

# TUNDRA SUSTAINABLE FRONTIER FUND

MONTHLY UPDATE  
NOVEMBER 2022



### INFLATION, RATE HIKES, CURRENCY WEAKNESS – A TOUGH MONTH

The fund rose 2.8% in USD (-2.1% in EUR) in November, underperforming our benchmark MSCI Frontier Markets ex GCC Index move of +5.5% in USD (+0.4% in EUR). Year to date the fund is still ahead of the benchmark with approx. 7%-points.

On a country level, the largest positive relative contributions came from the Philippines and Pakistan (+1,0%-point and +0,80%-points respectively) while the largest negative relative contributions came from Vietnam -1.35%-point contribution.

Looking at company level Pakistani IT-company Systems Ltd contributed the most after rising 11% (USD). Systems is a long-term holding of the portfolio and has been one of the top three holdings in the portfolio for some time now, reflecting our strong belief in the company. We believe it is still undervalued, trading at 16.5x 2023E earnings. The company benefits from having access to high quality consultants based in Pakistan (and hence PKR-based costs) and the majority of customers paying in USD. Any currency devaluation thus increases revenues, but not costs to the same extent. Increasing exports as well as creating higher value exports is also a priority for the government, making Systems Ltd strategically important for the country.

Our largest negative relative contributions came from Vietnamese companies REE and Mobile World, which declined 6% and 14% (USD) respectively. The Vietnamese market is still experiencing a lot of volatility due to the uncertainties in the property sector (see last month's update for more details.)



*Tuk-tuks in Colombo, Sri Lanka. Picture: Tundra Fonder*

Last month we visited our portfolio companies in Sri Lanka. As we have covered in previous monthly updates the country has gone through a major crisis during 2022. The newly elected President Ranil Wickremasinghe, who took over on July 20th 2022 after Gotabaya Rajapaksa was forced to resign, has his hands full of issues, from electricity outages to USD shortage, current account deficit and spiraling debt servicing costs to name a few.

Since July, the road ahead has become clearer and ongoing discussions with both the IMF for a support package and international debtors about restructuring the outstanding debt are ongoing and crucial for the economy to get back on track. The main purpose of our visit was hence to 1) try to gauge the support for the IMF negotiations/debt restructuring and 2) face-to-face meetings with

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our holdings to see how they are handling the current situation.

We were able to meet high level representatives from the Sri Lankan government and business society, including the Central Bank governor Mr. Weerasinghe, leading economist, and former CB governor Dr. Coomaraswamy, head of SOE restructuring Mr. Shah, and most importantly President Wickremasinghe. The main takeaways are that Sri Lanka understands the problems they have at hand, and current leadership is committed to undertaking necessary reforms to create a stronger economy going forward. The first step towards this is to get the international debt restructuring and IMF deal in place, and then start the ambitious reform agenda including divesting from state assets. We do feel that an understanding of the urgency is there but believe that the market wants to see more progress before rewarding the ambitious program ahead.



Central Bank governor Mr. Weerasinghe, Dr. Coomaraswamy, MR. Shah. Picture: Tundra Fonder

We also met management representatives of all our Sri Lankan holdings, as well as visiting some of their manufacturing facilities. From the discussions with management, we can conclude that times are difficult. They believe that the worst point is behind us, but there is a lot depending on the IMF/debt restructuring. The companies have all dealt with cost inflation, weak demand, raw material supply issues, etc., and had to adapt their businesses accordingly.

One of our holdings, Sri Lanka's largest food conglomerate Cargill's PLC, has worked with local sourcing for several years, but has intensified the ambition lately. One example is that they use



Tundra's Mathias Althoff with Cargill's CEO, at dairy facility, and selection of products. Pictures: Tundra Fonder

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raw milk instead of imported milk powder in their milk, yoghurt, and ice cream production facility. Cargills has set up 37 chilling centers around the country, sourcing 185 000 liters of milk from more than 15 000 suppliers (small farmers, coops, and farming societies) on a daily basis, injecting LKR 800-900m (USD 2.2-2.5m) per month into the local community. The company is now looking at improving the supply chain for meat producers in a similar way.

Sri Lanka's renewable energy producer, Windforce has not abandoned their ambition to expand their renewable energy portfolio but are reviewing projects based on the adjusted tariffs set to come shortly. They also have an exciting new venture into electric vehicles (EV), where they initially will sell EV-conversion kits to make existing 3-wheelers (tuk-tuks) into electric ones. By offering financing help, the investment will be cashflow positive from day one. They are also planning to start the assembly of electric motorbikes and 3-wheelers to help reduce petrol consumption (a drain on FX reserves) as well as use a more sustainable energy source for transportation.



*Tundra's Mathias Althoff with Windforce CEO at Puttalam wind parks. Pictures: Tundra Fonder*

We left Sri Lanka feeling comfortable with the new government's intentions and our holdings' ability to handle the challenges in a suitable way, while still acknowledging that there are some very important hurdles on the way back to recovery.

In Pakistan, we saw a surprise move by the central bank to increase the policy rate by 100 bps to 16%. The decision came on the back of strong and persistent inflationary trends within the economy than was earlier expected. The central bank expects inflation in the current fiscal year to average between 21-23% vs. its earlier forecast of 18-20%. However, the central bank maintained its GDP growth projections at 2%. Moving into December, the headway on the 9th review of IMF's EFF program would remain a key sentiment driver for the market, given the low FX reserves and weak external account position of the country. So far, Pakistan and the IMF failed to evolve a consensus on the post-flood revenues and expenditure plans. The unwillingness on the government's part to impose additional taxes to bridge gaps with the IMF is likely due to the fact that the country is moving toward the election year.

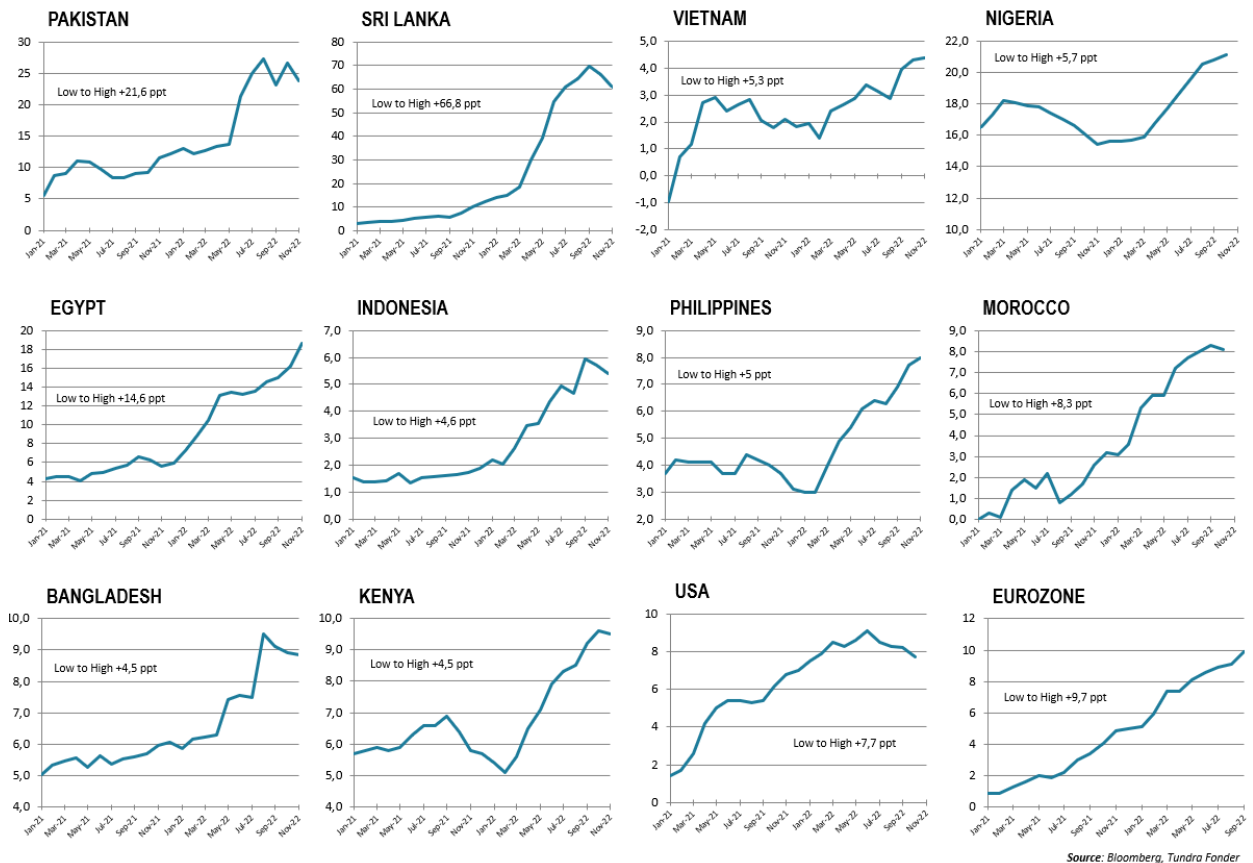
Most of our markets, as well as most countries globally, are dealing with inflation pressure, rising interest, and currency weakness not seen in a very long time. Countries engaging in too "populistic" measures are punished forcefully by the capital markets (lex UK). Countries running budget deficits and/or current account deficits, and not perceived as dealing with it in a prudent manner, are also

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feeling increased pressure, be it Egypt, Pakistan, or Sri Lanka. The road ahead is bumpy, and while inflation isn't really an effect of excessive demand, but rather lack of supply, local rates need to be raised to follow US rate hikes in order for currencies not to devalue further, and hence increase the cost for imported goods and services. Rising rates will have a dampening effect on economic growth which will in turn hurt employment and consumer spending power.

**FIGURE 1: INFLATION IN SELECTED MARKETS**

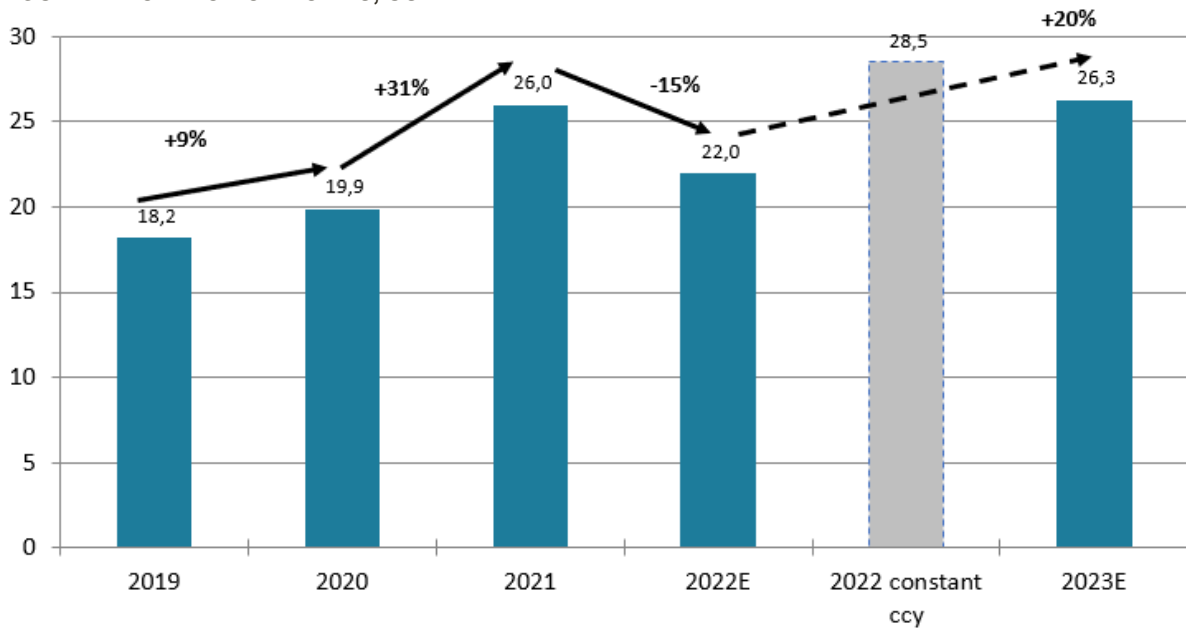


While the current economic hardship is unquestionable and the road to recovery will be bumpy, we feel comfortable about our portfolio holdings. One of the key things we look for is that our holdings should have a proven track record over a longer period of time, in good times as well as in bad times. We expect 2022 profits among our holdings to grow about 10% in local currency, but due to the extraordinary currency weakness across the board, they will decrease by 15% in USD, before returning to historical average of 15-20% (in USD) from 2023 and onwards (see Figure 2 on the next page).

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FIGURE 2: PORTFOLIO PROFITS, USD mln



Source: Bloomberg, Tundra Fonder

That means current valuations and market conditions are too depressed and it will likely be a good time to invest for patient investors. There is a lot of uncertainty and before the market has seen the peak of US inflation and rate hikes, we expect markets to stay in “risk off-mode”, but as we get nearer to that point (expected in Q1’23 by consensus) we believe cheap, high quality growth companies will come back in style again.

### TUNDRA SUSTAINABLE FRONTIER FUND REPLACES THE SWAN WITH THE EU’S REGULATIONS FOR SUSTAINABILITY

In connection with the new EU regulation under the Sustainable Finance Disclosure Regulation (SFDR), new requirements are applied to funds' sustainability work as of March 2021. Tundra has therefore decided on July 4 not to continue with the Nordic Ecolabelling of the fund. According to the new regulations, sustainability reporting must take place in a uniform manner and funds are divided into different categories. The Tundra Sustainable Frontier Fund is classified as an Article 8 fund (Light green: promotes environmental or social characteristics). The investment philosophy of the fund remains the same; management of the fund and is not affected by the change.

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### ABOUT THE FUND

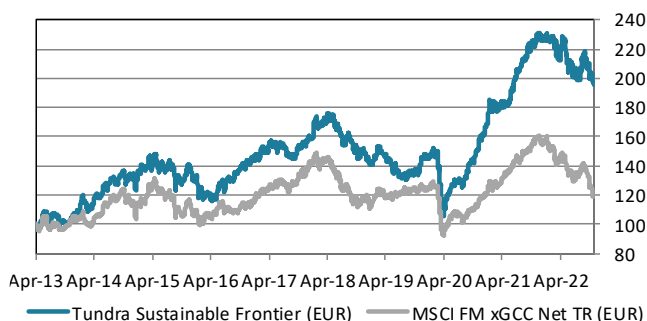
Tundra Sustainable Frontier Fund focuses on the next generation of emerging markets such as Vietnam, Bangladesh, Sri Lanka, Pakistan, Egypt and Nigeria. Featuring strong population growth, rapid urbanisation, investments in infrastructure, growing middle classes and stabilising political environments, a vast majority of international investors are yet to discover these markets.

The fund is managed according to Tundra's active stock picking philosophy and backed by local research offices in Asia. Investments are based on an ESG approach where each investment has to comply with the UN Global Compact with regards to human rights, labour rights, corporate governance and environmental impacts. The fund is registered in Sweden and is fully UCITS compliant. Read more about latest developments [here](#).

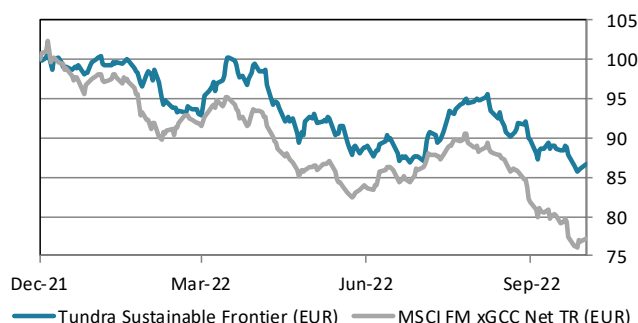
Return*	NAV(EUR)	1 month	YTD	1 year	3 year	Inception
Tundra Sustainable Frontier (EUR)	23.31	-2.1%	-15.2%	-15.1%	30.5%	93.8%
Benchmark	588.06	0.4%	-22.5%	-21.9%	-2.9%	21.3%

\* Fund returns calculated on SEK class converted to EUR in order to provide the longest possible data set.

### The fund vs benchmark (since inception)



### The fund vs benchmark (YTD)



### Fund monthly performance

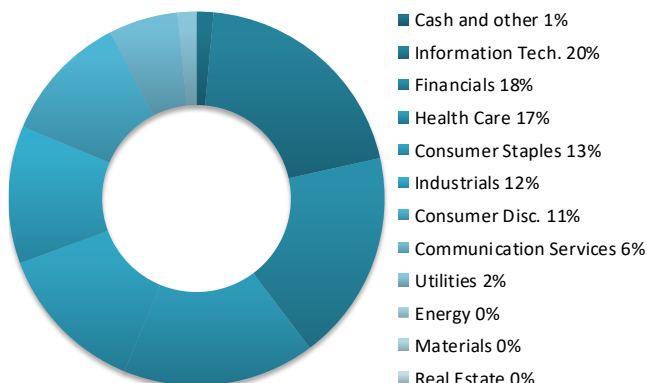
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013				0.3%	7.9%	-6.5%	4.6%	-4.6%	-0.7%	1.7%	4.0%	4.1%	8.7%
2014	4.6%	-4.5%	4.0%	4.0%	5.6%	0.6%	3.4%	-0.9%	4.5%	-2.6%	-0.2%	0.6%	22.3%
2015	4.3%	0.5%	1.3%	0.6%	-0.3%	-2.5%	-0.5%	-4.1%	-3.0%	5.6%	1.6%	-4.7%	-1.7%
2016	-5.1%	-2.8%	-2.8%	0.9%	7.1%	0.3%	2.4%	4.3%	1.4%	1.1%	2.6%	0.9%	10.1%
2017	0.2%	3.9%	2.2%	0.4%	-0.7%	0.2%	-3.6%	-0.2%	3.6%	1.9%	2.2%	0.4%	10.7%
2018	6.0%	0.6%	1.2%	1.3%	-4.9%	-2.3%	-2.6%	-0.4%	-1.8%	-1.9%	-2.4%	-4.6%	-11.6%
2019	3.2%	2.4%	-0.7%	-2.5%	-3.1%	-4.7%	1.1%	0.8%	0.9%	-0.6%	9.3%	-2.2%	3.2%
2020	1.6%	-6.1%	-22.9%	13.8%	4.0%	2.3%	-2.2%	7.4%	5.7%	4.6%	7.6%	5.0%	16.8%
2021	5.2%	0.7%	2.6%	-1.8%	5.5%	6.9%	2.2%	2.5%	3.9%	1.4%	1.4%	0.1%	34.7%
2022	-0.1%	-1.8%	-4.1%	5.4%	-6.7%	-4.1%	-1.2%	8.4%	-5.6%	-3.4%	-2.1%		-15.2%

Source: Bloomberg, MSCI, Tundra Fonder

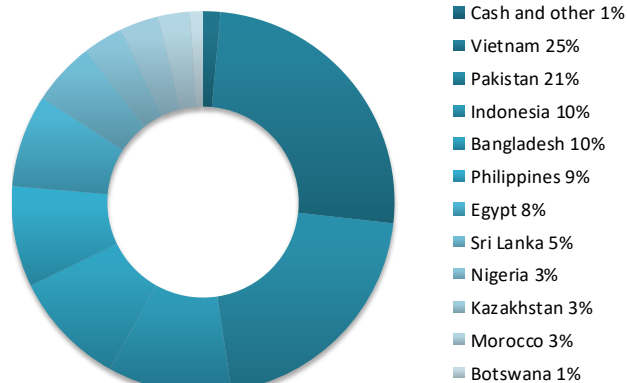
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### Sector allocation



### Country allocation



Largest holdings	Portfolio weight	Country	P/E 22E	P/E 23E	Yield	Return 1M (EUR)
Systems Ltd	9.3%	Pakistan	20.1	16.5	1.5%	6.4%
Square Phar Ltd-Ord	7.8%	Bangladesh	10.1	9.3	4.5%	-0.2%
FPT Corp	7.6%	Vietnam	15.0	12.6	2.8%	-4.7%
Ree	7.1%	Vietnam	10.0	10.1	1.6%	-9.5%
Media Nusantara	5.5%	Indonesia	4.4	4.0	4.6%	-7.3%
Century Pacific Food	4.5%	Philippines	17.9	16.0	1.7%	4.0%
Medikaloka Hermina TBK	4.4%	Indonesia	49.6	40.9	0.7%	-2.2%
Airports Corp Of Vietnam	4.1%	Vietnam	35.0	27.6	0.6%	9.5%
Meezan Bank Ltd	3.9%	Pakistan	4.5	3.5	7.8%	-1.9%
Puregold Price Club	3.7%	Philippines	11.8	10.7	1.4%	16.2%

Best performers in November	Return (EUR)	Worst performers in November	Return (EUR)
Puregold Price Club	16.2%	Beximco Pharmaceutical GDR	-24.9%
Masan Group Corp	15.2%	Shezan International Ltd	-18.3%
Jsc Kaspi.Kz	13.1%	Mobile World Investment Corp	-17.5%
Airports Corp Of Vietnam	9.5%	Juhayna Food Ind	-15.7%
Guaranty Trust Holding	8.5%	Interloop Ltd	-11.6%

Facts		Risks and costs*	
Inception date	2013-04-02	Active risk (Tracking error)	9.8%
Pricing	Daily	Active share	89.2%
Manager	Tundra Fonder AB	Standard deviation	13.7%
Benchmark index	MSCI FM xGCC Net TR (EUR)	Standard deviation, benchmark	13.1%
ISIN	SE0006789897	Beta	0.77
Bloomberg	TUNDFRF SS	Information ratio	0.84
IBAN	SE4450000000058648209218	Holdings	38
BIC	ESSESESS	Risk level	5 of 7 (refer to KIID for more info)
Custodian	SEB	Management fee/year (all inclusive **)	2.5%
Auditor	PWC	AuM	180.7 MEUR
EU SFDR Classification	Article 8		

\* Risk indicators are based on monthly rolling 24 months of return data.

\*\* The management fee includes variable custody fees, audit, legal and marketing expenses.

Source: Bloomberg, MSCI, Tundra Fonder

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