MOUNT MURRAY INVESTMENT

Montréal, November 22nd, 2019

Dear investors,

Our emerging market equity strategy in the last quarter overperformed by 3.63% the EEM (iShares MSCI Emerging Markets ETF) but ended down 0.80% net of all fees, for a year-to-date performance of +17.33%, 11.97% above its reference index.

Our ethical equity strategy ended the quarter up 1.98% net of all fees, 1.34% higher than the URTH (iShares MSCI World ETF), and is now at +25.28% year-to-date, 7.34% above its reference index.

The trade war scare lingers on

While we never expected the trade war to materialize into a serious “run for the hills” situation for major corporations, the deluge of (in our opinion, overly) alarmist economic commentators did give most investors the jitters, as was demonstrated by the emerging markets index correction in Q3. In fact, the global economy has been generally expected to slow down into 2020 because of heightened trade tensions between the U.S. and China after escalating skirmishes. Fortunately, before the latest exchange of fire as a routine assessment in line with our four-pronged macroeconomic analysis, we had completed a de-risking of our portfolio. The tilting of allocations away from our higher volatility names in China toward a neutral positioning in that country and an increase in our lower-risk positions in India was effective to provide downside protection in the strategy.

Washington announced a 15% tariff on the final batch of Chinese imports worth $300B, effective September 15th and December 15th (tariffs levied on some Chinese imports into the U.S., such as smartphones and tablets, have been postponed to avoid the impact of price increases during the Thanksgiving and Christmas holiday shopping season). Earlier, the U.S. had raised tariffs on $250B worth of Chinese imports from 10-25% to 30%, effective October 15th. In retaliation against the U.S., Beijing has let the Yuan depreciate above the psychologically important level of CNY 7 per USD and raised tariffs on U.S. imports by another 5%. The intention of a first step of a deal was since reached in October and November, as could be expected given the U.S. President’s trademark bullying negotiation tactics. Markets have reacted favorably. But the significant undertow that remains is a profound change in the perception of the untouchable economics of globalization, which should have lasting effects in transforming the global footprints of many corporations. We are holding on to our favorite names in China as they are multi-year preferences, and as explained previously because we are certain of a sustained growth in the country, underlined by significant modernization and sophistication of the economy. With our portfolio now near 10% overweight in India, however, we believe it is more balanced on a risk parity basis.

India - The masterplan is a living thing

India announced the final results for the 2019 election right before the end of the second quarter, with Narendra Modi officially being re-elected on May 23rd. Polling firms are not allowed to publish polls during the immediate election period, which ran from April 11th to May 19th this year (India has the world's longest election), but in the run-up to the blackout period, they were showing a high probability of a hung Parliament led by the National Democratic Alliance, which kept foreign investors firmly on the sidelines.

We however saw this uncertainty as an opportunity, since we believe that India has one of the world's best long-term stories, with an unstoppable momentum as far as a growing middle class is concerned. From a risk perspective, India tends to be low beta, making it a "haven" during the ongoing global trade disputes, and so we took advantage of the drift down in prices to add to our positions. This set the portfolio up well for the major rebound in the market that came when Prime Minister Modi announced significant cuts to Corporation Tax, and other business friendly proposals in September.

Many investors had been disappointed with the speed at which Mr. Modi had introduced reforms in his first term, but the reality is that even the most reform-minded leader faces constraints and hurdles. In a huge, vibrant democracy like India, those constraints and hurdles can be immense, but overcome them he did, which is why he was rewarded with a record victory. Reforms will probably be like buses – none for a while, then several will come together. Some will be slow, some fast, and a few will be uncomfortable disasters, like demonetization. But the mechanics will come along, tinker under the hood, and get things going again. If it were easy, it wouldn't be India, would it?

In comparison, as China's population ages, it becomes harder for it to sustain its high historical growth rates, whilst India's much younger population positions it well to take on the role of "World's fastest growing economy". India will, however, follow its own path, rather than copying the Chinese model of aggressive industrialization. India will continue to urbanize, especially if agricultural investment can move farmers from mere subsistence to high productivity. Even at the low end, urbanization will have profound effects on water usage, power generation, and transportation. Many Indian cities are now more polluted than Chinese.

Right now, that is obviously a negative, but India does have programs to address its pollution, and is doing so earlier in its development than many other countries have. As we have seen elsewhere, a developing middle-class values clean air and water, and woe betide the politicians who ignore those demands. Several cities have developed efficient metro rail systems, easing congestion and reducing emissions, with several more being planned. Tuk-tuks (Auto rickshaws) increasingly run on CNG, LNG, or even batteries. According to Bloomberg, there are actually more e- rickshaws in India than all the electric cars in China!

Some of our best performing and worst performing names

This quarter in our emerging markets strategy, our three strongest stocks were Sunny Optical Technology (+42.28%), Anta Sports Products (+20.88%) and Taiwan Semiconductor Manufacturing Company (+19.04%). Both Sunny Optical and Taiwan Semiconductor fed off a return to more upbeat predictions of iPhone sales with the release of new models and the expansion of Apple's integrated streaming services, while Anta showed solid H1 results for its "single-focus, multi-brand and omni-channel" strategy, with revenue growth of 40.3% and sustained ROE growth of 27.7%, and could have actually benefited from the renewed patriotism of Chinese consumers in a backlash against U.S. policies.

On the other end of the range, Thailand's Kasikornbank (-15.99%) and China Overseas Land & Investment (-12.58%) were clearly affected by trade war-induced fears of slowdown caused by increases in U.S. tariffs. Kbank being the second largest bank in the country, it was indirectly exposed to dropping volumes of Thai exports of electronics and chemicals in China's production chains. But it remains well established and growing in the Thai consumer banking market. China Overseas also receded, but we are firm in our longer term view of continued real estate expansion in the mainland. With an extremely low P/E valuation of 6.12 and a 5-year total return of 7.2%, higher than the market's, we are holding on to the position.

Cemex (-14.22%) was cut from our portfolio, having missed several earnings estimates despite our positive outlook on a general allocation to Mexico, which exhibits compelling depressed valuations and a better than feared political landscape supporting ongoing business activity. The stock remains highly volatile, having fallen approximately 25% after the sale, it recovered more than 10% ahead of Q3 results, which were again disappointing and prompted further selling. Our investment thesis remains negative in the context of a persistent construction recession in the country.

In our ethical strategy, we also have been re-weighting out of higher beta names and into healthcare and other essential services. As a matter of fact, this quarter, some of our strongest positions were in responsible investment manager Australian Ethical Investment (+31.54%), Brazilian educational services provider Estacio Participacoes (+15.97%) and electric utility NextEra Energy (+14.00%). Our worst performances were in Chinese electric carmaker and battery manufacturer BYD Company (-17.90%), stuck in a vortex of oversupply and slowing EV demand, in solar energy systems maker First Solar (-11.49%) who had an earnings miss but otherwise strong YTD gains, and in dental care products specialist Henry Schein (-9.57%), under pressure to maintain its rapid recent EPS growth. Now, our portfolio is essentially more balanced between high growth technology pioneers - making peoples' lives easier - and stable essential services providers - at the forefront of their respective industry's efforts toward a greener, safer and more humane society. In terms of environmental and social impact, we thus remain fully committed with the same names, and a new small position in carmaker Tesla, initiated at $240.

Our alternative emerging markets strategy returned -3.36% net in Q3, better than the MSCI EM, but affected by Trump's announcements of new tariffs on August 1st. It has since been recovering as, consistent in our emerging markets approach, we covered our Indian systematic short after a useful period, preferring to remain completely exposed to our long stock positions in the country, which we increased up to a total of 23%. The timing with the ensuing Indian central bank's liquidity injection and the government's corporate tax cut was opportune. It was a challenging quarter and our risk mitigating tools were effective in reducing the downside deviation under our target, which is an annualized 10%. Our options overlay protective position appreciated considerably on the onset of the escalation in trade war rhetoric in August, but as the shock subsided and given its date of January 2020, it has since eroded with the time component of its price (theta) taking over in its performance. We keep it in place as an overall hedge on the alternative portfolio and remain constructive with granular opportunities.

Best regards,

Mount Murray Investment