

# Finding where the strength in EM really lies

It is fair to say that most Emerging markets have "emerged", but like most large cohorts it is worth lifting the lid a bit to make sure you are accessing these markets in the best way.

China now accounts for 40% of the MSCI emerging markets index and is less vulnerable than other emerging markets with the fiscal and monetary wherewithal to rebound from temporary economic setbacks.

## Emerging Markets are mostly Asia ex-Japan

USD	MSCI Emerging Markets	MSCI All Country Asia Ex-Japan
Total	100	100
China	39.63	43.68
Taiwan	12.86	14.17
Hong Kong	0.00	9.66
Greater China	<b>52.49</b>	<b>67.51</b>
Korea	11.74	12.94
India	8.36	9.21
Thailand	2.32	2.56
Indonesia	1.54	1.69
Malaysia	1.82	2.00
Singapore	0.00	3.14
Philippines	0.83	0.91
Pakistan	0.02	0.03
Rest of Asia ex-Japan in EM	<b>26.61</b>	<b>32.47</b>
<b>Total Asia ex-Japan in EM</b>	<b>79.10</b>	

### The Rest of the EM Countries

Country	Value	Value
Brazil	4.73	0.00
Russia	3.34	0.00
South Africa	3.77	0.00
Saudi Arabia	2.59	0.00
Mexico	1.82	0.00
Qatar	0.92	0.00
Poland	0.73	0.00
Chile	0.67	0.00
United Arab Emirates	0.56	0.00
Turkey	0.42	0.00
Peru	0.28	0.00
Hungary	0.24	0.00
Colombia	0.23	0.00
Greece	0.21	0.00
Argentina	0.13	0.00
Egypt	0.13	0.00
Czech Republic	0.11	0.00
Non Asia EM	20.88	0.00

About 15% of EM

To begin, a few bits of evidence to bring out the first statement that they have emerged. Emerging and developing economies are now almost 60% of the world's Gross Domestic Product (GDP), and growing, and they have some of the highest rates of Real GDP growth. This share of GDP will only continue to increase and is driven by long term systemic trends.

Emerging markets are the home of close to 90% of the world's population – give or take 6 billion – and it is a younger population.

Australia is about 2% of global share market capitalisation. Clearly the majority of investment opportunities lie outside our shores, and this includes sectors and stocks not well represented in the ASX.

China has spent only 5% of GDP on stimulus during the COVID-19 pandemic, less than the 13% of GDP spent by the U.S. leaving it room to spend more if necessary.

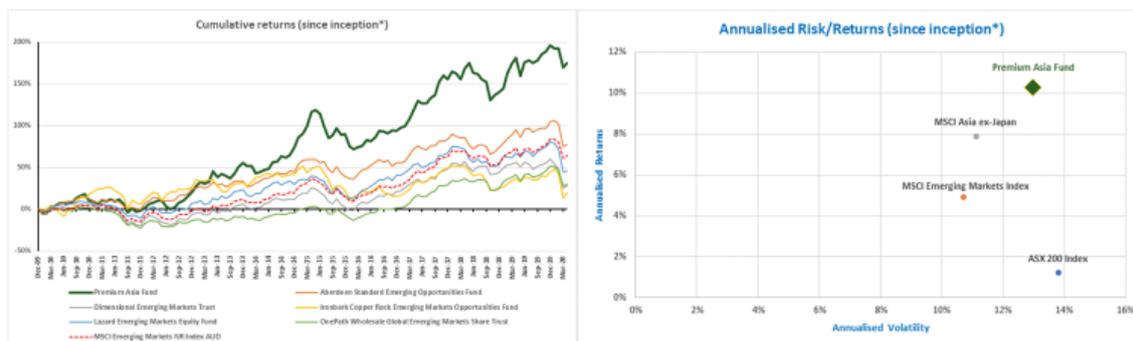
We think that a better investment outcome comes from drilling down a bit deeper. It comes as a surprise to some that 80% of the EM index is now Asia ex-Japan. This raises a couple of key questions. What is the 20% difference? Is it performance additive or is it problematic? The following tables show us the make up the MSCI EM and the MSCI Asia ex-Japan indices.

As well as Asia ex-Japan making up 79.1% of the EM index, Greater China (China, Hong Kong and Taiwan) make up over half of the EM index, and 2/3 of Asia ex-Japan.

and social issues, bringing significant volatility. Some argue that they are purely opportunistic plays in EM.

In the end, we believe that outcomes matter most to clients. Asia ex-Japan

## Performance of MSCI Asia ex-Japan Index is better.



Premium Asia Fund performance is materially stronger than EM Index and EM Funds.

What are the main differences? Four countries out of the 17 that are not Asia ex-Japan comprise 15% of the EM index. Brazil, Russia, South Africa and Saudi Arabia. The remaining 13 countries total about 5%.

with its greater stability, population and opportunities versus EM has also delivered better outcomes, as exhibited in the charts below, where the respective indices show the result clearly.

Essentially those four countries are strongly linked to commodities and also have some material governance

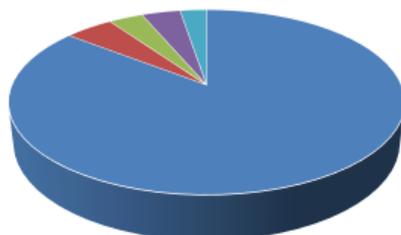
We would add, too, that EM countries generally are countries where markets still have inefficiencies and greater

## Which 15% Country Exposure is more robust?

The main countries making up the difference are highly volatile and with sovereign risk

Main EM countries not Asia ex-Japan

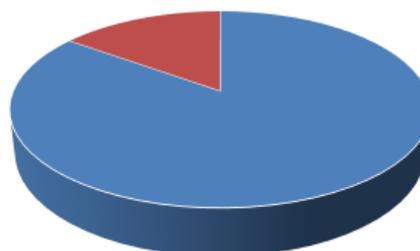
Rest Brazil Russia South Africa Saudi Arabia



MSCI

Extra exposure to Greater China in Asia ex-Japan vs EM

Rest Greater China



stock picking opportunities, especially when there are feet on the ground with local contacts and expertise. Our own Asia ex-Japan Fund has delivered just that to our clients.

So – we completely agree that EM is a strong opportunity, but the numbers show that EM's strength is really Asia ex-Japan.