Manulife Investment Management

September 2020

Emerging Markets Equity Q&A

Targeting today's emerging market leaders

The rapidly growing universe of emerging-market equities offers unparalleled opportunities—and risks. As experienced specialists in the asset class, Manulife Investment Management Senior Portfolio Managers Kathryn Langridge and Philip Ehrmann are well suited to navigate today's dynamic emerging markets. Kathryn and Philip employ a fundamentally driven approach to identify companies with a balance of growth potential and stability—a challenge that requires looking beyond the short term to spot long-term opportunities. Kathryn explains the team's unique approach below.

Kathryn Langridge
Senior Portfolio Manager
Philip Ehrmann
Senior Portfolio Manager

What's the philosophy behind the strategy?

We're primarily bottom-up investors, and it's all about picking the right companies. We're looking to identify a highly select group of best-in-class companies that can generate profitable and sustainable growth over the long term—the steady value compounders with strong business fundamentals. We focus on attractively valued companies with durable quality characteristics such as solid balance sheets, strong management teams, and operational efficiency. In a time of crisis, we believe these are the kinds of characteristics that will help these companies emerge from crises faster and in better shape than their industry peers.

Is there a macroeconomic component to your approach?

While our approach is fundamentally driven, we're also trying to find companies that are well positioned to capture the potential growth from the structural trends driving emerging markets, such as expanding middle-class populations and adoption of emerging technologies. Only a small subset of companies meets our overall criteria for inclusion in the portfolio. We typically aim to hold 60 to 80 securities, and we adjust the portfolio based on valuations and company-specific issues as well as factors such as corporate lifecycle and geographic and thematic diversity.

How does the team incorporate environmental, social, and governance (ESG) criteria into security selection?

We actively engage with management teams on ESG issues, and risk management as it pertains to ESG issues is a key part of the process. Information on corporate adherence to ESG principles may be harder to come by in some emerging markets than in others, but there's a wide range of companies across the emerging-market universe that are strong on ESG measures; in many instances, these companies surpass their developed-market industry peers. Incorporating ESG into security selection is a critical part of our long-term approach. Whether in terms of capital allocation or ESG principles, we're looking for companies that can sustainably generate shareholder value for many years to come.

What timely emerging-market opportunities are you seeing amid the pandemic?

From a bottom-up standpoint, many of the structural themes that we see playing out across emerging markets have been reinforced by the COVID-19 crisis, and a select group of companies have shown remarkable resilience and even managed to accelerate their growth. A number of these firms are found today in industries that were already experiencing strong growth before the pandemic. Among them are e-commerce, electronic payments, cloud computing services, data centres, online education, and online healthcare diagnostics.

Are there any specific regions where you're seeing an abundance of opportunities now?

Relative to other emerging markets, China, South Korea, and Taiwan have contained the outbreak decisively, from a public health, economic, and policy perspective. That's created a significant range of investment opportunities for bottom-up investors like ourselves. China in particular benefits from having been the first to encounter COVID-19 and to apply drastic lockdown measures, in addition to being the first to progress towards containing the outbreak. These north Asian markets have enjoyed a further tailwind from the powerful and sustainable response of their central banks and governments relative to some other emerging markets. China, for example, stands out in that it maintains a degree of control over its economic outcomes that is perhaps rivalled only by the United States.

How are you adapting your investment approach in this challenging environment?

We see varying and potentially volatile speeds of growth resurgence and recession through at least the rest of this year. We're monitoring the situation carefully and seek to respond accordingly. We're doing this both to weather the volatility that we see as an inevitable by-product of economic disruption and to gain exposure to those companies that we believe present resilient growth opportunities.

A widespread health crisis such as a global pandemic could cause substantial market volatility, exchange trading suspensions and closures, and affect portfolio performance. For example, the novel coronavirus disease (COVID-19) has resulted in significant disruptions to global business activity. The impact of a health crisis and other epidemics and pandemics that may arise in the future, could affect the global economy in ways that cannot necessarily be foreseen at the present time. A health crisis may exacerbate other pre-existing political, social and economic risks. Any such impact could adversely affect the portfolio's performance, resulting in losses to your investment.

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