



Q&A

15-Year Milestone: Fiera Global Emerging Markets Strategy



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Can you share the origins and evolution of Fiera's Global Emerging Markets Strategy?

Fiera's Global Emerging Markets Strategy (GEMS) was originally developed within Charlemagne Capital, where the product suite was established in 2001 and brought over to Fiera Capital in 2016 through acquisition. I took on the mantle from Mark Bickford-Smith in 2017, thirteen years after Stefan Böttcher, Chief Investment Officer of the OAKS Emerging & Frontier Markets product suite, brought me in as an Analyst. The Strategy, which has just reached its 15-year anniversary, has achieved top decile performance YTD, over 3 years, 5 years and since inception¹.

Over its 25-year history, the investment methodology that underpins GEMS has been shaped by the team, but the core philosophy has, I believe, always been the same. We prioritize a bottom-up approach to look across the full emerging markets (EM) universe in search of inefficiencies and mispriced stocks, with emphasis on those where there is a particular catalyst, which can be either macro or micro, which we believe can unlock value and generate absolute returns.

¹ Past performance is not indicative of future results. Performance targets are not guaranteed. Inherent in any investment is the potential for loss.

Could you explain your investment methodology and approach to emerging market equities?

We start with the whole universe of stocks listed in emerging and frontier markets. Liquidity is crucial for risk management and our ability to change our mind or react to unexpected events, so this is the first step in narrowing down that universe. From there, top-down considerations can help shape where we look for mispriced equities. Macroeconomic considerations, along with reforms and identification of improving political environments and even some global themes, can be used to exclude some countries where we see heightened risk of meaningful capital loss in USD terms, or direct us towards others where the backdrop is supportive for stock-picking.

From there, we travel extensively in search of high-quality, growing businesses that have a compelling reason to attract attention today, such as an impending catalyst. Moments of change and inflection points, prompted by either top-down variables or company-specific factors are often where we see opportunity as the market typically struggles to forecast the impact on earnings correctly and the ensuing impact on valuations.

We leverage our longstanding local networks to help in identifying and understanding these changes. In our bottom-up due diligence, we look for credible management teams with aligned incentives and all the traditional markers of quality investing. But we also focus on identifying a catalyst and an asymmetric return profile — meaning we see meaningful upside in our base case, with additional potential if optionality materializes. At the same time, we aim for downside protection through attractive valuations and where possible, shareholder returns, in case we are wrong or the catalyst takes longer to play out.

What makes your approach different to other emerging markets strategies in terms of process and objectives?

In fund management especially, there is a tendency to want to be novel, but in this case we genuinely do apply an idiosyncratic lens to investing. Meaning to say, yes, we'll look for evidence of growth, of quality and of value, but we are relatively style-agnostic. We can find mispricings and attractive upside in stocks at 5x P/E or those at 25x P/E. Our conviction is instead formed in a catalyst or inflection point, which we think is more

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than likely to influence company earnings and this triggers a deeper investigation. Naturally, we find more of our big winners when the starting valuation is low, but we do not think this precludes owning decent quality, growing businesses.

This perspective has several advantages, not least that it allows us to embrace the market's opportunities with a diversified exposure and avoiding over-reliance on any particular driver or theme to generate returns. Provided we're disciplined, if we discover mispriced value, we can benefit from market inefficiency. The team is structured and incentivized to be performance- and investment-led, not coverage-led. We want them to spend their time finding alpha generating ideas, not writing long reports replicating the sell-side just because a particular sector is large in the benchmark. We won't own anything simply because it is in the benchmark; our absolute return mindset leads us to a portfolio of stocks where we see real and meaningful upside potential. One of the perils of passive investing in an asset class where the range of returns between best and worst country is frequently in excess of 50% a year, is that the benchmark can lead investors to be too heavily exposed in the wrong places at the wrong time.

Many quality managers that gathered large AUM in the last decade have relied on a backward-looking definition of the style to find companies that have been great for the last decade. Of course there is some value in this, but these companies tend to be well-known, well-owned and expensive. We are more open-minded to look forward and try to identify the winners of the coming years, perhaps in businesses that have been overlooked and deliberately ignored based on out-of-date misconceptions. Recognizing these improvers early has been a key source of performance in recent years and speaks to the proactive approach we expect from our team in doing the hard yards on the ground to generate ideas.

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What does the composition of your portfolio look like?

At any one time we're holding approximately 50-60 stocks from across various geographies, both large and small, and with healthy representation from small and mid-caps across a broad mix of sectors. We allocate where our highest conviction ideas are, but the overall characteristics of the portfolio have been remarkably stable with higher growth, higher returns¹ and lower leverage than the EM benchmark, but usually gaining access to these attractive characteristics at inline or cheaper valuations.

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Which misconception do you encounter most often when speaking with potential investors about emerging markets?

The misperception that really pervades emerging markets investing – even in large EMs – is the idea that they are all defined by poor governance and are inherently riskier. Arguably, in the early stages of the EM asset class, say, pre-2010, this would be true. But over the last decade-and-a-half in particular, the EM universe has drastically changed while still suffering outdated assumptions.

From 2015, post-Global Financial Crisis (GFC), we've seen a real reversal of fortunes. Governments and central banks have generally learned from their mistakes in past crises and behaviour in many cases has been more orthodox than what we

see today from many developed markets. In EM, there is now reduced dollar dependency, favourable government balance sheets, greater emphasis on balancing the budget and sensible monetary policy designed to keep inflation under control. By contrast, in a lot of developed countries, the opposite is true: the world is still feeling the effects of the fiscal largesse and ZIRP (Zero Interest-Rate Policy) environment triggered by the COVID pandemic.

The other misconception is that the asset class moves as a homogenous whole. Nearly every year there is a huge performance differential between the best and worst performing markets, usually well over 50%, and so we would argue there are always opportunities to generate returns somewhere in our universe and that lends itself to active managers willing to focus on finding those.

What would you attribute your consistent outperformance to?

When we look at the attribution over the long term, we see different countries contributing at any given time, but what is consistent is that the majority of our outperformance comes from stock selection rather than asset allocation. Our experience in identifying scenarios that lend themselves to underestimated earnings and mispricings, as well as a consistent application of the philosophy described earlier, ensures that the bench of potential investment opportunities is always a deep one. A willingness to engage with companies at the tipping point of change or to resurface discarded opportunities would be one element. Humility in approaching local market brokers for intelligence and to foster our deep domain knowledge is also important.

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In your view, what are some of the most underappreciated or misunderstood opportunities in emerging markets that are being missed?

The South Korean market has spent over a decade frustrating international investors as a value trap. I think that is changing. It was one of the first countries I visited when global pandemic restrictions were lifted and there are three pools of opportunity that can help deliver outsized returns for some years.

The first driver is the *Value Up* reform program instigated by the government last year, and enjoying renewed momentum courtesy of the new President. The second group where we have

had a lot of success is in industrial exporters. For a long time these were perceived as low quality domestic cyclical but as Korea's expertise and value for money in power grid equipment, shipbuilding and defence has coincided with growing global demand, we are seeing a dramatic shift in order books to far more profitable exports. Finally, the Korean semiconductor and memory ecosystem taps into the unrelenting progress in technology, more recently playing a vital role in producing high bandwidth memory needed to maximize the potential in AI chips and servers.

South Korea is still cheap relative to Asian peers and we see global and GEM investors who have been absent for many years beginning to re-engage.

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Version STRENG004