Marketing Material
For Professional Investors Only

Navigating Risks & Diversification in Emerging Markets

Leave the herd behind.

ram ai

Introduction.

For over a decade, global economies and markets have enjoyed the benefits of liquidity injections by central banks worldwide. This has resulted in increased access to financing and a decrease in investor risk aversion. A notable outcome of this low-interest rate environment is the considerable flow of investments towards growth-oriented Emerging Market (EM) managers and a heightened concentration of mega cap growth companies in market cap based indices.

As we transition into a higher rate landscape, investments are expected to shift towards a more diverse range of companies, benefitting investment approaches that emphasise strong valuation perspectives. To mitigate risk, investors should consider actively diversifying their portfolios with more comprehensive, fundamentals-driven exposures to EM. By examining the risk concentration within a prominent market-cap weighted index like the MSCI EM, which is often favoured for EM allocations, we can emphasise the importance of diversification. This analysis will compare a passive approach with the RAM EM Equity All Cap strategy.

Source: AI generated with the Stable Diffusion Model on https://beta.dreamstudio.ai/dream

Increasing Concentration within the MSCI EM Index

The MSCI EM Index exhibits a growing concentration, with 69% of its allocation focused on four countries (China, Taiwan, India, and South Korea) and 70% dedicated to cyclical sectors. This highlights the need for investors to be mindful of potential concentration risks embedded in their portfolios.

The chart below compares the current weightings of the top 50 stocks in the MSCI EM Index with their average 10-year weightings. The discrepancy between these values further highlights the concentration risks investors face in today's market.

MSCI EM Index Top 50 Stocks Concentration
Current Index vs Average 10-Year

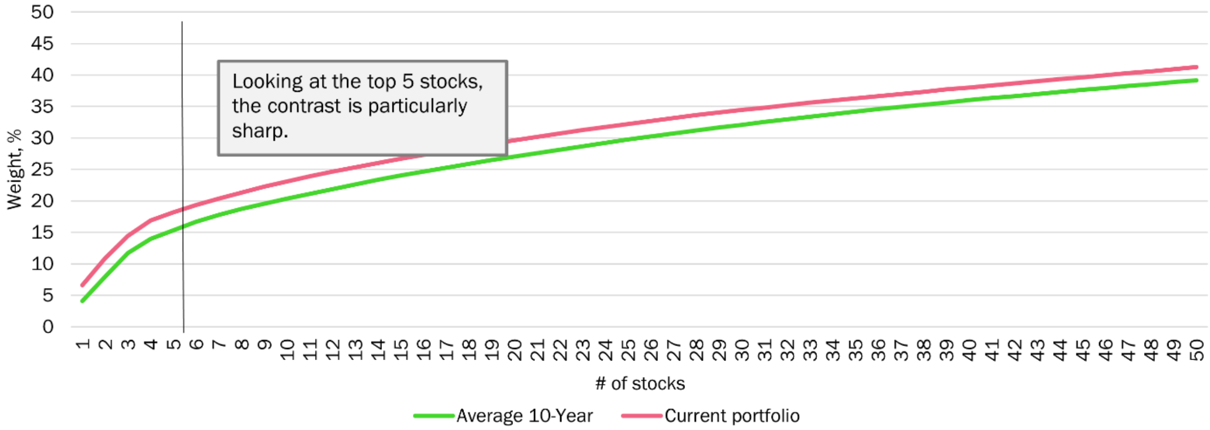


Figure 1: Note: The MSCI EM Index captures large and mid cap representation across 24 EM countries. Source: RAM AI, MSCI indices as of 26.03.2023.

Analysing Abnormal Returns and Diversification in EM

The following section highlights the significant performance concentration in the MSCI EM Index over the past decade, with the median name in the index down by 19%, the average index member performance at 1%, and the index advancing by 18%. This discrepancy is due to the heavy concentration of mega cap companies within the index.

MSCI EM Stocks Returns Distributions
Last 10 years

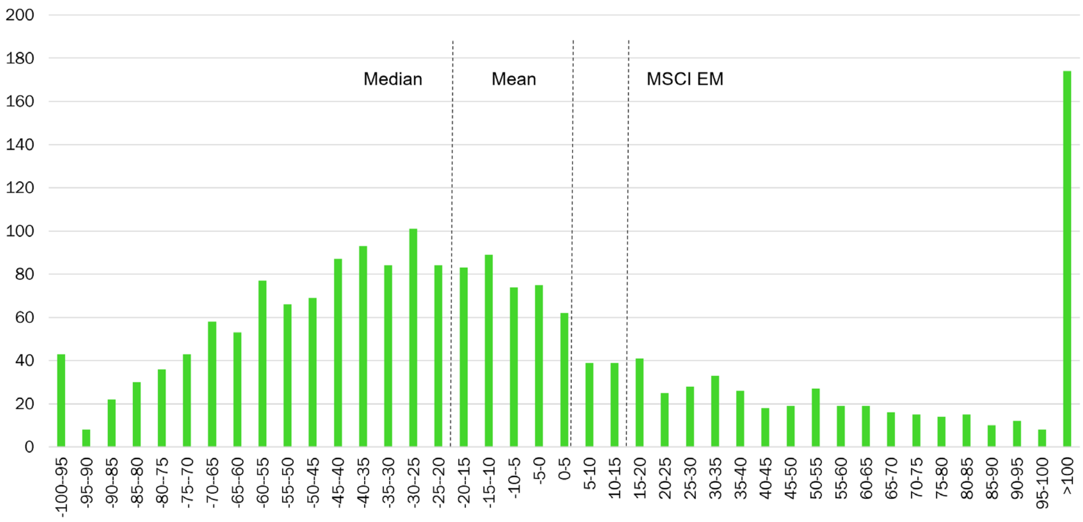


Figure 2: Source: RAM AI, MSCI indices as of 26.03.2023.

Comparing RAM's EM Equities Fund and MSCI EM Index

Many investors believe that allocating to ETFs reduces stock-specific risk due to their broad universe and extensive diversification in sector and country allocation. However, recent trends in EM suggest that this perspective may need to be reconsidered:

- 56% of the benchmark's risk is contained in three countries: China, South Korea, and Taiwan:

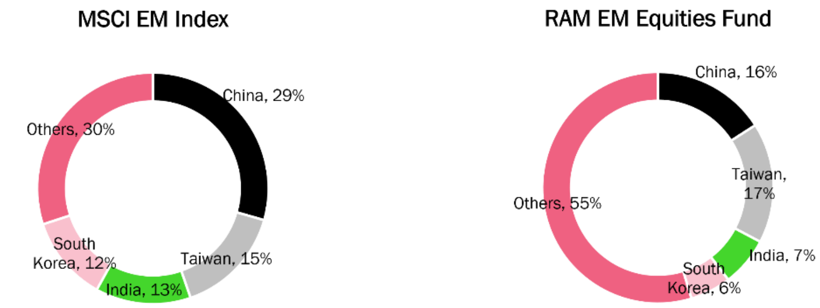


Figure 3: Source: RAM, MSCI Indices as of 26.03.2023.

- Only **30%** of the benchmark's risk is allocated to non-cyclical sectors:

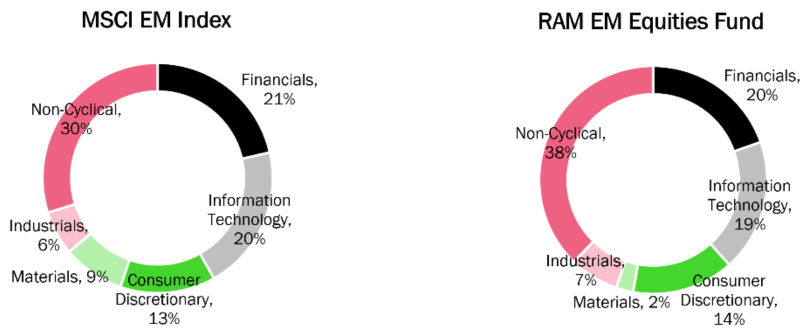


Figure 4: Source: RAM, MSCI Indices as of 26.03.2023.

- Only five stocks make up **19%** of the total benchmark's risk:

Figure 5: Source: RAM, MSCI Indices as of 26.03.2023.

**The five largest stocks in the MSCI EM Index are Taiwan Semiconductor Manufacturing Co Ltd (6.6%), Tencent Holdings Ltd(4.3%), Samsung Electronics Co Ltd (4%), Alibaba Group Holding Ltd (1.3%), Reliance Industries Ltd (1.3%) Source: Bloomberg as of 26.03.2023.*

Higher Concentration in Value-at-Risk Contributors within the MSCI EM Index

The top 10 stocks within the MSCI EM index have a high daily Value-at-Risk (VaR) contribution, representing 96bps risk compared to 47bps for the RAM EM Equities strategy.

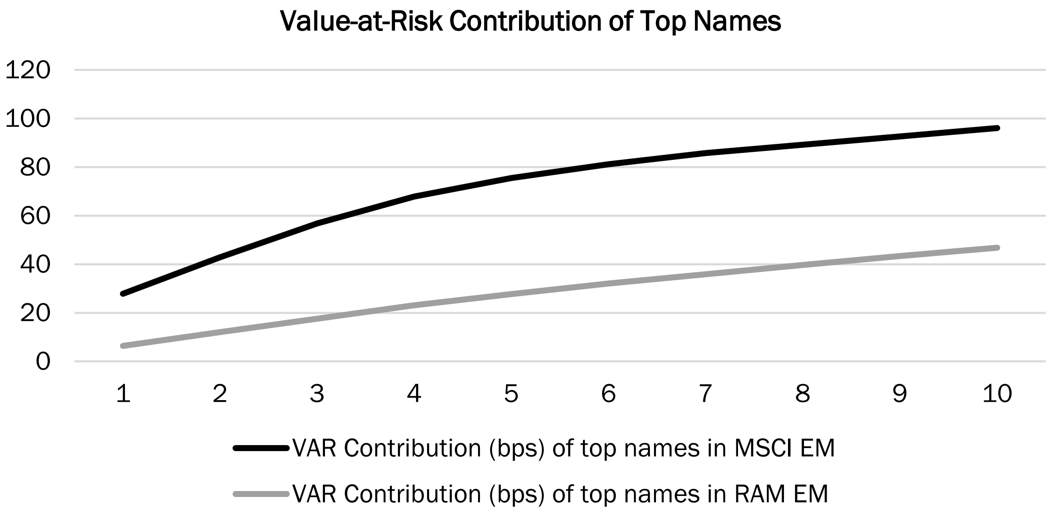
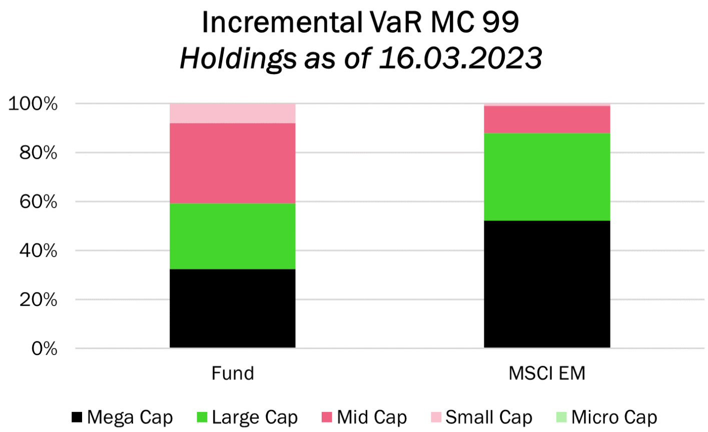


Figure 6: Source: RAM AI, Riskmetrics as of 26.03.2023.

Reducing Risk by Diversifying Away from Mega Caps

Investors using a market cap weighted strategy for broad exposure to EM are typically limited to the largest companies, which do not fully represent EM as a whole. Consequently, investors may miss out on the complete diversification benefits and potential upside of companies that do not dominate a cap-weighted index. Access to small and mid cap stocks can offer investors significant opportunities, with diversification, lower correlation, and low volatility benefits. EM small cap returns tend to be less correlated to their large cap counterparts over the long-term.



Over recent years, ETF flows have been concentrated within the larger cap segment, neglecting the other segments of a broad universe. The RAM EM Equities Fund has a VaR (99%) 19.8 bps lower than the index (132.4 vs 152.2). Our allocation across small and mid cap stocks helps to create a de-correlation effect, decreasing the overall portfolio's volatility.

Figure 7: Riskmetrics as of 16.03.2023.

While our bias towards a wider diversification across sectors, countries and market caps may cause the RAM EM Equities Strategy to underperform temporarily relative to standard indices during periods of strong outperformance in a particular allocation segment, a strong stock selection engine allows us to outperform the MSCI EM Index across market cap segment over the long-term.

Performance of our Small-Mid and Large Cap Allocation vs MSCI EM Index

Past performance is not a guide to future performance

31.12.2022	Small-Mid Cap (<5 bn$)	Large Cap (>5 bn$)	MSCI EM Index
3Y	19%	13%	-7.87%
5Y	15%	16%	-6.79%
10Y	74%	50%	15.32%
SI	270%	184%	55.99%

Figure 8: Note: Small-Mid Cap and Large Cap allocation shows performance gross of management and performance fee, net of implementation cost, carve-out of our RAM Emerging Markets Equities Strategy since July 2009. Source: RAM Active Investments, as of 31.12.2022.

Liquidity controls are fundamental to our investment approach and philosophy. We aim to remain disciplined and limit the slippage in order to apply a steady and repeatable investment process across different market cap segments.

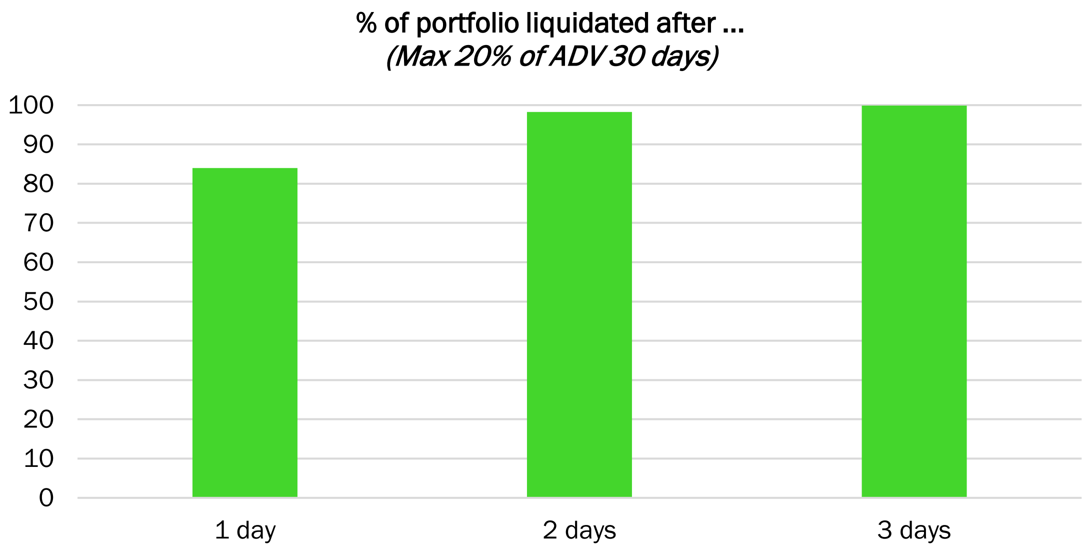
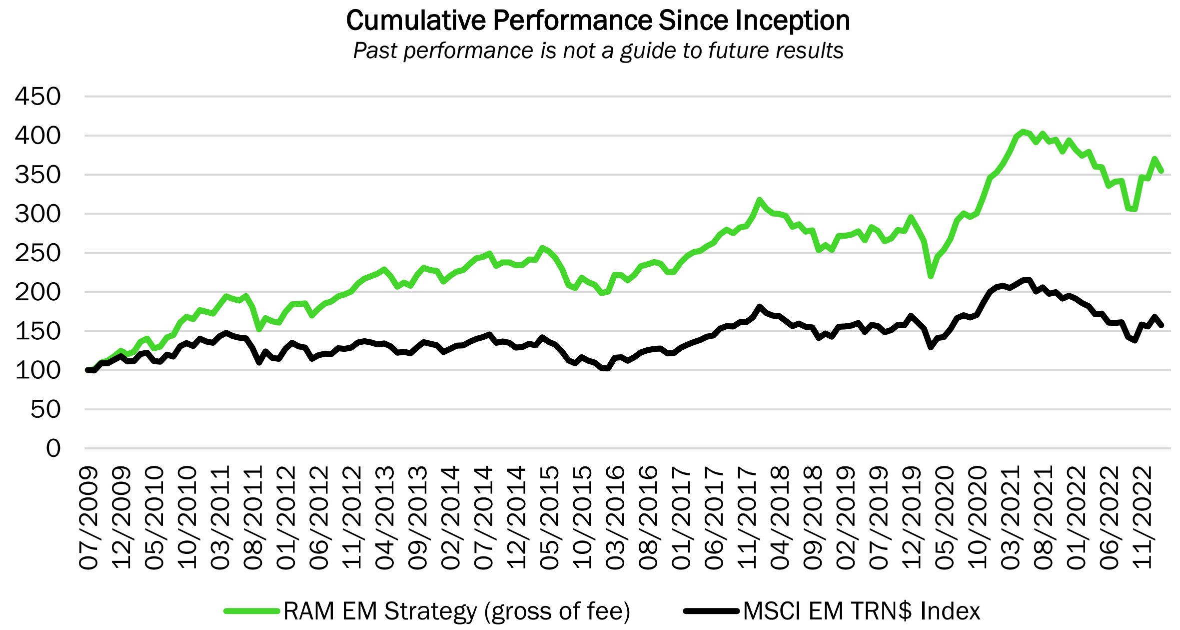


Figure 9: Source: RAM AI as of 27.03.2023.

Long-Term Performance

The RAM EM Equities Strategy mitigates risk associated with large thematic countries, sectors, and single stock bets, offering a truly diversified EM portfolio that allows investors to capitalise on changes in underlying economic growth premiums and market environments. While competitors focus on size, RAM AI prioritises the underlying fundamentals of its investments. Since its inception, the RAM EM Equities Fund has outperformed the MSCI EM Index by more than 6% annualised.



SI data	Annualised Return	Annualised StdDev	Alpha	Beta	Tracking Error
RAM EM Equities Strategy	9.78%	16.58%	6.56%	0.88	5.3%
MSCI EM ND USD	3.40%	17.98%	0%	1	0

Figure 10: Note: RAM Emerging Markets Equities Strategy shows performance gross of management and performance fee, net of implementation cost. Source: RAM AI, as of 28.02.2023, past performance is not a guide to future performance.

Glossary

ETF : An exchange traded fund (ETF) is a pooled investment vehicle with shares that can be bought and sold throughout the day on the stock exchange, in the same way that ordinary stocks and shares are traded.

VaR: Value at risk (VaR) is a statistic that quantifies the extent of possible financial losses within a firm, portfolio, or position over a specific time frame.

Cap-weighted index: An index construction methodology whereby the percentage that each security has within the index (its "weighting") is determined by the value of its outstanding securities as a proportion of the overall index value. With a market-cap weighted index, the larger the company is, the larger its position will be within the index.

Disclaimer

The calculation of performance commences at the beginning of the first full performance calculation period (one month) following the end of the month of inception. The official net asset values (fund prices) are used to calculate the monthly net returns, i.e. after deducting transaction and administration fees (including custody fees) and management fees and non-reclaimable taxes at source. In order to calculate the monthly gross return, the respective share of the TER (total expense ratio = all costs except for transaction costs) is added to the monthly net return based on the official net asset value. Since 31.08.2015, gross returns are calculated based on gross asset values net of transaction costs and administrative fees (including withholding taxes on dividends). Yearly and cumulative benchmark returns are calculated by geometric linking of monthly benchmark index returns, Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. (MSCI Index Definition, February 2015). The standard annual fee schedule for portfolios/funds included in the strategy may vary between min. 0.8% and max. 2.4% management fees and plus between 0% and 15% performance fees, depending on the asset size or further factors. The maximum total expense ratio including performance fees applied to one of the shareclasses of the subfund related to the composite was 3.10% in 2022. For prospective investors in specific share classes of the pooled fund included in present strategy, the respective fee schedules and expense ratios are provided in the fund's prospectus.

RAM (Lux) Systematic Funds - Emerging markets equities is a Sub-Fund of RAM (Lux) Systematic Funds, a Luxembourg SICAV with registered office: 14, Boulevard Royal L-2449 Luxembourg, approved by the CSSF and constituting a UCITS (Directive 2009/65/EC).

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The reference index of the sub-fund is MSCI Daily TR Net Emerging Markets (NDUEEGF)

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The prospectus, constitutive documents and financial reports are available in English and French while KIIDs are available in the relevant local languages. These documents can be obtained, free of charge, from the SICAVs' and Management Company's head office and www.ram-ai.com, its representative and distributor in Switzerland, RAM Active Investments S.A. and the relevant local representatives in the distribution countries.

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