May 2024

Purpose INVESTMENTS

Trade Rationale

Purpose Active Portfolios

FUND CODE/TICKER

PURPOSE ACTIVE BALANCED

ETF TICKER	PABF
MGMT FEES	0.20%
SERIES F	PFC22101
MGMT FEES	0.20%
SERIES A	PFC22100
MGMT FEES	1.20%

PURPOSE ACTIVE GROWTH

ETF TICKER	PAGF
MGMT FEES	0.20%
SERIES F	PFC22201
MGMT FEES	0.20%
SERIES A	PFC22200
MGMT FEES	1.20%

PURPOSE ACTIVE CONSERVATIVE

ETF TICKER	PACF
MGMT FEES	0.20%
SERIES F	PFC22001
MGMT FEES	0.20%
SERIES A	PFC22000
MGMT FEES	1.20%

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Portfolio Management Team

Craig Basinger, CFA
CHIEF MARKET STRATEGIST
T: 647.822.1406
craigb@purposeinvest.com

Derek Benedet, CMT
PORTFOLIO MANAGER

Brett Gustafson
PORTFOLIO ANALYST

TRADE

Purpose Active Balanced Fund

Trim	1% Purpose Core Equity Income (RDE)
Trim	2% iShares MSCI Japan ETF (EWJ)
NEW	3% Vanguard FTSE Emerging Markets All Cap Index ETF (VEE)

Purpose Active Growth Fund

Trim	1% Purpose Core Equity Income (RDE)
Trim	1% iShares MSCI Japan ETF (EWJ)
Increase	2% Vanguard FTSE Emerging Markets All Cap Index ETF (VEE)

In recent months we have begun to warm to emerging markets, with this trade we have now increased our direct exposure, bringing our allocation to a neutral stance. Despite previous underweighting due to perceived risks, several factors are indicating a compelling opportunity for increased exposure to emerging market equities.

Many central banks are nearing an inflection point and potentially shifting towards rate cuts in 2024. This shift typically benefits emerging markets. Additionally, many emerging market economies were among the first to raise rates, and many have begun their easing cycles as inflation continues to trend lower.

From a valuation perspective, emerging markets are trading at a significant discount compared to developed markets, currently at a full 6 points (Chart 1). This has historically indicated the potential for future outperformance.

There have been signs of an improvement in global trade volumes which bodes well for countries that are heavily reliant exports. We are seeing signs of improvement, especially in export-driven economies like Korea and Taiwan.

The earnings growth gap between developed and emerging markets is almost eliminated. In this scenario, EM outperforms when earnings growth is higher than in developed markets. This indicator is moving in the right direction but is still not reflected in price performance.

On the currency front, we have seen considerable improvement in Emerging Market currencies, which typically results in EM outperformance. Yet another usual correlation that has yet to result in equity performance.

One of the EM concerns is the large weight associated with China. However, we are not as low on China as we have been in recent years. Improvement in China will come from improvements in real estate. The crisis in real estate is now 3 years old and with developer share prices now down 80% this could be the canary for emerging markets.

Emerging markets have shown considerable resiliency with weathering borrowing costs, a strong USD, inflation, and declining global growth. We believe that these economies have become much more insulated as we have seen strength across EM when it comes to domestic sales. There are always risks, most notably political risk or a decline in global trade, however, we believe much of this has been priced in and emerging markets are ready for their time in the sun.

Active vs. Passive

Typically, our rule of thumb is in less efficient markets, we prefer an active manager, and in more efficient markets it is appropriate for a passive allocation. However, emerging market due diligence has proven to be an exception to this rule currently.

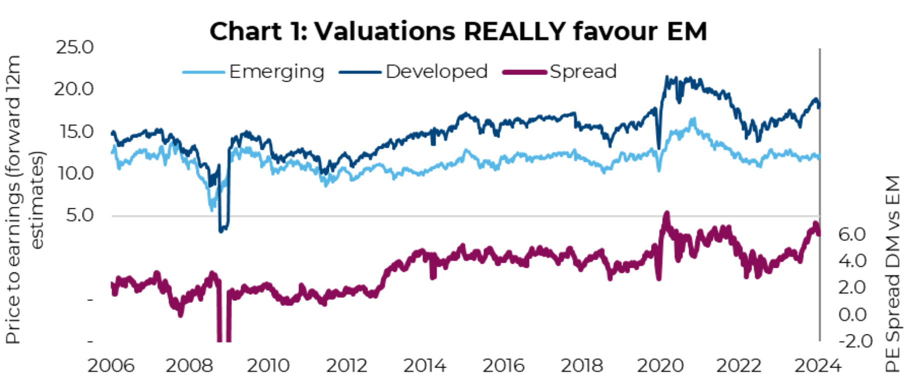
The only reason to go active in EM is if we wanted a different geographic exposure to the index, but at current levels, we are comfortable with the exposures. China's weight within EM has been significantly reduced and is not nearly as concentrated as it once was in 2020.

When it comes to active managers in the emerging market space, what separated the best and worst performers was primarily an under or overweight in China. Additionally, any manager who has done well has done so by an overweight towards the outperforming economies of India and Mexico. This due diligence resulted in us being comfortable with the considerably cheaper passive index.

Japan & Canada

On the other side of the trade is our trim in Japan and North America (Mostly Canada). Since the launch of the multi-asset funds, our Japan position has become outsized given the +19.4% gain (CAD). While we remain bullish in Japan, we felt a trim was in order due to concerns surrounding an extremely outsized weight in Asia given the concentration in Asia in emerging markets.

We are currently underweight in Canada within our overall allocation. There continue to be signs of softening in Canada, and we believe a small trim is in order to allocate towards higher growth prospects in emerging markets.



SOURCE: PURPOSE INVESTMENTS & BLOOMBERG

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