

Emerging Asian Markets: Finding the Gems on Offer in China and ASEAN

Aleksey Mironenko is passionate about Premia Partners' strategies to unearth the value available in China 'A' shares and in the ASEAN stock markets. In his capacity as Partner & Chief Distribution Officer for Premia, he gave a presentation at the Hubbis Thailand Wealth Management Forum to highlight opportunities in China new economy shares, in innovative ASEAN companies and in the firm's forthcoming Vietnam ETF. His broad thesis is that global EM is in a positive phase, that ASEAN and China are at an even better stage and that investors can find optimal routes to these opportunities through Premia's growing stock of strategies.

PREMIA IS A RELATIVELY NEW INVESTMENT MANAGER DEDICATED TO Asia ETF investment solutions.

In partnership with global leading thinkers and institutions, the firm's stated goal is to be a trusted ETF partner for investors by curating a best-in-class range of ETF tools and solutions that enrich and empower its partners and investors in Asia and for Asia.

Experience, drive and a vision

"We are a group of ex-iShares, ex-China AMC, ex-ICBC CS and ex-Mirae market professionals who have always focused on Asia and who decided to build an Asian ETF company," Mironenko told the audience. "Here we are only 18 months after our first ETF launch and already we are the third highest ETF provider by inflows in Hong Kong and in the top 10 of ETF providers in Hong Kong by assets. Why? Because we build products that are relevant for Asia, relevant for investors seeking exposure to these markets."

Mironenko offered delegates some insights into how investors can turn to Premia to help them capture the growth momentum available in Asia's EM arena. He highlighted two key Premia strategies and one soon-to-be-launched ETF.



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[Link to Content Summary page](#)

[Link to Article on website](#)

[Link to Presentation](#)

[Link to Event Homepage](#)





The first of these strategies is the Premia CSI Caixin China New Economy ETF (3173 HK), which offers smart beta exposure to China 'A' share new economy engines and the world's first multi-factor approach to investing in China A. The second is the Premia Asia Innovative Technology ETF (3181/9181 HK), which offers pan-Asian coverage of a diversified group of innovation leaders. And the third strategy, which focuses on Vietnam and is due to be launched in the market soon in the form of the Premia MSCI Vietnam ETF.

Asia EM in a positive place

By way of recent background on the EM economic and markets scenarios, Mironenko reported that 2018 saw a robust EM correction on the back of renewed US dollar strength, global growth concerns and trade war anxieties. "Our chosen EM markets in Asia have strong fundamentals, low valuations, are under-invested and are now benefiting from improved currency dynamics," Mironenko observed.

He added that emerging ASEAN stocks are not only benefiting from US dollar weakness but also from supply chain repositioning. China new economy stocks are benefiting from an increasingly domestic and consumption-driven market. Markets such as Vietnam, a frontier market on the path for upgrade to EM, looks particularly interesting as many now view it as the primary beneficiary of the dispute between China and the US and due to stronger inflows from foreign investors.

"Earnings growth is expected to be stronger in the EM arena than the US in 2019, leading investors to seek to rebalance their allocations," Mironenko commented. "Estimates for earnings growth of 6.3% for 2019 and 13.3% for 2020 compare with 3.6% and 11.6% in the US, according to Bloomberg estimates as of April 26."

"Meanwhile," he added, "the attractive valuation of emerging markets compared with historical levels is appealing, with the estimated P/E and P/B of EM still below the long-term

average of 13.8x and 1.6x. And EM currencies are more likely to strengthen in light of the US dollar rate hike slowdown. In fact, EMs currencies are undervalued by 12% and 23%, when aggregated using the MSCI EM Index and JP Morgan Government Bond Index, respectively, based on Goldman Sachs' estimates of fair value, and have appreciated about 3.5% since bottoming out in September last year."

He noted that with a widespread expectation of minimal or zero rate hikes this year and next, according to polls conducted in early 2019, the outlook for risk assets such as EM is therefore increasingly positive.

Premia's gateways to growth

"In our view, this is the beginning," he reported. "If one looks back five years you can see that EM massively underperformed developed markets, but we think that over the next five years that will reverse. But there are different levels of performance within

the category, which is why we created ETFs such as China New Economy, which is actually the best performing China ‘A’ share ETF globally year to date. Not only do we focus on new economy stocks, but we then narrow the field down to focus on quality, returns, low debt, nimble management, R&D spending and so forth”

It is also why Premia is keen on promoting its second core strategy, Asia Innovative Tech. “This comprises companies that make more than 20% of their revenue from new technology, such as 3D printing, e-payments, optical lenses for robots and others,” Mironenko reported. “And then we narrow the field here too, focusing on growth and R&D expenditures to identify not just new technology firms, but the leading new technology firms.”

And he reported that Premia is about to do the same for Vietnam, one of the fastest growing markets in the region. Vietnam is an exciting choice for Premia, as the country is in fact

not yet an emerging market - it is a frontier market. However, there are many positive developments in Vietnam and it is progressing toward EM status quickly.

The country has many key positives including government support via privatisation to boost the equity market, faster growth than most of ASEAN, conducive liberalisation, and growing foreign investor interest. It also offers a 60% labour cost advantage vs China, a large and willing-to-work population and increasingly improving infrastructure for global supply chains. “Our new Vietnam ETF will offer a low cost, rules-based access strategy to the fast-growing Vietnam market,” he reported.

Premia’s three core principles

Mironenko closed by explaining that Premia was founded on three core beliefs. First, there is enormous scope for innovation in Asian ETFs, and opportunities to introduce global best practices

for Asia. Second, Asian investors should not have to trade in New York or London or Frankfurt to find the best products the ETF industry has to offer. And finally, Asian investors deserve better solutions than available today and technology allows Premia to make them a reality.

Premia today already boasts a team of 20 members with hands-on execution experience from leading firms. The firm has garnered a wide range of leadership and managerial experience from global institutions including Marsh & McLennan, BlackRock, ICBC Credit Suisse, China Asset Management, Mirae and other firms.

“The firm’s ideology is to offer investors a vision of ‘smart investing’, aiming to create a reliable, curated ecosystem that is conducive to ETF investing, optimised with the best technologies, tools, and platform,” Mironenko concluded. “This all adds up to the bold yet straightforward goal to reshape the landscape for ETFs in Asia.” ■

