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BLACKFRIARS ASSET MANAGEMENT

DEVELOPING MARKETS INSIGHT

3rd October 2018

Market summary

September turned out to be a relatively calm month, registering a decline of 0.5%. The first half of the month saw the index lose 5%, hitting a 12 month low, which was followed by a recovery to near break-even. The 20 trading days were equally split between positive and negative daily returns.

MSCI Latin America was the best region, advancing 4.7%, with all five country constituents advancing. Brazil led the way, jumping 7%. It was helped by resilient iron ore prices, especially for the higher quality grades that it mines. According to opinion polls the upcoming election looks likely to result in a second round run-off between left and right candidates, squeezing out more market friendly centrists. Mexico improved 1.6%, as progress towards a NAFTA replacement was achieved. The currency has rallied 10% against USD from its June low.

MSCI EMEA was mixed; but overall improved 1.7%. It was helped by a recovery in Turkey, which surged 20.6%, including a lira appreciation of 9.3%. For the country index it was the strongest month since 2009; albeit being essentially a bounce from a heavily oversold situation, and the market is still the worst performer for the year, having lost 44.1%. Russia was also strong, gaining 9.8%, helped by crude oil's 6.8% accretion (Brent blend). Greece was the worst market, shedding 8.2%, the bank stocks continue to be a drag over valid concerns about problem loans.

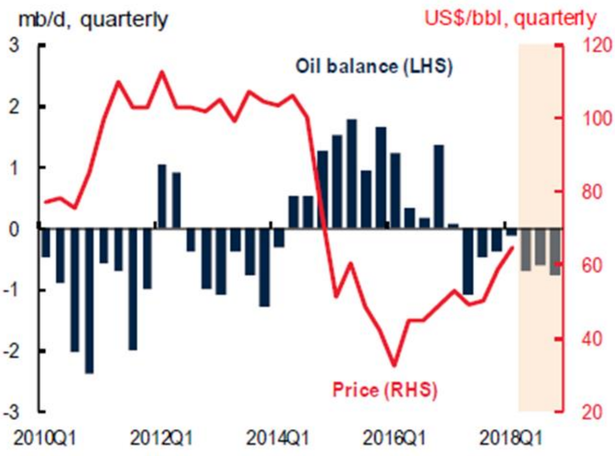
Asia was the weakest region, retreating 1.7%. India tumbled 9.1%, its worst month in 5 years. The problem was the insolvency of Infrastructure Leasing and Financial Services, leaving banks with exposed loans. The government has intervened, taking over the board, in an attempt to avoid further contagion. The Philippines was also weak, losing 8.4%. The central bank is struggling to tame inflation, and a 50bps hike to 4.5% might not be the last. Annual inflation was 6.4% in August. Thailand was the best market, gaining 3.1%. Its largest constituent is an oil company.

Energy was the best sector, adding 6.9%, as detailed above crude oil has been strong, now at a four year high. The worst sector was Health Care, down 4%, hit by Aspen Pharmacare in South Africa. It plummeted nearly 40% on balance sheet concerns.

Oil

The oil price continues to rise, placing pressure on several Emerging Market economies which have to import their oil requirements. We do not presume to forecast the oil price, but the chart below is interesting, showing that the deficit in supply is expected to continue. In the absence of any other unexpected factors, one might reasonably expect this to lead to higher oil prices.

World oil balance and oil price



Source: IEA, World Bank

Note: Shaded area (2018Q2-4) represents IEA projections. Balance is defined as the difference between world oil demand and supply. OPEC crude oil production for 2018 is assumed at 32 mb/d.

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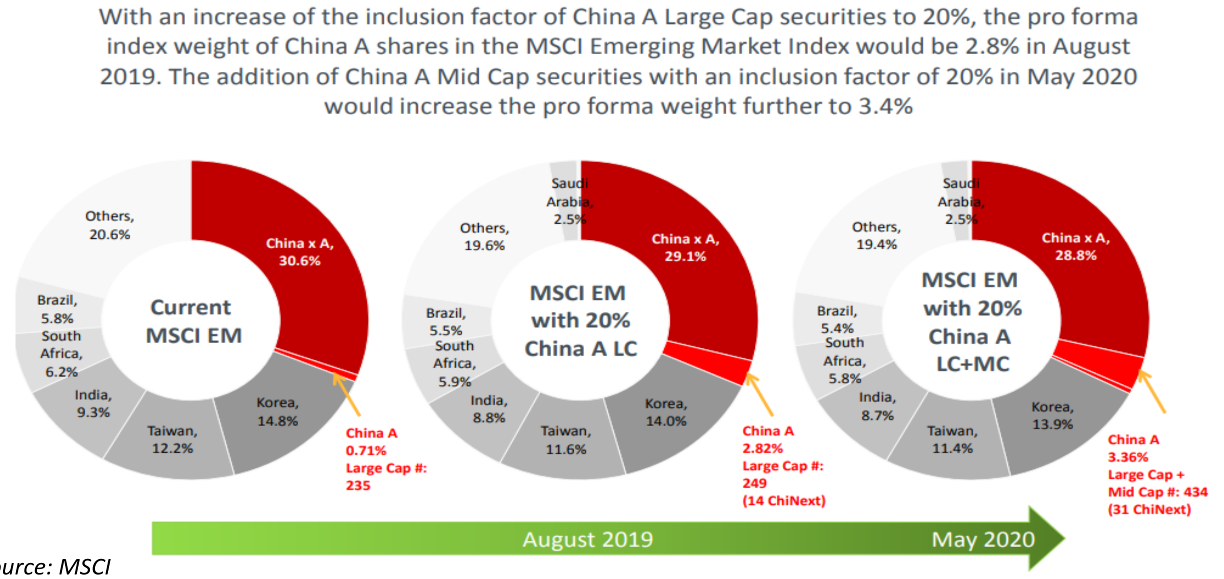
MSCI China – rise of the A-share

MSCI announced this month the launch of a consultation on a further weight increase of China A shares in the MSCI Indexes from a 5% inclusion factor (MSCI China A Large Cap) to 20% of their respective free float-adjusted market caps in two phases; May 2019 and August 2019 and the potential inclusion of a further 168 China A Mid Cap stocks in 2020.

PRO-FORMA WEIGHT IN MSCI EM INDEX

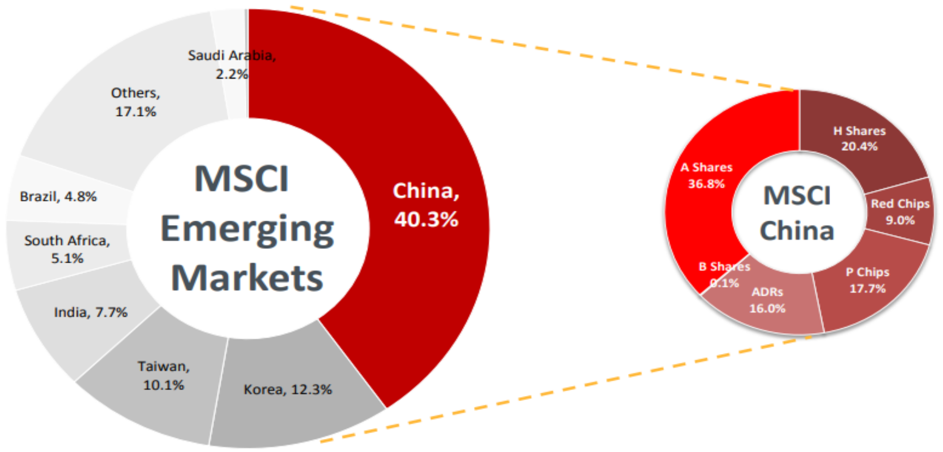


Source: MSCI

There have been improvements in market liberalisation. Also, the number of temporary suspensions, a big problem during the 2015 A-share market collapse, has fallen dramatically though it will be instructive to see if this persists through another sharp market decline.

Over the next few years, as the market continues to liberalise and operational issues are resolved we expect to see the inclusion factor increase to 100%. At that point, China would likely be approaching 50% of the total MSCI EM index and A-shares alone would be larger than the no.2 market, South Korea.

HYPOTHETICAL FULL INCLUSION SCENARIO USING PRICES AND CONSTITUENTS AS OF 03/09/18



Source: MSCI

AL, BR &TH