

Emerging markets: a new hotspot for equity investors?

Varun Lajawalla and Wenchang Ma





Target audience

Audience

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General risks

The value of investments, and any income generated from them, can fall as well as rise. Costs and charges will reduce the current and future value of investments.

Past performance does not predict future returns. Investment objectives may not necessarily be achieved; losses may be made.

Target returns are hypothetical returns and do not represent actual performance. Actual returns may differ significantly.

Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

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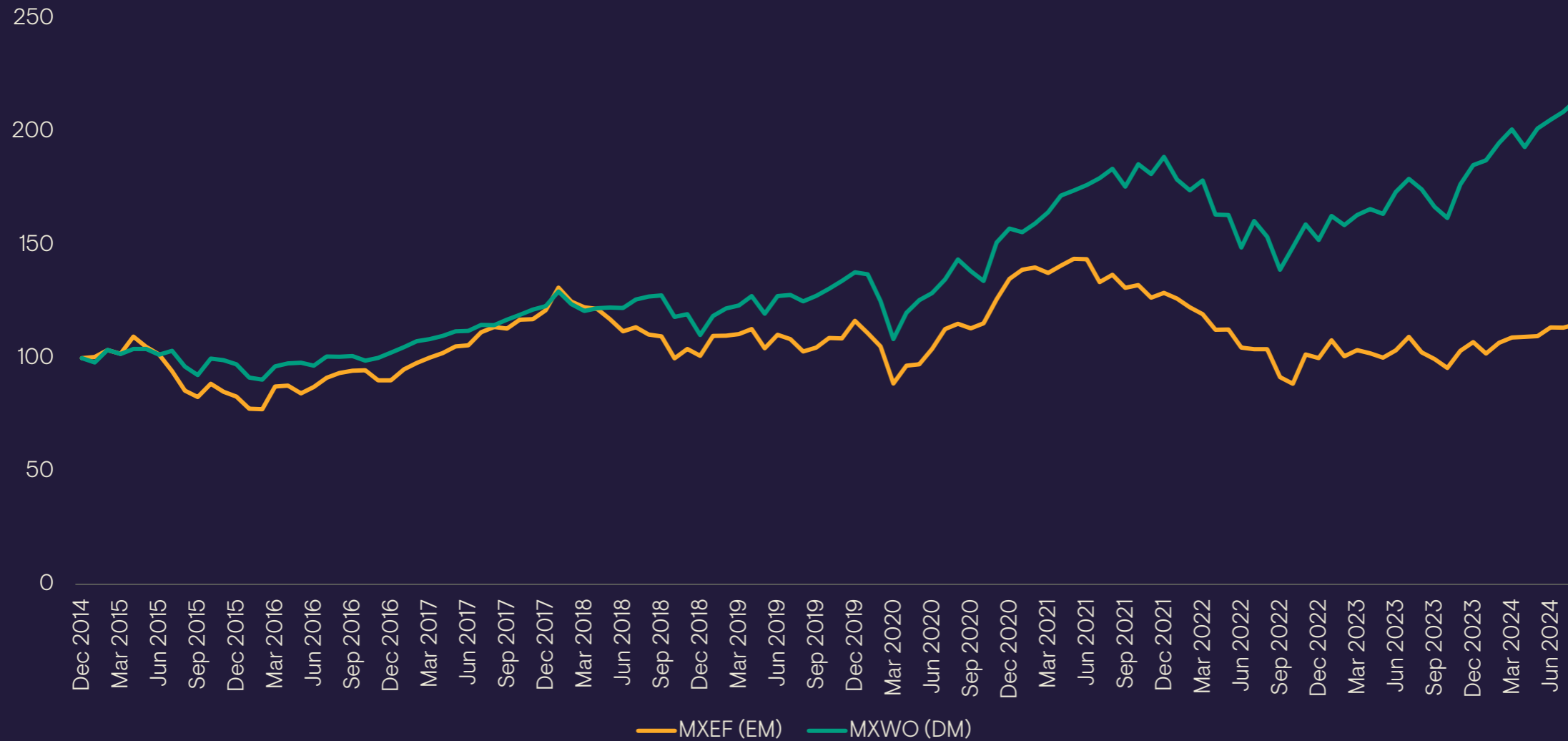
Varun Laijawalla





A decade of underperformance vs Developed Markets...

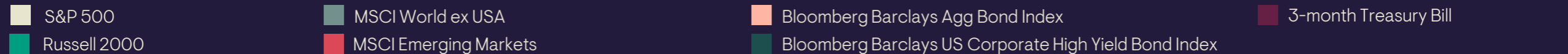
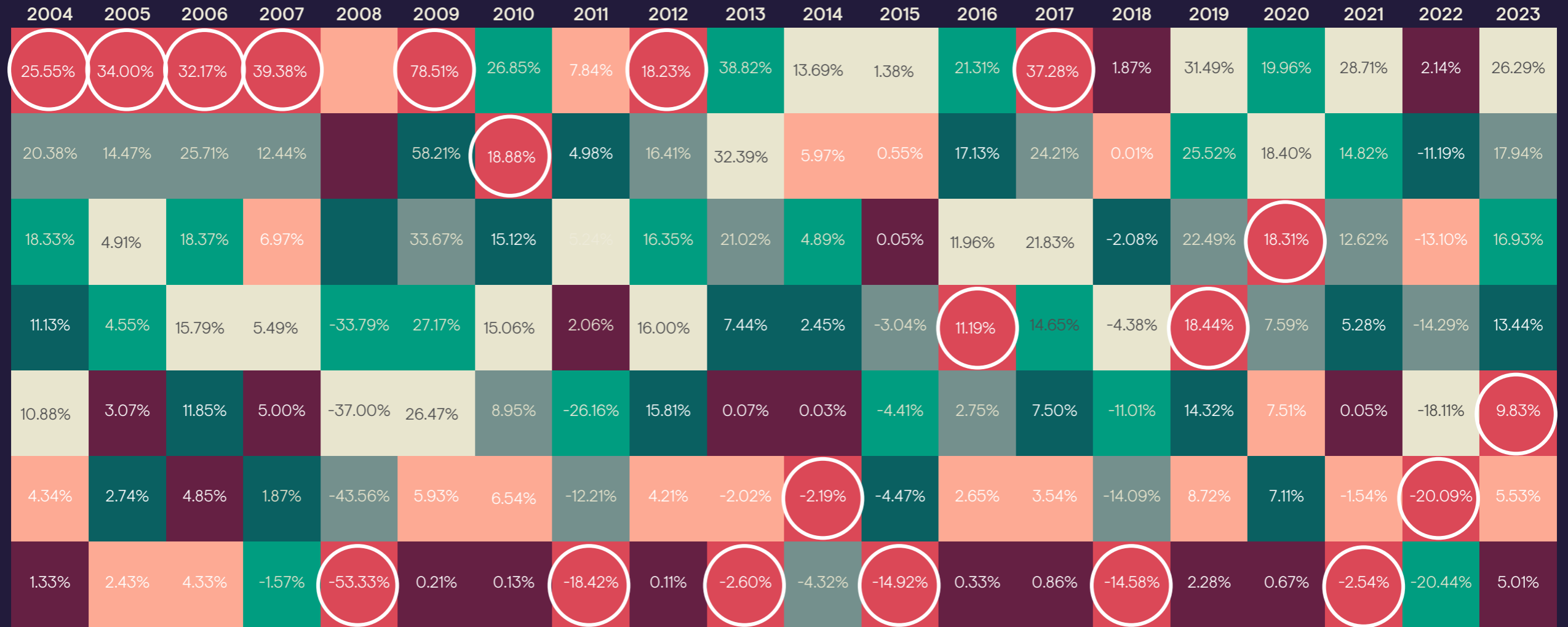
...but this ignores the structural changes in the EM asset class





But... Emerging market equities is an inherently cyclical asset class

Timing is important



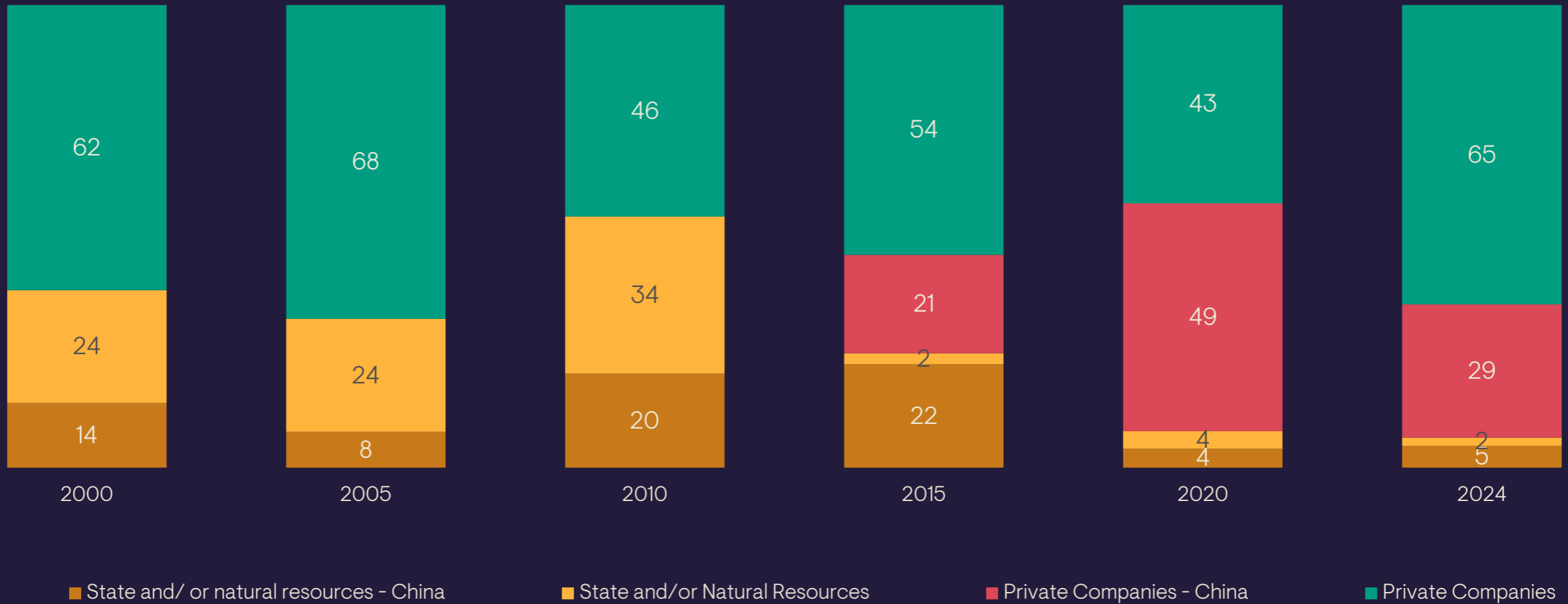
Past performance does not predict future returns; losses may be made.

Source: Callan, January 2024. Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses and are shown on a net of dividend basis. Indices are unmanaged and one cannot invest directly in an index.

The private sector is now dominant

State-owned enterprises have a much more diminished presence

Top 20 Companies By Ownership/Activity

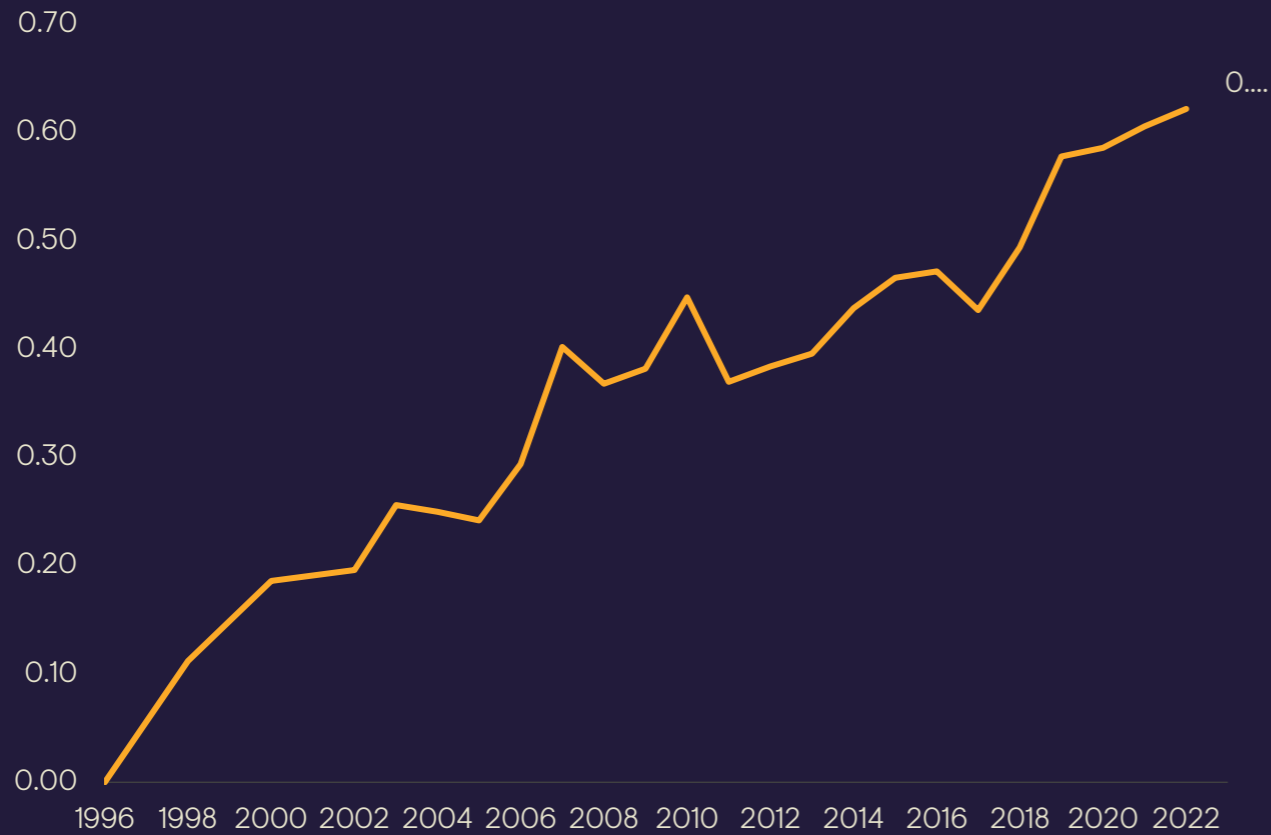




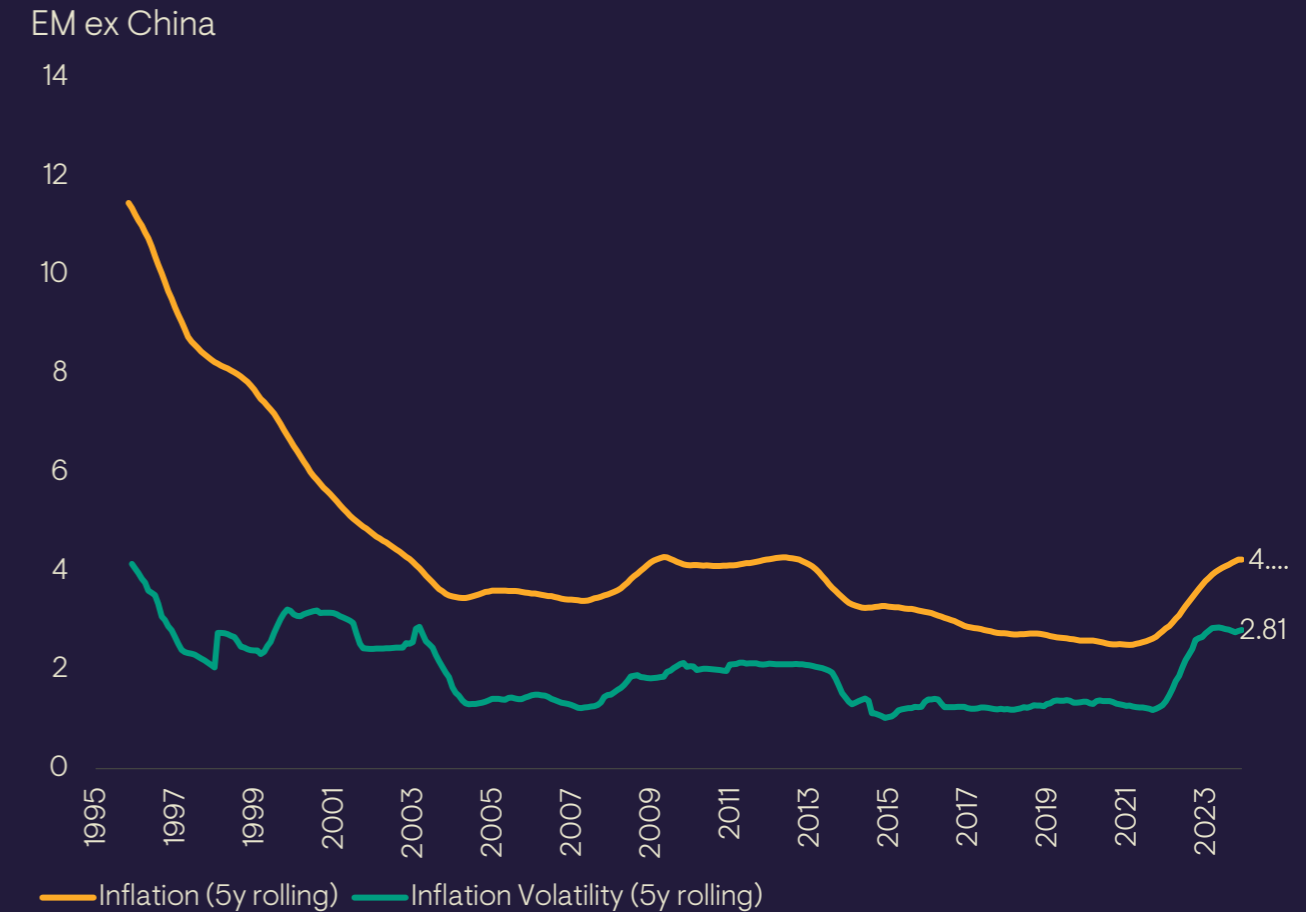
Emerging Markets are being governed more thoughtfully

Improved institutional frameworks have led to fiscal sustainability

Governance effectiveness for Top 5 markets
(India, Taiwan, Korea, Brazil, Saudi)



Structurally lower economic volatility and lower average inflation rates

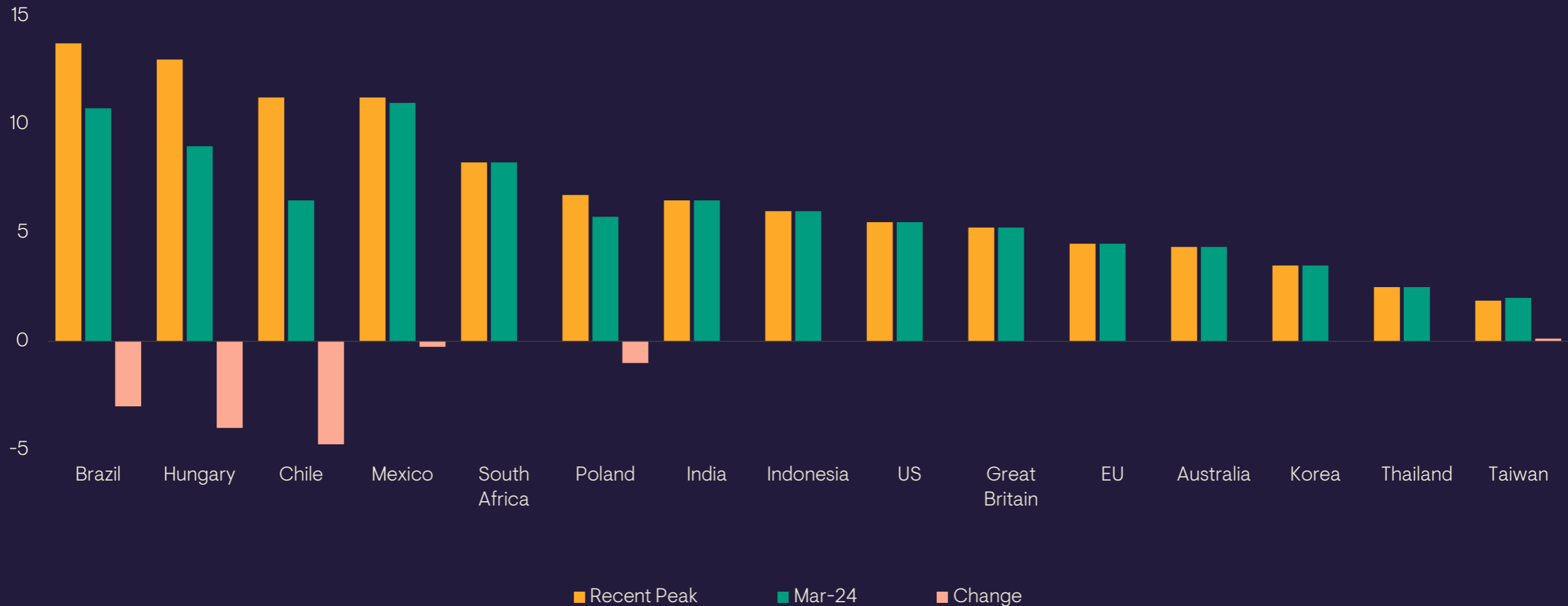




#1: The Interest Rate Cycle

Policy loosening underway in Emerging Markets

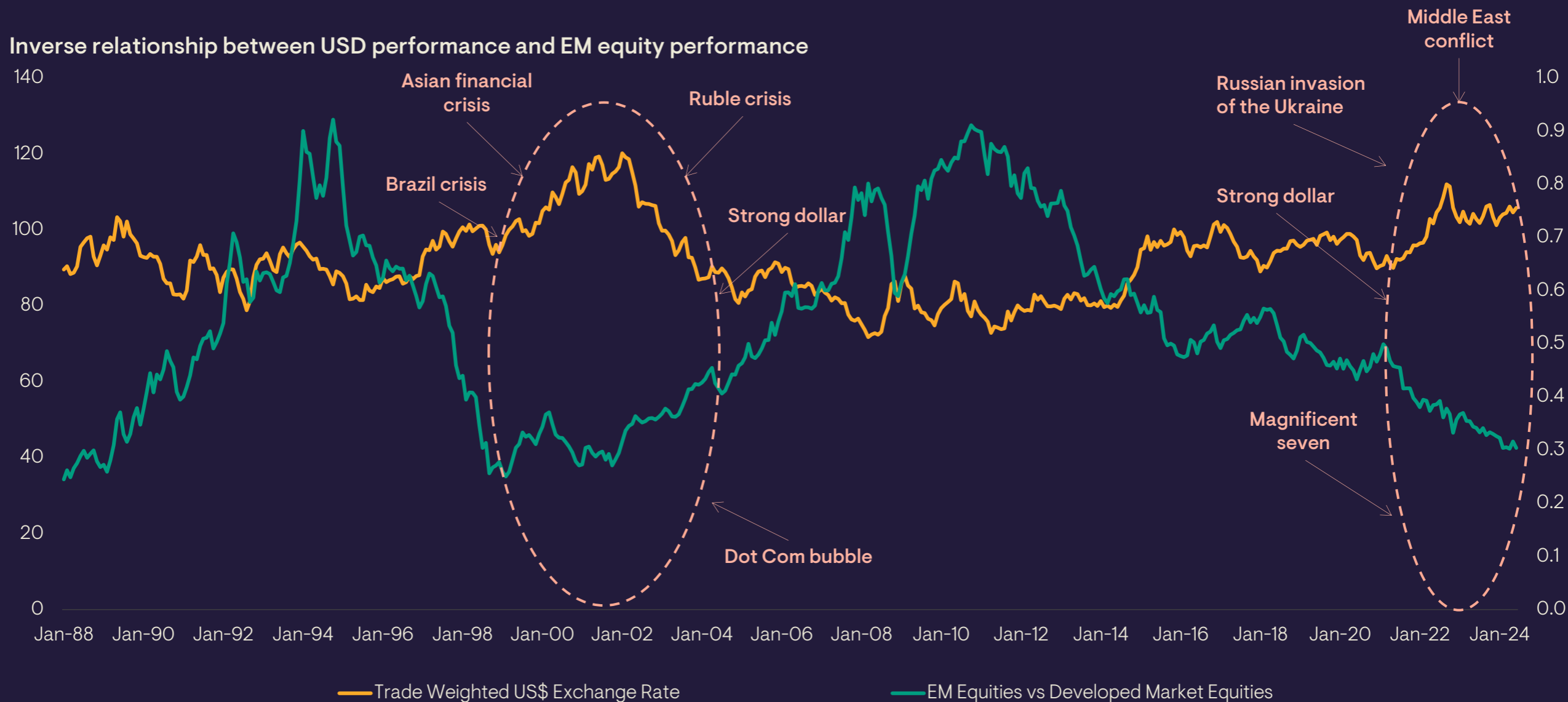
Benchmark Interest Rates: Developed & Emerging Markets





#2: The US Dollar

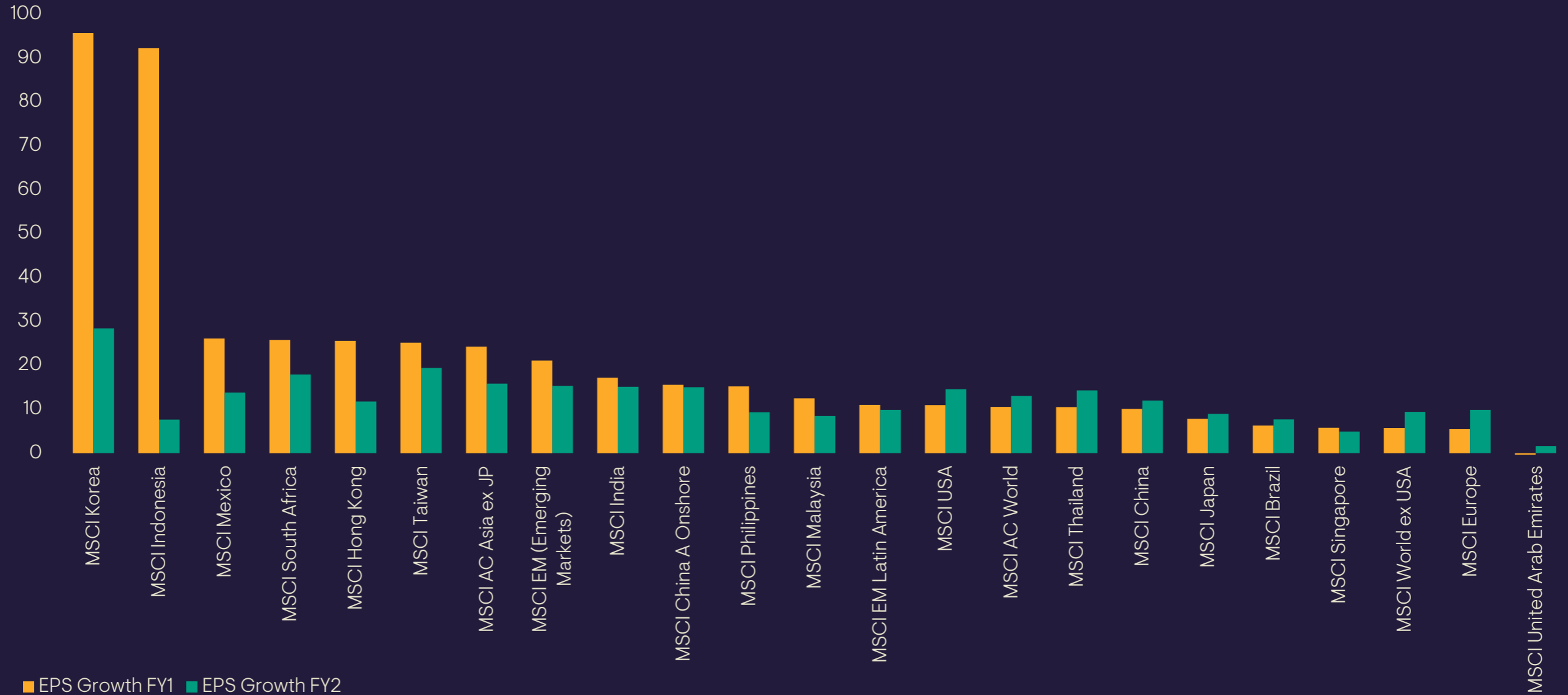
Dollar is now close to 20-year highs





#3: Robust earnings growth

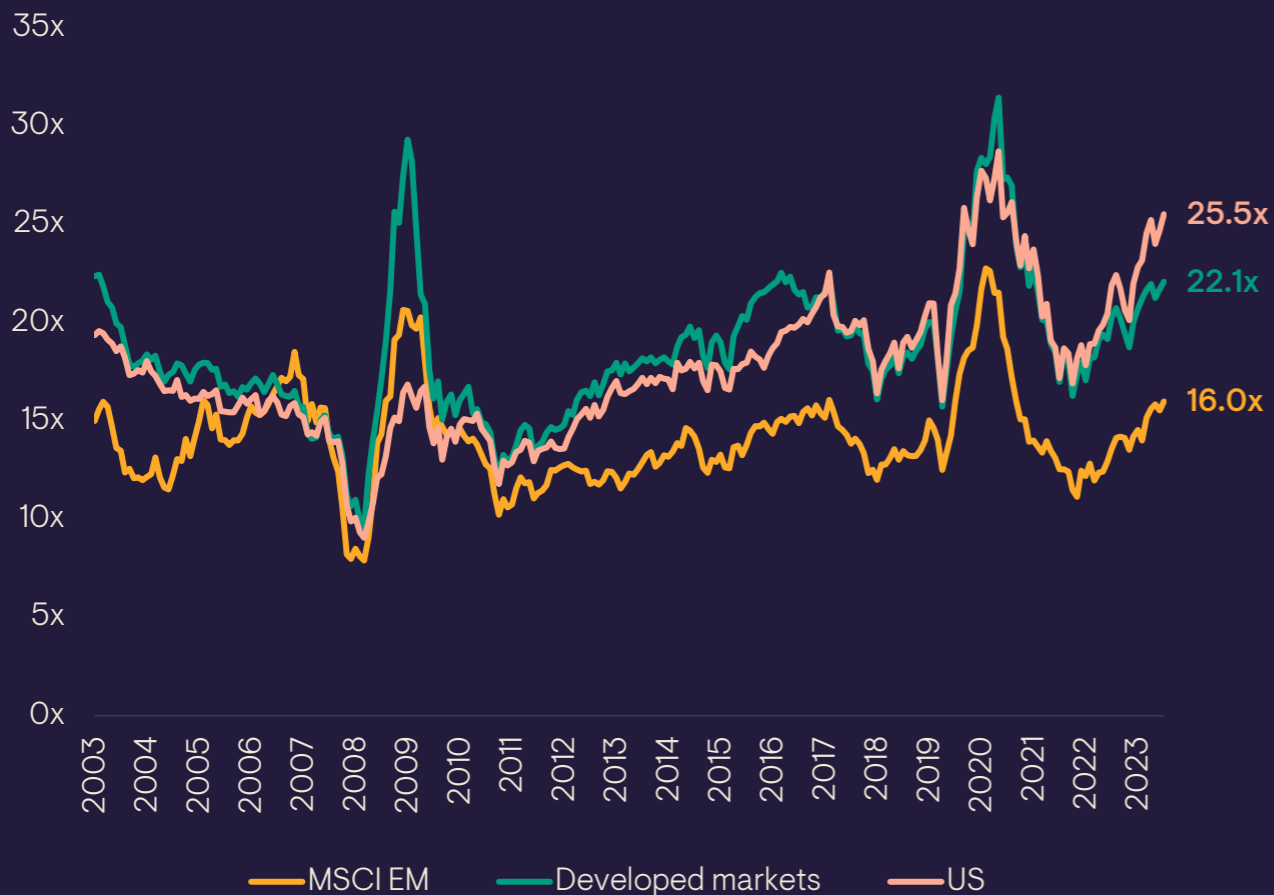
EPS Growth Forecasts (%)



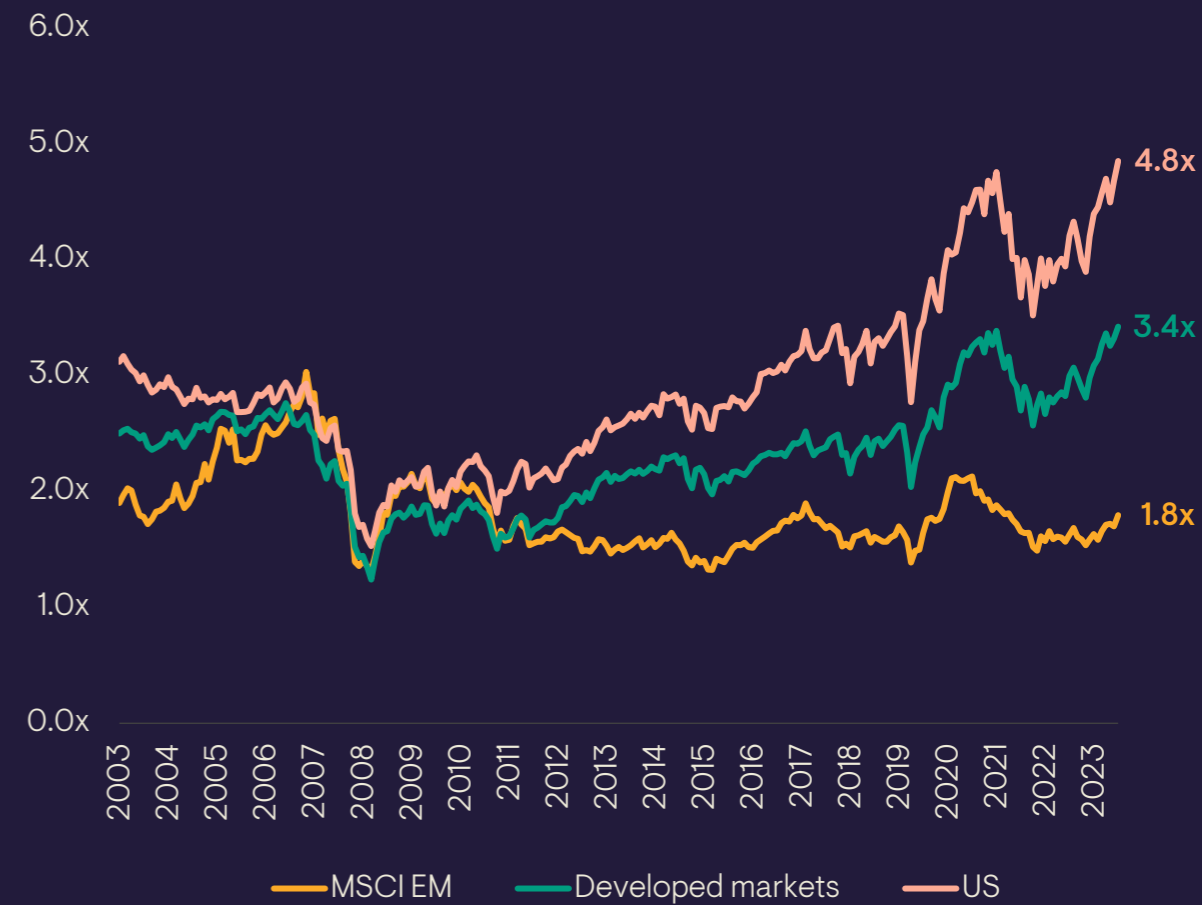
Source: FactSet, as of June 2024

#4: Bargain basement valuations

Price/Earnings ratio



Price/Book ratio



Source: FactSet, 30 June 2024.
For further information on indices, please see the Important Information section.

Our process has led us to identify leading companies in India

 **ICICI Bank**

zomato

Cipla

 **MAX**
Healthcare

 **VB**
VARUN BEVERAGES


पावरग्रिड


Reliance
Industries Limited


pb
Fintech

 **LODHA**
BUILDING A BETTER LIFE

No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided.

This is not a buy, sell or hold recommendation for any particular security.

We believe that these stocks represent the 4Factor investment philosophy and score highly against a 4Factor scorecard.

For further information on specific portfolio names and how the overall strategy performed, please see the Important information and standard performance slides.

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Wenchang Ma

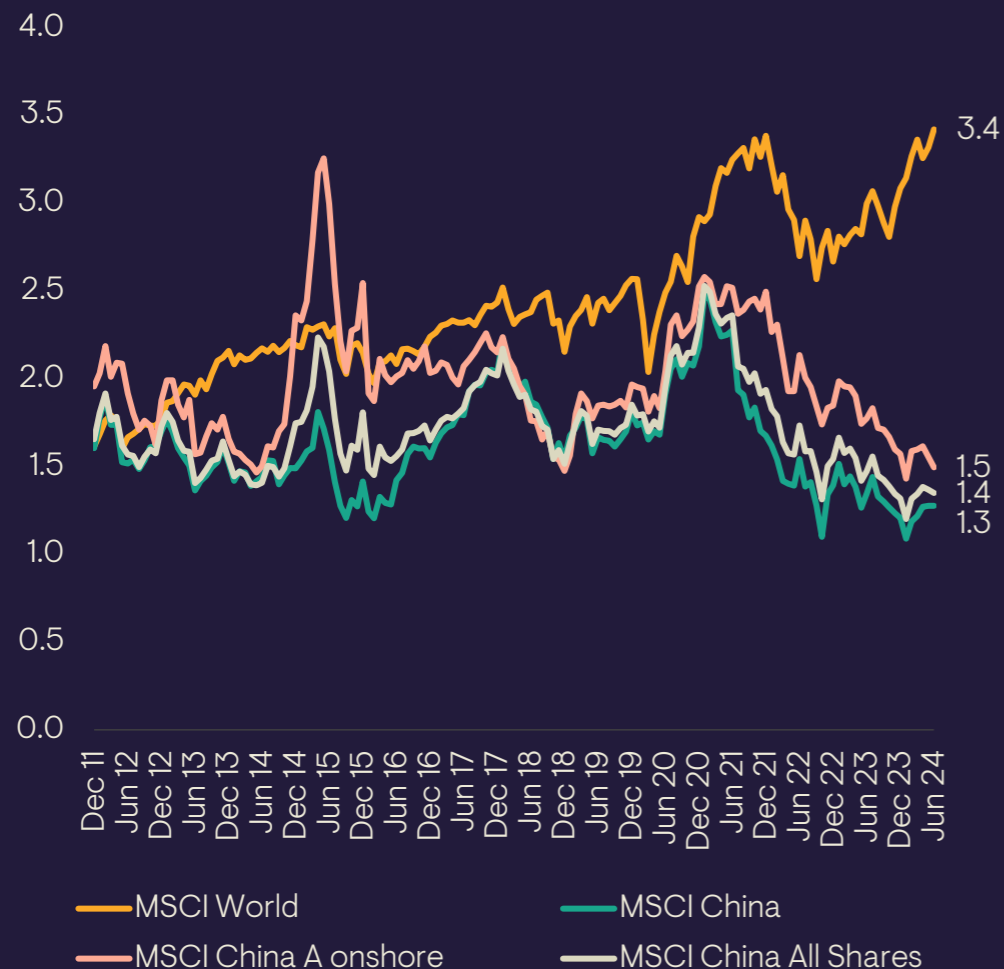




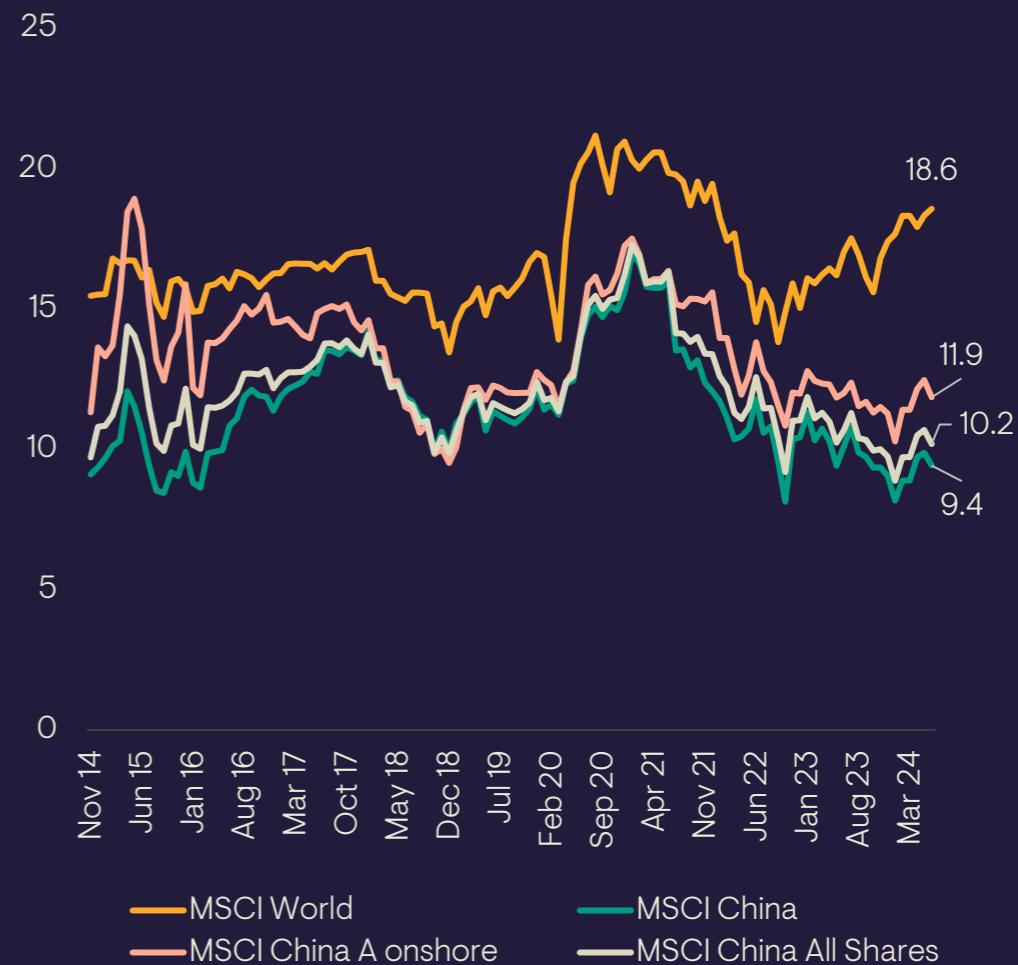
Valuation of Chinese equities looks attractive

A shares derated 50% in the last three years

Price/Book ratio



Forward Price/Earnings Ratio



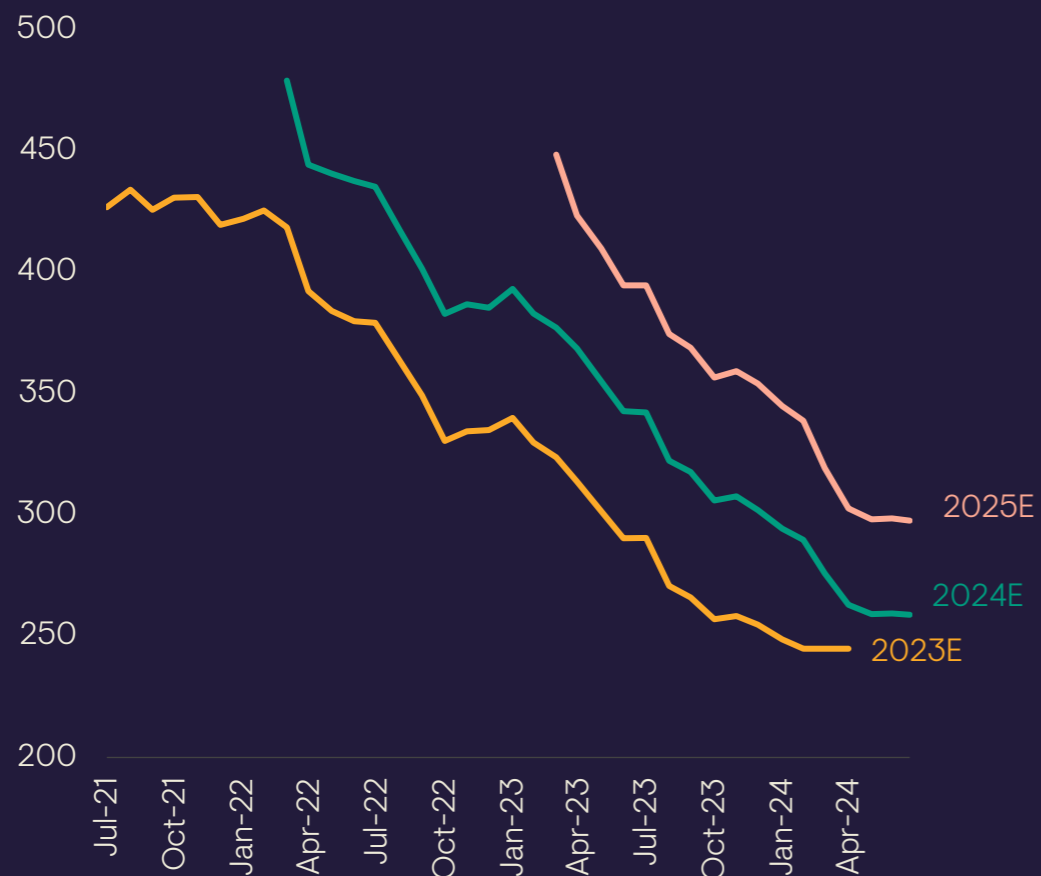
Source: FactSet, 30 June 2024.
For further information on indices, please see the Important information section.



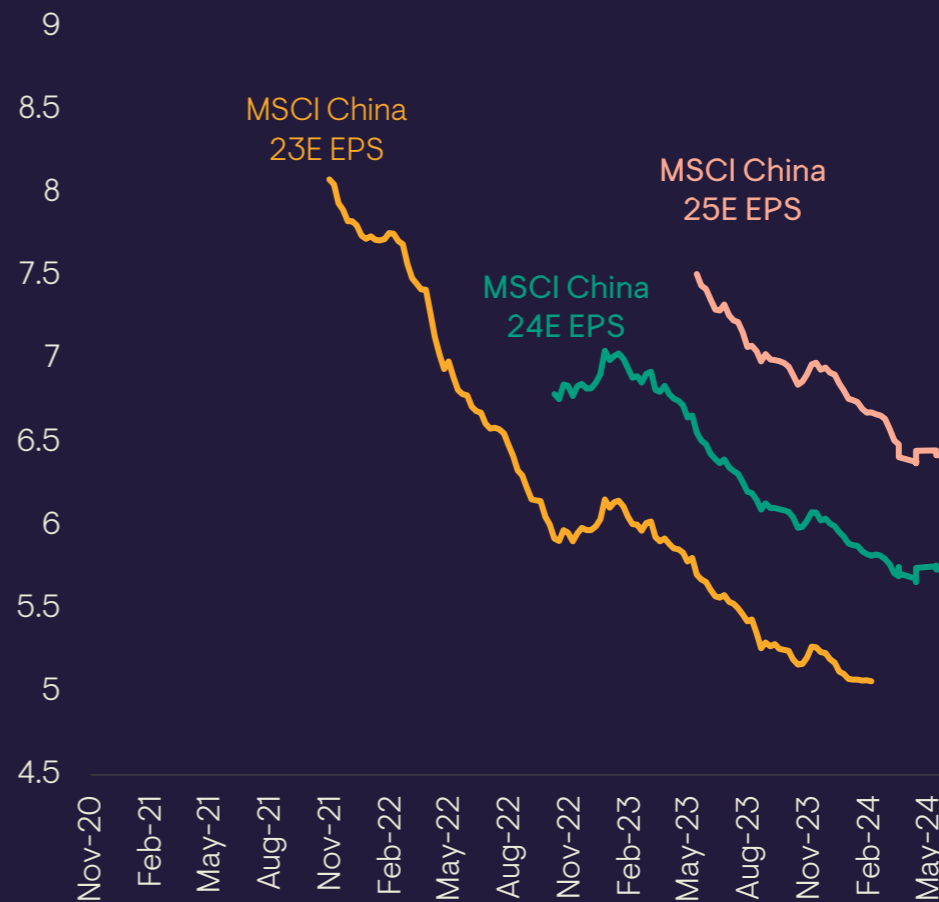
Consensus earnings revisions

Earnings revisions downcycle is yet to turnaround but showing some signs of stabilisation

EPS integer of MSCI China A Onshore



EPS integer of MSCI China (HKD)



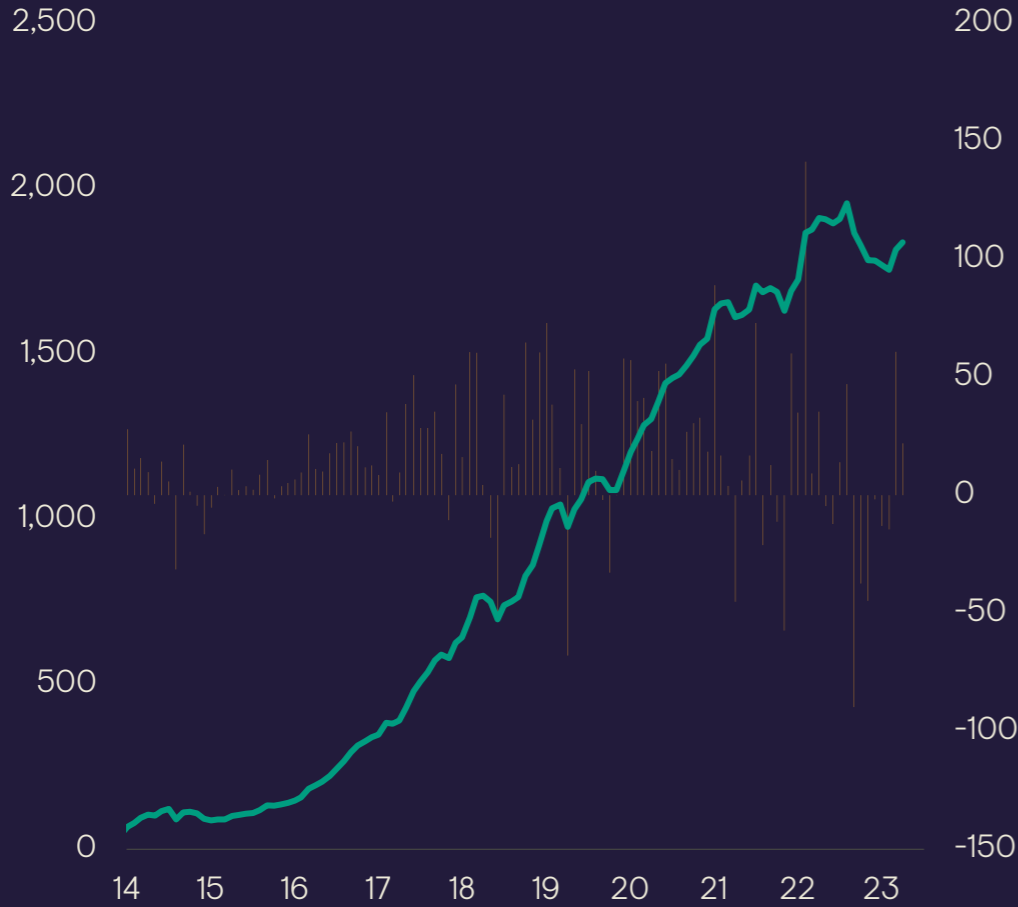
Source: FactSet, IBES, CSI, MSCI, 30 June 2024.
For further information on indices, please see the Important information section.



Foreign investor flow to A share market is stabilising

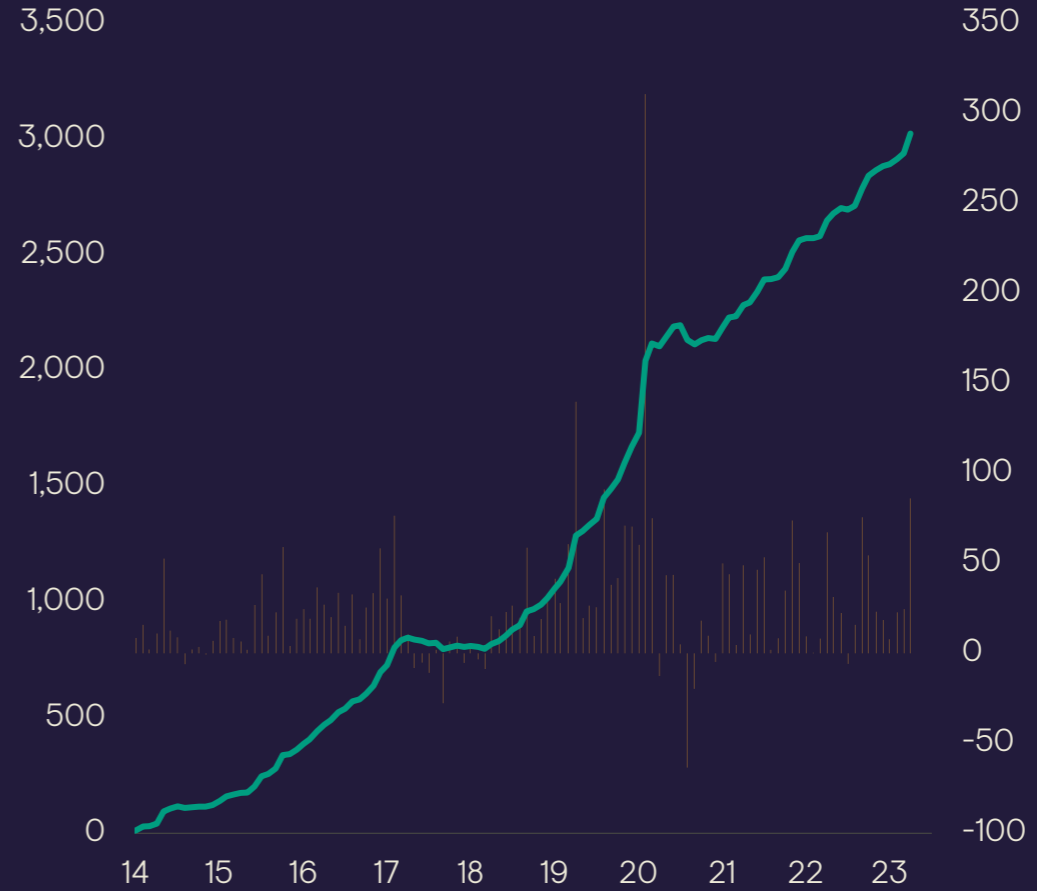
Overall foreign participation is still low, at 3.2% of total A share free float

Stock Connect Northbound net flow (RMB bn)



Monthly net buying (RHS) Cumulative net buying (LHS)

Stock Connect Southbound net flow (HKD bn)



Monthly net buying (RHS) Cumulative net buying (LHS)



We are seeing improving cash flow return on investment post Covid

But it has not been rewarded by the market



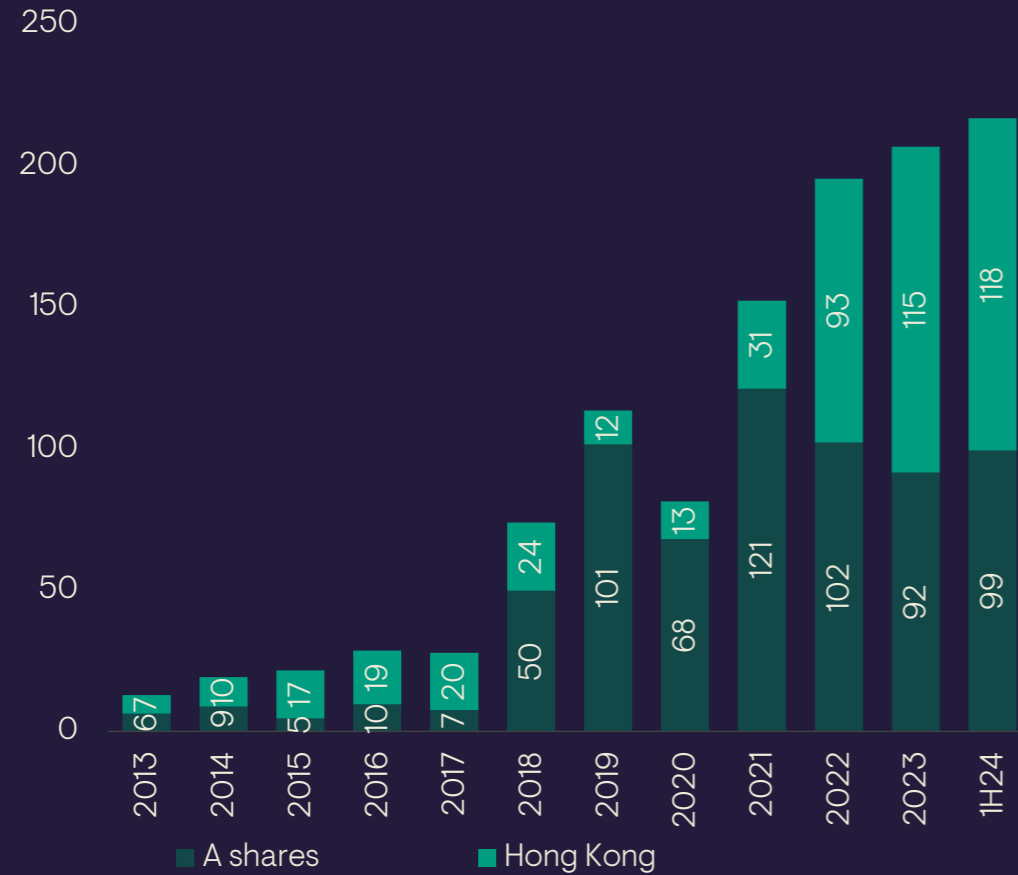
Source: Holt, Bloomberg, Ninety One, September 2024.
For further information on indices, please see the Important information section.



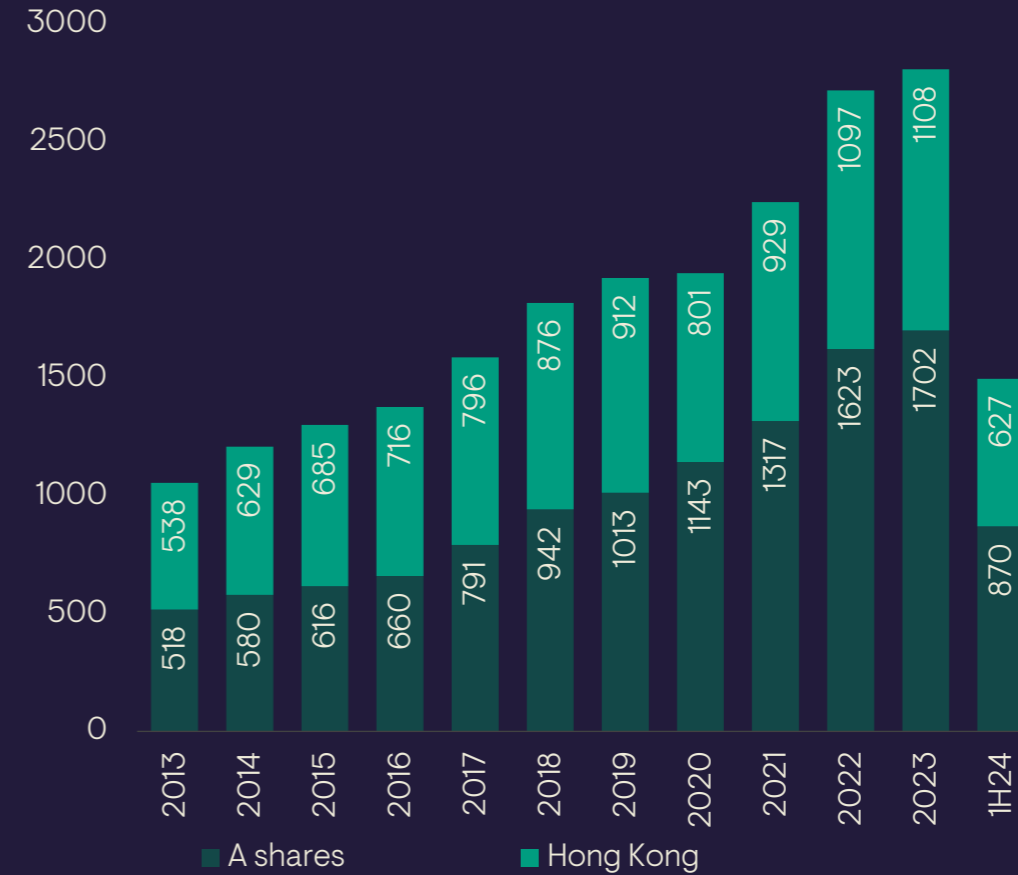
Record level of share buyback and dividends

Chinese companies are increasing shareholder returns

Chinese companies annual buybacks (Rmb bn)



Chinese companies dividend payout (Rmb bn)

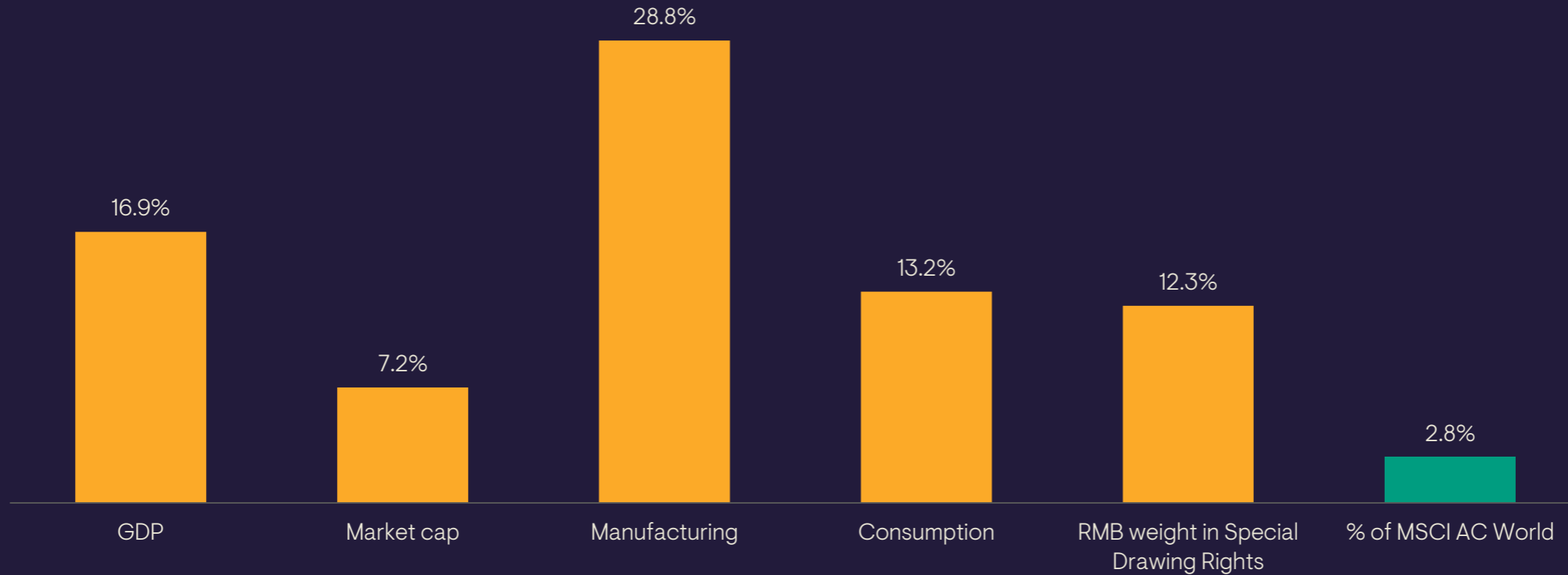




China is too big to be ignored

The second largest economy is under-represented in global portfolios

China is under-represented in global equities

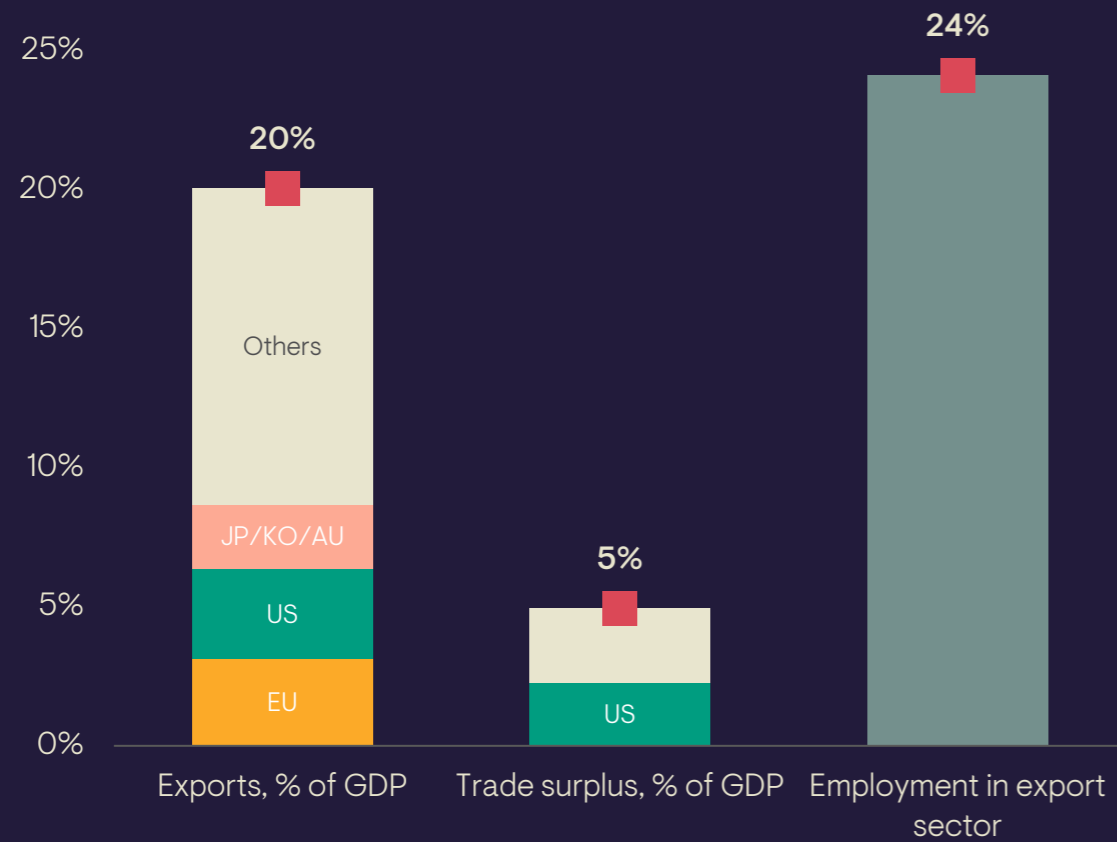




China continues to integrate with global economy

Balancing between security and global integration

Export remains a key driver for China's economy*
China's Trade Linkages



China's export value continues to increase but with changing geographic tilt**
Breakdown of China's exports by destination

Breakdown of China's exports by destination





Chinese equities have low correlation with other equity markets

As an asset class this provides diversification value

Indices	MSCI China	MSCI China A Onshore	TOPIX (Japan)	MSCI Europe	S&P 500	MSCI EM	MSCI World	MSCI AC World	MSCI ACWI ex- US
MSCI China	1	0.6	0.5	0.5	0.5	0.9	0.5	0.6	0.7
MSCI China A Onshore		1	0.3	0.3	0.3	0.5	0.3	0.4	0.4
TOPIX (Japan)			1	0.7	0.6	0.6	0.7	0.7	0.8
MSCI Europe				1	0.8	0.7	0.9	0.9	0.9
S&P 500					1	0.7	1.0	1.0	0.8
MSCI EM						1	0.7	0.8	0.9
MSCI World							1	1.0	0.9
MSCI AC World								1	0.9
MSCI ACWI ex- US									1

Source: Bloomberg. Ninety One. Correlation based on weekly data for historical price in local currency during 10 years since 01/09/2014. For further information on indices, please see the Important information section.

Diversified growth drivers and investment style characteristics

Strong consumer brands



Tsingtao Brewery, Midea

Innovation and import substitution



Zhongji Innolight, Beigene

Energy Transition



Yutong Bus, Pinggao

SOE Reform

Hisense



PetroChina

Hisense, PetroChina

No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided.

Source: Ninety One as at 31 August 2024. This is not a buy, sell or hold recommendation for any particular security.

For further information on specific portfolio names, please see the Important Information section.

03

India vs. China



Stock example: Macrotech Developers



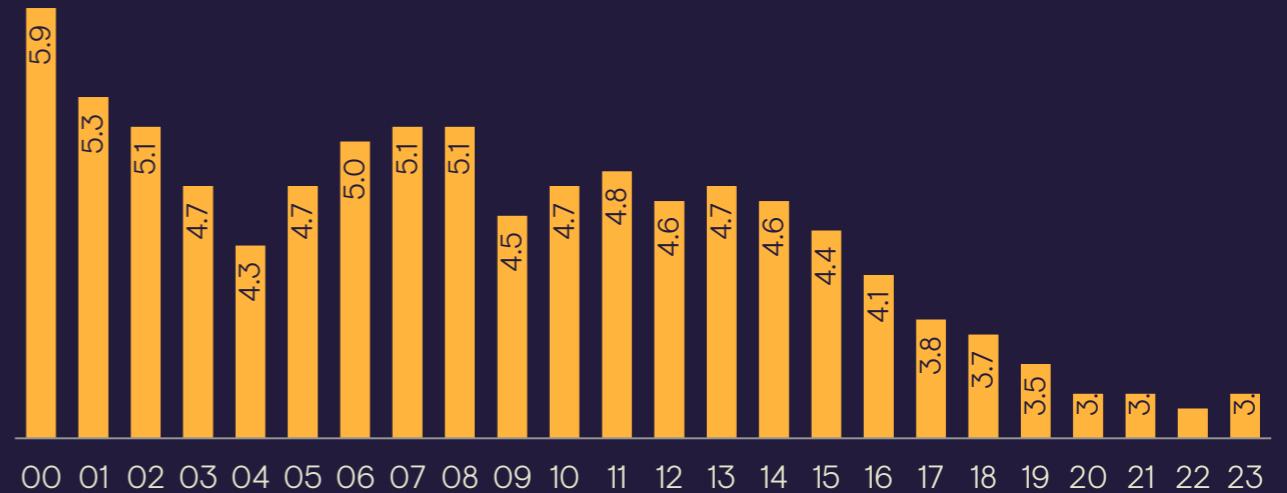
Company description: one of India's largest real estate developers, with a stronghold in the Maharashtra region



Investment thesis

- **Industry backdrop**
 - Affordability at near 20-year highs
 - Unwind of nuclear families
 - Regulatory framework in place
 - Industry consolidation improving supply-demand dynamics
- **Company fundamentals**
 - Solid balance sheet with cash generation
 - Strong execution on new business development
 - Improving economics and healthy operating performance
 - Founder group exhibiting strong governance credentials

Affordability index (property price / annual income)





Stock example: Hisense



Company description: the 4th largest white goods (air-conditioner, fridge & washing machine) manufacturer in China

Hisense

Investment thesis

- **Industry backdrop**
 - Government focus on restructuring the efficiency of state-owned enterprises (SOEs)
- **Company fundamentals**
 - SOE reform for Hisense kicked off in 2019 with leadership changes and mixed-ownership reform
 - Brand reshufflings, retail channel expansions, and share incentive scheme introductions
 - Market share expansion among Chinese peers both domestically and internationally
 - Net profit margin doubling in 2023 and continuing to grow
 - Less reliance on parent company on exports





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Hypothetical performance returns

Assumptions are based on information available as of the date hereof and the Manager assumes no responsibility to update any hypothetical performance based on a change in underlying assumptions or market conditions. No assurances can be provided that the composition or actual performance of the portfolio, at any time, will resemble or correspond (in any way) to the composition of any hypothetical portfolios or hypothetical performance scenarios used to calculate the target or projected performance herein or in other written materials provided to you, or discussed with you.

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