through a disciplined bottom up process involving fundamental analysis of the companies within the investable universe.

This is overlaid with the consideration of top down factors, including specific industry and ESG issues. The portfolio is concentrated and comprised of 35 -70 securities and is relatively benchmark unaware. There is a low allocation to cash, as the aim is to be fully invested.

About the Pacific Alliance

The Pacific Alliance region is an economic bloc formed in 2012 to increase competitiveness through integration of economies and to allow free flow of capital, goods, people and services. Comprising the Latin American countries of Mexico, Colombia, Peru and Chile, collectively it is the eighth largest economy in the world. Pacific Alliance produces more than 50% of the GDP of Latin America. Its countries are united by strong governments, central banks and rule of law and is seen by the IMF as the economic star of Latin America.

As an Emerging Market investment strategy, it provides significant diversification and strong performance benefits to support its inclusion in a growth portfolio. Global Emerging Market portfolios do not commonly have access to the investment opportunities in Pacific Alliance that SURA Investment Manager provides due to its geographic reach and local knowledge.

More detailed information can be found on our website.

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Notes

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¹ Performance shown gross of fees and tax. Past performance is no guarantee of future performance. Performance periods of less than year are not annualised.

² Benchmark is the MSCI LatAm Pacific Alliance Capped Index.