



## The success story in Emerging Markets has only just begun

Emerging Markets: Shaping the world of tomorrow

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**There's more to Emerging Market equities than meets the eye. Carmignac's Xavier Hovasse shines a light on an asset class that's still flying under the radar and explains how to make the most of it.**

### We're looking for proper, long-term growth stories

2020 was a banner year for Emerging Markets. Xavier Hovasse, Head of Emerging Market equities and Fund Manager at Carmignac, believes it marked beginning of a period of outperformance that will gather even more pace when 'we can finally turn the page on the pandemic'.

Sure enough, Carmignac's flagship long-only, Emerging Market equity fund delivered **significant performance in 2020**. With a return of 44.7%, Carmignac Emergents not only significantly outperformed its peers and reference indicator by 38% and 36% but also made it into the first quartile of its Morningstar category<sup>1</sup>.

## A high-conviction approach

The strategy, also available through a Luxembourg Sicav and a UK open-ended investment company (Oeic), follows a concentrated, high-conviction approach that focuses on **winners of the digital revolution and beneficiaries of long-term structural growth and demographic trends**. Classified as Article 8 according to the European Sustainable Finance Disclosure Regulation (SFDR), the fund adopts a socially responsible investment (SRI) approach and has received two sustainability labels<sup>2</sup>.

## The dual coverage of stocks constitutes one of the team's key strengths

But that's not all. The managers of Carmignac Emergents, Hovasse and recently appointed Haiyan Li-Labbé, combine **several decades of industry experience and benefit from a unique insight into the asset class**. As a matter of fact, the duo draws on the expertise of the entire management team, which is essential to invest comprehensively in this universe.

The dual coverage of stocks, by a regional specialist and a sector expert, plays an important role and constitutes one of the team's key strengths: 'If, for example, we buy a Chinese healthcare company, both Haiyan, who's the Chinese expert, and Jith Eswarappa, who's the global healthcare expert, are weighing in,' Hovasse said.

'Similarly, if I'm buying an insurance company in India, it's going to be covered by Amol Gogate and Matthew Williams. Haiyan and I have ownership of decision making on final positions and their sizing, but **we work hand in hand with the sector specialists**.'



## Separating the wheat from the chaff

The team prefers to invest in countries with strong macro fundamentals and balance of payments surpluses – signs of a healthy, well-funded economy in which households, corporates and government combined are generating more savings than they are spending.

**Identifying sectors that are underpenetrated is equally important**, Hovasse said. ‘You can buy a bank in countries like Mexico, the Philippines or Indonesia, where half of the population doesn’t have a bank account. Or you buy a car company in India or China, where car ownership is much, much lower than in developed economies. Those are the kinds of investments we like. We’re looking for proper, long-term growth stories.’

Ultimately, potential portfolio **companies also need to demonstrate strong cashflow profiles**. As Hovasse explained, ‘you don’t want to buy capital-intensive businesses like oil, mining and construction companies. What you want to buy is companies that are able to self-finance their growth’.

## A lot of Emerging Market companies still have a low level of ESG standards

Meanwhile, the **Fund Managers adhere to SRI principles** and the Fund has its proprietary ESG integration, exclusion and engagement policies. Among others, Carmignac Emergents targets companies that make a positive contribution to society or the planet and favours those that have a low carbon footprint or show strong commitment to reducing their negative environmental impacts<sup>3</sup>.

**In a way, ESG is more important in emerging than in developed markets** not least because, as Hovasse puts it, ‘a lot of Emerging Market companies still have a low level of ESG standards.’ He added: ‘The level of accounting fraud is shocking, and the quality of accounting is very poor. A good ESG assessment can help you in that regard: it’s a key factor for alpha generation and risk management.’



## Coming of age

But it's not only the attitude toward ESG principles that is changing in Emerging Markets. The countries themselves are undergoing a series of shifts, with Covid-19 being one of the main drivers.

'On the whole, **Asia has handled the pandemic much better than the US and Europe**' Hovasse said. 'That's one of the reasons why nearly 80% of Carmignac Emergents is allocated to the region<sup>4</sup>. Countries like China, Taiwan and South Korea outgrew their developed peers last year<sup>5</sup>.'

## Asian economies are spearheading the fourth industrial revolution

Another reason is the structural growth in Asia. From artificial intelligence to 5G and electric vehicles, Asian economies have taken the lead in integrating future technologies and are spearheading [the fourth industrial revolution](#). 'They are looking forward, they have plans to improve – those countries are investing in the technologies of the future,' Hovasse said.

Yet not all Emerging Markets are success stories, with countries like India and Brazil fighting new waves of infections. Even so, Hovasse stressed that **investors can still find opportunities in Latin American economies**. 'It's the combination of promising macro fundamentals and the better management of the pandemic that makes Asian economies, and especially China, so attractive,' he concluded.

### Want to know more?

[\(Re\)Discover Carmignac Emergents](#)

<sup>1</sup>Reference indicator: MSCI EM (EUR) reinvested net dividends. Morningstar category: Global Emerging Market Equity. Source: Carmignac, Morningstar. © 2021 Morningstar, Inc - All rights reserved. 31/12/2020. Data in EUR, A EUR Acc share class. Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor). The return may increase or decrease as a result of currency fluctuations.

<sup>2</sup>French "Label ISR" in January 2019 and Belgian "Towards Sustainability" in February 2020. For more information, visit [www.llelabelisr.fr/en](http://www.llelabelisr.fr/en) and [www.towardsustainability.be](http://www.towardsustainability.be).

<sup>3</sup>The Fund aims to achieve carbon emissions 30% lower than its reference indicator (MSCI EM NR USD Index).

<sup>4</sup>Source: Carmignac, portfolio as at 31/03/2021. Portfolio composition may vary over time and without prior notice.

<sup>5</sup>Source: International Monetary Fund (IMF), real GDP growth (annual percent change), 2020 data. Developed markets ("Advanced economies"): -4.7%. China: 2.3%. Taiwan: 3.1%. South Korea: -1%.

## Carmignac Emergents A EUR Acc

ISIN: FR0010149302

Recommended  
minimum  
investment horizon



### Main risks of the Fund

**EQUITY:** The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

**EMERGING MARKETS:** Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

**CURRENCY:** Currency risk is linked to exposure to a currency other than the Fund's valuation currency, either through direct investment or the use of forward financial instruments.

**DISCRETIONARY MANAGEMENT:** Anticipations of financial market changes made by the Management Company have a direct effect on the Fund's performance, which depends on the stocks selected.

The Fund presents a risk of loss of capital.

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