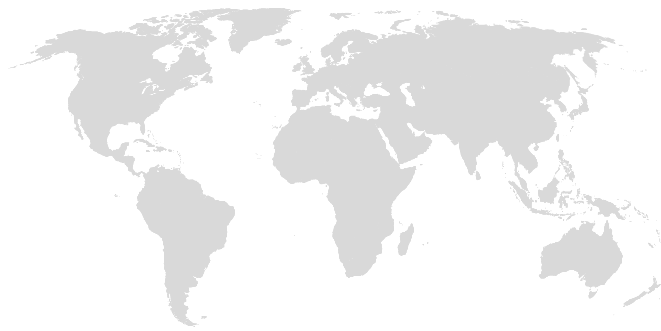




**INSTITUTIONAL QUARTERLY UPDATE**

# Q413



## FRONTIER MARKETS EQUITIES

Our Frontier Markets Equities strategy draws on our extensive experience of investing in the world's emerging and frontier markets at an early stage. We follow a disciplined and well established Growth At a Reasonable Price philosophy to build a focused portfolio of 45-75 stocks from across the world's frontier markets.

Fundamental research is the centrepiece of our investment process and we target companies which we believe have the ability to deliver positive earnings surprise over a 12-18 month time horizon, whilst always maintaining our valuation discipline.

### What sets us apart?

- Extensive experience investing in emerging and frontier markets at an early stage
  - = early investors in China, Latin America and Eastern Europe
  - = responsible for managing more than US\$20bn in assets across global emerging and frontier markets\*
  
- An experienced, specialist team
  - = EMEA and Global Frontier Markets Team comprises a total of seven investment professionals
  - = access to research generated by a further 30 emerging and frontier markets equity investment professionals in London and Hong Kong\*\*
  - = additional macroeconomic insight from our asset allocation team, the Strategic Policy Group
  
- A proven investment process built on fundamental research
  - = we analyse companies and markets using our common GLCMV framework: Growth, Liquidity, Currency, Management and Valuation
  - = meeting companies is an integral part of our research

### Composite performance %

	Q4	Since inception*
Equity: Global: Frontier	10.07%	19.97%
Benchmark	6.55%	13.72%
<b>Relative / Value Added</b>	<b>3.52%</b>	<b>6.25%</b>

Source: Barings, as at 31<sup>st</sup> December 2013, in US dollar terms, gross of investment management fees. \*Inception date: 30<sup>th</sup> April 2013.

Total performance shown is performance of a GIPS Composite, consisting of an aggregation of accounts managed to a particular mandate. References to attribution (performance of a particular country, sector, individual stock), along with characteristics, weightings and portfolio level data are based upon a representative account within the Composite. Please use all information contained herein as supplemental to the GIPS Advertising Disclosure contained on page 2.

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\*Source: Barings as at 31<sup>st</sup> December 2013

\*\*Source: Barings, as at 1<sup>st</sup> January 2014

# Performance

**Composite:** Equity: Global: Frontier

**Benchmark:** MSCI Frontier Markets with net dividends

**Source:** Barings, 31<sup>st</sup> December 2013

Results shown in US dollar terms (%), ending 31 <sup>st</sup> December 2013	Q4	Since inception*
Composite Gross of Investment Management Fees	10.07%	19.97%
Benchmark	6.55%	13.72%

The firm, as defined herein, claims compliance with the Global Investment Performance Standards (GIPS®). A complete list and description of all composites, along with Compliant Presentations are available on request by sending an e-mail to [gips@barings.com](mailto:gips@barings.com). For the purpose of GIPS compliance, the "Firm" is defined as the investment firm Baring Asset Management Limited (and its relevant subsidiaries which are registered with the appropriate regulatory authorities to undertake investment business in those jurisdictions in which they operate). Baring Asset Management Korea Limited, a wholly owned subsidiary of Baring Asset Management (Asia) Limited, which is in turn a wholly owned indirect subsidiary of Baring Asset Management Limited, is excluded from the firm definition. The Composite is comprised of accounts which invest in a diversified portfolio of equity investments in companies incorporated in and/or exercising the predominant part of their economic activity in frontier market countries. A maximum of 30% of total assets may be invested in equities of companies not classified as frontier market countries, debt securities of issuers worldwide, (including frontier markets), cash & liquidities, such as treasury bills or short-term money market instruments. Account may invest in ADRs, GDRs & other equity related securities, where their value is linked to an underlying equity or group of equities. Accounts may invest up to 10% in companies which are not listed but are expected to obtain a stock market listing within one year. Accounts within the composite are permitted to use derivatives for efficient portfolio management purposes, or as a substitute where holding a direct position may not be possible or practical. As at the reporting date one portfolio in the composite reinvests capital gains and part of income is paid away and the remainder is reinvested. Benchmark Source: MSCI.

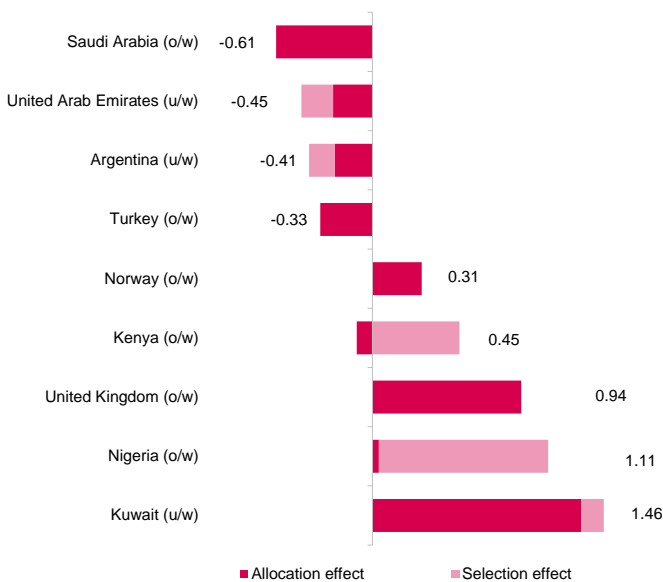
## Major total relative contribution to return by country

Q4 2013

based on a representative account

(o/w u/w based on average quarterly weighting)

Source: Barings, 31<sup>st</sup> December 2013



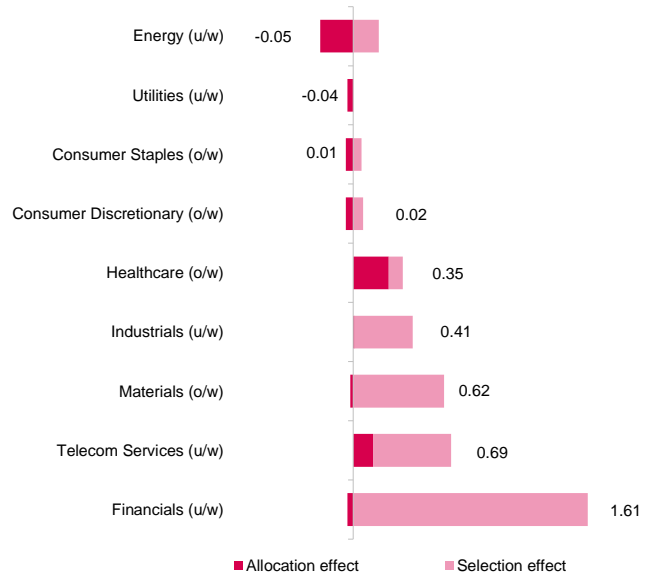
## Total relative contribution to return by sector

Q4 2013

based on a representative account

(o/w u/w based on average quarterly weighting)

Source: Barings, 31<sup>st</sup> December 2013



- The strategy outperformed the MSCI Frontier Markets benchmark index in the quarter, returning 10.07% in US dollar terms, against the index return of 6.55%.
- At the country level, asset allocation was a positive contributor. In this regard, our overweight position in Kenya and Nigeria and our holdings of Frontier markets companies listed in the UK helped performance. Our caution on a number of markets was partially supportive, most notably our underweight in Kuwait.
- Our cautious positions in Argentina and the United Arab Emirates were detractors from performance, as were our overweight positions in Saudi Arabia and Turkey. Overall, however, country selection added value during the quarter.
- Security selection was also a positive factor during the fourth quarter of the year, most notably in Kenya, Nigeria, and Kuwait.
- Turning to sector selection, this was slightly negative this quarter. Sector selection was a slight negative this quarter. Holding a small amount of cash in a rising market detracted from performance. Within that, our overweight in Healthcare and underweight in Telecom Services added value.
- Security selection viewed from a sector perspective was particularly strong in Financials, Telecoms Services and Materials. It was, however, positive in each sector.

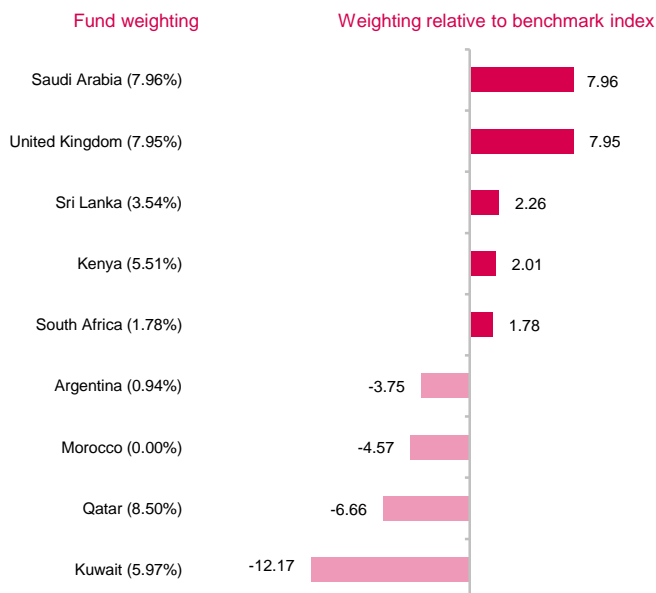
# Positioning

## Market outlook

- Over the quarter, Frontier markets delivered another strongly positive US dollar return. The Fund outperformed its benchmark due to strong country allocation, with stock selection also contributing in a positive manner.
- The performance of Middle Eastern markets was mixed with the UAE market posting very strong returns as the award of Expo 2020 created a euphoria that boosted real estate and financial stocks. In contrast Kuwait and Qatar lacked any catalysts and were both relatively weak.
- In Latin America, Argentina fell significantly following a period of sustained outperformance as optimism surrounding political developments began to wane.
- In Asia positive economic data in Vietnam failed to support the market. Many investors remained on the sidelines waiting a much anticipated loosening of the foreign ownership limits that are currently applied to the market. Pre-election tensions in Bangladesh negatively impacted the equity market, however the Sri Lankan and Pakistani markets were both strong.
- African markets were mixed, Kenya was weak and partially impacted by the armed conflict in neighbouring South Sudan. Nigeria was strong with the banking sector in particular gaining investor interest.
- We expect Frontier markets to be driven by domestic issues rather than global factors, although Frontier markets will not be totally immune from any significant developments relating to the global economy. However, the improved global outlook is still likely to be positive for frontier markets on a broader level.
- Growth opportunities are, we believe, still intact, and we continue to look for those companies with reasonable valuations that have the ability to generate strong growth and provide positive earnings surprises.
- We believe Frontier markets continue to offer strong growth opportunities at reasonable relative valuations and in our view offer investors one of the most compelling long term opportunities within equity markets. The growth story over the longer term remains intact, thanks to the positive demographics of Frontier markets and the potential for further increases in productivity.

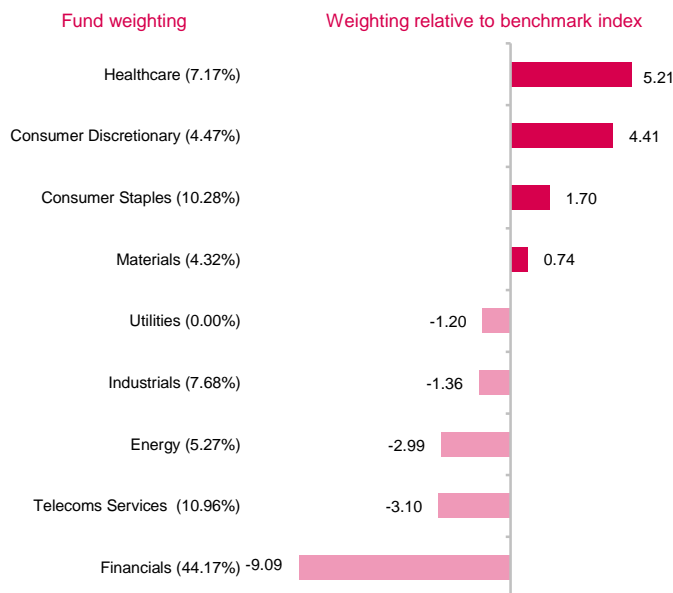
## Major active country positions, as at Q4 2013

based on a representative account  
Source: Barings, 31<sup>st</sup> December 2013



## Active sector positions, as at Q4 2013

based on a representative account  
Source: Barings, 31<sup>st</sup> December 2013



# Our Investment Process



## Philosophy

- At Barings, we build portfolios with Growth at a Reasonable Price (GARP) characteristics, targeting companies that we believe have unrecognised growth potential and earnings which will surpass expectations in terms of their magnitude, quality and duration.
- We aim to identify stocks which we believe are mis-priced, with a catalyst that may correct this mis-pricing on a 12-18 month time horizon. Catalysts could include earnings upgrades, corporate restructuring, mergers and acquisitions or simply better communication with the investment community. Growth and value disciplines are combined to help avoid the volatility that can occur in a single-style strategy, and obtain better risk-adjusted returns over time.
- Baring Asset Management's EMEA and Frontier Markets Equities Team aims to invest in equities that provide earnings growth while still reasonably priced. Investments are chosen after being analysed on a top-down and bottom-up basis.

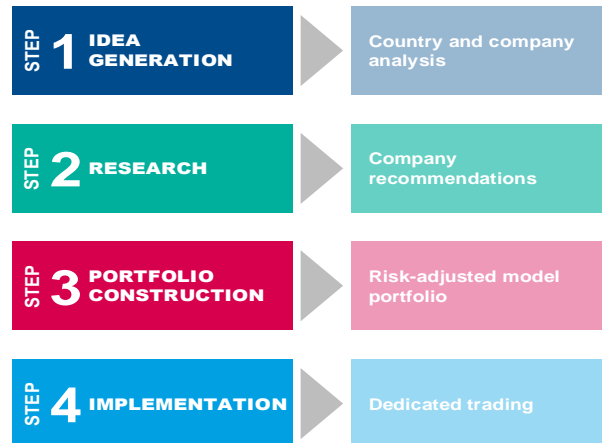
## Company research

- The Frontier Markets investable universe consists of around 400 stocks and we use a liquidity screen to narrow this universe – our minimum market cap limit is US\$250m. From this universe, we seek to identify those companies that best meet our GARP characteristics, which we research in-depth. We actively research and follow approximately 100 companies but will meet and discuss nearly the entire universe.
- Fundamental research is the centrepiece of our investment process. Stocks are screened against five criteria; Growth, Liquidity, Currency, Management and Valuation, which help identify attractive candidates for investment. Each analyst assigns a 1-5 score to each company to reflect their level of conviction. A '1' score signifies the expectation of significant outperformance on a 12 month view whereas a '5' flags the expectation of significant underperformance over the same timeframe.

## Portfolio Construction

- The Investment Manager constructs a focused portfolio comprising approximately 45-75 stocks. The portfolio will mainly comprise stocks scored 1, 2 and 3.

- Stocks scored 4 may be held for reasons of risk control. However, it would be highly unlikely that a stock scored 5 would be included in the portfolio.
- The relative weight of each holding is driven by the level of conviction that the Investment Manager has in a stock. This level of conviction is regularly verified using our proprietary quantitative risk analysis tools such as Implied Alpha and Value at Risk.
- In addition, the Team also has access to the top-down inputs of the Strategic Policy Group, our global macro research and asset allocation team.



## Risk management

- Risk management forms an integral part of the portfolio construction process and the portfolio is monitored on a daily basis. There is a formal weekly meeting to ensure that the portfolio reflects the agreed strategies and to review the price targets and performance of all holdings.
- The Head of Investment Risk supports the investment team in providing risk control tools in the form of tracking error, style exposure and implied alpha. Implied alpha and VaR analysis reports are used in portfolio construction meetings to identify the concentration of risk, and to ensure exposure to style factors (Momentum, Size, Growth and Value) are within prescribed guidelines. Monthly summary reports are sent to the EMEA and Frontier Markets Equities Team and the Chief Investment Officer.

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Version 10/SD Complied (London) 6<sup>th</sup> February 2014. Ref: M02/12C Composite: COM0624. [www.barings.com](http://www.barings.com)