



# Emerging Markets: Key themes for 2022

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# Today's Speakers

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**Mike Sell**

Head of Global Emerging Market Equities



**Kieron Kader**

Associate Portfolio Manager



**Dan Billis**

Senior Investment Analyst

# Agenda

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# Favourable global backdrop for EM remains in place

10Y real yield in the US since 2008



Jackson Hole meeting confirms our view

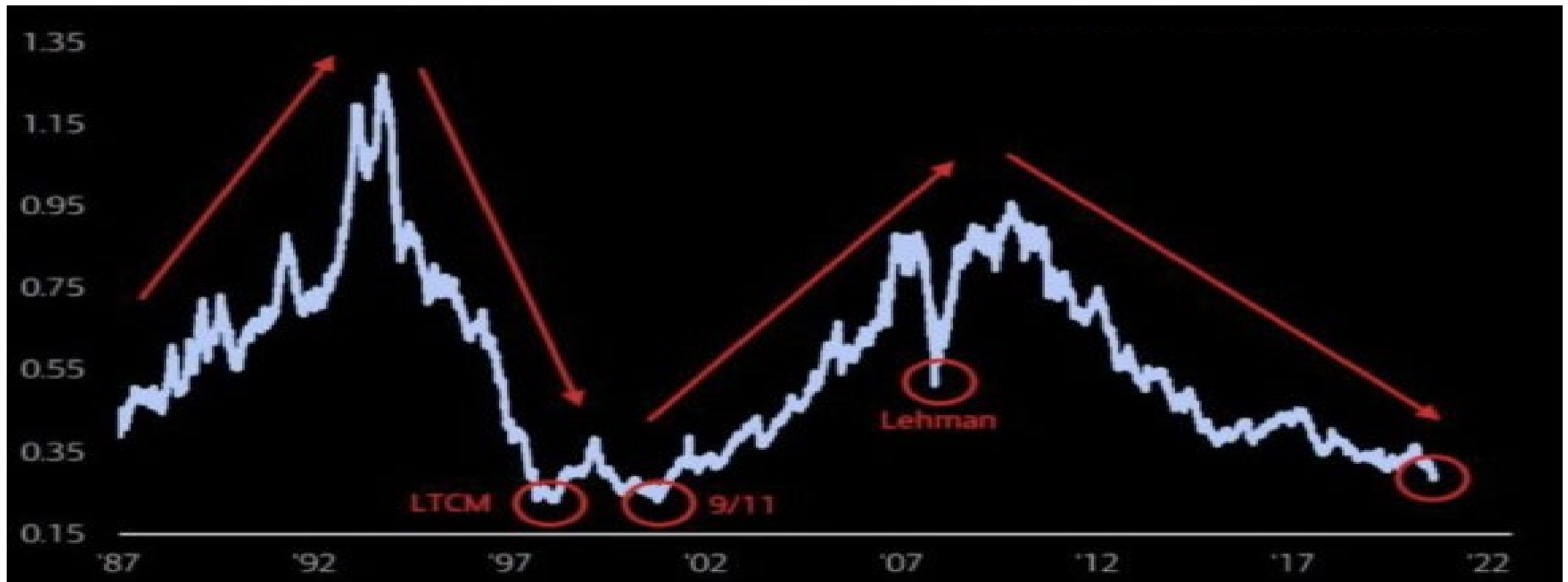
# Emerging Markets are at multi-year low valuations

Relative EM to DM trailing P/B since 2014



# EM equities approaching 20-year lows versus S&P500

EM equities vs S&P 500





# Winners & Losers from higher commodity prices

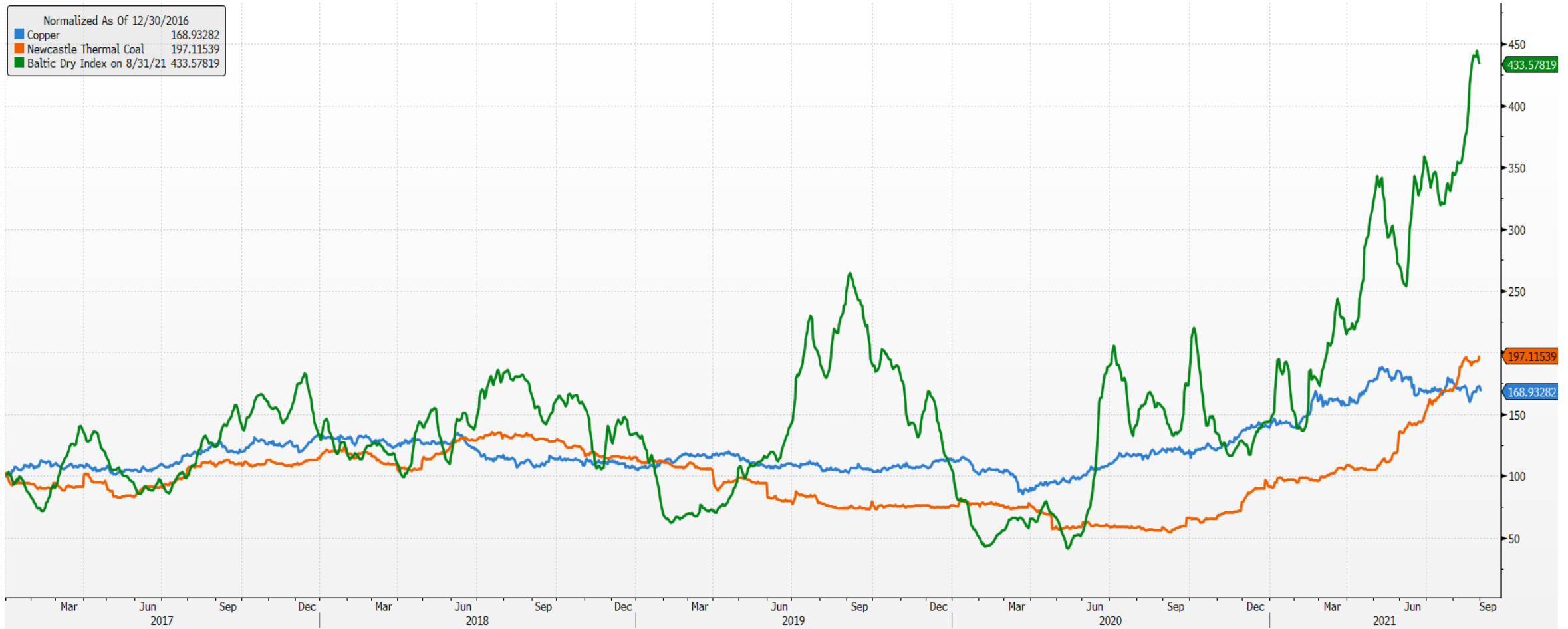
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# We have seen a sharp commodity price recovery...



## Copper, thermal coal and freight prices evolution since 2017





# ...and are not concerned about a growth hiccup...

GDP growth forecasts

	2020	2021	2022	2023
<b>US</b>	-3.4%	6.2%	4.3%	2.3%
<b>EU</b>	-5.9%	4.9%	4.5%	2.2%
<b>UK</b>	-10.1%	6.8%	5.4%	2.0%
<b>China</b>	2.3%	8.5%	5.6%	5.5%
<b>Taiwan</b>	3.1%	5.7%	3.0%	2.7%
<b>India</b>	-7.3%	9.2%	6.9%	6.0%
<b>South Korea</b>	-0.9%	4.1%	3.0%	2.6%
<b>Brazil</b>	-4.1%	5.2%	2.2%	2.3%
<b>Indonesia</b>	-2.0%	3.8%	5.2%	5.3%

- Biden’s \$1 trillion infrastructure plans
- Modi’s \$1.4 trillion infrastructure plans
- Chinese tightening to pause
- Ongoing electrification / shift to Electric Vehicle
  - Battery-powered EV uses 183 lb / copper vs 51 lb for combustion engine vehicle

## ...therefore remain selectively positive on commodities as we enter 2022

- Stocks: Pacific Basin, Antofagasta, Anglo American Platinum
- Country: Chile & Peru - ore and metal exports represent 52.1% and 45.5% of GDP respectively (2019)
- Negative impact: Exited Maple Leaf Cement (Pakistan) due to cost pressure (coal) fears
- India: OK for now
  - Q1 current account surplus 0.9% ; \$10/bbl oil move only has 0.4% impact
  - \$620bn of foreign exchange reserves
  - Domestic driven recovery; but ‘Made in India’ will begin to have an impact



**Pacific Basin**

# Spotlight on Saudi Arabia

Population growth over the last 5 years



- Ignored by many funds, despite greater ESG opportunities than Russia
- Population of 34.8mn people, rising rapidly
- Vaccination rate of 64% (one dose)
- Cyclical tailwinds (oil 'rents' accounted for 24% of GDP in 2019) as well as structural growth

# The divergence of China & India



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# Chinese regulatory environment – what next?

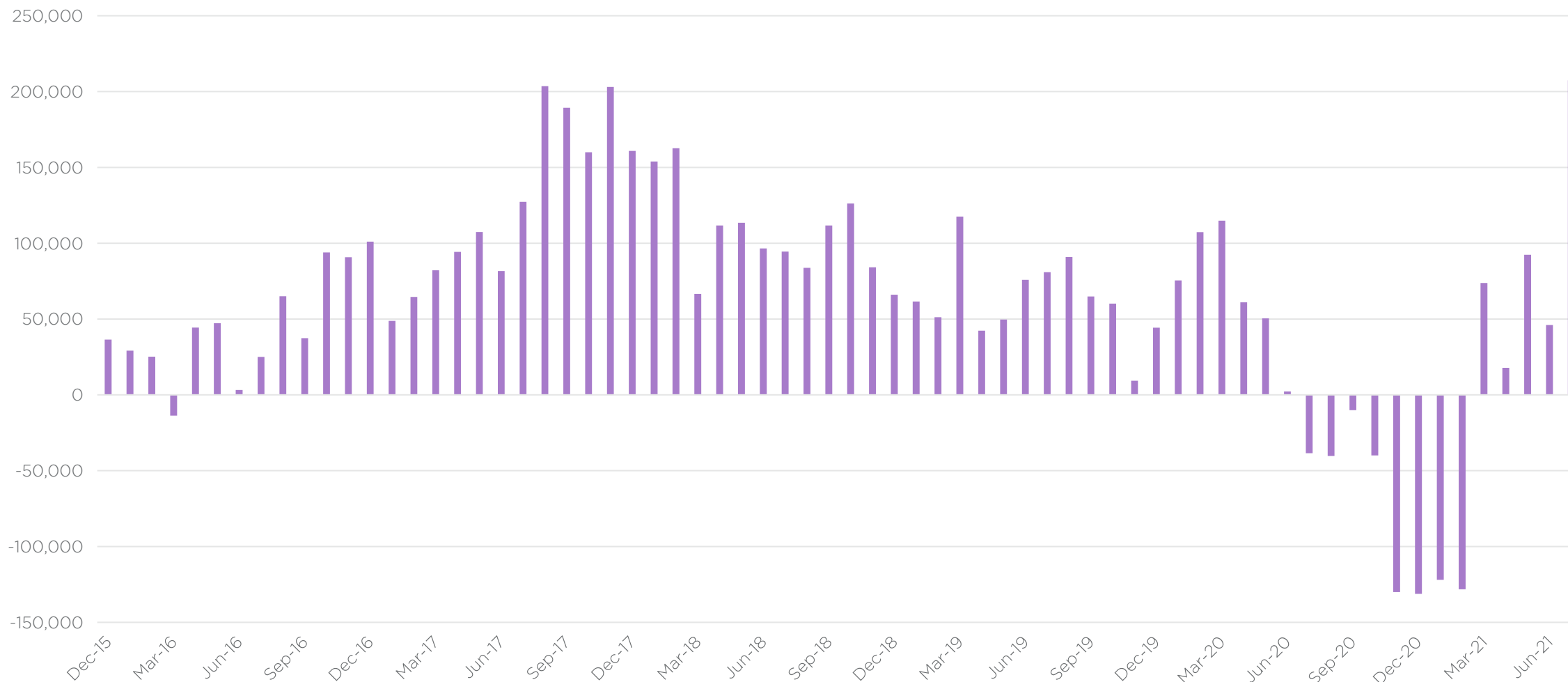
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- Regulation is still not over, though the pace has markedly slowed down
- Fear is overdone?
- What’s next on the horizon?
  1. “Common Prosperity”
    - High net worth individuals and large firms to “donate” resources to social causes
    - Potentially higher taxes for the rich
  2. Rural revitalisation
    - Focus of infrastructure to gradually shift to the lower tier cities
  3. Continued support for businesses linked to healthcare and green energy
    - Benefits our holdings in Wuxi Apptec (medical research) and Zhongsheng (auto dealer)
    - We continue to evaluate various green energy sectors



# The Indian Retail Investor is increasingly powerful

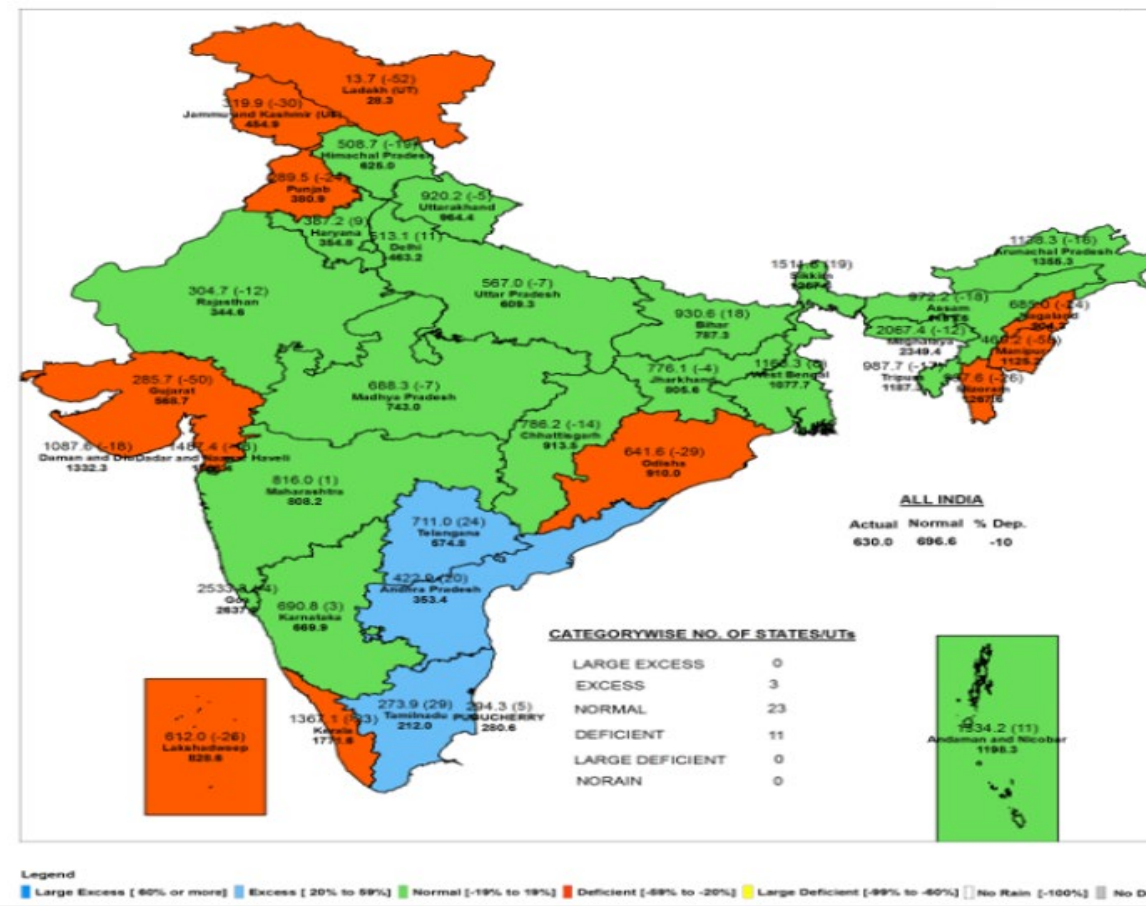
Domestic retail monthly inflows to Indian equities (in Rs million)



# India – favourable post monsoon outlook

- Monsoons have been ‘below normal’ overall
- But, majority of India has received adequate rainfall
- Crop sowing only -1.8% YoY
- Expecting a strong festival season

India’s rainfall map YTD



# COP26 UN Climate Change Conference & Emerging Markets

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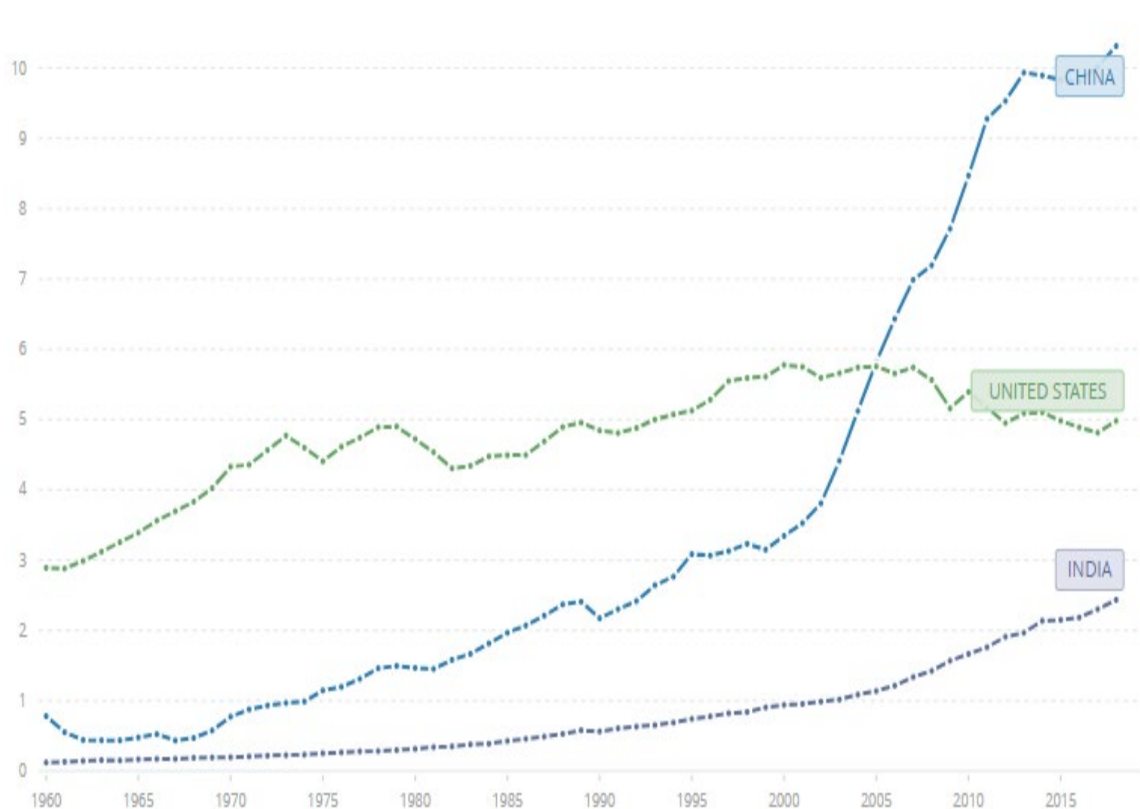


*Alquity*



# Emerging Markets are the key to mitigating climate change

CO2 emissions (kt) – China, US and India



- Asia accounts for 45% of global GHG emissions; but changes are now happening
  - President Xi targets carbon neutrality by 2060
  - India considering net zero by 2047 or 2050 – COP26 announcement?
- Alquity FW Fund’s GHG (scope 1 and 2) has declined from 561.8t per \$1M of revenue to 363.8t over the last 6 months
- Alquity Asia Fund’s GHG (scope 1 and 2) has declined from 648.0t to 392.0t per \$1M of revenue over the same period

# We are taking action in other areas too

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- ✓ Enhanced Key Progress Indicators
  - Seeking greater granularity in plans to reduce environmental impact
  - Prevention of biodiversity loss actively considered in strategic plan
  - Reporting in line with TCFD (Task Force on Climate-Related Financial Disclosures) requirements
- ✓ Alquity Principles of Governance
  - Gender diversity a particular focus
- ✓ Ongoing Engagement & sharing of best practice



# Alquity's Key Differentiators & Upcoming Themes

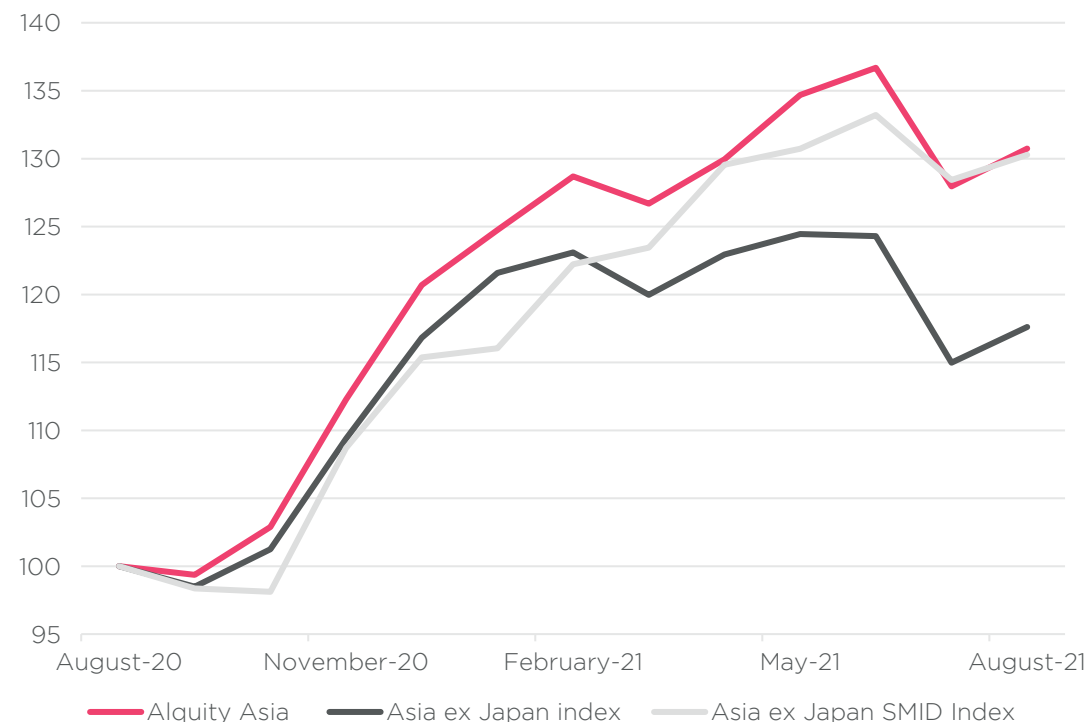
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# Our Key Portfolio Differentiators

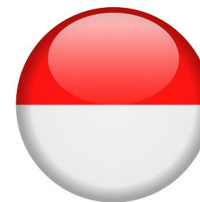
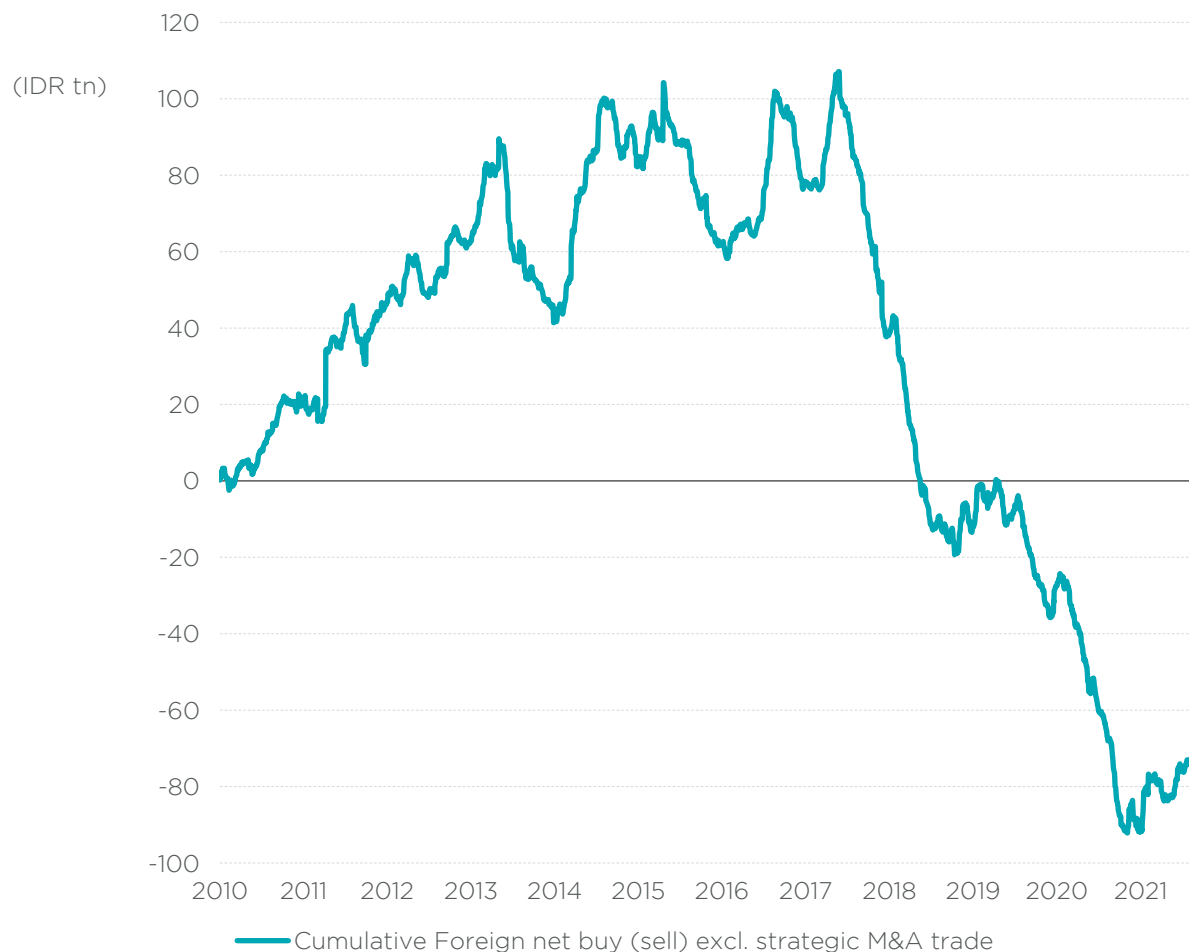
- ✓ ESG & Impact via an annually certified process
- ✓ We provide greater diversification than many peers
  - Smaller markets & frontiers
  - Alquity Asia: only approx. 75% exposure to big 4 markets vs 95% for some peers who are thus missing out on a region of 969 million people
- ✓ Unrecognised, undervalued small cap stock exposure
- ✓ Attractive portfolio characteristics
- ✓ Strong risk-adjusted performance

Unconstrained hunt for alpha



# Spotlight on Indonesia

Cumulative foreign net buy / sell



- Frequently ignored by investors, but signs of a change in attitude
- Interest driven by valuations and commodities; but also now unicorn listings
- Impact of omnibus law has been forgotten

# Divergent valuation profiles – Indonesia vs Korea



# Alquity: Higher returns combined with cheaper valuations

Alquity Asia	2021	2022	2023
<b>Portfolio P/E</b>	24.41	20.83	18.58
Index* P/E	28.12	25.67	22.45
<b>Portfolio ROE</b>	21.29%	22.25%	22.54%
Index* ROE	16.68%	16.28%	16.85%

Alquity Future World	2021	2022	2023
<b>Portfolio P/E</b>	25.11	20.46	17.96
Index* P/E	28.19	24.55	22.04
<b>Portfolio ROE</b>	18.51%	18.91%	19.05%
Index* ROE	18.66%	17.40%	17.69%

# Themes for the next 12 months

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- Structural domestic growth – approx. 70% of Alquity Asia and Future World; 80% of Alquity India
  - Urbanisation and Demographics
  - Shift from informal to formal economy...
  - ...and physical to digital world
  - Decarbonisation
- China & India – both potentially interesting
- Positive global economic growth backdrop
  - Positive for commodity related stock markets
- Companies with sustainable, global competitive advantages
  - Tech hardware cycle is not over

# kakao

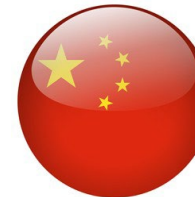




# Political horizon scanning for 2022

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- US Fed Chair (Powell) mandate expires – February
- Uttar Pradesh election – February/March
- Brazil Presidential election – October
- National Party Congress in China – October



# Positioning



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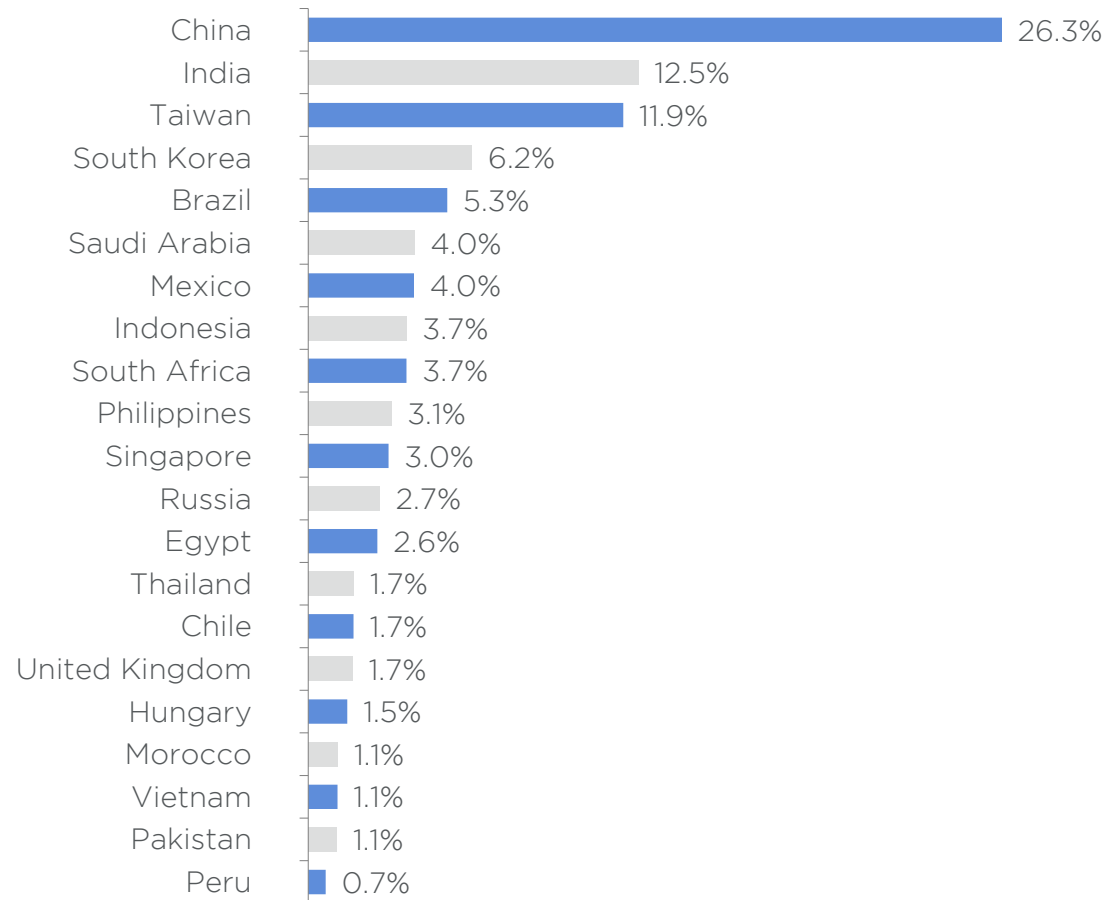


*Alquity*

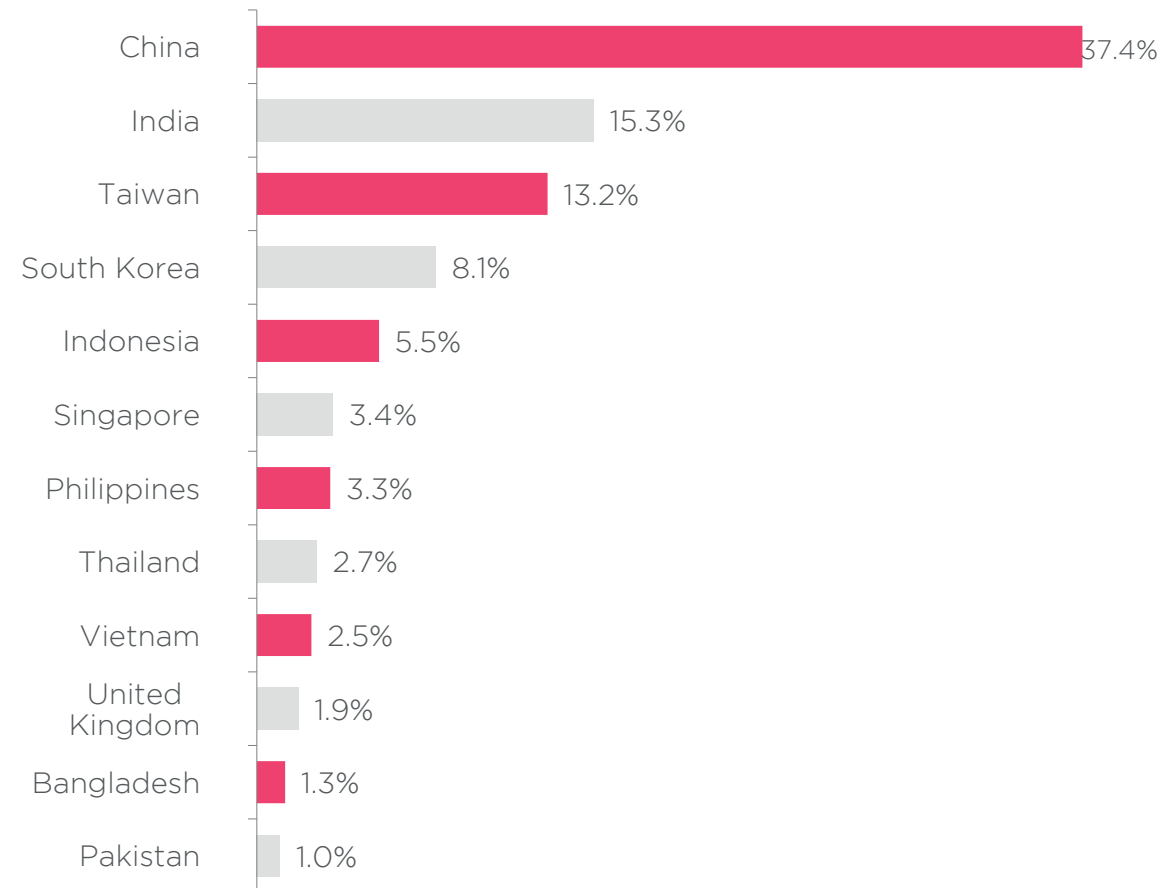
# Geographical breakdown



## Alquity Future World



## Alquity Asia



# Top 10 Holdings



Alquity Future World	
TSMC	6.6%
Tencent Holdings	5.3%
Saudi British Bank	2.3%
Pacific Basin Shipping	2.3%
SK Hynix	2.1%
Infosys	2.0%
China Pacific Insurance Company	2.0%
Mediatek	2.0%
Ultratech Cement	2.0%
SEA	1.9%

Alquity Asia	
TSMC	6.9%
Tencent Holdings	6.0%
Hong Kong Exchanges and Clearing	2.6%
Ultratech Cement	2.5%
Infosys	2.5%
SK Hynix	2.4%
Delta Electronics	2.3%
China Pacific Insurance Company	2.3%
SEA	2.3%
Pacific Basin Shipping	2.1%

Alquity Indian Subcontinent	
Infosys	9.1%
HDFC	7.7%
ICICI Bank	7.5%
TCS	6.1%
HDFC Bank	4.6%
Ultratech Cement	4.0%
Amrutanjan	3.7%
Hero Motocorp	3.4%
Escorts	3.3%
Heidelberg Cement India	2.8%

# Performance





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# Alquity India continues to deliver



## Citywire Ranking - Indian equities

Rank 1/54		
Equity - India		
	Manager	Return
1	<b>Mike Sell</b>	<b>62.8%</b>
2	 <b>Prashant Khemka</b>	<b>62.4%</b>
2	<b>Sanjay Vaid</b>	<b>62.4%</b>
2	<b>Manoj Garg</b>	<b>62.4%</b>
5	 <b>Saniel Chandrawat</b>	<b>56.0%</b>



Morningstar Sustainability Rating

# Our 2019/20 process enhancements have been successful

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- ✓ Alquity Asia has outperformed in 10 of the last 12 months (Future World 9/12)\*
- ✓ Alquity Asia is ranked 13/180 over 1 year by Citywire, and Future World 66/266\*\*
- ✓ Examples of major positive performance contributors over last 12 months\*
  - Pacific Basin
  - Chinese auto dealers
  - Korean, Brazilian & Singaporean internet companies
  - Indian small caps & Pakistani Cement
  - We have delivered alpha from small/large cap and value/growth stocks

# ...and volatility has declined

## Volatility ranking - Asia Fund

1Y	60/180
3Y	163/168

## Volatility ranking - Future World Fund

1Y	89/266
3Y	214/236



# Conclusion

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# Conclusion

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- Growth tailwinds to persist; EM is clearly cheap
- Themes for 2022
  - Smaller markets
  - Domestic growth
  - China AND India
  - Commodities - macro and stock effects
  - Decarbonisation & COP26
- Our differentiation and enhanced process has delivered stronger returns with lower volatility, despite challenging market conditions



# Q&A

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