

## Smaller Emerging and Frontier Markets Update

# High Growth Opportunities in a Low Growth World

**Dominic Bokor-Ingram**Senior Portfolio Manager,  
Emerging and Frontier Markets

With over thirty years of experience in smaller emerging and frontier markets, our investment approach has always placed a strong emphasis on applying a strict macro overlay. This enables us to carefully identify the stock that in our view benefit most from structural local reforms and avoid potential crises.

To begin with, it seems like the challenging situations in some countries are not improving. Nations such as Egypt, Kenya, Bangladesh, and Pakistan are still experiencing the adverse effects of high oil and food prices. The trade balances of these countries do not indicate any positive developments either. Eastern Europe is also facing difficulties, but the situation is becoming more selective as politicians are starting to take action and implement energy policies that their citizens demand. Unfortunately, this has come too late for the winter, and there seems to be no visible end to the war in the region. At present, our Lead Analyst is in the area, ensuring that we have accurate information.

On the positive side, as evidenced through performance, the themes in the portfolio have been playing out very well.

Kazakhstan is broadening its geopolitical outlook to decrease its dependence on Russia, although it cannot completely eradicate the risk. The price of uranium has risen from \$53 to \$70, indicating a promising trend, and both the corporations and the country can benefit from the operational leverage.

The earnings of Greek banks have been exceeding expectations, and we believe that there is still significant room for growth despite their strong performance this year. As a matter of fact, we are further investing in Greek positions by participating in the cornerstone investment of a private Greek bank's IPO.

Latin America, or more specifically, certain regions within the continent, have recently captured our attention. Firstly, the region boasts some of the highest real interest rates in the world. This means that there is significant potential for rate cuts in many of the countries, regardless of the direction of the Fed. Secondly, there are a few emerging trends that deserve attention. These include the nearshoring opportunity in northern Mexico and the combination of very high real interest rates, very cheap valuations, and an improving political situation, which are attracting our interest in Chile. Our Co-Senior Portfolio Manager and Lead Analyst are currently in Chile to determine if it is suitable for us to allocate our resources.

The two main positions in the strategy, Vietnam and the Middle East, continue to perform very well from a fundamental perspective. The Vietnamese market is currently not keeping up with the fundamentals but there have been a number of changes in the Middle East portfolio as we sell positions that reach their target price and rotate into more attractive looking opportunities. During our recent trip to Vietnam, I composed an internal memo detailing my observations and insights, which I subsequently circulated among my colleagues. Additionally, I have included a memorandum on the recent shift of Greek debt to investment grade, as well as my reflections on the current situation in the Middle East. It is my fervent hope that these

notes will prove to be of value to those who are concerned with the economic and political landscape of the region.

Finally, the table below shows the current valuation and earnings growth expectations. Portfolio earnings growth for this year and next has increased during the year as actual numbers have been reported. They are running ahead even

of performance so valuations are a little cheaper than the beginning of the year.

Strategy	P/E 23	P/E 24	EG 23	EG 24
Fiera New Frontiers	11.8	9.0	24%	36%

There is no guarantee the growth expectations will be achieved.  
P/E is Price-to-Earnings Ratio. EG is Earnings Growth.

## Vietnam

**Vietnam took a significant step forward in its global integration by strengthening diplomatic ties with the US to improve technological collaboration and build political trust.**

This decision was made after President Biden, on a visit to Vietnam post the G20 summit in India, recognized Vietnam's potential to become a significant player in the semiconductor industry and the global supply chain, elevating diplomatic relations between the two countries to an all-time high.

This recent development has significant implications for Vietnam's economic ties with the United States. Vietnam is presently its seventh-largest trading partner globally and the largest among the ASEAN economies. However, this new development could potentially elevate them to a much higher position. Despite already attracting global giants such as Samsung, LG, Toyota, and Lego, the key benefit from a higher diplomatic relationship with the US is the positive spill over effect for Foreign Direct Investments. These effects include technological advancements, skill transfers, managerial expertise, and value chain integration. These benefits are more likely to materialize as both countries collaborate on the political scene.

A large number of US companies have already pledged to invest in 1,286 projects in Vietnam with a total investment of USD 11.79 billion.<sup>1</sup> Senior executives from various companies such as Google, Intel, Amkor, Marvell, GlobalFoundries, and Boeing attended the summit in Vietnam and demonstrated their commitment towards this cause alongside Vietnamese companies, including VinFast, Vietnam Airlines, VietJet Air, and technology-driven companies FPT and VNG. Among the agreements announced in September was a \$7.8bn deal for Vietnam Airlines to buy 50 737 Max jets from plane maker Boeing, AI projects in the country involving Nvidia and Microsoft, and the construction of semiconductor design centres by California-based groups Synopsys and Marvell in Ho Chi Minh City.

With the US's commitment to invest in Vietnam, local companies are expected to benefit from the enhanced market growth prospects while increasing their competitiveness on a global level, allowing them to move up the value chain.

Thus further growing not only their export capabilities but the domestic economy too. Our high conviction in Vietnam's structural growth is translated through the Strategy in the Frontier and Smaller Emerging Markets strategies having a significant exposure to Vietnam, while the Global Emerging Markets strategy has a large off-benchmark position.

## Greece

**DBRS Morningstar, the world's fourth-largest credit ratings agency, upgraded Greece's sovereign credit rating to BBB, marking the country's most significant upgrade out of "junk" since it was hit by a debt crisis over a decade ago.**

This decision was made after the recent elections that brought another period of political stability to Greece and secured policy continuation from a business-friendly government committed to returning the budget to a surplus, cutting the debt ratio from 206% of GDP to 140% by 2027 and repaying Greece's rescue loan early.

This is very important for the Greek economy as the Recovery and Resilience Plan continues to be implemented where investments are an essential source of growth. The return to investment grade means the country has full access to the European Central Bank's liquidity as Greek debt automatically becomes eligible for the ECB's asset purchase programmes and for reinvestment of matured bonds on the central bank's balance sheet. As a result, Greece can fuel its planned recovery by borrowing money at lower interest rates, reducing its debt servicing costs and giving it more fiscal flexibility.

The principal beneficiaries of such a structural change in the portfolios are the Greek banks, which will have more access to wholesale funding, significant deposit in-flows and lower interest rates in a growing economy. Fundamentally, Greek banks already have the broadest net interest margins and highest return-on-equity in Europe; this extra leg of funding easing is expected to amplify their profitability further.

Although this first step is an extraordinary achievement made by the Greek government, the next step for the sovereign is to be included in investment-grade indices which typically requires a rating from at least one of the three leading agencies: S&P, Moody's and Fitch. That would open up Greek government

<sup>1</sup> <https://en.nhandan.vn/opportunity-to-receive-investment-wave-from-us-post129536.html>



debt to a broader pool of investors, further reducing the government's cost of borrowing and providing finance for economic growth.

Greece has been part of the strategy's portfolio since early 2021 when this political and economic structural turnaround began. Today, the country exposure in the strategy is either high off-benchmark or significantly overweight.

## Middle East

**In recent weeks, we have observed that global macroeconomic factors have been stronger influences on the Middle Eastern equity markets than regional fundamentals.**

The Federal Reserve's anticipated effects on the market have been the most significant factor, causing investors to consider a global economic slowdown, persistent inflation pressures, and a stronger dollar. These factors have traditionally negatively impacted the broader emerging markets, resulting in a sell-off in the asset class as a whole and impacting the Middle East region.

We believe that the current situation is only temporary, as while the Middle East is not immune to high rates, strong sentiment and firm demand have offset the higher funding cost in the short term. In the longer term, we see limited risk of a potential economic slowdown in the region as growth drivers shift from consumption to investment and project execution

gains pace. High-frequency data confirms strong momentum running into the second half of this year, with non-oil growth maintaining speed, allowing the region to outperform other equity markets.

**There are several catalysts that could reverse recent weakness:**

1. The recent increase in oil prices, which could boost investor sentiment. Many people believe that the success of projects and the budgets of GCC governments are closely tied to oil prices. If necessary, the governments can use their reserves to fill any funding gaps that cannot be met by the private sector or the market. Additionally, policymakers have a lot of flexibility due to the low levels of debt, even if there is a drop in oil prices.
2. Despite the global economic conditions being poor, the local demand for equities is still strong in the region. This is reflected in the strength of the regional IPO market, with companies like LUMI, a Saudi car leasing company, being 10 times oversubscribed and ADNOC Logistics receiving 163 times oversubscription in May.<sup>2</sup>
3. We expect 3Q23 earnings numbers across the strategy to further confirm the high expected earnings growth across the companies.

<sup>2</sup> <https://www.argaam.com/en/article/articledetail/id/1670615>



Fiera Capital Corporation ("**Fiera Capital**") is a global independent asset management firm that delivers customized multi-asset solutions across traditional and alternative asset classes to institutional, retail and private wealth clients across North America, Europe and key markets in Asia. Fiera Capital trades under the ticker FSZ on the Toronto Stock Exchange. Each affiliated entity (each an "**Affiliate**") of Fiera Capital only provides investment advisory or investment management services or offers investment funds in the jurisdictions where the Affiliate and/or the relevant product is registered or authorized to provide services pursuant to an exemption from registration.

This document is strictly confidential and for discussion purposes only. Its contents must not be disclosed or redistributed directly or indirectly, to any party other than the person to whom it has been delivered and that person's professional advisers.

The information presented in this document, in whole or in part, is not investment, tax, legal or other advice, nor does it consider the investment objectives or financial circumstances of any investor.

Fiera Capital and its Affiliates reasonably believe that this document contains accurate information as at the date of publication; however, no representation is made that the information is accurate or complete and it may not be relied upon. Fiera Capital and its Affiliates will accept no liability arising from the use of this document.

Fiera Capital and its Affiliates do not make recommendations to buy or sell securities or investments in marketing materials. Dealing and/or advising services are only offered to qualified investors pursuant to applicable securities laws in each jurisdiction.

**Past performance of any fund, strategy or investment is not an indication or guarantee of future results. Performance information assumes the reinvestment of all investment income and distributions and does not account for any fees or income taxes paid by the investor. All investments have the potential for loss.**

This document may contain "**forward-looking statements**" which reflect the current expectations of Fiera Capital and/or its Affiliates. These statements reflect current beliefs, expectations and assumptions with respect to future events and are based on information currently available. Although based upon what Fiera Capital and its affiliates believe to be reasonable assumptions, there is no guarantee that actual results, performance, or achievements will be consistent with these forward-looking statements. There is no obligation for Fiera Capital and/or its Affiliates to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Strategy data such as ratios and other measures which may be presented herein are for reference only and may be used by prospective investors to evaluate and compare the strategy. Other metrics are available and should be considered prior to investment as those provided herein are the subjective choice of the manager. The weighting of such subjective factors in a different manner would likely lead to different conclusions.

Strategy details, including holdings and exposure data, as well as other characteristics, are as of the date noted and subject to change. Specific holdings identified are not representative of all holdings and it should not be assumed that the holdings identified were or will be profitable.

Certain fund or strategy performance and characteristics may be compared with those of well-known and widely recognized indices. Holdings may differ significantly from the securities that comprise the representative index. It is not possible to invest directly in an index. Investors pursuing a strategy like an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns, whereas an index does not. Generally, an index that is used to compare performance of a fund or strategy, as applicable, is the closest aligned regarding composition, volatility, or other factors.

Every investment is subject to various risks and such risks should be carefully considered by prospective investors before they make any investment decision. No investment strategy or risk management technique can guarantee returns or eliminate risk in every market environment. Each investor should read all related constating documents and/or consult their own advisors as to legal, tax, accounting, regulatory, and related matters prior to making an investment.

**United Kingdom:** This document is issued by Fiera Capital (UK) Limited, an affiliate of Fiera Capital Corporation, which is authorized and regulated by the Financial Conduct Authority. Fiera Capital (UK) Limited is registered with the US Securities and Exchange Commission ("**SEC**") as investment adviser. Registration with the SEC does not imply a certain level of skill or training.

**United Kingdom – Fiera Real Estate UK:** This document is issued by Fiera Real Estate Investors UK Limited, an affiliate of Fiera Capital Corporation, which is authorized and regulated by the Financial Conduct Authority.

**European Economic Area (EEA):** This document is issued by Fiera Capital (Germany) GmbH ("**Fiera Germany**"), an affiliate of Fiera Capital Corporation, which is authorized and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

**United States:** This document is issued by Fiera Capital Inc. ("**Fiera U.S.A.**"), an affiliate of Fiera Capital Corporation. Fiera U.S.A. is an investment adviser based in New York City registered with the Securities and Exchange Commission ("**SEC**"). Registration with the SEC does not imply a certain level of skill or training.

**United States - Fiera Infrastructure:** This document is issued by Fiera Infrastructure Inc. ("**Fiera Infrastructure**"), an affiliate of Fiera Capital Corporation. Fiera Infrastructure is registered as an exempt reporting adviser with the Securities and Exchange Commission ("**SEC**"). Registration with the SEC does not imply a certain level of skill or training.

## Canada

**Fiera Real Estate Investments Limited ("**Fiera Real Estate**")**, a wholly owned subsidiary of Fiera Capital Corporation is an investment manager of real estate through a range of investments funds.

**Fiera Infrastructure Inc. ("**Fiera Infra**")**, a subsidiary of Fiera Capital Corporation is a leading global mid-market direct infrastructure investor operating across all subsectors of the infrastructure asset class.

**Fiera Comox Partners Inc. ("**Fiera Comox**")**, a subsidiary of Fiera Capital Corporation is a global investment manager that manages private alternative strategies in Private Credit, Agriculture and Private Equity.

**Fiera Private Debt Inc. ("**Fiera Private Debt**")**, a subsidiary of Fiera Capital Corporation provides innovative investment solutions to a wide range of investors through two distinct private debt strategies: corporate debt and infrastructure debt.

Please find an overview of registrations of Fiera Capital Corporation and certain of its subsidiaries by following this link <https://www.fieracapital.com/en/registrations-and-exemptions>.

**Equity risk:** The risk that the value of stock may decline for issuer-related or other reasons. **Market risk:** The risk that the market value of a security may move up or down, sometimes rapidly and unpredictably, based upon a change in market or economic conditions. **Liquidity risk:** The risk that the strategy may be unable to find a buyer for its investments when it seeks to sell them. **General risk:** Any investment that has the possibility for profits also has the possibility of losses, including loss of principal. **Equity risk:** Equities can lose value rapidly for a variety of reasons and can remain at low prices indefinitely. **ESG and sustainability risk:** ESG and Sustainability risk may result in a material negative impact on the value of an investment and performance of the portfolio. **Geographic concentration risk:** Geographic concentration risk may result in performance being more strongly affected by any social, political, economic, environmental or market conditions affecting those countries or regions in which the portfolio's assets are concentrated. **Investment portfolio risk:** Investing in portfolios involves certain risks an investor would not face if investing in markets directly. **Operational risk:** Operational risk may cause losses as a result of incidents caused by people, systems, and/or processes.