



Vontobel

100 years | Empowering
Investors

Investing in EM equities in the digital age

Webinar Event, 26 September 2024

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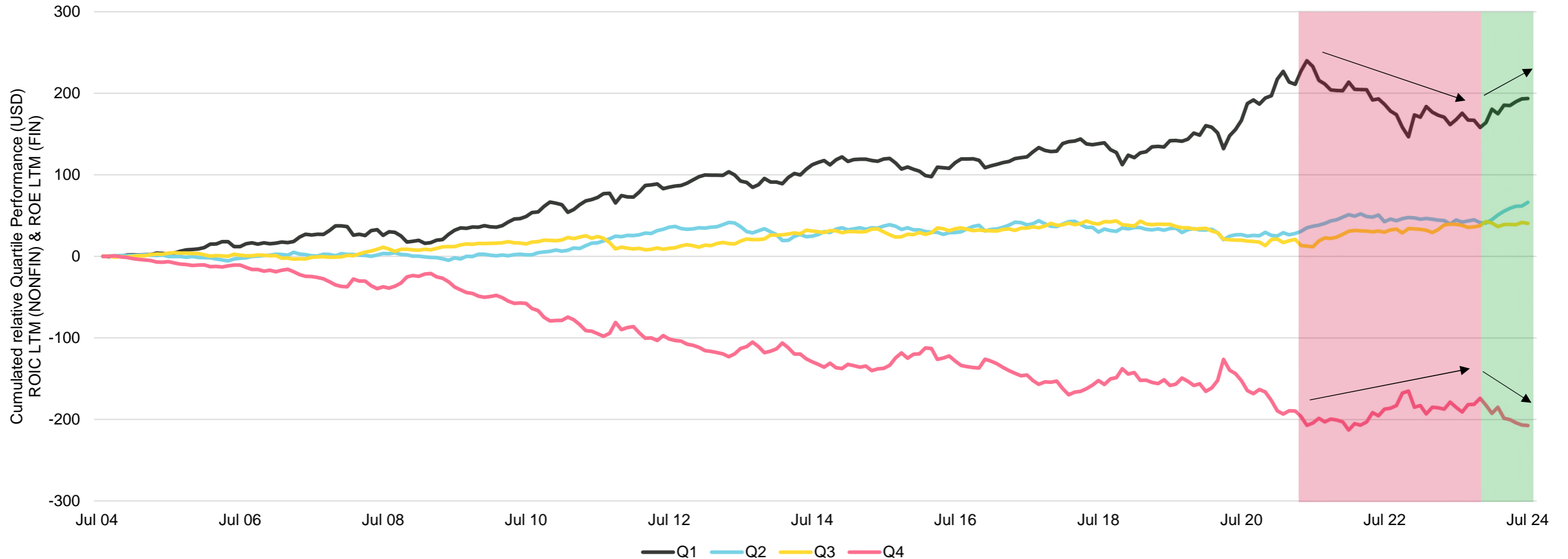
Jean-Louis Nakamura
Head – Conviction Equities

Anthony Corrigan, CFA
Client Portfolio Manager,
Conviction Equities

Since inception in 2013, mtx has focused on buying high ROIC stocks for a very good reason

Despite recent headwinds, quality as defined by 'ROIC' has been a strong performer in EM

MSCI EM: Sector neutral & equally weighted

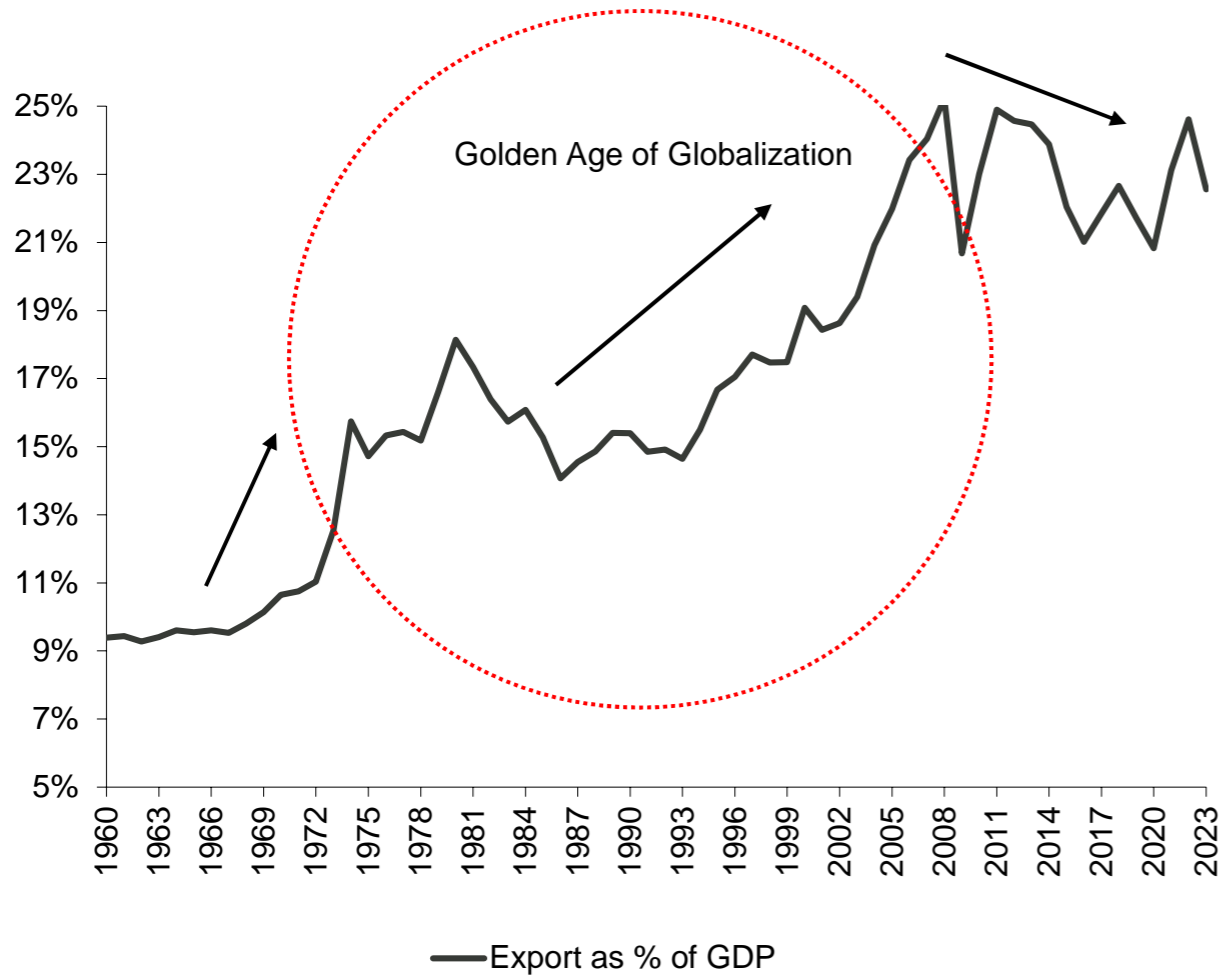


Past performance is not a reliable indicator of current or future performance.

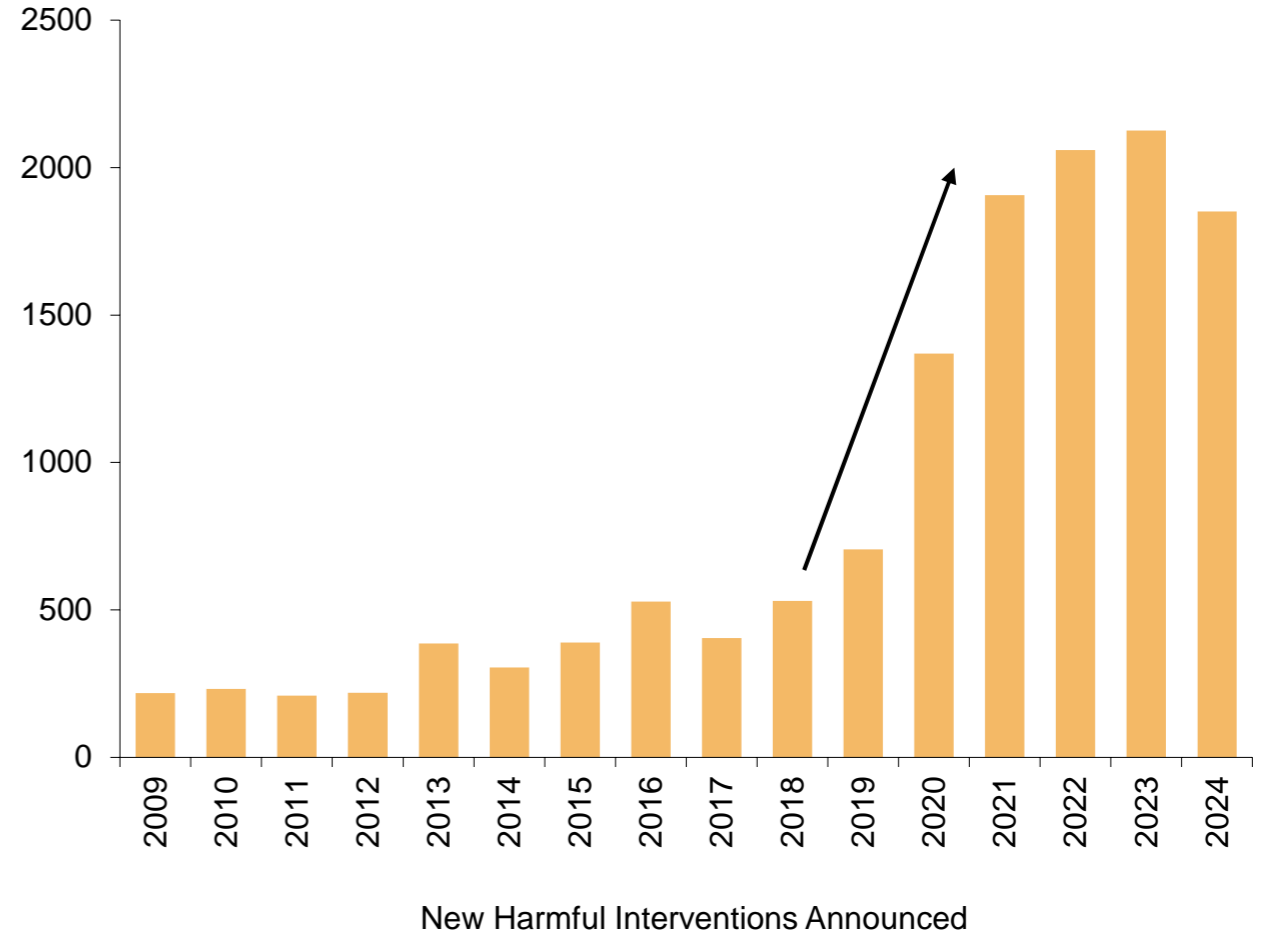
Source: Vontobel, FactSet, data as of 31.7.2024.

Key learning #1: The market is becoming more sensitive to geopolitical developments

Is the golden age of globalization coming to an end?

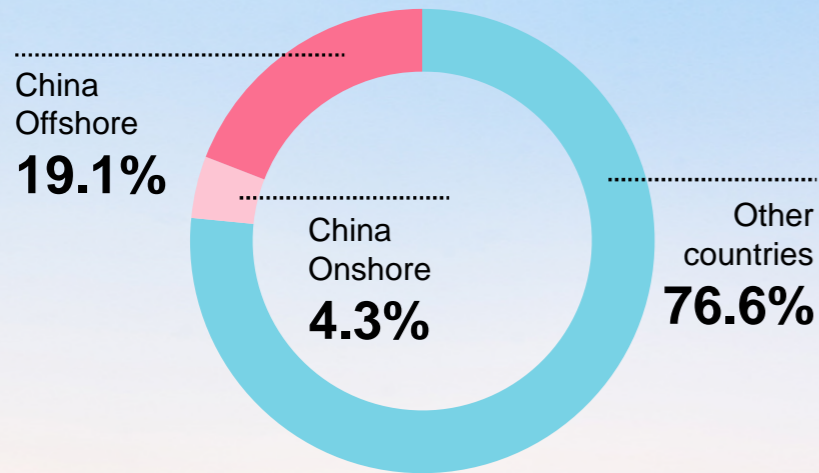


Protectionist policies are on the rise all over the world

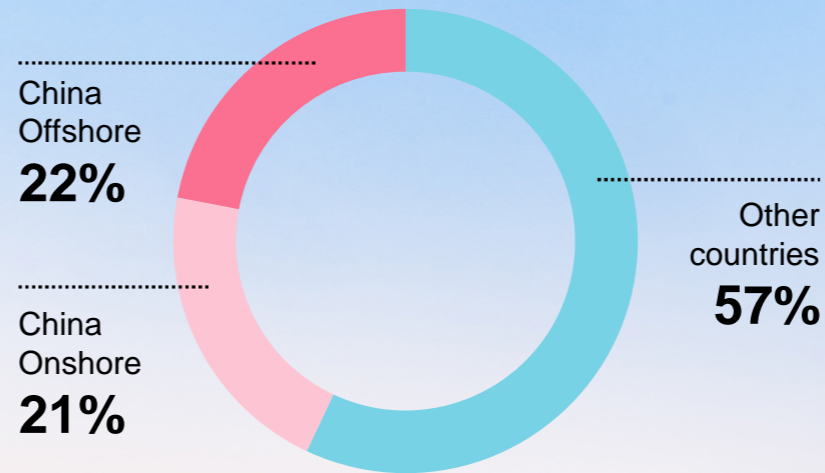


Despite its current woes, China's 'true weight' in the index should be higher

Current weight in the MSCI EM Index

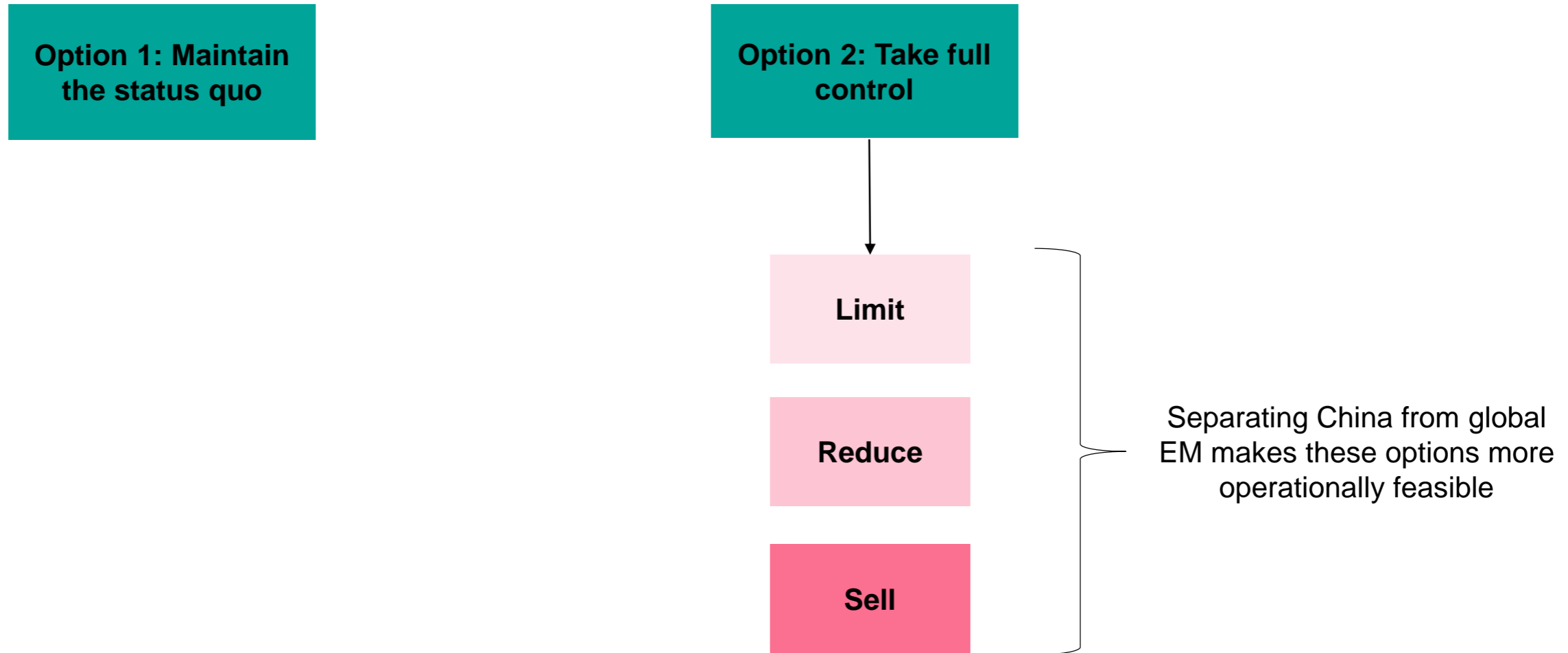


Potential weight in the MSCI EM Index with an inclusion factor of 100%

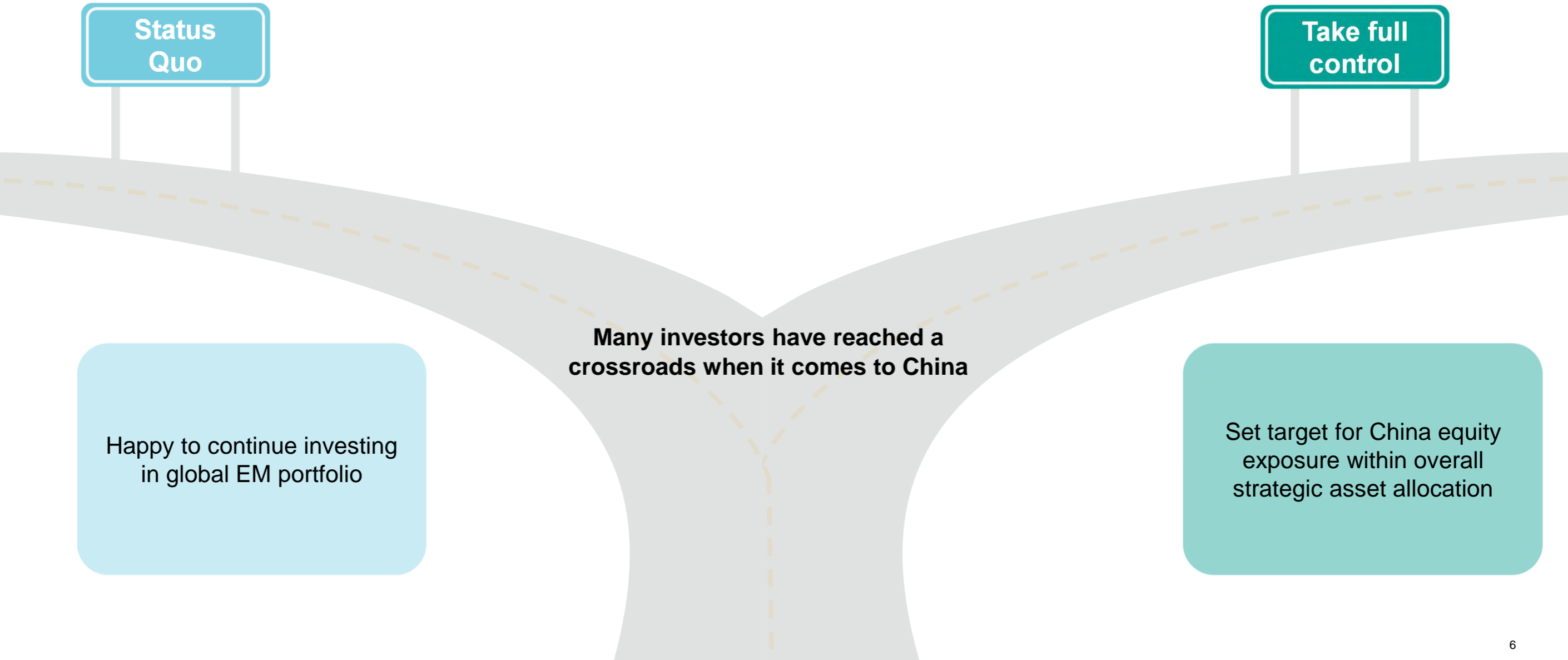


Key learning #2: Investor preferences are changing – particularly when it comes to China

Based on our conversations with investors around the globe, many are reconsidering how they allocate to China














Key learning #2: Investor preferences are changing – particularly when it comes to China

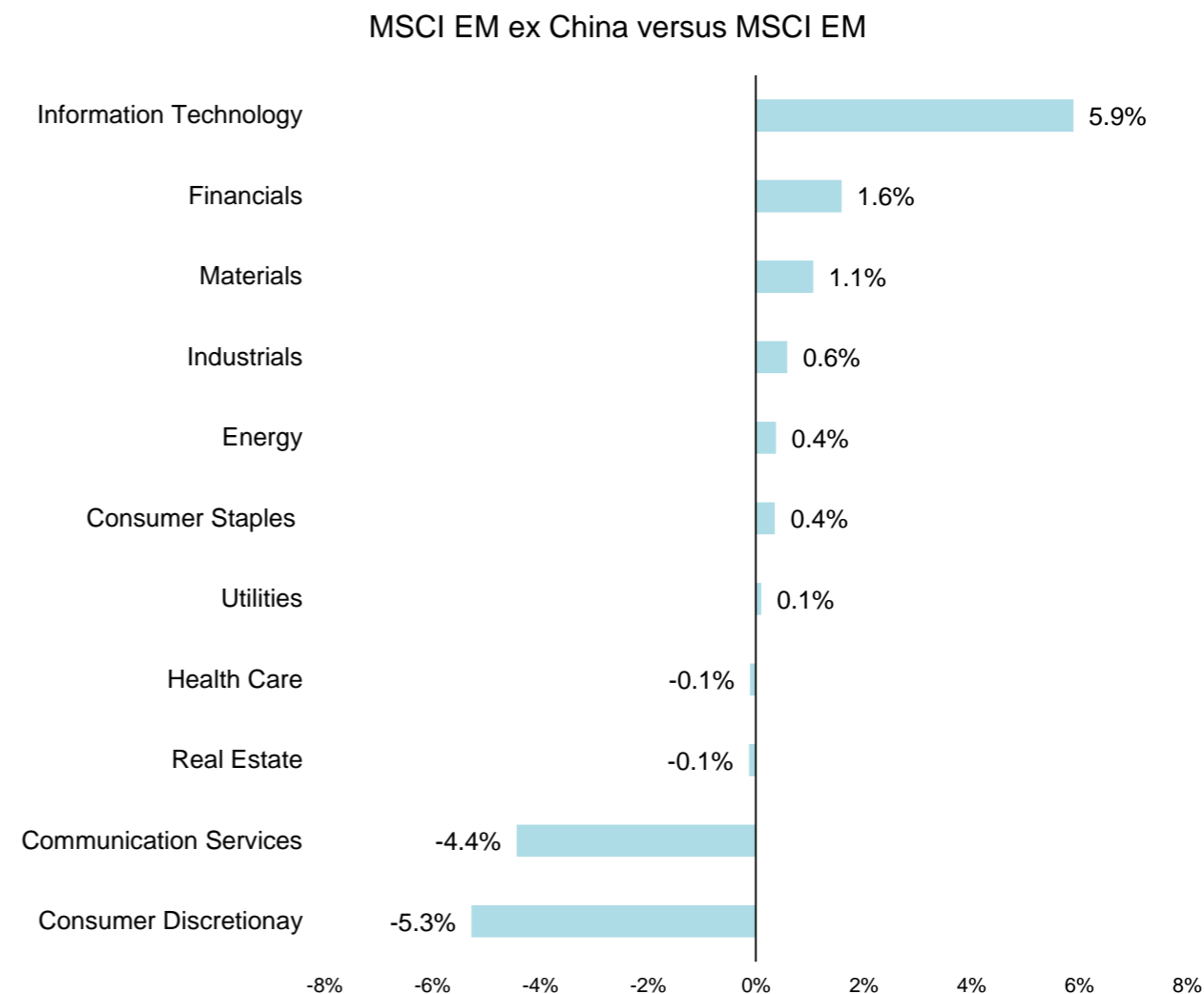


Country and sector allocation of both approaches

Country allocation

		MSCI EM INDEX	MSCI EM EX CHINA INDEX
China		24.4%	-
India		19.9%	26.3%
Taiwan		18.8%	24.8%
South Korea		11.7%	15.5%
Brazil		4.5%	6.0%
Saudi Arabia		4.0%	5.3%
South Africa		3.2%	4.2%
Mexico		2.0%	2.7%
Indonesia		1.8%	2.4%
Malaysia		1.3%	2.1%
Thailand		1.5%	2.0%

Sector allocation



Single stock concentration of both approaches

MSCI EM: Top ten holdings

	SECTOR	COUNTRY	WEIGHT
TSMC	Info Tech	Taiwan	9.5%
Tencent	Communication Services	China	4.2%
Samsung Electronics	Info Tech	Korea	3.5%
Alibaba	Consumer Discretionary	China	2.1%
Reliance Industries	Energy	India	1.4%
Infosys	Info Tech	India	1.0%
Meituan	Consumer Discretionary	China	1.0%
ICICI Bank	Financials	India	1.0%
Hon Hai Precision Industry	Info Tech	Taiwan	0.9%
SK Hynix	Info Tech	Korea	0.9%
Total			25.7%

MSCI EM ex China: Top ten holdings

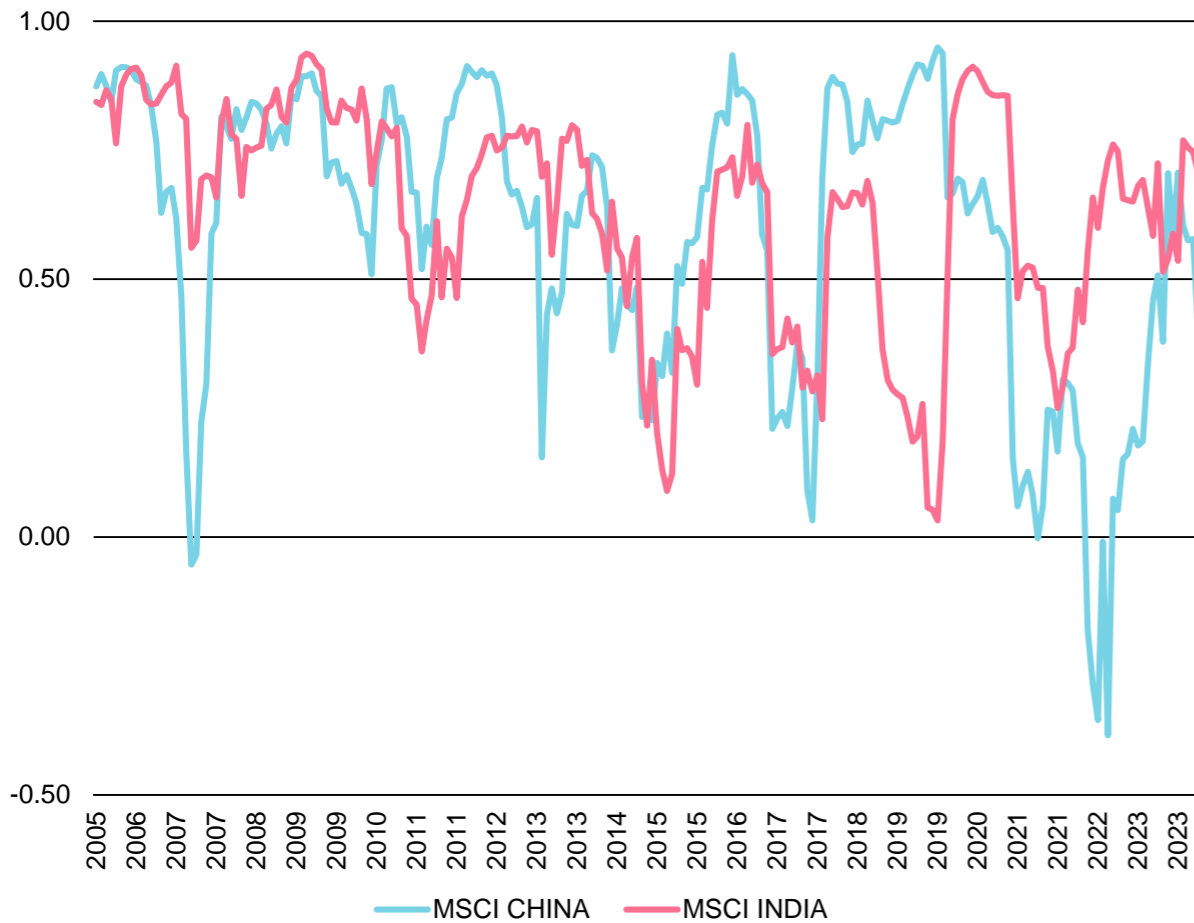
	SECTOR	COUNTRY	WEIGHT
TSMC	Info Tech	Taiwan	12.6%
Samsung Electronics	Info Tech	Korea	4.6%
Reliance Industries	Energy	India	1.9%
Infosys	Info Tech	India	1.3%
ICICI Bank	Financials	India	1.3%
Hon Hai Precision Industry	Info Tech	Taiwan	1.2%
SK Hynix	Info Tech	Korea	1.2%
MediaTek	Info Tech	Taiwan	0.9%
HDFC Bank	Financials	India	1.0%
Tata Consultancy Services	Info Tech	India	0.9%
Total			27.0%

References to index holdings for informational purposes only and should not be considered a recommendation to purchase or sell any security. No assumption should be made as to the profitability or performance of any company identified or security associated with them. Source: Vontobel, MSCI, FactSet; as of 30.08.2024

Both indices have historically offered good diversification to global developed equities

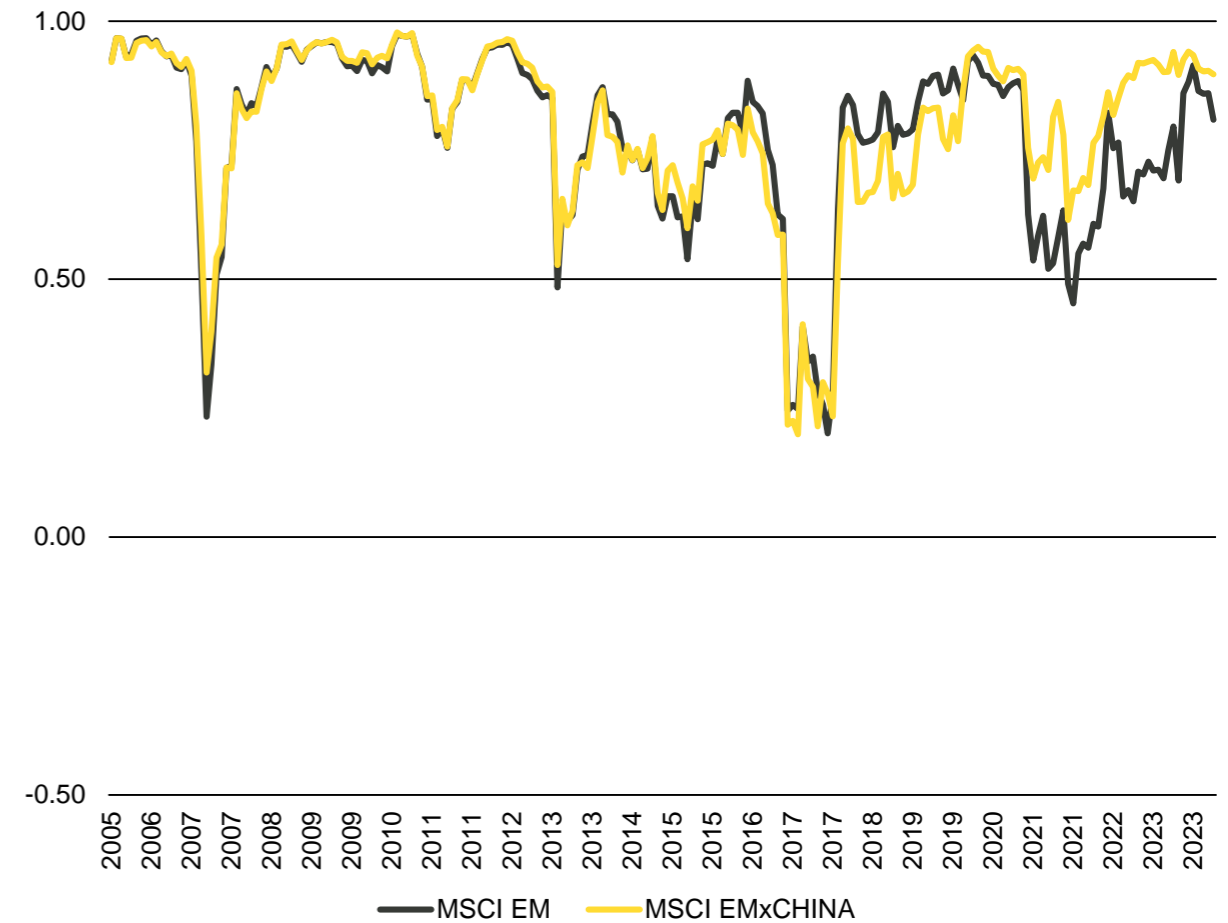
China has tended to exhibit lower correlation to developed market equities

Correlation vs. MSCI World



This has resulted in a lower correlation for the MSCI EM index

Correlation vs. MSCI World

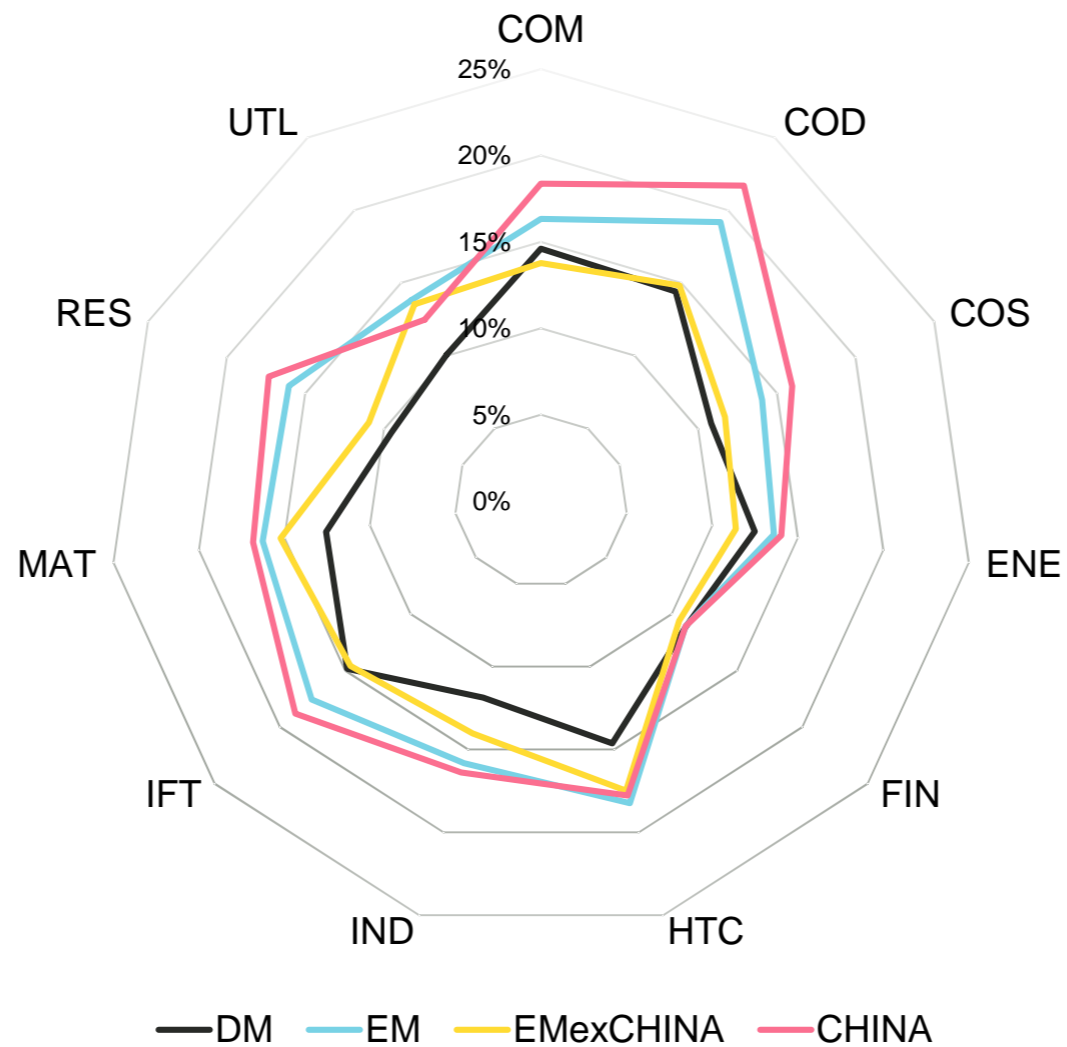


Past performance is not a guarantee of future results.

Source: Vontobel, MSCI; data as of 29.05.2024

Single stock dispersion has been highest in China, supporting the case for active management in the EM space

3 months return dispersion has been highest in China within most sectors

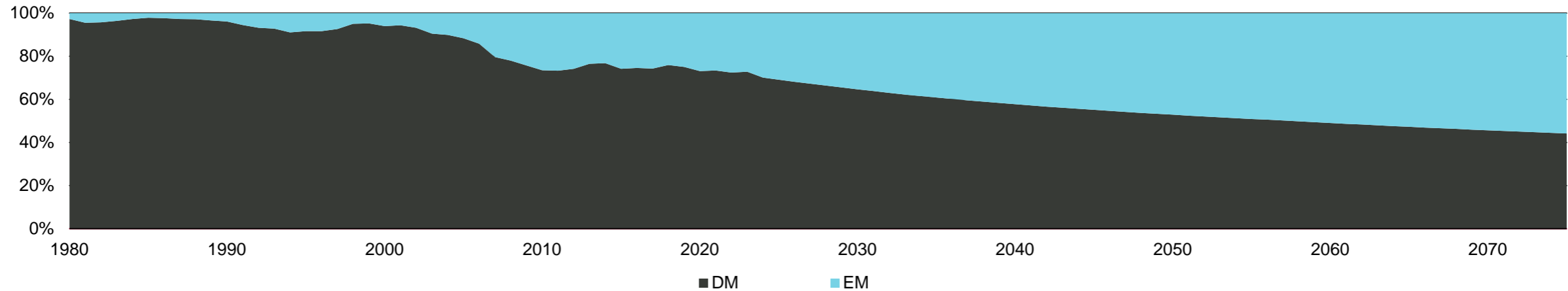


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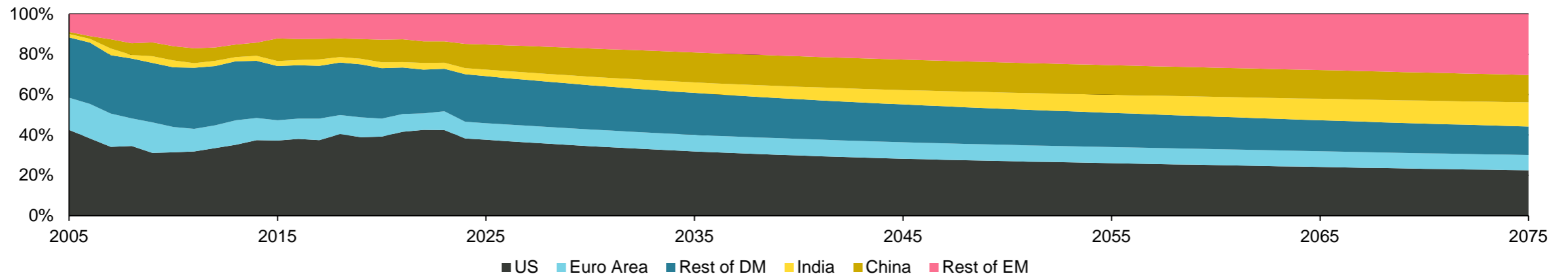
Companies discussed for illustrative purposes only to elaborate on the subject matter under discussion. Should not be considered a recommendation to buy, hold, or sell any security nor should any assumption be made as to the profitability or performance of any company identified or security associated with them. Source: Vontobel, FactSet, MSCI; data as of 29.05.2024. Period covered is 10/2018 to 09/2023.

Despite the 'lost decade', EM exposure in global market cap is predicted to grow

Share in global market cap by EM/DM



Share in global market cap by country/region



Forecasts are opinion; not guaranteed; and actual outcomes may differ materially.
Source: Vontobel, GS Economic Research; data as of 08.06.2023

Final thoughts...



- Emerging markets are **less homogeneous** today than they were in the past;
- The market has become very sensitive to geopolitical developments, requiring more focus on **mitigating unintended factor risks**;
- **Investor preferences are changing** with many now considering China as a separate allocation;
- Despite a period of underperformance, **EM equities are predicted to become the largest part of the global index** within the next decades;
- In our view, EM equities play an important role in a client's return-seeking portfolio from a **diversification** perspective.

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