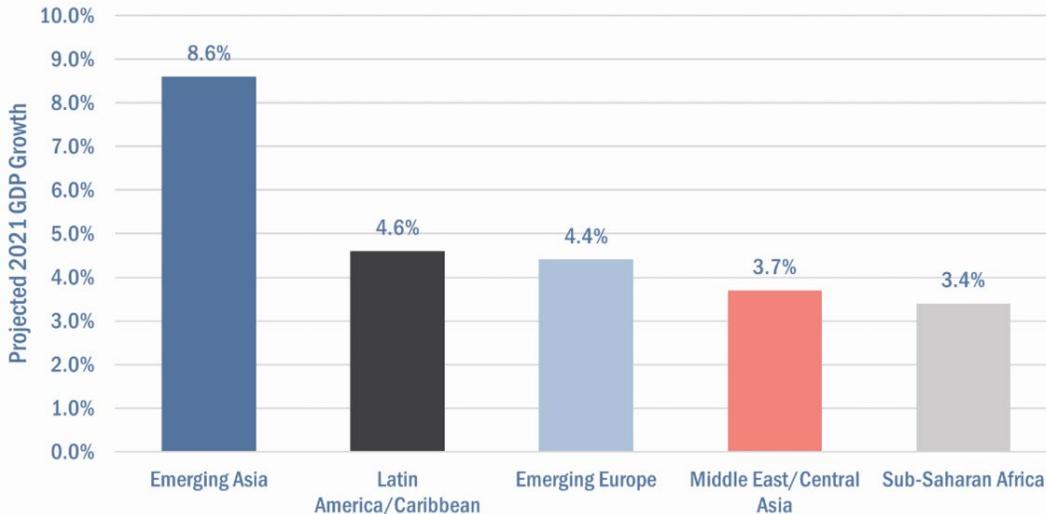


MARKET COMMENTARY

Emerging Markets Real GDP Growth



Sources: World Economic Outlook – April 2021, Mill Creek

Active equity management can play a key role in investment portfolios particularly in periods of heightened risk and especially when the investment thesis changes quickly. Over long holding periods, emerging market equities have offered investors enhanced returns but that has come with additional risks and at times unexpected drawdowns. Recently, the Chinese Communist Party (CCP) has stepped up its efforts to curb certain actions by many of China's fastest growing companies over concerns about monopolistic behavior, consumer protections, and data security. As China has become a larger part of the investable emerging market index, its influence on returns has never been greater. We often hear from our managers the importance of "knowing what you own" and recent actions by the CCP have offered the discerning active manager an opportunity to trade around their positions to preserve capital while index funds and ETFs have been forced to hold throughout the drawdown.

While our portfolios have been underweight global emerging markets, we continue to maintain an overweight to Asia within our broader emerging markets exposure due to the burgeoning middle class and faster economic growth prospects. The opportunity set within emerging Asia goes well beyond China to include places like India as well as the countries of Southeast Asia. Recently, active emerging markets managers have been able to re-position their portfolios into companies with better return prospects while the future of the regulatory environment in China remains uncertain. Market selloffs due to unforeseen risks can be frustrating for investors but utilizing an active manager and maintaining a long-term perspective can go a long way towards generating superior returns in the emerging markets.

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