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EMERGING MARKETS
WORTHY OF CONSIDERATION

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WEBINAR

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EDISON

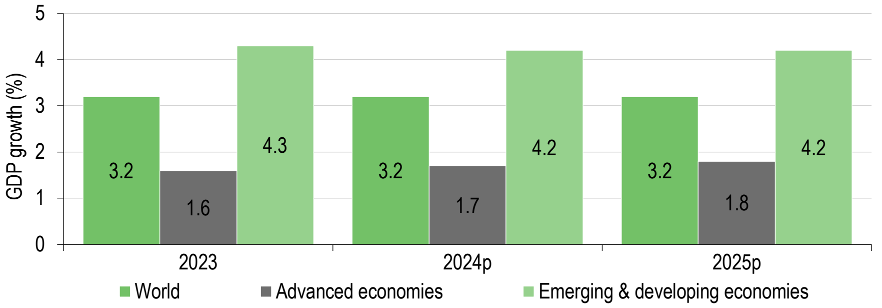
Global emerging markets

EM worth considering as part of a global portfolio

10 June 2024

In this report we provide an overview of emerging markets and suggest why they warrant an allocation within a global portfolio. We focus on the 11 funds in the AIC Global Emerging Markets sector, although there are a further 25 closed-end country-specific and regional emerging market funds available. In aggregate, emerging markets offer the prospects of higher economic growth and are trading on more attractive absolute and relative valuations compared with developed markets; however, there are important country-specific features that need to be taken into consideration. Historical data show that emerging markets tend to outperform during periods of US dollar weakness.

Higher growth prospects in emerging versus advanced economies



Source: International Monetary Fund, World Economic Outlook, April 2024 update. Note: p is projection.

Potential benefits of investing in emerging markets

Developing economies generally exhibit higher growth than those of advanced countries. Factors for the increased output include:

- **Urbanisation** – ongoing migration from rural to urban living is driving demand for residential real estate development and infrastructure projects.
- **Rapidly rising middle classes** has led to increasing demand for higher-quality goods and services, including healthcare insurance and wealth management products. Positive demographic trends in emerging markets compare favourably with developed countries that have aging populations.
- **Environmental policies** – climate change has moved up the global agenda, which has led to the development of, among other industries, renewable energy, battery storage, electric vehicles and waste & water treatment.
- **Digitisation** – emerging markets are embracing new technologies domestically and are providing digital products and services internationally by utilising their young, educated workforces and having lower operating costs.
- **Home to world-class companies** such as the world's largest semiconductor foundry Taiwan Semiconductor Manufacturing Company (TSMC).
- **Geopolitics and deglobalisation** – changing dynamics in trading relationships are leading to significant shifts in supply chains, transportation and logistics. As an example, Mexico is an important beneficiary of nearshoring due to increasing tensions between the US and China.

Edison themes

As one of the largest issuer-sponsored research firms, we are known for our bottom-up work on individual stocks. However, our thinking does not stop at the company level. Through our regular dialogue with management teams and investors, we consider the broad themes related to the companies we follow. Edison themes aims to identify the big issues likely to shape company strategy and portfolios in the years ahead.

AIC Global Emerging Market sector companies featured in this report

Ashoka WhiteOak Emerging Markets Tr (AWEM)
Barings Emerging EMEA Opportunities (BEMO)
BlackRock Frontiers Investment Trust (BRFI)
Fidelity Emerging Markets (FEML)
Gulf Investment Fund (GIF)
JPMorgan Emer Europe, ME & Africa Sec (JEMA)
JPMorgan Emerging Markets Inv Trust (JMG)
JPMorgan Global Emer Markets Income Tr (JEMI)
Mobius Investment Trust (MMIT)
Templeton Emerging Markets Inv Trust (TEM)*
Utilico Emerging Markets (UEM)*

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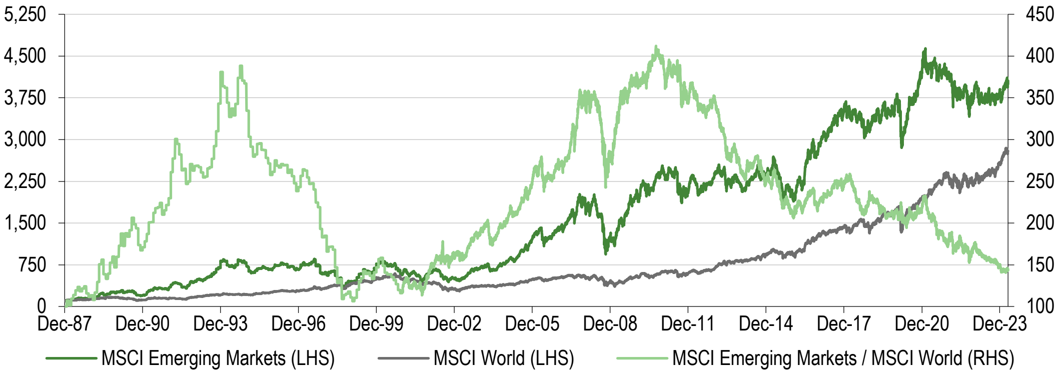
EM offer differentiated high growth opportunities

For those investors willing to accept the elevated risks in emerging markets (see below for details), there is potential to gain exposure to high-growth businesses that may be at meaningful discounts to their intrinsic values or those of similar companies based in developed markets. This approach also brings an element of diversification as emerging market equity moves do not necessarily correlate with those in developed markets.

Investing in emerging markets

The mainstream benchmark for emerging markets is the MSCI Emerging Markets Index that was launched at the end of 1987. Since then, it has outperformed the MSCI World Index, although its relative performance has been highly cyclical.

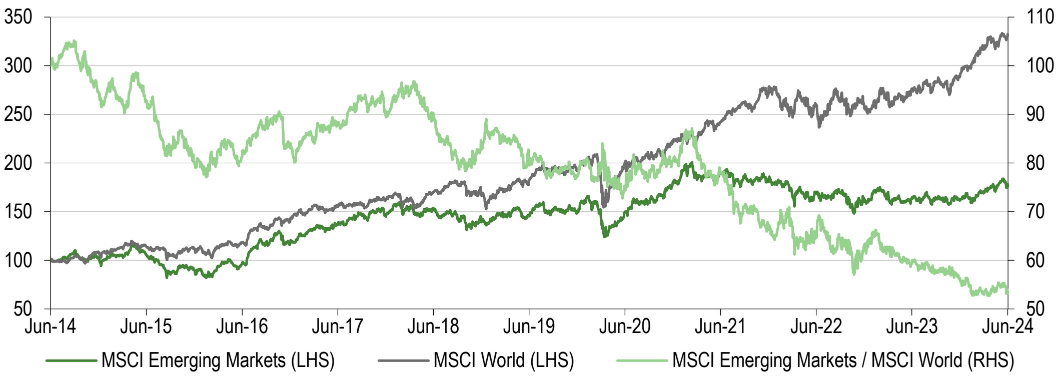
Exhibit 1: Performance of MSCI indices (since inception EM index launch in 1987, £)



Source: LSEG, Edison Investment Research. Note: At 6 June 2024.

There were two notable periods when emerging market stocks meaningfully outperformed the world market. The first was 1987 to 1994 during a period of economic reforms, favourable trade balances, privatisation of state-owned enterprises and access to foreign capital, with the second between 2001 and 2007, when China's importance to the global economy was increasing and there was high demand for commodities, which benefited exporters such as Brazil. Emerging markets performed relatively poorly between 1994 and 2001 due to the devaluation of the Mexican peso and the Asian financial crisis, triggered by high levels of domestic and foreign debt and significant capital outflows.

Exhibit 2: Performance of MSCI indices (last 10 years, £)

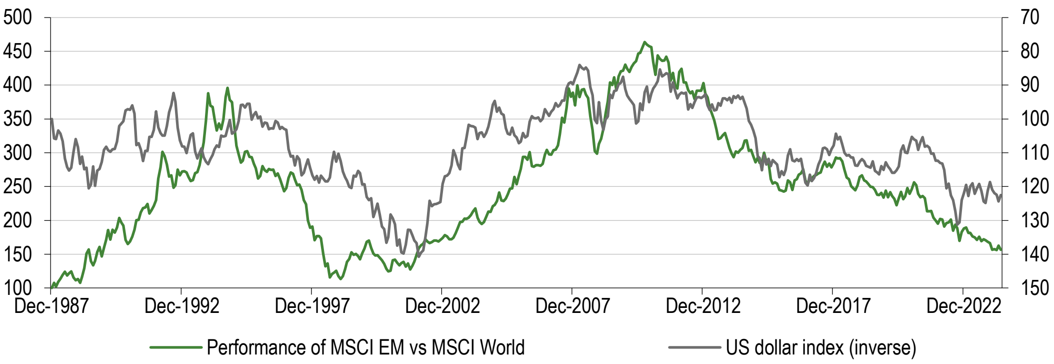


Source: LSEG, Edison Investment Research. Note: At 6 June 2024.

In Exhibit 2, we show how the MSCI Emerging Markets Index has performed versus the MSCI World Index over the last decade. The relative performance of emerging markets has been lacklustre; however, it is important to differentiate between individual countries and sectors.

Looking in more detail at the relative performance of emerging markets over the last 10 years, its most significant period of outperformance was broadly between the end of 2016 to the end of Q118. This was a period of US dollar weakness with the Federal Reserve US Dollar Index declining by c 8%, which may be due to investors employing a less risk-averse approach, while a weak US dollar boosts the returns from overseas investments. Also, US dollar weakness normally eases pressure on emerging market central banks to raise interest rates to defend their currencies and reduces the costs of servicing US dollar-denominated debt. Taking this into consideration, there is potential for emerging markets to perform relatively better this year if the consensus view of lower US interest rates along with a weaker US currency plays out.

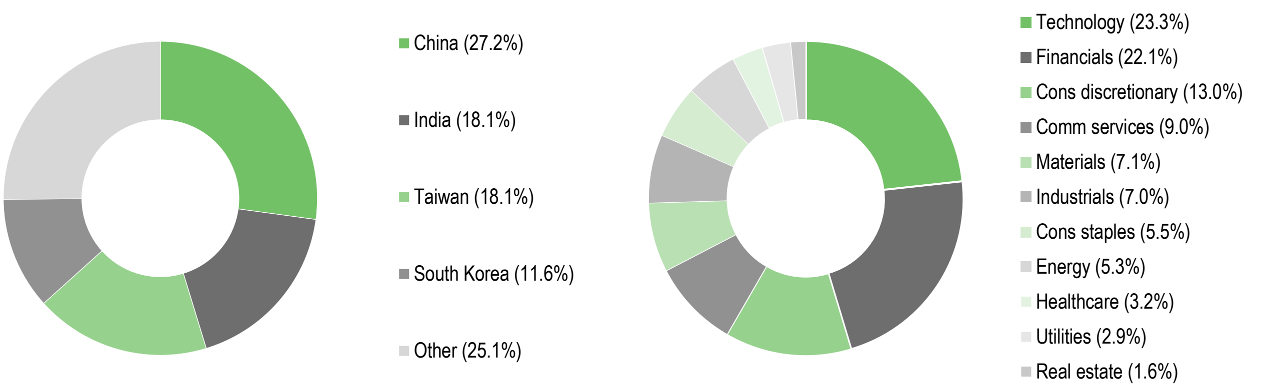
Exhibit 3: Relative performance of emerging markets versus the US dollar



Source: LSEG, Edison Investment Research. Note: At 6 June 2024.

We show the geographic and sector breakdowns of the MSCI Emerging Markets Index in Exhibit 4. While China has performed relatively poorly in recent years, it remains the largest weighting by quite a margin. Investors may not fully appreciate that emerging markets offer diverse sector exposure; historically there were large weightings in 'old' economy businesses such as commodities and manufacturing; however, the largest sector now is technology.

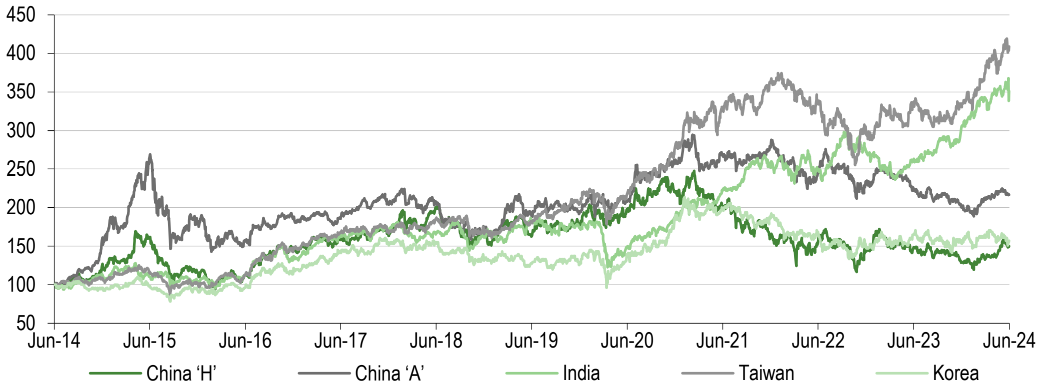
Exhibit 4: MSCI Emerging Market Index geographic and sector breakdowns



Source: MSCI, Edison Investment Research. Note: At 31 May 2024.

Looking at the performance of the MSCI major emerging stock markets over the last 10 years in Exhibit 5, there have been two standout countries, India and Taiwan.

Exhibit 5: Performance of MSCI major emerging markets (last 10 years, £)



Source: LSEG, Edison Investment Research. Note: At 6 June 2024.

India – strong performance backed by solid fundamentals

India has benefited from its superior growth prospects; by 2030 it is widely expected to have the third largest global economy (behind the US and China and having overtaken Germany and Japan). The IMF is projecting GDP growth of 6.8% in 2024 and 6.5% in 2025, which is significantly above the 4.2% in 2024 and 2025 for the aggregate emerging markets and developing economies. India has a large young population, with more than 50% under the age of 30. Infrastructure spending is a major growth driver, including new road and rail networks. The country is embracing digitisation such as the adoption of digital identifications, and low-cost bank accounts enabling faster payments and easier loan applications. Under Prime Minister Modi, who will need to form a coalition to serve a third term following the recent general election, India's government has been relatively stable, and levels of bureaucracy are moderating. India is benefiting from geopolitical tensions elsewhere; for example, low-end electronics manufacturers are diversifying their operations away from a sole reliance on China. Like other emerging market countries, India's economy is benefiting from an expanding middle class driving demand for both fast moving consumer goods and higher-priced discretionary items and services.

Exhibit 6: Gaurav Narain, principal adviser at Ocean Dial Asset Management, manager of the India Capital Growth Fund, highlights India's important investment themes

Source: Ocean Dial Asset Management, Edison Investment Research

Taiwan – a technology-focused economy

Taiwan benefits from its central location in the Asia-Pacific region. Taiwanese stocks rallied in 2023, with the benchmark TAIEX index rising 26.7%, which was its second-best performance ever. The country's stock market is very dependent on the performance of technology stocks, which make up more than 75% of the MSCI Taiwan index, with widely held TSMC dominating with around a 48% weighting. The Taiwanese stock market has benefited from inflows from foreign investors and could be further supported by continued high growth in artificial intelligence (AI).

China – headwinds reflected in discounted valuations

Chinese shares have performed relatively poorly in recent years as economic activity following the lifting of strict COVID-19 restrictions was less than expected. Certain industries have come under regulatory pressures including private education companies and the major internet platforms; higher regulation leads to concerns that entrepreneurship will be stifled. A particular focus for investors has been the huge, heavily indebted Chinese property sector as well as heightened geopolitical tensions, particularly between the US and China. Following disruptions in the global supply chain, which were heightened during the global pandemic, companies are looking to diversify their supply chains, China is therefore losing incremental manufacturing capacity to other countries including India, Mexico and Vietnam.

Exhibit 7: Yoojeong Oh, one of the managers of abrdn Asian Income Fund, highlights Asia's key investment themes

Source: abrdn, Edison Investment Research

South Korea – incentives aimed at making its equity market more attractive

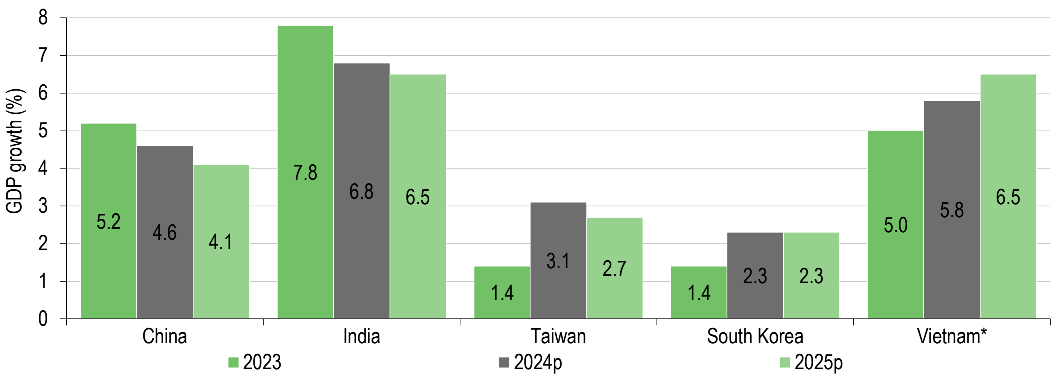
South Korean equities include technology plays such as Samsung Electronics and SK Hynix, but local equities may also be considered a bet on a Chinese economic recovery as China is one of South Korea's key export destinations. In addition, a portfolio of South Korean equities could benefit from the Corporate Value-up programme, which was unveiled by the local government on 26 February 2024, aimed at addressing the 'Korea discount' by enhancing the appeal of local equities through corporate governance reforms and enhanced distributions to shareholders (inspired by the recent success in Japan). A particular emphasis is placed on a company's return on equity and price-to-book multiple versus its industry and peers, with those faring better to be included in a premium index tracked by exchange-traded funds; the programme may involve changes to the rules on treasury shares of listed companies to protect minority shareholders.

However, given the recent defeat of the ruling party in the National Assembly elections, the Corporate Value-up programme is now less likely to be accompanied by tax incentives. Of note, some investors are disappointed that the programme is meant to be entirely voluntary. We recently discussed the state of corporate governance in South Korea with Andrew Daly, head of investor relations at Weiss Asset Management (the manager of the Weiss Korea Opportunity Fund):

‘South Korean corporate governance has room for improvement, given the weaker protection of minority shareholder rights compared to developed markets, the general lack of independent directors and the high number of conglomerates (chaebols) owned and controlled by families, which tend to have a complex, opaque structure with a high level of cross-holdings. The high inheritance tax rate of 65% incentivises these families to supress the value of their holdings when an ownership transfer to the next generation is on the horizon. Furthermore, local companies often repurchase shares in treasury without cancelling them, and subsequently re-issue them, diluting minority shareholders. The South Korean equity market has also been characterised by relatively low dividend payout ratios.

That said, local corporate governance has been steadily improving in recent years from a low level and there were multiple attempts to modernise the local stock market in the past, including the recent Corporate Value-up programme. South Korea ranked eighth in the 2023 corporate governance ranking prepared by the Asian Corporate Governance Association but has seen the second-best improvement in its score in absolute terms compared to 2020 (Japan was the top improver). Dividends have also been steadily rising in recent years and there was a notable increase in activist campaigns in recent years. Furthermore, the foreign investors’ registration requirement was abolished last year, providing easier access to local equities for this investor group. An increasing number of companies with fillings in English should also assist corporate governance improvement in the country.’

Exhibit 8: Growth projections for the largest MSCI emerging markets countries and Vietnam



Source: International Monetary Fund, World Economic Outlook, April 2024 update. Note: p is projection; *Vietnam is categorized as a frontier market by both MSCI and LSEG.

Vietnam – a frontier market worthy of consideration

Vietnam is the second-largest country weighting in the MSCI Frontier Emerging Markets Index (16.2% at 31 May 2024) and is likely to be reclassified by MSCI as an emerging market in the future. Vietnam’s economy is benefiting from the diversification of global supply chains due to its geographic location and open trade policy, which attracts considerable foreign direct investment, predominantly into manufacturing. Strong Vietnamese economic growth is accompanied by favourable demographic trends (73% employment-to-population ratio), translating into rapidly growing domestic spending. The potential reclassification of Vietnam in global indices is likely to lead to a significant influx of capital and support for the valuations of Vietnamese equities. The consensus view is that changes to LSEG indices will occur in 2025/26, with changes to the much-larger MSCI indices happening no sooner than 2027.

Exhibit 9: Craig Martin of Dynam Capital (manager of VietNam Holding) discusses Vietnam's main macroeconomic trends

Source: Dynam Capital, Edison Investment Research

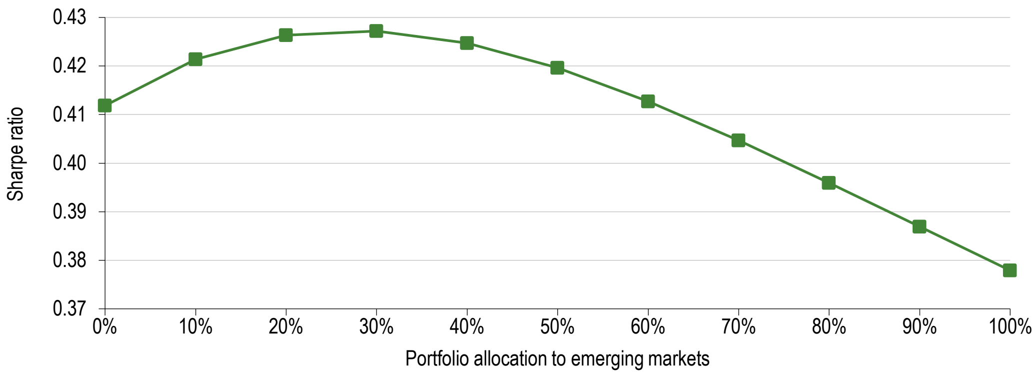
Exhibit 10: Tuan Le of Dragon Capital (manager of Vietnam Enterprise Investments) discusses potential inclusion of Vietnam in emerging market indices

Source: Dragon Capital, Edison Investment Research

Benefits of a diversified portfolio

In Exhibit 11, we analyse the potential benefits of including an allocation to emerging market stocks in a global equity portfolio in terms of risk-adjusted returns as measured by the Sharpe ratio. The performance of emerging markets can be heavily influenced by investor fund flows into and out of the regions. Hence a balance of developed and emerging market exposure should reduce portfolio volatility by capturing some of the upside when there is demand for emerging market equities and reducing the downside when these regions are less in favour.

Exhibit 11: An allocation to emerging markets can enhance risk-adjusted portfolio returns



Source: LSEG, Edison Investment Research. Note: Annualized Sharpe ratio is based on monthly returns since December 1987 (MSCI EM inception). Portfolio weights are distributed between the MSCI World and MSCI EM indices. The risk-free rate used is the 10-year US government bond yield.

Valuation

In aggregate, emerging markets look perennially less expensive than developed markets. However, while a discount is probably warranted due to generally greater stock price volatility and higher political risk in emerging markets, perhaps the disparity is currently excessively wide.

Looking at Datastream indices, on a forward P/E multiple basis, emerging markets are trading at a 22.0% discount to global equities, which is wider than the 16.2% 10-year average. Regional discounts are more pronounced with Latin America trading at a c 22-point wider discount to global equities compared with its 10-year average discount, while emerging European equities are trading at a c 14-point wider discount versus their 10-year average.

In aggregate, global emerging market equities offer superior dividend yields than those in developed markets, with Latin America offering an attractive 4.9% yield, which is notably higher than its 3.9% 10-year average.

While emerging markets as a whole look attractively valued, within the regions there are some notable disparities to consider. An example is the valuation of Chinese versus Indian stocks; at 31 May 2024, the MSCI China Index was trading on a 9.9x forward P/E multiple, which was considerably less than the MSCI India Index's 22.2x forward P/E multiple.

Exhibit 12: Valuation of developed and emerging markets

Index	Last	High	Low	10Y avg	Last vs avg	Index	Last	High	Low	10Y avg	Last vs avg
Forward P/E (x)						**Dividend yield (%)**					
World	16.6	19.9	12.5	15.7	106	World	2.1	3.4	1.8	2.4	89
Developed markets	17.4	20.7	12.7	16.2	107	Developed markets	1.9	3.3	1.6	2.3	85
Emerging markets	13.0	16.5	11.2	13.1	99	Emerging markets	3.3	4.2	2.3	3.0	109
Asia ex-Japan	13.0	18.0	11.0	13.2	98	Asia ex-Japan	2.4	3.3	1.7	2.5	97
Latin America	9.2	15.5	8.0	12.0	77	Latin America	4.9	7.5	2.1	3.9	127
Emerging Europe	7.2	12.0	5.4	8.9	81	Emerging Europe	3.5	7.5	2.4	4.1	87

Source: LSEG, Edison Investment Research. Note: Datastream indices at 6 June 2024.

Issues to consider

Emerging markets are widely considered as higher risk than developed markets as their economies tend to be heavily reliant on exports. Other factors include political risk, as emerging market governments tend to have greater decision-making power and intervene more in asset markets than policymakers in developed countries. Political regimes in emerging markets can also be unstable. Emerging market currencies tend to be more volatile than those of developed economies. Shares of emerging market companies can be relatively illiquid making it difficult to buy or sell positions on a timely basis. Investors in emerging markets also need to consider fund flows, which can have a meaningful impact on the performance of individual countries in the regions.

The AIC Global Emerging Markets sector

Although in this section we focus on the companies in the AIC Global Emerging Markets sector, we also include information about country-specific and regional funds in the Appendix.

Exhibit 13: Funds in the AIC Global Emerging Markets sector

Ticker	Investment objective
AWEM	Ashoka WhiteOak Emerging Markets aims to achieve long-term capital appreciation, primarily through investing in equity and equity-related securities that provide exposure to global emerging markets.
BEMO	Barings Emerging EMEA Opportunities aims to achieve capital growth, principally through investment in emerging and frontier equity securities listed or traded on Eastern European, Middle Eastern and African (EMEA) securities markets.
BRFI	BlackRock Frontiers aims to achieve long-term capital growth by investing in companies domiciled or listed in or exercising the predominant part of their economic activity in, less-developed (frontier) countries.
FEML	Fidelity Emerging Markets aims to achieve long-term growth by primarily investing in companies whose head office, listing, assets, operations, income, or revenues are predominantly in or derived from emerging markets.
GIF	GIF seeks exposure to emerging investment opportunities and positive fundamental factors in the Gulf Cooperation Council region that have not yet been priced in by the market.
JEMA	JPMorgan Emerging Europe, Middle East & Africa (formerly JPMorgan Russia) aims to maximise total return to shareholders from a diversified portfolio of investments in Emerging Europe (including Russia), Middle East and Africa.
JMG	JPMorgan Emerging Markets aims to maximise total returns from emerging markets and provides investors with a diversified portfolio of shares in companies which the manager believes offer the most attractive growth opportunities.
JEMI	JPMorgan Global Emerging Markets Income aims to provide a dividend income, together with the potential for long-term capital growth from a diversified portfolio of emerging markets investments.
MMIT	Mobius Investment Trust's objective is to deliver long-term absolute returns by investing in emerging and frontier market equities. The manager aims to identify companies with resilient and innovative business models which are mispriced.
TEM	Templeton Emerging Markets Investment Trust seeks long-term capital appreciation through investment in companies in emerging markets or companies which earn a significant amount of their revenues in emerging markets but are domiciled in, or listed on, stock exchanges in developed countries.
UEM	Utilico Emerging Markets Trust seeks to provide a long-term total return by investing predominantly in infrastructure, utility and related sectors, mainly in emerging markets.

Source: Edison Investment Research

Examples of capturing growth in emerging markets

Ashoka WhiteOak Emerging Markets Trust invests in industry leaders, dominant players or companies gaining market share. These businesses are able to navigate volatile markets and are typically found in the consumer discretionary, technology and private sector financial sectors. Holdings include companies listed in developed countries that generate a significant percentage of their revenues in emerging markets. On 7 May 2024, there was an announcement regarding a potential merger with Asia Dragon Trust, a company that is multiple times larger than AWEM. Asia Dragon Trust's board has subsequently announced a strategic review of the company.

Barings Emerging EMEA Opportunities provides exposure to a wide range of growth opportunities that tend to be underrepresented in global portfolios. The fund's largest geographic weightings are Saudi Arabia and South Africa. Its managers seek attractively valued companies with structural growth potential – companies fitting these criteria are primarily found in the financial, consumer, technology and natural resources sectors.

BlackRock Frontiers Investment Trust invests in fast growing markets that are difficult to gain exposure to. One of the portfolio themes is investment in southeast Asian countries that are benefiting from foreign direct investment. Examples include US semiconductor companies setting up operations in Penang (Malaysia) and Chinese investment in Indonesian nickel production to supply its electric vehicle manufacturers. The managers highlight the huge social transformation in

Saudi Arabia over the last 15 years, where high-growth sectors include tourism and entertainment as the economy is starting to diversify away from its dependence on the oil & gas industry.

Fidelity Emerging Markets has highlighted growth themes including transition metals such as copper, nickel and tin, where there has been limited supply growth, but demand is robust helped by the ongoing shift to electrification. Increased credit penetration in emerging markets is driving demand for bank and insurance products. As an example, India's credit penetration would have to rise by three to four times to reach levels seen in developed markets. Geopolitical uncertainty is leading to nearshoring with company supply chains moving closer to home. Beneficiaries include Vietnam and Mexico, where salaries are 10–20% lower than in China.

Gulf Investment Fund is finding growth opportunities in the Gulf Cooperation Council (GCC) countries, which are diversifying from a dependence on hydrocarbons, in areas such as tourism, where demand is very healthy following the lifting of COVID-19 restrictions. Growth in tourism in the GCC region is due to both international and domestic visitors driving higher demand for hotel, transport and infrastructure projects. In Saudi Arabia, a higher female workforce participation is boosting family incomes and spending power.

JPMorgan Emerging Europe, Middle East & Africa Securities focuses on high-return companies that can compound earnings and dividends over the long term. There are three broad themes represented in the portfolio: commodity sensitivities, mass market consumption and technology adopters.

JPMorgan Emerging Markets Investment Trust seeks quality growth companies that are long-term earnings and dividend compounders. This leads to a portfolio bias towards consumer, financial services and technology businesses, which combined make up the majority of the fund.

JPMorgan Global Emerging Markets Income Trust invests in reasonably valued quality businesses. The portfolio contains both high yielding companies and those with a lower yield, but dividend growth potential. China offers the widest investible universe and the number of dividend-paying companies in country is increasing.

Mobius Investment Trust has a differentiated approach by focusing on mispriced small- and mid-cap businesses, where there are opportunities for active engagement with company managements and a clear path for improvement in terms of ESG metrics. The trust is benefiting from the growth in AI by investing in companies that are not widely followed, such as Park Systems, a leader in atomic force microscopy that provides essential semiconductor-testing functions, and Elite Materials, which provides essential materials to the major chip makers.

Templeton Emerging Markets Investment Trust has highlighted two themes, along with sectors and some examples of relevant emerging market firms that the managers consider to be the global companies of today and in the future, across the market cap spectrum.

- Rising domestic consumption: consumer staples (Thai Beverage, Uni-President China Holdings and Health and Happiness International Holdings); e-commerce (Tencent, Naver and Alibaba); and banks (China Merchants bank, ICICI Bank and Itaú Unibanco).
- Powering the global economy: commodities (Petrobras and Vale); semiconductors (TSMC, Samsung Electronics and MediaTek); and electric vehicles/solar power (LG Chem, Guangzhou Tinci Materials Technology and Daqo New Energy).

Infrastructure (infra) and utility specialist **Utilico Emerging Markets** has identified four megatrends for sustainable and defendable growth: energy transition (including Alupar Investimento, Eletrobras and India Grid Trust); digital infra (including FPT, InPost and Korean Internet Neutral exchange); global trade (including International Container Services, Santos Brasil and Rumo); and social infra (including Orizon Valorização de Resíduos, VinaCapital Vietnam Opportunity Fund and Aguas Andinas). Every holding in its portfolio can be classified under one of these growth themes.

Comparison of the AIC Global Emerging Market sector

While the AIC Global Emerging Markets sector is made up of a collection of companies employing different strategies, a comparison of the funds has some merit. AWEM is a relatively new fund (launched on 3 May 2023) so has a limited track record.

Of the remaining 10 companies, GIF has the highest NAV total returns over the last three, five and 10 years. This is unsurprising given its focus on the Gulf States that have benefited from high energy prices, partly due to global conflicts in recent years. Conversely, JEMA, which was formerly a fund investing in Russia has very poor performance over the last three, five and 10 years due to trading in listed Russian securities being suspended following the country's invasion of Ukraine in February 2022. This fund is an anomaly, so if it is disregarded, all but one of the remaining funds in the sector are trading at a discount. Most of the funds are currently ungeared and three of them, BRFI, JEMI and UEM offer an attractive dividend yield around 4%.

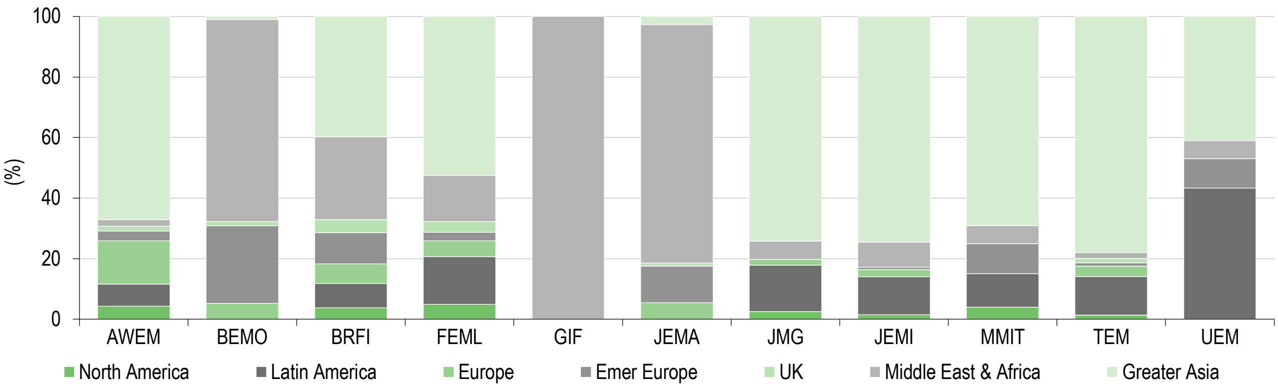
Exhibit 14: AIC Global Emerging Markets sector at 6 June 2024*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Ashoka WhiteOak Emerging Markets	37.3	12.7				0.1	0.0	Yes	100	0.0
Barings Emerging EMEA Opportunities	66.1	11.7	(17.4)	(13.7)	19.1	(17.8)	1.6	No	100	3.0
BlackRock Frontiers	279.3	9.2	38.2	44.1	94.3	(8.9)	1.4	Yes	100	4.3
Fidelity Emerging Markets	513.0	13.9	(18.6)	2.9	48.0	(11.7)	0.8	No	100	2.3
Gulf Investment Fund	72.9	8.0	66.7	104.8	164.4	(1.7)	1.9	No	100	3.4
JPMorgan Emer Europe, ME & Africa	40.4	20.9	(93.9)	(92.4)	(87.3)	110.7	3.2	No	100	0.5
JPMorgan Emerging Markets	1,153.7	2.9	(12.0)	23.7	112.7	(12.5)	0.9	No	102	1.6
JPMorgan Global Emer Mkts Income	390.2	8.4	4.4	35.7	88.4	(11.9)	0.9	No	108	4.0
Mobius Investment Trust	155.2	11.1	11.7	56.4		(5.9)	1.4	No	100	0.9
Templeton Emerging Markets	1,741.2	9.9	(10.7)	25.9	84.0	(14.7)	1.0	No	100	3.2
Utilico Emerging Markets	422.3	6.0	22.6	25.2	90.0	(18.0)	1.4	No	100	3.9
Simple average	**442.9**	**10.4**	**(0.9)**	**21.3**	**68.2**	**0.7**	**1.3**		**101**	**2.5**

Source: Morningstar, Edison Investment Research. Note: *Performance at 6 June 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Observations from the geographic exposures of the AIC Global Emerging Market funds (Exhibit 15) are that the majority of them have a large weighting in greater Asia. Exceptions are BEMO, GIF and JEMA, which have outsized exposures to the Middle East & Africa (GIF is a specialist fund investing solely in the Gulf states). UEM is also notable for its large Latin American exposure.

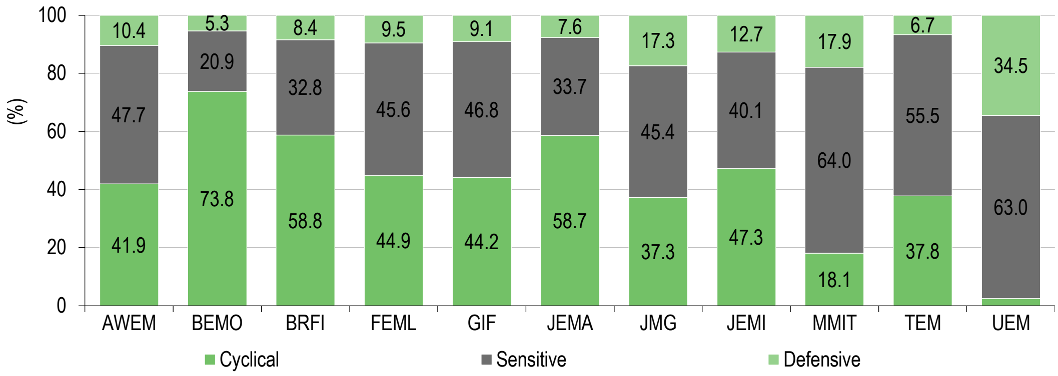
Exhibit 15: Regional breakdowns of AIC Global Emerging Market funds



Source: Morningstar, Edison Investment Research. Note: Using latest available Morningstar data.

To determine the economic exposure of a company, Morningstar groups the 11 market sectors into three categories. These are 'cyclical', which are highly sensitive to the stage of a business cycle (consumer cyclical, financial services, materials and real estate), 'sensitive', which have a moderate correlation to the business cycle (communication services, energy, industrials and technology) and 'defensive', which are anticyclical (consumer defensive, healthcare and utilities).

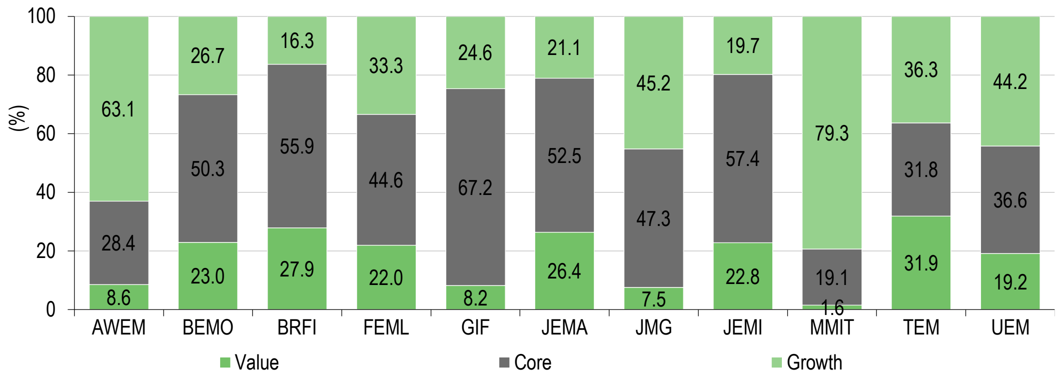
Exhibit 16: Economic exposure of AIC Global Emerging Market funds



Source: Morningstar, Edison Investment Research. Note: Using latest available Morningstar data.

BEMO, BRFI and JEMA have a cyclical bias and the majority of the funds are predominantly exposed to sectors that are tied into the business cycle. The exception is specialist fund UEM, which has a c 35% exposure to the defensive utility sector.

Exhibit 17: Strategy breakdowns of AIC Global Emerging Market funds



Source: Morningstar, Edison Investment Research. Note: Using latest available Morningstar data.

Morningstar also breaks down funds' portfolio by strategy, which are determined by their underlying fundamental characteristics. The main observations are that most of funds appear to employ strategies without a particular growth or value bias; the exceptions are AWEM and MMIT, who have a notable focus on growth stocks.

Appendix

Investors also have access to emerging markets through funds focusing on specific regions. In Exhibit 18 we show the AIC funds focusing on the Asia Pacific region and a Latin America specialist. The Asian income funds are currently offering an attractive average 5.6% dividend yield. While Asian small-cap funds are inherently riskier than their larger-cap peers, over the last three years their average NAV total return is considerably higher than the averages delivered by the Asian generalist and income-focused funds. It is interesting to note that the Asian small-cap funds are also trading on a more appealing average valuation than those in the Asia Pacific and Asia Pacific Equity Income sectors.

Exhibit 18: AIC Asia Pacific and Latin American funds at 6 June 2024**

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Asia Pacific										
Asia Dragon Trust	633.3	3.7	(18.8)	10.8	73.2	(11.6)	0.9	No	110	1.5
Pacific Assets Trust	447.5	4.6	18.8	45.4	163.5	(10.6)	1.1	No	100	0.6
Pacific Horizon Trust	556.7	13.1	(8.7)	117.6	253.8	(9.4)	0.7	No	101	0.5
Schroder Asian Total Return Inv Co	429.0	12.7	6.2	54.5	201.9	(7.1)	0.9	Yes	109	2.5
Schroder AsiaPacific	772.2	7.1	(6.4)	37.3	145.6	(12.7)	0.9	No	104	2.1
Average	**567.7**	**8.2**	**(1.8)**	**53.1**	**167.6**	**(10.3)**	**0.9**		**105**	**1.4**
Asia Pacific Equity Income										
abrdn Asian Income Fund*	335.7	8.7	9.6	33.2	88.6	(13.3)	1.0	No	109	5.0
Henderson Far East Income*	380.7	3.5	(5.8)	0.1	49.0	2.9	1.0	No	106	11.0
Invesco Asia*	211.9	3.1	0.6	47.3	155.9	(12.7)	1.0	No	104	4.0
JPMorgan Asia Growth & Income	305.7	7.0	(8.5)	29.3	143.6	(9.0)	0.8	No	100	3.9
Schroder Oriental Income	654.6	11.2	12.8	41.3	133.0	(5.9)	0.9	Yes	105	4.3
Average	**377.7**	**6.7**	**1.7**	**30.2**	**114.0**	**(7.6)**	**0.9**		**105**	**5.6**
Asia Pacific Smaller Companies										
abrdn Asia Focus	427.6	15.8	22.3	52.4	114.1	(15.8)	0.9	No	106	2.7
Fidelity Asian Values	371.8	9.7	24.0	52.0	170.0	(8.2)	1.0	Yes	111	2.6
Scottish Oriental Smaller Cos	320.5	14.7	37.0	45.5	109.1	(16.9)	1.0	Yes	107	0.8
Average	**373.3**	**13.4**	**27.8**	**50.0**	**131.0**	**(13.6)**	**0.9**		**108**	**2.0**
Latin America										
BlackRock Latin American*	109.0	(5.5)	9.5	0.7	31.6	(10.6)	1.3	No	105	6.5

Source: Morningstar, Edison Investment Research. Note: *Edison research client. **Performance at 6 June 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

For investors seeking a more concentrated exposure to emerging markets, there is a selection of single-country funds available. In Exhibit 19 we show the relevant AIC sectors: China/Greater China (three funds), India/Indian Subcontinent (four funds) and Country Specialist (three Vietnamese and one South Korean fund).

Exhibit 19: AIC country specialist funds at 6 June 2024**

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
China/Greater China										
Baillie Gifford China Growth Trust*	128.6	(8.5)	(48.6)	(31.1)	3.6	(8.7)	1.0	No	103	0.8
Fidelity China Special	1,155.1	6.2	(36.7)	22.5	157.6	(9.8)	1.0	Yes	123	2.5
JPMorgan China Growth & Income	188.9	(10.6)	(55.7)	5.1	84.4	(11.2)	1.1	No	105	4.7
Average	**490.9**	**(4.3)**	**(47.0)**	**(1.2)**	**81.9**	**(9.9)**	**1.0**		**110**	**2.6**
India/Indian Subcontinent										
abrdn New India Investment Trust	394.6	35.2	45.0	64.4	218.8	(16.7)	1.1	No	109	0.0
Ashoka India Equity Investment	403.3	29.2	67.8	142.1		2.0	0.5	Yes	101	0.0
India Capital Growth	149.4	24.9	51.0	80.9	201.3	(5.3)	0.4	No	100	0.0
JPMorgan Indian	677.4	16.5	37.2	36.6	146.7	(17.7)	0.8	No	103	0.0
Average	**406.2**	**26.4**	**50.2**	**81.0**	**188.9**	**(9.4)**	**0.7**		**103**	**0.0**
Country Specialist										
Vietnam Enterprise	1,178.7	6.6	(11.1)	45.1		(17.9)	2.0	No	100	0.0
VietNam Holding*	105.3	24.0	27.2	92.3	256.3	(4.7)	3.1	No	100	0.0
VinaCapital Vietnam Opp Fund*	746.5	18.5	16.0	69.5	273.0	(18.8)	1.8	Yes	100	2.4
Weiss Korea Opportunity	119.1	(1.3)	(26.8)	52.4	76.9	(0.6)	2.2	No	100	2.8
Average	**537.4**	**12.0**	**1.3**	**64.8**	**202.1**	**(10.5)**	**2.3**		**100**	**1.3**

Source: Morningstar, Edison Investment Research. Note: *Edison research clients. **Performance at 6 June 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

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