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“The trust in emerging markets is returning”

Paul Severin



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ESPA STOCK GLOBAL EMERGING MARKETS: Three questions for Gabriela Tinti, Senior Fund Manager

Why are the emerging markets interesting?

Gabriela Tinti, Senior Fund Manager

Tinti: The global economy has been growing at a stable yet not particularly high rate. A main reason for this development is low productivity growth. In fact, industrial production has even declined. Therefore, the central banks are in no hurry to raise interest rates. Quite the opposite is the fact: we expect the ECB to leave the key-lending rate unchanged at zero percent, and we envisage an extension of the bond purchase programme. In Europe interest rates therefore remain very low; only in the USA, a slight rate hike should be in the cards for the end of the year.

The picture in the emerging markets is a different one. The rising commodity prices, especially the oil price, which has increased drastically over the year, have a stabilising effect on countries that depend on fossil fuels, such as Russia or Brazil. Also, we can see a significant increase in foreign currency reserves and a debt ratio that falls substantially short of that recorded by many industrialised economies. On the basis of the most recent growth forecast by the IMF, the growth advantage of emerging economies in 2017 is expected to be in the range of 2-5-3.0% (source: www.imf.org, Annual Meeting 2016). In conclusion, the economy has picked up much more momentum than the developed economies worldwide.

What is your assessment of the emerging equity markets?

Tinti: In the long run there is no way of avoiding equity investments. The positive economic growth but also the subsiding worries over the development of the Chinese economy provide stock exchanges with solid support. The trust in emerging markets is returning, and the capital inflow is on the rise. After three years dominated by outflows (2013-2015), the emerging markets have recorded net inflows of USD 10.5bn in 2016 (source: EPFR Global www.epfr.com).

The valuations on the stock exchanges are not low, but they are more attractive than on the developed markets. The price/earnings ratio (PER) of emerging markets equities is 13.9x, that of the MSCI World Equity index is 16x (based on consensus estimates for 2016).

With the exception of the financial sector, analysts expect rising profit margins. As far as the market capitalisation is concerned, the stock exchanges in the emerging markets harbour substantial catch-up potential. The Russian stock exchange has roughly the same market capitalisation as the US network giant Cisco. And at USD 840bn, the entire Chinese equity market has the same total volume as Google and Amazon together. Also, the possible admission of the Chinese A shares into the high-profile MSCI Emerging Markets index could draw quite a bit of interest.

Source: Thomson Reuters Datastream
Graph: MSCI World and MSCI Emerging Markets 2011-2016
Please note: The development of historic yields is not a reliable indicator for future developments of a specifi c asset category or asset class. The charts above do not include any fees or costs.

From your point of view, what are the factors supporting an investment in ESPA STOCK GLOBAL EMERGING MARKETS?

Tinti: ESPA STOCK GLOBAL EMERGING MARKETS gives the investor the chance to invest into a portfolio that is broadly diversified across countries, regions, and sectors in the equity markets of emerging markets. The fund management team selects high-quality companies with above-average growth rates and attractive valuations for investment.

Within the framework of this active investment approach, the weightings of the regions Asia, Africa, Middle East, and Latin America as well as the selection of companies and sectors are managed. On the back of the current market assessment, we clearly prefer the emerging markets of Asia. In the past five years the fund has increased its value per share by 31.2%.*

***) As of 30 September 2016. Performance calculated according to the OeKB method. The performance accounts for the management fee. The chart does not allow for a one-time load of up to 5% nor any other fees reducing return such as individual account or depositary fees. Past performance is not indicative of future fund performance.**

The currently five biggest positions are:

Tencent Holdings Ltd.
Taiwan Semiconductor Manufactoring Co.
Samsung Electronics Co. Ltd.
Alibaba Group Holding Ltd.
China Construction Bank Corp.



Source: Erste Asset Management, FMP
LATAM = Latin America
EMEA = Eastern Europe, Middle East and Africa
ASIA = Asia

More information on ESPA STOCK GLOBAL EMERGING MARKETS

Advantages for the investor

- Globally diversified emerging markets equity fund.
- Active stock selection by experts.
- Opportunity to earn a high, long-term return.

Risks to be considered:

- The net asset value of the fund can fluctuate considerably (high volatility).
- Due to investments denominated in foreign currencies, the net asset value of the fund in euros ca be impacted by currency fluctuations.
- Emerging markets involve a higher level of risk.
- Capital loss is possible.

Risk notes according to 2011 Austrian Investment Fund Act
ESPA STOCK GLOBAL EMERGING MARKETS may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

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Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.

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