The Next Generation of Emerging Markets

RWC Emerging & Frontier Markets

Strategy Update Q1 2019
In this edition we give an overview of emerging and frontier markets in the first quarter of 2019 before discussing the next generation of emerging markets.

85% of the MSCI Emerging Markets Index lies in 8 Countries and the remaining 15% is made up of 16 countries. These markets offer opportunities similar to those of large emerging markets 10-15 years ago.

The Team

John Malloy and James Johnstone co-manage the RWC emerging and frontier markets strategies. The team is composed of a further 16 analysts, economists and strategists based in Miami, London and Singapore, many of whom have worked together for over twenty years. The team joined RWC Partners in 2015 and now manages c. $8bn for its clients.

Emerging and frontier markets represent the fastest growing countries in the world. The RWC team believes the continued growth in these markets represents opportunities across a range of industries.

The highly experienced and dedicated team takes an index-agnostic, opportunistic approach which allows it to explore investment opportunities that are often off the beaten track.
RWC Emerging & Frontier Markets

Review of Q1 2019

Emerging and frontier market equities rebounded during the first quarter of 2019 as signs of easing trade tensions and a dovish Federal Reserve led to a sharp rally in global equity markets. The MSCI Emerging Markets Index rose +9.9% and the MSCI Frontier Markets Index was up +6.9%. The RWC Emerging Markets Equity Fund rose +17.9% while the RWC Frontier Markets Equity Fund rose +6.0%. While negotiations are still taking place, we continue to believe that a trade deal between the United States and China is the most likely scenario. Global macroeconomic data remains robust, despite weakening trade and manufacturing data in Europe and some parts of Asia. Valuations are attractive, especially relative to developed markets. Inflation remains under control and current accounts are at stable levels. Oil recovered to $70 per barrel and copper rebounded to $3 per pound on the back of a stronger global demand outlook and continued supply constraints in both commodities.

Stock markets in China and Taiwan rose +17.8% and +9.0% respectively during the quarter as trade rhetoric with the United States softened and business confidence continued to improve. Chinese monetary policy easing led to a marked pick-up in corporate and local government bond issuance and the government has announced RMB 2 trillion of tax cuts which will benefit both corporates and consumers. MSCI’s decision to increase China’s A-Share weighting suggests the strong commitment of local regulators to improve market accessibility. In Latin America, Brazil rose +8.3% despite correcting during the latter half of the quarter. The Bolsonaro administration has submitted a proposal for pension reform which should be approved in the coming months and the economy continues to show signs of recovery. Russia rose +12.2% as oil recovered. Economic activity is improving with high frequency indicators surprising to the upside. In Frontier Markets, Argentina fell sharply from recent highs and finished the quarter down -2.0% as inflation rose substantially. However, high frequency data suggests that economic activity may be bottoming out. The seasonally adjusted construction activity index and the manufacturing production index are improving and we believe agricultural harvests will be strong. Vietnam rose +12.9% as macroeconomic data suggests the country has made a strong start to 2019. Consumption remains robust with total retail sales up +11.5% year-on-year and inflation is under control. Kuwait also rose +12.9% due to increased flows as indices will re-balance later this year after Argentina’s re-classification.

For the RWC Emerging Markets Equity Fund, China was a significant contributor to performance. Hangzhou Hikvision rose +39.1% during the quarter as the company reported a +18.9% increase in revenue and a +20.5% increase in net profit year-on-year. Ctrip rose 61.5% as the company reported encouraging earnings results, beating consensus estimates. The company’s total customer base has reached 200 million monthly average users with over half its user base under the age of 30. Total gross merchandise value grew +30% year-on-year to RMB 725 billion and the company is on track to reach its 2020 target of RMB 1.2 trillion. First Quantum Minerals rose +40.3% as copper recovered. Production numbers continue to be strong and the company’s new mine, Cobre Panama, is set to bring on 300k tonnes per annum of copper production starting this year which may double the company’s earning power. Russia was also a significant contributor to

All markets referred to above relate the respective MSCI index.

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Capacity

As most of you know, when we first launched the emerging markets strategy almost seven years ago, we wanted the strategy to be able to scale to a certain size but we also wanted to ensure that it represented the opportunistic and thematic approach which we had developed over many years. We tested the starting portfolio liquidity by scaling positions to different AUM sizes but we never set a specific capacity limit as we felt that the exercise requires a more nuanced approach that also takes into account the actual experience of the portfolio over time. Over the past seven years we have further refined our thoughts and communicated to some of you that we felt a portfolio of $7-$8bn would be the ideal size to be able to manage the fund on a consistent basis. We have also communicated, however, that we intend to restrict flows before reaching that point. In fact, we started doing so last year when we no longer entered into new discussions with investors regarding separate mandates. We do have a few agreements that have allowed us to partner with very high quality, long term investors but we wanted to reserve the remaining capacity for investors into the pooled vehicles.

Assets in the strategy reached $6.2 billion (as of March 31st) and we have decided to restrict capacity further by not engaging in any new conversations with investors into our main vehicle, the Cayman registered RWC Emerging Markets Equity fund. That fund is today $2.8 billion (March 31st). In addition, we anticipate closing to all material flows – including from existing investors – at the end of the 3rd quarter. Upon closing we will operate a wait list for any additional flows, which will be designed to help us maintain AUM stability. Our SICAV vehicle, registered in Luxembourg, will remain open for investment, but we will cease all pro-active marketing of the fund. The same applies to our US mutual fund. While we seek to have all our mandates own the same positions, both of these funds are restricted from holding larger positions in less liquid shares due to regulatory liquidity provisions. Hence they do not weigh as much on our total capacity and we believe it is in the best interest of investors to allow some flows as the investor support for those funds tends to be more dynamic.

Independent from the team’s own views and experience, RWC’s Risk and Performance team analyses all our portfolios on an ongoing basis. They have also developed a broader framework for analysing capacity which we can provide. This framework is based on a paper written by RWC Head of Investment Strategy, Arthur Grigoryants. We believe Arthur has correctly identified the complexities of determining a strategy’s capacity. Many investment firms use a fixed number as an easy way to communicate their views on capacity, but we believe this approach is too simplistic. To use a simple example; when picking a fixed number it would naturally follow that, after a steep decline in equity markets, then capacity would automatically increase. We have found, however, that those declines are often accompanied by reduced market liquidity (in fact the falls may have been caused by reduced liquidity). While corrections in equity markets often create good buying opportunities (as was the case following 2018) – with liquidity being one of the key determinants of capacity, it is easy to see how this approach leads to unintended outcomes.

We encourage you to read Arthur’s paper and would welcome an opportunity to discuss our approach further.
The Next Generation of Emerging Markets
Introduction
Emerging markets will always be difficult to define. Some countries are at nascent stages of industrialisation and infrastructure development whereas others are at the cutting edge of technology. Some have promising macroeconomic backdrops while others are suffering from instability both economically and politically. Investing in the asset class through passive instruments does not lend itself well to the diversity, inefficiency and uncorrelated nature of these markets. The RWC Next Generation of Emerging Markets Equity Fund seeks to take advantage of growth opportunities within countries that are currently under-represented by indices. Countries such as Indonesia, Colombia and Egypt all have minimal weightings in indices and yet possess investment opportunities akin to some of the larger emerging markets 10-15 years ago.

Opportunity Set
Currently, if you buy a tracker product that follows the MSCI Emerging Market Index, 85% of your investment goes into the largest eight countries of the index. 15% of your investment is allocated to the remaining 16 countries that are classified by MSCI as Emerging Markets. Our opportunity set is the remaining 16 countries that are under-represented by the MSCI Emerging Markets Index in addition to some of the large frontier markets which are also disproportionately weighted in the MSCI Frontier Markets Index. Most of these countries are at an earlier stage of development than large emerging markets but are more developed than many of the smaller frontier markets. There are over 2,500 publicly listed companies in our universe and many are under-owned, under-researched and attractively valued. While c.27% of the current MSCI Emerging Markets Index represents the technology sector, the traditional emerging market themes of financial inclusion, industrialisation and urbanisation are far more prevalent in the next generation of emerging markets.

RWC does not offer investment advice nor should this be construed as a recommendation to purchase or sell any security.
FIGURE 1:
RWC Next Generation Emerging Markets Universe

Frontier Markets
$780 billion market capitalisation

MSCI Frontier Markets:
Argentina, Vietnam, Nigeria, Romania, Kuwait, Kazakhstan

Unclassified:
Zambia, Panama, Ghana and Saudi Arabia

RWC Next Generation Emerging Markets Universe
$6 trillion market capitalisation

MSCI Emerging Markets Index

Emerging Markets
$21 trillion market capitalisation

Large Emerging Markets:
China, Brazil, India, South Korea, Taiwan, Russia, Mexico, South Africa

Small Emerging Markets:
Malaysia, Thailand, Indonesia, Poland, Chile, Turkey, Philippines, UAE, Qatar, Colombia, Peru, Hungary, Greece, Czech Republic, Egypt, Pakistan

Source: RWC as at 16 April 2019. Ghana and Panama sit in MSCI standalone market indices.
*Argentina and Saudi Arabia will be added to the MSCI Emerging Markets Index in June 2019. **Large Emerging Markets. ***Small Emerging Markets

FIGURE 2:
MSCI Emerging Markets Index vs. RWC Next Generation Emerging Markets Portfolio

Source: RWC as at 16 April 2019. Ghana and Panama sit in a MSCI standalone market indices.
*Large Emerging Markets: China, Brazil, India, South Korea, Taiwan, Russia, Mexico, South Africa
**Small Emerging Markets: Malaysia, Thailand, Indonesia, Poland, Chile, Turkey, Philippines, UAE, Qatar, Colombia, Peru, Hungary, Greece, Czech Republic, Egypt, Pakistan
MSCI Frontier Markets: Argentina, Vietnam, Nigeria, Romania, Kuwait, Kazakhstan
Unclassified: Zambia, Panama, Ghana and Saudi Arabia
FIGURE 3:
Low Correlations at Two Levels (vs. EM, FM and Developed Markets and vs. each other) – Notes 1, 2 and 3

<table>
<thead>
<tr>
<th>Country</th>
<th>SEM*</th>
<th>EM</th>
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<th>Japan</th>
<th>US</th>
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</tr>
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<td>0.13</td>
<td>0.20</td>
<td>0.35</td>
<td>0.33</td>
</tr>
</tbody>
</table>

Pakistan, Hungary, Colombia, Vietnam, Egypt, Greece, UAE

* Smaller Emerging Markets.

1. Note: Emerging markets as per MSCI Emerging Markets Index; Frontier Markets as per MSCI Frontier Markets Index; Small Emerging Markets as per MSCI Frontier Emerging Markets Index; Europe as per MSCI Europe; Japan as per MSCI Japan Index, US as per S&P500 Index.
2. Source: Underlying from Bloomberg based on three year weekly correlations, as at 31 March 2019.

FIGURE 4:
Valuations are attractive

Price to Earnings Ratio

Relative Price to Earnings

<table>
<thead>
<tr>
<th>Year</th>
<th>Price to Earnings</th>
<th>Relative Price to Earnings</th>
</tr>
</thead>
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<td>2009</td>
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<td>-25.8%</td>
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<tr>
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<td>2018</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>

Small Emerging Markets | Average | +1 StdDev | -1 StdDev

Source: RWC Partners, Bloomberg, 31 March 2019

Source: RWC Partners, Bloomberg, 31 March 2019

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A Well-Trodden Path

The economic development of emerging markets is a well-trodden path. Generally speaking, economies at an early stage of development tend to rely on agriculture. As an economy maximises its output from agriculture, the overall result is a productive surplus that primes demand for goods and services. This incites a drive towards manufacturing and urbanisation takes place as workers migrate out of agriculture to focus on factory work. Cheap labour and attractive prices for manufactured goods raises the interest of other economies and as an economy’s export base grows, disposable incomes rise. Technological upgrading then takes place in order to streamline the manufacturing process which results in increased imports which lays the foundation for an economy’s industrialisation. Financing and credit is needed for this process to happen and financial inclusion is a constant theme during this process. As disposable incomes rise, demand for property and white goods increases.

**FIGURE 5:**
China vs. Vietnam – Nominal GDP ($ billion)

**FIGURE 6:**
Colombia vs. Mexico – GDP Per Capita ($)

**FIGURE 7:**
Turkey vs. Egypt – Exports ($ billion)

**FIGURE 8:**
Emerging Markets vs. Next Generation Emerging Markets

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Country Specific Opportunities

Saudi Arabia (Will be included in the MSCI Emerging Markets Index with a 2.8% weighting in June 2019)

The Saudi Arabian stock market is big and liquid. It boasts a total market capitalisation of $570bn and trades roughly $1bn per day and, despite its up-coming inclusion into the MSCI Emerging Markets Index in June-19, foreign ownership of the market remains low at 2.1%. As outlined in our quarterly paper published in the first quarter of 2018, we believe that Saudi Arabia presents an attractive investment opportunity in light of the significant transformation program initiated by Crown Prince Mohammed Bin Salman in 2016, titled Vision 2030.

**FIGURE 9:**
Saudi Arabia Real GDP by Sector 2003-2030

**FIGURE 10:**
Employment of Saudi Nationals 2003-2030

Whilst containing numerous pillars and goals, Vision 2030 has a simple ambition: the country aims to progress from a government-driven economy to one that is driven by private enterprises. The government plans to double GDP and increase the participation of Saudi men and women in the country’s workforce. The economic transformation will bring about attractive investment opportunities within all sectors of the economy.

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Investment Opportunity: Mouwasat Medical Services

Today, Saudi Arabia is among the most obese countries globally with a high prevalence of lifestyle related diseases. To combat this, the government, as one of the key pillars of Vision 2030, introduced reforms to increase the participation of private operators in the healthcare sector and enhance the population’s medical insurance coverage. The Saudi Arabian healthcare sector has one of the highest levels of state involvement at 75% vs neighbouring UAE at 45%. Its hospital market is dominated by public hospitals but Vision 2030 and its related National Transformation Program (NTP) plan aims to increase the share of private sector involvement from the current 25% to 35% by 2020. In terms of number of hospital visits per capita Saudi Arabia lags its peers with 2 visits per person per year versus the OECD average of 7 visits and 8 visits per capita in the UAE.

Mouwasat Medical Services is the most geographically diversified hospital operator in Saudi Arabia with the majority of its bed capacity located in the Eastern province, where it operates in a near monopolistic position. The company aims to expand its bed capacity from current 900 beds to 1,500 beds by 2020 and the company enjoys the strongest pricing power of any Saudi hospital operator. This will allow the company to expand its reach while continuing to generate higher operating margins and returns compared to its competitors and we forecast a 20% net income CAGR from 2018 to 2022.

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Thailand (2.3% of the MSCI Emerging Markets Index)

Thailand is one of the more well-known Asian emerging markets. However, the economy has faced various headwinds which has led to foreigners selling more than $19 billion of equities since 2013. High levels of household debt and an ageing population have discouraged foreign investors, but the country still possesses idiosyncratic investment opportunities. Furthermore, the country has strong external dynamics with a current account surplus which equates to around 8% of Thailand’s GDP.

Tourism has seen considerable growth over the last 10 years. Direct contribution of tourism constitutes c.10% of GDP. While the initial bout of inbound tourism was driven by Europeans, in the last five years arrivals from China have increased rapidly. Currently, Chinese arrivals account for 27% of total arrivals. We believe regional inbound tourism is set to continue as Thailand’s unique geography allows it to tap into the potential flows from frontier markets such as Cambodia, Laos, Myanmar and Vietnam.

**FIGURE 14:**
ASEAN Tourism

**FIGURE 15:**
Tourist Arrivals for Thailand

Source: RWC Partners, Bloomberg, CLSA 2018

Source: RWC Partners, Bloomberg, Thailand Department of Tourism as at 31 December 2018

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**Investment Opportunity: CP All**

While tourism is a key theme in our portfolios, we are also optimistic on the consumer outlook for the country. The country’s mourning period has ended after the death of the previous monarch, King Bhumibol Adulyadej, and elections have now finished which should hopefully result in consumer confidence picking up. CP All, the franchisee of 7-Eleven Convenience Stores in Thailand, has shown steady growth and continues to lead the penetration of modern retail in the country. The company has a wide store network of 11,000 stores which is almost twice number of bank branches in the country. This allows the company to leverage its offerings in financial services and e-commerce distribution.

**FIGURE 16:**

CP All’s Earnings Before Tax Contribution

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FIGURE 17:
CP All Share Price ($ terms)
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Indonesia (2.2% of the MSCI Emerging Markets Index)

Indonesia has encouraging economic fundamentals with a large population of around 270 million, a young workforce and low household leverage. However, the country was pushed into a structural current account deficit in 2013 which has led to a less favourable macroeconomic outlook over the past few years. Nonetheless, the country is still growing robustly with GDP growth c 5.2%. Bank Indonesia has kept interest rates elevated to preserve macroeconomic stability which suggests a good environment for equity investors. We are optimistic on the palm oil price due to constrained supply and better-than-expected demand which is a good proxy for the Indonesian economy.

**FIGURE 18:**
Indonesia Current Account & Foreign Exchange Reserves

**FIGURE 19:**
Indonesia Stock Market Returns ($) vs. Bond Yields (%)

Source: RWC Partners, Bloomberg, 2004-31 December 2018
Source: RWC Partners, Bloomberg, 1992-2019

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Investment Opportunity: Pakuwon Jati

Pakuwon Jati is one of the country’s leading real estate companies. The company is one of the largest retail mall operators in Indonesia owning seven malls in Jakarta and Surabaya. The company has a high level of recurring income (c.50%) which protects the company from inevitable swings in development revenue. The implied normalised capitalization rate of retail property is 10.3% in Indonesia, above regional peers such as Singapore, suggesting room for yield compression given favourable supply/demand dynamics and the company’s attractive mall assets.

FIGURE 20: Pakuwon Jati Recurring Income Growth

FIGURE 21: Pakuwon Jati Share Price ($ terms)

Source: RWC Partners, Pakuwon Jati, 31 December 2018
Source: RWC Partners, Bloomberg, April 2014-16 April 2019

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The Philippines (1.1% of the MSCI Emerging Markets Index)

The Philippines is one of the fastest growing economies in Asia. GDP growth is expected to continue to be 6.5% to 7%, while President Duterte’s policies will likely lead to a significant improvement in the country’s infrastructure development. The Philippines boasts an encouraging demographic dividend with more than half of the population below the age of 25. The country’s growth continues to be supported by two key pillars. The first is Business Process Outsourcing (BPO) which is currently 8% of GDP, having been at around 1% of GDP in 2004. The second is remittances which account for c.10% of GDP. Over 10 million Filipinos work overseas and we expect inflows to continue to bolster the economy.

Like its regional peer, Thailand, tourism will likely be a key driver of growth. The development of Entertainment City in Manila Bay, provincial developments in Cebu, Boracay and Clark in addition to improving Chinese relations will likely boost inbound arrivals in the coming years. Domestically, we are at an inflection point where middle incomes are starting to accelerate. We believe consumption should see robust growth in the coming years and since the rice tariffication at the end of 2018, inflation remains under control.

FIGURE 22:
IMF Philippines GDP Per Capita (US$)

FIGURE 23:
BPO Revenues

Source: RWC Partners, Bloomberg, IMF, 1980-2023E


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**Investment Opportunity: Banco do Oro Unibank (BDO)**

While we are positive on the industrial and consumer sectors in the country, we see significant potential in the country’s banking sector. Credit penetration in the Philippines remains low. Around 77% of the population do not have a bank account and financial inclusion is one of the key themes which will drive economic growth. Macroeconomic conditions remain encouraging and the Central Bank should cut the required reserve ratio in the near to medium term which will boost the system’s liquidity.

Banco do Oro is one of the largest banks in the country and focuses on the retail and SME (small / medium enterprises) segments. The bank is expanding its branch network which should lead to a significant increase in net interest margins. Furthermore, the cost structure of the bank is improving and we expect the bank’s cost to income ratio to fall from c.63% today to c.59% in 2020.

**FIGURE 24:**
BDO Total Assets (PHP Billions) vs Peers

![Graph showing BDO Total Assets vs Peers](image)

Source: RWC Partners, BDO Unibank, 31 December 2018

**FIGURE 25:**
BDO Share Price ($ terms)

![Graph showing BDO Share Price](image)

Source: RWC Partners, Bloomberg, BDO Unibank, April 2014-16 April 2019

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United Arab Emirates (0.7% of the MSCI Emerging Markets Index)

The United Arab Emirates is starting to recover from the 2015-2016 slowdown caused by a decline in oil prices. Growth momentum is expected to pick up over the next few years due to higher and more stable oil prices, increased investment and private sector credit in addition to controlled inflation. The economy’s current account surplus nearly doubled last year to 6.9% of GDP. While the introduction of value-added tax may affect consumption in the near term, fiscal stimulus in the form of investment will likely support GDP growth.

FIGURE 26: UAE Oil Exports vs. Average Crude Oil Price

FIGURE 27: UAE Real GDP Growth (%)

United Arab Emirates (0.7% of the MSCI Emerging Markets Index)

The United Arab Emirates is starting to recover from the 2015-2016 slowdown caused by a decline in oil prices. Growth momentum is expected to pick up over the next few years due to higher and more stable oil prices, increased investment and private sector credit in addition to controlled inflation. The economy’s current account surplus nearly doubled last year to 6.9% of GDP. While the introduction of value-added tax may affect consumption in the near term, fiscal stimulus in the form of investment will likely support GDP growth.

FIGURE 26: UAE Oil Exports vs. Average Crude Oil Price

FIGURE 27: UAE Real GDP Growth (%)

Source: RWC Partners, IMF, 2015-2019E

Source: RWC Partners, IMF, 2015-2019E
Investment Opportunity: Emaar Properties

Emaar Properties is one of the leading property companies in the MENA region. The company holds an 80% stake in Emaar Developments, the leading real estate developer in Dubai. Emaar also holds an 85% stake in Emaar Malls, the operator of the world’s largest and most visited mall, The Dubai Mall. The company also operates an unlisted hospitality business which has a diversified portfolio of 5-star and 4-star hotels. Emaar recently announced a capital expenditures program of AED 30-40 billion over the next 5 years which will go towards the construction of Dubai Creek Tower and Dubai Hills Mall.

FIGURE 28:
Emaar Properties Revenue Growth Profile

FIGURE 29:
Emaar Properties Share Price ($ terms)

Source: RWC Partners, Bloomberg, March 2010-March 2019

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Turkey (0.5% of the MSCI Emerging Markets Index)

The country is currently undergoing a significant macroeconomic adjustment after the currency crisis of 2018. However, the country boasts a young, well-educated population and a strong business culture which has attracted significant foreign direct investment and has led to robust GDP growth in the past. While both households and corporates have a significant degree of leverage, valuations are attractive and the country currently offers idiosyncratic investment opportunities.

**FIGURE 31:**
Turkey GDP Recovery from FX Crises

**FIGURE 32:**
Turkey GDP Dynamics

**FIGURE 33:**
Turkey Stock Market Returns ($) vs. Bond Yield (%)

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**Investment Opportunity: Turkish Airlines**

Turkish Airlines operates a network of domestic, regional and international services. The country’s unique geographic location gives the company the advantage of diverse revenue streams. Most of the company’s revenue is in Euros or US Dollars while the company’s cost base is in local currency which increases the company’s competitiveness. The transition to the country’s new airport may impact margins in the near term, but should improve over the long term due to rising scale of operations.

**FIGURE 34:**
Turkish Airlines Capacity vs. Global Market Share (%)

**FIGURE 35:**
Turkish Airlines Revenue by Geography

Source: RWC Partners, Turkish Airlines, 2002-2020E

Source: RWC Partners, Turkish Airlines, 31 December 2018

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Colombia (0.4% of the MSCI Emerging Markets Index)

Colombia is the largest economy in the Andean region and the fourth largest economy in Latin America. The country’s macroeconomic environment is improving, helped by the recent recovery in the oil price. Business confidence is starting to rise and the Duque administration is implementing various fiscal policies to help reduce the country’s deficit. The administration is focused on increasing infrastructure development in the country which will likely result in higher real GDP growth and a more diversified economy. The country’s equity market value to GDP is the lowest in the region.

![Colombia Stock Market Returns ($) vs. Bond Yields (%)](image)

**FIGURE 36:** Colombia Stock Market Returns ($) vs. Bond Yields (%)

![Colombia Real GDP Growth vs. Unemployment](image)

**FIGURE 37:** Colombia Real GDP Growth vs. Unemployment

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**Investment Opportunity: Bancolombia**

Bancolombia is the largest bank in the country and will be a beneficiary of the recovery in the country’s macroeconomic environment. 2016-2017 saw compressed return on equity for the bank due to higher provisions, lower credit demand and lower net interest margins. The outlook for the bank is more optimistic considering Colombia’s more favourable macroeconomic environment. Loan growth is picking up across all segments of the economy and Bancolombia is set to benefit as it enjoys c.25% market share of assets.

**FIGURE 38:**
Colombian Loan Growth (% YoY)

**FIGURE 39:**
Colombian Banks Market Share of Assets

The name shown above is for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations or advice.
Egypt (0.13% of the MSCI Emerging Markets Index)

From an investment perspective, Egypt is one of the most attractive reform stories in our universe. Years of policy mismanagement under the Mubarak administration led to the emergence of large fiscal deficits, weakening growth, high levels of debt and declining foreign exchange reserves. Since then, Egypt has undertaken significant reforms under the supervision of the IMF. GDP growth has started to accelerate driven by investment and exports and the overall fiscal deficit is expected to come down from c.9% to c.7.5% in 2020. Foreign exchange reserves have improved significantly, inflation is coming down and Egypt has one of the lowest minimum wages in the world which we believe should continue to boost the country’s manufacturing segment.

FIGURE 40:
Egyptian Minimum Wages

Minimum Wages in US Dollars Per Month ($)

Source: RWC Partners, Eurostat, Renaissance Capital, 9 January 2019

FIGURE 41:
Egypt Foreign Exchange Reserves ($ Millions)

Source: RWC Partners, Bloomberg, IMF, March 2014-31 March 2019

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Investment Opportunity: Commercial International Bank

Commercial International Bank is one of Egypt’s largest banks and should benefit from a significant improvement in the country’s macroeconomic backdrop. The bank currently has a market share of 8% in terms of deposits, a return on equity of 30% and will benefit from encouraging dynamics in the sector. Credit penetration is low in the country with loans to GDP at around 30% of GDP. The bank’s net interest margin has benefitted over the past year as Egyptian interest rates have declined.

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Pakistan (0.03% of the MSCI Emerging Markets Index)

After a strong performance from 2011 to May 2017, Pakistan’s equity market fell considerably during the next 18 months as a combination of current account and fiscal deficits and diminishing foreign exchange reserves led to the Pakistani Rupee falling from 105 to 141 vs. the US Dollar. However, the macroeconomic environment appears to be bottoming out. An IMF deal in the range of $6 billion is close and Pakistan is receiving additional support from China, Saudi Arabia and the UAE.

Investment Opportunity: United Bank Limited

The financial sector is looking attractive from an investment perspective. Interest rates increased 425 basis points in 2018 and the Central Bank will likely continue to raise rates in the near to medium term. This should positively impact net interest margins for the whole sector. Currently, only 20% of the population has a bank account and we should see considerable growth over the long-term in the sector as a whole.
RWC Emerging & Frontier Markets Team – On The Road

Marina Bulyguina at Turkey’s New Airport in Istanbul

Jaimin Shah at a Reliance Fresh store in India

Colin Liang and Dan Huang at a COOEC Plant Base in Tianjin

Christopher DiSalvatore at SQM’s operations in Atacama

Jessica Lim in Bangkok

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Unless expressly otherwise, all opinions within this document are those of the RWC Emerging & Frontier Markets investment team, as at 7 May 2019.

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