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**Stocks.** *The new emerging markets are attracting huge flows of capital. Here's how funds available to Italian investors are performing*

## FRONTIER INVESTMENTS

by Francesca Vercesi

Pakistan, Vietnam, Georgia, Nigeria and Kenya. Given the lack of alternatives, investors are looking at uncorrelated and atypical markets. And so "frontier" markets, in the new emerging countries, are seeing abundant inflows of international investments supported by favourable economic and demographic trends.

"GDP growth in the next few years should be around 6% to 9%, well above that of the universe of traditional emerging markets", explains Oliver Bell, manager of the T Rowe Price Frontier Markets Equity fund. Up 7.95% over the year, the fund is one of the best in the category. Only eight international share-based funds specialising in the frontier emerging markets are available to retail investors in Italy. And since the start of the year the best of them has provided a yield of 18% (see table). "About 60% of the aggregate population of the frontier markets is less than 30 years old: a young labour force that should lead to economic growth and develop into a solid middle class of consumers".

One focus for Bell is Argentina. "We've also reduced Nigeria's under-representation in our portfolios. One year on from the beginning of its mandate, President Muhammadu Buhari's government seems to have slowly begun to take steps in the right direction. A budgetary law intended to boost the economy was published in May, and then in June a floating exchange rate was introduced for the local currency. These measures are necessary to free up the country's potential. From the macro perspective, the Nigerian economy has reached its lowest point and should now begin to rise again. That's why we've begun to rebuild our position".

Banor Capital, an independent investment management firm in which Banor SIM has a stake, is also placing its bets on this category of assets. Banor Capital has just launched the Aristeia SICAV New Frontiers Equity fund with the research team at Kallisto Partners, a Rome-based independent firm specialising in quantitative methodologies. The fund invests primarily in shares in markets in the initial stages of economic and financial development. As Giacomo Mergoni, Banor Capital's CEO, explains, "they have a low correlation with more developed markets, and favourable growth trends. The portfolio is highly diversified, its main investments being in Pakistan, Argentina, Vietnam and Kenya. The principal positions focus on financial and telecommunications products and essential goods".

East Capital has recently launched East Capital (Lux) Frontier Markets, another new share-based fund focusing on frontier markets and with investments

ranging from Africa to the Middle East to Latin America. The investment team is based in Stockholm, Moscow, Hong Kong and Dubai. "This is one of the most interesting funds I've ever managed. We're investing in countries undergoing strong growth, with a favourable demographic structure and interesting valuations", says Peter Elam Håkansson, chair and investment director at East Capital.

"The main frontier markets, like Pakistan and Argentina, are examples of the way a given environment can experience positive development in a climate of political stability. Reform processes increase in pace and the outlook for a transition to emerging market status is strengthened. For this year, both markets have seen growth of 20%, in dollars, with Pakistan heading for inclusion in the MSCI Emerging Market Index in 2017 and Argentina being reviewed with a view to possible future inclusion. The unbroken economic growth process we are witnessing, especially in Asian frontier markets like Vietnam and Bangladesh, is helping stimulate the overall appetite for this segment", states Emre Akcakmak, manager of the East Capital Frontier Markets Fund.

Looking to the long term, and with some appetite for risk, banks too look like a good bet. "Some banks in the frontier markets are trading at similar valuations to those of the bigger emerging markets, but with higher-quality assets, higher yields and greater long-term growth prospects", comments Ross Teverson, Head of Strategy, Emerging Markets, at Jupiter.

Akcakmak shares this view. "Taking a broader view, and as an indirect exposure to this rapidly growing sector and to economic growth in general, we're putting our trust in the banks of Sri Lanka, Mauritius, Georgia and Nigeria. Notwithstanding the more modest growth expected for earnings, of between 5% and 10% in 2017, most banks in the frontier markets have interesting valuations: less than 10 times the expected profit. As an alternative, rapidly growing companies in the health sector and telecommunications companies with high dividend yields, of between 7% and 12%, are also among our preferred investments".

Templeton Frontier Markets, a fund managed by Mark Mobius and Carlos Hardenberg at Franklin Templeton Investment, is also showing interesting results. As Hardenberg, senior vice-president for strategy, explains, "The recent market fluctuations measured by the MSCI indexes have increased the gap between the valuations of frontier markets and those of emerging and developed markets. Lastly, one factor that favours many frontier markets is their low debt levels, both in the private and the public sector. And that should help them cope with potential shocks".

## FUNDS SPECIALISING IN FRONTIER MARKETS AND AVAILABLE IN ITALY

I FONDI AZIONARI SPECIALIZZATI SUI MERCATI DI FRONTIERA DISPONIBILI IN ITALIA						
	Codice Isin	Morningstar Rating	Rendimento totale da inizio anno	Rendimento totale a 1 anno	Rendimento annualizzato a 3 anni	Rendimento annualizzato a 5 anni
◆ Charlemagne Magna New Frontiers R	IE00B670FC16	-	18,17%	22,9%	33,98%	65,08%
◆ Hsbc Gif Frontier Markets AC	LU0666199749	4	6,93%	8,00%	10,69%	-
◆ Schroder Isf Frontier Markets Equity B	LU0562314475	4	5,70%	3,31%	7,61%	12,75%
◆ T. Rowe Price Frontier Markets Equity A Usd	LU1079763535	-	3,39%	7,95%	-	-
◆ Templeton Frontier Markets A Acc Usd	LU0390136736	3	2,23%	1,13%	3,25%	8,13%
◆ East Capital Lux Frontier Markets A Eur	LU1125674454	-	1,85%	1,16%	-	-
◆ Morgan Stanley I.F. Frontier Emerging Markets Equity C	LU0898771216	3	1,17%	2,77%	6,67%	-
◆ Eurizon EasyFund Equity Emerging Markets NF Lte R	LU0857130511	1	-3,72%	-4,31%	0,83%	-

I fondi selezionati sono disponibili alla vendita in Italia con accesso retail (investimento minimo iniziale non superiore ai 15 mila euro). Tutti i dati sono espressi in euro e aggiornati tra il 27 e il 28 settembre 2016. Sono state incluse solo le primary share class. Fonte: Morningstar Direct

The selected funds are available for sale in Italy with retail access (initial minimum investment no higher than 15,000 euro). All data in euro and updated between 27 and 28 September 2016. Only primary share class included.

Source: Morningstar Direct