Polar Capital Funds plc
Emerging Market Stars Fund

GBP Class I Acc | ISIN: IE00BFMFDG40

NAV per Share

GBP Class I Acc	£9.91

Fund Details

Fund Size	£887.8 m
Base Currency	USD
Denominations	USD/GBP/EUR
Fund Structure	UCITS
Domicile	Ireland
Listing	Euronext Dublin
Launch Date	29 June 2018
Investment Manager	Polar Capital LLP

Fund Managers

Jorry Nøddekær
Fund Manager
Jorry has managed the fund since launch, he joined Polar Capital in 2018 and has 22 years of industry experience.

CITYWIRE AA

ALPHA MANAGER 2022

Naomi Waistell
Fund Manager
Naomi has managed the fund since 2020. She joined Polar Capital in 2020 and has 14 years of industry experience.

Fund Profile

Investment Objective

The Fund's investment objective is to achieve long term capital growth. The Fund seeks to achieve its objective by investing in a broad range of shares from companies in emerging markets (developing countries), or from companies which generate a significant amount of their business from emerging market countries.

Article 8 SFDR

Key Facts

- Team of five sector specialists
- Fundamentally-driven analysis and stock selection
- ESG based analysis incorporated as part of the investment process
- Typically 45-65 positions

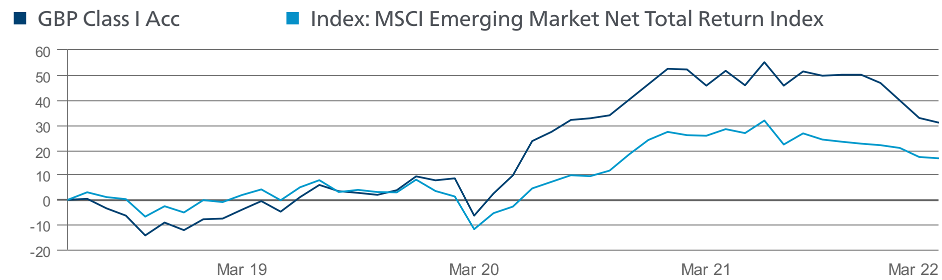
Fund Ratings

MORNINGSTAR ★★★★★ | MORNINGSTAR Silver | FE fundinfo Crown Fund Rating

Ratings are not a recommendation. Please see below for further information.

Share Class Performance

Performance Since Launch (%)



	1m	3m	YTD	1yr	3yrs	5yrs	Since Launch Cum.	Since Launch Ann.
GBP Class I Acc	-1.39	-10.80	-10.80	-10.15	36.31	-	30.91	7.43
Index	-0.44	-4.31	-4.31	-7.18	14.43	-	16.62	4.18

Discrete Annual Performance (%)

12 months to	31.03.22	31.03.21	31.03.20	29.03.19	29.03.18
GBP Class I Acc	-10.15	55.57	-2.48	-	-
Index	-7.18	42.40	-13.42	-	-

Performance relates to past returns and is not a reliable indicator of future returns.
Performance for the GBP Class I Acc. The class launched on 29 June 2018. Performance data is shown in GBP. Source: Northern Trust International Fund Administration Services (Ireland) Ltd. Benchmark performance shown in GBP. Source: Bloomberg.
If this is not your local currency, exchange rate fluctuations may cause performance to increase or decrease when converted into your local currency.
Performance data takes account of fees paid by the fund but does not take account of any commissions or costs you may pay when subscribing for or redeeming shares or any taxes or securities account charges that you may pay on your investment in the fund. Such charges will reduce the performance of your investment.

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Portfolio Exposure & Attribution

As at 31 March 2022

Top 10 Positions (%)

TSMC	9.4
Samsung Electronics	7.1
Tencent	7.0
Alibaba Group Holding	4.1
Reliance Industries	3.9
Phoenix Mills	3.5
JD.com	3.0
Naver	3.0
Ivanhoe Mines	3.0
eMemory Technology	2.8
Total	**46.7**

Total Number of Positions 45

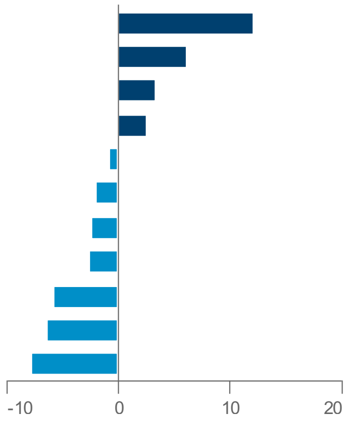
Active Share 73.22%

Market Capitalisation Exposure (%)

Large Cap (>US$10 bn)	73.7
Mid Cap (US$1 bn - 10 bn)	18.7
Small Cap (<US$1 bn)	4.3
Cash	3.4

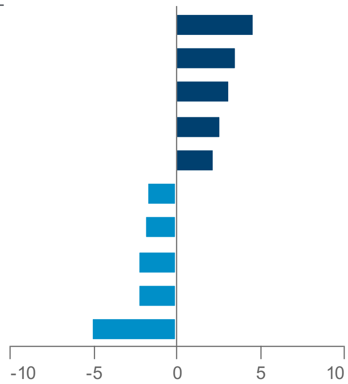
Sector Exposure - Top Overweights & Underweights Relative to Index (%)

	Fund	Relative
Information Technology	34.0	12.3
Real Estate	8.2	6.1
Consumer Discretionary	15.7	3.4
Communication Services	12.7	2.6
Energy	4.0	-0.9
Industrials	3.3	-2.0
Healthcare	1.6	-2.3
Utilities	0.0	-2.6
Consumer Staples	0.0	-5.8
Materials	3.0	-6.4
Financials	14.2	-7.8



Geographic Exposure - Top Overweights & Underweights Relative to Index (%)

	Fund	Relative
India	17.8	4.7
Viet Nam	3.6	3.6
Taiwan	19.2	3.2
Argentina	2.6	2.6
South Korea	14.8	2.2
Indonesia	0.0	-1.7
Thailand	0.0	-1.9
Saudi Arabia	2.0	-2.2
Mexico	0.0	-2.3
China	25.0	-5.0



The column headed "Fund" refers to the percentage of the Fund's assets invested in each sector. The column headed "Relative" refers to the extent to which the Fund is overweight or underweight in each country/sector compared (relative) to the index.

Note: Totals may not sum due to rounding. It should not be assumed that recommendations made in future will be profitable or will equal performance of the securities in this document. A list of all recommendations made within the immediately preceding 12 months is available upon request.

Share Class Information

Share Class	Bloomberg	ISIN	SEDOL	Minimum Investment	OCF†	Ann. Fee	Perf. Fee††
EUR I Acc	POEMSIE ID	IE00BFMFDF33	BFMFDF3	-	0.87%	0.75%	10%
GBP I Acc	POEMSIG ID	IE00BFMFDG40	BFMFDG4	-	0.87%	0.75%	10%
USD I Acc	POEMSIU ID	IE00BFMFDD19	BFMFDD1	-	0.87%	0.75%	10%
EUR R Acc	POEMSRE ID	IE00BFMFDB94	BFMFDB9	-	1.37%	1.25%	10%
GBP R Acc	POEMSRG ID	IE00BFMFDC02	BFMFDC0	-	1.37%	1.25%	10%
USD R Acc	POEMSRU ID	IE00BFMFD979	BFMFD97	-	1.37%	1.25%	10%

†**Ongoing Charges Figure (OCF)** is the latest available, as per the date of this factsheet.

††**Performance Fee** 10% of outperformance of MSCI Emerging Market Total Return Index.

Fund Managers' Comments

Macro background

March turned out to be yet another very difficult and volatile month for emerging markets (EM). In developed markets (DM), we saw a partial recovery from the shock in February related to the Russian invasion of Ukraine, particularly for North America, those European markets with some form of energy independence, and markets like Australia (an energy exporter), which led to DMs significantly outperforming EMs.

There was a distinct difference between EM regions as well as the underlying countries, with the headlines for both linked to energy and commodities. LatAm performed well, as did large parts of the CE-MENA region, with a strong tilt toward the countries in the Middle East. Eastern Europe was still weak whilst Asia was not too bad, with the exception of China (related to the new Covid outbreak) where we significantly underperformed seeing negative absolute returns.

The headlines for this month were around inflation and the renewed inflation risk coming from energy and commodities on the back of the war in Ukraine. The Fed rate hike cycle and the Covid situation in China seem to be the main explanation for its extreme underperformance compared to the rest of the EMs.

Fund performance

The Fund had another weak month, resulting in one of the worst ever quarters with this investment strategy. Our growth and quality style seems to have been expensive as most stock-specific news was generally positive, although not owning energy caused us to lose out relative to the benchmark. For March, the Fund (USD I Acc Share Class) returned -3.2% against the MSCI Emerging Market Net Total Return Index's -2.3% (in dollar terms), thereby underperforming by 0.9%. Given the market backdrop and events this is perhaps understandable, but still frustrating as it comes on the back of two previous weak months.

The 'inflation scare' theme was hard on our more growth-oriented companies (even though a number of them have strong pricing power, generate strong cash flow and have huge levels of cash on the balance sheet). We also took a hit in China on its Covid situation, even though we have been underweight in the Chinese market.

On the more positive side, our Indian stock picks performed well, as did those in LatAm and the Middle East. We had strong relative performance from not owning any Russian stocks when it was removed from the MSCI EM universe and it became clear they would not resume trading internationally – we sold the small positions we had in Yandex and TCS just before the key date of 24 February. Of course, not owning 'weak' ESG companies related to coal, oil, metal and mining, in accordance with our ESG policy, was a massive headwind for the month and the quarter. This has made things difficult for us in terms of our short-term performance against the benchmark as these areas have more or less been the "only game in town" when it comes to positive EM returns.

For Q1 2022, the Fund (USD I Acc Share Class) returned -13.3% against a 7.0% decline for the MSCI Emerging Market Net Total Return Index (both in dollar terms) – one of our worst quarters in the strategy's history. We saw a similar level of underperformance in Q1 2016 and Q3 2018 after which we believe we demonstrated how we can regain our lost absolute and relative performance relatively quickly over the following quarters. Moreover, we believe these extreme spikes of risk aversion (particular around US monetary policy) create a good opportunity for our selective growth and quality 'Star' companies. We absolutely acknowledge something is changing in the global economies on the back of geopolitics that will have investment implications (which we will address later in this commentary).

The five best contributing stocks were **Phoenix Mills** (Indian mall company), **Reliance Industries** (Indian industrial company), **Itau** (Brazilian bank), **MercardoLibre** (Argentina e-commerce) and **NAVER** (South Korean internet/media/e-commerce). Our relative performance also benefitted from not owning any Russian companies as they were removed from the benchmark and de-facto written down to zero.

The weakest contributors were **MediaTek** (Taiwan technology/IC-design), **JD** (Chinese e-commerce/retail), **Sea** (ASEAN e-commerce/FinTech), **Tencent** (Chinese internet), **Venus MedTech** (Chinese MedTech) and **Leader Harmonious Drives** (Chinese industrial company).

These final five names have been mentioned for the wrong reasons yet we strongly believe in them and feel they all have significant valuation upside:

MediaTek is extremely profitable, has strong technology and product innovation in an attractive industry (structurally expanding TAM; industry consolidation), high ROIC, cheap on Economic Value Add and on earnings multipliers, pays a good dividend and has plenty of cash on its balance sheet. They have also raised their medium-term GP-margin assumption on a new product cycle and addressable market expansion.

Is this a growth and quality company? Yes, and we believe that even the most hardcore value investor could be excited by the cash flow and valuation matrix that MediaTek is offering. Our best guesstimate of its problem is the perception of long-duration technology and the short-term panic over how Chinese mobile phone demand will pan out due to Covid which has led to a significant sell-down. To us it is cheap relative to its structural trend and offers great long-term return opportunities but does come with the risk of volatility and short-term negative sentiment.

In our view, it is hard to see the fundamental justification for the sell-down in **Tencent** and **JD** given how much these names have already been beaten up over the previous 12-14 months on fears of regulation, weak Chinese consumers and a higher discount rate thanks to worries over inflation. Our point is that these companies have demonstrated they can operate and function in a lockdown environment, at the same time driving a new and much stronger focus on profitability. Clearly, the market does not believe in this – time will tell – but for now we believe they both offer attractive risk/reward. Currently they are on low earnings multipliers and are pricing in some form of combination of low growth/low future ROIC profile.

Sea has been rebounding from its low during the early part of March but is still significantly down for the month and year-to-date performance. We have always been of the view that we should own Sea as its an ASEAN e-commerce and FinTech business. The digital entertainment and e-commerce expansion outside ASEAN is then almost a free option. In our strategic analysis, we need to look at Sea's cash flow from the digital entertainment division against what its competition can raise in the market, which, for us, places Sea in a much better position than before the panic. Furthermore, and most importantly, Sea has been given a roadmap to profitability for its ASEAN e-commerce operations and its FinTech business. We differ from the market in this respect as we find it significant and believe this validates our long-investment case. We do not expect Sea to fly

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any time soon in the current environment but we do see an attractive return distribution playing out.

For **Venus MedTech**, there has been a delay in reaching profitability by 12 months due to Covid, though it is emerging as the leading domestic TAVI (transcatheter aortic valve implantation) MedTech company in China with an expanding pipeline of many other interesting MedTech products. The market potential is massive given its market cap of $800m, which provides potential upside assuming they can execute (we believe they can as they have innovation capabilities, approvals/track record on the TAVI products and good market share gains). Covid has resulted in many patients not wanting to go to hospital as well as many hospitals temporally moving focus away from TAVI-related operations to focus resources on Covid crises. Venus MedTech has informed us that they could still be profitable this year if they cut down on R&D, but this is not something they want to do (nor do we want them to do this). For us, this is early-stage growth in an international, well-tested business model. But there is still the risk of how it will execute in the Chinese market. However, we also see a significant upside in the years to come which is why we believe this is a "risk/reward" we are happy to support.

It is more or less 10 stocks that can explain all the Fund's underperformance. On the plus side, we believe a large part of the portfolio (the remaining 40 stocks) are doing reasonably well in terms of navigating these markets. On the negative side, there is of course the frustration that just 10 stocks can cause such damage to relative performance – the magnitude of the share price drops have been extreme.

Value versus growth

Since 9 November 2021, when the Covid vaccine was announced, value as a style has significantly outperformed growth and quality. This has been the case globally but particularly profound in EMs, within Asia especially thanks to the combination of China's regulation risk and general duration risk related to inflation and the Fed interest rate hike cycle. The surprise to us has been how much 'value tech' (pricing power; strong up-front cash flow; plenty of cash on the balance sheet; cheap on all financial matrices) has lost in the market and this reaction has not given us the result we expected given the macroeconomic trends.

For the calendar year 2021 we managed to navigate this value-style market relatively well, preserving capital while growth stocks in EMs saw significant negative returns. However, coming into 2022, many growth and quality stocks were (are) cheap. We saw the market having already discounted a significant level of much higher discount rates for long-duration cash flow assets, specifically for internet-related companies in China and the likes of Sea and MercardoLibre. Unfortunately, this did not turn out to be the case. The market took a turn for the worse thanks to US inflation data released in January and February followed by the Russian invasion of Ukraine at the end of February, a new outbreak of Covid in China and the lockdown of Shanghai.

Outlook

We had originally forecast that towards the end of last year we would see an easing of inflationary pressure. The stimuli and momentum in the US economy, combined with supply-chain issues being hard to solve quickly, meant this was too optimistic and we rolled our easing inflationary pressure forecast into 1H22.

In simple terms, we believe that of the 7-8% CPI inflation the US is seeing now, roughly 300 bps are demand-side driven and 400-500 bps are supply-side driven. The Fed should be able to significantly deal with the 300 bps – and we believe we are already seeing indications of this happening, looking at leading indicators – though the timing of the supply-side is more difficult to predict.

The Russian invasion of Ukraine changes this scenario again, adding to supply-side issues –particularly energy and commodities – and the inflation dynamics. However, it will probably also bring the risk of fast-tracking a multi-polar world and so-called de-globalisation. We should be careful not to panic as there is a tendency to see everything as negative and there will never be a new normal again. A great deal will eventually return to the new normal we forecast in 2018. There is a Cold War between China and the US around trade and technology (and their view on democracy); there are significant socio-demographic changes in the world; technology will play an even more significant and profound role in society; technology IP will carry a significantly more strategic value; and we are at the start of a significant transition from fossil fuels into renewable energy that will last for decades to come. We do not believe Covid changed anything structurally except to fast track some of the underlying structural trends and we believe the Russian invasion of Ukraine will further fast track most of these underlying structural trends.

This new world fits well into our longer-term investment mindset, which is what our process is set up to deal with and how we search for alpha opportunities within our investment universe. A large part of our key long-term investment themes, such as technology, changing supply chains and renewable energy, are still highly relevant both from a short and long-term perspective. It is an acceleration of trends we have been expecting to emerge and our companies will, in our view, be well positioned when it comes.

However, there are also themes where we originally believed we had time on our side but the pace of acceleration is such that we will make adjustments to the portfolio. The more short-term distribution curve of economic growth and inflation outcomes in both the US and EMs, on the back of geopolitics and political actions, is widening significantly and this will lead to us having a stronger eye on risk management, as EM volatility is very high. During March we have gone for a more barbell approach (owning Alinma Bank in Saudi Arabia), and one should expect this combination of optimisation and risk management to continue into April. We have not fully been receiving the rewards for this move as the magnitude of the falls in the so-called growth tail of the portfolio dropped far more significantly than we forecast, and we thereby lost performance at the portfolio level.

More structurally, we see the combination of an increased focus on supply-chain security, fast-tracking on renewable energy as well as the issues with frozen FX reserves will in our mind lead to a commodity boom in the coming decade, with the chance that it is already starting. This is, therefore, one of our focus areas, where we believe this Russian invasion of Ukraine has fast-tracked our research priorities.

This does not imply that we will not see cycles in commodities – not all commodities will be the same – but we see a high likelihood that more strategically important commodities will structurally move to a much higher level with time. On that note, Ivanhoe Mines is one of our largest overweight positions in the Fund and we believe they are extremely well positioned for the future.

More short term, and with an eye on the portfolio, we see the narrative in the market being around stagflation. Beyond the structural topics we have described above we do not think we are far away from data points that will show the Fed is successful in starting to get inflation down, the first positive data point to promote interest

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towards growth and quality as a style which should benefit our portfolio.

We will elaborate more on our positioning and outlook in our Q1 2022 investment update.

Jorry Nøddekær & Naomi Waistell

11 April 2022

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Risks

- Capital is at risk and there is no guarantee the Fund will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of the Fund.
- Past performance is not a reliable guide to future performance. The value of investments may go down as well as up and you might get back less than you originally invested.
- The value of a fund's assets may be affected by uncertainties such as international political developments, market sentiment, economic conditions, changes in government policies, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Please see the Fund's Prospectus for details of all risks.
- The Fund may enter into a derivative contract. The Fund's use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as failure amongst market participants.
- The use of derivatives will result in the Fund being leveraged (where market exposure and the potential for loss exceeds the amount the Fund has invested) and in these market conditions the effect of leverage will magnify losses. The Fund makes extensive use of derivatives.
- If the currency of the share class is different from the local currency in the country in which you reside, the figures shown in this document may increase or decrease if converted into your local currency.

Administrator Details

Northern Trust International Fund Administration Services (Ireland) Ltd

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Cut-off	15:00 Irish time

Important Information

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A decision may be taken at any time to terminate the marketing of the Fund in any EEA Member State in which it is currently marketed. Shareholders in the affected EEA Member State will be given notification of any decision and provided the opportunity to redeem their interests in the Fund, free of any charges or deductions, for at least 30 working days from the date of the notification.

Further information and any associated risks can be found in the Fund's Key Investor Information Document ("KIID"), the Prospectus, the Articles of Association and the annual and semi-annual reports. These documents are available free of charge at Polar Capital Funds PLC, Georges Court, 54-62 Townsend Street, Dublin 2, via email by contacting Investor-Relations@polarcapitalfunds.com or at www.polarcapital.co.uk. The KIID is available in Danish, Dutch, English, French, German, Italian, Spanish and Swedish; the Prospectus is available in English.

A summary of investor rights associated with investment in the Fund is available online at the above website, or by contacting the above email address.

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Benchmark The Fund is actively managed and uses the MSCI Emerging Market Net Total Return Index as a performance target and to calculate the performance fee. The benchmark has been chosen as it is generally considered to be representative of the investment universe in which the Fund invests. The performance of the Fund is likely to differ from the performance of the benchmark as the holdings, weightings and asset allocation will be different. Investors should carefully consider these differences when making comparisons. Further information about the benchmark can be found www.msci.com. The benchmark is provided by an administrator on the European Securities and Markets Authority (ESMA) register of benchmarks which includes details of all authorised, registered, recognised and endorsed EU and third country benchmark administrators together with their national competent authorities.

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Spain The Fund is registered in Spain with the Comisión Nacional del Mercado de Valores ("CNMV") under registration number 771.

Switzerland The principal fund documents (the prospectus, KIIDs, memorandum and articles of association, annual report and semi-annual report) of the Fund may be obtained free of charge from the Swiss Representative. The Fund is domiciled in Ireland. The Swiss representative and paying agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland.

Austria / Denmark (professional only) / Finland / Germany / Ireland / Italy (professional only) / Luxembourg / Norway / Spain / Sweden and the United Kingdom The Fund is registered for sale to all investors in these countries. Investors should make themselves aware of the relevant financial, legal and tax implications if they choose to invest.