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Frontier Markets, an Interesting Option for Investors

This article is written in collaboration with Patricia Molina, Investor Relations Specialist, RankiaPro.



Frontier markets are markets considered less advanced, smaller and somewhat riskier than more established markets, however, they are considered a good investment for those investors looking for substantial long-term returns, since these markets have a huge growing potential compared with other more established countries.

Magna New Frontiers Fund

Outlook written by Dominic Bokor-Ingram, Senior Portfolio Manager.

There are about 208 countries in the world. Of these, about 25 are classified as developed markets and another 26 are classified as emerging markets, although only seven of these really feature in global equity portfolios. This leaves us with a list of 176 countries, our opportunity set, where the levels of foreign ownership and the quality and quantity of research coverage fall well below the top 32 countries. Servicing requirements draw disposable income away from future consumption and restrain demand for goods. Interest rate increases will burden debt service ratios higher, putting pressure on already fragile borrowers.

The greater the number of market participants focussing on any publicly traded financial asset, on average the greater the chance of that asset being priced correctly. We view this frontier and smaller emerging market opportunity set as a huge

source of potential alpha which we can apply our bottom up investment process to.

The Fiera Frontier Markets team's research and financial modelling process, will often come to a very different conclusion of the fair value of a company than that attributed by "the market." Combined with our country risk analysis we seek to construct a portfolio of companies in countries that have the strongest economic, political and stock market reforms, which we believe creates the optimal environment for seeking out companies that can compound their earnings over many years, and where we can buy these companies at attractive valuations.

The biggest country weighting in our portfolio currently is Vietnam, where a top down reform process that is following the Chinese state sponsored capitalism model with a few year lag,

is leaving us with many markers and much evidence of how their economic sectors and private companies will develop. The retail sector is a great example of learning from the history of more developed nations and applying these lessons to today's new emerging economies.

In the early 1990's, the percentage of formal retail (as represented by shops at the time although online retail would now be included) in countries like China, Korea and Taiwan was just 5%. This has grown to over 65% today. In Vietnam the number today is just 8%. With very similar political and economic systems to its North Asian neighbours, but only starting its economic reform journey in around 2007, we can forecast with some certainty the growth and transformation path this sector will take. The final piece of the jigsaw is to find companies with strong management that can take advantage of this huge growth opportunity in a corporate governance structure where we, as minority shareholders, can share fully in the upside. And finally, the lack of focus from international investors, and the still nascent development of domestic financial institutions means that we can buy these companies at attractive prices.

There are many other examples in our portfolio of situations

where changes in political or economic direction create a window of opportunity, sometimes many years in length, for our experienced team to find companies with substantial growth opportunities that are largely ignored by the global investment community. These can range from ECB policy changes creating restructuring opportunities in the Greek banking sector, language barriers in Kazakhstan giving local technology companies freedom from competing with the global tech giants, massive reform bills being passed in Indonesia creating the environment for a surge in foreign direct investment and The National Transformation Plan and Vision 2030 in Saudi Arabia focussing capital and investment on the growth of the non-oil economy.

The Magna New Frontiers Fund has been researching and investing in these opportunities for the last 10 years and has developed an extremely successful and consistent performance record. The Fund has produced a positive return of +23.7% (EUR net composite) year to date, with its 1 year annualised performance being +60.0%, 5 year annualised performances of +11.7% and 10 year annualised performance of +9.6%. This long only equity Fund invests in the public markets of frontier markets regions. All data EUR net as at 28 May 2021.

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This RankiaPro article was published on 3 August 2021 and is written by Patricia Molina, Investor Relations Specialist.

The full article can be read on the RankiaPro website, please click the link:

<https://en.rankiapro.com/frontier-markets-an-interesting-option-for-investors/>

We are delighted to collaborate with RankiaPro on this article, with Fiera's contribution written by Dominic Bokor-Ingram, Senior Portfolio Manager, Frontier Markets Equities.