



Will Emerging Markets' strong performance continue?

Mike Sell & Roberto Lampl - 9th of July 2020

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Swiss Representative: FIRST INDEPENDENT FUND SERVICES LTD., Klausstrasse 33, 8008 Zurich.

Swiss Paying Agent: Neue Helvetische Bank AG, Seefeldstrasse 215, CH-8008 Zurich.

Speakers



Mike Sell

Asia



Roberto Lampl

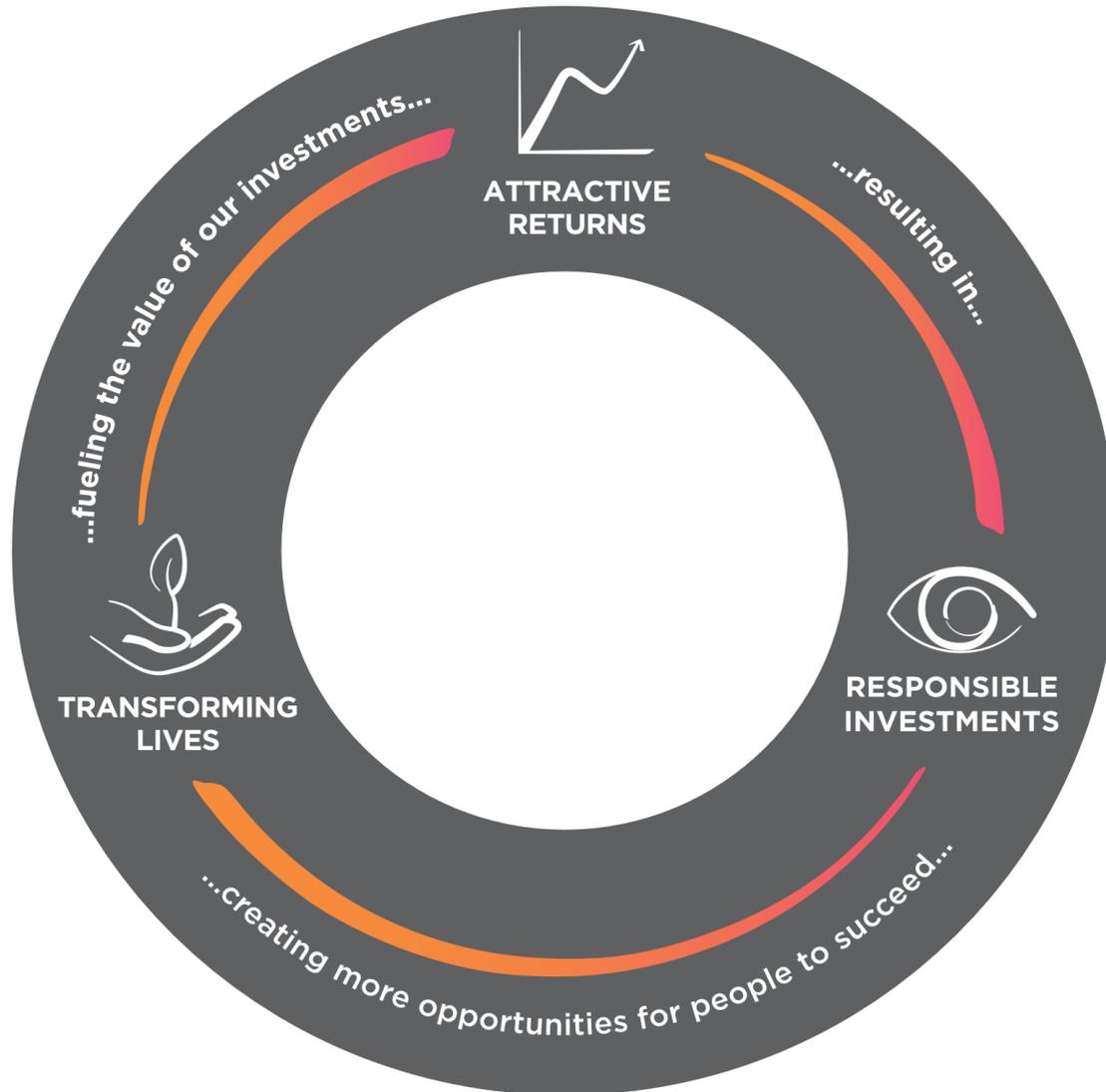
Latin America, Eastern
Europe and Africa



Benoit Ribaud

European Sales
Director

The Alquity Model



Agenda



- ▶ Emerging Markets vs Developed Markets in Q2, and outlook for 2H 2020
- ▶ US election and Emerging Markets
- ▶ China, India & Geopolitics
- ▶ New investment ideas
- ▶ Alquity and the UN Sustainable Development Goals



The outperformance of EM vs DM

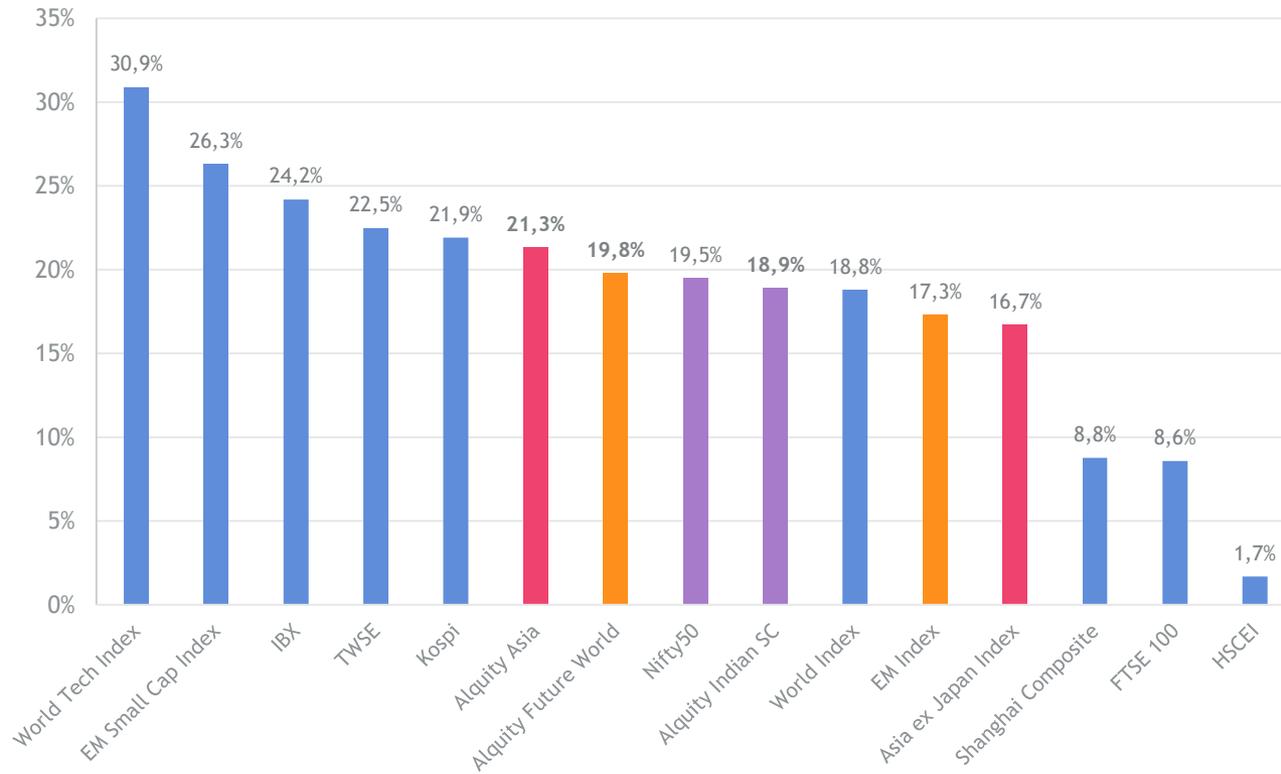
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Performance of EM vs DM in Q2 2020



Market returns in 2Q20 (in USD)

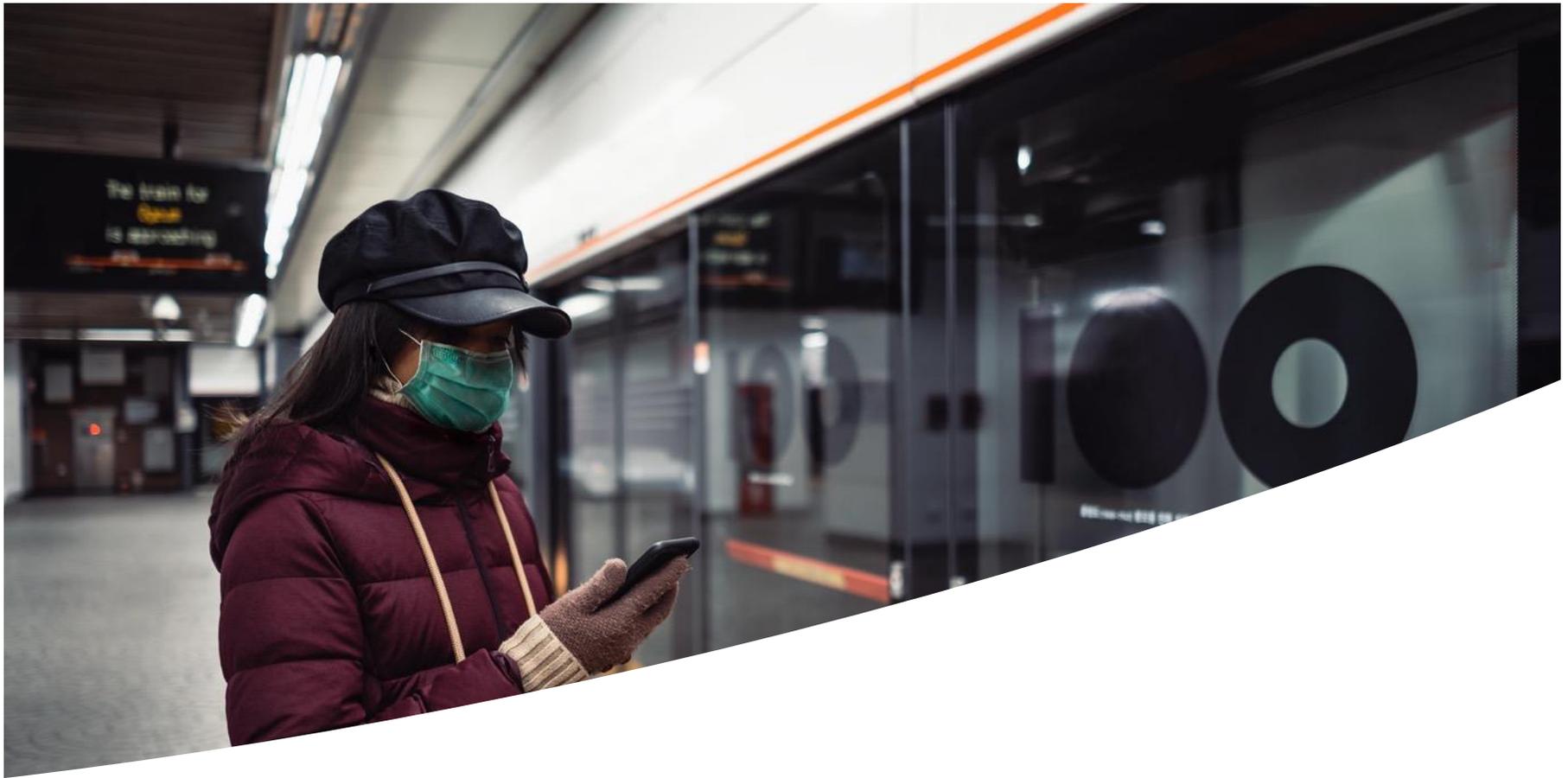


The last 3 years of Small Cap underperformance is unusual and has ended



Small cap vs large cap index performance since 2011





Outlook for 2H 2020 - Key Considerations

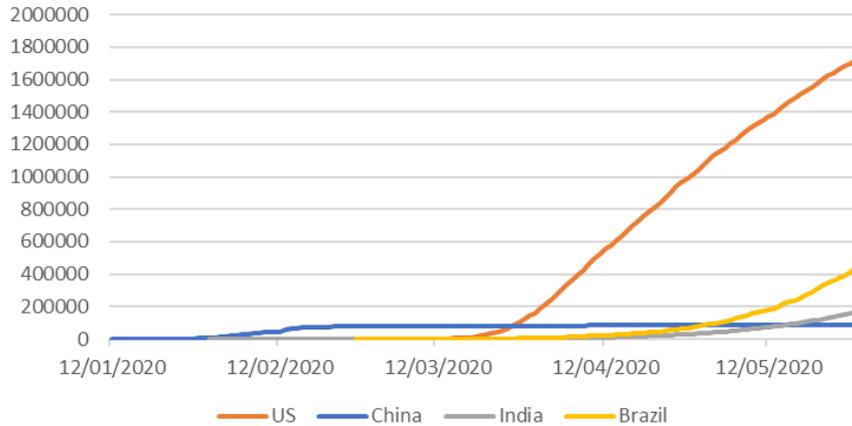
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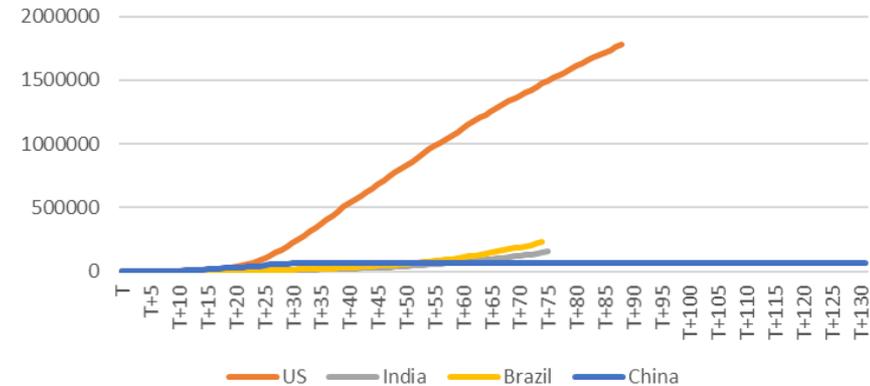
Covid cases around the globe



Number of confirmed covid-19 cases



Evolution of confirmed cases since the day it reached 100



Country	US	China	India	Italy	Brazil
Number of cases	2,634,432	84,785	566,840	240,578	1,402,041
Number of cases per million people	8,064	61	419	3,982	6,693

Covid - latest updates

China

- The authorities' priority is to keep the economy as open as possible and thus operating very close to full capacity
- The government has ramped up testing to identify new Covid clusters in a timely manner to avoid a new countrywide pandemic
- Regions, where new clusters are identified are placed under lockdown (e.g. 400,000 people in Anxin county at the end of June)

India

- The strict nationwide lockdown lasted until 31st May
- The government initiated the Unlock 1.0 phase (between 1st and 30th June), when lockdown restrictions were lifted with an “economic focus” (i.e. allowing malls, hotels, restaurants to reopen)
- During the Unlock 2.0 phase (between 1st and 31st July), allowing shops to open, whilst permitting inter-state & intra-state travels

Indonesia

- In June, Jakarta attempted to ease mobility restrictions by allowing stores, restaurants, malls and places of worship to operate at limited capacity
- On 1st July, Jakarta extended the month-long transition period to exit from a partial lockdown by two weeks

Brazil

- Despite the rapid spread of the coronavirus and the WHO's recommendations, the President sees the risks posed by the virus as exaggerated and vetoed parts of a law that would have made wearing masks compulsory
- There is no uniform lockdown or social distancing strategy across states, some cities are already exiting the lockdown despite the rapidly rising number of cases

GDP growth outlook



Emerging markets

Country	2020	2021
Mexico	-8.0%	3.0%
South Africa	-6.7%	2.7%
Brazil	-6.4%	3.3%
Thailand	-5.6%	4.1%
India*	-4.5%	6.8%
Malaysia	-2.9%	5.4%
Philippines	-2.9%	7.1%
South Korea	-0.6%	3.0%
Indonesia	0.0%	5.4%
Pakistan*	0.40%	3.0%
Taiwan	0.5%	3.0%
China	1.8%	8.0%
Egypt	2.0%	3.2%
Vietnam	2.8%	8.1%

Developed markets

Country	2020	2021
Eurozone	-8.0%	5.4%
United Kingdom	-8,5%	5,6%
United States	-5.6%	4.1%

“U-shape” recovery in evidence

- India
- China

12 Source: Bloomberg, as of 30th of June 2020

*Note that the values for India and Pakistan refer to FY2020-21 and FY2021-22

Massive rate cuts by Central Banks over the last 12 months are supportive



Key policy rates	Rates as of 30 th of June	Cumulative change over 12 months (bps)
Fed funds rate (lower bound)	0.00%	-225
PBoC reverse repo rate	12.50%	-100
India	4.00%	-175
South Korea	0.50%	-125
Brazil	2.25%	-425
South Africa	3.75%	-300

- Following the Federal Reserve's ZIRP policy and massive balance sheet expansion, EM central banks embarked on the path of monetary easing
- As commodity prices remain depressed and domestic output gaps are in deeply negative territories, most EM economies' rate cutting cycles are not constrained by the potential consumer price impact of FX weakness (as opposed to previous cycles and crises)
- As the Federal Reserve is not in a rush to lift rates before 2022, most EM central banks have an adequate amount of room to maintain their accommodative stances as long as their respective domestic economies need support

Outlook for Reform

India

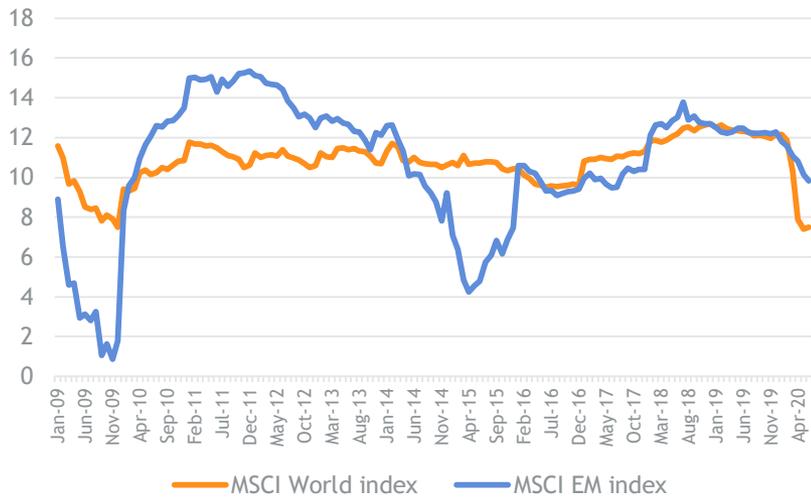
- Restarting the Indian economy post-pandemic could provide the opportunity for the Modi government to deliver some of the labour law reforms on a countrywide basis
- Two states (Madhya Pradesh and Uttar Pradesh) have already introduced more liberal labour regulations - creating a more business-friendly framework
- The Union Cabinet started the deregulation of food production, supply and distribution in June, which should clear hurdles for upgrading agricultural value chains
- Initiated by the Supreme Court, the judiciary reform could gain further traction after the covid-related lockdowns are lifted, therefore a more efficient and faster system could prevail

Indonesia

- Due to the coronavirus pandemic, the government temporarily put the reform agenda on hold (the Omnibus Job Creation Bill)
- We expect the government to recalibrate its efforts and put greater emphasis on the execution of its reform agenda, for example easing stringent regulations and liberalising strict labour laws
- The reform of business regulations could entail reducing red tape to attract FDI, especially companies who have been planning to relocate their production from China
- Labour laws could be loosened to ease rigid regulations for employee compensation and dismissal

Emerging Markets are attractive vs Developed Markets

12-month forward ROE (%)



12-month trailing P/B

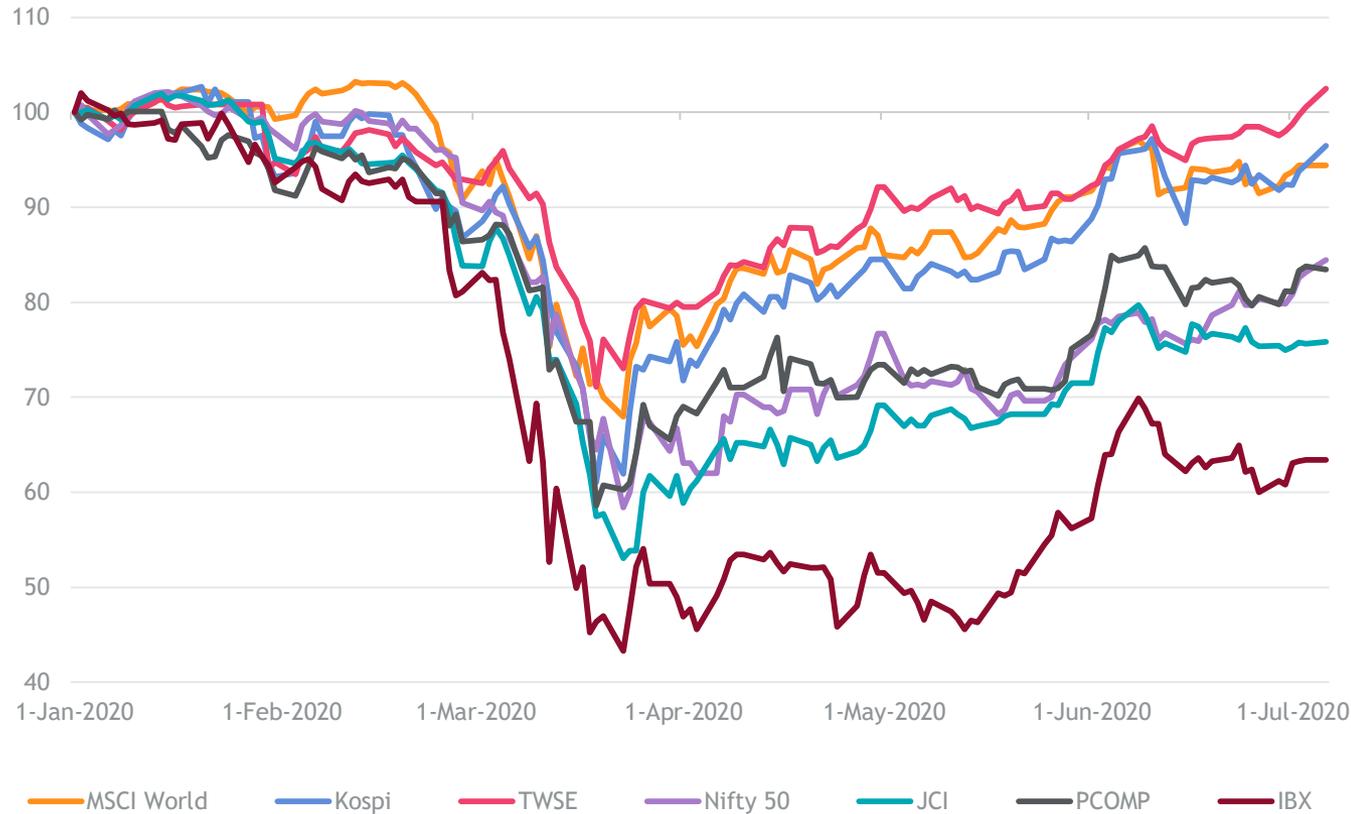


- Fundamentally, EM economies are better positioned to exhibit a more pronounced cyclical recovery than DM economies in 2H20 and onwards (e.g. more coherent approach to containing the pandemic than in the US)
- Although the stimulus efforts in DMs hide macro vulnerabilities and boost stock prices in the near term, once policymakers announce the withdrawal of the stimuli, DM stock markets will need to re-adjust to better reflect the underlying economic reality

Wide divergence in EM markets performance in 2020



Is the market mis-pricing the growth outlook?





US Election 2020 & Emerging Markets

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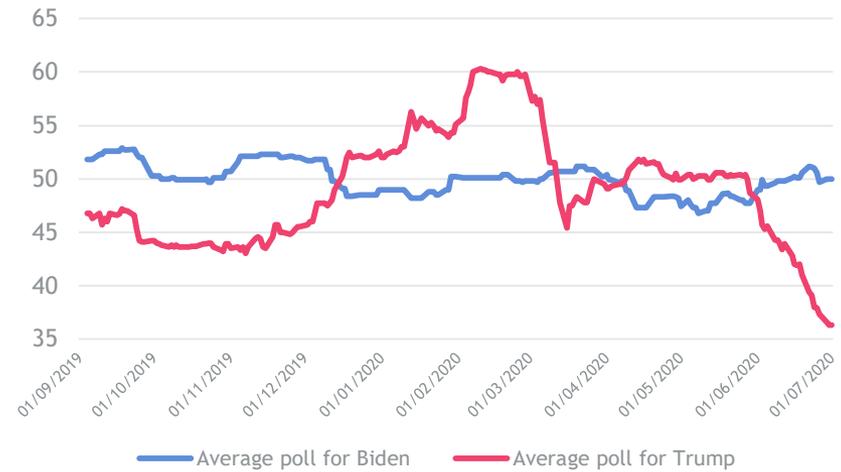
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US Presidential elections

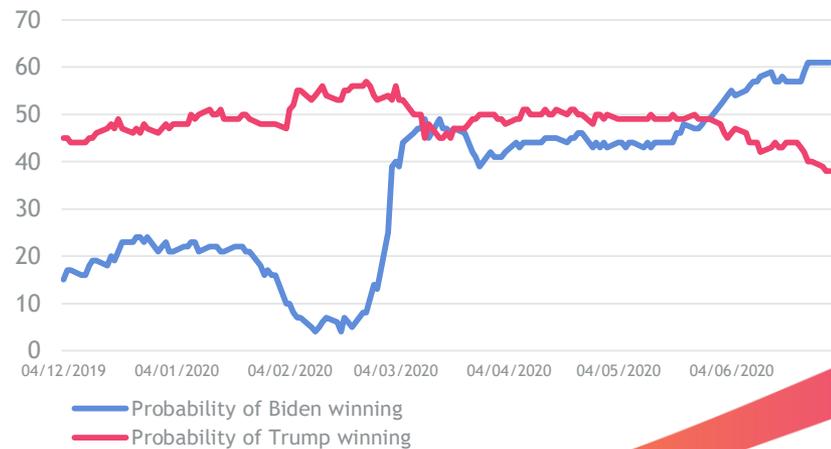


- The majority of the latest polls show that Joe Biden would win the popular vote in November
- However, winning the popular vote itself is not a guarantee that Biden would become the president due to the nature of the US electoral system
- There were five Presidential candidates in history, who did not win the Presidency despite winning the popular vote, due to not securing a high enough number of electors:
 - 2016: Hillary Clinton (D) vs. Donald Trump (R)
 - 2000: Al Gore (D) vs. George W. Bush (R)
 - 1888: Grover Cleveland (D) vs. Benjamin Harrison (R)
 - 1876: Samuel J. Tilden (D) vs. Rutherford B. Hayes (R)
 - 1824: Andrew Jackson vs. John Quincy Adams

Average polls by Real Clear Politics 2020



Implied probability of winning by PredictIT



The candidates' stances on economic issues



Biden's policies

- Building an economy that “rewards work, not just wealth”
- Raising the hourly minimum wage to \$15
- Increasing the top individual income tax rate to 39.5%
- Repealing the corporate tax cut by Trump and hiking the tax rate from 21% to 28% (still below pre-2017 levels)
- Taking a tough stance on anti-trust (monopoly) enforcement
- Taking a more constructive tone on trade partnerships with China, Canada, Mexico, the EU, etc.

Impact

- Negative for US equities
- Reduction of risk premia in the EM space

Trump's policies

- Keeping the corporate income tax rate at 21%
- No plans announced to raise the minimum wage
- Remaining on a protectionist stance and favoring bilateral trade deals with other countries
- E.g. hiking import tariffs on cars from the EU
- Carrying on with the trade and tech wars with China

Impact

- Positive for US equities
- More volatility in the EM space



China, India & Geopolitics

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Increased Geopolitical Risk

India

- Tension on the border with China (20 deaths) - but rapid de-escalation
- Ban on Chinese apps (e.g. TikTok)
- Increasing trend of 'Made in India'
 - Positive for companies such as Dixons, TTK, Container Corporation
 - Negative impact on companies such as Huawei, Great Wall



Hong Kong

- National Security Law implemented
 - Wide (extra-territorial) scope
 - 'complex' trials can be sent to mainland
- We have zero domestic HK exposure (since August 2019)

US Response - Escalating ahead of the elections?



- Hong Kong now viewed as part of China, removing special trade status
- Hong Kong Autonomy Act passed by Congress
 - Potential sanctions on individuals and banks
- Public Company Accounting Oversight Board flashpoint
 - Holding Foreign Companies Accountable Act
- Rising risks
 - Almost entirely domestically focused portfolio
 - Weightings substantially reduced



New investment ideas

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Portfolio Strategy Recap - Asia



- Asia is our preferred region
- We expect stronger ‘U’ shape recovery in Asia, than ‘W’ in Developed Markets
 - India, Indonesia, Vietnam, Philippines, China (but tempered by geopolitics)
- We prefer the technological sector to financials:
 - Financials weighting decreased from 25.8% to 7.2%*
 - Tech weighting increased from 6.1% to 22.2%*

kakao

New ideas in Asia

LEENO

(South Korea)



(India)



Meituan Dianping

(China)



(Myanmar)



(Indonesia)

Outside Asia we are cautious from a top-down perspective...



Country	Positives	Risks	Potential
Brazil	Record low rates Currency Cyclical lows	Political uncertainty	Reform agenda Privatisations FDI flows
Mexico	Currency valuation USMCA	Non reformist agenda State intervention	US economic recovery Onshoring trend
Egypt	Reform agenda IMF aid Low rates	Tourism outlook FX flows	Low rates propelling fixed asset investment growth

...but we have high conviction positions which benefit from secular growth trends



▶ Digital revolution



▶ Onshoring



▶ Convenience & consumption



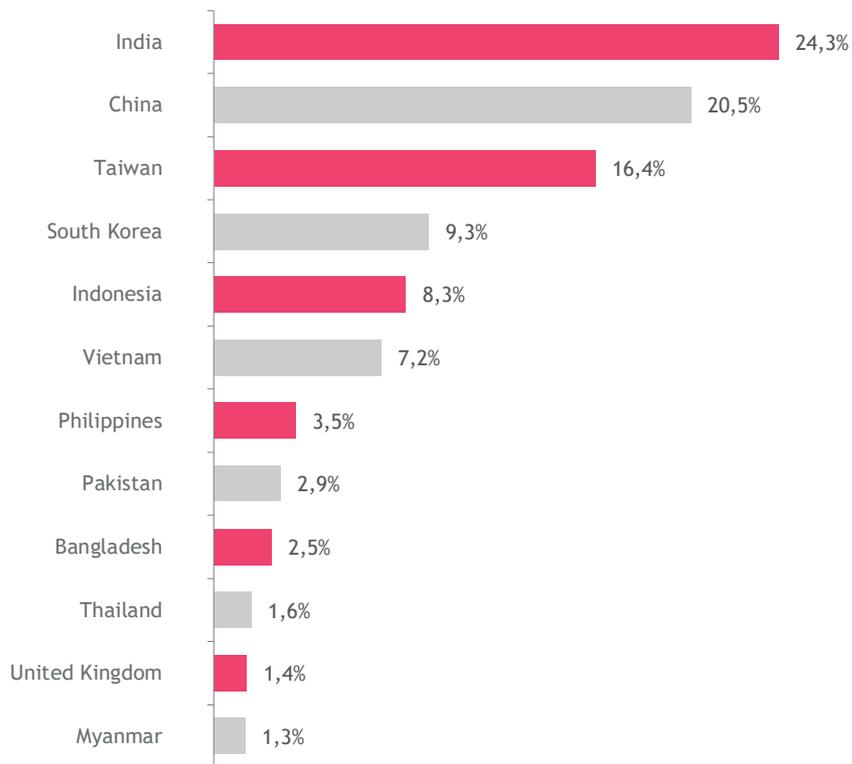
▶ Protein demand



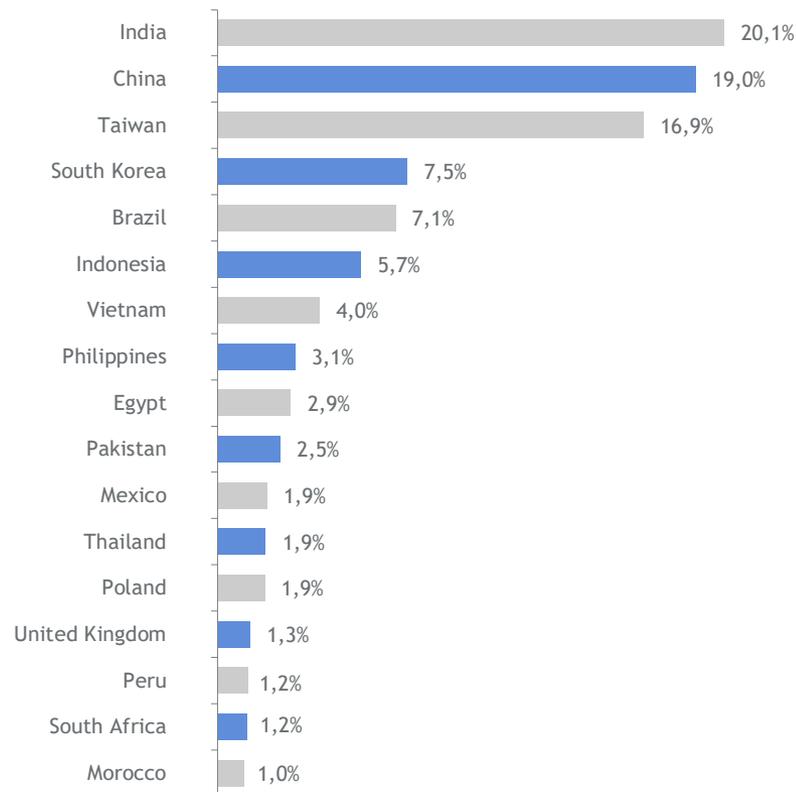
Asia and Future World funds - allocation by country



Asia



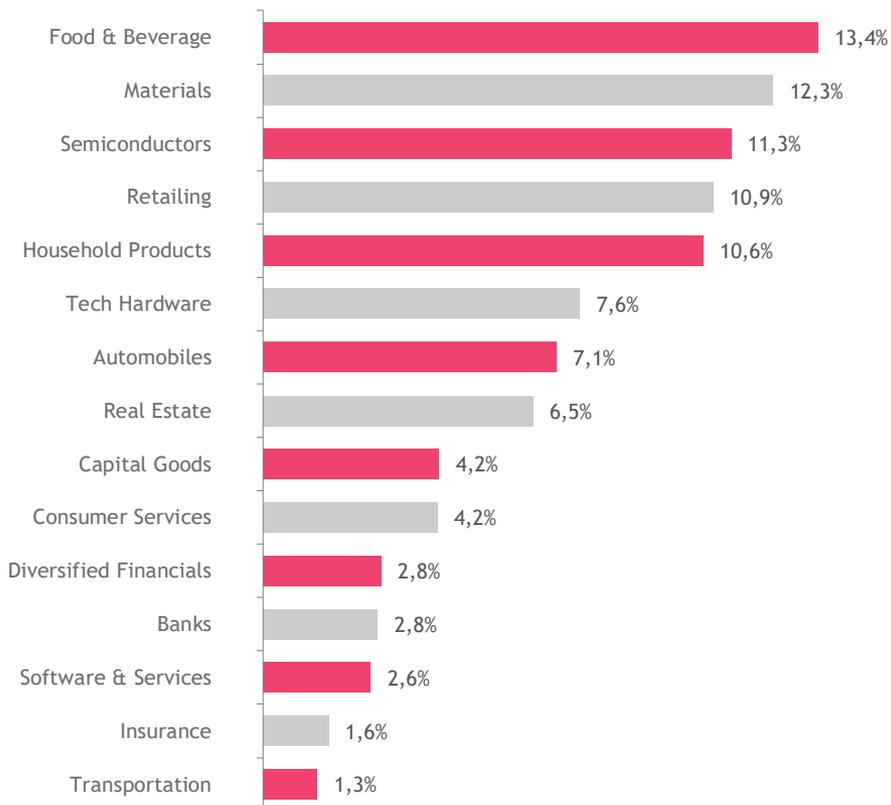
Future World



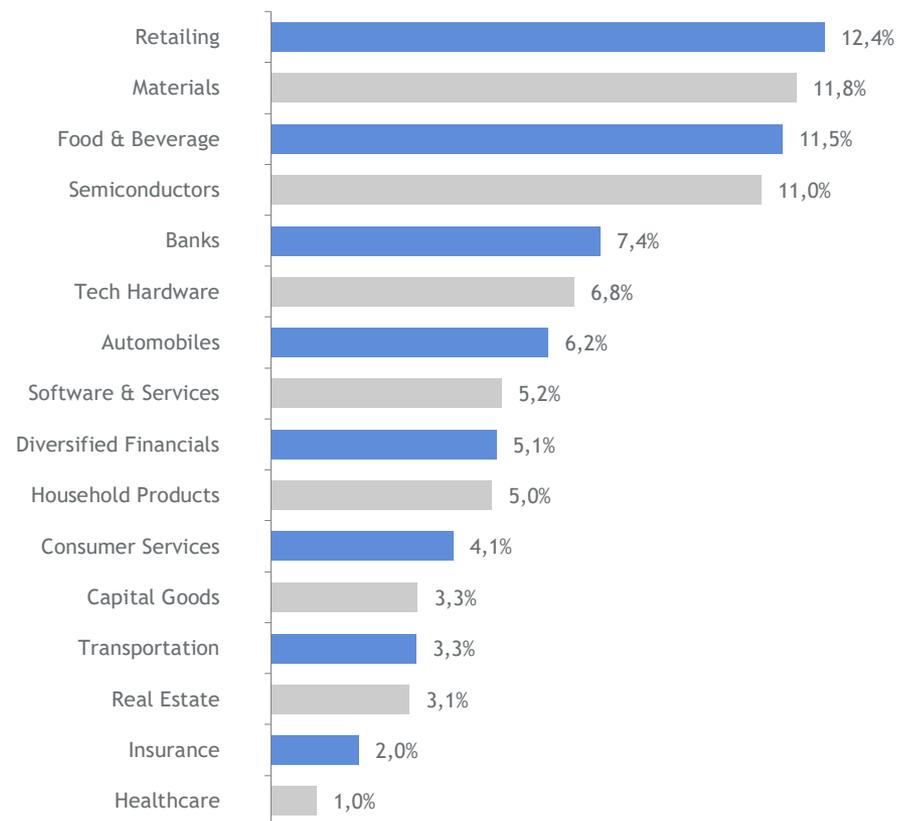
Asia and Future World funds - allocation by sector



Asia



Future World



Future World fund - top 10 positions

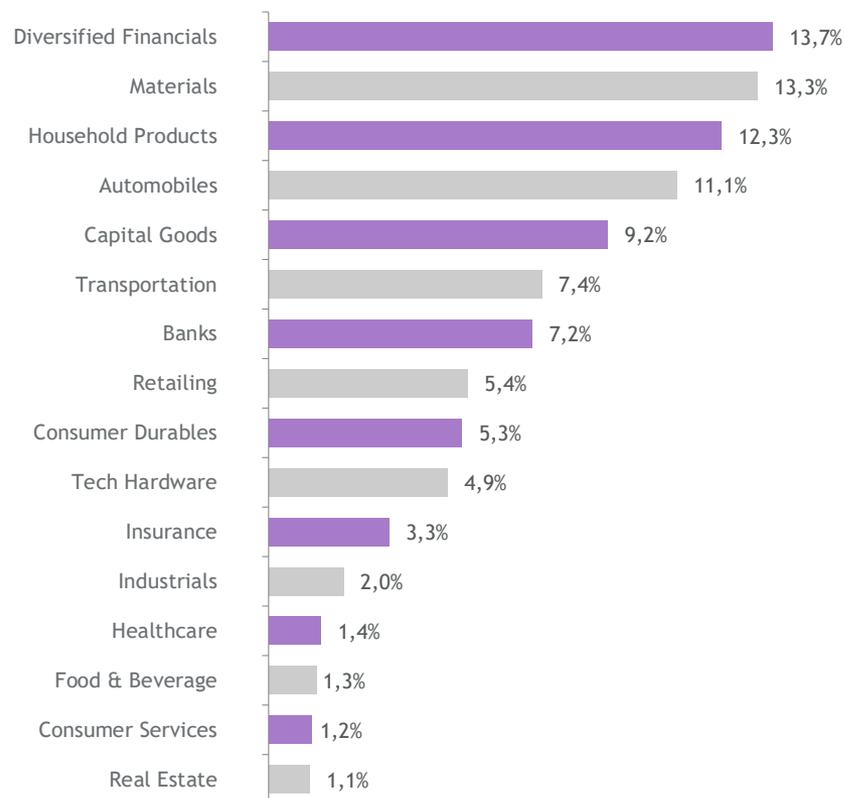


Alquity Future World	
Mediatek	3.7%
TSMC	3.5%
Escorts Ltd	3.3%
Heidelberg Cement India	3.1%
SM Investments Corporation	3.1%
Hero Motorcorp	3.0%
Largan	2.9%
President Chain Store	2.8%
Xtep	2.8%
Vinamilk	2.7%

Top 10 positions

Hindustan Unilever	6.0%
HDFC	6.0%
Hero Motorcorp	5.4%
Escorts Ltd	5.4%
TCI Express	4.9%
Amrutanjan	4.7%
Heidelberg cement India	4.4%
Redington (India) Ltd	4.3%
ICICI Bank	4.2%
TTK Prestige	4.2%

Allocation by sector





Impact at Alquity

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Impact investing = just virtue signaling?



Is there any ‘impact’ from investing in a company that is green but:

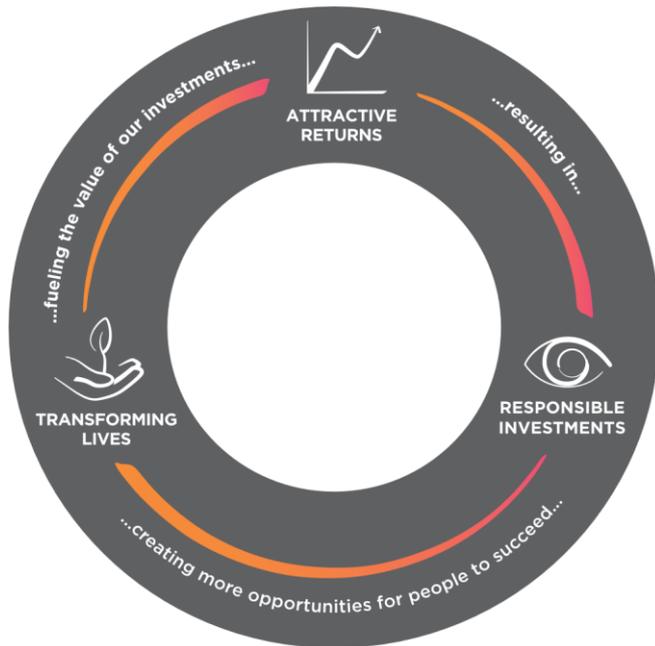
- Already listed
- Well-managed
- Has no need to raise capital

How do you really change the world via your investments?

Investing with Alquity provides real and tangible impact via UN Sustainable Development Goal 8



- More than \$2M donated and 60,000 lives transformed*
- As an example, we have funded via our Transforming Lives program, [Phool](#). They employ 260 lower caste Indian women (targeted to be 5,000 by 2022) who collect temple flowers, preventing pollution of the Ganges river, and recycle them into incense sticks
- As a result, [Phool employees are now potential Vmart customers](#). Furthermore, our onsite visits provide us with valuable insights into the habits of a growing consumer class

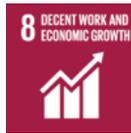
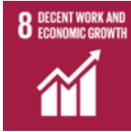
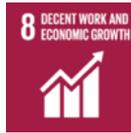
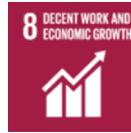


Alquity's differentiated approach to UN SDGs



Positive contribution

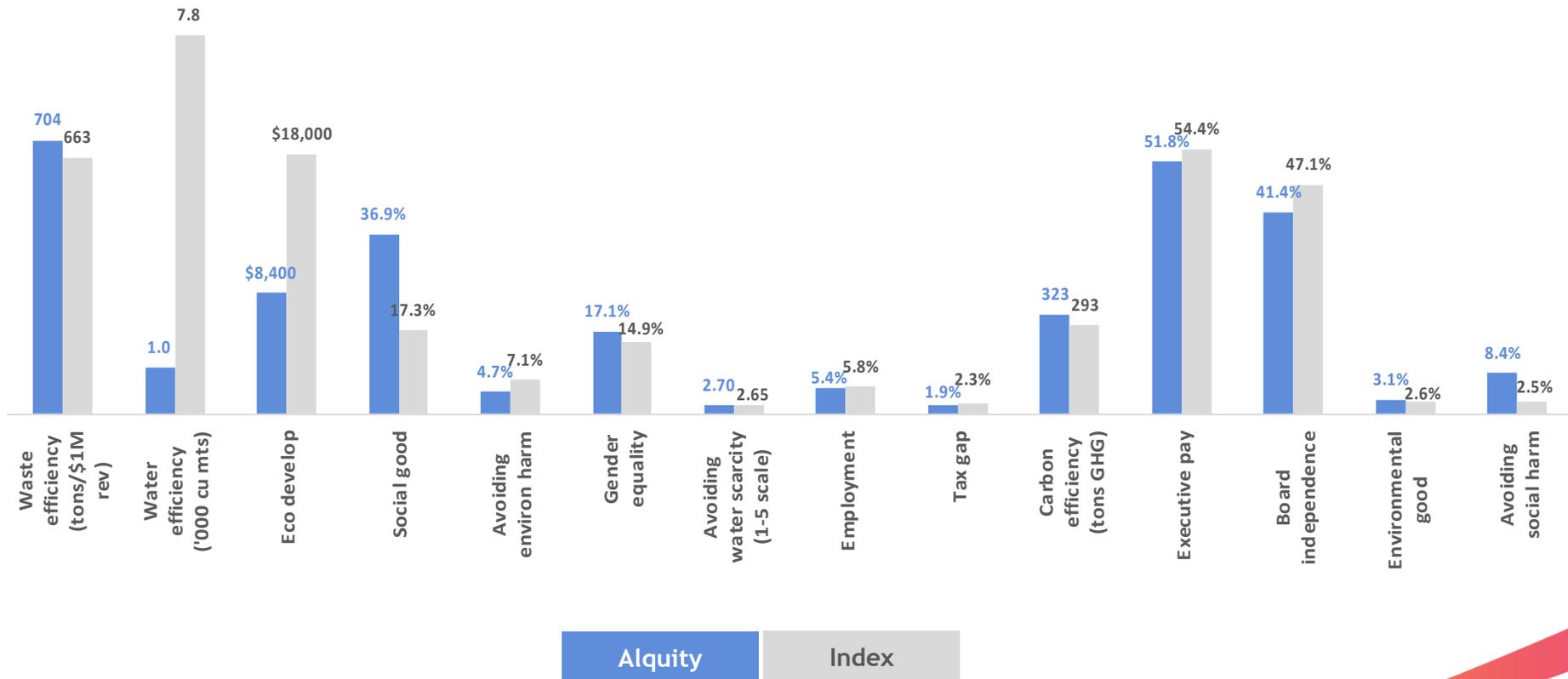
Negative contribution



The impact of Alquity's Future World fund against its benchmark



Independent portfolio analysis shows outperformance on most key sustainability measures



Conclusion



- 1) Positive outlook for Emerging Markets, especially Asia
- 2) Second half of 2020 will see rising political rhetoric in certain areas, which we have avoided
- 3) Domestic growth beneficiaries and the technological sector are our key focus areas
- 4) Investing with Alquity has a real impact on peoples' livelihoods and the environment, combined with a deep ESG process



Q&A

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Contacts



EUROPE

Benoit Ribaud

+44 207 5577 862

benoit.ribaud@alquity.com



www.alquity.com

LATIN AMERICA & SPAIN

Cyn Cano

+44 207 5577 871

cyn.cano@alquity.com



@Alquity

MIDDLE EAST, ASIA & UK

Suresh Mistry

+44 207 5577 854

suresh.mistry@alquity.com



/company/alquity-investment-management-limited

NORTH AMERICA

Renee Arnold

+1 215 350 9063

renee.arnold@alquity.com



/Alquity

UK

Alex Boggis

+44 207 5577 850

alex.boggis@alquity.com



www.alquityfoundation.org

UK

Susannah Preston

+44 207 5577 850

susannah.preston@alquity.com