



Are Emerging Markets still relevant?

SEPTEMBER 2020

**LIFE
CHANGING
INVESTMENTS**

Alquity

Agenda

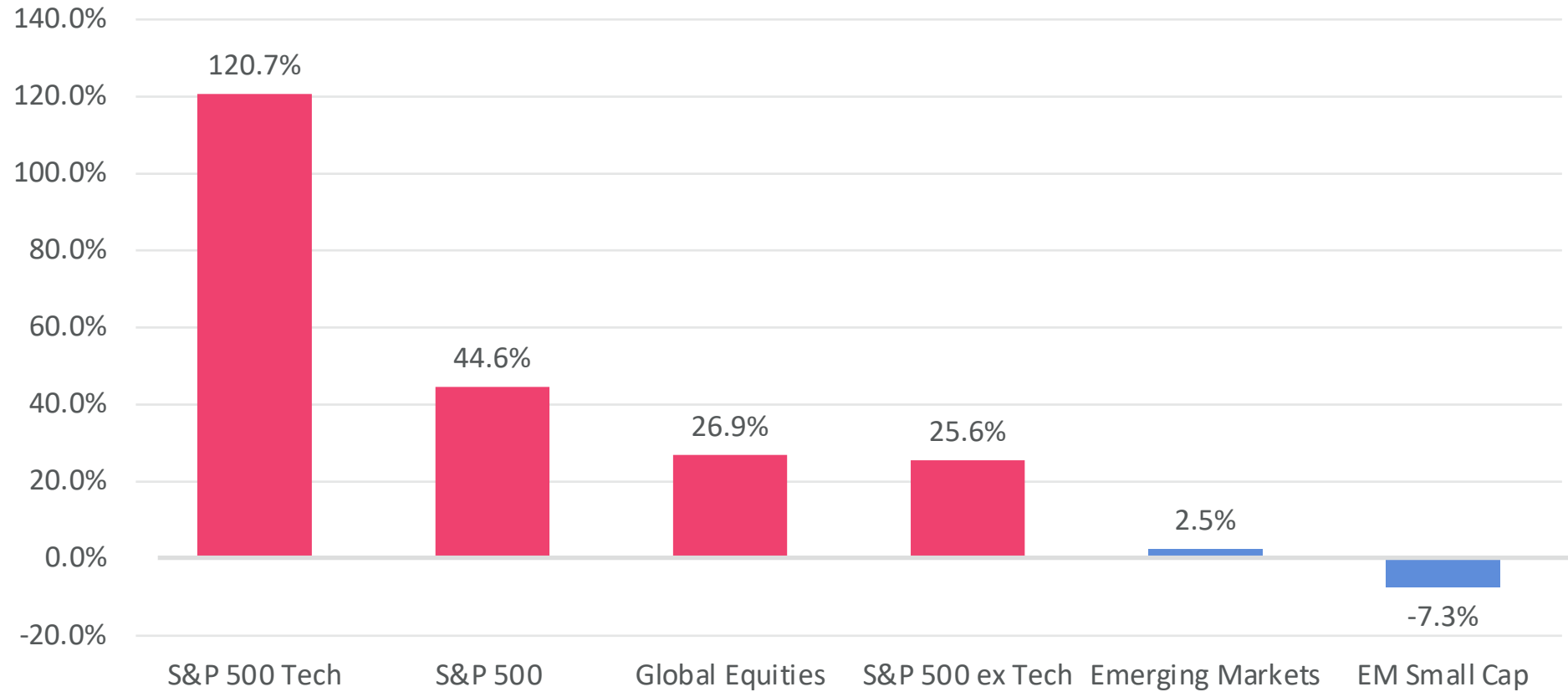
- Emerging Markets - Ignored and unloved?
- 2020 - The year of unprecedented change
- COVID-19 – The Tech Trend Accelerator
- ...but not the only story
- Have we forgotten the G in ESG?
- Conclusion

Emerging Markets

- Ignored and unloved?

Emerging Markets Have Been Left Behind

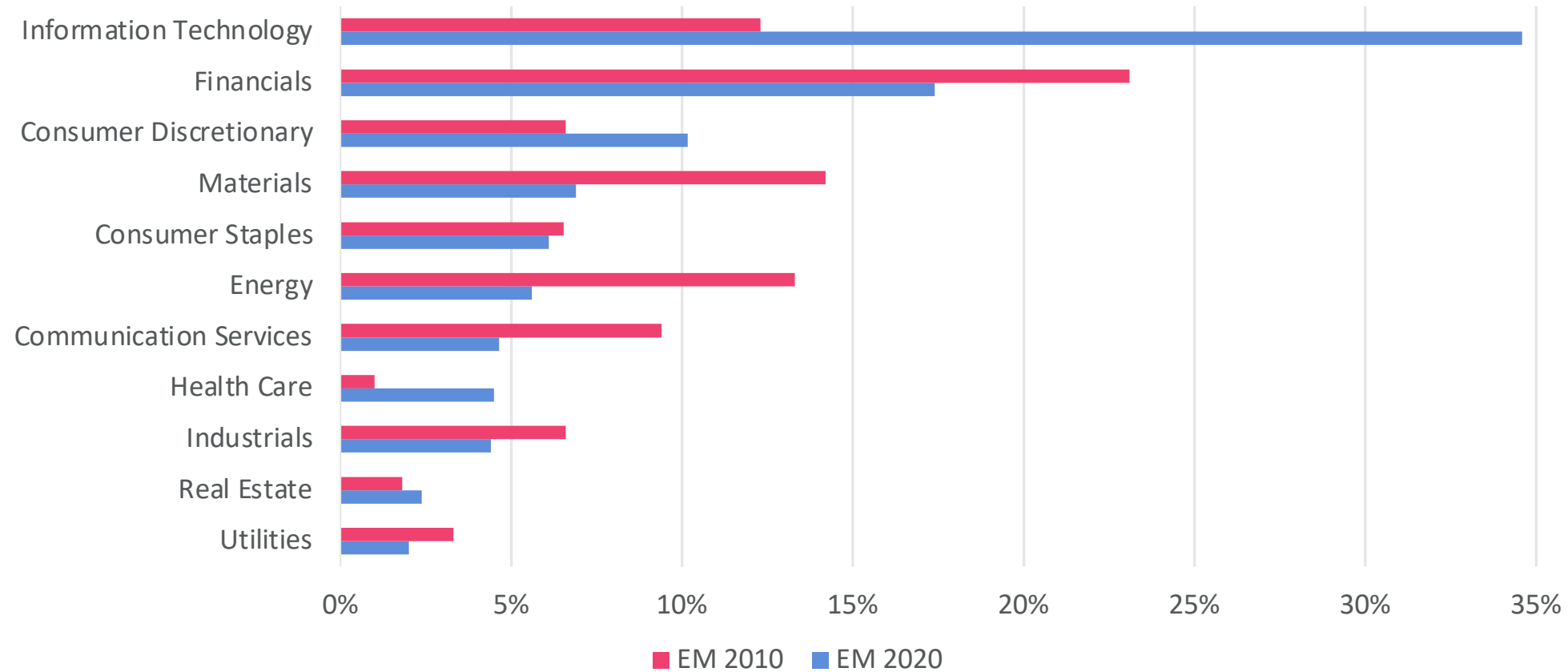
3 Year USD returns on 02/09/2020



Source: Bloomberg

The Last Decade Has Seen A Dramatic Composition Change In Emerging Markets

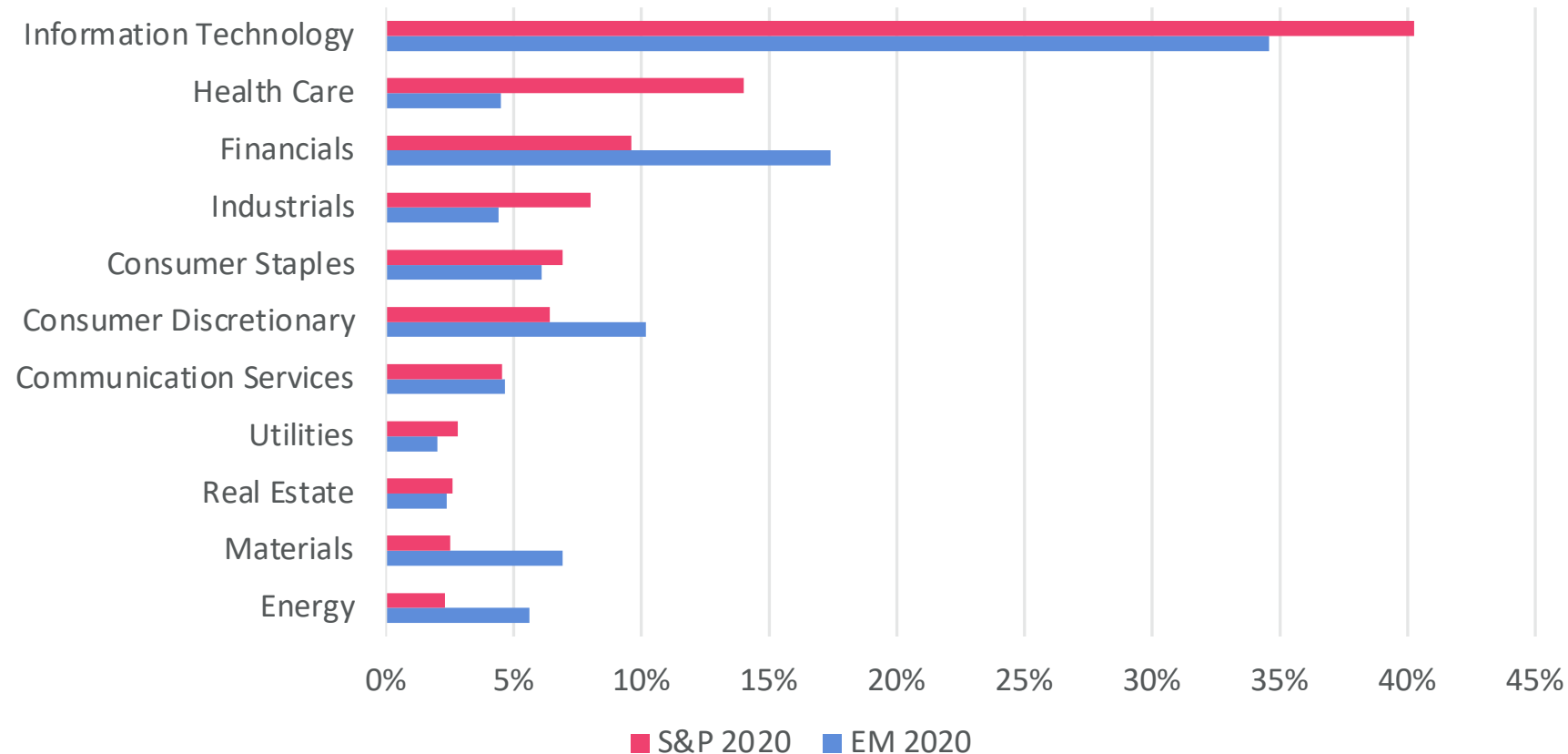
2010 Vs 2020 EM sector allocation



Source: Bloomberg

And Now EM Show Surprising Similarities To The US S&P

2020 EM Vs S&P sector allocation



Top 10 stock concentration	2010	2020
S&P	19%	29%
EM	16%	30%

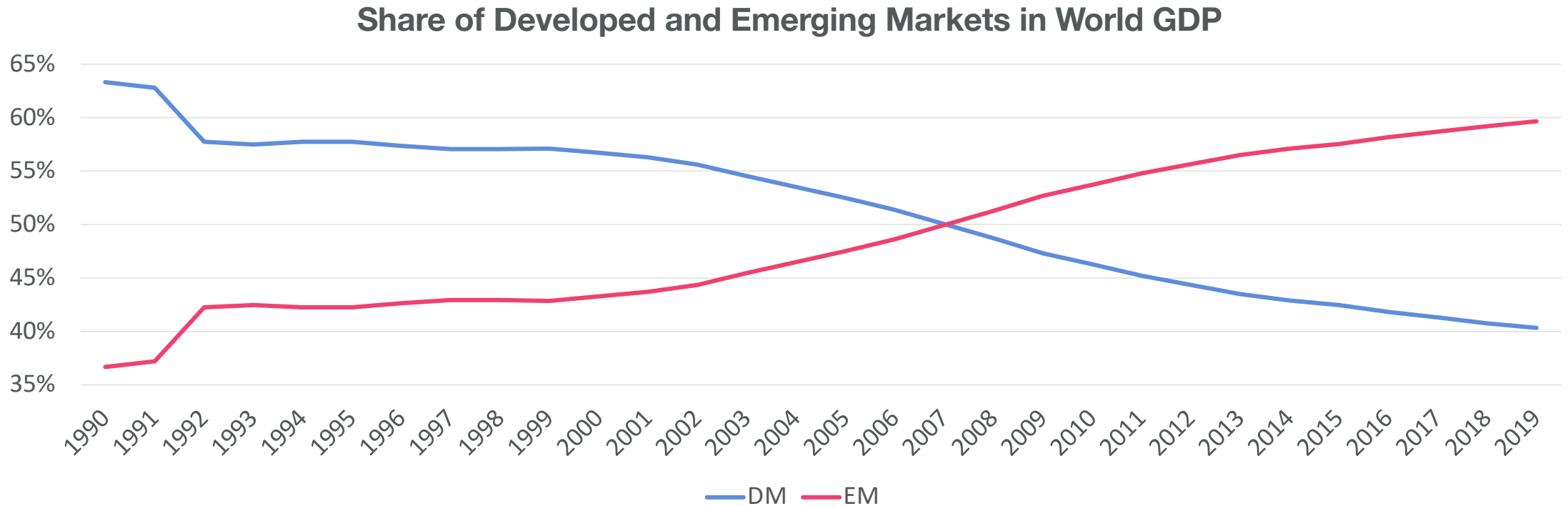
Source: Bloomberg

Major Differences Remain Between EM & DM, But Have Been Forgotten!

	Urbanisation rate in 2019	Average population growth 2015-19	Average GDP growth forecast 2020-2022
US	82%	0.6%	0.4%
Brazil	87%	0.8%	0.0%
South Korea	81%	0.4%	1.7%
Taiwan	79%	0.2%	2.2%
Peru	78%	1.6%	0.2%
South Africa	67%	1.4%	-1.2%
China	60%	0.5%	5.1%
Indonesia	56%	1.2%	3.2%
Vietnam	37%	1.0%	5.8%
Pakistan	37%	2.1%	1.9%
India	34%	1.1%	2.4%

Source: Bloomberg, World Bank, CIA Factbook, Alquity calculations

EM Are Fundamentally Becoming More Relevant



Source: IMF, Alquity calculations, as of 2019, in PPP terms

But EM Have Been De-rating Versus Developed Markets



Source: Bloomberg, Alquity calculations, data as at 31/08/2020

The Opportunity Within EM Smaller Companies Is Even Greater

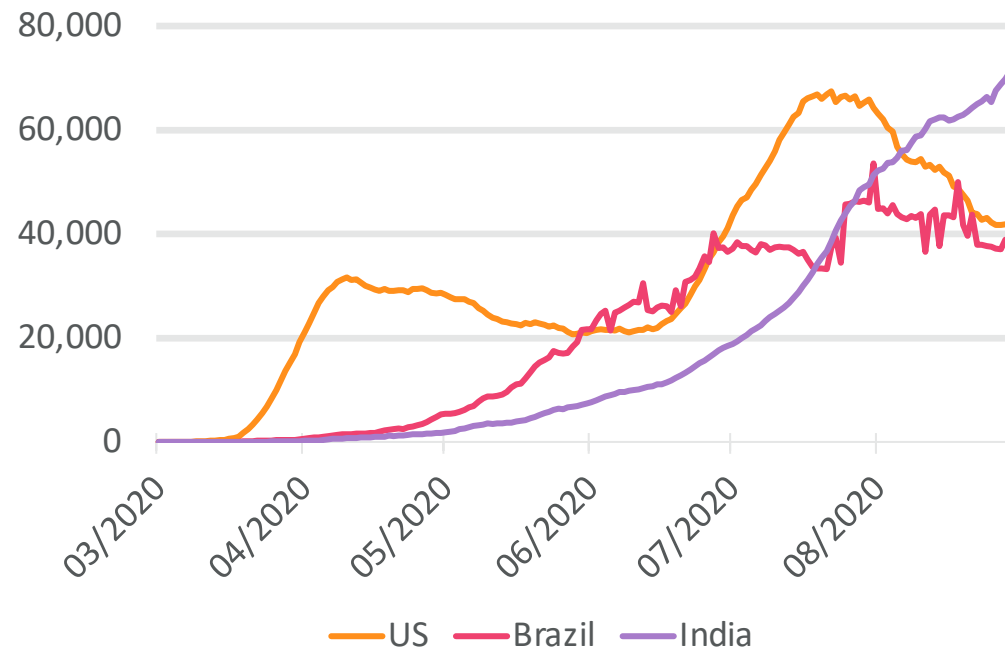


Source: Bloomberg, Alquity calculations, data as at 31/08/2020

2020: A year of unprecedented change

Update On Covid-19

7-day moving average of new Covid cases in the US, Brazil and India



Source: Bloomberg, Alquity calculations

Brazil: Bolsonaro minimised the danger posed by the virus, denounced social distancing, vetoed quarantine measures adopted

at the state level and promoted going to work :

- Cases have plateaued and remain high at 40-50,000 per day
- Pandemic has spread from Rio throughout the country

India: initially the country took some of the strictest measures, although these have been eased:

- Low mortality rate at 1.8%, due to India's young population
- New cases keep rising, partly due to the continued testing capacity expansion, which helped bring down the positivity rate from around 11-12% to 8-9% (vs WHO benchmark of 5%)
- Does India reach herd immunity?

A Varied Post-Covid Economic Outlook But Asia Is The Clear Winner

Real GDP growth forecasts

	2020	2021	2022
US	-5.0%	3.7%	2.8%
China	2.0%	8.0%	5.5%
South Korea	-1.0%	3.2%	2.9%
Taiwan	0.9%	3.0%	2.6%
India*	-5.5%	7.2%	6.0%
Indonesia	-1.0%	5.4%	5.3%
Brazil	-5.8%	3.5%	2.5%
Vietnam	2.8%	8.0%	6.7%
South Africa	-8.0%	3.0%	1.9%
Peru	-10.3%	8.0%	3.8%
Pakistan*	-0.4%	2.0%	4.0%

*Note: *dates refer to fiscal years 2021, 2022, 2023*

Source: Bloomberg

2021: Another Year Of Geopolitical Concerns?

Ongoing tension with China:

- Increasing use of sanctions - HK / banks / SOEs
- Technology sector
- Capital markets rupture
- US elections

Low risk flashpoints:

- India
- Korea
- Russia
- Taiwan

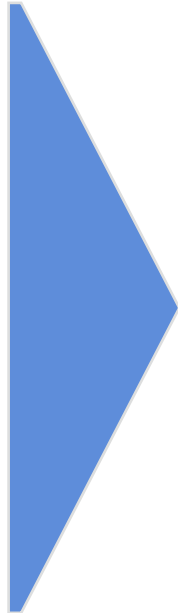
Opportunities in adversity:

- Moscow Stock Exchange
- Chinese internet companies listing in HK



Who Are The Long Term Potential Beneficiaries?

Average monthly net wage in USD	
China	\$ 962
Thailand	\$ 619
India	\$ 437
Vietnam	\$ 403



Companies shifting production out of China			
Company	Country	Company	Country
Asics	Vietnam	Iris Ohyama	South Korea
Asustek	Taiwan	Kayamatics	Malaysia
Apple	India/Vietnam	Kyocera	Vietnam
Brook Sports	Vietnam	Merry Electronics	Thailand
Casio Computers	Thailand	Mitsuba	Vietnam
Citizen Watch	Thailand	Nintendo	Vietnam
Compal (Apple supplier)	Taiwan	Panasonic	Malaysia
Dell	Taiwan/Vietnam/Philippines	Pegatron (Apple supplier)	India/Vietnam
Delta (Apple supplier)	India/Vietnam	Procon Pacific	India
Foxconn (Apple supplier)	India/Vietnam	Samsung	Vietnam
Goertrek (Apple supplier)	Vietnam	Sharp	Vietnam
Google	Vietnam/Taiwan/Malaysia	Skechers	India/Vietnam
Harley Davidson	India/Thailand	TCL	Vietnam
Hasbro	India/Vietnam	Von Wellx	India
Hewlett Packard	Taiwan	Wistron (Apple supplier)	India/Vietnam/Mexico

Source: Picodi.com, Observer Research Foundation

Reform Potential Has Been Forgotten!

Indonesia: the ‘omnibus law’, which would consolidate dozens of labour laws and reduce red tape for FDI inflows, is a high priority to the government

India:

- The BJP-led NDA has further cemented its strength in the Rajya Sabha (upper house), controlling 117 seats out of 245 – just shy of a majority
- The Modi 2.0 government’s agenda includes judicial reform, labour market reform, opening up the sovereign bond market, attracting manufacturing FDI from China, etc

Brazil: Finance Minister Guedes continues to push for fiscal reforms, which would promote macro-financial sustainability and reduce tax complexity

Unappreciated Macro Risks

Brazil: Neutral weighting

- Brazil is facing a steep debt trajectory without budgetary reforms, which could lead to a public debt to GDP ratio of 100% by 2022
- If Finance Minister Guedes' reform agenda fails, then the country will become a major risk

Thailand: Reduced weighting

- The new Finance Minister resigned just after 26 days, the country is left without a de facto economic leadership
- The absence of tourists, severe droughts and the inability to disburse public funds to the economy in a timely manner endanger the economy and thus Thailand faces one of the most painful recoveries

Peru: Exited entirely

- Rapid spread of Covid-19 (highest death rate globally: ca. 873/million people), and reopening attempts have caused further spikes
- The informal economy (70% of the economy) is threatened by the lockdown measures. The budget does not have enough room to allocate additional funds, with budget revenues estimated to be below 18% of GDP this year

Malaysia: Zero weighting

- Lack of unity among the governing parties and widespread political instability might lead to snap elections in the coming quarters, with a highly uncertain outcome - if there is no stable leadership, further alleviating economic measures will not be delivered
- Limited room for fiscal manoeuvre with almost 1/3 of the budget revenues linked to oil & gas production

Covid 19: The Tech Trend Accelerator

Underappreciated Emerging Market Winners

Weimob 微盟

- WeChat based, de-centralised e-commerce services and internet marketing
- Listed and turned profitable in 2019; expect 10x profit increase in next 3 years
- ESG C rating

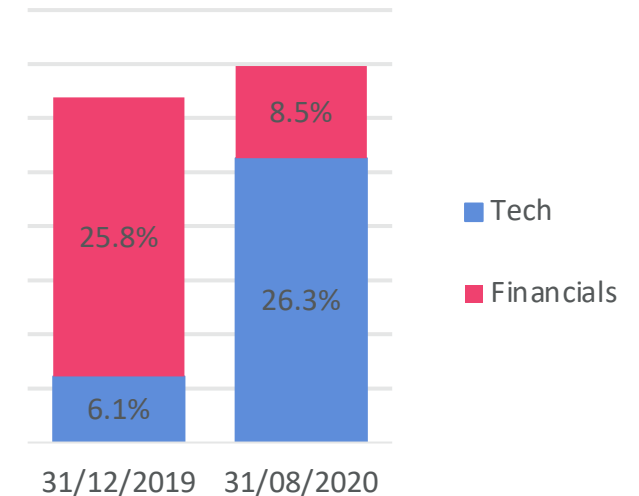
KINX

- Independent Korean internet infrastructure services
- Uncovered by all international brokers
- Substantial discount to international peers, and significant upside even in our DCF bear case
- ESG C rating

HPS /

- Moroccan software provider for e-payments
- Uncovered by all international brokers
- 45% discount to international peers
- We expect 35% upside in our base case DCF and 90% in our bull case
- ESG C rating

Tech weighting in Alquity Asia Fund

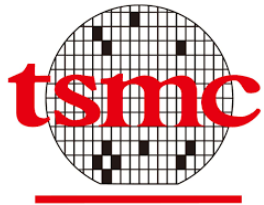


Source: Alquity

But Also The Big Become Bigger



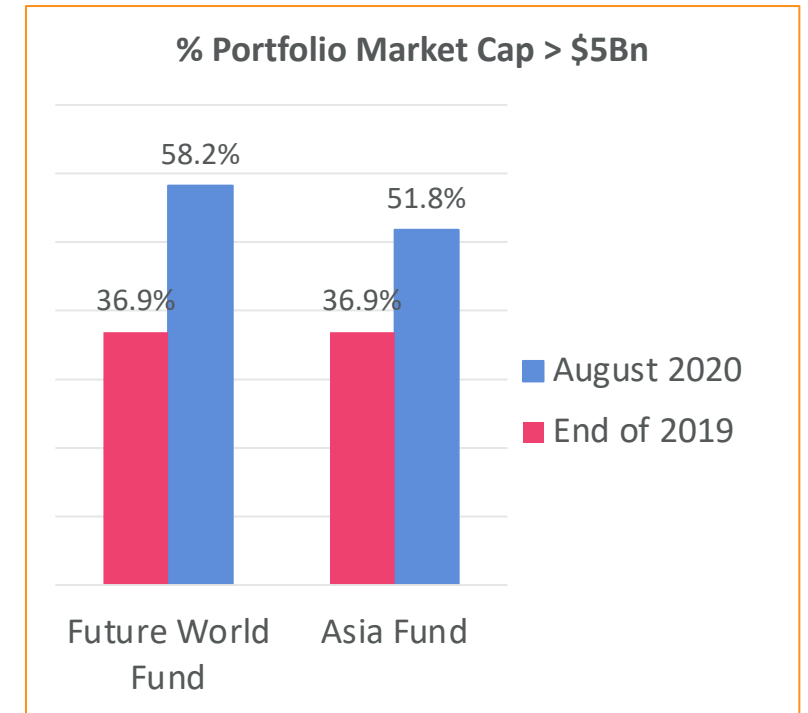
- Online food delivery, travel ecosystem; market cap US\$180bn
- Turned profitable in 2019
- 27% upside in our DCF base case
- ESG C grade



- Continuing to gain mkt share (48.1% Q1 19 / 54.1% Q1 20)
- Commercialised 7nm wafer and announced 2nm fab
- Intel struggling to catch up
- 25% upside in our DCF base case
- ESG A Grade



- Leader in power supply and energy saving electronic component solutions
- Growth for notebooks and servers is accelerating
- Factory automation is structurally increasing - aided by shift from China
- 25% upside in our DCF base case
- ESG B Grade



Source: Alquity, Trendforce

Is There A Tech Bubble?

+

- Real companies, earning profits and generating cashflow
- 5G
- Increasing online world, with accelerating growth in 2020 due to pandemic, thus some share price appreciation is justified

-

- SoftBank
- Valuations are expensive
- Increased day trading



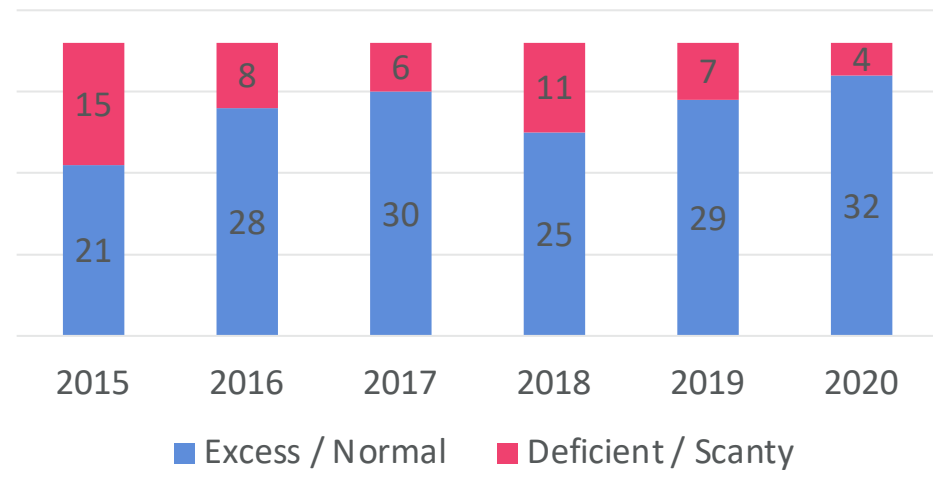
- ✓ **Balanced Portfolio**
- ✓ **ESG Process**
- ✓ **Focus on Quality**

A high-angle photograph of a vast, terraced tea plantation. Numerous workers, mostly women wearing traditional conical hats and carrying large woven baskets on their backs, are seen harvesting tea leaves across the rows of green bushes. The scene is captured in bright daylight, showing the dense greenery of the tea plants and the rhythmic pattern of the terraces.

Technology is not the only EM story

India: Return Of The Rural Economy

Quality of rainfall for the 36 regions



Water reserves as % of full capacity

	2020	2019	average 10Y
North	68	89	79
East	66	66	58
West	79	75	61
Central	82	74	68
Southern	78	75	61
Total	77	75	64

45% of the economy is linked to rural areas

Sowing area is 8.6% higher than last year

Impact already being felt:

- Escorts tractor sales +80% YoY in August (+3.5% YTD)
- Fertiliser sales +18% YTD vs last year
- Hero motorbike sales +7.5% YoY and +13% MoM

Source: Alquity, B&K securities

Alquity India Fund Is Already A Beneficiary Of This Trend

Top 10 holdings

Holding	%	ESG Score
Hero Motocorp	5.6%	B
HDFC	5.5%	C
Hindustan Unilever	5.2%	B
Amrutanjan	5.1%	C
Tci Express	5.0%	C
Escorts	4.5%	C
Redington	4.4%	B
ICICI Bank	4.2%	B
Heidelberg Cement India	4.2%	C
TTK Prestige	3.9%	C

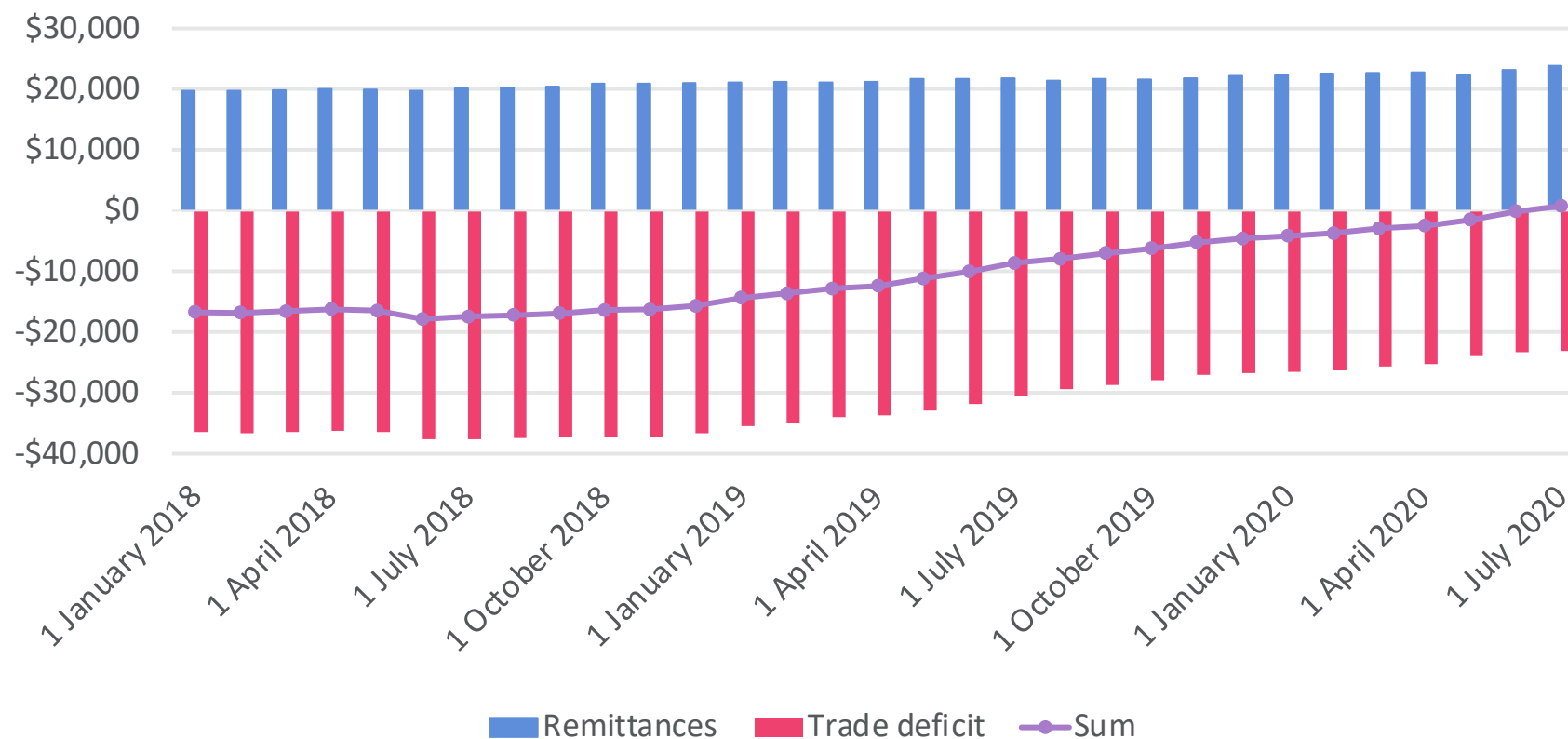
3 month performance

Fund	1m	3 m
Alquity India	+7.4%	+26.2%
iShares MSCI India ETF	+3.4%	+21.8%

Source: Alquity, iShares, portfolio correct as at 31/08/2020. Performance given in USD for the Y share class of the Indian Subcontinent fund, as at 31/08/2020.

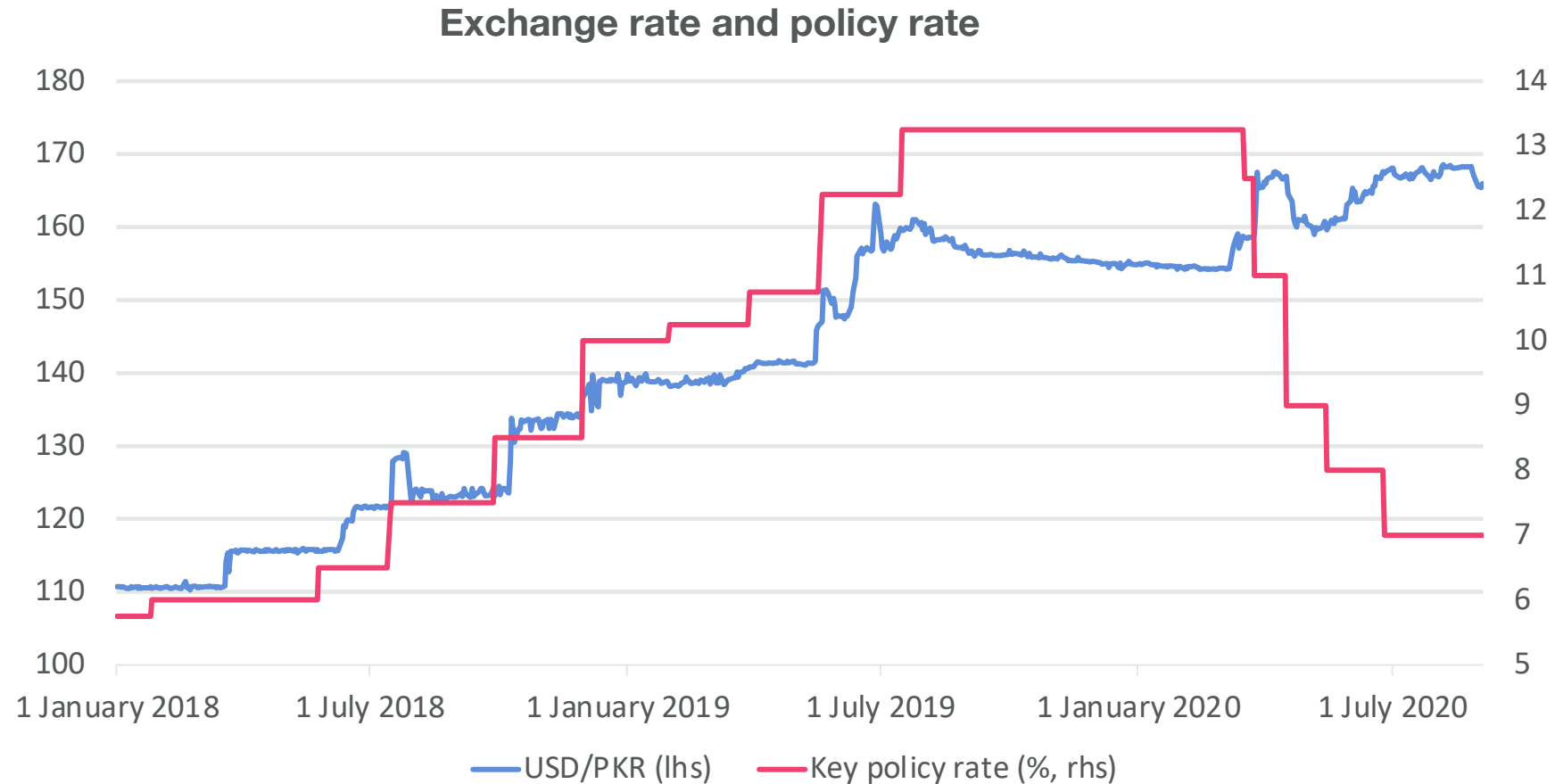
Pakistan: A New, Growth-friendly Equilibrium

Remittances & trade deficit on a 12m rolling basis



Source: Bloomberg, Alquity calculations

Pakistan: A New, Growth-friendly Equilibrium



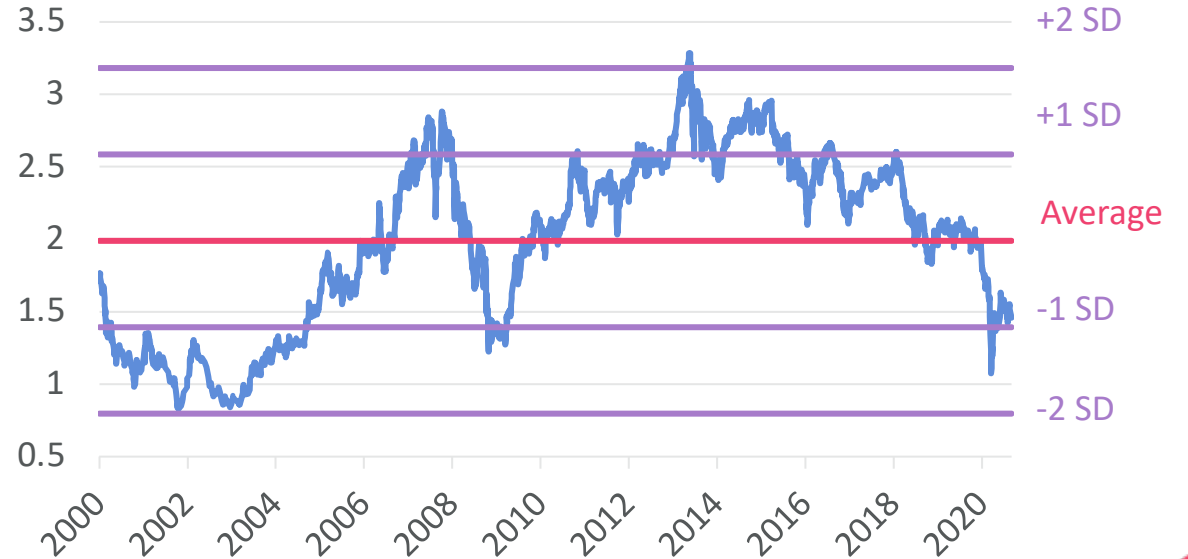
Source: Bloomberg, Alquity calculations

Compelling Opportunities In Indonesia And Philippines

**Jakarta Composite index trailing P/BV
valuation
(+/-2 standard deviation)**



**Philippine Composite index trailing P/BV
valuation
(+/-2 standard deviation)**



Source: Bloomberg, Alquity calculations

Structural Growth Opportunities Throughout The World



Vesta, Mexico

- Industrial property developer and landlord (clients include Nestlé and Nissan)
- Beneficiary of re-shoring trend



Dino, Poland

- Low cost/ price supermarkets in small Polish towns
- Ebitda +37% 1H 2020 YOY



Shimao Property, China

- 37% increase in contracted sales in 8 months to \$4.3bn
- Investors consistently negative on this sector

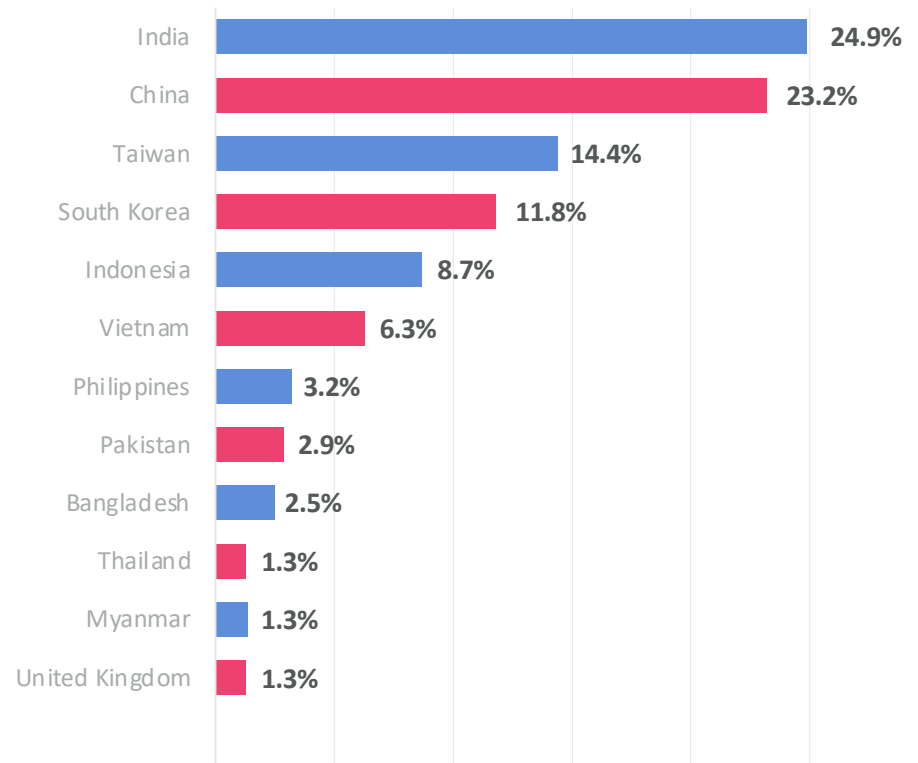


Sabeco, Vietnam

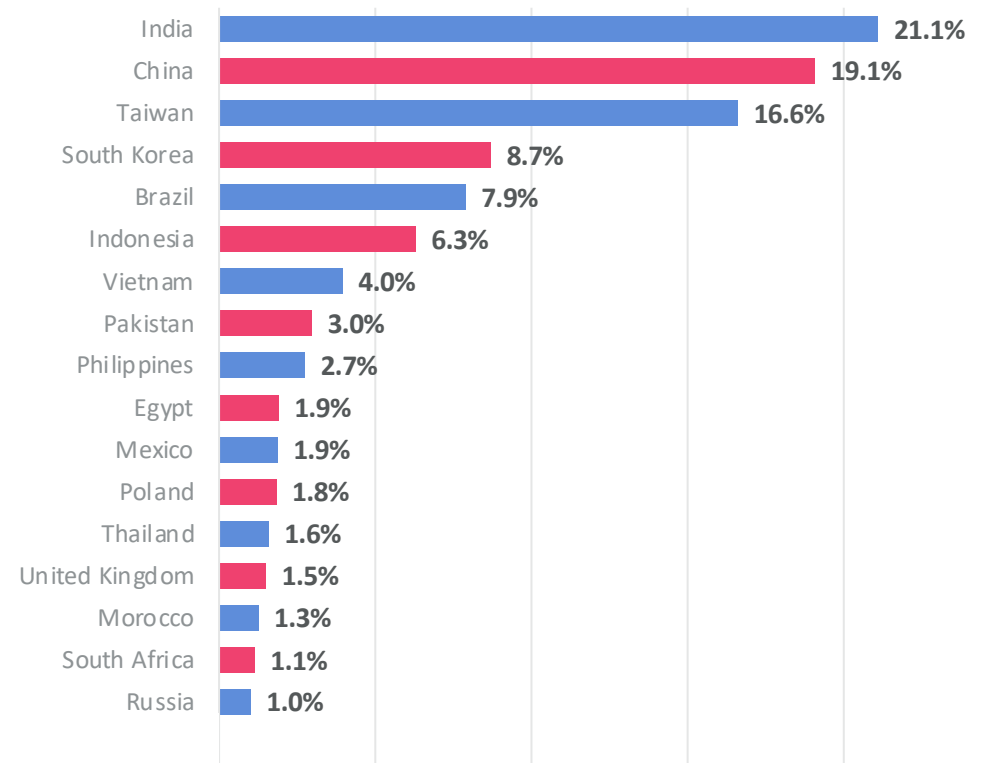
- 43% beer market share
- Great demographics: 1m Vietnamese turn 18 each year.
- Urbanisation only 36% with 1.6x higher per capita consumption than rural areas

Asia & Future World Country Breakdowns

Asia Fund Geographical allocation



Future World Fund Geographical allocation



Source: Alquity. Data as at 31/8/2020

Asia & Future World Top 10

Alquity Asia Fund Top 10 holdings

Holding	%	ESG Score
TSMC	4.8%	A
Meituan Dianping	3.6%	C
Kakao	3.5%	C
Hero Motocorp	3.4%	B
SM Investments Corporation	3.2%	C
Heidelberg Cement India	3.0%	C
Xtep	2.7%	C
Escorts	2.7%	C
Ultratech Cement	2.6%	C
Kino Indonesia	2.5%	A

Alquity Future World Fund Top 10 holdings

Holding	%	ESG Score
TSMC	5.6%	A
Hero Motocorp	3.5%	B
Kakao	3.5%	C
Heidelberg Cement India	3.3%	C
Escorts	2.9%	C
SM Investments Corporation	2.7%	C
President Chain Store	2.4%	A
Vinamilk	2.4%	A
Locaweb	2.3%	C
Largan Precision	2.3%	C

Source: Alquity. Data as at 31/8/2020

2020: What Worked For Us And What Did Not

- Reacted early to the pandemic, raising cash
- Took advantage of valuation opportunities (Tech, selective large caps) and defended against spike in geo-political risk
- Performance has strengthened from Q2
- But, given unprecedented uncertainty have been more cautious than markets
- Focus on improved portfolio construction and additional idea generation techniques

The background image shows silhouettes of industrial workers at a site during sunset. In the center, a large spherical storage tank is mounted on a metal frame. To the left, a worker stands with their back to the camera. To the right, two other workers wearing hard hats are visible. The sky is a warm orange and yellow, with steam or smoke rising from the ground. A semi-transparent grey box contains the title text.

Have we forgotten the G in ESG?

What Does Sustainability Mean?

wirecard

Bata
INDIA



"Lee Jae-yong, the heir to... Samsung, was indicted on Tuesday on charges of engaging in stock price manipulation, unfair trading....Prosecutors also indicted 10 other current and former Samsung officials..."

New York Times, 1 Sep 2020

中國東方教育控股有限公司
CHINA EAST EDUCATION HOLDINGS LIMITED

Independent directors approved lending money in August 2020 to 'companies decided by founders' not in the 'ordinary and usual course of business'



Conclusion

- Emerging Markets have evolved, but have lost investors' attention
- Faster economic recovery, reform, & technology shifts will challenge this perception in 2021 (plus US elections ?)
- There is clear value in EM vs Developed Markets regardless of global politics, and compelling value in pockets of EM
- We focus on structural growth trends, and companies with sustainable competitive advantages that are rated A-C by our in-house, tried and tested ESG process
- Our portfolio is dominated by domestically focused companies (including those in both the old and new economy), plus certain globally focused winners (mainly in the Tech hardware sector)



A+ Strategy and Governance
A+ Equity Incorporation
A+ Active Ownership

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