



Country Factors: an Edge in Emerging Market Equities

PENDAL

JO Hambro
Capital Management Group

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For Professional Investors Only

Global Emerging Markets Opportunities team



James Syme, CFA
Senior Fund Manager

27 years investment experience

Former Head of Global Emerging Markets Equities at Baring Asset Management



Paul Wimborne
Senior Fund Manager

23 years investment experience

Former Fund Manager of Global Emerging Markets Equities at Baring Asset Management



Ada Chan
Fund Manager

22 years investment experience

Ada spent three years at GMO LLC as an Investment Analyst for the UK. She previously worked at Baring Asset Management (Baring) for eight years as an Equity Research Analyst in London and in Boston

Emerging markets go right or wrong at the country level

- We believe that country-level drivers are a powerful and mostly ignored source of alpha in EM equity
- History (including present) of booms, crises and recoveries that occur at a country level
- Many drivers of companies/stocks are top-down factors (growth, interest rates, currencies, political risk, etc.)
- Bottom-up consensus (and non-specialist 'tourist' investors) alternatively ignore and then overreact to top-down developments, creating opportunity for focused country-driven EM investors
- Central bank minutes are as important as company visits



Investment philosophy



Emerging markets go right or wrong at the country level

- Country allocation to be a major driver of outperformance
- High conviction country positioning
- Typically own only 10-12 markets vs 26 in benchmark



Build stock portfolio from the top down

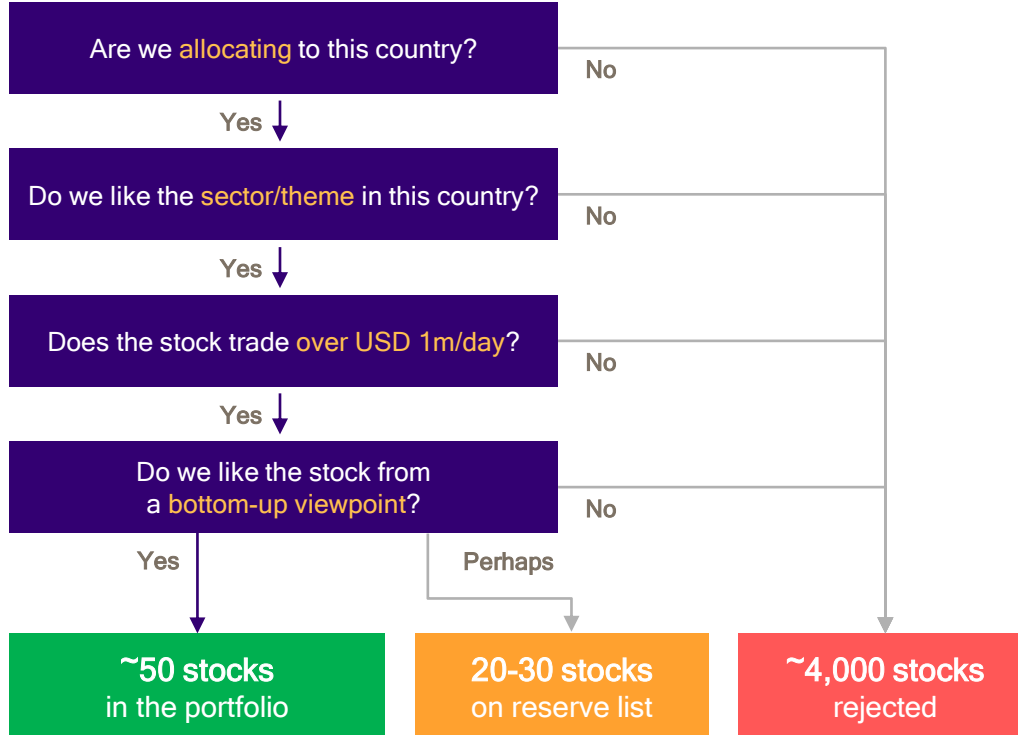
- Make country view override stock view
- Invest in companies that we like top-down as well as bottom-up
- Top-down acts as a filter for stock research



Concentrate on leveraging country research edge

- GARP, limited style tilt
- Very high active share
- All-cap approach but focus on liquidity

Our process is well suited to management by a tight knit team



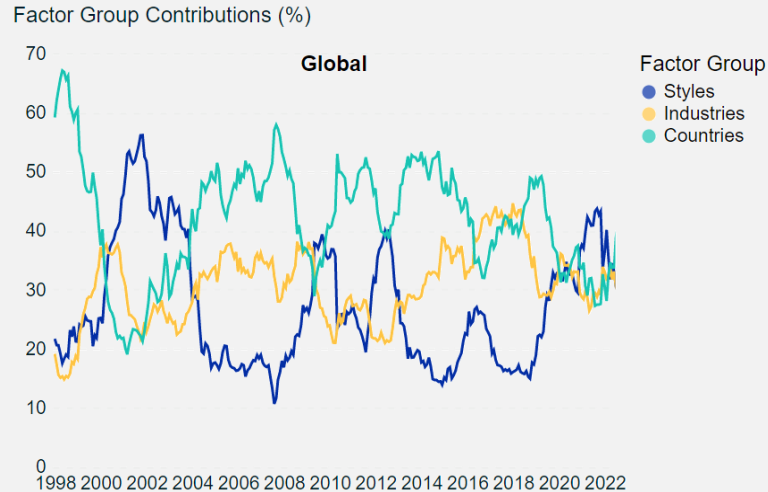
- We are typically invested in only half the markets in the benchmark. Additionally, our top-down research identifies preferred sectors and themes in each of those countries
- We only research stocks that can make it into the portfolio. We do not cover stocks we are not going to buy because we dislike the corporate governance, business model, etc
- We typically hold 50 stocks with an average holding period of over two years. We typically buy only 20 new names per year

EM returning to traditional characteristics

Divergence of economics, politics and demographics in EM drive greater contribution of country factors than in DM

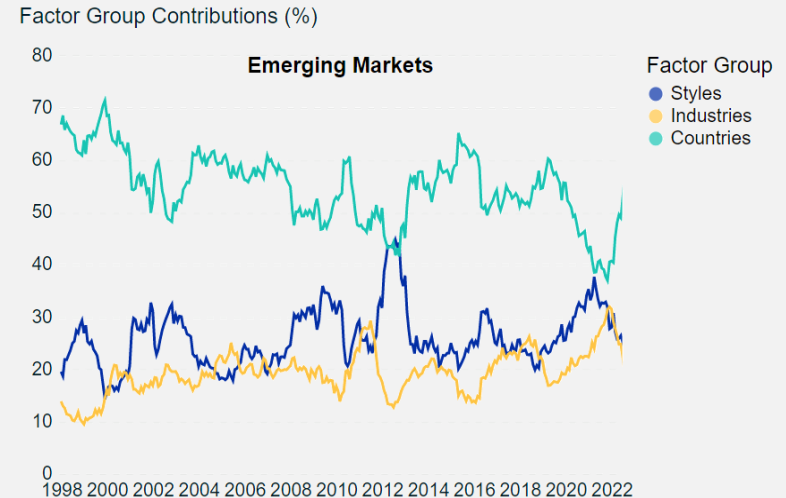
Developed markets

Factor group contributions, 12 month moving average



Emerging markets

Factor group contributions, 12 month moving average



After style-driven episode in Covid, country factors are re-establishing dominance in EM

Active investors need an edge to succeed

“ What important truth do very few people agree with you on? ”

From Zero to One, Thiel (2014)

Where is the edge?

The dominant weight of money in EM equity is managed the same way:

Bottom-up

Analyst-driven
stock selection
process

Based on
company meetings
and financial
modelling

Strong
preference for
quality

Preference for
attractive
valuation

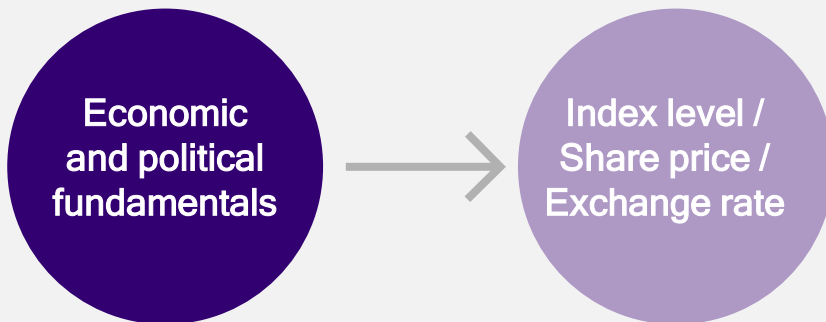
Where is the edge?

Emerging markets go right or wrong at the country level

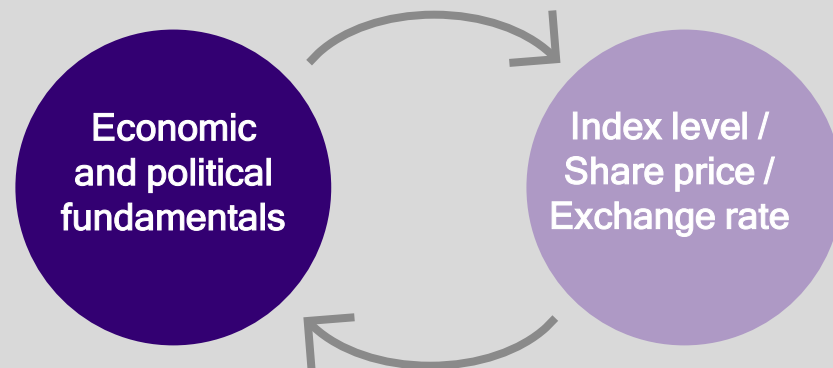
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- Bottom-up consensus (and non-specialist 'tourist' investors) alternatively ignore and then overreact to top-down developments, creating opportunity for focused country-driven EM investors
- Much more fun travelling and meeting companies than reading central bank minutes
- Can see this today in Thailand compared to Indonesia

Reflexivity in EM

Traditional view

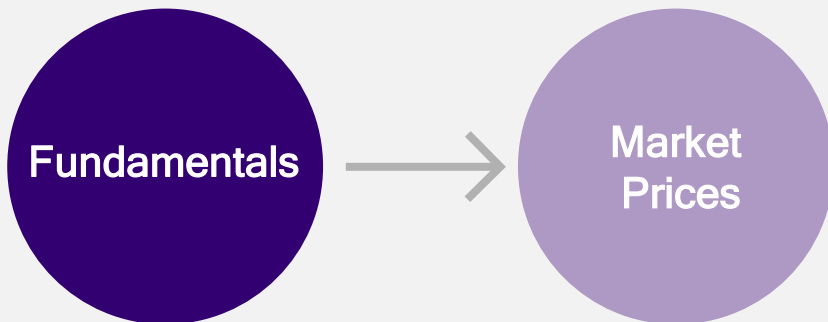


Soros' view (which we agree with)

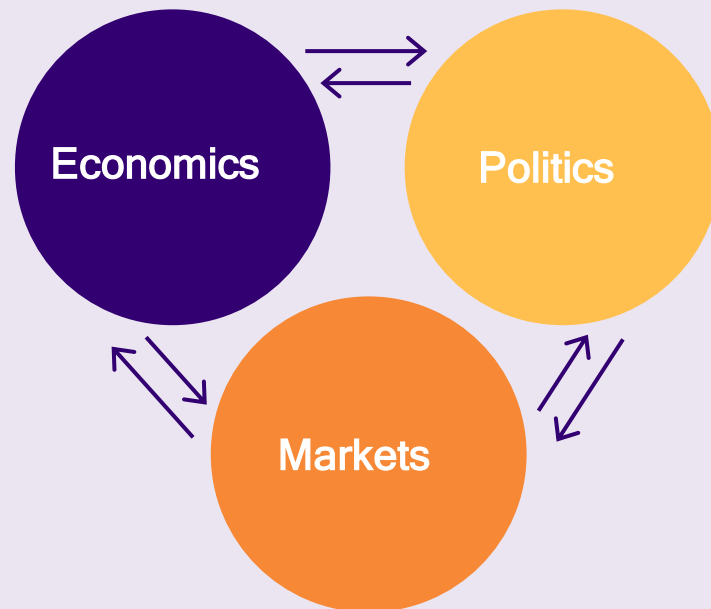


Reflexivity in EM

Traditional view



Our view (with thanks to George Soros)

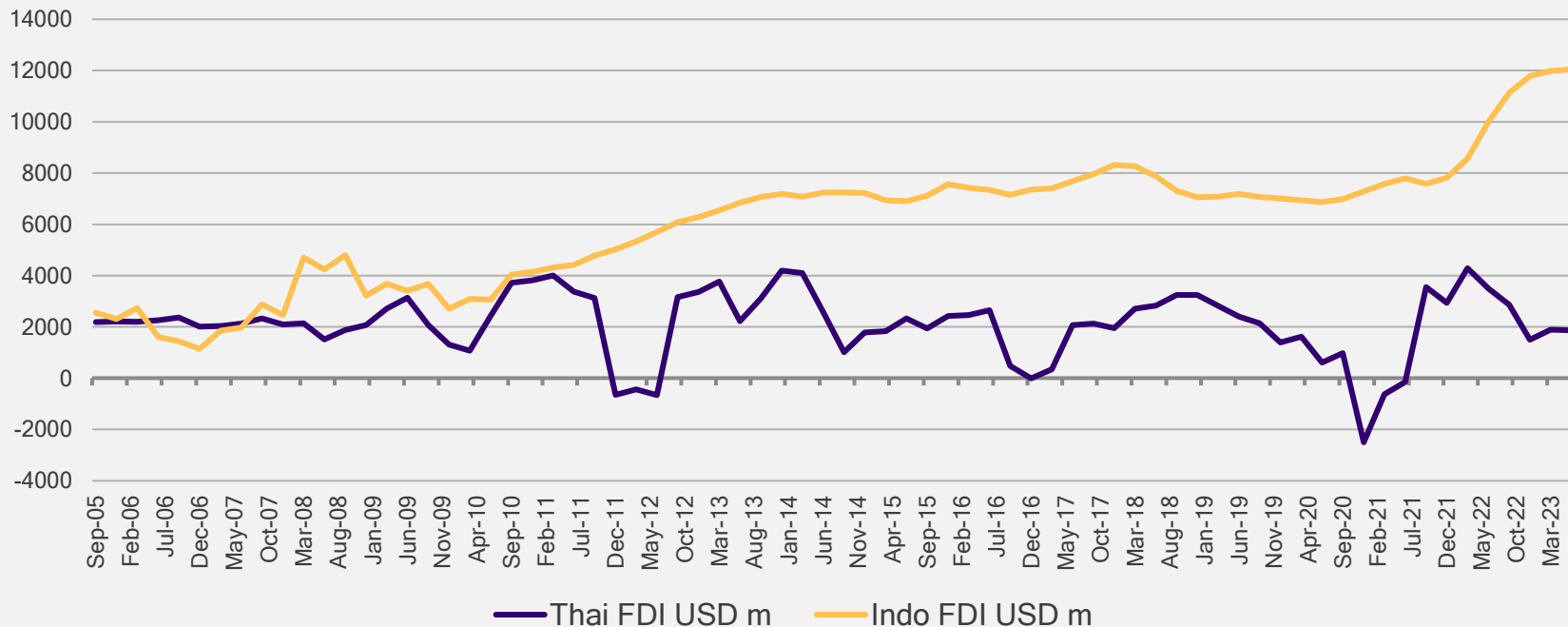


Thailand and Indonesia: very different political set-ups

- Freedom House Global Freedom Scores: **Indonesia** 58 Partly Free, **Thailand** 30 Not Free
- ‘Indonesia, the world’s third-largest democracy, is set to hold its next general election on 14 February 2024. The poll will decide the country’s president, vice president, People’s Consultative Assembly, and members of local legislative bodies. Indonesia’s Home Affairs Ministry reports that as many as 204 million voters are enrolled this time around... The focus this time will be on issues that resonate with Gen Z voters. Most of them are university students and would-be job seekers.’ - Lowy Institute, 1 March 2023
- ‘Thai election winner blocked from premiership: Senators reject Pita Limjaroenrat’s candidacy as court suspends him from parliament’ - Financial Times, 19 July 2023
- ‘...risk that the coups that have characterised Thailand’s modern political history will return during our forecast period. The military will consequently continue to exercise some influence over the coalition, while the PTP’s poor track record on governance and corruption will invite closer scrutiny by civil society’ - Economist Intelligence Unit, 1 August 2023

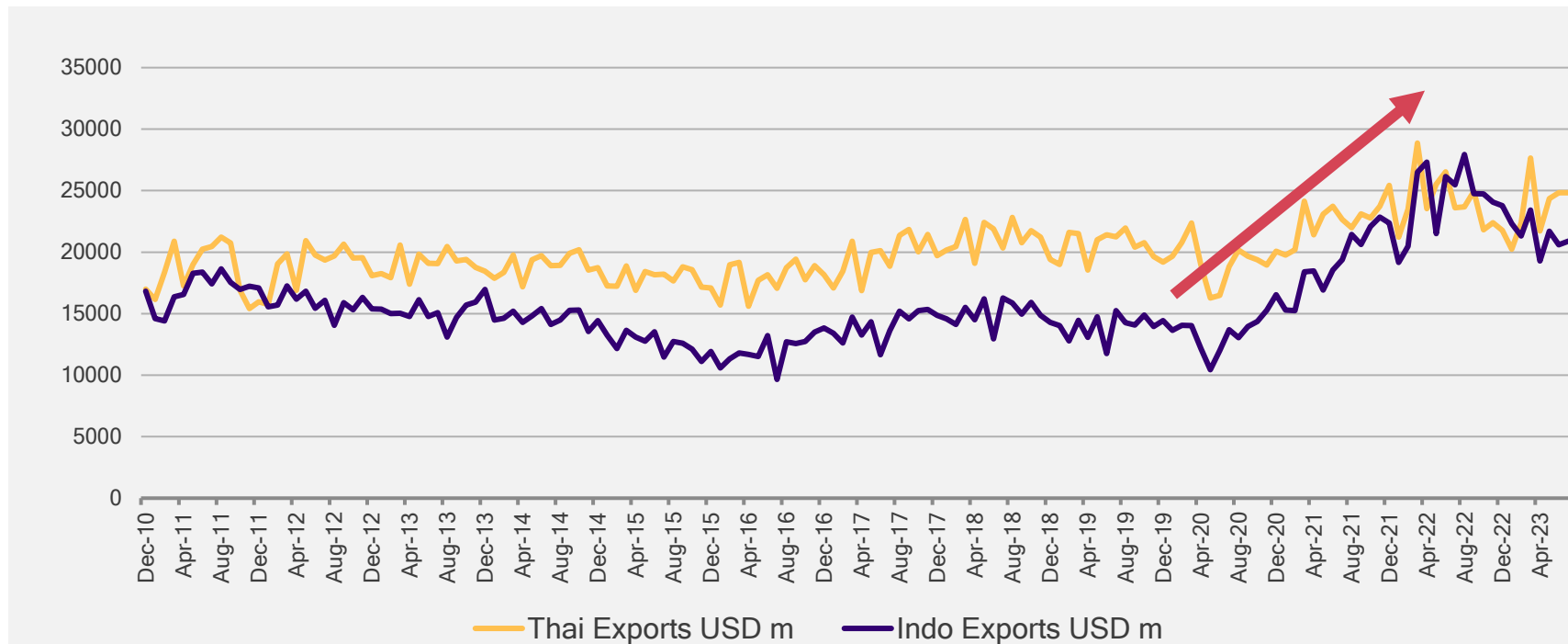
Huge difference in FDI inflows

Thailand's business environment is much less attractive to foreign investors

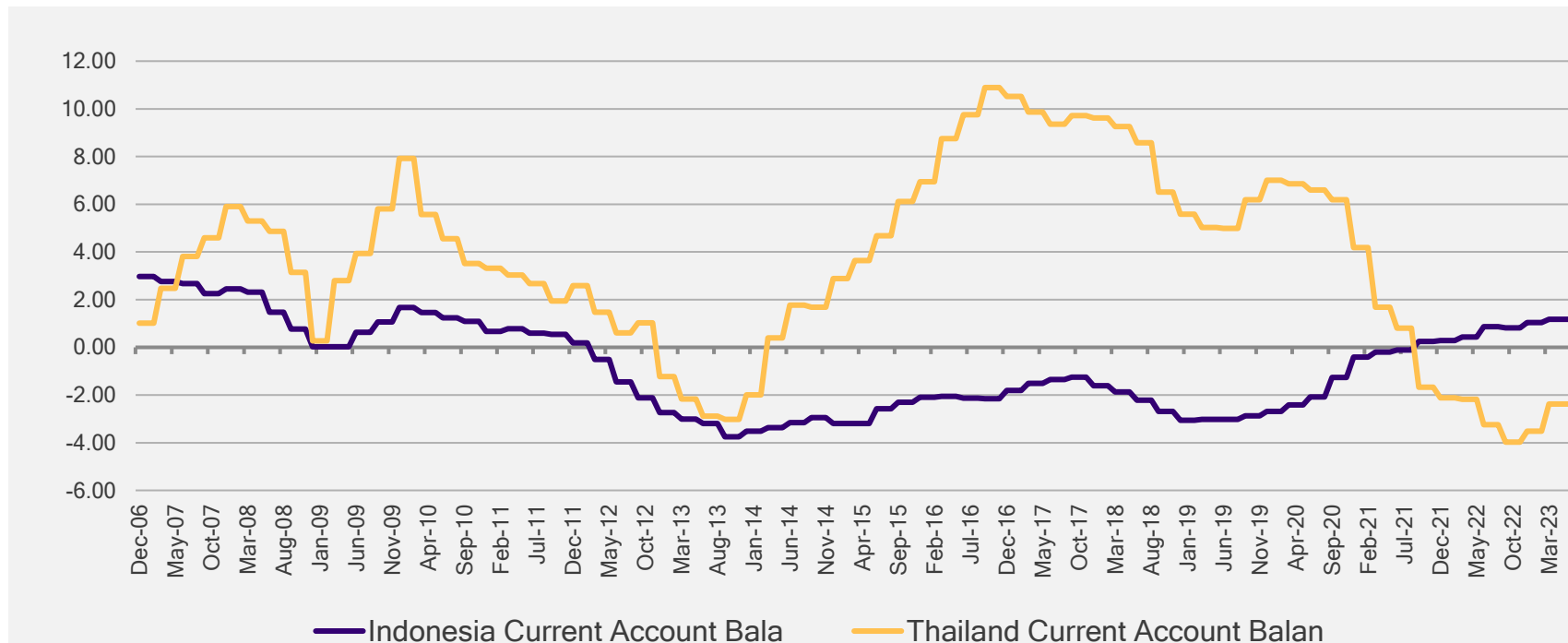


Indonesian export boom

Indonesian exports +55% on 2019 level; Thai exports only +15%

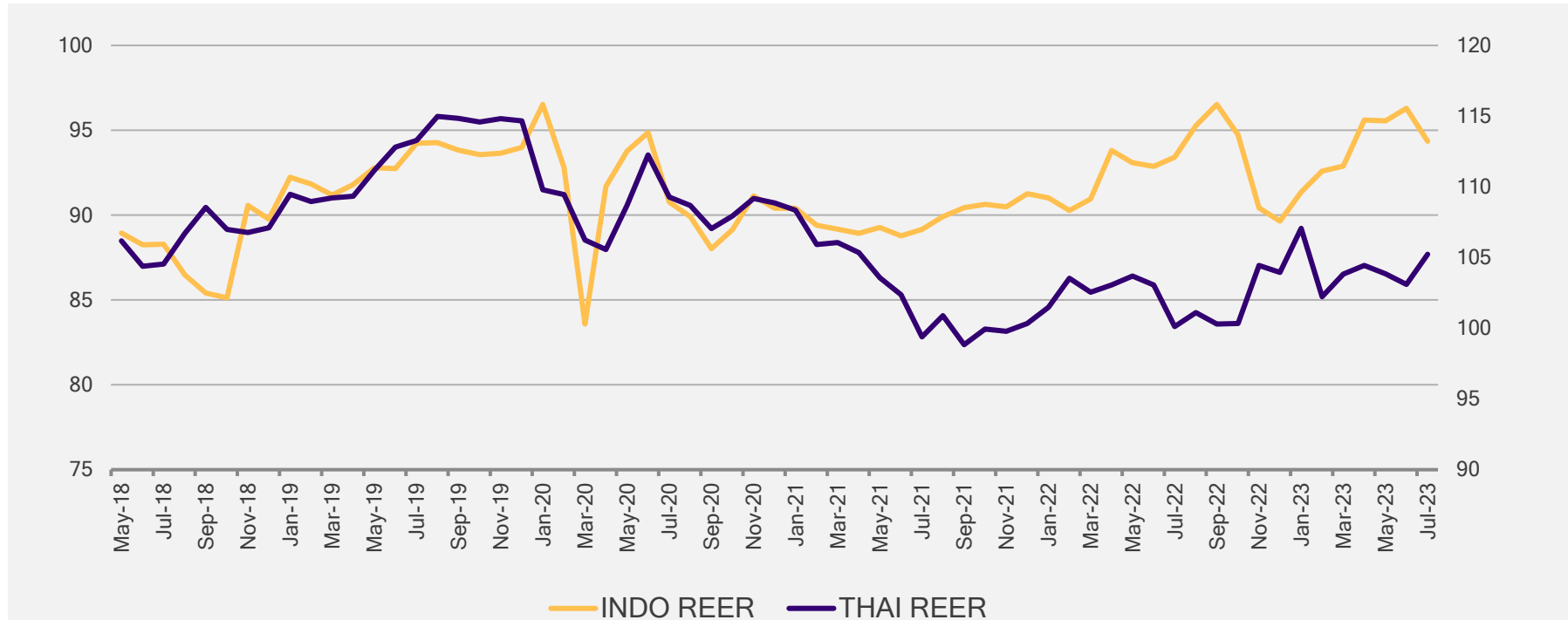


Current account surplus in Indonesia; deficit in Thailand

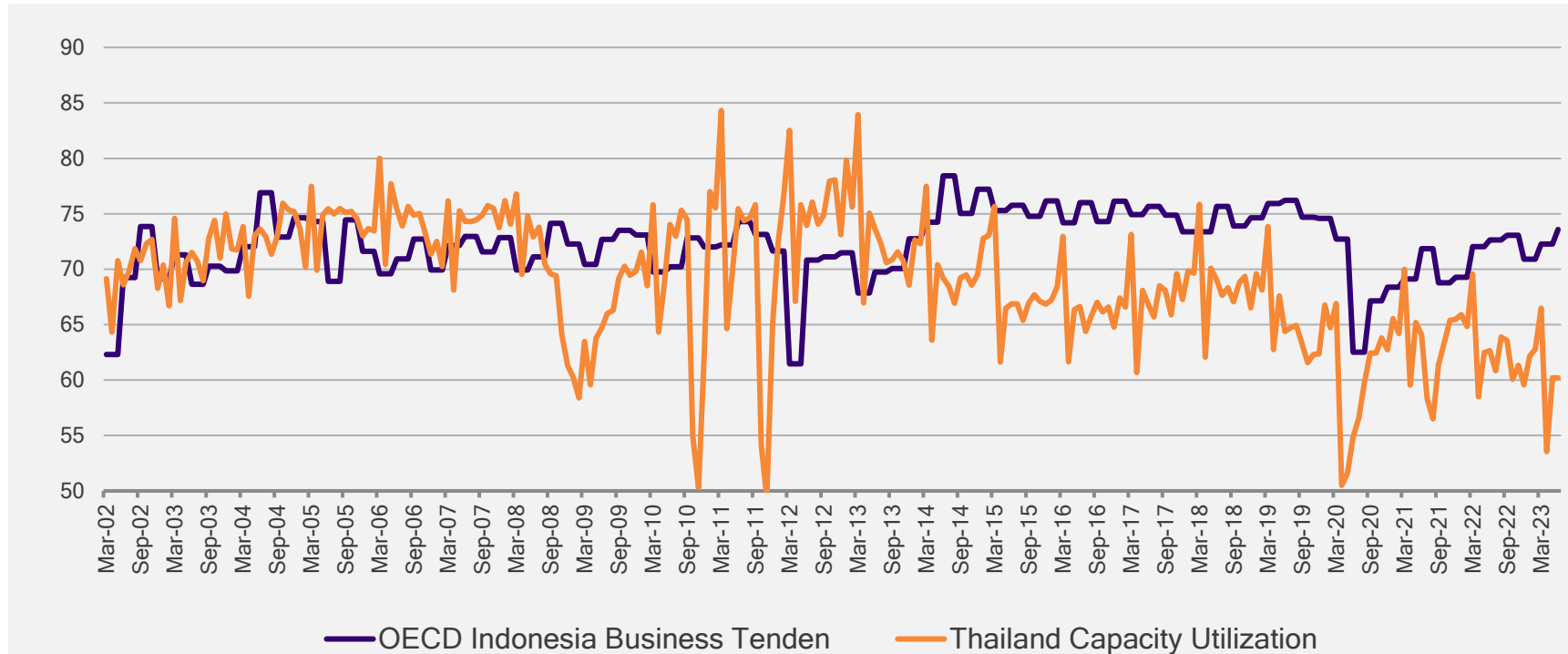


Current account balances drive exchange rates

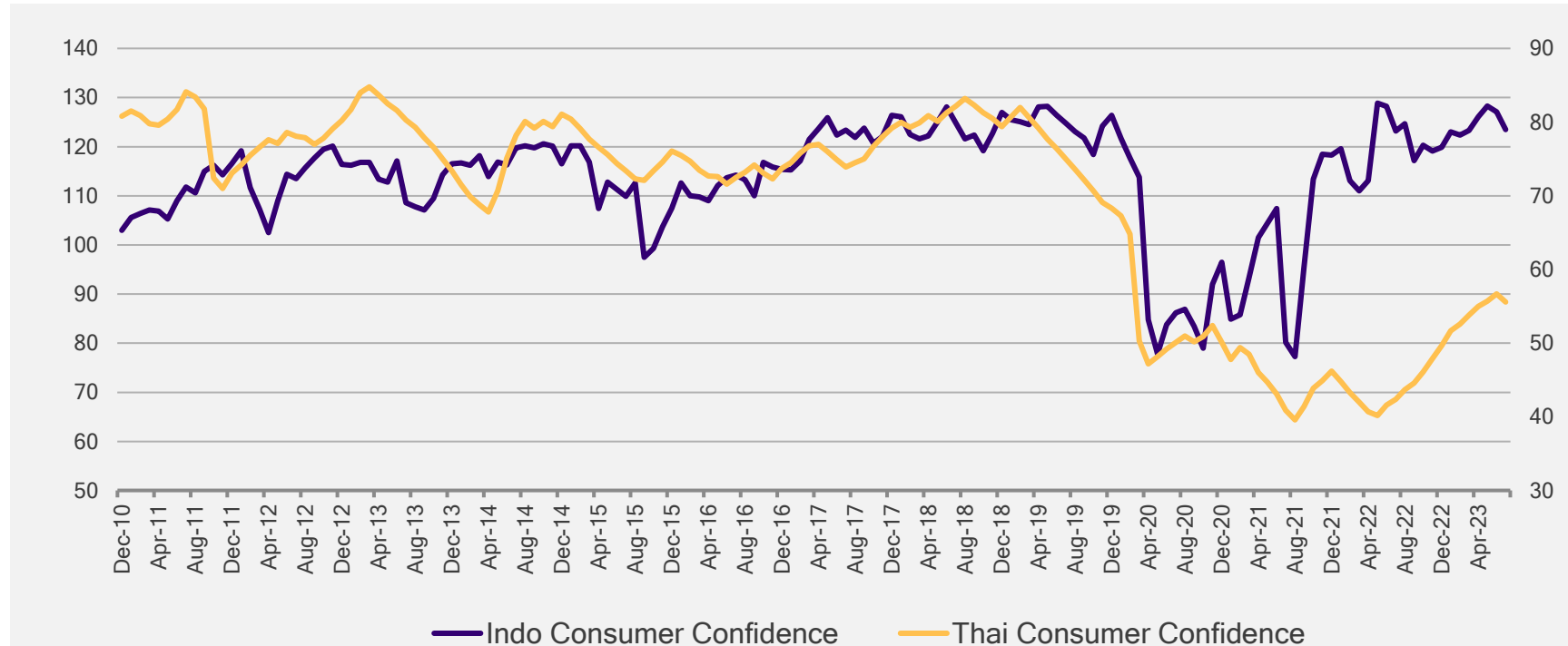
Indonesian Rupiah and Thai Baht Real Effective Exchange Rates



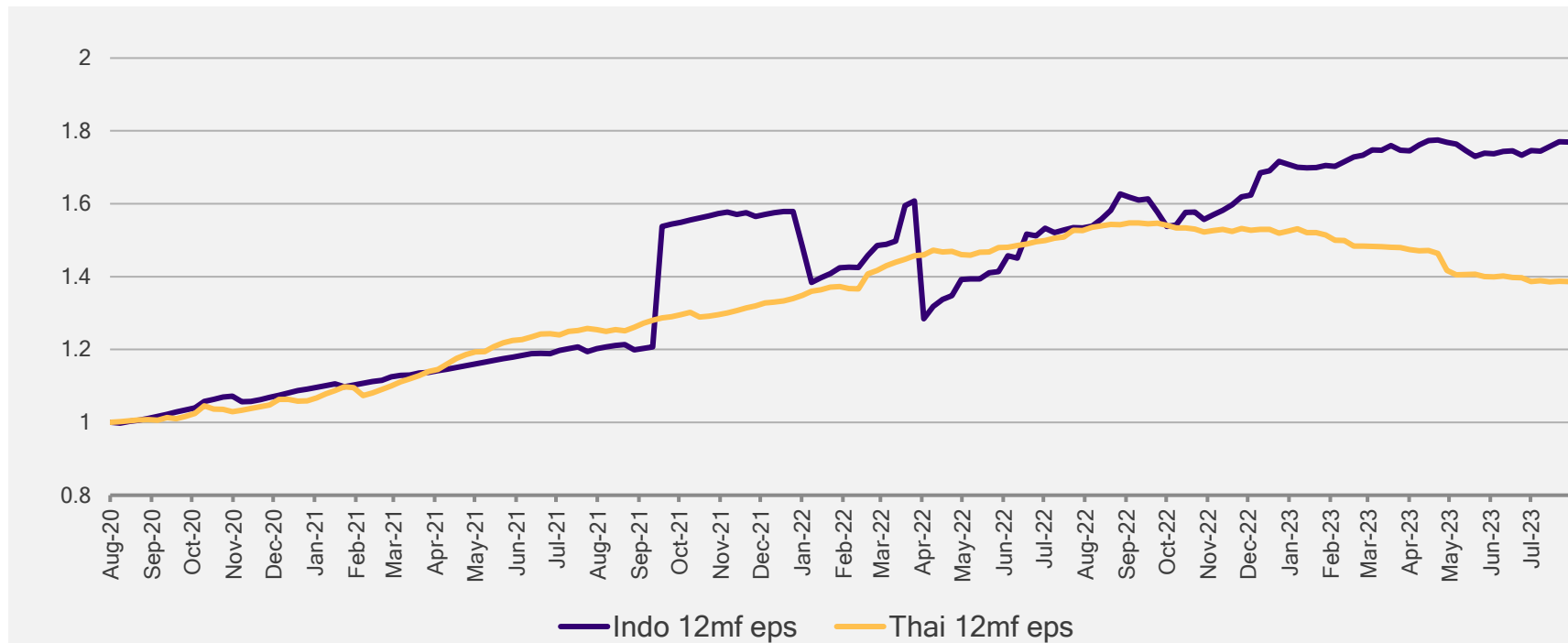
Exports and investment drive the economy...



...including the consumer

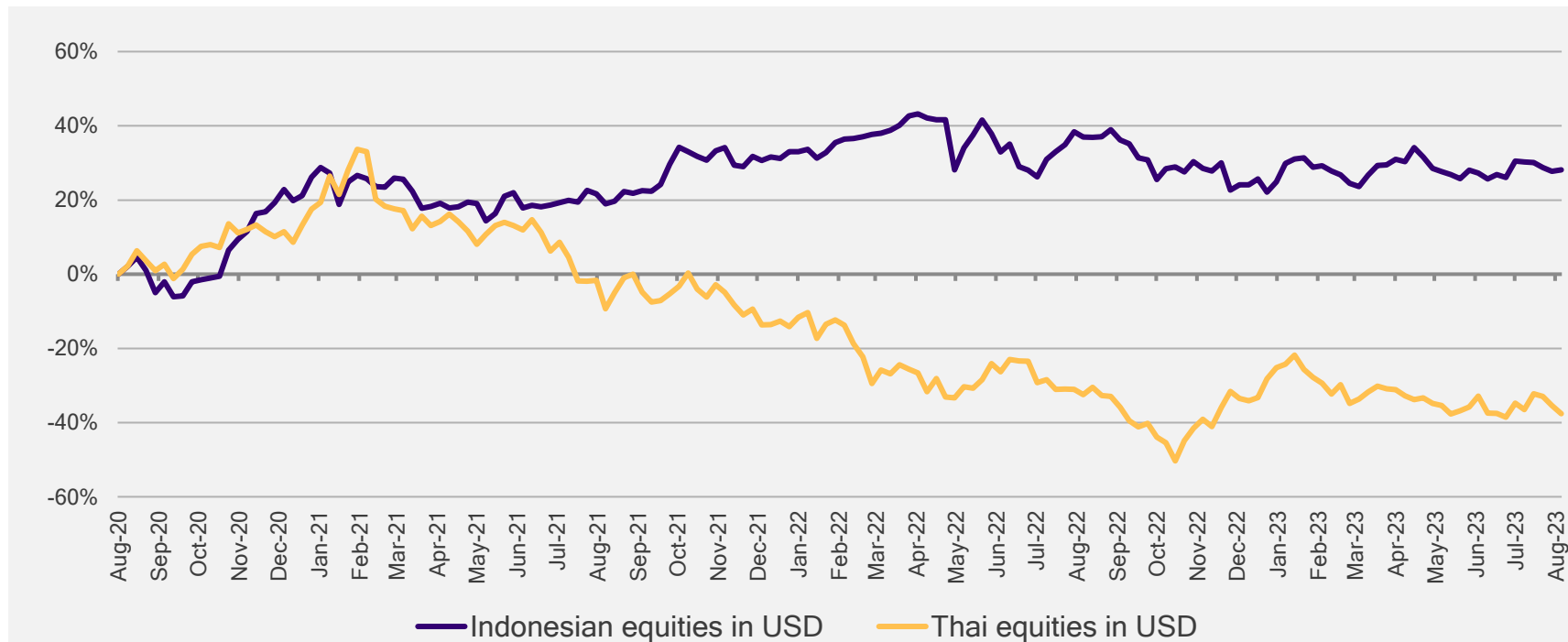


Economic conditions drive corporate earnings



Corporate earnings drive equity returns

USD equity market returns



Summary

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Biographies



James Syme, CFA
Senior Fund Manager

**27 years' industry experience,
joined JOHCM in May 2011**

James is Senior Fund Manager for the JOHCM Global Emerging Markets Opportunities Strategy. Prior to joining JOHCM, James spent five years at Baring Asset Management (Baring) as the Head of Global Emerging Market Equities. At Baring, he and his colleague Paul Wimborne managed the Baring Global Emerging Markets Fund and 13 other funds and separate mandates. During this time, peak AUM for their mandates was over \$4bn. James previously worked at SG Asset Management for seven years as a Portfolio Manager and as Head of Global Emerging Markets. Prior to 1997, James was a Portfolio Manager at Henderson Investors and an Analyst at H Clarkson. James is a CFA Charterholder and holds a BA (Hons) in Geography from the University of Cambridge.



Paul Wimborne
Senior Fund Manager

**23 years' industry experience,
joined JOHCM in April 2011**

Paul is Senior Fund Manager for the JOHCM Global Emerging Markets Opportunities Strategy. Prior to joining JOHCM, Paul spent over four years at Baring Asset Management (Baring) as an Investment Manager in the Global Emerging Markets team led by James Syme. At Baring, Paul was Lead or Deputy Manager for 14 emerging markets mandates with a peak AUM of over \$4bn. He previously worked at Insight Investment for three years as a Fund Manager in the Emerging Markets & Asia team and for five years in the Emerging Markets team at Rothschild Asset Management. Paul holds a BSc (Hons) in Management and Chemical Sciences from UMIST and is an affiliate member of the CFA.



Ada Chan
Fund Manager

**22 years' industry experience,
joined JOHCM in April 2011**

Ada is the Senior Analyst for the JOHCM Global Emerging Markets Opportunities Strategy. Prior to joining JOHCM, Ada spent three years at GMO LLC as an Investment Analyst for the UK. She previously worked at Baring Asset Management (Baring) for eight years as an Equity Research Analyst in London and in Boston. At Baring, Ada led the Global Consumer Discretionary Sector team and actively participated in the US and Global portfolio decision-making process. Prior to 2000, she worked as an International Management Trainee and Equity Research Intern at State Street Corporation and Salomon Smith Barney respectively. Ada holds an MSc in Computer Information Systems and BA in Business Administration, both from Boston University.

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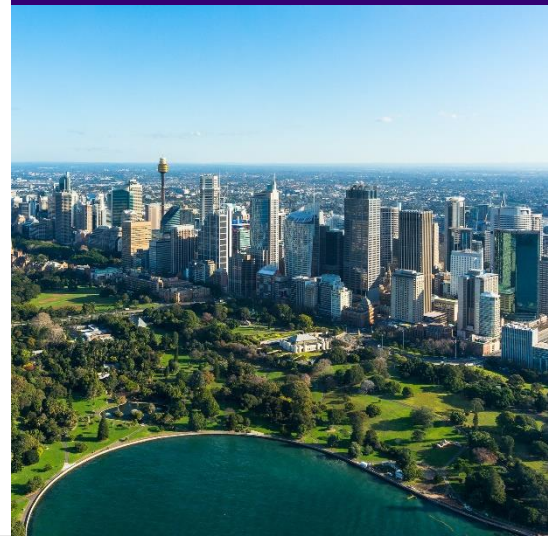
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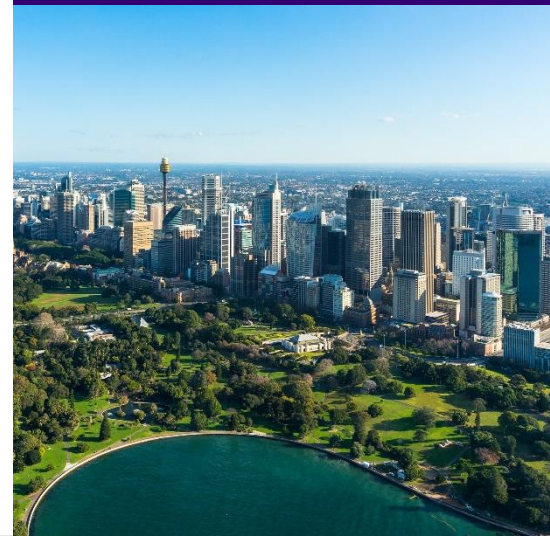
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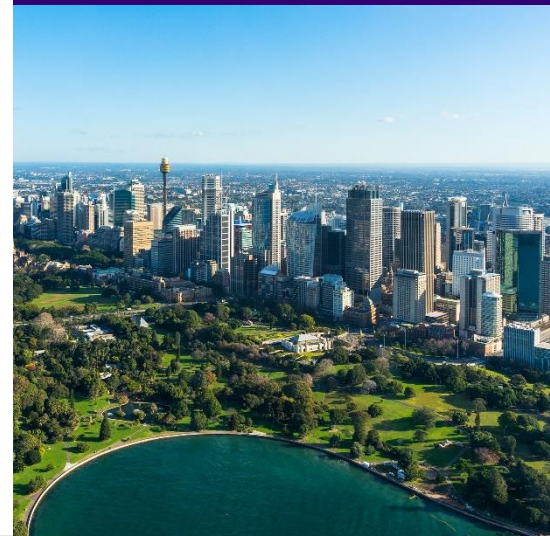
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