CAMRADATA

Emerging Markets Whitepaper

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Welcome to CAMRADATA's Emerging Markets Whitepaper

Emerging economies were seen as one of the most promising markets for investors, yet they have struggled for a decade. Their success in confronting Covid-19 could now put them back in the limelight.

Chinese industrial production returned to pre-pandemic levels by mid-2020, while China's exporters bounced back over the past year. As a result, one prediction is that China's economy will grow by 8.2% this year, compared to 1.9% in 2020.

Meanwhile, the Eurozone is expected to grow 5.2% in 2021, after an 8.3% fall last year.

Emerging markets have had less fiscal stimulus yet ended up with better GDP performance. As one fund manager says: "If you look at the balance sheets of Asia, governments have not spent money by writing cheques to people, but will be spending more on capital expenditure, which is much better in the longer term, so their balance sheets are more protected."

Could these improved economic fundamentals help companies from emerging markets generate higher earnings and boost their share prices, enabling them to get out of their decade-long underperformance compared to developed markets?

Emerging markets have about 80% of the world's population and 90% of the world's expected growth over the next few decades. The familiar longer-term story of emerging markets is still intact, as factors such as the rise of the middle class and lifestyle upgrades play increasingly significant roles in these locations.

Emerging Markets Roundtable

The CAMRADATA Emerging Markets Roundtable took place virtually in London on 28th September 2021.

The CAMRADATA Emerging Markets roundtable 2021 began with a snap poll of whether Emerging Markets (EM) prove a better risk-return profile than Developed Markets (DM). Half the panellists said yes. Natalie Winterfrost, trustee director with Law Debenture, on being asked to be on one side of the fence or another, answered no. James Upton, chief strategic officer on Morgan Stanley Investment Management's Global Emerging Markets team said the answer depends on the time period in question, while James Jackson, senior researcher into EM equity managers at Aon said EM and DM allocations should be complementary.

The panel then defined the ambit of Emerging Markets: do they match a benchmark index or stretch wider? Arup Datta, head of Mackenzie's Global Quantitative Equity team, explained that his equity strategies survey approximately 7,000 securities, double the number of the standard MSCI EM IMI. He said that the strength of quants begins with breadth. The 7,000 are not merely there to be cut readily in the first filter. "We analyse 15 aspects of each stock," Datta said. "Any of these names can make it through to the portfolio."

"Active managers should be able to achieve better results in this asset class."

Pascal Farahmund, senior investment officer in the Investment Unit of the IMF in Washington, agreed that indices exclude a lot of issues and issuers. He also wondered whether developed countries such as South Korea and world leading companies such as Samsung ought to be in an EM index.

Upton said that Morgan Stanley Investment Management was agnostic about stocks lying beyond benchmarks: "We can go outside the benchmark comfortably. The MSIM EM Leaders strategy can include companies listed in Developed Markets if they generate more than 35% of revenue or profits from EM." But Upton noted that clients need something to measure you by, so the MSCI EM benchmark served a purpose.

Steve Cook, co-head of EM fixed income at PineBridge Investments, said his team starts with coverage of 420 corporate names in EM debt which covers about 85% of the investible universe and also 75 sovereigns "We're benchmark aware but not huggers. Our idea is to provide tailor-made solutions for clients, whether they have a focus on yield or total return."

For Secor, a global investment advisor, Anja Needham, portfolio manager, said the benchmark universe was the beginning. In selecting managers, however, Secor was sceptical of passive index products for the likes of EM Debt because some issues in the index are not investable and passive products tend to achieve index-minus returns. Active managers should be able to achieve better results in this asset class.

For one client, Secor has

“ The share of issuance from Asia has risen dramatically to between 50-60% and he said that 80-85% of issuance in this region was bought by local and regional investors, who tend to have a ‘home market bias’, lowering overall volatility”

been developing a composite benchmark, including High Yield, EMD and private debt. Needham said that one impetus was the desire to give flexibility to managers who sought opportunities across sectors. Another impetus was that many managers benchmarked against the major sub-indices such as High Yield, had not done well in generating alpha. Secor still looks to these managers to gain beta exposure, but the new composite benchmark was intended to liberate niche alpha generators, recognising that alpha is neither constant or persistent.

This sentiment was acknowledged by Jackson, who said there was a place at Aon for managers who dynamically moved between styles and sectors. He noted, however, that some clients only have governance budget for a “one-stop shop” EM equity manager.

For Law Debenture, Winterfrost said many clients don’t even have a dedicated allocation to EM equities. Instead, it might be part of global passive, for example. She clarified that passive was growing in popularity as overall equity exposures were falling because UK Defined Benefit plans are derisking. This made it harder for many schemes to justify spending time monitoring active mandates.

For Defined Contribution plans, Winterfrost said EM might also play a part in default funds but dedicated EM strategies were less likely to make it onto self-select menus where too many choices could be off-putting to the typical member.

Crevan Begley, investment director at Broadstone, a UK pension scheme consultancy, said that EM fixed income strategies are typically measured against a reference index and, depending how active the strategy is, would determine the influence of the index on investment decisions. He noted that even for fully unconstrained mandates, a benchmark can provide a useful reference point.

Risky misconceptions

The CAMRADATA panel then explored further the nature of risk and return in Emerging Markets, and how to make the best of opportunities. Cook noted that EM Investment Grade corporates had produced the best risk-adjusted return of any sector in global fixed income over the last 10 years. He added that it was not a niche sector, either: representing over 15% of the global credit universe – bigger than US High Yield, for example. Cook’s next point was that the other sectors of EMD were two to three times more volatile than EM corporate IG. He said that asset owners and consultants need to be aware of this distinction when matching mandate requirements with risk tolerance.

When asked whether EM IG credit would remain good for the next ten years, Cook’s response was that structural change over the last decade has been on the issuer side, not investors. The share of issuance from Asia has risen dramatically to between 50-60% and he said that 80-85% of issuance in this region was bought by local and regional investors, who tend to have a ‘home market bias’, lowering overall volatility. The same prevails in the Middle East but was not so much the case in Eastern Europe or Latin America, where in US$-denominated bonds, local pension funds as stable, long-term investors are much fewer.

Upton then expanded on his opening contention that a discussion of EM and DM’s relative merits depends on the time period. “If you look at the history of EM equities, they have

wife is a fundamental analyst," he told the CAMRADATA panel. "She reckons an analyst cannot cover more than 20-30 stocks. Mathematically, to cover 7,000 stocks, an EM manager would need more than 200 fundamental analysts. I don't know any house employing this many."

In spite of the greater breadth of the Mackenzie quant style, Datta also emphasised another, complementary characteristic: the discipline to cap assets in a strategy. He said Mackenzie will close its combined EM quant strategies at US$5bn.

Datta was adamant that there is more alpha in Emerging Markets

underperformed and outperformed DM," he said. "If you go back to the first decade of this century, the economic growth differential between EM and the US was expanding. We got double-digit returns because equities do well in these conditions. But following the Global Financial Crisis, commodities suffered a major slump. EM equities only reversed in 2016 after a rough five-year bear market and for the next several years only really thrived in the mega cap tech names in North Asia."

Upton's recommendation for avoiding too many of the downturns was to be always dynamic, concentrating on themes for three to five years that will make money. He gave the example of Li Ning apparel in China, a desirable brand to the fashion-conscious youth of China who before might have sought Western labels. This is a demonstration of the consumerism long predicted for the fastest-developing nations within EM. "Commodities used to drive EM. Now China has built all the major infrastructure it needed," continued Upton. "Such a huge chunk of the population is young; they have grown up with smartphones. They don't have traditional shops in their memory. That means tech is pervasive, whether it is telemedicine; home deliveries; or fintech." He stressed, however, that tech does not need a particular home. It could come from anywhere. He gave the example of Argentina's Globant here.

"Future growth won't be the same as the past," said Upton. "We don't see another commodities supercycle." But MSIM did see future demand for the kinds of materials essential for decarbonisation and electrification: hydrogen, platinum, copper and aluminium.

Datta agreed that the nature of Emerging Markets has changed. "In terms of the biggest, fundamental drivers, we have gone from Value to Growth," he said. "EM is now not much different to the US. China is second only to the US in tech prowess, possibly ahead of it in terms of Artificial Intelligence." In fact, Mackenzie's quant team has separated China from the rest of Asia in EM. Datta said it is approaching the same weight as the US in Developed Markets. "Breaking out China from the rest of Asia allows us to employ less Value in China due to the abundance of Growth names," he explained. "China is second only to the US in terms of Growth leaders."

Datta then contrasted the power of quant versus fundamental. "My

Winterfrost agreed that diversification is key. "Our clients need access to different opportunity sets."

than elsewhere. "Within my own suite of strategies, EM delivers the best alpha. His conclusion was that investors need more EM equities than standard allocations suggest because of the higher alpha. Farahmund endorsed several points of the managers. He said it was valuable to have an allocation to EM. "It is hard work but it's a growing share of the pie," he said. "There are different growth drivers, not a synchronised business cycle, which brings diversification." One such driver is population growth "even in China to 2050." Another was the trading linkages between Emerging Markets, which would develop with better infrastructure, boosting productivity gains greater than DM could muster.

On potential alpha, Farahmund went as far as saying that the statistics support active over passive in EM, in part because of the friction costs of tracking an index. Winterfrost agreed that diversification is key. "Our clients need access to different opportunity sets," she said. However, she remained unsure whether EM managers had been able to prove they were able to access more consistent alpha, simply because there was less analyst coverage of most stocks than in DM. She also doubted that, given the maturity of Defined Benefit pension plans, that exposure to EM credit would rise above its current range of up to 7.5% for most clients.

Aon, Broadstone and Secor were more bullish on behalf of more sophisticated clients.

Jackson said that Aon had researched whether alpha was more attainable in global versus Emerging Markets. "With the median manager, it is too noisy to say definitively. Whilst some may argue EM to be less efficient, global has the advantage of greater breadth" he said.

He added it was hard to be definitive about these conclusions, except in the case of China A shares, where you can point to genuinely different fundamentals of the asset class.

On drivers of the EM asset class, Jackson noted that in some markets there is increasing breadth, giving stock-pickers access to a wider variety of growth drivers. Some individual countries are concentrated, with most market capitalisation residing in a few stocks with similar return drivers (e.g. banks and commodities). "Gradually, we are seeing IPO issuance in other industries with different return drivers, opening up opportunities for a stock-picker," he said. This harked back to Aon's support for good managers to rotate towards the most attractive parts of the market.

Regardless of the manager's style, Jackson said that resources for covering EM stocks were useful. "You do need bandwidth," he concluded. Following on from Cook's distinction of EM IG's attractions, Needham said that EM credit was increasingly being

viewed in the context of global credit selection and risk, not as a standalone. She reiterated that in the new set-up for one client, Secor uses active managers to get core beta, and then niche alpha generators. Local currency issuance used to form part of the strategic asset allocation but had now been removed. Needham said the volatility was not worthwhile for DM-based investors, although managers can still opportunistically access this sector.

For Broadstone, Begley agreed with Needham that local currency EM debt was much more volatile due to the underlying volatilities of local currencies. He told the CAMRADATA panel that local currency volatility will often drown out underlying fixed income returns which means a lower risk-adjusted-return metric for the asset class. On alpha, Begley said that active makes sense in EM given the potential opportunities due to market inefficiencies. "For emerging market strategies, we would recommend an active approach," he said. "You can miss out on opportunities such as fallen angels within fixed income strategies if you are just replicating the benchmark."

" Gradually, we are seeing IPO issuance in other industries with different return drivers, opening up opportunities for a stock-picker"

Upton reckoned currencies provide great opportunities. "You have to have a view on a currency's value," he said. "They account for one-third of all returns historically, so they are a critical part of how you are set up." The MSIM EM team has dedicated analysts evaluating currencies on various measures: historic relative value, Purchasing Power Parity, and others. "Their work contributes as an input to country overweights and underweights in our core, diversified GEM portfolio."

Cook agreed that Local Currency allocations should be tactical as the volatility risk could not be effectively lowered through hedging. But he encouraged asset owners and consultants to note that the JP Morgan EMGBI – an index of government securities – is heavily concentrated with eight countries/currencies accounted for 80% of the issues. So some managers focus efforts on those eight, although timing on FX is always challenged by the impact of the dollar, which Cook reckoned could affect returns by 2-3% in very short order.

He noted that lots of managers stay neutral on country/currency allocation, focusing instead on credit selection and 'off benchmark' allocations. The key in allocations within EMD is to understand the different drivers in terms of rates,

currencies and duration between corporates and sovereigns.
Going across to equities, Datta noted that the universe was even more concentrated. He reckoned the top four countries account for 80% of the total benchmark weight. "We have to play to our strengths, which is bottom-up stockpicking," he said. "Narrow choices for top-down is a losing battle for quants."

The ESG conversation

The CAMRADATA Emerging Markets roundtable closed with a discussion on Environmental, Social and Governance (ESG) issues. For Upton, ESG tied in with a Quality Growth approach: "we have been managing money for 30 years and have always engaged (with company management) on sensitive issues, whether they are G, S or E." MSIM uses third-party ESG specialist providers as a resource, but he believed these fail to quantify the importance of engagement. Upton told the panel: "Sometimes these companies listen to us. They are interested in keeping our business." He reckoned that historically, Quality Growth businesses have been cognisant of ESG issues. But an extra impetus now came from the young generation around the world "who really feel deeply about this topic."

Datta then said that when it comes to ESG, quants do something different. To keep breadth, Mackenzie finds the best ESG stocks per sector rather than enact negative screening. "We don't load up on tech at the expense of energy," he said.
The criteria vary from sector to sector and region to region. In China, for example, Mackenzie tracks social spending per company: what it gives to the community. Datta said that this proved an effective factor.

His team had built up its roster of such factors rather than simply rely on data gathered and interpreted by third-party ESG specialists. But the importance of criteria was changing through time. "Governance used to play a critical role. Now Environment plays the critical role in terms of ESG," said Datta. "But I believe the Social is asserting itself more and has been for the last two to three years with movements like MeToo and BlackLivesMatter."
Jackson said ESG was a prickly subject for some companies. He broadly supported engagement over exclusion: "Selling means passing on problems such as climate change to another investor who may not care."

Jackson said ESG was a prickly subject for some companies. "Selling means passing on problems such as climate change to another investor who may not care."

Winterfrost agreed that ESG had to be part of an integral framework rather than negative screening in the context of pension funds. She noted that climate change targets and Carbon Disclosure were a responsibility for the trustees of large UK pension schemes and expressed concerns over the availability of carbon data for emerging market stocks. Cook said these kinds of obligation were permeating into investment managers' communication. "All managers will say they have an ESG process but they have to justify that. Clients are demanding evidence: you have to demonstrate how ESG is incorporated."

He warned that if an investment management firm cannot articulate its ESG policy and process, then it will quickly become uncompetitive. He concluded that tackling the world's biggest problems required an EM focus. "These countries produce 40% of global GDP but 68% of global CO2 emissions. EM corporations have the ability and importantly the financial incentive to become more sustainable. What matters is the difference in funding costs for the more sustainable players."

Roundtable Participants

Arup Datta

Head of Global Quantitative Equity Team

Mackenzie Investments

Personal Profile

Arup heads the Mackenzie Global Quantitative Equity Team which provides quantitative investment capabilities in Global and Emerging Markets equities.

Arup has 29 years of experience in quantitative equity investing. Between 1992 and 2012 he was a Quantitative Analyst, Portfolio Manager, Director of US and Director of Portfolio Management with Man Numeric, where he managed capacity-constrained equity strategies (traditional long only, active extension and hedge funds) in all capitalization strata and regions of the world. In 2012, Arup founded Agriya Investors, a firm focused on global equities, which eventually became the global/ international arm of AJO. As Chief Investment Officer - International, Arup launched capacity-constrained equity strategies in emerging and developed markets.

Arup joined Mackenzie in September 2017 to head the Global Quantitative Equity Team.

Arup has a Bachelor of Technology degree from the Indian Institute of Technology in Kanpur, India, and earned an MBA with distinction from the Johnson School of Management at Cornell University. He is a CFA charterholder.

Company Profile

Mackenzie Investments, founded in 1967, is a leading Canadian global asset manager, headquartered in Toronto with international investment teams in Boston, Dublin and Hong Kong. As part of IGM Financial Inc., a subsidiary of Power Corporation with a history dating back to 1925, Mackenzie benefits from the financial stability of a deep corporate structure while maintaining a boutique investment management profile.

Our distinct and experienced investment teams offer both fundamental and quantitative approaches with expertise across traditional and non-traditional asset classes, including equities, alternatives, currency and multi-asset strategies.

We provide investment management services to pension plans, consultants, foundations and other institutions, building trusting relationships that seek to understand client perspectives. We are committed to delivering strong investment performance and offering innovative, relevant solutions to our clients by drawing on the experience gained through over 50 years in the investment management business.

Roundtable Participants

James Upton

Senior Portfolio Specialist and Chief Strategic Officer

Personal Profile

James is a senior portfolio specialist and chief strategic officer on the Global Emerging Markets team. He re-joined Morgan Stanley in 2006 and has 27 years of investment experience.

Prior to re-joining the firm, James was a senior investment strategist at Northern Trust Global Investments. Previously, he was the Latin America equity strategist and later a global equity strategist at Credit Suisse First Boston. He began his investment career as an international economist at Merrill Lynch and spent nearly two years as a sovereign risk analyst at Morgan Stanley.

Before graduate school, he was a reporter in Mexico City with United Press International. James received a B.A. in history from Middlebury College and an M.A. in economics and U.S. foreign policy from the School of Advanced International Studies (SAIS) of Johns Hopkins University. He holds his Series 7 registration.

Morgan Stanley Investment Management

Company Profile

For more than 40 years Morgan Stanley Investment Management (MSIM) has provided client-centric investment and risk-management solutions to a wide range of investors and institutions. Our clients include corporations, pension plans, intermediaries, sovereign wealth funds, central banks, endowments and foundations, governments and consultant partners worldwide. Investment strategies span the risk/return spectrum across geographies, investment styles and asset classes, including equity, fixed income, alternatives and private markets.

MSIM was established in 1975 as a subsidiary of Morgan Stanley Group Inc.

Steve Cook

Managing Director, Co-Head of Emerging Markets Fixed Income

Personal Profile

Mr. Cook is Co-Head of Emerging Markets Fixed Income for PineBridge Investments, and is responsible for all aspects of research, portfolio management, trading and marketing for EM corporate debt.

He joined the firm in 2007 and is member of EM Debt Investment Committee and Fixed Income Asset Allocation Team. Mr. Cook brings more than 25 years of experience in emerging markets corporate debt, which includes corporate strategist and research roles for Commerzbank AG, ABN Amro, West LB and Barclays covering and analysing Asian, Latin American and EMEA/CIS corporate markets.

PineBridge Investments

Company Profile

PineBridge Investments is a private, global asset manager focused on active, high-conviction investing. We draw on the collective power of our experts in each discipline, market, and region of the world through an open culture of collaboration designed to identify the best ideas. Our mission is to exceed clients' expectations on every level, every day. As of 30 June 2021, the firm managed US$141.4 billion across global asset classes for sophisticated investors around the world.

AUM as of 30 June 2021 includes US$35.0 billion (US$20.1 billion equities, US$14.9 billion fixed income) of assets managed by joint ventures or other entities not wholly owned by PineBridge Investments. Includes PineBridge Benson Elliot Real Estate AUM of US$3.2 billion.

Roundtable Participants

James Jackson

Senior Equity Manager Researcher, Emerging Markets

James joined Aon in 2011 and works as a Senior Equity Researcher in the Investment Manager Research team. James is responsible for research of Global, Emerging Markets, Frontier and regional equity strategies, with a focus on Emerging Markets. James is based in Switzerland and has worked on a range of manager searches and portfolio construction exercises for Global clients.

Prior to joining Aon, James worked for PricewaterhouseCoopers in its Investment funds practice and was involved with mutual investment fund audit, tax and other consulting services. He graduated from the University of Leeds in 2005. James is a CFA charterholder.

Crevan Begley

Investment Director

Crevan joined Broadstone in 2019 and has over 14 years' industry experience. He advises clients on a full range of investment areas, such as setting strategic objectives, asset allocation, liability hedging, manager selection, implementation and monitoring.

He started his career with Willis Towers Watson (formerly Willis) in Dublin. He also worked as a fixed income portfolio manager for the Central Bank of Ireland, fiduciary manager for Russell Investments and as a senior investment strategist for a £5bn UK pension fund. Crevan has a Master's degree in Electrical Engineering from University College Dublin and is a qualified actuary.

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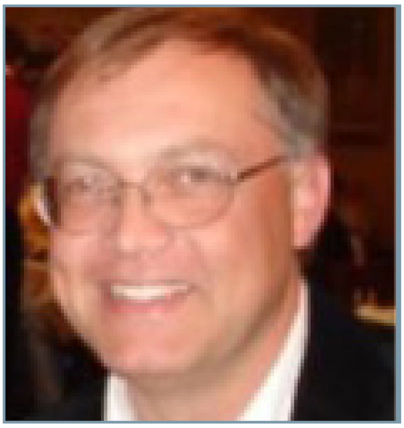

Pascal Farahmund

Senior Investment Manager

Pascal Farahmand is a Senior Investment Officer in the Investment Unit of the IMF. He works on a broad set of investment issues related to global asset allocation, strategy, implementation and manager selection and oversight. He has been leading the efforts to introduce private investments in the Fund's portfolios.

Prior to joining the IMF in 2011, he was the Head of Foreign Reserve Management at the Bank of Canada for over a decade. In that capacity, he was responsible for all funding, investment and ALM activities. Prior to that role, he worked in financial sector research, market operations, monetary policy implementation, as well as treasury and debt management at the Bank of Canada.

Natalie Winterfrost

Trustee Director

Natalie Winterfrost is a Trustee Director at Law Debenture, where she helps a variety of pension funds. She is a qualified actuary and a CFA Charterholder.

Natalie has had a varied career in the industry, starting with a life insurer before moving to pensions work and then becoming an investment consultant, first with Aon then managing an investment practice for PwC. Natalie later worked for Aberdeen Standard with a focus on LDI. She is past Chairman of the CFA Society of the UK and was awarded Fellowship of the CFA UK in recognition of her contribution to the investment industry.

Moderator

Anja Needham

Portfolio Manager

Anja is a portfolio manager on the advisory team at SECOR, supporting manager research across public and private credit.

She has over 10 years of investment management industry experience, including time at Schroders Investment Management. Anja holds a BSc in Natural Sciences from Durham University.

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Brendan Maton

Freelance Jounalist

A highly experienced financial journalist with an expansive network of contacts in the UK and across Europe. Brendan has written about pension schemes and national welfare systems from Finland to Greece for 18 years and understands the retirement savings industry in each European country.

Brendan has interviewed EU commissioners and national ministers; central bankers; pension scheme heads; insurance chief executives; chief investment officers; actuaries; union officials; professional and lay trustees.

He worked at Financial Times Business for eight years, finally as editor-in-chief of all international pensions titles. Brendan has spent the last ten years as a freelancer for a number of publications, including Financial Times, Responsible Investor, Nordic region pensions news and IPE. He is also Chief webcast host for IPE. Brendan has acted as conference chair for Financial News, the UK National Association of Pension Funds, Dutch Investment Professionals Association (VBA), Corestone, Insight Investment, Marcus Evans, Robeco Asset Management, Sustainable Asset Management (SAM), Towers Watson.

A quantitative approach to emerging markets equity

Summary

Mackenzie's Global Quantitative Equity team employs fundamental ideas through a disciplined, risk-aware investment approach in seeking to generate alpha within emerging markets. The team, led by 29-year quantitative industry veteran, Arup Datta, uses several of the same elements that fundamental managers use – except that more factors and stocks are analyzed than in the case of a typical fundamental manager.

The team's edge is a steadfast belief in the adherence to a core focus which aims to produce a more consistent alpha profile through multiple market environments.

They place great value on daily stock analysis, proprietary transaction cost estimation and capacity management. A quantitative lens, aided by computing power, sophisticated algorithms and adaptive models, provides the team with a measurable process to value securities.

Balance of Factors

The investment team constructs portfolios with a "core" focus, which aims to provide a balance between growth and value characteristics that could potentially perform well in various market environments.

About 7,000 stocks are viewed within a region/sector/industry relative framework. Within each of the four regions (China/Asia ex-China/EMEA/ Latin America) stocks are measured against sector and industry peers. This model framework yields a 4x13 matrix (four regions, nine sectors/ four industries) in which each stock is categorized and ranked in a region-based peer group.

" The investment team constructs portfolios with a "core" focus, which aims to provide a balance between growth and value characteristics that could potentially perform well in various market environments."

Each stock is adjudicated against 15-20 factors broadly grouped into four "super factors": Value, Quality, Revisions and Informed Investor. A balanced weight is assigned to these super factors at the portfolio level. Weights vary by individual stock. For example, within Value, the team divides the weight between 'Quality Value', such as cash flow-based valuations, and 'Pure Value', which includes earnings-based valuations. The Quality factor balances management actions such as capital allocation, operating efficiency, ESG and the application of accounting principles. The Revisions factor refers to analyst revisions to forecasts (earnings, sales and dividends), long-term growth and insight from linked companies. While the Informed Investor factor analyzes activity, such as short interest and option pricing.

Beyond the four Super Factors, contextual variables are applied to determine the weight of factors for each stock. Human intervention will occur in extreme events.

Expanded Universe

The investment team manages the flagship Mackenzie Emerging Markets All Cap strategy to the MSCI Emerging Market IMI Index, but expands upon the index constituents to include more than 7,000 securities, which compares to, at most, 30-50 for fundamental managers. A quantitative approach, while managing capacity, allows the investment team to be nimble and incorporate daily changes in stock alpha forecasts.

Risk management is critical

Emerging markets are less transparent and more inefficient than developed counterparts, and political uncertainty is ever present. A key aspect of the quantitative approach focuses on managing risk at the portfolio and stock level.

In doing this, the team employs a multi-factor proprietary risk model to help control portfolio tracking error, volatility and the risk contribution of each stock, sector and country. Again this differs to fundamental managers who would typically employ off-the-shelf risk models.

Portfolio construction is largely guided by a constraint-based approach, which focuses on alpha generation while neutralizing common risk factors. The ultimate objective is to maximize portfolio expected return, net of round-trip implementation cost, subject to constraints set on common risk factors, such as capitalization and beta.

The process is continually reviewed and parameters may be adjusted. While at Mackenzie the team has enhanced their stock-specific position limit model with the introduction of a liquidity/risk focused tool. In addition, the team utilizes its own fundamental and statistical risk models which are constrained at a slightly higher level compared to policy tracking error targets.

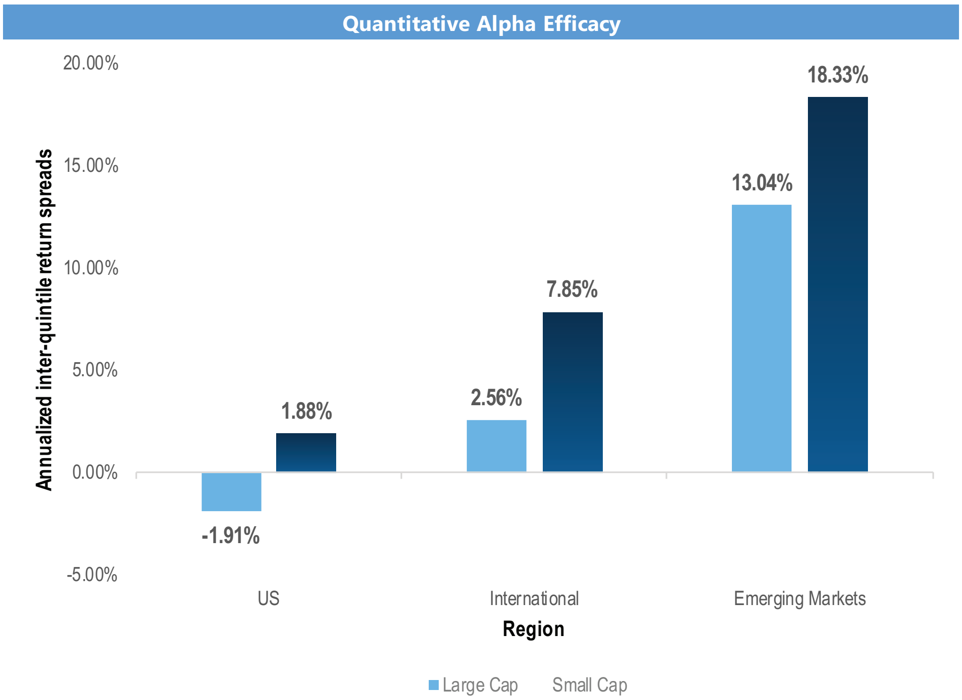
Focus on costs

Another critical consideration when investing in emerging markets is relatively high trading costs when compared to developed markets. The team has constructed a sophisticated transaction cost model, which helps the team quantify the trading impact of each security by estimating round-trip transaction costs (market impact, commissions, stamp duties).

Fertile ground for alpha

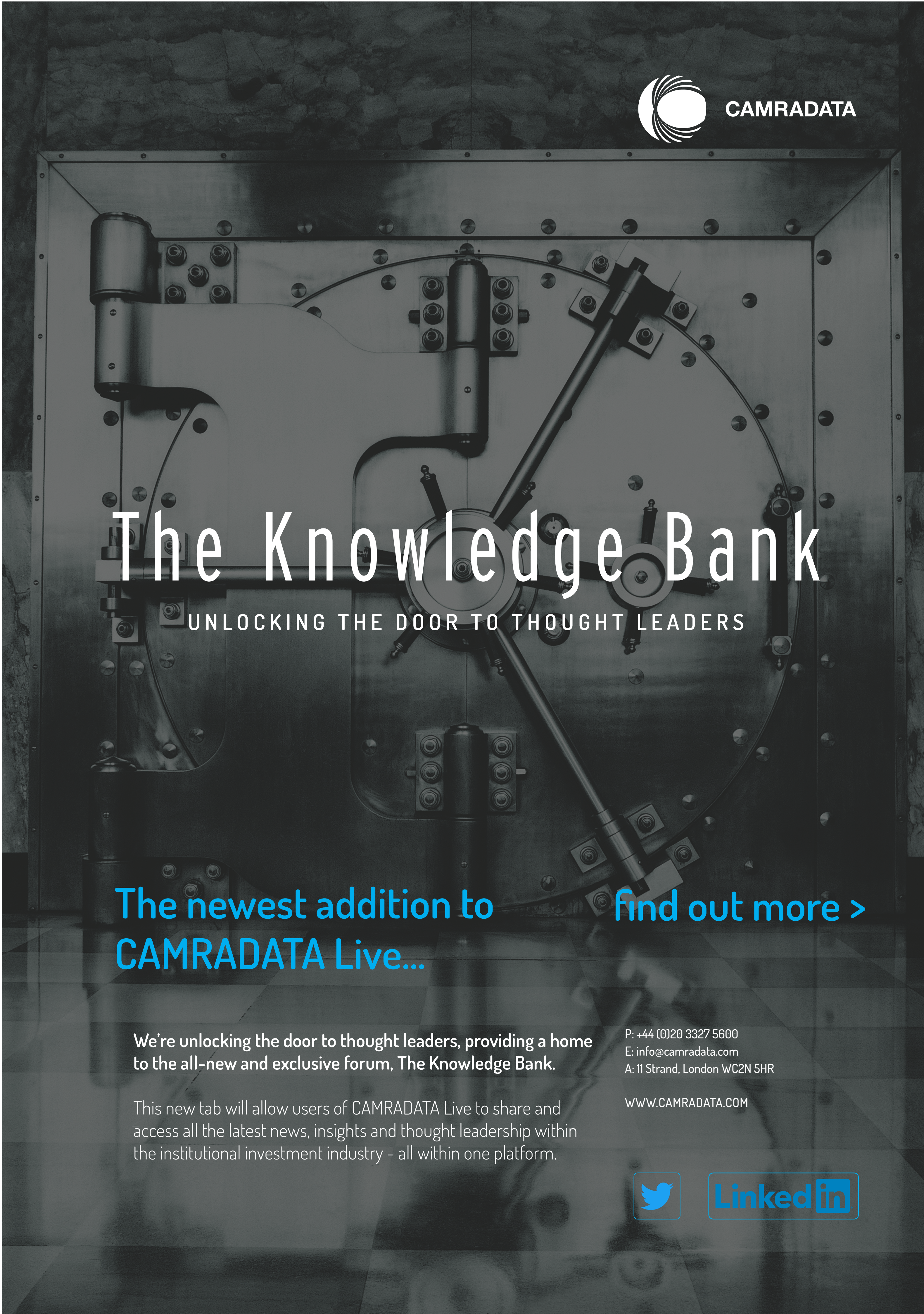
Emerging markets are ripe for alpha, Mackenzie's Global Quantitative Equity team believes. The chart below depicts a simple factor-based analysis of portfolios that blend stocks with both value and momentum characteristics. It shows the potential alpha opportunity in emerging markets and the historical added benefit of a small-cap focus . In the flagship strategy, Mackenzie Emerging Markets All Cap, the team attempts to position the portfolio to extract alpha in mid and small-cap stocks, an area that they believe is particularly rich in potential alpha. There are several reasons for potential small-cap outperformance in EM, but one major advantage for the team is having the ability cover even more names in a less efficient landscape through their quantitative process.

Author:
Sean Furey
Investment Director
Mackenzie Investments



Plentiful opportunities

While emerging markets have encountered high volatility, we maintain a strong belief in the growth rate potential in the companies and countries there, and the long-term return and diversification benefits of a broad-based allocation. We believe that the opportunities are plentiful within a broad emerging markets investment universe and through a disciplined, risk-controlled investment process, as employed by Mackenzie's Global Quantitative Equity team.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Emerging Leaders for the next decade

The Emerging Markets Leaders Strategy (EML) invests in high-growth industry leaders in emerging markets. The team focusses on continental-sized markets and currently sees growth potential in Brazil, Taiwan, India and China.

How do you find investment opportunities?

We look to find the multi-year structural growth companies. When investing in Emerging Markets, understanding the long term macro trends and thematic growth is critical so that we can aim to identify and invest in those long term winners. Our belief is that you should focus on big countries and structural themes and understand the changes as emerging markets have evolved over the years. It's now more about finding the structural growth companies that can compound through the market cycles.

" We focus on large countries, like China, India, Brazil and Indonesia, which are driven by big domestic economies. And we sidestep smaller markets, which are generally less liquid and more volatile."

Why are macro trends important and in which countries do you find investable companies?

Macro is important in understanding where the risks are. We focus on investing in countries where the macro economic factors are benign and those industries where the growth isn't overly reliant upon the economic growth.
We focus on large countries, like China, India, Brazil and Indonesia, which are driven by big domestic economies. And we sidestep smaller markets, which are generally less liquid and more volatile. We invest in multi-year compounders while minimizing the big drawdowns that we frequently see in emerging markets. We see the greatest potential in continental-sized markets. In most of the smaller emerging markets, we don't believe there are enough investments given the risk to those countries and to a certain extent to the companies.
For example, in countries such as Mexico we find only a dozen or so investable companies that meet our quality growth characteristics and the growth of both the companies and the country has slowed substantially in the last 5-6 years.

What is your current outlook on China?

We believe that changes are afoot in China with the government shaping the regulatory landscape to align with long-term objectives of supporting the new child policy and leveling the educational playing field for families with children, increased oversight for data generating platforms, and increased monitoring of compliance with government directives. China has a tradition of strong state control over economic, social and political affairs, which we do not expect to change. However, with the changes in the regulation and the possibility of further intervention, we are assessing whether these new policies could lead to de-rating of valuation multiples for Chinese equities in the long term. As investors, we make our investment decision based on the ability of the management to efficiently allocate capital.

We view the incremental regulations across many of the consumer facing industries as potential hurdles to sustaining valuation multiples compared to other growth companies. Such risks, we believe, are especially high in some types of firms where an immediate profitability is not on the horizon as these businesses are still in the growth mode. For our holdings, these risks are concentrated in a few small positions where B2C digital data aggregation is high and the companies have yet to reach the scales large enough to weather increased regulation. Hence, we have decided to lower our China exposures, even though we believe these companies have been executing well when benchmarked against our individual investment thesis. We believe that this development has given us another reminder of the importance of diversification across markets and themes within our investments. We intend to stick to this diversification across emerging markets, with active investment consideration to not rely on any one theme or country exposure.

What role does sustainability play in your strategy?

For EML Strategy, governance has been an integral part of our investment process since the inception with sustainability becoming a critical part of our engagement with managements since we integrated ESG factors into our investment process in 2016. One of the key investment hurdles of the EML strategy has been evidence of strong corporate governance for our companies. We believe this facet has been one of the keys to the strategy's success in delivering strong risk adjusted performance. Our investment philosophy has focused on thematically structural and cash generating business that can deliver sustainably high ROIC with low to no-debt on the balance sheet; which has excluded most of the asset heavy (less-sustainable) businesses. We believe this focus on ESG issues allows us to get a deeper understanding of managements' long-term goals for their businesses. Our view is that if management is not focused on addressing sustainability issues then they will likely face challenges to the business itself.

When is the right time to invest?

People want to time the markets – this is a difficult exercise in our opinion. Emerging Markets Leaders' risk/return profile seeks to offer most of the upside while minimizing the downside-capture. We believe this allows investors to remain invested through-the-cycle, capturing most of the gains.

Author:
**Vishal Gupta,
Portfolio Manager,
Emerging Markets
Leaders Strategy**

The value of investments and the income from them may go down as well as up and you may not get back the amount you originally invested.

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CAMRADATA Analytical Services

2022 CALENDAR OF EVENTS

Some of the dates will be subject to change

	Date	Format	
January			
Emerging Market Debt	20-Jan	Roundtable	
Inflation protection strategies	27-Jan	Roundtable	
February			
Real Estate	10-Feb	Roundtable	
Credit Opportunities*	24-Feb	Roundtable	
UK Insurance Breakfast Club	TBC	Breakfast Club	
Awards	TBC	Awards	
March			
Impact Investing	03-Mar	Roundtable	
Private Markets*	09-Mar	Roundtable	
Sustainable / Green bonds	16-Mar	Roundtable	
April			
Tech funds*	27-Apr	Roundtable	
Renewable energy*	28-Apr	Roundtable	
Lloyds Training	TBC	Training	
European Insurance Club	TBC	Insurance Club	
May			
High Yield	11-May	Roundtable	
Climate Transition	19-May	Roundtable	
UK Insurance Breakfast Club	TBC	Breakfast Club	
Asia Forum	TBC	Forum	
June			
Net Zero Focus	08-Jun	Roundtable	
Multi Sector Fixed Income	21-Jun	Roundtable	
US Insurance Club	TBC	Insurance Club	
July			
China	05-Jul	Roundtable	
Sustainable Investing (Equity)	07-Jul	Roundtable	
September			
US equity	13-Sep	Roundtable	
Insurance RT	21-Sep	Roundtable	
UK Insurance Breakfast Club	TBC	Breakfast Club	
October			
Quant / Systematic Investing*	05-Oct	Roundtable	
Global Equity	12-Oct	Roundtable	
US CIO Insurance	13-Oct	Roundtable	
November			
Sustainable Multi asset*	03-Nov	Roundtable	
DC	10-Nov	Roundtable	
December			
Digital Assets*	02-Dec	Roundtable	
Meet the Manager events will take place on an adhoc basis.			
*Denotes Lite roundtables at which we will have 3 asset managers and 3 investors participating.			
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Decarbonizing the World: The Importance of Emerging Markets

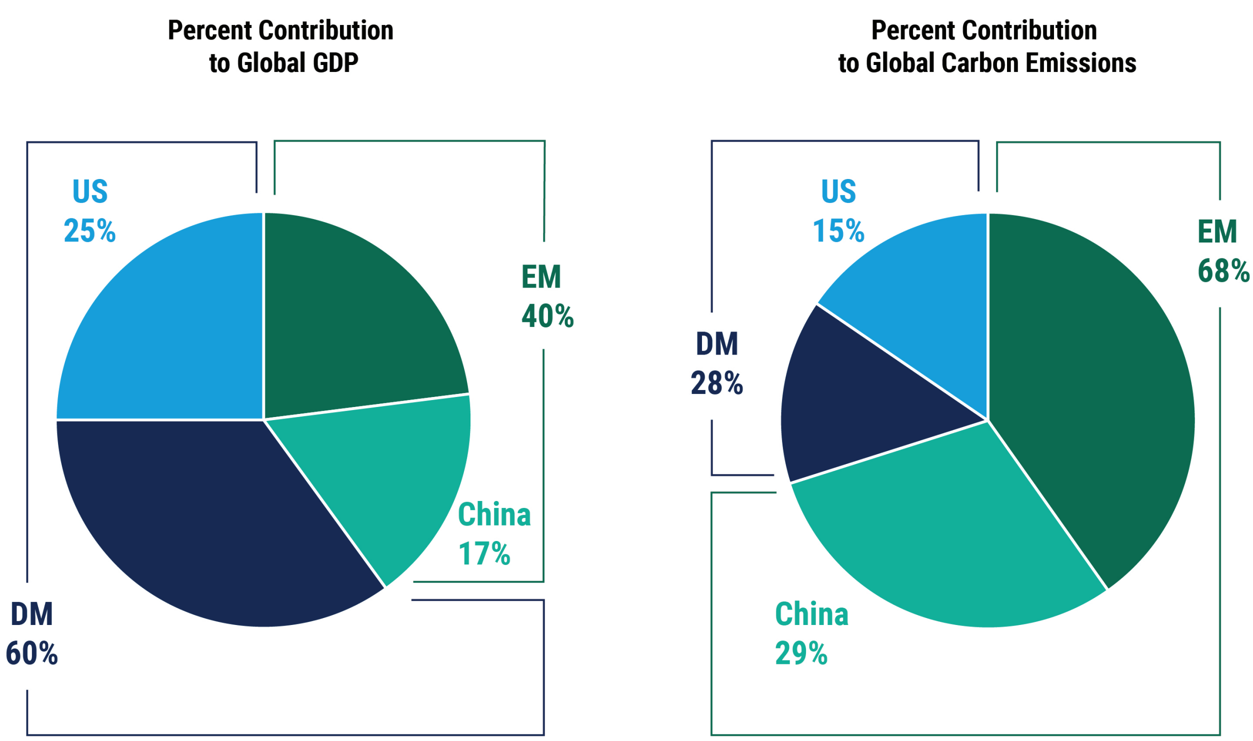
Author:
Jonathan Davis, Client Portfolio Manager, EM Fixed Income

The importance of EM's carbon-cutting commitment

Emerging market (EM) investors will take on an important role in the global reduction of carbon emissions. EMs represent 40% of the global economy[1] and are responsible for more than 60% of global carbon emissions.[2] China, of course, is the key contributor to the role of emerging markets within both the global economy and global carbon emissions. Just as China needs to invest in cleaner sources of electricity and greener industrial production, EMs globally have similar investment needs. Broadly speaking, EMs are dependent on foreign direct investment and global capital markets, so initiatives like the G7's commitment to halt funding of coal-fired power stations can make a meaningful impact.

Within capital markets, EM corporate issuers experience a substantial difference in cost of capital between those rated higher and lower on environmental, social, and governance (ESG) issues, which means asset owners and asset managers can make a material impact on the incentives for EM issuers to invest in carbon-reducing technologies. Recently, we have seen a rise in EM corporate issuers taking advantage of demand for green investment and the subsequent lower cost of capital to issue sustainability-linked bonds, which have coupon step-ups directly linked to decarbonization targets during the bond's term.

Emerging Markets Represent 40% of Global GDP and More Than 60% of Global Carbon Emissions



Source: IMF, Bloomberg, and PineBridge Investments as of 31 March 2021. Carbon emissions data for full year 2019. We are not soliciting or recommending any action based on this material. Any opinions, projections, estimates, forecasts, and forward-looking statements presented herein are valid only as of the date of this presentation and are subject to change. For illustrative purposes only.

[1] Source: IMF and Bloomberg as of 31 March 2021
[2] Source: IMF and Bloomberg as of 31 December 2021

ESG integration helps spot opportunities for alpha

"Most opportunities for decarbonization-related alpha will come within those sectors that make significant contributions to global carbon emissions, but with potential to adapt to a carbon-neutral reality that will generate outperformance of early adopters."

Many investors believe EM economies are typically commodity exporters that will be challenged by commitments to reduce carbon emissions. First, it's important to understand that while a number of net commodity-exporting economies are within emerging markets, so are just as many net commodity-importers. Second, it's also important to understand that while decarbonization will cause demand for fossil fuels to drop, a number of other commodities play an integral role in the green technologies that will foster decarbonization and therefore will experience structural increases in demand.

At PineBridge, we have a history of focusing on alpha generation through bottom-up credit analysis and security selection. And we find most opportunities for decarbonization-related alpha will come within those sectors that make significant contributions to global carbon emissions, but with potential to adapt to a carbon-neutral reality that will generate outperformance of early adopters.

Among utilities, we look for issuers that are investing in improving the efficiency of solar and wind power to lower their costs. We also look for issuers that are investing in flexible gas-fired power plants that capture carbon pollution as well as advanced nuclear plants with zero emissions.

Within the agriculture sector, issuers investing in crop engineering to breed plants that can store more carbon in their roots and no-till methods of growing them will play a vital role in achieving carbon neutrality.

Building materials such as steel and cement emit high levels of carbon and currently have no substitute in meeting the world's building and infrastructure needs. However, that doesn't mean those issuers will be excused from the global push for decarbonization. While the existing processes for lower-carbon steel and cement production are expensive, we look for issuers that operate within jurisdictions that have made firm commitments toward decarbonization – such as China – where subsidies and government policy can offset higher costs and create incentives for issuers to be on the leading edge of investment in green production technology.

The goal is environmental and financial sustainability

The decarbonization of our planet is vital to its sustainability, and the coordinated commitment of governments, financiers, and corporate entities toward that goal is essential to its success. In our role as asset managers, we have a responsibility to contribute to environmental sustainability efforts and a responsibility to ensure that our clients' portfolios are positioned for financial sustainability as well.

With so much of this story yet to be written, we have identified three must-have attributes within our ESG framework that will enable our investments to both promote decarbonization and to profit from it. First, we find it essential to prioritize an integrated, forward-looking ESG trend within our analysis of ESG risk. Second, we must be prepared to look to the future and not necessarily exclude exposure to carbon, but rather to include exposure to entities that are moving toward lower-carbon processes. Third, we must maintain an engagement framework to identify and encourage issuers to make investments in green technology – investments that will make their business models not only more sustainable, but also more profitable in the carbon-neutral world of the future.

For further information please see Decarbonizing the World: The Key Role of Asset Owners and Managers under Investment Insights on pinebridge.com.

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