

December 2023

Fiera OAKS EM Select Strategy: A Three-Year Recap



We are pleased to report that the Fiera OAKS EM Select Strategy is approaching its three-year anniversary on 6th January, 2024. The Strategy has achieved significant success in its smaller emerging markets mandate, as detailed in this article through country-specific investment examples in Saudi Arabia, Vietnam and Greece.

Introduction

The Fiera OAKS EM Select Strategy was created and seeded by its Portfolio Managers, Dominic Bokor-Ingram and Stefan Böttcher, to capitalise on growth opportunities in emerging and frontier markets worldwide, excluding the six largest emerging markets as per the MSCI EM Index.

The focus on larger emerging markets, which now make up more than 80% of the benchmark, has been increasing over the last 15 years, while the attention given to smaller emerging markets, which are relatively under-owned by foreign investors and under-researched by investment houses, has been diminishing. As a result, stocks in the countries with strong reform-driven economies have been inefficiently priced.

With over 30 years of experience in emerging markets, the Portfolio Managers saw an opportunity to generate alpha by bottom-up stock selection in this universe, taking a benchmark agnostic approach in looking for growth in a low growth world.

Performance Overview

► Overall Performance

Since inception, the strategy has shown an absolute performance increase of **+42.3%** (USD net of fees)

► Benchmark Comparison

The Custom benchmark (MSCI Emerging Markets Index minus the top six countries + MSCI Frontier markets Index) was up by **+9.6%** (USD net of fees)

► Wider Universe Comparison

The MSCI Emerging Markets Index fell by **-24.5%** (USD net of fees)

MSCI Emerging Markets Weights Q3 2023

Where is the universe today?

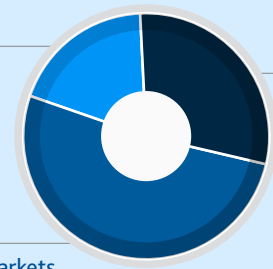
The largest six markets that dominated the emerging market universe three years ago are still there, continuing to reduce the diversification benefits and focusing attention away from smaller markets.

19%

Smaller emerging markets

51%

Larger emerging markets



30%

China

Source: MSCI, 30 September 2023.

Where did the strategy deliver the strongest alpha, since inception?

The top three largest country contributors to performance were Saudi Arabia, Vietnam and Greece.

Saudi Arabia

Performance

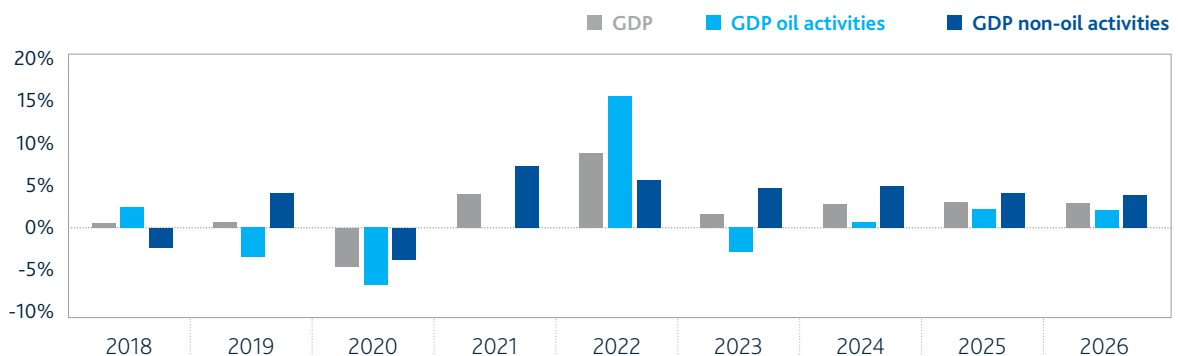
The Saudi Arabian holdings accounted for an average of 18.4% of the portfolio since inception and generated 145% in absolute returns. This is significantly higher than the 20.4% country allocation in the custom benchmark, which only yielded 33.5%.

Key Factors

This success is attributed to the non-oil economic boom, driven by social and economic reforms. The emergence of a growing

consumer class created significant investment opportunities, particularly in consumer staples and discretionary sectors. Vision 2030 and other initiatives have led to a USD1 trillion pipeline of projects, benefiting utilities, industrials, and the digitalisation of the public sector. The capital market reforms, initially a key catalyst to the country's upgrade to the MSCI Markets Index, facilitating direct foreign investments, also played a crucial role in this performance as we have seen a strong wave of IPOs since the launch of the Strategy.

Saudi Arabia Oil & Non-Oil GDP Growth (YoY)



Source: Oxford Economics Actual and Forecast Oil & Non-Oil GDP Growth, as at 30 September 2023.

Vietnam

Performance

The Vietnamese holdings comprised 15.9% of the portfolio on average and generated a 25.8% absolute return, while the Vietnamese custom benchmark holdings fell by -27.6%.

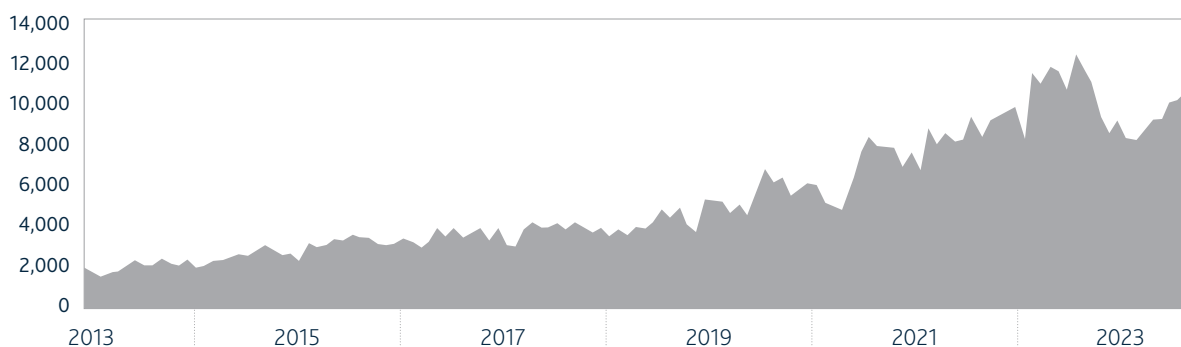
Key Factors

Vietnam was able to make a strong comeback after the COVID-19 pandemic due to its early implementation of lockdowns. Additionally, the country has been able to control inflation better than many developed markets, resulting in a relatively lower interest rate environment. This has benefited the banking sector, which is currently under-penetrated, as well as the services sector, which remains very competitive in terms of margins and pricing.

The government of Vietnam is taking necessary steps to become eligible for emerging markets status. The most important of these steps is an upgrade of the stock exchange trading system, which is due to be completed this month. Upon its completion, international investors will no longer be required to pre-fund their investments, which is a significant barrier to foreign participation in the stock market. This should result in increased involvement of foreign investors in daily trading volumes, ultimately leading to a closing of the valuation gap between local and regional companies. Furthermore, Vietnam has strengthened its diplomatic ties with the US to promote technological collaboration and build political trust, which is expected to enhance both their export capabilities and domestic economy.



U.S. Imports of Goods by Customs Basis from Vietnam (USDm)



Source: UD St Louis Fed, as at 30 September 2023.

Greece

Performance

The Greek holdings represented an average of 7.3% of the portfolio since inception and generated 75.1% of absolute returns. This is significantly higher than the 1.36% country allocation in the custom benchmark, which yielded only 42.5%.

Key Factors

When the Strategy first began investing in Greece, no international bank or research house covered any stocks in the country. However, in 2021, we realized that Greece had hit the lowest point in its GDP cycle, yet the government could still repay its interest on debt. Two key factors led to the Strategy's investment in the country. Firstly, after COVID, banks recapitalised to clean up their legacy non-performing loan books, which made it possible for investors to invest in balance-sheet-

sound banks. Secondly, the Greek government's recovery plan, which included fiscal discipline and large infrastructure projects, gave the country a clear reform-driven growth trajectory.

The government's re-election this year then increased confidence in the market. The positive, sustained public debt trajectory led to Greece's sovereign bond yields spread to German Bunds and Italian BTPs to narrow further. This year, for the first time since 2010, S&P rated Greece sovereigns as investment grade (IG). This event benefited the Greek banks in the portfolio as the upgrade should reduce their cost of funds and improve their margins. As you can see to the right, Greece is the most prominent active position in the portfolio, given our high conviction in the financial sector, since inception.

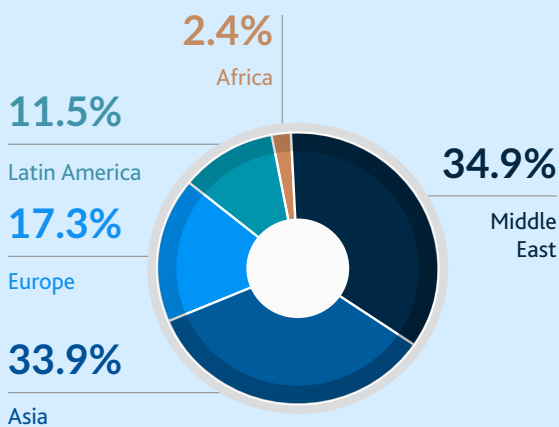
Weighed Average Since Inception

Greek Financials Portfolio

Average Portfolio	Average Benchmark	Variation	Portfolio	Benchmark	Variation
4.9	0.5	4.4	78.0	38.7	39.3

Source: Fiera Capital, as at 30 September 2023.

Fiera OAKS EM Select Regional Classification



Source: Fiera Capital, as at 30 September 2023.

Regional and Country Positioning Today

- 1. Middle East:** We continue to see domestic growth in the Saudi and Emirati non-oil sector trickling down into company earnings growth and sustain the wave of IPOs in the region.
- 2. Asia:** The high level of domestic growth will continue strengthening the emerging middle-class alongside the increasing inclusion of the region into the global supply-chain for value added product.
- 3. Europe:** Eastern and Southern European countries have strong reform processes in place which will benefit well operationally leveraged businesses.
- 4. Latin America:** The nearshoring in Mexico is strongly increasing yields on commercial and industrial real estate assets and economic activity.

Performance and Valuation Outlook

Although the Strategy has risen by 42.3% since inception, today's portfolio reflects a new set of opportunities.

Since inception, the Strategy has been trading on an average at 12.5 times one year forward P/E and expecting 16% earnings growth. The Strategy is currently trading at that same 10.7 times forward price-to-earnings ratio despite delivering strong performance as the Strategy constantly manages position exit levels to incorporate new investments with higher expected earnings at a more attractive valuation.

We expect the portfolio to generate close to 25% of earnings growth this year and 40% next year, which provides further strong potential for appreciation.

Team Update

The team continues to seek the best investment opportunities across the universe with a large bench of ideas that could make it into the portfolio depending on individual stock investment theses or broader market forces. Year-to-date, the team has had close to 700 company meetings, two thirds of them in the regions.

	Price-to-Earnings		Emerging Growth	
	2023	2024	2023	2024
EM Select	10.7	6.4	25%	40%
MSCI Emerging Markets Index	12.5	10.3	9.5%	17.8%

Source: MSCI, Fiera Capital, as at 30 September 2023.



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