

Scotia Sustainable Emerging Markets Equity Fund

Quarterly fund highlights

As at December 31, 2021

Top 10 Equity Holdings (%)

As at December 31, 2021

TSMC	8.3
Samsung	7.7
Tencent	6.1
Infosys	5.9
HDFC Bank	4.1
Sunny Optical	3.4
Alibaba	3.4
China Merchants Bank	3.3
Airtac International	2.9
Meituan	2.8

Sector Allocation (%)

As at December 31, 2021

Information Technology	29.3
Financials	23.5
Consumer Discretionary	16.8
Consumer Staples	7.7
Communications	7.6
Industrials	5.9
Health Care	4.6
Utilities	2.1
Real Estate	1.7
Materials	1.7
Energy	0.0

Geographic Allocation (%)

As at December 31, 2021

China	39.8
Taiwan	13.9
India	12.9
South Korea	10.8
Indonesia	4.8

Equity Holdings

As at December 31, 2021

Fund	41
MSCI EM Equity Index	1,271

Q4 2021 Update

For the fourth quarter, the Scotia Sustainable Emerging Markets Equity Fund returned -2.46% versus -1.3% for the MSCI Emerging Markets Net Index. The index's best performing sectors were Information Technology and Utilities. We achieved positive stock selection in Utilities, Consumer Staples and Communication Services. However, the positive impact was offset by weakness in Healthcare and Consumer Discretionary.

Global supply chains remain stretched but inflation is lower across emerging Asia compared to the rest of the emerging world (due to lower food price inflation and lower local supply chain disruptions). Central banks in Latin America and emerging Europe are tightening monetary policy due to rising inflation, whereas central banks in Asia have been able to keep interest rates relatively low to support economic recoveries.

The largest country weightings in the portfolio are China, Taiwan, India and South Korea. In China, signs of policy easing have started to emerge, for instance, the overall Required Reserve Ratio (RRR) was lowered by 50bps, which should release RMB1.2 trillion in base money liquidity. Chinese growth in 2021 has been a tale of two halves. After a strong rebound in the first half of the year, fueled by industrial activity and exports, the second half was marked by slower consumption due to COVID restrictions, power consumption limits, and property market declines with the government-led reform of over-leveraged property developers (such as Evergrande).

South Korea and Taiwan have recovered from the Delta variant surge and the economies have proven resilient, as strong export and investment demand offset the pandemic shock on private consumption. However, the recent resurgence in new cases triggered the governments to tighten mobility restrictions again. The Omicron wave will likely soften the recovery for all countries in Q1 2022.

India's situation continued to improve in Q4 with increasing vaccination levels and economic activity indicators. Government capex spending has gathered pace, private projects under implementation are improving while new investments in manufacturing sector continue to grow.

Scotia Sustainable Emerging Markets Equity Fund

The external environment for the emerging markets remains uncertain. Each country is at a different stage of the pandemic and recovery in business activity. With rising inflation, many central banks are more limited in their ability to support liquidity and governments are using fiscal stimulus to support their economies as much as possible. We are constantly reviewing our country exposures and assessing the capabilities of each country to manage this difficult situation.

We stress test each company in our portfolio and actively engage with their management teams. Most of our businesses will be able to weather this storm, and in most cases come back stronger. We continue to focus on higher quality companies with strong fundamentals and sustainable business models. These companies typically have superior growth rates, high returns on invested capital and strong balance sheets. The portfolio's positioning emphasizes long-term secular growth end markets, and limits exposure to countries with questionable fundamentals.

*As of December 31, 2021, performance returns for the Scotia Sustainable Emerging Markets Equity Fund are as follows: 1 month: 1.71%, 3 months: -2.46% and since inception (05/19/2021): -13.3%. Performance returns for the MSCI EM Index Net Return USD benchmark are as follows: 3 months: -1.30%.

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