

Global emerging markets update

Monthly commentary

April 2016

Economic & market overview

Emerging market equities rallied in March, buoyed by rising oil prices and hopes that China will do more to boost growth. Investors also welcomed the US Federal Reserve's decision to keep rates on hold and projections for fewer rate rises this year. The European Central Bank's bolder-than-expected monetary easing measures further supported sentiment. However, a series of terror attacks that struck Brussels, Pakistan and Turkey raised security fears.

Chinese shares were bolstered by premier Li Keqiang's confident tone at the close of the National People's Congress. He stated that the country would achieve its economic targets, supported by various policy tools to stimulate growth, while reiterating the need to push ahead with reforms. A slower decline in the country's foreign reserves in February and an improvement in its manufacturing data also allayed fears of capital flight. Meanwhile, Indonesia cut rates for the third consecutive month, although the central bank signalled that it will be more cautious in further easing. Taiwan also lowered its benchmark rates amid an export slump, while Thailand left rates steady as expected.

Elsewhere, Latin American shares rose sharply. Brazilian stocks soared as the push to impeach president Dilma Rousseff gained momentum. This raised hopes for a possible change of government, which could spur reforms to improve the country's ailing economy. Chile's fourth-quarter GDP grew by 1.3%, falling short of analysts' expectations, but full-year growth still beat the previous year. Meanwhile, Colombia's central bank raised its benchmark rate as inflation worsened and economic growth accelerated.

In EMEA, Hungary's central bank became the first emerging market to enter negative interest rate territory, on the back of slower growth. Meanwhile, Turkey unexpectedly sliced 25 basis points off its overnight lending rate to 10.5%. Elsewhere, South Africa's opposition called for president Jacob Zuma to resign. The country's top court ruled that he had violated the constitution for failing to repay some of the state funds used in renovating his private residence.

Emerging stockmarkets recovered from the year's rocky start, staging an impressive rally on the back of a bounce in oil prices and dovish comments from the Fed. But there are persistent headwinds, such as China's slowdown and the possibilities of renewed commodity weakness, as the trajectory of global growth remains ambiguous. Divergent monetary policy will also continue to be a source of uncertainty as more central bankers venture into the unfamiliar territory of negative interest rates. On the other hand, investors will hope that the US Federal Reserve stick to its dovish stance, which has capped the dollar's strength. Political events, such as the ongoing turmoil in Brazil and the UK's vote on its EU membership, are also likely to dictate sentiment.

As bottom-up investors, we believe fundamentals are still sound. Emerging countries are better positioned in terms of current account balances and have healthy levels of foreign

reserves, while most are also less indebted than their developed counterparts. Governments are able to embark on reforms and spend more on infrastructure, helped by lower energy bills. On a corporate level, companies continue to focus on improving profitability and controlling costs. We remain confident in our holdings, which have been resilient despite the challenging operating environment.

Model portfolio news

For the large cap portfolio, we trimmed Ayala Land, Banco Bradesco and Vale following strong relative performance. Conversely, we topped up Magnit on valuation grounds.

For the small cap portfolio, we initiated high-quality Turkish bottler Coca-Cola Icecek on attractive valuations. Against this, we exited Blom Bank given better opportunities elsewhere. We also trimmed Localiza, Odontoprev, Totvs and Wilson Sons following the rally in Brazilian equities, given the still-challenging outlook.

Note: Any changes refer to those of our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations, so the comments may not apply to all portfolios.

Corporate news

Brazil: Localiza's results were mixed: lower interest and tax expenses boosted the bottom line, but margins were flat and declining rental rates weighed on revenues. Iguatemi's rental revenues were supported by its portfolio of quality assets, although margins were hurt by higher expenses while occupancy levels remained flat.

Chile: Mall operator Parque Arauco benefited from a modest rise in occupancy rates, expansion of leasing space and rising tenant sales. Meanwhile, costs were well-contained and higher asset revaluations offset the rise in taxes.

China/Hong Kong: Profits at Petrochina fell in tandem with the drop in oil prices, as the state-owned Chinese producer posted a 25-billion yuan writedown in its upstream business. Swire Pacific increased its dividend despite mixed results, while Cathay Pacific performed well on the back of lower fuel costs. Swire Properties' profits edged higher on the back of improvements in its China portfolio, which offset slower growth in Hong Kong. The company also lifted its dividend pay-out.

India: UltraTech Cement will buy the cement units of debt-laden Jaiprakash Associates, as part of the banking sector's efforts to reduce bad loans through the sale of distressed assets. The deal is subject to regulatory approval.

Jordan: Pharmaceutical Hikma's second-half results beat expectations on the back of a robust performance in its injectables business.

Mexico: Airport operator OMA's earnings were solid, lifted by healthy traffic growth and robust revenues.

Peru: Engineering company Grana y Montero and Spanish utility Enagas will both oversee the construction of a US\$5 billion natural gas pipeline in Peru, taking over from Brazilian construction giant Odebrecht, the project's majority shareholder that became embroiled in the Petrobras corruption scandal. This should help shield the project against any fallout from the scandal.

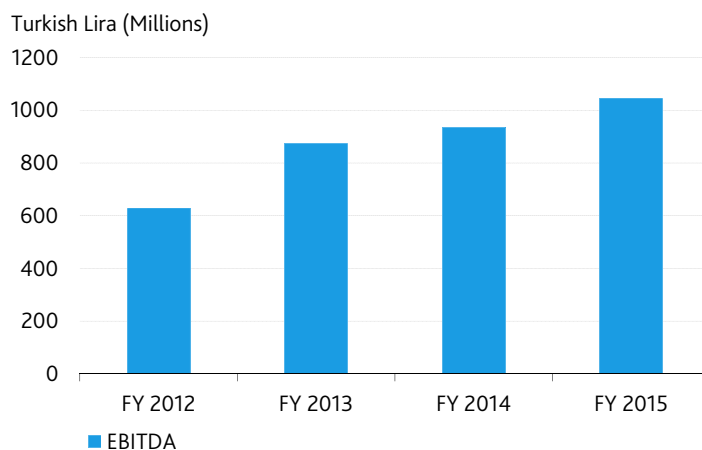
Portugal: Jeronimo Martins' results beat consensus estimates again, with healthy margins driving fourth-quarter earnings. The food retailer, which generates the bulk of its sales in Poland, surprised shareholders that it will be paying an additional dividend.

South Africa: MTN Group downgraded its dividend guidance to a minimum payout of seven rand per share next year, from 5-15% dividend growth previously.

Turkey: Retailer BIM delivered impressive full-year earnings on the back of steady margins. It was also upbeat about this year, with plans to pump 200 million lira into new stores.

We hold the companies highlighted above.

Focus: Coca-Cola Icecek: A thirst for growth



Source: Bloomberg, 31 March 2016

Our latest initiation to the small-cap portfolio, Coca-Cola Icecek, bottles and sells Coca-Cola products in countries including Turkey, Pakistan, Kazakhstan, Iraq and Syria. The company is the fifth-largest bottler of Coca-Cola by volume, with 10,000 employees across 25 plants. It operates in a region with favourable demographic trends that have underpinned robust volume growth. We are confident in the management's capabilities, while the company's balance sheet should benefit from lower capital expenditure and good cash flow generation in the medium term.

Performance of Global Emerging Markets

Region/country	Index/fund	US dollars			Local currency		
		MOM	3M	YTD	MOM	3M	YTD
Developed markets							
US	Dow Jones	7.22%	2.20%	2.20%	7.22%	2.20%	2.20%
US	NASDAQ Composite	6.98%	-2.39%	-2.39%	6.98%	-2.39%	-2.39%
US	Russell 2000	7.98%	-1.53%	-1.53%	7.98%	-1.53%	-1.53%
US	S&P 500	6.78%	1.35%	1.35%	6.78%	1.35%	1.35%
World	MSCI AC World	7.48%	0.38%	0.38%	5.63%	-1.37%	-1.37%
World	Citigroup World Government Bond	2.66%	7.09%	7.09%	2.66%	7.09%	7.09%
Asia Pacific							
EM Asia	MSCI Emerging Markets Asia	11.45%	1.97%	1.97%	7.87%	0.31%	0.31%
	MSCI Emerging Markets Asia Small Cap	8.89%	-1.63%	-1.63%	5.10%	-3.31%	-3.31%
China	MSCI China	11.90%	-4.80%	-4.80%	11.65%	-4.73%	-4.73%
China	MSCI China A	14.00%	-15.70%	-15.70%	12.62%	-16.04%	-16.04%
Bangladesh	MSCI Bangladesh	-6.16%	-4.45%	-4.45%	-6.29%	-4.59%	-4.59%
Hong Kong	MSCI Hong Kong	9.79%	-0.55%	-0.55%	9.52%	-0.47%	-0.47%
	MSCI Zhong Hua	11.23%	-3.57%	-3.57%	10.98%	-3.49%	-3.49%
India	MSCI India	13.08%	-2.50%	-2.50%	9.44%	-2.40%	-2.40%
Indonesia	MSCI Indonesia	3.18%	11.30%	11.30%	2.31%	7.06%	7.06%
Korea	MSCI Korea	14.10%	5.21%	5.21%	5.51%	2.61%	2.61%
Malaysia	MSCI Malaysia	12.71%	13.24%	13.24%	4.57%	2.91%	2.91%
New Zealand	MSCI New Zealand	15.54%	12.01%	12.01%	9.72%	10.45%	10.45%
Pakistan	MSCI Pakistan	5.23%	-0.46%	-0.46%	5.29%	-0.46%	-0.46%
Philippines	MSCI Philippines	13.21%	7.22%	7.22%	9.63%	4.92%	4.92%
Singapore	MSCI Singapore	11.66%	5.06%	5.06%	6.98%	-0.19%	-0.19%
Sri Lanka	MSCI Sri Lanka	-5.37%	-14.70%	-14.70%	-4.48%	-13.66%	-13.66%
Taiwan	MSCI Taiwan	8.46%	7.72%	7.72%	5.04%	5.54%	5.54%
Thailand	MSCI Thailand	7.57%	17.04%	17.04%	6.22%	14.42%	14.42%
Vietnam	MSCI Vietnam	1.70%	-7.91%	-7.91%	1.67%	-8.70%	-8.70%
Global Emerging Markets							
Global Emerging Markets	MSCI Emerging Markets	13.26%	5.75%	5.75%	8.35%	2.78%	2.78%
	MSCI Emerging Markets Small Cap	10.01%	1.00%	1.00%	5.74%	-1.19%	-1.19%
Emerging Markets Europe Middle East Africa							
EMEA	MSCI EMEA	15.63%	12.98%	12.98%	8.64%	7.55%	7.55%
	MSCI EMEA Small Cap	14.79%	15.37%	15.37%	9.61%	11.39%	11.39%
Czech Republic	MSCI Czech Republic	17.49%	5.12%	5.12%	11.96%	0.30%	0.30%
Egypt	MSCI Egypt	7.81%	-5.79%	-5.79%	22.27%	6.84%	6.84%
Greece	MSCI Greece	23.90%	-12.23%	-12.23%	18.13%	-16.33%	-16.33%
Hungary	MSCI Hungary	18.84%	17.30%	17.30%	14.80%	11.17%	11.17%
Poland	MSCI Poland	17.46%	13.88%	13.88%	9.32%	7.34%	7.34%
Russia	MSCI Russia	14.68%	15.76%	15.76%	4.41%	7.86%	7.86%
	MSCI Russia 10/40	15.29%	16.37%	16.37%	5.42%	8.78%	8.78%
South Africa	MSCI South Africa	17.98%	13.94%	13.94%	9.93%	8.15%	8.15%
Turkey	MSCI Turkey	15.79%	21.69%	21.69%	10.34%	17.39%	17.39%
Middle East							
Bahrain	Bahrain All Share Index [#]	-4.02%	-6.96%	-6.96%	-4.00%	-6.97%	-6.97%
Kuwait	Kuwait Stock Exchange Index [#]	0.04%	-6.39%	-6.39%	0.41%	-6.88%	-6.88%
	MSCI Kuwait	4.42%	-1.90%	-1.90%	4.87%	-2.31%	-2.31%
Oman	Muscat Securities Market Index [#]	1.34%	1.13%	1.13%	1.34%	1.13%	1.13%

Region/country	Index/fund	US dollars			Local currency		
		MOM	3M	YTD	MOM	3M	YTD
Qatar	QE Index [#]	4.86%	-0.52%	-0.52%	4.89%	-0.51%	-0.51%
	MSCI Qatar	6.86%	3.78%	3.78%	6.88%	3.75%	3.75%
Saudi	Tadawul All Share Index [#]	2.14%	-9.89%	-9.89%	2.14%	-9.96%	-9.96%
UAE - Abu Dhabi	ADX General Index [#]	0.89%	1.92%	1.92%	0.90%	1.93%	1.93%
UAE - Dubai	Dubai Financial Market General Index [#]	3.57%	6.48%	6.48%	3.58%	6.49%	6.49%
	MSCI UAE	5.62%	8.58%	8.58%	5.62%	8.58%	8.58%
Israel	MSCI Israel	-0.22%	-10.06%	-10.06%	-3.45%	-12.75%	-12.75%
Jordan	MSCI Jordan	-1.27%	-5.72%	-5.72%	-1.25%	-5.64%	-5.64%
Latin America							
Latin America	MSCI Latin America	20.39%	19.23%	19.23%	10.81%	11.92%	11.92%
	MSCI Latin America Small Cap	16.09%	13.04%	13.04%	7.60%	7.34%	7.34%
Argentina	MSCI Argentina	-3.45%	8.38%	8.38%	-3.45%	8.38%	8.38%
Brazil	MSCI Brazil	30.53%	28.58%	28.58%	16.25%	15.19%	15.19%
Chile	MSCI Chile	10.34%	13.25%	13.25%	6.21%	6.89%	6.89%
Colombia	MSCI Colombia	19.37%	22.49%	22.49%	8.01%	15.88%	15.88%
Mexico	MSCI Mexico	11.24%	8.50%	8.50%	5.40%	7.66%	7.66%
Peru	MSCI Peru	15.22%	27.02%	27.02%	15.22%	27.02%	27.02%

All performance are measured using total return except for those marked #

Performance are measured based on price performance

Source: Bloomberg, 31 March 2016

Global Emerging Markets Equity Team
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