

# Emerging Markets Strategy Update

## Second Quarter, 2022



### Portfolio Activity

This quarter, we purchased Shenzhen Inovance, a leading Chinese industrial automation company listed in the A-share market. It offers a broad portfolio of automation control products (e.g., inverters, servo motors, sensors) in four segments: industrial automation, Electric Vehicle solutions, industrial robotics, and rail transit. Inovance has double-digit market share in low voltage inverters and servo motor systems and is set to benefit from the secular growth in industrial automation, policy support of domestic manufacturing, and strong demand for energy efficiency solutions. With a solid R&D record and a strong double-digit revenue and earnings growth outlook, we view the stock as attractively valued, especially following the recent market sell-off.

We sold out of Bank of Communications in China, a stock we had begun to scale back towards the end of the first quarter, while building a position in China Merchants Bank, given its attractive valuation with an ROE of 17% and strong dividend growth.

### Portfolio Review

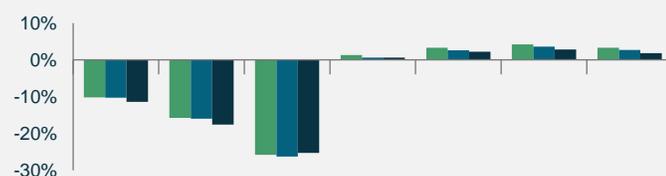
The Boston Common Emerging Markets strategy declined -10.2% (before fees), outperforming the MSCI EM Index (“the Index”) return of -11.4%. Stock selection in Materials was the largest contributor to relative performance. Chilean lithium producer SQM outperformed, as battery grade lithium prices remained firm amidst strong end-market EV demand. Our lack of exposure to conventional metals and mining stocks also contributed to the sector’s outperformance. An overweight to Consumer Discretionary added value, with positive relative contributions from Chinese EV auto manufacturer BYD, online travel operator Trip.com, and Internet giant Alibaba – all beneficiaries of China’s easing COVID-19 lockdowns. Stock selection in Healthcare proved beneficial, as China Traditional Chinese Medicine and PT Kalbe Farma outperformed peers thanks to resilient business operations. South Africa was the largest country contributor to relative results with strong returns from Naspers after it announced shareholder-friendly actions to unlock stock value. Other notable contributors include IT service company Chinasoft and Taiwan industrial automation company Airtac.

Stock selection in Financials detracted most from relative returns during the quarter. Our Latin American bank holdings reversed gains from prior quarters, as Credicorp in Peru, Bancolombia, and Itau Unibanco in Brazil lagged amidst weakening currencies, broad monetary policy tightness, and an active election calendar. Consumer Staples also detracted, as Korean personal care company LG H&H continued to be pressured by COVID-related travel restrictions. Our lack of exposure to the beverage and tobacco industries was also a drag. From a country perspective, Brazil was the largest detractor from relative performance, including industrial company WEG and digital payment company PAGS. Global recession fears weighed on investor sentiment, leading to notable declines of several Technology holdings more exposed to global demand such as TSMC, Win Semi, and SK Hynix.

### Annual Returns

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
<b>Gross</b>	-15.8%	-7.8%	24.0%	24.4%	-16.6%	44.5%	8.4%	-13.5%	-0.5%	1.2%
<b>Net</b>	-16.0%	-8.4%	23.2%	23.6%	-17.1%	43.5%	7.9%	-13.8%	-1.0%	0.8%
<b>MSCI EM</b>	-17.6%	-2.5%	18.3%	18.4%	-14.6%	37.3%	11.2%	-14.9%	-2.2%	-2.6%

### Performance



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	Since Inception*
<b>Gross</b>	-10.2%	-15.8%	-25.8%	1.3%	3.3%	4.2%	3.3%
<b>Net</b>	-10.3%	-16.0%	-26.3%	0.6%	2.6%	3.6%	2.7%
<b>MSCI EM</b>	-11.4%	-17.6%	-25.3%	0.6%	2.2%	2.8%	1.8%

### Portfolio Characteristics

	Boston Common	MSCI EM
<b># Holdings</b>	52	1,381
<b>Valuation</b>		
Price/EPS (NTM)	12.0	12.0
Enterprise Value/EBITDA (NTM)	6.8	6.5
Price/Book	1.9	2.0
Price/Sales	1.0	1.6
Dividend Yield	2.2%	2.3%
<b>Growth</b>		
3yr EPS Consensus Growth	12.9%	6.3%
3yr Sales consensus Growth	9.88%	7.1%
<b>Quality</b>		
Beta**	1.01	1.00
LT Debt to Cap.	26.1%	22.1%
Net Debt to EBITDA	0.4	0.4
Return on Equity	15.2%	15.4%
Earnings Variability***	24.8%	0.3
Free Cash Flow Yield	3.4%	4.4%

### Strategy Vehicle Options

Separate Account, Commingled Fund, Mutual Fund

Source: APX Advent Portfolio Exchange. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal

\*Since Inception: December 31, 2012, \*\*The Beta calculation is based on the trailing five-year performance of a representative account within a portfolio’s strategy, \*\*\*Variability is calculated as the mean absolute difference between actual earnings per share and a five-year historical growth trendline, expressed as a percentage of trendline

## Market Outlook and Positioning

Slowing economic growth, tightening global financial conditions, and elevated geopolitical risk are factors that would have historically challenged EM equities. Yet, EM equities have shown remarkable resilience relative to DM peers during a period of significant market declines. In aggregate, EM central banks have been ahead of the curve in raising interest rates to curb inflation. While global growth expectations have declined and recession risks have risen, EM economies are expected to outpace those of developed economies by 2.5% in 2023. External conditions are presenting differentiated impacts on EM economies: energy- and commodity-exporting countries have benefited from elevated prices, while supply-chain constraints are mitigating the positive impacts of a strong Dollar on global goods exporters. A prolonged Russian war with Ukraine still presents food security risks and potential social unrest. Attractive relative valuations appear to discount - at least partially - the macro uncertainties, as corporates work through prevailing global and local operating challenges.

In contrast to most large global economies, China has been *easing* its monetary policy rates as domestic inflation is largely contained and its major cities are still emerging from COVID-related lockdowns. A focus on supporting near-term economic growth will likely dominate policy makers' attention in 2H22 ahead of the all-important party congress later this year. The longer-term strategic goal of domestic demand-driven growth seems intact although reimagined in terms of addressing inequality, sustainability, and technological advancement. Domestically focused businesses aligned with these policies as well as globally competitive companies with sustainable business models are likely to benefit in this environment.

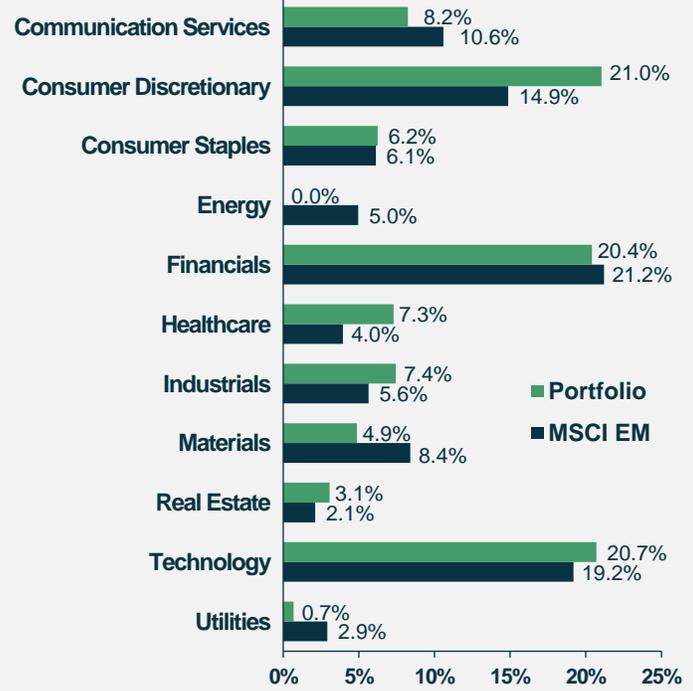
Latin America's monetary policy environment has been decisively hawkish amid higher inflation, as the region continues to recover from pandemic effects and supply constraints. Among the top beneficiaries of elevated commodity prices, Latin America's anticipated growth hinges on the fiscal policy direction in a region that has been disrupted by political instability. Relative equity valuations are undemanding, trading at a 30% discount to EM equities on a forward P/E basis. The portfolio is overweight the region overall.

During the quarter we took profits in some commodity-exposed countries including Brazil and Peru and reduced our overweight in Financials. We also used the recent market sell-off as a buying opportunity, increasing allocation to high-quality growth companies in the Consumer Discretionary and Industrials space. We continue to balance cyclical exposures in Consumer Discretionary and Industrials with an overweight to defensive, stable earnings in Healthcare and Consumer Staples.

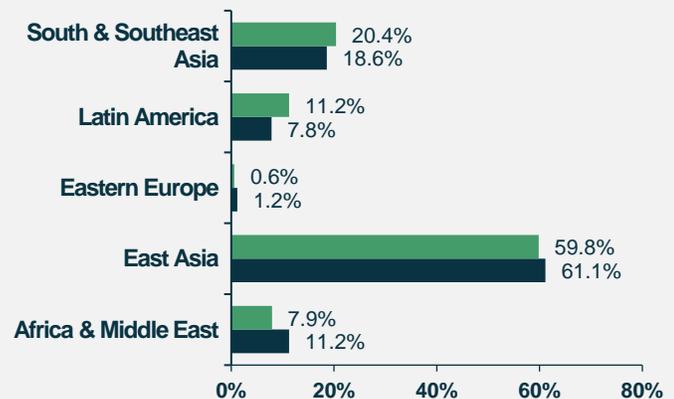
## Contributors & Detractors

Top 10	% of Capital	Return	Relative Contrib.	Sector
NASPERS	2.1%	26.9%	0.94%	Consumer Discretionary
ALIBABA GROUP HLDG LTD	4.2%	3.9%	0.76%	Consumer Discretionary
BYD COMPANY LTD	1.7%	39.7%	0.75%	Consumer Discretionary
CHINA TRAD CHINESE	2.2%	18.1%	0.65%	Healthcare
TRIP COM INTL LTD	1.9%	18.7%	0.57%	Consumer Discretionary
CHINASOFT INTL LTD	1.5%	22.5%	0.55%	Technology
SOCIEDAD QUIMICA MINERA DE CHILE	1.9%	2.1%	0.32%	Materials
HENGAN INTL	1.6%	4.0%	0.24%	Consumer Staples
AIRTAC INTERNATIONAL	1.5%	2.6%	0.22%	Industrials
MIDEA GROUP CO LTD	1.8%	0.3%	0.22%	Consumer Discretionary
			<b>5.22%</b>	

## Sector Allocation



## Regional Allocation



Bottom 10	% of Capital	Return	Relative Contrib.	Sector
SK HYNIX INC	4.9%	-28.0%	-0.92%	Technology
TAIWAN SEMICONDUCTOR	7.0%	-20.9%	-0.72%	Technology
PAGSEGURO DIGITAL	1.1%	-48.9%	-0.55%	Technology
CREDICORP LTD	2.2%	-30.2%	-0.50%	Financials
WEG SA	1.6%	-31.0%	-0.40%	Industrials
WIN SEMICONDUCTORS CORP	1.4%	-30.3%	-0.32%	Technology
DELTA ELECTRONIC	2.7%	-20.5%	-0.29%	Technology
OTP BANK	0.7%	-40.1%	-0.26%	Financials
LG HOUSEHOLD&HEALTH	1.4%	-26.2%	-0.26%	Consumer Staples
ITAU UNIBANCO HLDG SA	2.0%	-24.9%	-0.23%	Financials
			<b>-4.45%</b>	

**Source: APX Advent Portfolio Exchange. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal.**

The information in this document is not a recommendation to buy or sell any security. There is no assurance that securities discussed will remain in a strategy upon receiving this document. Securities discussed represent only a portion of a strategy's holdings. It should not be assumed that securities transactions discussed were or will be profitable. Composite returns are presented in U.S. dollars, net of transaction costs, management fees and withholding taxes, with interest and dividends accrued. Returns for periods greater than one year are annualized. This product invests in foreign securities, which are subject to special currency, political and economic risks. The MSCI (Net) Emerging Markets Index captures large and mid-cap representation across the emerging market countries, as defined by Morgan Stanley. The index is unmanaged and does not incur management fees, transaction costs, or other expenses associated with separately managed accounts. The composition of our composite varies from the composition of the Index because of differences in sector and industry exposure, risk, volatility and holdings. Boston Common claims compliance with Global Investment Performance Standards (GIPS®). For a full listing of Boston Common composites and to request a GIPS® Compliant presentation, please call 617-720-5557.

