February 2021

Pendal Global Emerging Markets Opportunities

A unique, country-driven emerging markets equity strategy, delivered by a highly experienced team of specialist EM investors

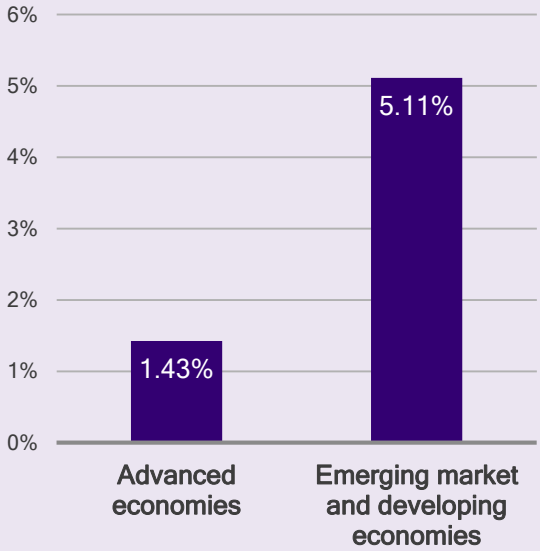
PENDAL

Why invest in emerging markets?

- Emerging market equities are a good strategic allocation. Stronger economic growth has driven higher long-term equity market returns
- Australian investors are typically under-exposed to a very attractive asset class:
  - Emerging market economies are 44% of global GDP but only 12% of global stock markets
  - A typical Australian investor has an even smaller allocation to EM equities

Stronger economic growth

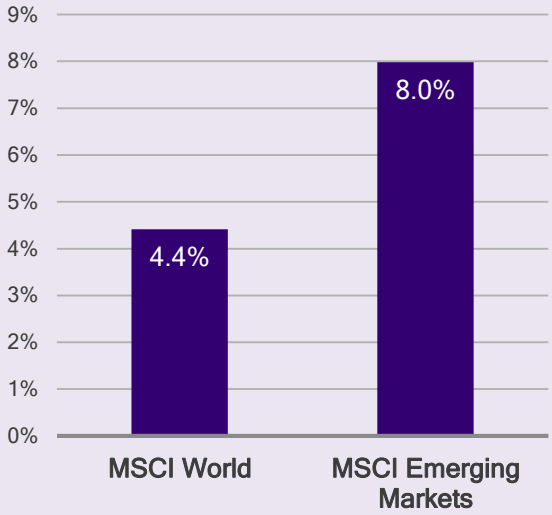
Real GDP growth %p.a.
Dec 31, 2000 - Dec 31, 2020



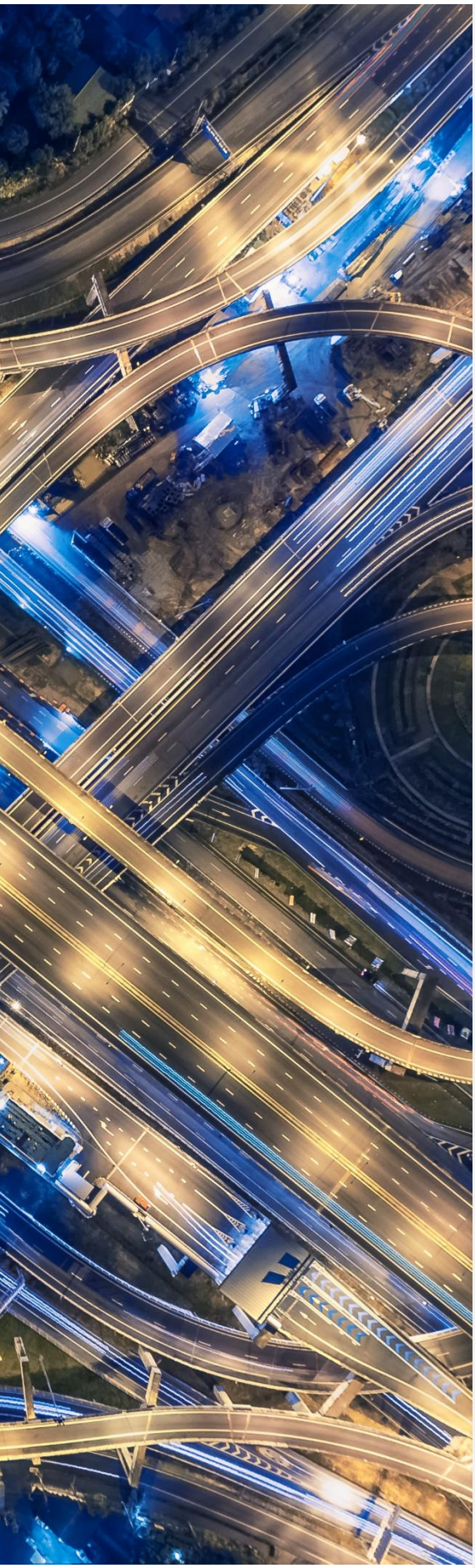
Source: IMF World Economic Outlook, October 2020

Higher long-term returns

Equity market return in AUD % p.a.
Jan 1, 2001 - January 31, 2021



Source: Factset at January 31, 2021



Pendal Global Emerging Markets Opportunities Fund

A differentiated approach that delivers results

Emerging markets go right and wrong at country level

Greater diversity of countries means country selection matters more in EM than in developed markets – and drives a wider range of performance.

Our approach exploits this observation

Experienced and specialised EM investors can use this wide return dispersion – and scope to avoid the “potholes” in EM – to add value.

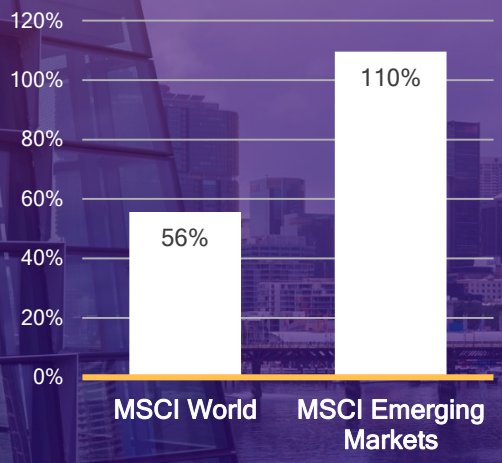
The resulting portfolio delivers higher returns than the index

A high-conviction, index-agnostic, core-style portfolio that typically owns fewer than half the countries in the index. Capacity limited to US$3 billion to preserve agility.

EM goes right or wrong at country level

- Emerging markets are not homogenous. They are far more diverse than developed markets:
  - A wide variety of economic development, political systems, natural resource endowments and industrial composition
- This drives a wider range of country-level returns between EM and DM – which we look to exploit
- It is also important to avoid country-level crises that periodically occur in EM
- A country-driven approach is our key advantage and point of difference:
  - Bottom-up consensus alternatively ignores and then over-reacts to top-down developments
  - Many drivers of companies and stocks are top-down factors (growth, interest rates, currencies, political risk, etc)

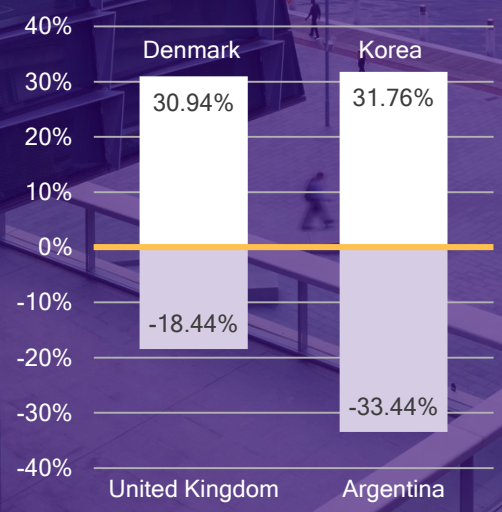
Average range between best and worst country, % p.a. 2001 - 2020



Source: Factset at December 31, 2020

Example: 2020

2020 equity market returns (range from top to bottom performing country)



Source: Factset at January 31, 2021

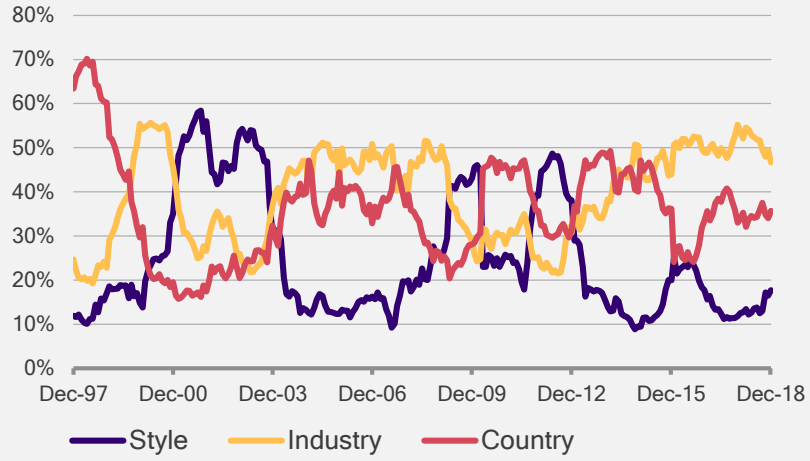
Don't buy a good house in a bad neighbourhood

The importance of country selection in EM

- In EM the country effect accounts for 60-85% of systematic risk vs 20-40% in DM
- In EM the country effect always dominates style and sector effects, unlike DM

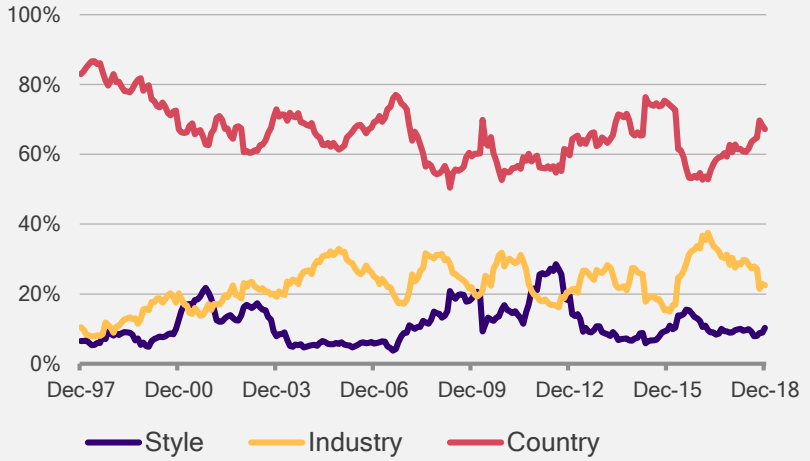
Developed markets

Cross-sectional volatility, 12-month moving average



Emerging markets

Cross-sectional volatility, 12-month moving average



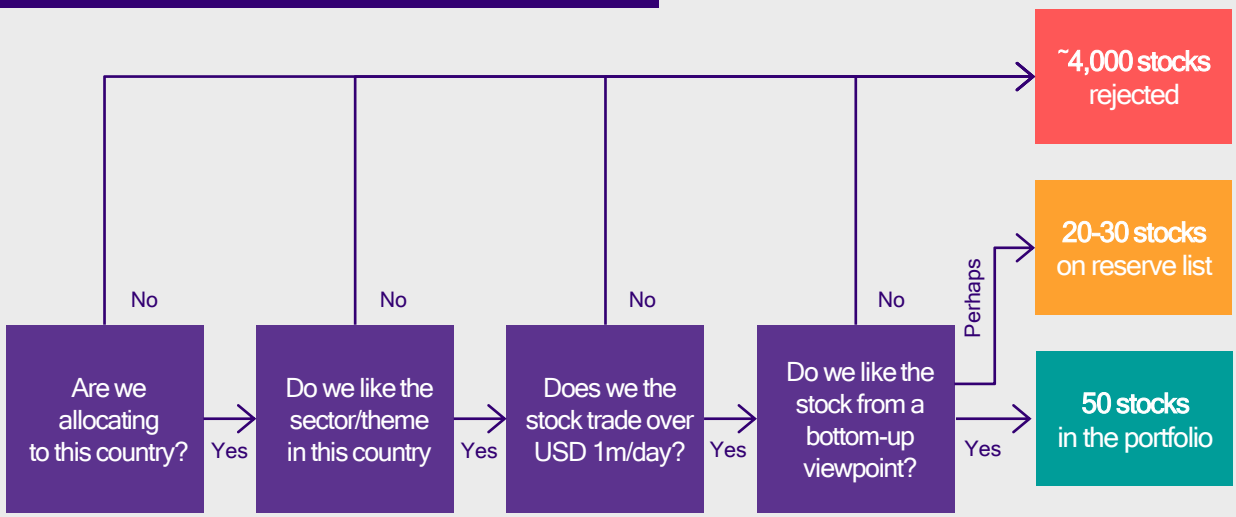
Source: MSCI Barra. From December 1997 to December 31, 2018

The process starts with country

All managers implicitly make top-down assumptions

However, Pendal Global Emerging Markets Opportunities fund does this explicitly and as a starting point

This recognises the importance of country and drives a focused research list well suited to a smaller team



What the portfolio looks like

We typically own fewer than half the countries in the EM index

High conviction 40-60 stocks, benchmark unaware

Capacity constrained to USD3bn to preserve agility

An experienced team of EM specialists

- Our process is grounded in deep experience and specialisation in Emerging Markets. It is not an "add on" to a global strategy
- Strategy launched at JOHCM in 2011 (JOHCM established 2001, acquired by Pendal in 2011)
- Previously used at Baring Asset Management since 2006 – James as Head of Global Emerging Market Equities, Paul as Investment Manager.
- Previous experience informs strong capacity discipline
- Strategy well suited to a small, agile team with long EM experience

James Syme, CFA
Senior Fund Manager

25 years
investment experience

Ada Chan
Senior Analyst

20 years
investment experience

Paul Wimborne
Senior Fund Manager

21 years
investment experience

How to contact us

Nicki Ashton
Head of Institutional

Nicki.Ashton@pendalgroup.com
0404 133 602

Tim North Ash
Head of Distribution

Tim.Northash@pendalgroup.com
0419 746 774