

# Asia: A clear path out of the storm

LIFE CHANGING INVESTMENTS



# The Alquity Virtuous Circle: Holistic ESG investing



*Growth in assets under management benefits all the stakeholders in the virtuous circle*



Strategy and Governance  
ESG Incorporation  
Active Ownership

A+  
A+  
A+

ISR Label since 2018



First Emerging Market Manager to receive this designation for all its funds in 2018. Renewed in 2019 and 2020



Investment Week - 2020 Winner:  
"Best Group for ESG Integration"

# A dedicated, stable and experienced investment team



**Mike Sell**

Head of Global Emerging Market Equities

- 25+ years of experience investing in Emerging Markets equities
- Partner at Thames River/Nevsky Capital. Mike was part of the team that helped grow the EM equity assets from \$150m to \$3.5bn
- Moved to F&C with the long only EM business in 2011
- Joined Alquity in 2014



**Marnie Uy**

Head of Quantitative Strategies & Quantitative Risk

- 20+ years of experience in quantitative research
- Managed assets of \$100bn+ as Global Head of Quantitative Analytics at Aberdeen
- Raised the amount of AuM overperforming their benchmark over 5-year from 40% to 80% at Aberdeen
- Joined Alquity in 2019



**Kieron Kader**

Associate Portfolio Manager



**Dan Billis**

Senior Investment Analyst



**Gergely Ürmössy**

Global Macro & Portfolio Strategist



**Cynthia Cano**

Associate PM & Head of ESG Data Science Engineering

# Topics for discussion

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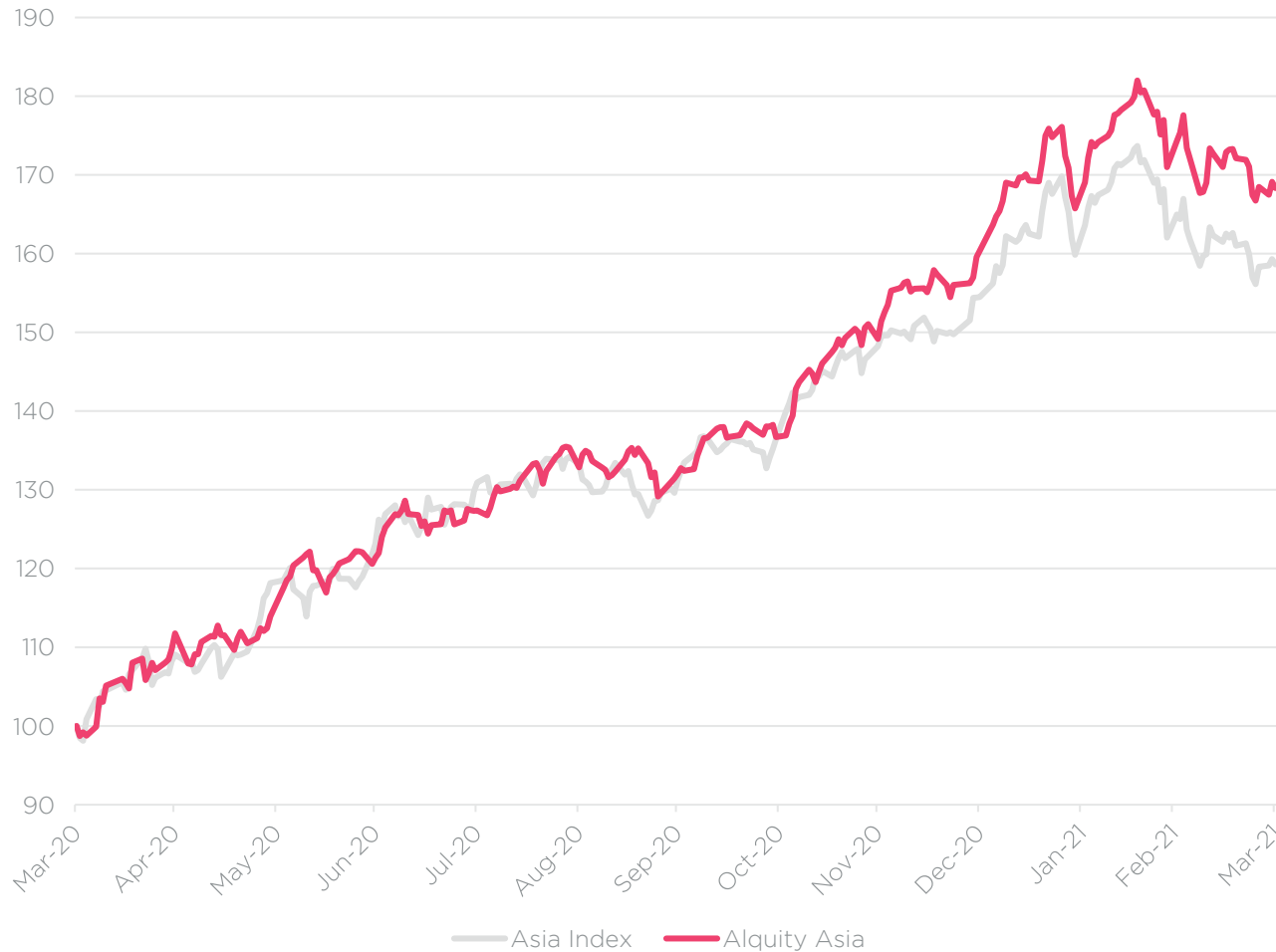


- ✓ Recent Asian performance and market pullback
- ✓ Top-down outlook ; an unrecognised opportunity
- ✓ Attractive areas within our portfolio

# Our portfolio construction & risk process enhancements have been successful



## 12 month performance of Alquity Asia Fund



- Strong & consistent outperformance
- Citywire UK performance characteristics\*
  - Returns: 51/184
    - Top of second quartile
  - Standard Deviation: 46 /184
    - Top quartile
  - Max Drawdown: 55 / 184
    - Top of second quartile

# But has market momentum in Asia stalled ?

Index Performance (since 31/12/2019)

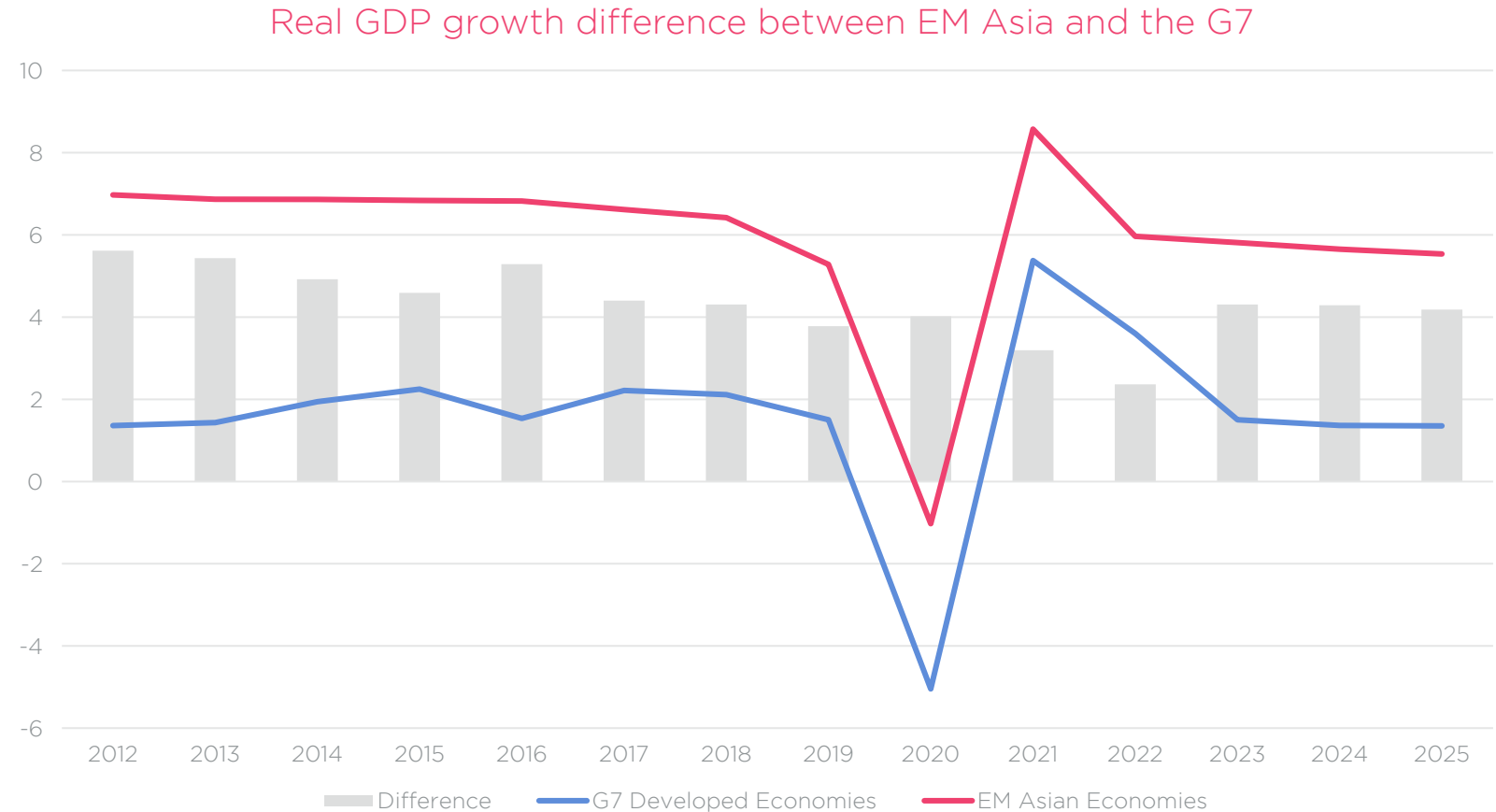
- Three short-term transitory factors have weighed on markets:
  1. US Treasury market
  2. Inflation expectations
  3. Covid
- But the long-term potential & resilience of EM Asia is unbroken.



# The longevity of GDP growth momentum in EM Asia remains underappreciated



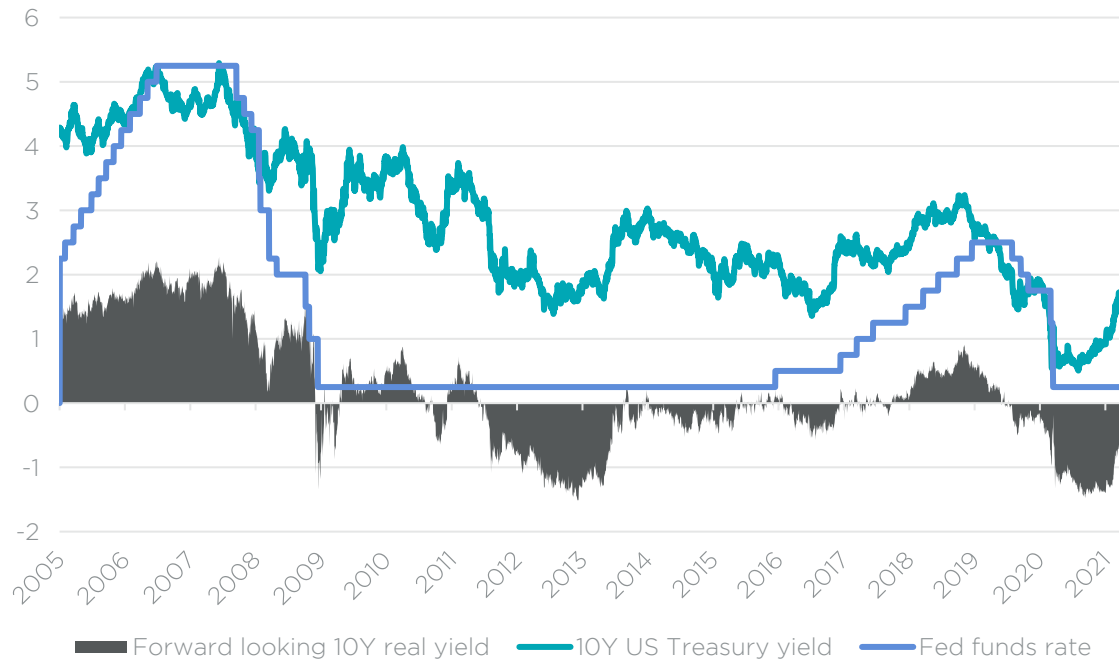
- Asian economic growth in 2020 was more resilient than G7
- 2021 will see a synchronised global bounce back - which is positive for Asia
- Followed by a continuation of Asian growth outperformance



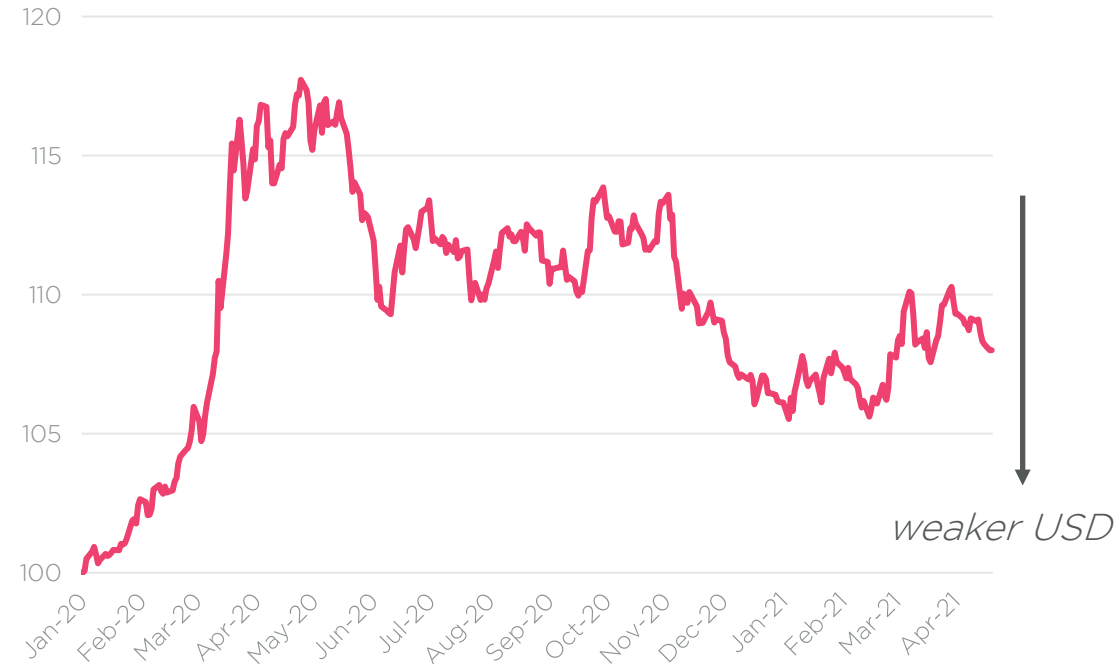
Note: G7 countries include Canada, France, Germany, Italy, Japan, the UK and the US

# US interest rate and currency concerns are dissipating

### Fed funds rate and the 10Y Treasury yield



### US dollar vs EM FX currency basket



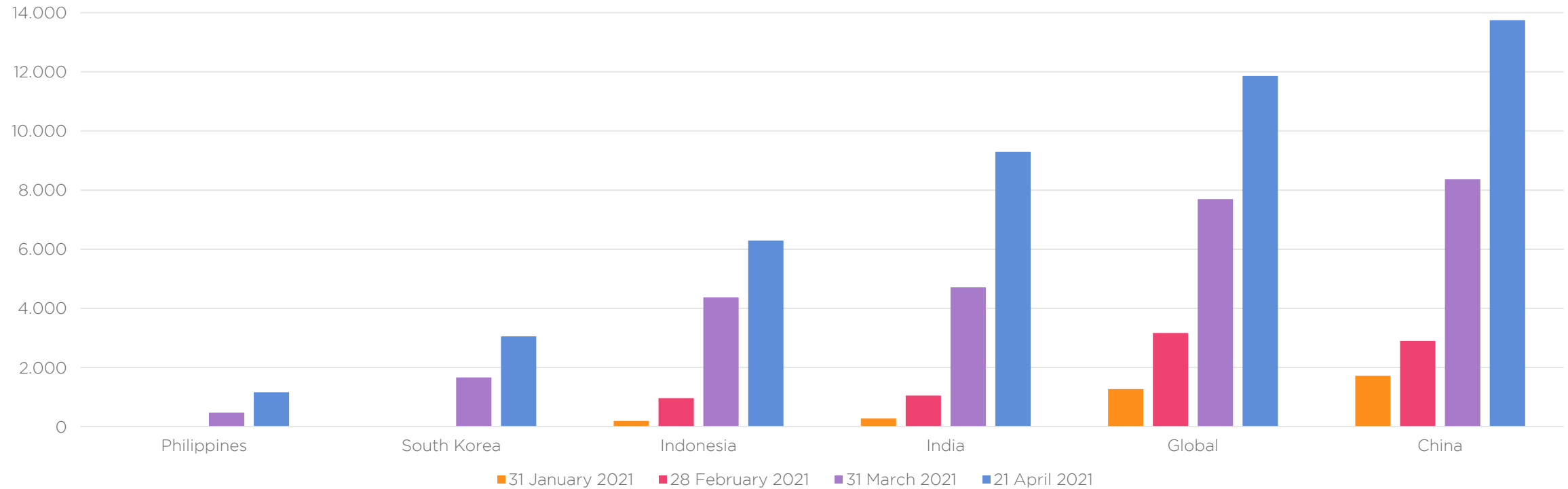
*Both macro fundamentals and (real) interest rates are arguments against a stronger dollar ; this is positive for Asia*



# Covid is now only a short-term headwind

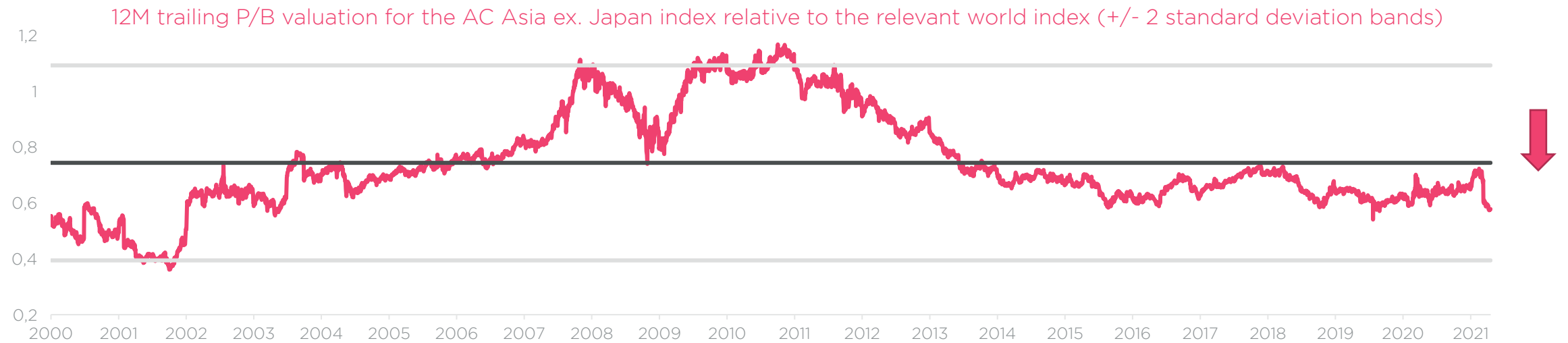
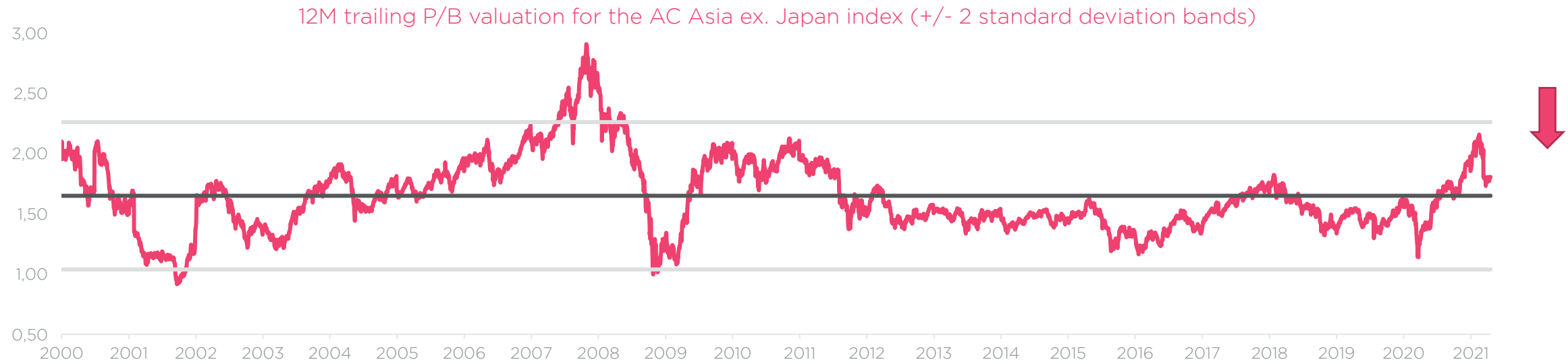


The number of vaccine doses administered (per 100,000 people)



*Vaccination drive is gathering momentum in EM Asia*

# Valuations are again highly supportive for Asian equities



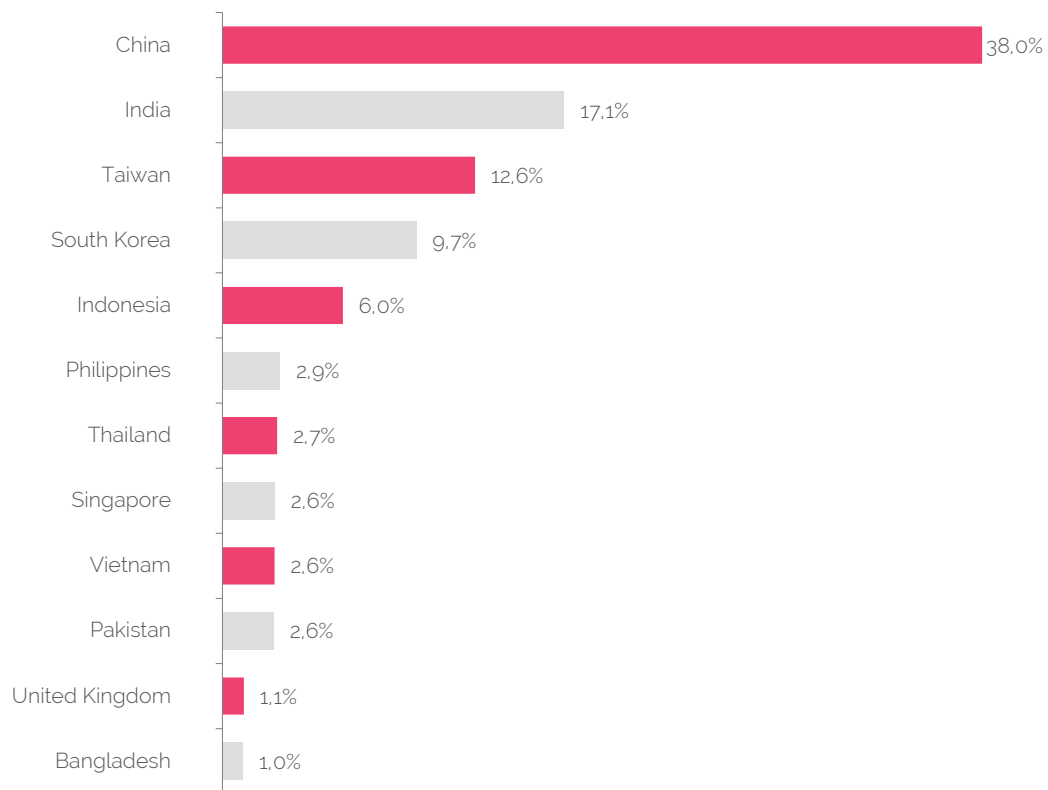
# Our Portfolio Themes in Asia

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- Domestic structural growth – including beneficiaries of:
  - Urbanisation & Demographics
  - Shift from the unorganised to organised economy/consumption upgrade cycle
  - Digitalisation and the move from the physical to the on-line world
  - Represents 75% of the Fund
- Globally focused companies with sustainable competitive advantages
  - Predominantly Tech Hardware
  - Represents 25% of the Fund

# Portfolio – Asia fund

## Allocation by country

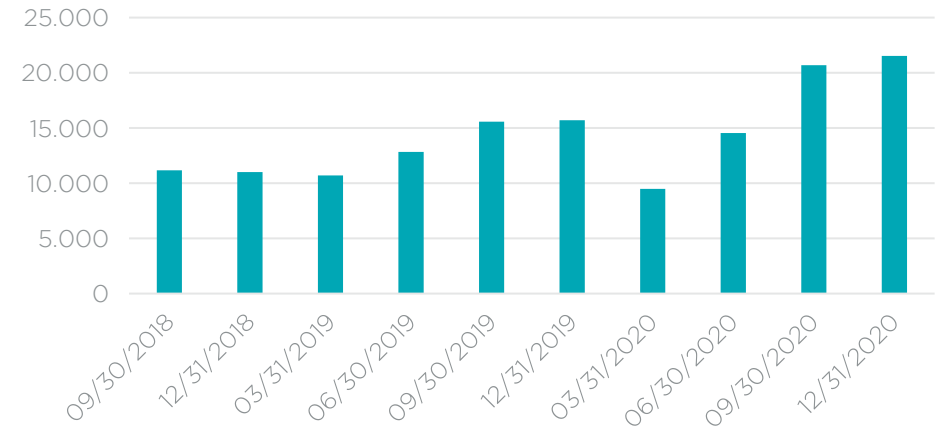


Alquity Asia	
TSMC	6.1%
Tencent	5.5%
Meituan Dianping	3.4%
SK Hynix	3.2%
Ultratech Cement	2.9%
Delta Electronics	2.9%
SEA	2.6%
Yongda Auto	2.4%
Pacific Basin Shipping	2.4%
Kakao	2.3%

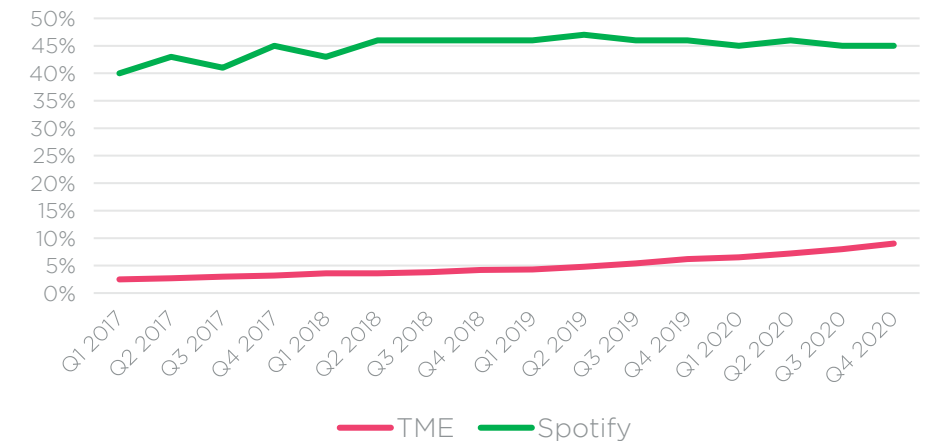
# Chinese Internet – Quality continues to shine

- Regulation has been at the forefront of investors minds
  - However, the sector has been under-regulated for years
  - Implementing rules now means more sustainable growth
  - Alibaba faced the brunt of regulatory pressure
  - Uncertainties dissipating
- Fundamental theme remains strong (even post-COVID)
  - Sustained sales growth for food delivery apps such as Meituan Dianping
  - Structural monetisation opportunities for Tencent Music Entertainment
- Investor demand still very high
  - Secondary listings in HK well supported
  - Meituan Dianping recently easily raised \$7bn

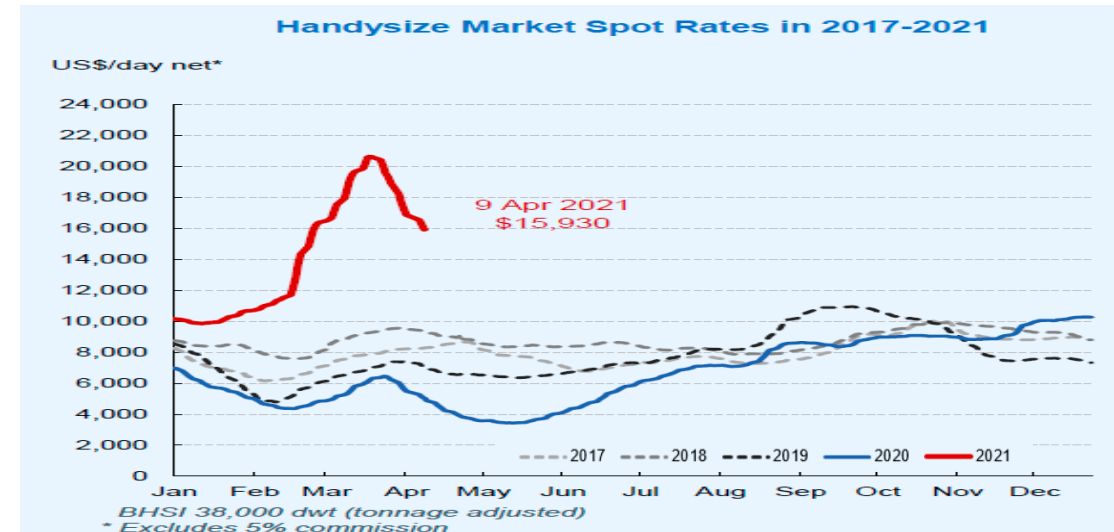
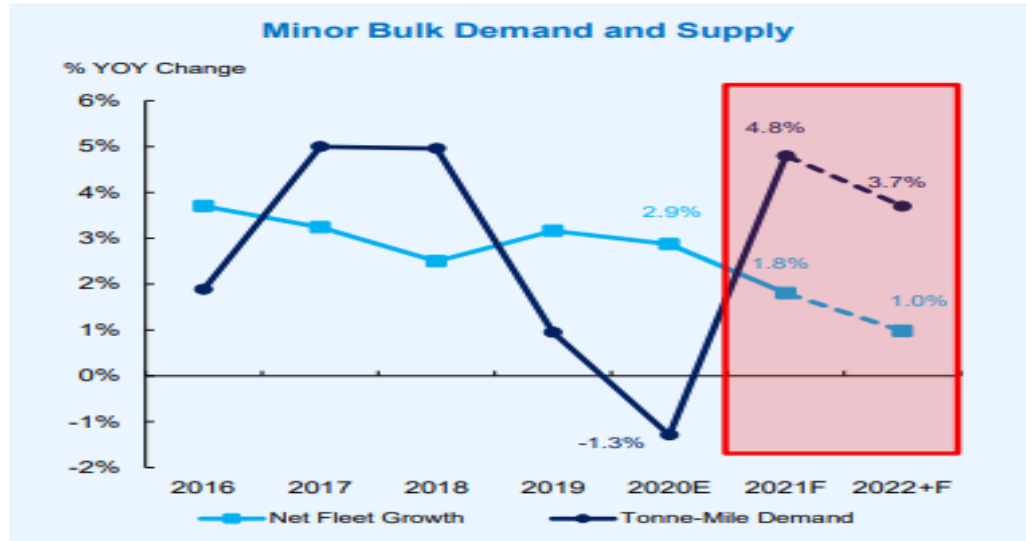
Meituan Dianping Food Delivery Sales



TME vs Spotify Paying Customer Ratio



# Cyclical opportunities exist as well



- Evidence of strong US, Chinese and global demand supports our macro view
- Environmental regulations restricting supply
- Result: explosive shipping rates



# ESG in China – a contradiction ?

There are 703 potential Chinese companies listed in HK that meet our long term themes. But we fail 37.4% of these for ESG reasons – such as:

- x Governance failings (including corruption, conflicts of interest, etc.)
- x Poor treatment of workers
- x Product quality failings (e.g. food safety)
- x Pollution incidents
- x State Owned Enterprises: is the company run for the benefit of minority shareholders or the government?



This is followed by a deep dive and management meeting

- Resulting in an internal ESG rating process A,B,C or FAIL

We also undertake extensive Engagement (post-investment) & KPI monitoring

Perhaps surprisingly, HK listed companies provide best in class E & S disclosure

In any case, our portfolio naturally focuses on lower risk sectors

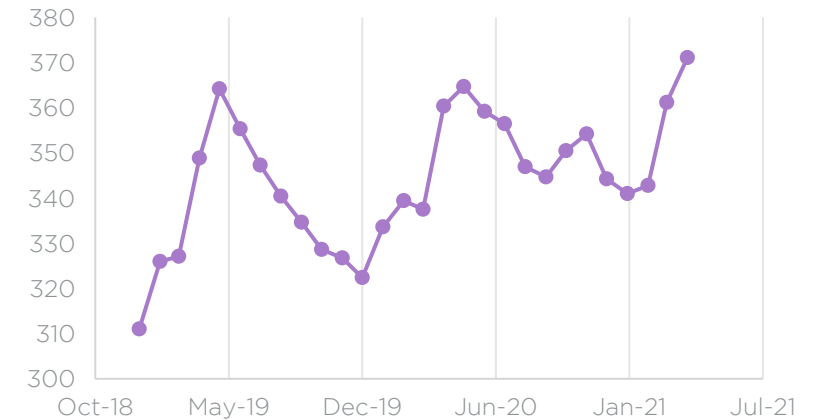
- Internet, insurance, retail, consumer staples, property



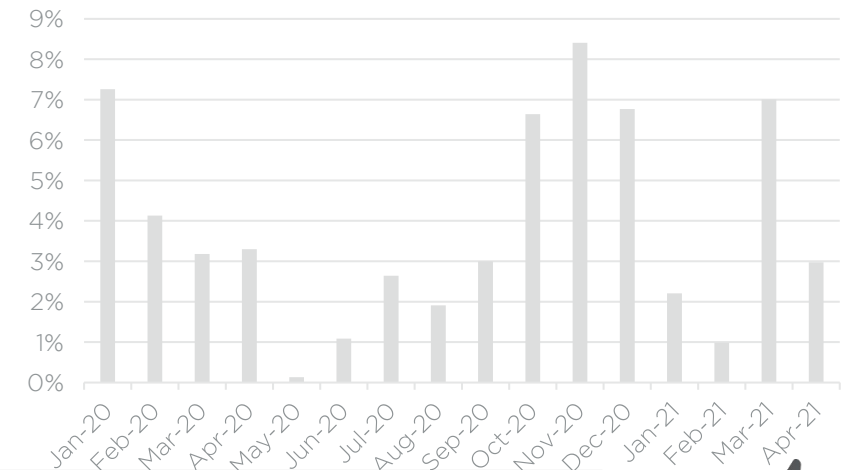
# India – Positive risk/reward, but stay selective

- One of the best performing markets over last 12 months
- Covid resurgence not to be ignored, but:
  - No significant national lockdown expected (learning from history)
  - Vaccinating at fast rate
  - Death rate still remains low
- Valuations not at troughs, but there are still selective growth opportunities
  - Infrastructure spend
  - Monsoons – 2021 is predicted be strong which is positive for rural economy
  - ‘Made in India’
- No change to thesis – still expecting a V-shaped recovery, but have reduced risk in the very near term

Cement Average Price



Cement Price Growth (YoY)

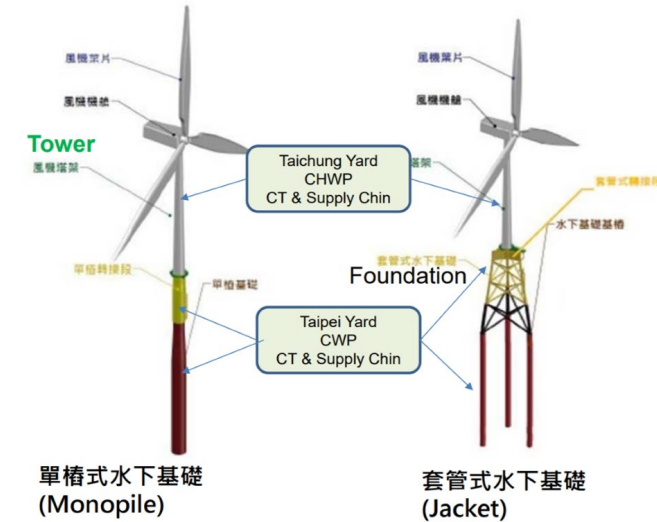




# Taiwan & Decarbonisation - Century Iron & Steel (CIAS)

- CIAS benefits from two of our themes of monetisable structural growth and sustainable competitive advantage
- Manufacturer of the pins and jackets for offshore windtowers & will commence fabricating the tower in 2022, in conjunction with a Danish company
- Taiwan targets 50% lower carbon emissions by 2050 vs 2005 and thus plans 5.5 GW of offshore wind energy by 2025 and a further 10GW by 2035. The first commercial project started only in 2017
- Limited competition either domestically or from overseas
- Positive impact characteristics

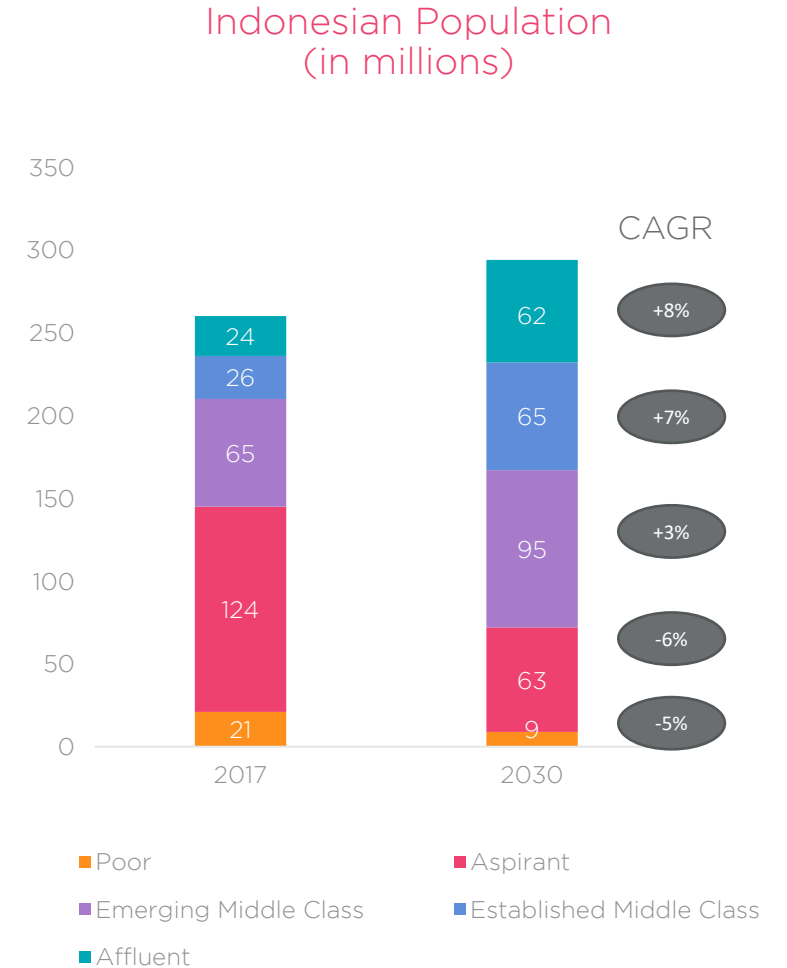
Manufacture of Offshore Wind underwater Foundation (2020~)



(ESG C grade)

# The consumer in Indonesia – underappreciated growth drivers

- Retail and recreation has already started to recover from the second set of lockdowns – positive for the short term
- Mid to long term structural growth is still underappreciated
- 7-8% CAGR growth in affluent and established middle class population.
- Our investments incorporate themes such as young and growing population, rising disposable income, and growing middle class
- Nippon Indosari – bread producer and bakery operator with 90% share in mass market
- Sarimelati – Pizza Hut franchise operator with 97% market share in pizza restaurants in Indonesia
- Kino - niche products in personal care, beverages and food products

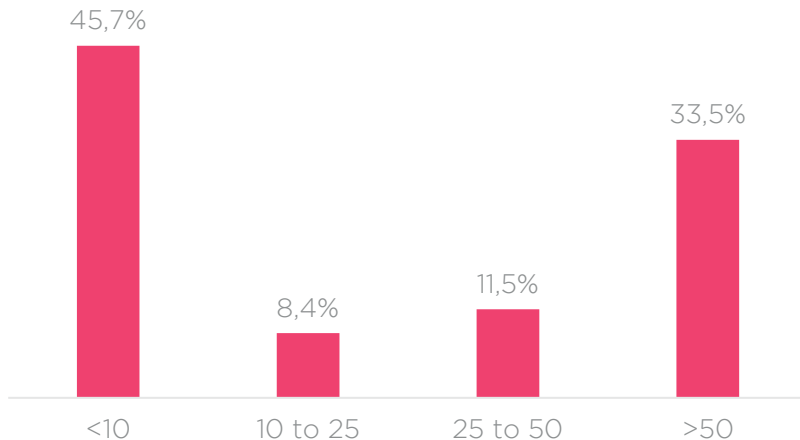


# A differentiated portfolio



- ✓ Long term structural themes
- ✓ Predominantly domestically orientated
- ✓ Risk controlled exposure to frontier markets and small cap stocks
- ✓ Strong portfolio characteristics

## Market cap (\$ bn)



## Valuation metrics

Alquity Fund vs Index\*

	Dividend Yield	2021 P/E ratio	2022 P/E ratio	2021 ROE	2022 ROE
<b>Fund</b>	2.0%	26.9	26.2	17.1%	19.6%
Index*	2.1%	29.0	53.1	14.7%	16.2%

## Portfolio characteristics

Alquity Fund vs Index\*

	# Holdings	Active Share	Annual Turnover	3Y Volatility
<b>Fund</b>	54	80.1%	14.7%	18%
Index*	1070	-	-	-

# Our Engagement Priorities for 2021

- Environmental impact of the internet
  - Increased use of renewable energy vs grid power
  - Treatment of workers
- ESG risks within the food supply chain
  - Traceability
  - Deforestation & Biodiversity
- China-specific
  - Targets for reducing environmental impact & publication of scope 3 emission data
  - Cross-company comparisons are increasingly possible



# Conclusion

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- ✓ Experienced ESG investors; providing tangible impact for clients
- ✓ Alquity's process enhancements have delivered better and more consistent performance
- ✓ Highly differentiated portfolio, in numerous ways
- ✓ Macro environment supportive for Asia
- ✓ Potentially attractive entry point

A nighttime photograph of a Hong Kong skyline. In the foreground, a traditional Chinese junk boat with red sails is lit up with red lights. The boat has "AQUA LUNA" and "張保仔" written on its side. The background shows a dense cityscape with many skyscrapers, including the HSBC building, illuminated with various colors of lights. The water in the harbor is dark with some reflections.

Q&A

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