

Boots on the Ground: Indonesia

March 28, 2018

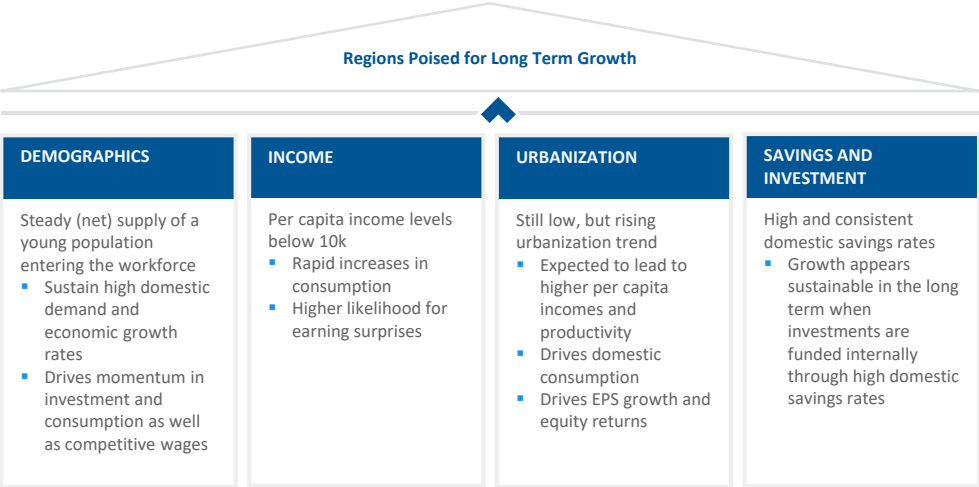


Emerging Markets Equity Perspective

Southeast Asia is a key contributor to global growth, and Indonesia is a large market engine of the region. The size and incremental contribution of the Southeast Asian economies to global demand, and the corresponding investment opportunities, remain, we believe, largely underappreciated by global investors.

Indonesia fits in our ‘Four Macro Pillars’ that drive long term growth, with attractive demographics of a large and young population, per capita income levels well below \$10,000, rising urbanization rates and relatively high savings and investment rates. We see compelling investment opportunities in Southeast Asia, and maintain our overweight allocation with a medium and long term horizon.

Four Macro Pillars that Drive Long Term Growth



FIERA CAPITAL EMERGING MARKETS EQUITY STRATEGIES

Emerging Markets Equity
Anindya Chatterjee

Global Emerging Markets
Mark Bickford-Smith

Frontier Markets
Dominic Bokor-Ingram & Stefan Bottcher

Latin America
Ian Simmons

Eastern Europe
Julian Mayo

Africa
Sharat Dua

Middle-East and North Africa
Dominic Bokor-Ingram & Stefan Bottcher

We spent the first full week of March in Indonesia meeting with policy makers, think tanks and senior management of Indonesian companies. Indonesian equities can provide a heavy exposure to commodities, and we wanted to assess the prospects of continued improvements in the fundamentals of the Indonesian commodity companies. We also wanted to better understand how the upcoming April 2019 General Elections may affect domestic consumption and government policy. We remain constructive on our Indonesian portfolio following our trip.

– Anindya Chatterjee, Lead Portfolio Manager, Emerging Markets



Boots on the Ground: Indonesia

March 28, 2018



Palembang

In addition to Jakarta, we visited Palembang, Indonesia's ninth most populous city, the capital of South Sumatra province and home to 10.7mil people. Palembang's economy is dependent on commodities, such as rubber, coal and palm oil, which makes it a good proxy for Indonesia's economy. Palembang will also host the 2018 Asian Games in August.

Consumption: Better overall growth compared to 2017, with a recovery of mass market demand

Indonesia's consumer spending growth diverged in 2017. Home improvement and mid-to-high end apparel sales grew, whereas mass market apparel sales declined. In 2017, mass market consumption was hit by the removal of electricity subsidies for 19 million out of 23 million low-income households. In 2018, mass market consumption is expected to recover as the government approved a 33% increase in Indonesia's social assistance budget, and, in a partial reversal of 2017 policy, granted electricity subsidies to an additional 2.5 million households.

In Palembang, we saw mass market retailers offer 50-70% discounts to run down old inventory in preparation for the Lebaran holiday (a peak sales period in Indonesia) coming up in the second quarter of 2018. Year-to-date, the store we visited has reported 15% yoy sales growth.



50%+ retail discounts draw good traffic on a Thursday afternoon at Ramayana, a local department store

Home improvement retailers are guiding for double-digit growth² in 2018. In Palembang, local hardware stores are reporting 20% same-store sales growth with one-off construction and renovation boost from local venues involved in the Asian Games.



Mitra10, a local DIY retailer, seeing strong sales growth in LED lights and trash cans for stadiums, hotels and athlete accommodations in advance of the upcoming Asian games

Residential Property: Strong demand for smaller units

Indonesia's residential market has been lackluster since the commodities bust in 2014. The government's tax amnesty program in 2016 led to a short-term liquidity shortage for entrepreneurs and wealthier home buyers.

Indonesian residential developers are guiding for 0-12% increase in 2018 sales^{3,4,5}. While there is strong underlying demand for low-end homes, mid-to-high end property buyers appear to be waiting on the sidelines until after the General Elections are over. We visited the CitraGrand City Palembang project, which has houses ranging from IDR 400.0 million (US\$29,080) to IDR 2.0 billion (US\$145,000). Sales officers confirmed strong take-up for properties under IDR 800.0 million (US\$ 58,160), while properties of IDR 2.0 billion accounted for less than 20% of sales.

Infrastructure: Ambitious growth

Indonesia's lack of infrastructure has hampered growth in the past. Chart 1 shows that Indonesia's public stock

Boots on the Ground: Indonesia

March 28, 2018



per capita is below other emerging markets. Public stock is the value of government-owned assets that are used to generate economic productivity, usually infrastructure such as roads, bridges and utilities distribution. President Jokowi's National Medium Term Development Plan (RPJMN) seeks to raise public and private investment in infrastructure. Rising commodity prices will help to fund public spending in infrastructure. In 2016, 6.5% and 82.7% of the government's revenues were directly or indirectly correlated to commodities prices.⁶



Picture 8: Scale model of CitraGrand City Palembang

We witnessed part of the infrastructure construction boom as Palembang city rushed to build its Light Rail Transit (LRT) system that will connect the airport to Jakabaring Stadium for the Asian Games.



Picture 10: Palembang traffic worsens as cars share the road with LRT construction

Indonesia's public capital stock per capita is low relative to other emerging markets

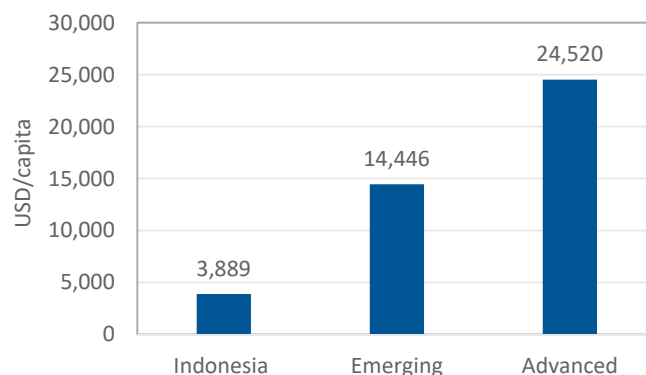


Chart 1: Source: IMF Investment and Capital Stock Dataset (2017)

Key items from President Jokowi's RPJMN:

- US\$95bn investment to double power production to 464.2 terawatt hours (TWh)
- US\$54bn investment to build 6,220km of additional toll roads by 2025
- US\$47bn investment in ports by 2030
- US\$20bn investment in public works projects (water, sanitation)

Key items from President Jokowi's Development Plan

Key Takeaways

Indonesia's economy continues to benefit from the recovery in global commodity prices and we are invested accordingly. Financial sector profits are rising after non-performing loan provisions related to the commodities down-cycle peaked in 2015-16. We are exposed to Indonesia's infrastructure growth through investments in heavy equipment and building material. Rising discretionary incomes are trickling down to mass market consumers, which supports department stores and advertising. As incomes continue to rise, we see possibility for further pick-up in property demand. We are positive on the long-term prospects of Indonesia.

Jocelyn Teh, CFA

Senior Analyst, Emerging Markets
Fiera Capital Inc.

- (1) <https://yourfreetemplates.com/free-indonesia-editable-map/>
- (2) "Ace Hardware Indonesia's Sales in 2017 Exceed Expectations," last modified Jan 17, 2018, <https://www.indonesia-investments.com/news/todays-headlines/ace-hardware-indonesia-s-sales-in-2017-exceed-expectations/item8509?>
- (3) "BSD Targets Marketing Sales of IDR 7.2 Tln in 2018," last modified Feb 14, 2018, <http://www.en.netralnews.com/news/business/read/18398/bsd.targets.marketing.sales.of.idr72.tln.in.2018>
- (4) "CTRA Prepares Two Latest Projects," last modified Jan 9, 2018, <https://www.ciputradevelopment.com/en/ctra-prepares-two-latest-projects/>
- (5) "Summarecon Agung dongkrak target marketing sales 11,11% di 2018," last modified Feb 19, 2018, <http://103.7.1.142/summarecon/public/files/article/SMRA-Presentation-2018-02.pdf>
- (6) Ministry of Finance, Indonesia <http://www.data-apbn.kemenkeu.go.id/Dataset/Details/1018> (cgo april 2017.xlsx)

GENERAL DISCLOSURES

This material is proprietary to Fiera Capital Inc. ("Fiera Capital"). This document is intended for information purposes only and may not be relied upon in evaluating the merits of investing in any Fiera Capital investment vehicle or portfolio.

The information provided reflects Fiera Capital's views as of the date of this presentation. Such views are subject to change at any point without notice. Some of the information provided herein is from third party sources and/or compiled internally based on internal and/or external sources and are believed to be reliable at time of production but such information is not guaranteed for accuracy or completeness and was not independently verified. Fiera Capital is not responsible for any errors arising in connection with the preparation of the data provided herein. No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of such information by Fiera Capital or any other person; no reliance may be placed for any purpose on such information; and no liability is accepted by any person for the accuracy and completeness of any such information.

These materials are not intended as investment advice or a recommendation of any security or investment strategy for a specific recipient, investments or strategies that may be described herein are provided as general market commentary. Nothing herein constitutes an offer to sell, or solicitation of an offer to purchase, any securities, nor does it constitute an endorsement with respect to any investment area or vehicle.

Any charts, graphs, and descriptions of investment and market history and performance contained herein are not a representation that such history or performance will continue in the future or that any investment scenario or performance will even be similar to such chart, graph, or description.

Past performance is not a guarantee or indicator of future results. All investments involve risk, including possible loss of all or a substantial portion of the principal amount invested.

In addition to the risks associated with all investments, investments in emerging markets may be more volatile and less liquid than other investments. Investments in emerging markets are also subject to currency fluctuations, political instability, and other economic and market risks.

FORWARD-LOOKING STATEMENTS

Discussions regarding potential future events and their impact on the markets are based solely on historic information and Fiera Capital's estimates and/or opinions, and are provided for illustrative purposes only. A number of the comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of Fiera Capital's best judgment at the time this document is compiled, are subject to change at any time without prior notice, cannot be guaranteed as being accurate, and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual investment strategy/style, security, asset class, markets generally, nor are they intended to predict the future performance of any Fiera Capital investment vehicle or portfolio.