# Emerging Markets

## Who has the Trump card?

Aliy Akbarov 14 June 2018

> "We must recognise that Trump has the power and will to 'make good' on even the most controversial of his pledges. It would hence be foolish to assume that he will not deliver and wiser to assess the possible damage and prepare."

This communication contains written material that is generic in nature and not related to a specific financial instrument. It is not personalised to reflect the circumstances of an individual client and therefore does not amount to a personal recommendation to any person. It does not contain any substantive analysis and does not and is not intended to recommend or suggest any investment strategy or opinion as to the future value or price of financial instruments of any kind. This communication is also made openly available at the same time to any investment firms wishing to receive it or to the general public on the Fidante Partners Europe Limited ("Fidante Partners") website www.fidante.com. Recipients of this communication based in the EEA who are subject to regulation under MiFID should note that while they must make their own determination Fidante Partners Europe Limited ("Fidante Partners") is of the view that this communication constitutes a "minor non-monetary benefit".

## It's happening

For those few who have not yet noticed, Donald Trump is entering his 509th day (as at 12 Jun 18) as the 45th President of the United States. Whilst the world of the internet is flooded with expressions attributed to him, it is hard to find a better saying to describe his first 500 days in office than 'Begin as you mean to go on'. Hate him or love him, it is hard to deny that Trump's policies are intended to challenge the status quo. As testimony to this, I have had to redact this report more than once over the last few weeks just to make sure that the contents are up to date, given the ever-changing landscape under Trump's presidency.

This ambience of plausible uncertainty is only stoked by the unconventional manner in which the President reaches out to his audience and announces key decisions – through a social media outlet with Larry the Bird as its logo (yes that is the Twitter mascot's official name). But if that makes some of his closest advisors sit rather uncomfortably in their seats (especially when looking at Rex Tillerson's vacated chair), it is hard to imagine how Presidents Nieto or Moon must feel each time they are notified of more tweets by @realDonaldTrump. I am sure that they both would have something to say about the 'succès de scandale' concept.

## The issue at hand

Indeed, hardly any region has ended up on the wrong end of a presidential tweet-bashing more often than the Emerging Markets (EM), namely 'the troika' of China, Mexico and South Korea. The issue is of course centred on the 'huge' trade deficits that were amassed by the US with regards to most of the world.

To put it into context, Fig.1 below shows the US proportion of these countries' (+ India) total exports:

Fig 1: Exports to US market

| Country | % exports | Exports ($,bn) | % of exporting country GDP | Change from 2016 (%) |
|---|---|---|---|---|
| Mexico | 77.2 | 407 | 27.4 | -3.8 |
| China | 23.5 | 2,157 | 4.2 | +5.3 |
| India | 16.2 | 299 | 1.9 | +0.2 |
| South Korea | 12.9 | 552 | 4.6 | -0.5 |

Source: CIA World Factbook, World Bank, US Census Bureau, 2017.

The numbers in Fig.1 also compare these exports to the country's total GDP. Yes, China alone represents over 2/3 of the US total trade deficit ($566bn in 2017) but exports to the US are 'only' 4.2% of China's aggregate GDP. The picture is very different with Mexico, where the number is circa 27%, so nearly six times higher. We will look at Mexico in more detail later. Fig.2 gives an overview of trade surpluses numbers across the four countries.

Fig 2: Trade surpluses against the US

| Country | Total surplus ($, bn) | % of total US trade deficit |
|---|---|---|
| Mexico | 71.1 | 12.5 |
| China | 375.2 | 66.3 |
| India | 22.9 | 4.0 |
| South Korea | 22.9 | 4.0 |

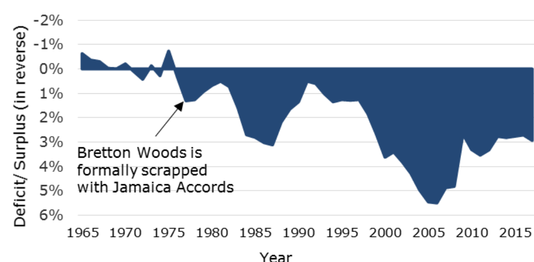
Source: CIA World Factbook, 2017, Data as at 21 March 2018.

## Show me the money ($)!

So does Trump have a point? We can discuss what got the US here at some length, but given this isn't the focal point of this paper, I will try to sum it up by saying that the foundations were laid with the end of the Bretton Woods agreement on fixed exchange rates in 1974 and the Nixon shock.

Indeed, prior to 1974 the US actually ran a trade surplus for a decade between 1960 and 1970, only delving into a modest deficit in 1972 and 1973. This is demonstrated on the chart below.

Fig 3: US Trade deficit as % of GDP between 1965- 2015




Source: US Census Bureau, US Bureau of Economic Analysis (BEA), Federal Reserve Bank of St Louis, 2017.

Under the old system, the value of the US Dollar was fixed at $35/oz. whilst all the other currencies were pegged to the US Dollar, hence it was "as good as gold". The US effectively played the role of the "World's Central Bank" which required it to delve into balance of payment (BoP) deficits to finance global growth. In turn, those internal deficits would be shouldered by the Federal Reserve through printing more US Dollars (later referred to as 'exorbitant privilege' by Charles De Gaulle). The system also hinged on (already waning) US economic hegemony which was soon undermined by the rise of the other economic powers such as Japan, West Germany and the European Economic Community (EEC). These countries had the ability to devalue their currencies in respect to the Dollar to essentially make their own deficits 'disappear', when needed. As the US did not enjoy this option (as it would require virtually all countries to adjust their currencies), it found itself in an increasingly tricky spot which was exacerbated by the costly Vietnam campaign and financial burdens of the 'Great Society' programme.

As the US balance of payment position became increasingly untenable, the whole system was scrapped by 1976.

So you might ask, how did this lead to the situation we have today? Well, whilst the US Dollar officially became a fiat currency in free float, it maintained its status as the most widely used currency in the world, culminating in its designation as the world's 'primary reserve currency'. Essentially, this means that the US Dollar preserved its 'safe haven currency' status under Bretton Woods, albeit without the obligation to convert other currencies into gold. This in turn led to a huge inflow of goods into the US with the greenback flowing the other way, resulting in an ever widening current account deficit. This outflow was further exacerbated by the US popularity for Foreign Direct Investment (FDI) and it is still by far the most popular destination for foreign investments contributing to a massive capital account surplus. The current status quo actually grants Americans the advantage of borrowing at lower costs, which some have estimated to be as much as $100bn per year[1]. Anyway, as said before, this isn't the focal point of this paper, but hopefully it presents you with some economic context.

## Deal or no deal?

The situation described above occurred before most of the multilateral trade deals that the US currently operates today were set in motion. Notwithstanding this, the US has already taken unilateral action to 'remedy' this perceived inequality in trade. As I write this paper, South Korean economists and officials alike are in the process of renegotiating the United States–Korea Free Trade Agreement (KORUS FTA), whilst the Ministry of Economy of Mexico has its hands full renegotiating the North American Free Trade Agreement (NAFTA) in tandem with Canada (which ironically runs a trade deficit vis-à-vis the US).

It must be said that in contrast with the Paris accord or the Trans-Pacific Partnership, the US has not yet exited these agreements unilaterally, which offers a glimmer of hope.

[1]Rogoff, Kenneth (October 2013). "America's Endless Budget Battle". Project Syndicate.

What caused arguably more noise in the media and markets however, is the imposition of tariffs, or in some cases their mere announcement. To date, the administrations' 'weapons of choice' have been Sections 201 and 232 (Trade Act of 1974) and Section 232 (Trade Expansion Act of 1962). All of these grant the President extraordinary powers in shaping US trade and commerce policies, on grounds of national security. More interestingly however, this sends another clear signal – that the US will exclusively refer to its own laws in executing such policies rather than partake in any international dispute resolution proceedings. Donald Trump has previously lambasted the WTO as being 'unfair' towards the USA, and hence isn't likely to take any challenges emanating through its platform seriously.

A high-level outline of various tariffs announced/levied to the end of February 2018 can be found in figure 4 below:

Fig 4: Tariffs announced by Trump administration since taking office

Source: South Morning China Post, BBC, CNN, US Department of Commerce, Feb 2018.

The above already seems like plenty without mentioning the steep steel and aluminium import tariffs President Trump slapped on the EU, Canada and Mexico very recently. All three immediately vowed to respond in-kind, with the EU and Canada already drawing up retaliatory lists of American-made products they are seeking to tariff and lodging complaints via the WTO. Other countries, such as India, are seeking compensation for lost revenues incurred by this policy, as prescribed in the WTO charter. EU and Canada's response in-kind, however, may also be marking a dangerous escalation of the trade spat. Notably, the EU's retaliatory list might not be quite 'tit-for-tat' but rather one designed to cause most damage to President Trump. Indeed, most of the goods on that list, such as bourbon whiskey, Levi's jeans and Harley Davidson motorcycles are produced in the so-called 'red states' which are in turn, the bulwark of Trump's support base. It's actually not the first time that the EU applies this tactic of 'political targeting'. Back in 2002, when President George W. Bush applied tariffs on steel coming from the EU, the EU quickly retaliated by levying tariffs on Florida oranges and juices. Florida seemed an easy political target back then for two reasons. Firstly, it is a key swing state where President Bush won by a very thin margin back in 2000 (ahead of looming 2004 elections). Secondly, its governor was none other than Jeb Bush, the president's brother. The tactic worked as only one year and nine months later, President Bush backed down from these tariffs and was quoted asking EU Commissioner Prodi: "Why are you attacking my family?"

But will this be the case this time? Prior to this announcement, President Trump also stipulated that any EU response will be met with steep import tariffs on cars entering the US, as German lawmakers will be aware I'm sure. Simultaneously, the President also announced import tariffs on some $50bn of goods coming from China, days after Secretary Mnuchin was quoted saying that a trade war was 'on hold'. Not that any of this is funny but one must admire the Chinese reaction to Trump's announcement: 'We are both surprised and unsurprised by this statement'.

The real impact of some other tariffs is however disputed, for instance, the US International Trade Commission's ruling in favour of Bombardier in January 2018 has effectively blocked the tariffs proposed by Trump and allowed the purchase of 75 planes by Delta to proceed. The message, however, is clear, Trump is committed to his pre-election trade agenda. One might ask, could this be to a large extent, posturing? Rhetoric designed to appeal to the electorate ahead of looming mid-terms? In addition to recent actions, empirical evidence collected on US presidents over the past 100 years soundly defeats the old adage of unfulfilled election promises[2]. In fact, US presidents are amongst the most effective in this sense, delivering on 70% of their campaign pledges on average whilst in office. The least effective US President over this period still managed to deliver 50% of their campaign pledges. Whilst these statistics may send shivers down the spines of some, we must recognise that Trump has the power and will to 'make good' on even the most controversial of his pledges. It would hence be foolish to assume that he will not deliver and wiser to assess the possible damage and prepare.

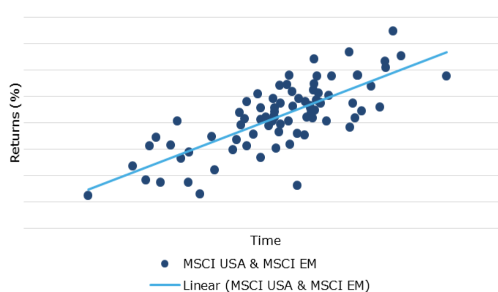
Now, taking a step back from politics and economic history, we will try to get a better idea of the existing links between developed and emerging markets, on a macro level.

[2]Michael Krukones "Promises and Performance: Presidential Campaigns as Policy Predictors".

## The bond is there

So, the discussion above would have hopefully given you a flavour of the important role the US economy plays in a global context. But what about the link between the US equities and EM equities? In the chart below, we look at how these two have moved over the past 20 years (to 31 Mar 2018, latest available quarter end):

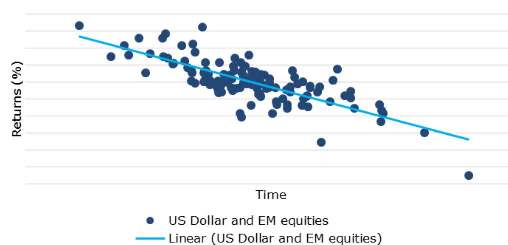
Fig 5: Performance of US and EM Equities over 20 years




Source: MSCI, Bloomberg, March 2018.

As we can see, the linkage is strong. In fact, a basic calculation of correlation between the two yielded 0.69, which indicates a 'strong positive relationship'. This comes as no surprise given equity markets' tendency to move in tandem, but it highlights the point that growth in one side of the world is not necessarily at the expense of another part. Now, let's look at what the picture is when we compare the performance of EM Equities to that of the US Dollar over a ten-year period:

Fig 6: Performance of the US Dollar and EM equities over ten years




Source: MSCI, Bloomberg, April 2018.

Here, we can identify an inverse relationship. To be clear, the graph covers a ten-year period, we used the Bloomberg US Dollar Index as a proxy for the US Dollar's performance and MSCI EM as a proxy for EM equities. Thus, an appreciation in the US

Dollar's value against a basket of currencies usually tends to lead to lower EM equity performance and vice-versa. The correlation coefficient that we calculated, -0.77, also backs this claim. In this context, we can also briefly touch on the interest rates set by the Federal Reserve. It is generally accepted that increasing Fed rates are a bearish signal for emerging markets. This is because higher domestic rates tend to strengthen the US Dollar which often makes it harder for EM companies to refinance their debts (a part of which is still US Dollar denominated). The resulting lower commodity prices also tend to benefit countries that rely on manufacturing, such as China and South Korea, albeit hurting those EM countries that export commodities, such as Russia and Brazil.

Overall, taking a more forward-looking view on this, we take the notion that the US and emerging markets are somewhat in lockstep. As the US economic cycle has been robust, we can see inflation being on an upward trajectory in the US market in the near-term.

Furthermore, looking at the policies announced by Donald Trump such as tax reform, net fiscal spending, labour market reform and increase in tariffs on imports, all these can be classified as inflationary policies.

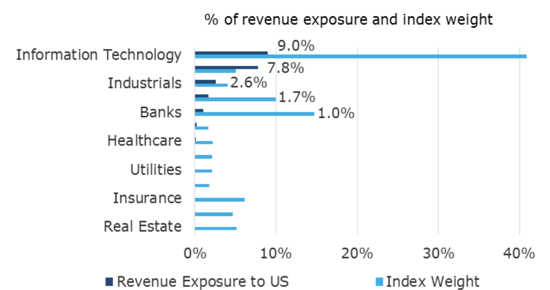
This presents a strong case for a period of sustained higher inflation in the US for the foreseeable future which in turn will spur demand for emerging market products and lead to growth in those markets. The specific impact here is much more to do with individual characteristics of the particular country, but the relationship above has been observed over the last 30 years (US inflation and EM growth).

## Looking for overlap

Whilst I am nowhere near bold (and bored) enough to test every trade war scenario possible, I will try and gauge some of the impact in what feels a little bit like the old 'shield and spear' paradox: what happens when the unstoppable might and force of the US economy clashes with the seemingly impregnable Chinese economic wall?

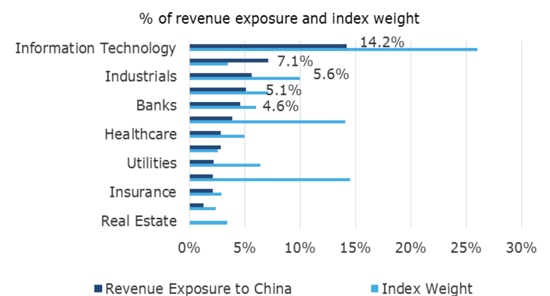
Some of you may already read the previous line thinking this isn't a match-up of equals, and it has become common knowledge that the US designs, China manufactures, the US imports, hence the US would surely have the upper hand in any trade dispute? Well, for those readers, today may be your lucky day where you can review the latest published MSCI economic exposure indices on this topic below.

Fig 7: Exposure of Chinese firms' revenue to the US economy




Source: MSCI, Fidante Partners, March 2018.

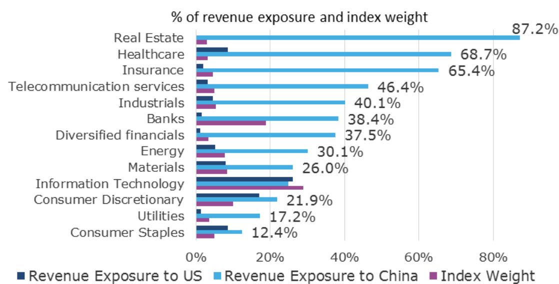
Fig 8: Exposure of US firms' revenue to the Chinese economy




Source: MSCI, Fidante Partners, March 2018.

The light blue line bar represents the % of revenue whilst the dark blue bar represents the corresponding MSCI index weight. For simplicity of reading, I have only labelled those bars that are over four percent (light blue). It becomes quite evident that we can see many more labels on the lower chart, which represents US companies' revenue exposure to China. For the wider EM context, the chart in Fig.9 displays the exposure of EM countries to both US and China.

Fig 9: Exposure of EM firms' revenue to the Chinese and US economies



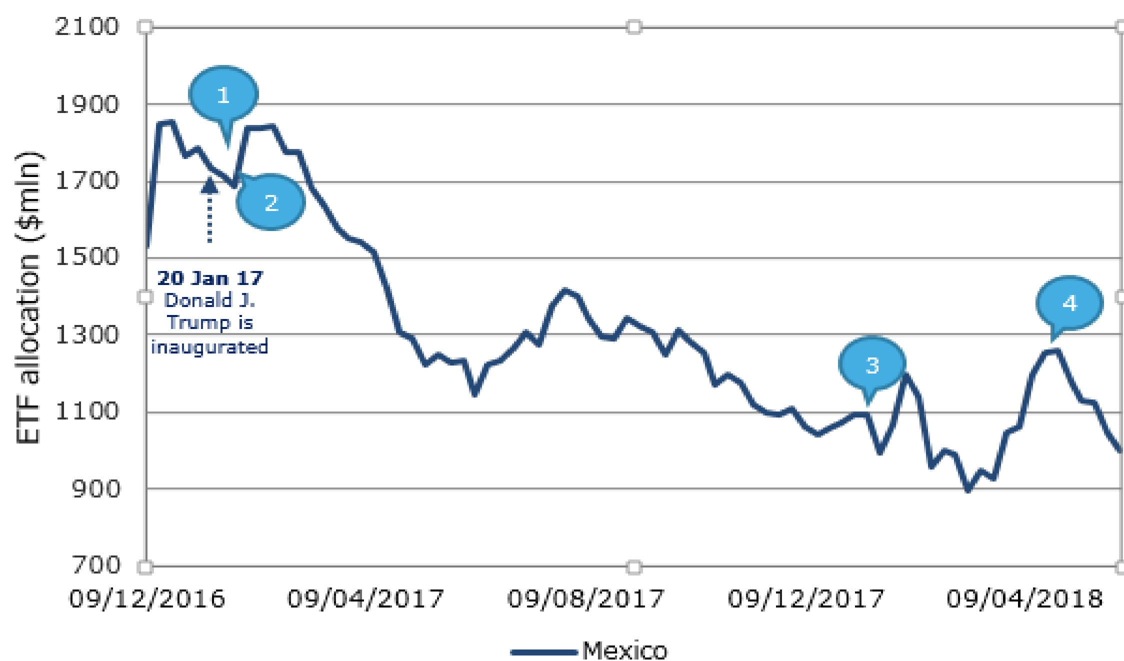

Source: MSCI, Fidante Partners, March 2018.

On the above chart, it is again clear that the light blue bars (exposure to China) represent a higher % than dark bars (exposure to USA) on nearly all items with the exception of Information Technology, where the US leads by a very thin margin. The above goes some way in showing that it isn't Donald Trump's direct tariffs that drives fear across Emerging Markets countries but rather a trade war with China which is more than likely to ripple across all its trading partners. This 'second order' effect is likely to be particularly painful for countries that have a significant exposure to both countries, South Korea being a prime example. On the other hand, countries/industries with the lowest exposure to both countries are likely to be the 'safe-haven' assets in this situation. Based on the same chart, we can see the **Utilities** and **Consumer** sectors have a relatively low exposure to both China and USA. Whilst saying that those stand to 'gain' from this scenario might be going a bit too far, you may want to keep this handy for any future EM sector allocation.

## All about the flow

Allocation – now that is an important word. Whilst Emerging Markets have made tremendous leaps over the past few decades, they are still relatively small as an asset class. They also still vastly depend on flow of funds from developed market investors and given their non-homogeneity and disaggregated state, are still more of a price taker rather than setter. So, if for whatever reason, developed market investors felt compelled to take their monies out of EM, it's likely to have a more precipitated and wider effect than any tariffs imposed by the current US administration. Perversely, this means that a single tweet regarding looming/pending measures against country X could have much more damaging effects than months of carefully drafted tariffs. To illustrate this point, I will show you how Mexico's ETF allocation (via iShares Emerging Markets Index) has moved since Donald Trump's inauguration and see if we can link those movements to the President's tweets. On the chart on the next page, you will see small bubbles which represent the President's tweets with a direct aim at Mexico.

Fig 10: MSCI iShares Emerging Markets Index Mexico Allocation and Presidential tweet




Source: Bloomberg, Twitter, April 2018.

And the corresponding Presidential tweets on the graph are:

- 1) **Jan. 26 2017 -** 'The US has a 60 billion dollar trade deficit with Mexico. It has been a one-sided deal from the beginning of NAFTA with massive numbers... '
- 2) **Jan. 27 2017 -** 'Mexico has taken advantage of the US for long enough. Massive trade deficits & little help on the very weak border must change, NOW!'
- 3) **Jan. 11 2018 -** 'Chrysler is moving a massive plant from Mexico to Michigan, reversing a years-long opposite trend. Thank you Chrysler, a very wise decision. The voters in Michigan are very happy they voted for Trump/Pence. Plenty of more to follow!'
- 4) **Apr. 23 2018 -** 'Mexico, whose laws on immigration are very tough, must stop people from going through Mexico and into the US We may make this a condition of the new NAFTA Agreement. Our Country cannot accept what is happening! Also, we must get Wall funding fast.'

To run through what I did here quickly – I took the total AUM of the iShares MSCI Mexico ETF as a proportion of the total AUM of the iShares MSCI Emerging Markets ETF and its movements since December 2016 (shortly before Trump's inauguration date). Obviously, there are other factors at play here, such as negative calendar effect in April (Easter), but it's hard to deny that Mexico looks much less attractive to US money since Trump's presidency began. To give you some numbers, since the inauguration, the ETF's allocation to Mexico dropped by circa $793mn (-43%), based on an initial value of circa $1.9bn.
Interestingly, the total AUM for the iShares MSCI Emerging Markets Index increased from around $28bn to about $40bn in that same timeframe. This shows that the reduction in Mexico's allocation isn't likely to be part of waning interest towards Emerging Markets Equities as a whole but something more idiosyncratic.
I know – correlation isn't causality. The point here isn't that single tweets send country allocations into turmoil but rather that a sustained twitter campaign can, and in most cases, will have a palpable impact even on large emerging market economies.

## Putting it all together

We are currently in a rare period of synchronized global growth; interest rates in the US and Europe are still close to historic lows and hence the 'hunt for yield' continues. Emerging market equities enjoyed a huge rally in 2016 that was carried through to 2017. This so far culminated in EM equities beating their Developed Markets (DM) peers by nearly 15% over the course of 2017. The significance of this has been amplified by five years of severe underperformance (2011-2015) during which EM lagged is DM peers by nearly 50% on aggregate. The table below shows the contrast to the not so distant past.

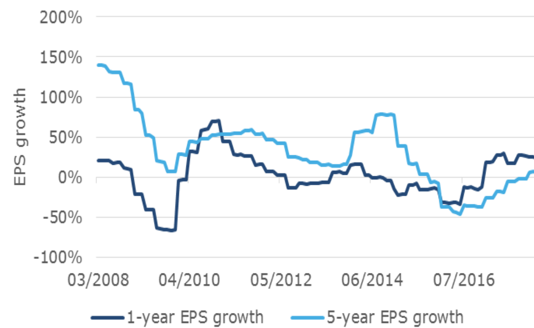
Fig 11: Exposure of US firms' revenue to the Chinese economy

| Performance | MSCI EM Index (%) | MSCI Dev World (%) |
|---|---|---|
| 2013 | -5.0 | 24.4 |
| 2017 | 34.4 | 20.1 |

Source: Bloomberg, Fidante Partners, April 2018.

Broadly speaking, we credit most of this recovery being down to a few factors including productivity growth outpacing real wage growth, better cost management and investments in labour-saving equipment starting to bear fruit. All those mentioned factors relate to predominantly fundamental rather than technical aspects. In the context of a potential trade war, this is a very encouraging sign as it displays a somewhat lower reliance on external factors. Hopefully, in the trade war scenario that we are studying, this could provide a layer of protection in the medium-term.

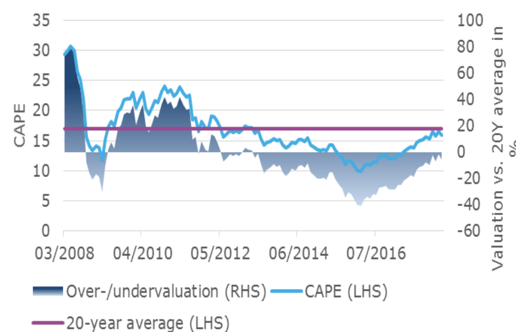
Fig 12: Earnings Per Share (EPS) Growth




Source: Bloomberg, Fidante Partners.

There are two things worth noting about the above chart – first, it is the fact that both five-year and one-year EPS growth figures are now near the 2010-2011 highs after a long period of struggle. Second is the fact that both of these seem to have broken out of their downward trend and there is likely to be further upside in the near-term. Interestingly, the five-year figure includes the years of severe underperformance, meaning recent gains have made some headway towards a full recovery.

Fig 13: EM Valuations and Shiller Cyclically Adjusted Price to Earnings (CAPE) ratio



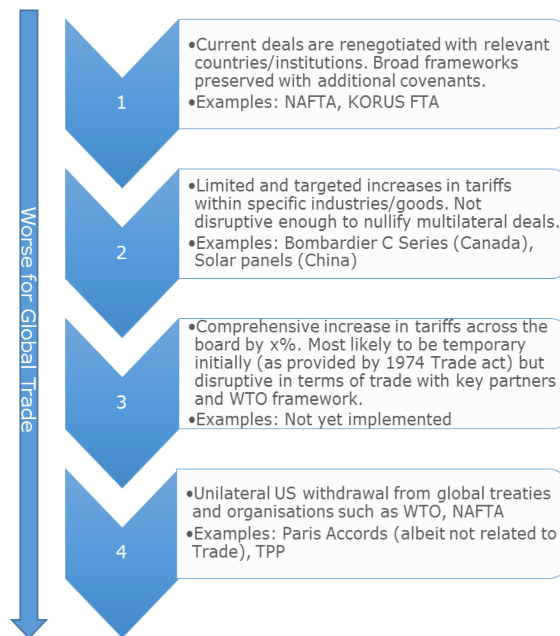

Source: Bloomberg, Fidante Partners.

Another key factor when reviewing the state of a market/asset class is looking at valuations. Despite its strong recent performance, we can see that investors aren't quite rushing back to EM just yet and these assets are still considered 'undervalued' in our assessment. I could write a paper of similar length to this one discussing reasons why, but I will just say

that this can present a further opportunity for willing investors.

I did say earlier that I wasn't bold (or bored) enough to take on the whole array of scenarios in a trade war. Therefore, the chart below shows the four broad categories of presidential action that we are likely to see over the next few months, in increasing order of gravity for global trade (on the right).

Fig 14: Trade war - four scenarios and their impact on global trade




Source: Bloomberg, Fidante Partners.

In a trade war scenario, we would imagine the US administration with Donald Trump at its head, implementing a mixture of 3 and 4. A withdrawal from major supranational bodies such as WTO is still far-fetched but an exit from NAFTA/KORUS FTA for instance feels more palpable, especially now.

In the context of a wider 'war', some skirmishes have already taken place, notably between the US and China but also between the US and other 'allies' (please see Fig. 4). The aluminium and steel tariffs announced in March and imposed in June for instance, drew criticism from members of the GOP, whilst the EU, Canada and Mexico (all US allies) pushed for exemptions in vain. On the Chinese side, Trump imposed tariffs on solar panels (China is the world's largest manufacturer of those) and washing machines whilst banning electronics giant ZTE from importing crucial parts from the US. As expected, this drew a tit-for-tat response from China which introduced its own tariffs on about $3bn worth of US goods, including pork and wine. As I write this article, the US delegation is in Beijing presumably trying to get concessions from the Chinese which they could brandish at home. So far, it isn't abundantly clear those objectives will be achieved. Yes, the Chinese mooted the idea of slashing tariffs on cars, importing more US goods and opening up its financial services market, but is this really related to addressing the imbalance in trade? In many people's eyes, these are natural events for an economy that is transitioning from a manufacturing-driven to a consumption-driven model. In any case, Trump's recent announcement that he will be going ahead with tariffs on roughly $50bn worth of goods imported from China isn't likely to help either.

To be clear, nobody is escaping unscathed from this but again, damage may be limited due to the domestic fiscal and monetary policies Donald Trump is pursuing simultaneously. Import tariffs for instance, are likely to put upward pressure on inflation which as we know, has a strong link to EM GDP growth. The cyclicality of economic decisions also begs the question: how long will this last? Let's suppose American firms, buoyed by the tax advantages, begin shifting their factories back to the US mainland under the 'Made in America' banner. Let's assume that at this stage, the economic benefits outweigh the costs and the wage differential is compensated for by the tax cuts. Inevitably, with time and inflation rising, the same companies will be forced to increase their workers' wages in line with that. Soon enough, the wages will be so high that it will make economic sense to shift those same factories back abroad which begs the question, will there be a long detour back to square one?

## RESEARCH

**Joachim Klement**
+44 20 7832 0956
jklement@fidante.com

**Martin McCubbin**
+44 20 7832 0952
mmccubbin@fidante.com

**Aliy Akbarov**
+44 20 7832 0957
aakbarov@fidante.com

## UK SALES

**Daniel Balabanoff**
+44 20 7832 0955
dbalabanoff@fidante.com

**Max Bickford**
+44 20 7832 0934
mbickford@fidante.com

**Patrick Valentine**
+44 20 7832 0932
pvalentine@fidante.com

**Justin Zawoda-Martin**
+44 20 7832 0931
jzawodamartin@fidante.com

**Hugh Ferrand**
+44 20 7832 0935
hferrand@fidante.com

## INTERNATIONAL SALES

**Christian Andersson**
+46 8 1215 1360
candersson@fidante.com

**Ian Brenninkmeijer**
+46 8 1215 1361
ibrenninkmeijer@fidante.com

**Trevor Barnett**
+1 212 897 2807
tbarnett@fidante-us.com

**Adam Randall**
+1 212 897 2807
arandall@fidante-us.com

## MARKET MAKING

STX 79411 79412

**Mark Naughton**
+44 20 7832 0991
mnaughton@fidante.com

**Anthony Harmer**
+44 20 7832 0995
aharmer@fidante.com

## PRODUCT DEVELOPMENT

**Tom Skinner**
+44 20 7832 0953
tskinner@fidante.com

## CORPORATE FINANCE

**John Armstrong-Denby**
+44 20 7832 0982
jdenby@fidante.com

**Nick Donovan**
+44 20 7832 0981
ndonovan@fidante.com

**Will Talkington**
+44 20 7832 0936
wtalkington@fidante.com

## Important Information

This is a marketing communication and is not, and should not, be considered as independent investment research. It is issued by Fidante Partners Europe Limited ("Fidante Partners") which is authorised and regulated by the Financial Conduct Authority ("FCA"). Fidante Partners Europe Limited trades as "Fidante Partners" and "Fidante Capital". Fidante Partners Europe Limited is a wholly owned subsidiary of Challenger Limited, a company listed on the Australian Securities Exchange Limited.

This marketing communication is for persons who are Eligible Counterparties or Professional Clients (for the purposes of the FCA rules) only and it is not available to Retail Clients. It is being distributed (a) in the United Kingdom to, and is directed only at, persons who are (i) investment professionals as defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Promotion Order") or (ii) are persons to whom this marketing communication may otherwise lawfully be issued or passed on or (b) outside the United Kingdom to, and is directed only at, persons to whom this marketing communication may be lawfully issued or issued without compliance with any filing, registration, approval or other requirement in the relevant jurisdiction, and in each such case without the inclusion of any further warnings or statements as required by the Promotion Order, or other applicable law or regulation, which are not included in this marketing communication (all such persons together being referred to as "relevant persons"). Neither this marketing communication nor any of its contents may be received by, acted on or relied on by persons who are not relevant persons.

No part of this marketing communication may be published, distributed, extracted, re-utilised or reproduced and any attempt to do so may be restricted or prohibited by law. Recipients are required to inform themselves of, and comply with, all such restrictions or prohibitions and none of Fidante Partners or any other person accepts liability to any person in relation thereto.

Fidante Partners does not produce independent investment research within the meaning of the FCA Handbook of Rules and Guidance. Accordingly, this marketing communication is non-independent research within the meaning of those rules, which means it is a marketing communication under the Markets in Financial Instruments Directive ("MiFID") and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. However, Fidante Partners has policies to manage the conflicts which may arise in the production of non-independent research, including preventing dealing ahead and Fidante Partners operates a conflict of interest policy in regard to research. This includes physical and electronic information barriers procedures and the operation of a cultural Chinese Wall. For further information, please view the following policies: Conflicts of Interest, Chinese Walls Policy, Information Barrier Procedures.

Fidante Partners acts as a market maker, corporate broker and, from time to time, bookrunner to companies in the closed-end listed investment company sector. A list of all companies in relation to which Fidante Partners acts as market maker and/or corporate broker and/or bookrunner (and the relevant dates of any closing of any such capital raise) can be viewed here: Market Making Stocks, Corporate Appointments.

Fidante Partners may have an economic interest (for example, minority equity interest or fee entitlement) in investment managers of the funds of which it provides services (such as corporate finance, listing sponsorship, market maker, corporate broker and bookrunner).

Please click here for the Fidante Partners research policy.

This marketing communication does not constitute a personal recommendation or take into account the particular investment objectives, financial situation or particular needs of any specific recipient. It is not intended to provide the sole basis for any evaluation of an investment decision. Your attention is drawn to the date of issue of this marketing communication and of the opinions expressed herein. Before acting on any advice or recommendations in this marketing communication, recipients should consider whether it is suitable for their particular circumstances and, if necessary seek professional advice, including tax advice. Recipients of this marketing communication should note that: All investments are subject to risk; the value of shares may go down as well as up; you may not get back the full amount that you have invested; past performance is not a guarantee of, and cannot be relied on as a guide to, future performance; fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

This marketing communication is for informational purposes only and does not constitute, and should not be viewed as, an offer, invitation or solicitation in respect of securities or related other financial instruments nor shall it be construed as a recommendation for Fidante Partners to effect any transaction to buy or sell securities or related financial instruments on behalf of any recipient nor shall it, or the fact of its distribution, form the basis of or be relied upon in connection with, any contract or commitment in relation to such action. The securities that may be described in this marketing communication may not be eligible for sale in all jurisdictions or to certain categories of investors.

This marketing communication is based upon information which Fidante Partners considers reliable, but such information

has not been independently verified and no representation is made that it is, or will continue to be accurate or complete and nor should it be relied on as such. This marketing communication is not guaranteed to be a complete statement or summary of any securities, markets, documents or developments referred to in this marketing communication.

Any statements or opinions expressed in this marketing communication are subject to change without notice. Neither Fidante Partners, any member of the Challenger Limited group nor any of their directors, officers, employees or agents shall have any liability (including negligence), however arising, for any error, inaccuracy or incompleteness of fact or opinion, or lack of care, in this communication's preparation or publication; provided that this shall not exclude liability which Fidante Partners has to a customer under the Financial Services & Markets Act 2000 or under the Rules of the Financial Conduct Authority.

This marketing communication contains certain forward-looking statements, beliefs or opinions. These statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", "may", "will" and similar expressions. Such statements reflect current views with respect to future events and are subject to risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. These forward-looking statements are based on current plans, estimates, projections and expectations. These statements are based on certain assumptions that, although reasonable at this time, may prove to be erroneous. No statement in this marketing communication is intended to be a profit forecast. No representations or warranties, express or implied, are given as to the achievement or reasonableness of and no reliance should be placed on, such statements, including (but not limited to) any projections, estimates, forecasts or targets contained herein. Fidante Partners does not undertake to provide any additional information, update or keep current information contained in this marketing communication, or to remedy any omissions in or from this marketing communication. There are a number of factors that could cause actual results, developments, financial targets and strategic objectives to differ materially from those expressed or implied by statements in this marketing communication. Fidante Partners, nor any other person intends, and no person assumes any obligations, to update information or statements set forth in this marketing communication. You should not place reliance on forward-looking statements which speak only as at the date of this document.

Where references to external resources such as internet websites are provided these are for reference purposes, and the external resources are not intended to be included as part of this publication; Fidante Partners plc has not checked and is not responsible for any external content, and makes no representation as to its reliability or accuracy.

Any dispute, action or other proceeding concerning this marketing communication shall be adjudicated within the exclusive jurisdiction of the courts of England. All material contained in this marketing communication (including in this disclaimer) shall be governed by and construed in accordance with the laws of England and Wales.

**Fidante Partners Europe Limited**

Authorised and Regulated by the Financial Conduct Authority

Fidante Partners Europe Limited trades as "Fidante Partners" and "Fidante Capital".

Registered Office: 1 Tudor Street, London EC4Y 0AH. Registered in England and Wales No. 4040660.

FIDANTE
PARTNERS