


# WEALTH SERIES

STRATEGIES FOR INVESTING IN A POST-PANDEMIC WORLD 

# Emerging market (EM) equities in a post-COVID-19 world

Why EM is potentially an alpha resource opportunity

March 4<sup>th</sup>, 2021

Presented by: John Mensack, CFA, MBA  
Emerging Markets Equity Investment Director  
Schroder Investment Management

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## Discussion agenda

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Examine the current status of some key drivers of emerging market equities

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Revisit the growth versus value disparity in emerging market equities

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Review current portfolio positioning

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Dedicated Q&A

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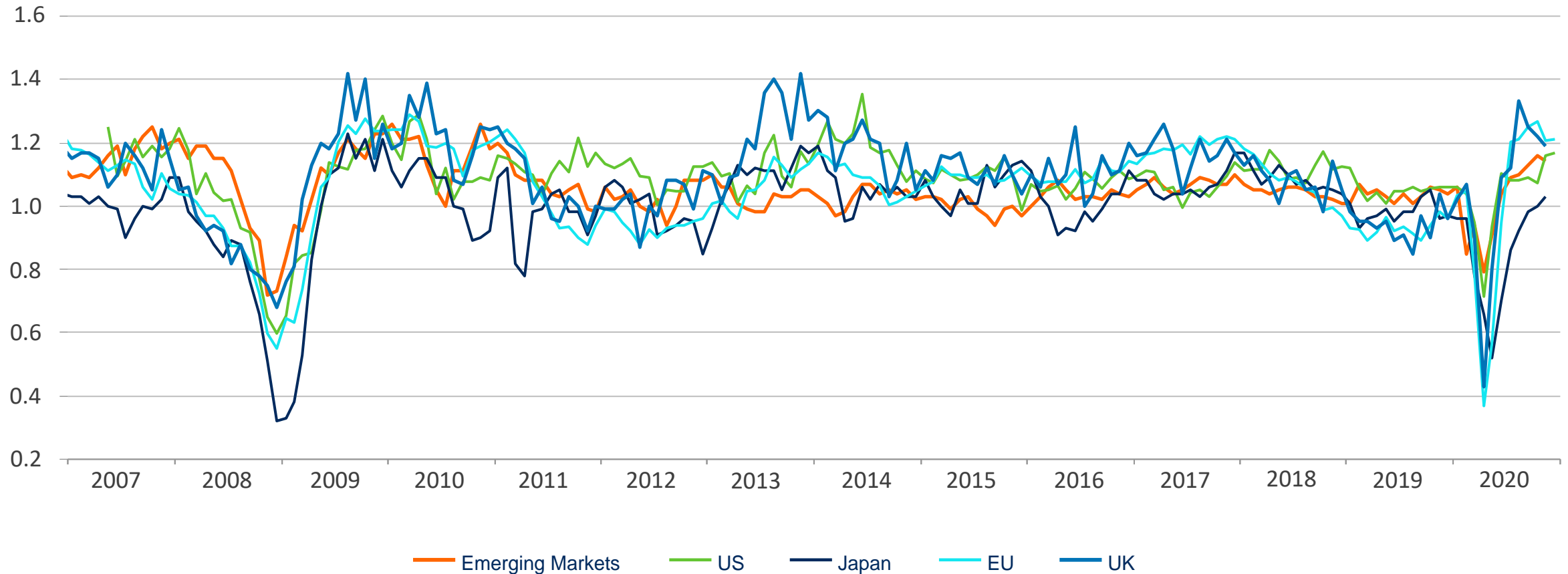
# Economic outlook

## Summary

- Virus resurgence has led to renewed restrictions and near term economic pressure.
- Vaccines are expected to enable societal normalization but may take time to distribute. Some countries may not see widespread distribution until the 2<sup>nd</sup> half of 2021. We believe, potentially, the base case is for societal and economic normalization in 2022.
- Global monetary and fiscal policy is expected to remain supportive through 2021. Inflation may rise in 2021 on base effects and demand recovery, Central Banks may look through.
- The Democrat clean sweep is positive for EM. Biden has greater flexibility on fiscal and regulatory action. We are likely to see upwards pressure on yields, downwards pressure on US\$. This may be supportive of EM vs US equities.
- We expect tension between China and US to persist, but we may see a more measured albeit multilateral approach.
- The currencies of more vulnerable economies have depreciated markedly. Current account deficits have been closing. Global liquidity is abundant. Economies are anticipated to recover.
- North Asia managed the virus effectively. China, Korea and Taiwan make up over 65% of the index. Other emerging markets have been less able to manage the virus and have seen material economic and market impact.
- What could happen once the COVID-19 rebound is complete?

# Global macro

## PMIs new orders/inventories

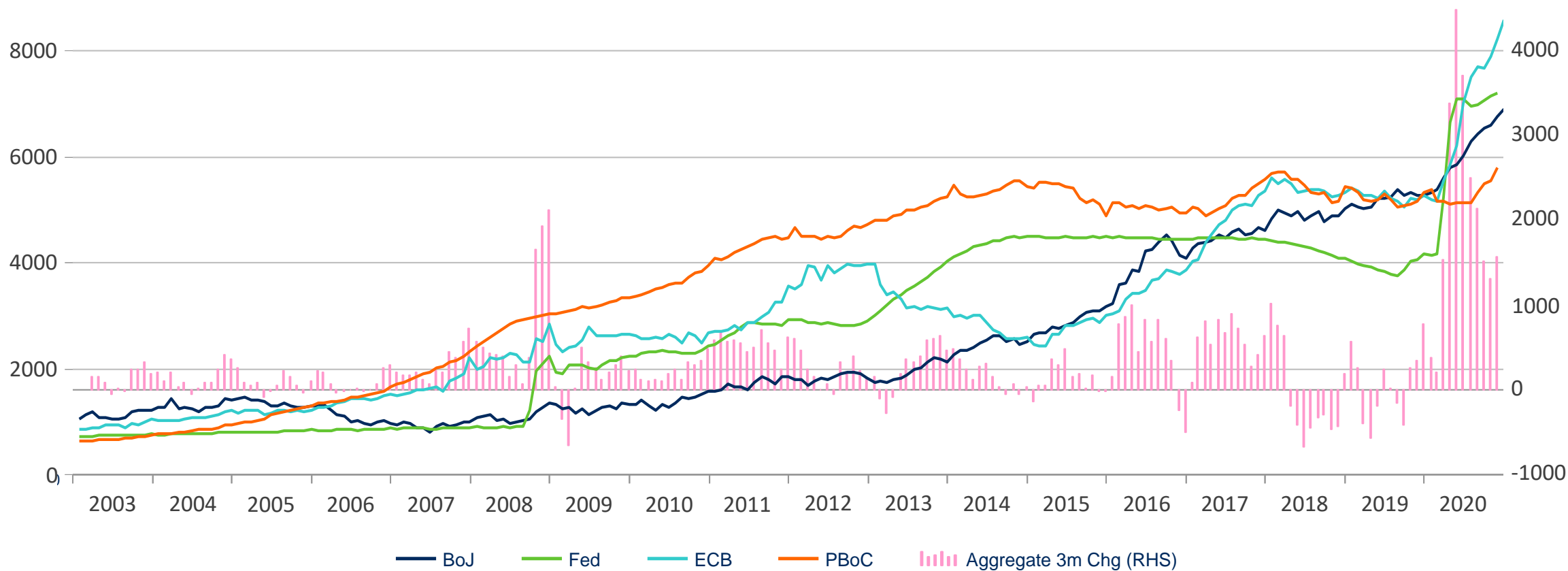


Inventory cycle potentially anticipated to provide support into Q1 2021

Source: Markit, Refinitiv, Schroders Economics Group. 5 January 2021. The slide contains some forward-looking views which should not be relied upon and are not guaranteed to materialize.

# Global macro

## Central bank asset growth



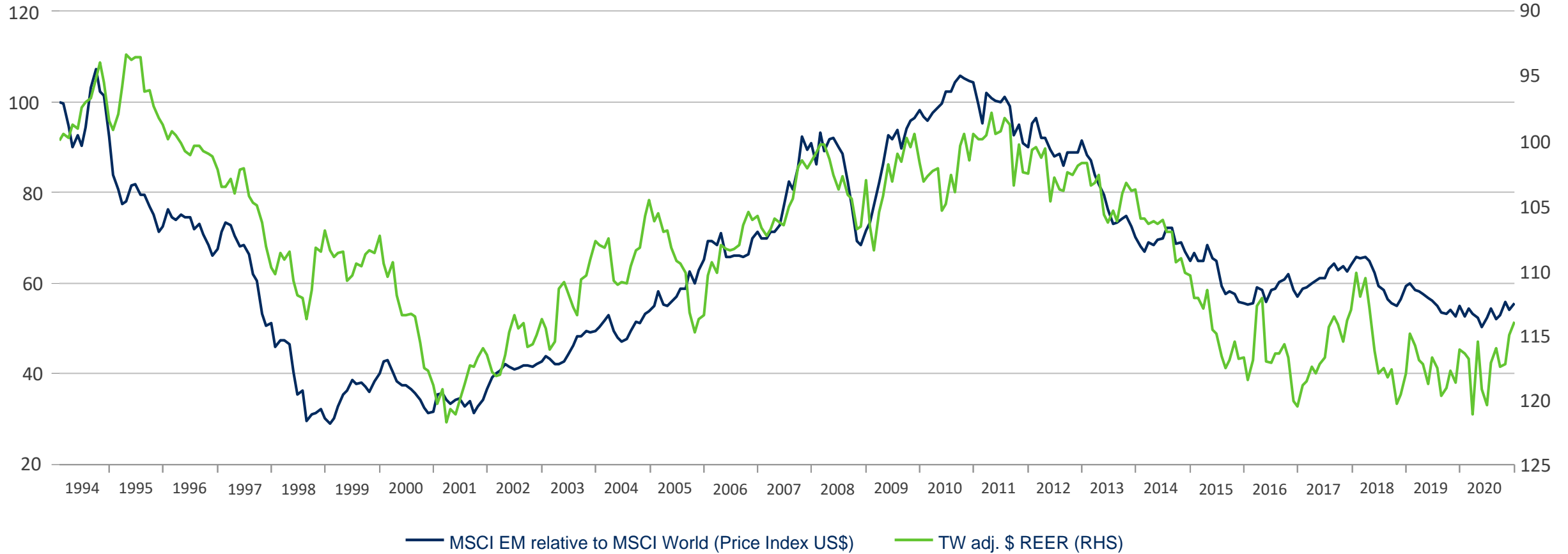
Liquidity to remain supportive in 1<sup>st</sup> half of 2021

Source: Refinitiv; data as at 31 December 2020.

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# US\$

## US dollar vs. Emerging Equities relative performance



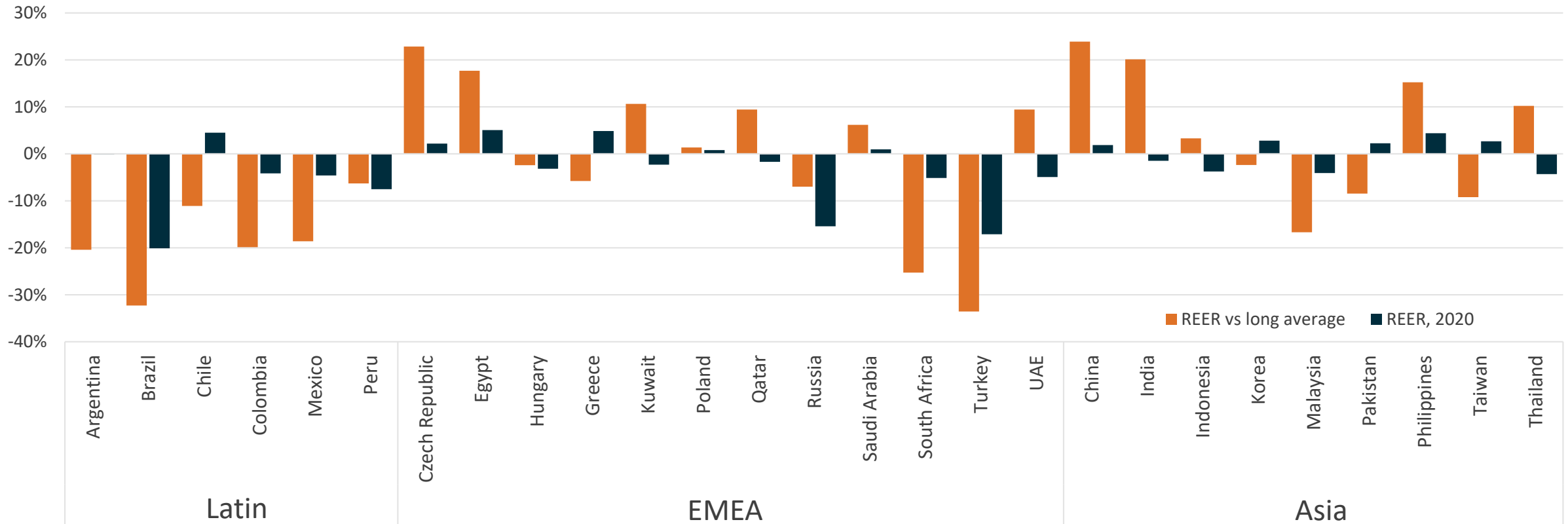
US\$ expected to have a bias to depreciate – beneficial for Emerging Markets

Past performance is no guarantee of future results and may not be repeated. You cannot invest directly in an index.

Source: Refinitiv. Data as at 31st December 2020. Historical trends are not indicative of future trends. There is no guarantee that any forward-looking views will materialize.

# Emerging macro

## Real Effective Exchange Rates (REER) by region



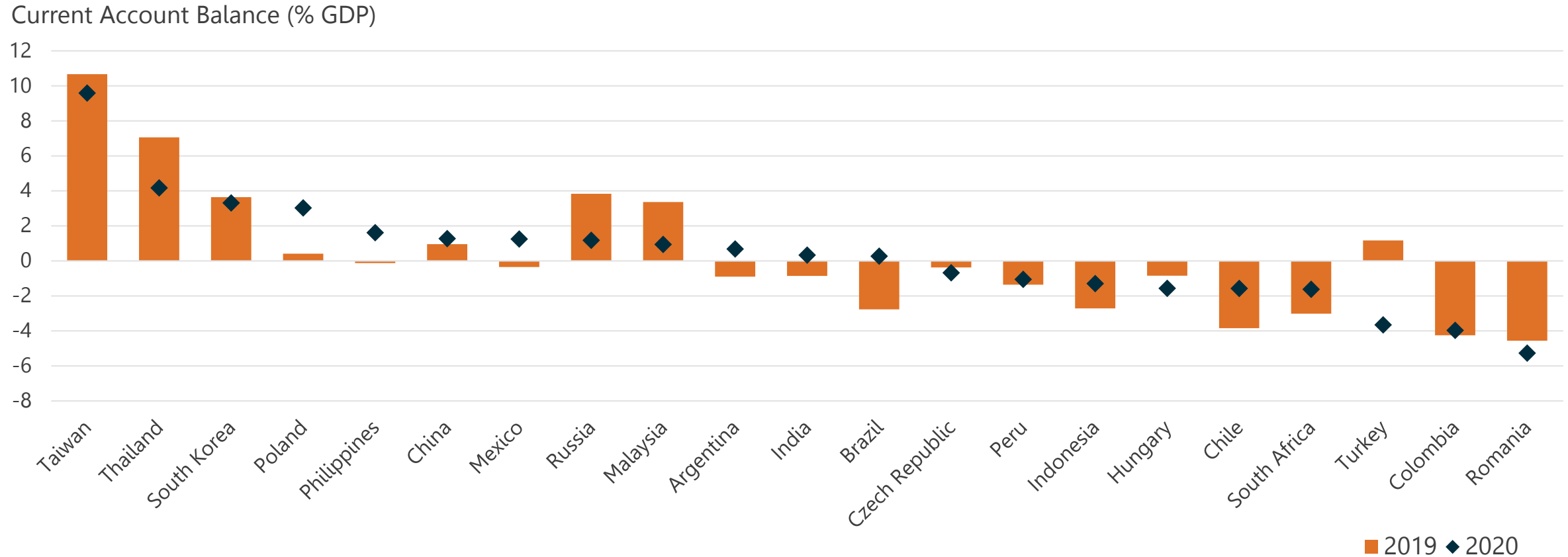
### Sharp falls in 2020 left select currencies looking cheap

Past performance is no guarantee of future results and may not be repeated. Source: JP Morgan, CPI based REER, as at 31 December 2020. The views shared are those of the Emerging Market Equities team and are subject to change. Countries and regions shown are for illustrative purposes only and not as a recommendation to buy or sell. Companies, country, regions, securities, industries or market sectors named should not be considered an indication of trading intent of any mutual funds managed by SLGI Asset Management Inc. and sub-advised by Schroders. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell.



# Emerging macro

## Current Accounts – full year IMF projections



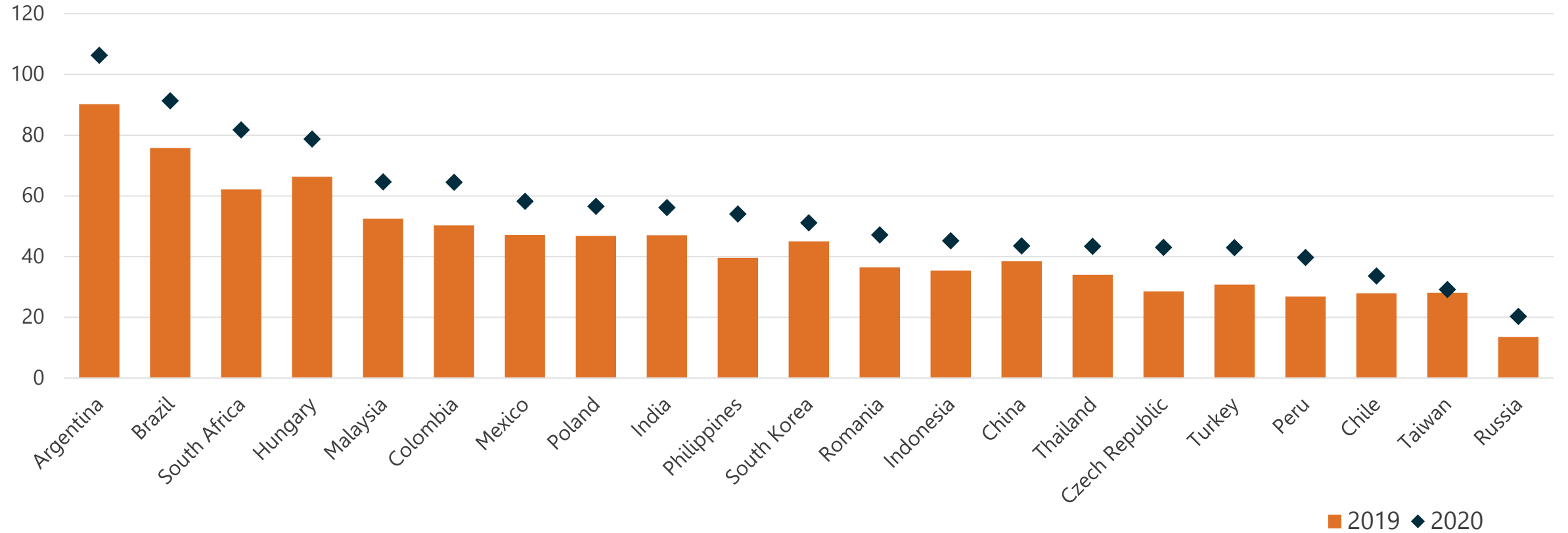
### Current account positions improved for many countries

Source: Refinitiv Datastream, IMF, Schroders Economics Group. Data as at 31 December 2020. This trend may not continue. Countries identified for illustrative purposes and not as a recommendation to buy or sell. Companies, country, regions, securities, industries or market sectors named should not be considered an indication of trading intent of any mutual funds managed by SLGI Asset Management Inc. and sub-advised by Schroders. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell.

# Emerging macro

## Gross government debt / GDP

General Government Gross Debt (% GDP)

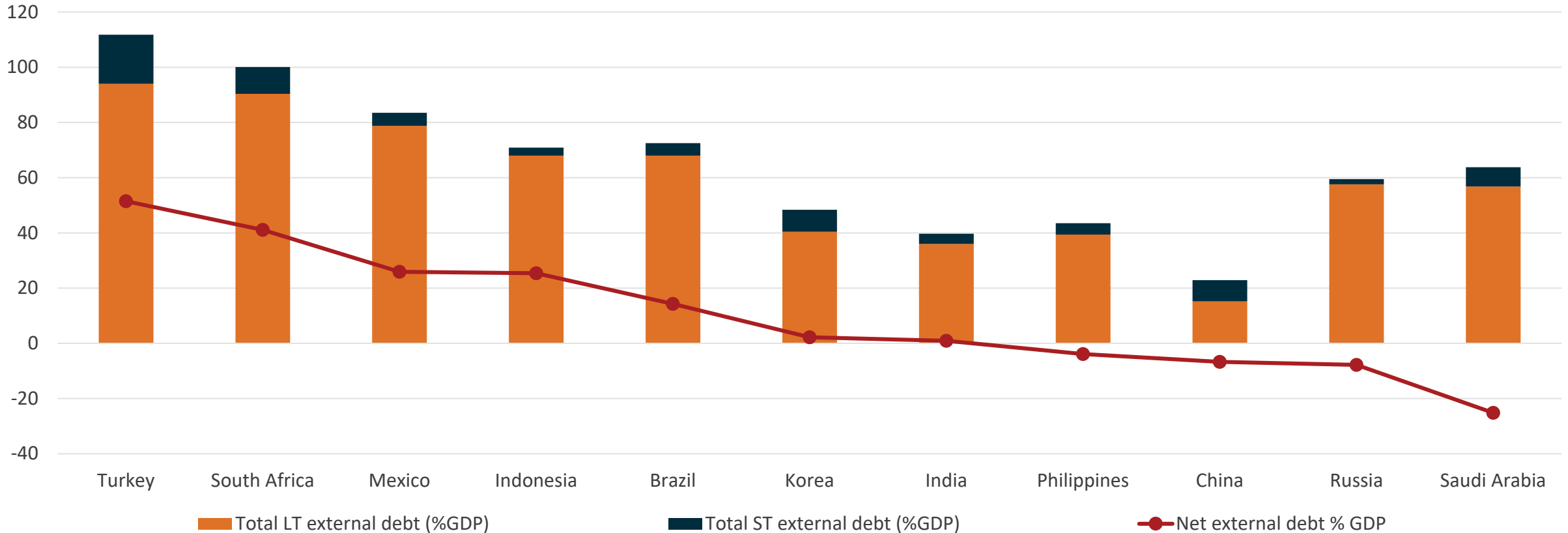


Government debt burdens have been rising

Source: Refinitiv Datastream, IMF, Schroders Economics Group. Data as at 31 December 2020. Forecast may not be realized. Countries shown are for illustrative purposes and not as a recommendation to buy or sell. Companies, country, regions, securities, industries or market sectors named should not be considered an indication of trading intent of any mutual funds managed by SLGI Asset Management Inc. and sub-advised by Schroders. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell.

# Emerging macro

## 2020 total External Debt/GDP (EOP, %)

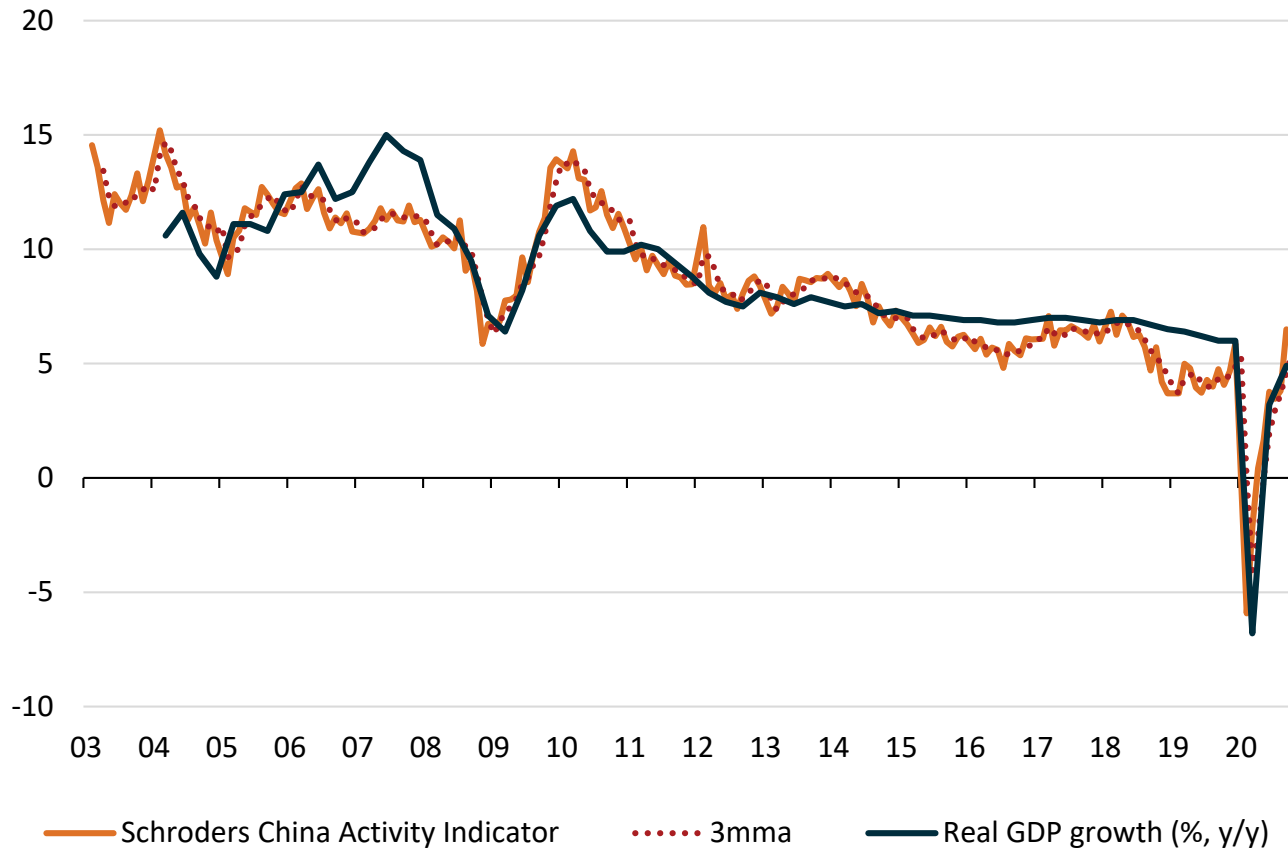


External Debt lower vs history, though South Africa and Turkey relatively high

Source: Economist Intelligence Unit, Haver. Data for 2020. Historical trends are not indicative of future trends. The countries shown are for illustrative purposes and should not be viewed as a recommendation to buy or sell. Companies, country, regions, securities, industries or market sectors named should not be considered an indication of trading intent of any mutual funds managed by SLGI Asset Management Inc. and sub-advised by Schroders. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell.

# China

## Schroders activity indicator

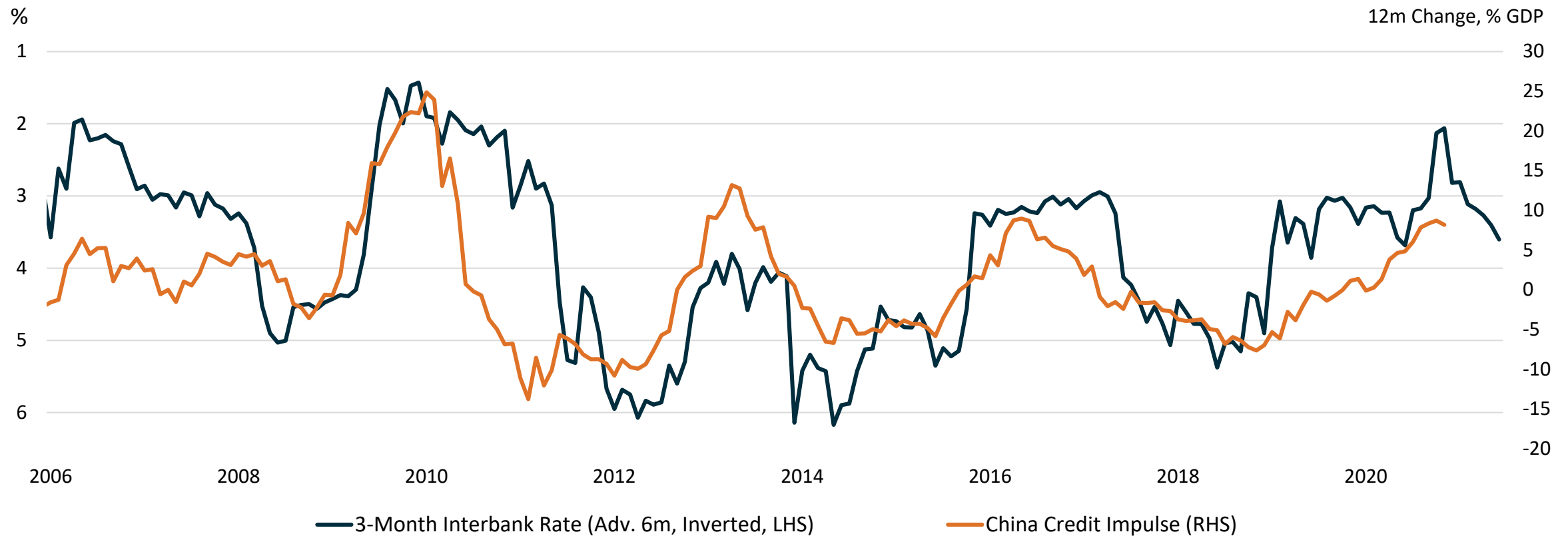


Factor (y/y, %)	October 2020	November 2020
Retail Sales	4.3	5.0
Industrial Production	6.9	7.0
Exports	11.4	21.1
Imports	4.7	4.6
Fixed Asset Investment	1.8	2.6

Source: Refinitiv Datastream, Schroders Economics Group. December 2020. Companies, securities, industries or market sectors named should not be considered an indication of trading intent of any mutual funds managed by SLGI Asset Management Inc. and sub-advised by Schroders. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell.

# China

## Credit impulse

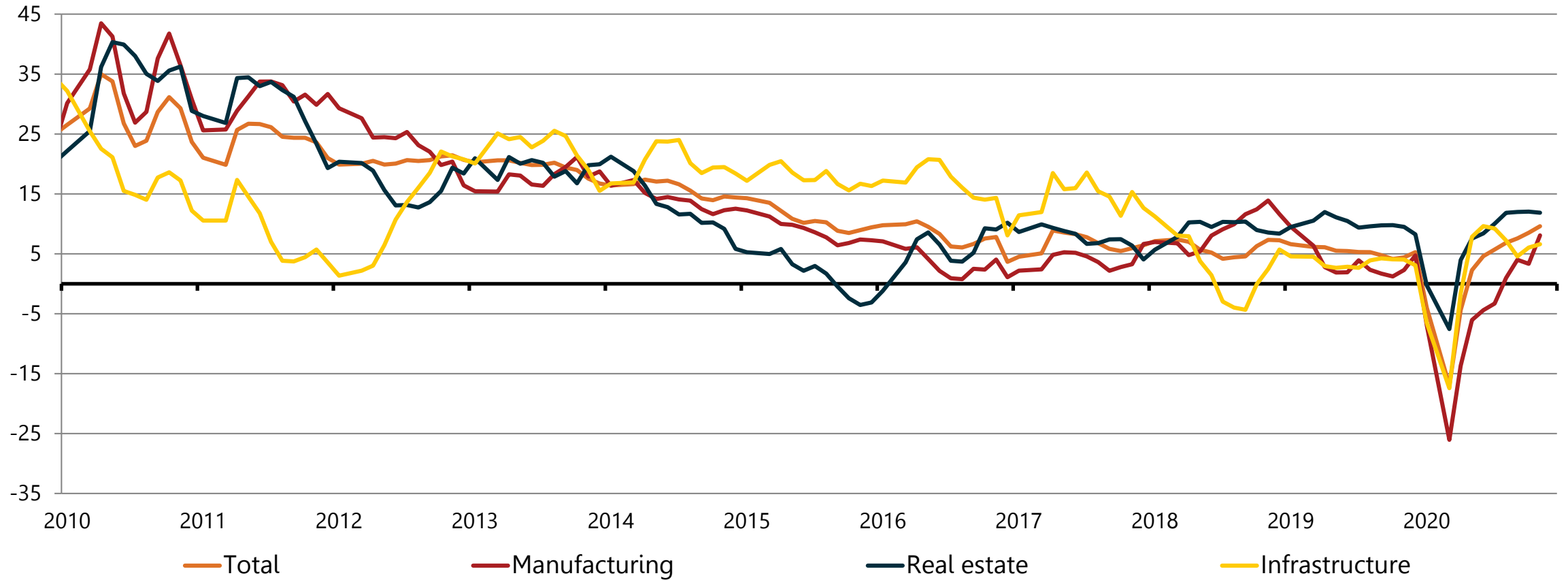


Credit impulse likely peaking

Source: Bloomberg, Refinitiv Datastream, Schroders Economics Group. December 2020. The views shared are those of the Emerging Market Equities team and are subject to change.

# China

Fixed asset investment (% y/y, 3m m.a.)



Rebound led by Infrastructure and Real Estate, Manufacturing now recovered

Source: Refinitiv Datastream, Schroders Economics Group. December 2020. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Companies, securities, industries or market sectors named should not be considered an indication of trading intent of any mutual funds managed by SLGI Asset Management Inc. and sub-advised by Schroders. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell.

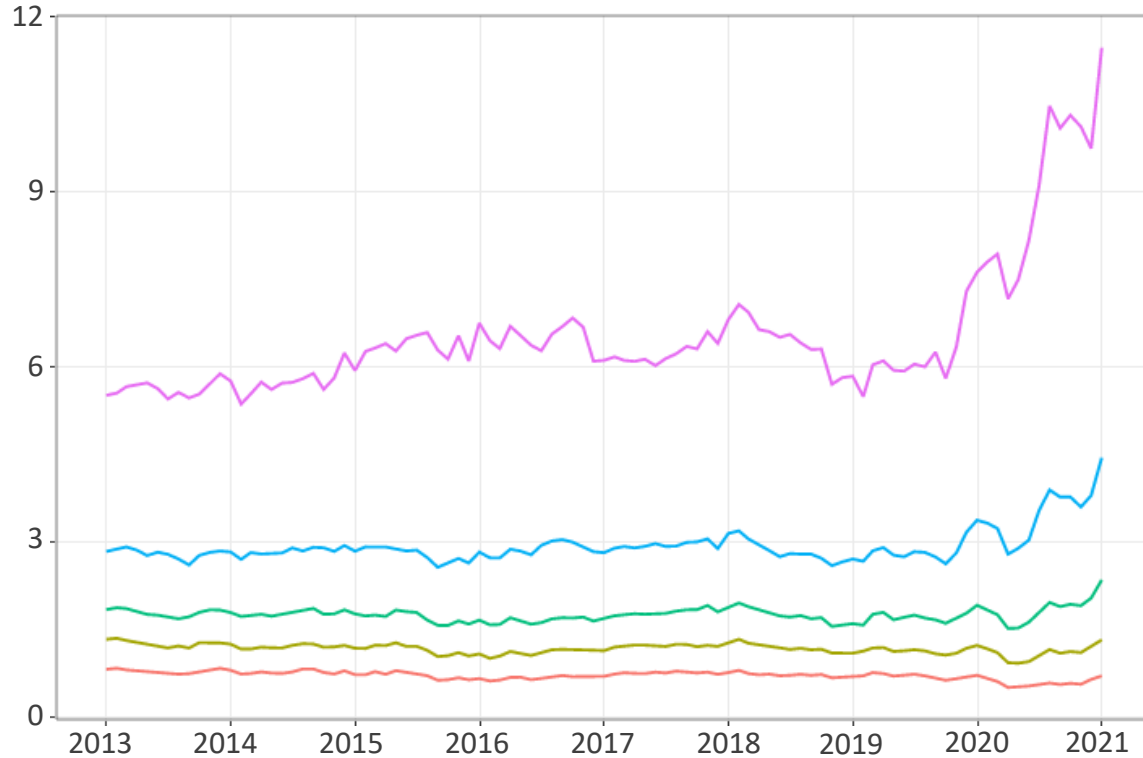
# Market summary

- High dispersion in performance in 2020 by country, sector, style factor and currency.
- Structural growth names benefitted from cheap liquidity and from COVID-19 driving an acceleration in trend.
- Vaccine news flow has driven the potential of societal and economic normalization. This could lead to a potential earnings recovery, positive EPS revisions and a potential decline in forecast risk for cyclical stocks.
- We rebalanced the Fund through the 2<sup>nd</sup> half of 2020 by adding to cyclical stocks, and reducing exposure to China.
- We believe the US\$ may have a bias to weaken. Certain EM currencies remain reasonably valued.
- Steepening yield curves may support the rotation from Growth to Value.
- Vaccine success has driven a strong rebound in cyclical names. Cyclical stocks continue to look reasonably priced, assuming economic normalization occurs.
- Growth stocks re-rated through 2020 and may face a loss of momentum in earnings and performance. However, some are structural winners and valuations for some remain reasonable.

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# Market outlook

## Quintiles of LTM PB



## Medians of Sales growth by quintiles of LTM PB



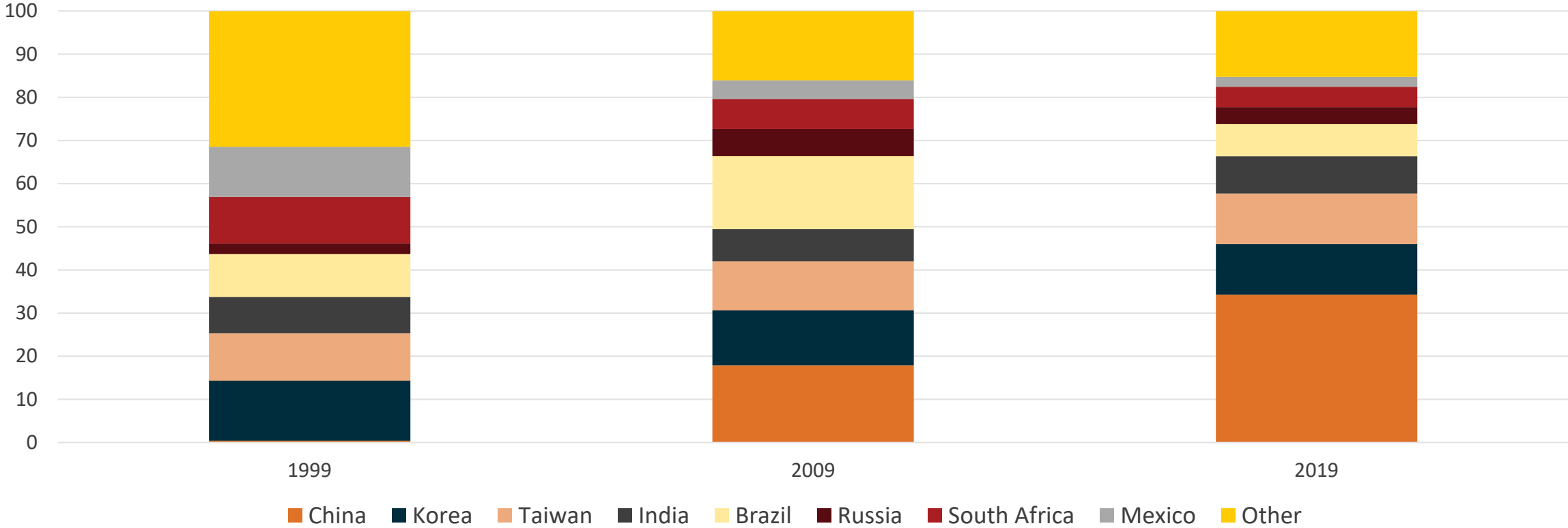
Quantile 1 2 3 4 5

Source: Schroders; 31 December 2020. The views and opinions contained herein are those of the Emerging Markets Equities team, and do not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds. These views and opinions are subject to change.



# What else matters?

## Country constituents of MSCI EM



High concentration to N Asia

Source: MSCI. Data as at 31st December 2020. Historical trends are not indicative of future trends.

# Country and sector weights – GEM rep. account

31 December 2020

	Portfolio (%)	Benchmark (%)	Underweight	Overweight
Korea	17.8	13.5		4.3
Brazil	8.0	5.1		2.9
Russia	5.8	3.0		2.9
South Africa	5.3	3.5		1.8
Taiwan	14.2	12.8		1.5
[Cash]	1.3	0.0		1.3
Hungary	1.2	0.2		1.0
[Small Cap Fund]	1.0	0.0		1.0
Turkey	1.3	0.4		0.9
Argentina	0.4	0.1		0.3
Egypt	0.4	0.1		0.3
Czech Republic	0.3	0.1		0.2
Greece	0.3	0.1		0.1
Pakistan	0.1	0.0		0.1
Poland	0.7	0.7		0.0
United Arab Emirates	0.6	0.5		0.0
Chile	0.5	0.5		0.0
Colombia	0.2	0.2		0.0
Peru	0.0	0.2	-0.2	
Kuwait	0.0	0.5	-0.5	
Qatar	0.0	0.7	-0.7	
Philippines	0.0	0.7	-0.7	
Mexico	1.0	1.7	-0.8	
Indonesia	0.4	1.3	-0.9	
Malaysia	0.0	1.5	-1.5	
Thailand	0.0	1.8	-1.8	
Saudi Arabia	0.0	2.4	-2.4	
China	34.5	39.1	-4.6	
India	4.6	9.2	-4.6	

	Portfolio (%)	Benchmark (%)	Underweight	Overweight
Information Technology	27.9	20.5		7.4
Consumer Discretionary	20.6	18.3		2.2
[Cash]	1.3	0.0		1.3
[Small Cap Fund]	1.0	0.0		1.0
Financials	18.6	18.0		0.7
Utilities	1.1	2.0	-0.9	
Consumer Staples	5.0	5.9	-0.9	
Materials	6.6	7.6	-1.0	
Real Estate	0.9	2.1	-1.2	
Communication Services	10.3	11.6	-1.3	
Energy	3.0	5.0	-2.0	
Industrials	2.0	4.3	-2.3	
Health Care	1.7	4.7	-3.1	

Source: Schroders, FactSet. The accounting data used by FactSet is un-audited, therefore any subsequent cleaning of data will not be reflected in FactSet.

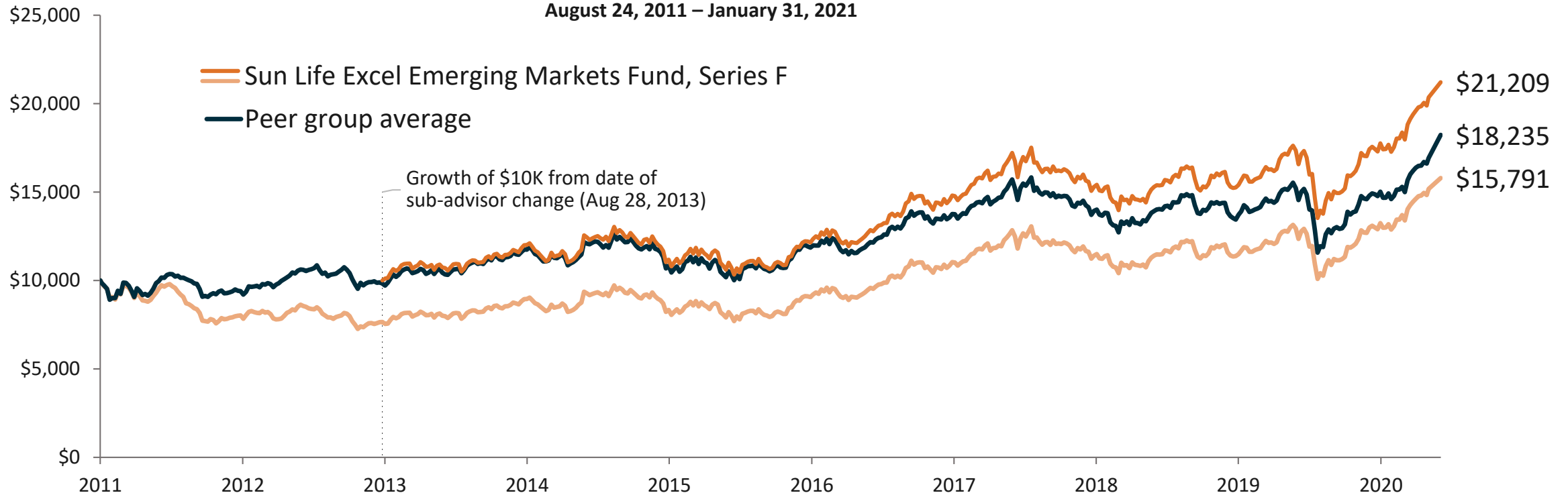
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# Sun Life Excel Emerging Markets Fund

★★★★ Morningstar Overall Rating™

Need guarantees?  
Also available as a  
segregated fund.<sup>1</sup>

Growth of \$10,000 since inception  
August 24, 2011 – January 31, 2021



Source: Morningstar, Inc. Data as at January 31, 2021. Inception date is August 24, 2011. Returns for periods longer than one year are annualized.

\*On August 28, 2013, Schroder Investment Management North America Limited assumed investment management responsibilities for the Fund. Prior to that date, the Fund was managed by TradeWind Global Advisors LLC, and performance prior to that date is under the Fund's previous mandate.

Morningstar star ratings and quartile rankings reflect performance as of December 31, 2020, and are subject to change monthly. The star ratings and the number of funds within the Emerging Markets Equity category: Sun Life Excel Emerging Markets Fund scored 4 stars for the 5-year period when compared to 238 emerging markets equity funds and 4 stars for the 3-year period when compared to 418 emerging markets equity funds. For more details on Morningstar ratings and rankings, see the information at the beginning of this presentation.

<sup>1</sup> Note: Performance reflects Series F of the mutual fund; segregated fund performance will differ

# Sun Life Excel Emerging Markets Fund

 Morningstar Overall Rating™

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## Performance

	SINCE INCEPTION	SINCE SUB-ADVISOR CHANGE*		7 YEAR		5 YEAR		3 YEAR		1 YEAR	
	<i>Return</i>	<i>Return</i>	<i>Quartile</i>	<i>Return</i>	<i>Quartile</i>	<i>Return</i>	<i>Quartile</i>	<i>Return</i>	<i>Quartile</i>	<i>Return</i>	<i>Quartile</i>
Sun Life Excel Emerging Markets Fund (Series F)	5.0%	10.7%	1	10.2%	1	14.0%	1	7.7%	1	27.8%	2
Peer group average (Emerging markets equity)	8.2%	10.6%		9.8%		12.8%		5.8%		23.5%	

Source: Morningstar, Inc. Data as at January 31, 2021. Inception date is August 24, 2011. Returns for periods longer than one year are annualized.

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<sup>1</sup> Note: Performance reflects Series F of the mutual fund; segregated fund performance will differ.

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Past performance is no guarantee of future results and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

**Liquidity risk:** In difficult market conditions, the portfolio may not be able to sell a security for full value or at all. This could affect performance and could cause the portfolio to defer or suspend redemptions of its shares.

**Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the portfolio.

**Currency risk:** The portfolio may lose value as a result of movements in foreign exchange rates.

**Derivatives risk – Efficient Portfolio Management and Investment Purposes:** Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund. The portfolio may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

**Emerging Markets & Frontier risk:** Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

**Counterparty risk:** The portfolio may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the portfolio may be lost in part or in whole.

**Higher volatility risk:** The price of this portfolio may be volatile as it may take higher risks in search of higher rewards.

**Performance risk:** Investment objectives express an intended result but there is no guarantee that such a result may be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

**IBOR:** The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the portfolio.

Source: Schroders. Not a comprehensive list of risks. Please see the important information page for additional information.

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