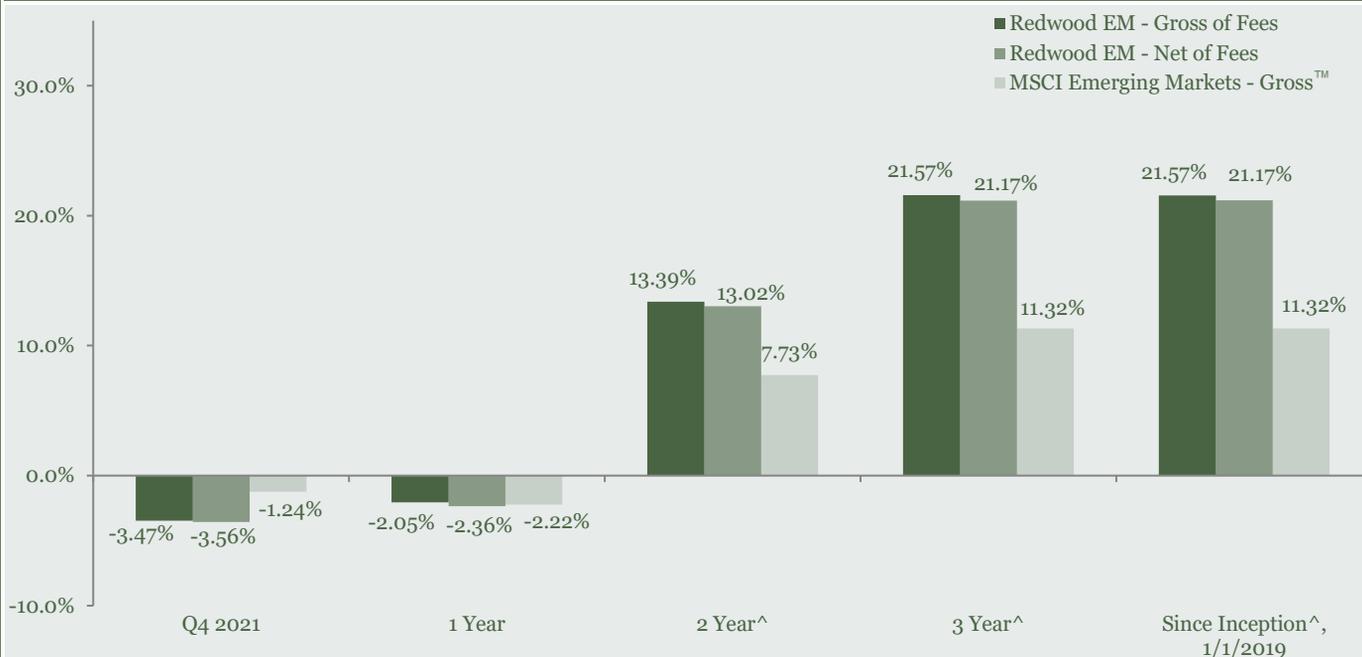


# Redwood Emerging Markets

Quarterly Letter, Q4 2021



## Redwood Emerging Markets Equity Composite Performance



All data as of: 12/31/2021; <sup>^</sup> denotes annualized performance. Past performance is no guarantee of future results.

### Market Review

Global equities continued their climb in the final quarter of 2021 with global large cap stocks outperforming their global smaller cap peers. The MSCI All Country World Index returned +6.77% in the final quarter and +19.04% for the year. Emerging markets, on the other hand, continued their downward skid that began in July, yet their smaller cap peers rallied strongly in the final quarter. The MSCI Emerging Markets Index declined -1.24% in the face of a strong US dollar headwind, underperforming MSCI Developed Markets by 9.2%. The MSCI Emerging Markets Small Cap index performed well returning +1.48% in the quarter finishing the year with a return of +19.29%.

Within the MSCI Emerging Markets index, Egypt was the best performing market followed by strong performance in the Czech Republic, UAE, and Peru. In Asia, performance of technology stocks boosted Taiwan's return of more than 8% in the quarter, and standout relative to declines in China and Korean markets. Also in Asia, Indonesia, Philippines, and Thailand and Malaysia registered positive absolute returns. China, however, finished in negative territory on slowing growth and rising covid cases from the omicron variant. Turkey had the worst return, down more than -11%, on extreme market volatility as its President Erdogan led changes to reduce the use of US dollars. Despite rising inflation of more than 21% year over year, the central bank lowered its policy rate pressuring further the Lira currency. Russia also underperformed in the face of heightening geopolitical tensions amidst a possible border war with Ukraine. In Latin America, Mexico rallied, up more than 6% in the quarter, while Chile was the worst performing market in the region, followed by Argentina and Brazil. Chile more than -10% with the presidential election of leftist candidate, Gabriel Boric.

# Redwood Emerging Markets

## Quarterly Review



### Portfolio Review

The Redwood Emerging Markets Equity Composite returned -3.56% (net of fees) in the fourth quarter of 2021 and trailed the MSCI Emerging Markets Index which declined -1.24%. For the year ending December 31, 2021, the Redwood Emerging Markets Composite declined -2.05% (gross of fees), narrowly underperforming the MSCI Emerging Markets Index on a net of fees basis, returning -2.36% vs. -2.22%, respectively. In 2021, the Redwood Emerging Market Composite achieved a three-year return and over that time, returning +21.17% (net of fees), surpassing the return of the index by more than 900 bps per annum. The strategy fell within the top quartile of the eVestment Emerging Markets All Cap Growth Equity peer group and within the top decile of the broad eVestment Emerging Markets Equity peer group over the three years ending December 31, 2021.

The relative underperformance of the strategy in the quarter the index can be attributed in large part to stock performance in China, Korea, and Brazil. The Chinese and Brazilian markets declined ~-6% each respectively on a mix of macroeconomic and covid-related events.

Specific to China, throughout 2021 the regulatory framework in China, nationalism and geopolitical pressure, issues with Evergrande and other real estate developers, persistent COVID disruption, and general macro-economic tightness pressured the market and resulted in macro moves influencing stock dynamics in China. As a result, several principles have guided our approach especially over the last 6-9 months in this market:

- Alignment with the goals of the 14th 5-year plan
- Leading businesses focused on domestic consumption vs. overseas exports
- Technology developers advancing Chinese independence in semiconductors, cloud software, and medicine
- Emerging Chinese brands crowding out multi-national firms' brand position in China
- Stocks listed on local exchanges including Hong Kong, Shenzhen, and Shanghai

We had decreased our exposure to China over the course of 2021 which was additive in the final quarter of 2021. The increasingly draconian regulatory landscape forced the team to reevaluate the earnings ability of various businesses in China (including video games, messaging, ecommerce, delivery, education, etc.). Tightening economic conditions had impacted expected growth rates, exacerbated by power shortages. While we reduced the exposure to internet and related industries, we had simultaneously added exposure to businesses aligned with the principles listed above. However, the portfolio was still subject to market volatility. Several of the Chinese-related stocks underperformed, trading lower on market volatility rather than on fundamental changes to the investment thesis. WuxiAppTec Co., Ltd. is an example of a stock whose share price declined late in the quarter as investors feared the company could be added to the US-China sanctions list. The share price was down more than 25%. In Korea, three of the four stocks owned detracted from relative return in the quarter. As the market declined in the quarter, several of the stocks were victim to the market volatility. In the case of Magazine Luiza, S.A., a retailer, that position sold off more than 50% in the quarter. We exited the position due to disappointing operating metrics, and invested the proceeds early in the first quarter into Mercado Libre, another retail platform with greater visibility on growth and earnings.



### **Portfolio Review (Cont.)**

However, the portfolio did benefit in the quarter from several of its high conviction positions, several which can be described as more cyclical or defensively positioned growth that will benefit from secular tailwinds. For example, four of the top ten largest positions were among the top ten contributors to relative return in the quarter. That list of ten contributors also represented a broad mix of sectors, including Industrials, Consumer Staples, Information Technology, Financials, and Consumer Discretionary. Three of the eleven sectors had positive selection: Consumer Staples, Financials, and modestly so in Energy. With this narrow outperformance, it was relatively evident that a style headwind from elevated macroeconomic concerns was a present.

### **Outlook**

Already in the first month of 2022, global equities markets have reacted sharply lower to anticipated rate increases as the Fed tries to manage rising inflation amidst the ongoing pandemic and prolific supply-chain disruptions. Geopolitical risks have risen as tensions grow over the Ukraine-Russia situation and as the U.S. and NATO allies have started to prepare troops on alert for possible deployment. All this uncertainty has led to sharp sell-off in January. We have been managing with much of this uncertainty for some time, and over the second half of 2021 we had already been repositioning the portfolio into both stocks that had underperformed earlier in the year and those stocks that would benefit from a gradual global reopening with more cyclical tailwinds.

As we continue to meet virtually with company management teams, our conversations focus on how our companies will weather supply-chain disruptions and rising input and labor costs, along with what businesses will emerge stronger and more resilient post-pandemic. We believe that those companies with pricing power and margin enhancement in their business models should command a higher multiple over time. We remain disciplined in our fundamental, bottom-up investment approach and opportunistic and patient with our positions amidst this market volatility and increased uncertainty. As markets normalize, we believe our strategy will be rewarded and continue to invest in high quality, growth growing businesses at attractive valuations.

# Redwood Emerging Markets

## Quarterly Review



### Top 5 Contributors

#### **Grupo Aeroportuario del Sureste SA de CV (263934)**

Grupo Aeroportuario del Sureste SA de CV engages in the operation, maintenance, and development of airports through its subsidiaries. Grupo Aeroportuario del Sureste outperformed as the company's unique portfolio of Mexican and Latin American airports is poised to continue to benefit from improving international and domestic travel. Strong results supported shares, with third quarter revenues meaningfully exceeding expectations, leading to 68% EBITDA margins, well above 2019 levels.

#### **Dino Polska S.A. (BDoYVN)**

Dino Polska, Poland's rapidly growing proximate grocery retailer, reported strong results with consistent growth of 30% based on both expanding store base and healthy same store sales. The company continues to execute well with organic store openings on track and high visibility into unit expansion and like for like sales increases.

#### **Beijing Oriental CLSA (B3CTJX1)**

Beijing Oriental Yuhong Waterproof Technology is the leading manufacturer and supplier of advanced waterproofing materials in China, and also supplies architectural coatings and waterproof membranes for construction related activities. The company's result and stock were negatively impacted by a combination of factors during the 4<sup>th</sup> quarter. Third quarter results were less than expected as raw materials rose rapidly resulting in a compression in margins before price increases were passed on to customers. Sentiment for building material suppliers was pressured by concerns about the Chinese property sector slowing (Evergrande initiated) and power outages. We remain positive on Beijing Oriental Yuhong and the company's growing scale advantages, supported by environmental building requirements and accelerating industry consolidation.

#### **Proya Cosmetics Co., Ltd. (BYZKX8)**

Proya Cosmetics Co., Ltd. engages in the research & development, production and sale of Cosmetic products. Proya, armored through its strategy of creating rich content via government-endorsed media, continues to position itself nicely to capture the trend to premium product in China's mass cosmetics space. The company's core high-end mass (masstige) skincare products continue to drive margin improvement while its color cosmetics businesses under the brands Timage and Insaba set themselves up to become increasingly important revenue drivers.

#### **MediaTek Inc (637248)**

MediaTek, Inc. engages in the research and development, manufacture, and sale of fabless semiconductor products. It offers multimedia, computer peripheral, and high-end consumer integrated circuits including bluetooth chips, global positioning system chips, wireless local area network chips, near field communication chips, mobile communication chips, and optical storage chips. The company benefited from 5G mobile phone ramp, share gains, and the ramp of its IoT, networking, and gaming chips business. Gross and operating margins expanded further and surpassed consensus expectations

# Redwood Emerging Markets

## Quarterly Review



### Bottom 5 Contributors

#### **WuXi AppTec Co., Ltd. (BGHHoL)**

WuXi AppTec Co., Ltd. provides an integrated pharmaceutical platform for the research, development, and production of new drugs. Despite strong fundamentals and accelerating growth trends, the stock was under pressure due to speculation that the US government was considering limitations on Chinese health care holdings by US investors.

#### **Magazine Luiza S.A. (B4975P)**

Magazine Luiza SA is a technology and logistics company focused on the retail sector. It operates through the following segments: Retail, Financial operations, Insurance operations, and other services. The fourth quarter was challenging for MGLU, as Brazilian macroeconomic and political instability compounded headwinds for the company during one of the most challenging comparable sales periods in recent memory. Specifically, the company delivered only 3.7% topline growth in the Sep '21 quarter, lapping against a lockdown-fueled 70.8% growth in third quarter 2020. Compounding matters, weakness in brick & mortar store sales from macro and competitive activity coupled with ongoing growth investments in the marketplace business dragged EBITDA margin below expectations and raised fears of structurally lower profitability of the business over time.

#### **Douzone Bizon Co.LTD (651098)**

Douzone Bizon Co., Ltd. engages in the provision and development of software packages and information technology solutions in the accounting and financial services segment. COVID has created significant challenges for the sales and OP evolution at Douzone Bizon. During the quarter, the stock suffered from multiple contraction as global growth software multiples contracted meaningfully beginning in early November. The company also issued disappointing earnings for the third quarter period, with sales of ERP and its WEHAGO tax software both trailing expectations meaningfully. The company attributes these shortfalls to COVID-related disruption to sales cycles in ERP and to changes to the government's K-Voucher system.

#### **China Feihe Limited (BKoSBL)**

China Feihe Ltd. engages in the development, production and sale of infant formula milk and other dairy products. New births in China fell 12% in 2021 following an 18% decline in 2020. Despite industry volume decline, China Feihe was able to maintain its full year sales guidance and is on track to obtain 30% market share by 2023, up from 13% in 2020 due to its strong offline execution and premium branding. Given that 0 to 3-year-olds are the majority of baby formula use, this is likely to create material headwinds.

#### **Viva Biotech Holdings (BJBLoL)**

Viva Biotech Holdings engages in preclinical research and development of innovative drugs. Concerns about the earnings accretion of the Viva Biotech's acquisition of Langhua combined with speculation that the US government was considering limitations on Chinese health care holdings by US investors pressured the stock.

The data presented on the top and bottom contributor slides is based on a representative account. The characteristics, asset size, composition, and risk characteristics of the proposed account may differ from the composite depicted in the presentation. Therefore, it cannot be assumed that another account would have the same performance or holdings even if following the same strategy. This representative account was chosen as its inception date coincides with the inception date of the strategy and therefore in our view, it is the account within the strategy which most comprehensively reflects the portfolio management style of the strategy for the entire time period. Recommendations made in the last 12 months are available upon request. Past performance does not guarantee future results. Please refer to the Disclosure Statements at the end of this presentation for additional information.

# Redwood Emerging Markets

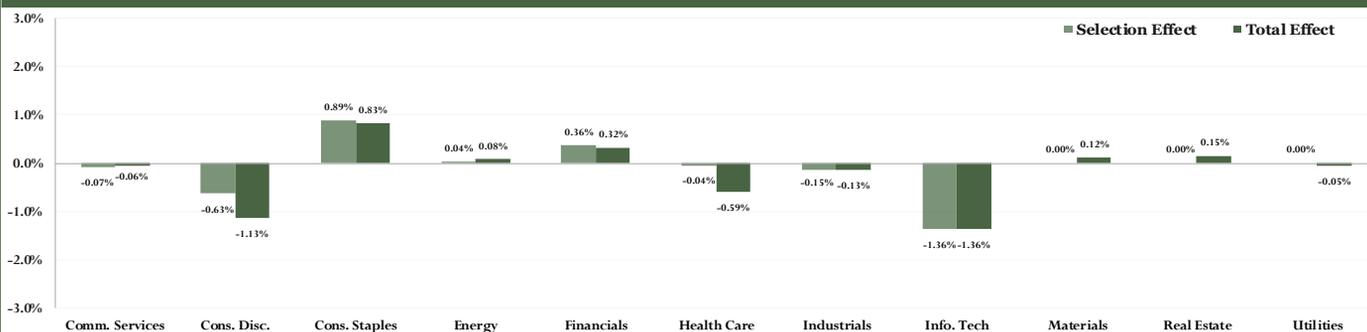
## Portfolio Attribution, Q4 2021



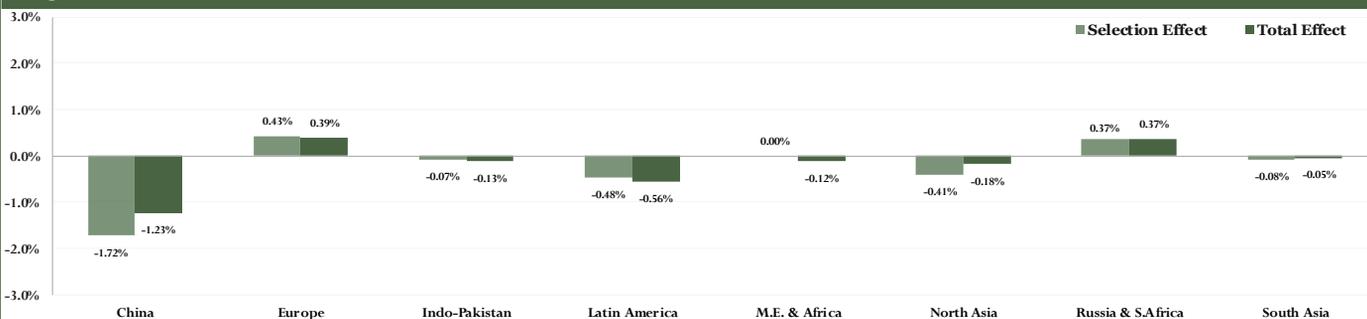
Top 10 Contributors	Sector	Country	Average Weight	Total Return	Relative Contribution
Grupo Aeroportuario del Sureste	Consumer Discretionary	Mexico	3.57%	10.01%	0.34%
Dino Polska S.A.	Consumer Staples	Poland	3.68%	8.94%	0.34%
Beijing Oriental	Industrials	China	1.51%	20.52%	0.33%
Proya Cosmetics Co., Ltd.	Consumer Staples	China	1.88%	21.74%	0.31%
MediaTek Inc	Information Technology	Taiwan	2.15%	32.41%	0.31%
Chailease Holding Co. Ltd.	Financials	Taiwan	4.09%	7.86%	0.30%
Wal-Mart de Mexico SAB de CV	Consumer Staples	Mexico	2.20%	11.31%	0.22%
Wilcon Depot, Inc.	Consumer Discretionary	Philippines	2.09%	10.95%	0.19%
Clicks Group Limited	Consumer Staples	South Africa	2.26%	7.11%	0.18%
Taiwan Semiconductor Manufacturing Co.	Information Technology	Taiwan	8.35%	7.26%	0.15%
<b>Total</b>			<b>31.80%</b>		<b>2.66%</b>

Bottom 10 Contributors	Sector	Country	Average Weight	Total Return	Relative Contribution
WuXi AppTec Co., Ltd.	Health Care	China	3.08%	-25.98%	-0.90%
Magazine Luiza S.A.	Consumer Discretionary	Brazil	0.68%	-53.98%	-0.47%
Douzone Bizon CO.LTD	Information Technology	South Korea	1.71%	-23.88%	-0.45%
China Feihe Limited	Consumer Staples	China	1.91%	-20.51%	-0.42%
Viva Biotech Holdings	Health Care	China	1.51%	-23.15%	-0.38%
MercadoLibre, Inc.	Consumer Discretionary	Uruguay	1.81%	-19.71%	-0.37%
Wizz Air Holdings Plc	Industrials	United Kingdom	2.14%	-16.10%	-0.36%
Grupo SBF S.A.	Consumer Discretionary	Brazil	1.51%	-21.21%	-0.34%
ANTA Sports Products Ltd.	Consumer Discretionary	China	1.55%	-20.49%	-0.32%
Sangfor Technologies Inc.	Information Technology	China	1.56%	-17.45%	-0.28%
<b>Total</b>			<b>17.46%</b>		<b>-4.30%</b>

### Sector Attribution



### Region Attribution



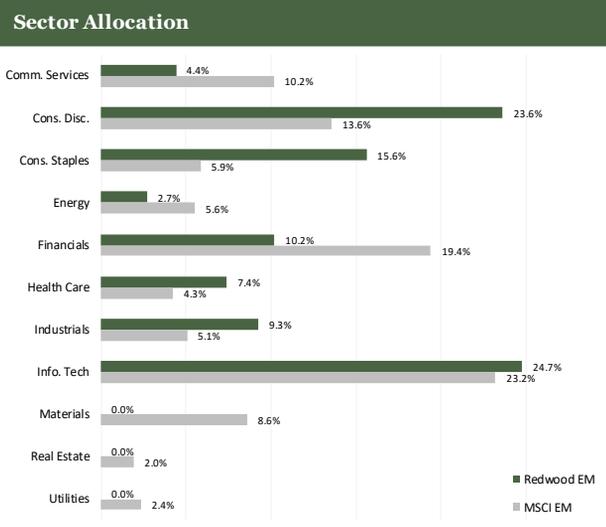
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# Redwood Emerging Markets

## Portfolio Positioning As of 12/31/2021

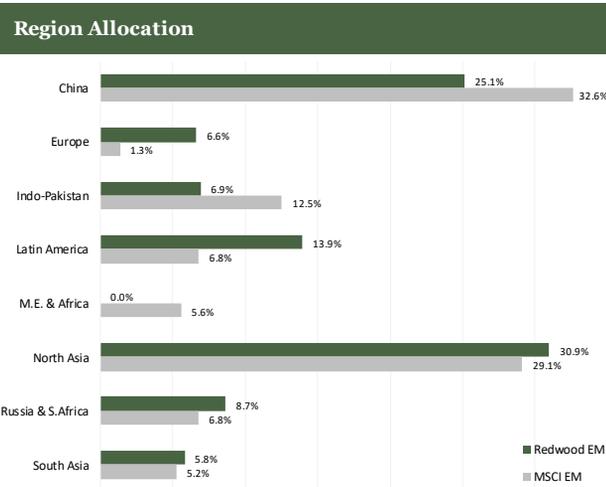


	Redwood EM	MSCI EM
FCF Yield	4.0%	5.8%
P/E	21.7	11.8
EPS Revisions 6 Months	4.3%	0.3%
Historical EPS Growth 3 Yr	16.5%	7.1%
ROE	23.3%	16.7%
ROIC	14.8%	12.4%
Operating Margin	26.2%	27.3%
Weighted Avg. Market Cap. (M\$)	\$92,671	\$135,118
# of Securities	41	1,420
Active Share	85.5%	
Beta: Predicted / Historical	1.01 / 0.97	
Tracking Error	6.4%	



### Top 10 Holdings

Top 10 Holdings	Portfolio Weight	Domicile
Taiwan Semiconductor Manufacturing Co.	8.74%	Taiwan
Alibaba Group Holding Ltd.	5.13%	China
ICICI Bank Limited	3.44%	India
Chailease Holding Co. Ltd.	3.32%	Taiwan
Chemical Works of Gedeon Richter Plc	3.16%	Hungary
Dino Polska S.A.	3.10%	Poland
Grupo Aeroportuario del Sureste	3.08%	Mexico
HDFC Bank Limited	3.07%	India
Momo.com Incorporated	3.06%	Taiwan
Li Ning Company Limited	2.86%	China
<b>Total</b>	<b>38.96%</b>	



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Reference to the Performance Table on Page 1 of this quarterly letter: The Emerging Markets composite includes all fee-paying discretionary portfolios invested in emerging markets securities across growth, blend, and value styles. The strategy allows for equity exposure ranging between 90-100%. The account minimum for the composite is \$150,000. The benchmark for the Emerging Markets composite is the MSCI Emerging Markets Index, Gross. The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries. You cannot invest directly in an index. The Emerging Markets Composite was created on January 1, 2019.

# Redwood Emerging Markets

## Composite Performance and GIPS Disclosures



### Redwood Investments Emerging Markets Equity Composite

Year	Gross of Fees (%)	Net of Fees (%)	MSCI Emerging Markets - GD (%)	Number of Portfolios	Composite Dispersion	Total Composite Assets (Thousands)	Total Firm Assets (Thousands)	3 Year Standard Deviation	Benchmark 3 Yr. Standard Deviation
2020	31.26	30.83	18.69	5 or fewer	NA	\$71,600	\$2,238,905	NA	NA
2019	39.73	39.29	18.90	5 or fewer	NA	\$54,823	\$1,982,217	NA	NA

NA – Information is not statistically meaningful due to insignificant number of portfolios in the composite.

**Redwood Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Redwood Investments, LLC has been independently verified for the periods January 1, 2005 through December 31, 2020. The verification reports are available upon request.**

**A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.**

#### Notes:

- Redwood Investments, LLC is an investment manager that invests in U.S. and International securities. Redwood Investments, LLC is defined as an independent investment management firm that is not affiliated with any parent organization. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.
- Composites:
  - Redwood Emerging Markets: The Emerging Markets composite includes all fee-paying discretionary portfolios invested in emerging markets securities across growth, blend, and value styles. The strategy allows for equity exposure ranging between 90-100%. The account minimum for the composite is \$150,000. The benchmark for the Emerging Markets composite is the MSCI Emerging Markets Index, Gross. The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries. The composite includes portfolios that pay zero commissions. You cannot invest directly in an index. The Emerging Markets Composite was created and inception on January 1, 2019.
- Valuations are computed and performance is reported in U.S. dollars.
- Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Composite returns are presented net of non-reclaimable withholding taxes. Net-of-fees returns are calculated by deducting actual management fees from the gross composite return. The standard management fee schedule is as follows: 1.00% on the first \$5 million, 0.85% on the next \$5 million, and 0.75% on the remainder above \$10 million. Fees are negotiable.
- A complete list of composite descriptions is available upon request.
- Dispersion is measured by the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year.
- The three-year annualized standard deviation measures the variability of the composite gross returns and the benchmark returns over the preceding 36-month period.
- GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
- Redwood Investments, LLC claims compliance with the GIPS® and has prepared this report in compliance with the GIPS® standards.
- Redwood Investments, LLC ("Redwood") is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Redwood's investment advisory services and fees can be found in its Form ADV Part 2, which is available upon request.

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