Equity Fund Risk Analysis Report

Company : Ninety One
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Executive Summary

This is a report about an evaluation of ex-ante risk of a listed equity portfolio and further aimed at ascertaining the portfolio's ESG exposures and trends. The risk of the portfolio is decomposed at multiple dimensions, at instrument or security level and aggregated at GICS sector level. The latter is crucial, because risk spread across multiple similar positions, from risk perspective does not amount to diversification but creates fallacy that risk is managed when it is actually not. Risk dilution is not risk management. Inherent in belief that ESG considerations are imperatives for future generations and that they have positive influence or return outcomes, ESG exposures are investigated.

Objectives

1. Identify drivers of portfolio risk
2. Explore the evolution of risk measures over time
3. Identify ESG Exposures and impact on performance

1. Drivers of Portfolio Risk (Active Risk / Tracking Error)

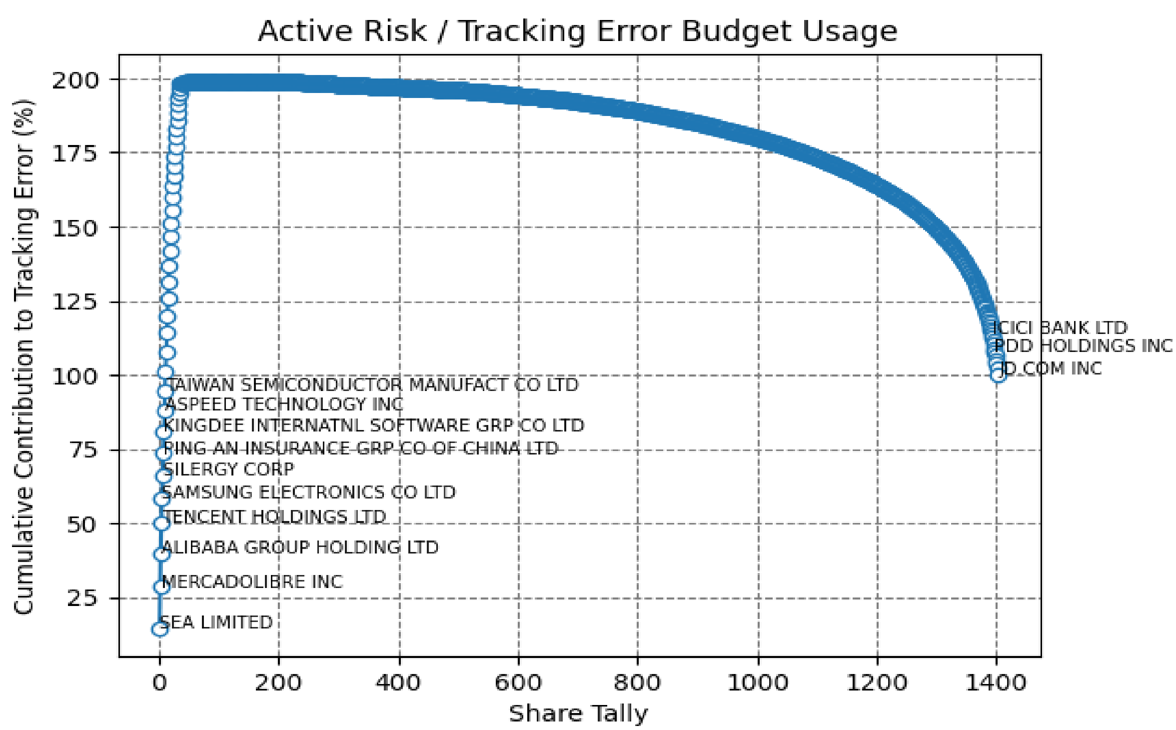

FIGURE 1

- A number of shares contribute more than 10% individual to the tracking error of the portfolio. The largest contributor being SEA Limited with 14.5%. However, the largest reduction by JD.COM is insignificant at 2.03%.
- Evident in **FIGURE 1** is, portfolio assumes its tracking error budget quickly on a few shares. This is depicted by the steepness of the line plot on positive contributions and less steepness by shares that offers some diversification. Some of this can be attributed to portfolio having far fewer shares than the benchmark.

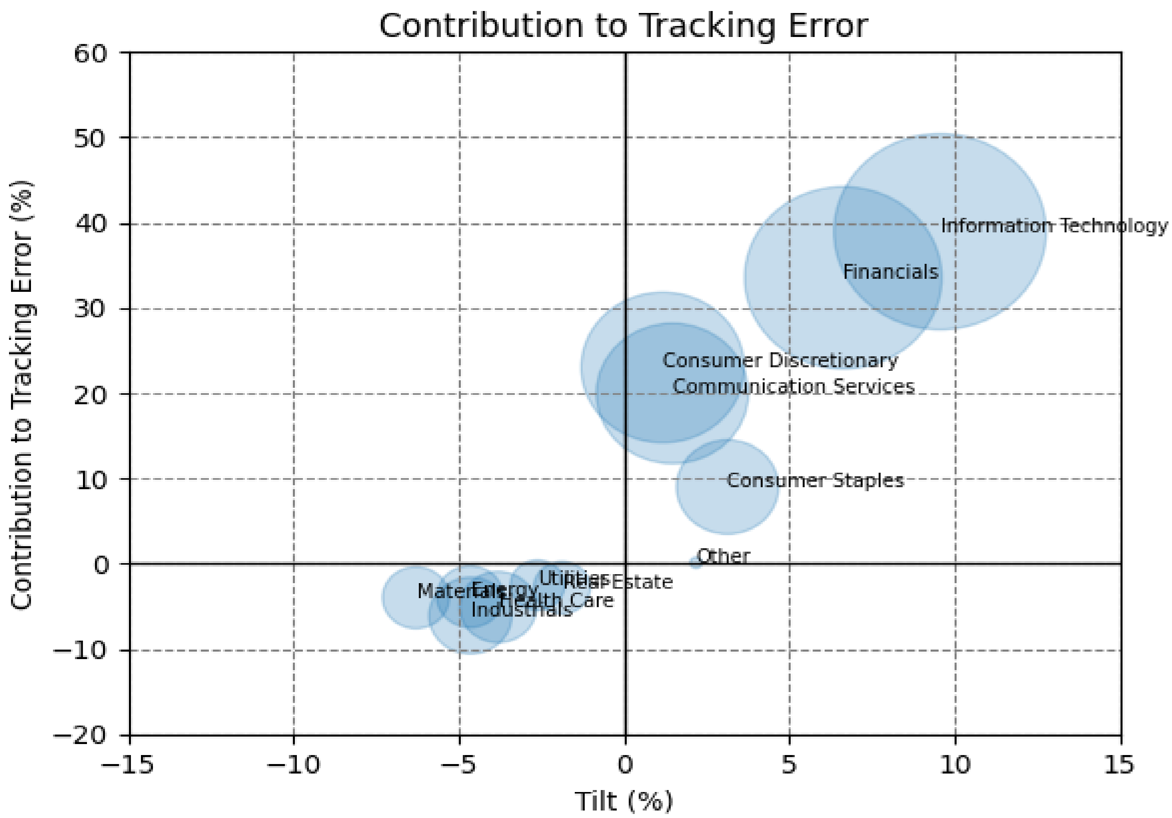

FIGURE2

- Information Technology and Financial GICS sectors are the largest contributors with 38.7% and 33.4% respectively. Expectation should be that these will be the drivers of return. One notice here, that financials sector despite having only 3 shares in the top 15 contributors to active risk, their contribution is significant in aggregate.
- Portfolio expresses conviction looking an magnitude of the tilt (active weight) in overweight's compared to underweights which mostly emanate from positions not in the portfolio but in the benchmark.

Name	GICS Sector	Tilt	%Contribution
SEA LIMITED	Communication Services	2.45%	14.49%
MERCADOLIBRE INC	Consumer Discretionary	3.05%	13.95%
ALIBABA GROUP HOLDING LTD	Consumer Discretionary	2.97%	11.16%
TENCENT HOLDINGS LTD	Communication Services	3.20%	10.63%
SAMSUNG ELECTRONICS CO LTD	Information Technology	3.34%	8.24%
SILERGY CORP	Information Technology	1.75%	7.51%
PING AN INSURANCE GRP CO OF CHINA LTD	Financials	2.67%	7.48%
KINGDEE INTERNATNL SOFTWARE GRP CO LTD	Information Technology	1.80%	7.35%
ASPEED TECHNOLOGY INC	Information Technology	1.78%	7.05%
TAIWAN SEMICONDUCTOR MANUFACT CO LTD	Information Technology	2.53%	6.86%
AIA GROUP LTD	Financials	3.01%	6.57%
MEITUAN	Consumer Discretionary	1.91%	6.40%
GLODON CO LTD	Information Technology	2.51%	6.35%
SAMSUNG SDI CO LTD	Information Technology	2.12%	5.86%
EAST MONEY INFORMATION CO LTD	Financials	2.10%	5.84%

TABLE 1

2. Risk Measures Through Time

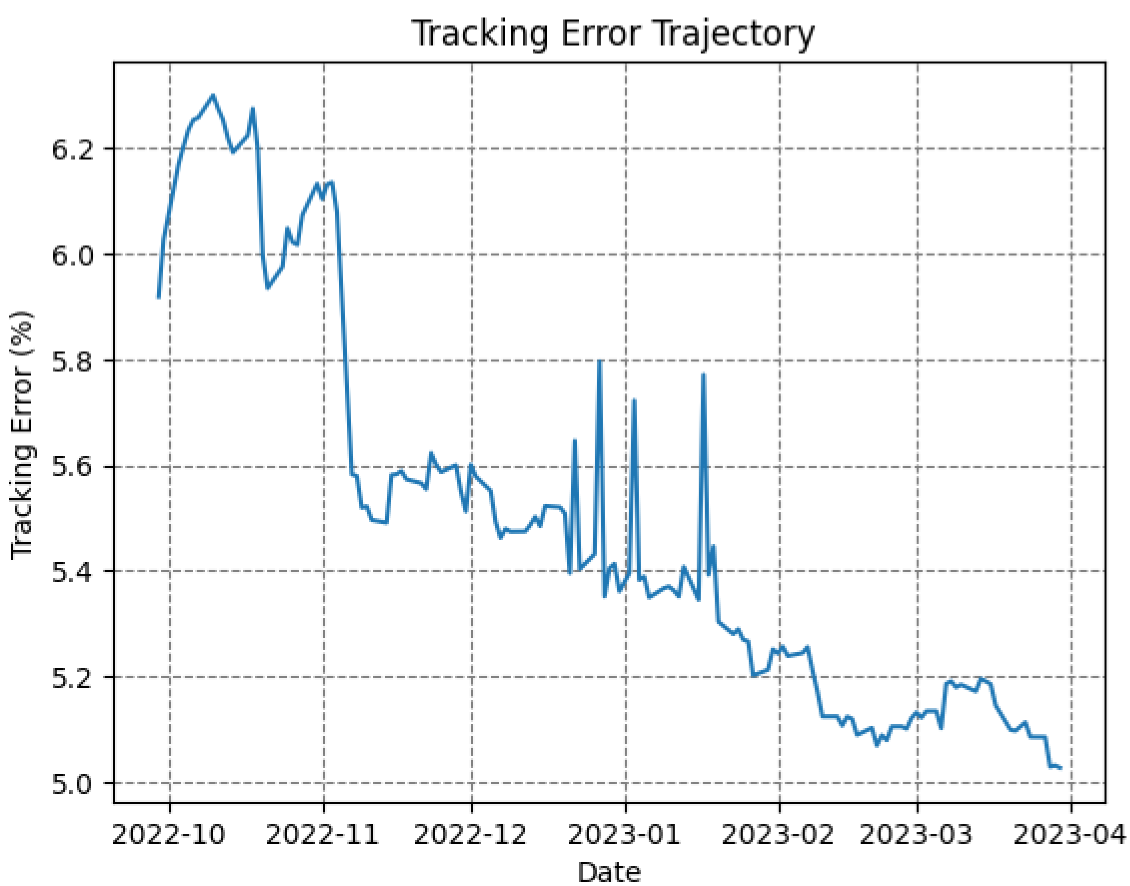

FIGURE 3

- Portfolio tracking error is on downward trajectory. This can be partly attributed to systematic reduction in risk (as represented by variance-covariance matrix) and portfolio tilting more now to less volatile shares.
- The spikes on the plot emanate from change in daily tilt for information technology sector.

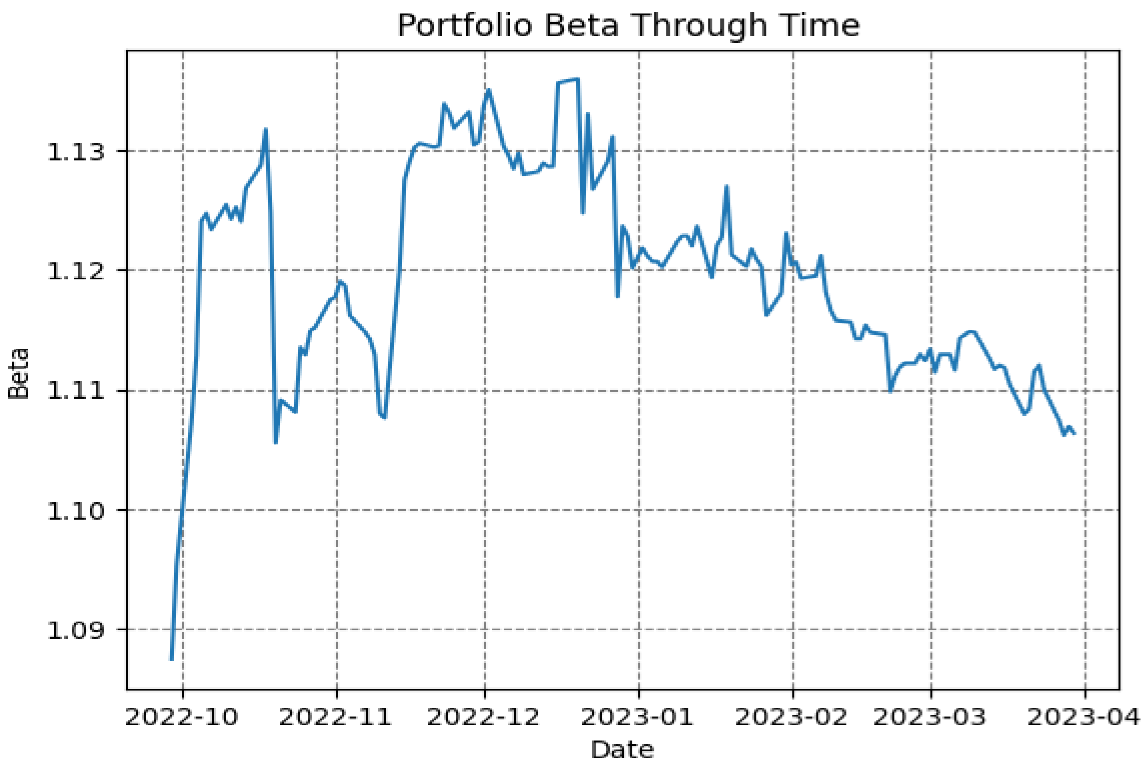

FIGURE 4

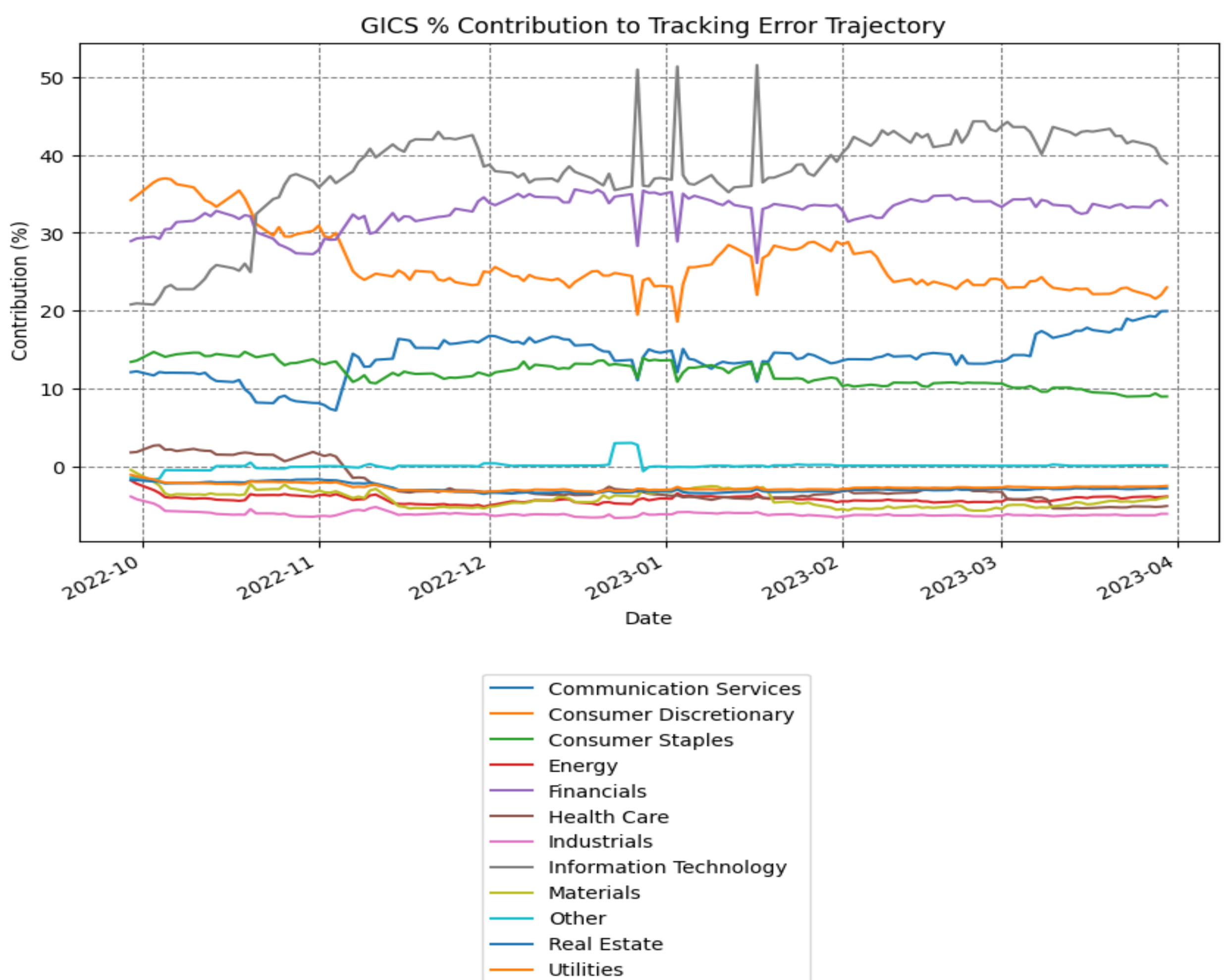

FIGURE 5

- The beta shows that the portfolio is more volatile than its respective benchmark as shown in **Figure 5.**
- The portfolio shows an increase in tilt to communication service which should bring about defensive characteristics.
- Overtime portfolio prefers particular sectors, noticed in point in time analysis **FIGURE 2** is emphasized by **Figure 5**

3. ESG Exposures and Impact on performance

We noted in the risk analysis that portfolio composition consists primarily of certain GICS sectors (information Technology, Financials, Consumer Discretionary, Communication Services and Consumer Staples). It is warranted to expect that these sectors will carry portfolio ESG exposures.

- Overtime portfolio Overall ESG Environmental Score is higher than Overall ESG Social Score that is followed by the Overall ESG Governance Score.
- Information technology sector reduces social and governance scores. This inferred on dates the sector weights were on the rise
- ESG leaders benchmarks has delivered superior or best performance than parent index and it should follow that ESG tilts will benefit performance.