Fiera Capital Corp's Bokor-Ingram Turns the Spotlight on the Frontier Markets

Dominic Bokor-Ingram is Joint Lead Portfolio Manager for the Magna New Frontier Strategy, which is under the Canadian investment management group, Fiera Capital Corporation, which currently boasts over USD120 billion funds under management globally. He told delegates at the Hubbis Independent Wealth Management Forum why Asian investors should seriously consider buying exposure in the world's frontier markets as part of any well-constructed portfolio.

BOKOR-INGRAM BEGAN BY EXPLAINING THAT HIS TALK WOULD COVER A SUBSET OF EMERGING MARKETS where Fiera believes a combination of a lack of research and a lack of ownership by foreign investors creates significant alpha opportunities, opening the door to a differentiated strategy for gaining exposure to emerging markets.

"Here I mean the newer emerging markets, the frontier markets, where for some reason normally, because these countries are coming from some political or economic regime that has not been conducive to capitalism and equity markets, these countries are classified as frontier. They might be wealthy countries that didn't have a properly functioning stock market, they might be countries that are changing their regime from a communist to a capitalist regime, they could present a number of reasons. But in all cases, we identify, we see huge opportunity, the biggest reason being excess economic growth."

Reform and opportunity

He explained that countries that are going through reform processes - political, economic, or capital markets liberalisation

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and reform - tend to have the highest growth rates of any countries in the world.

"Simply," he reported, "we believe that the best place to look for companies that can compound their earnings over many years is in countries that are going through a reform process and creating this excess economic growth."

Bokor-Ingram also commented on the need for experience in these markets. "Both myself and my co-manager who manages our Magna New Frontiers Strategy have a lot of experience," he reported "with 30 years of involvement in Emerging Markets each. That type of experience is necessary when generating alpha in these types of markets, which are different even from most emerging markets."

The Magna New Frontiers Strategy was first launched in 2011 and is a UCITS Open-ended Strategy with daily dealing domiciled in Ireland. Launched in March that year, the strategy has some 50 holdings currently, and a fund size of roughly USD515 million. The year-to-date gain by the end of October was 15.80%, versus an index performance of 14.65%.

Bokor-Ingram also explained that their interests are aligned, as they personally also have a significant investment in the strategy. "And we have produced sound performance, with a positive three- and five-year track record of performance that is based on careful portfolio construction driven by extensive bottom-up analysis with a macro overlay, with absolute return as first priority, as we pay no attention to benchmarks."

Spotting the inefficiencies

He then highlighted some compelling market inefficiencies. "The companies in these countries are largely ignored by the sell side analysts, and that will be even more the case ahead, as in Europe, MiFID II rules means research spend by managers like ourselves over the last couple of years has gone down substantially," he said. "In fact, our research budget for the sell side is down by 40% in two years. The result throughout the industry is inefficient valuations."

Secondly, these countries' debt and equity markets are very under-owned by global investors. While 30% to 50% foreign ownership is the norm in fully functioning emerging markets, for frontier markets, the average is closer to 5% or 10%. "This again leads to inefficient valuations that can be taken advantage of," he remarked.

He highlighted, for example, the extreme of Saudi Arabia that today has only 7% foreign ownership, compared to big EM names such as China and Brazil with between 30% and 50% foreign ownership in their listed stocks.

Non-correlated to the mainstream markets

He also explained that reform processes tend to be very domestically driven, hence the correlation between frontier equity markets and emerging markets, or developed markets, tends to be very low. "To give you one example," he told delegates, "we currently have major political issues in Argentina which could result in the end of capitalism and the destruction of the economy, just as happened 10 or 15 years ago. But there is no contagion or impact on countries such as Vietnam, or Romania or Bangladesh."

The final reason for Fiera's focus on frontier markets is that they generally tend to trade at a big discount to emerging or developed markets.

Armed with some excellent slides, Bokor-Ingram pointed to a map of the geographical exposure of The Magna New Frontiers Strategy. "Reforms happen in frontier markets and negative reforms also happen in frontier markets," he noted, "so we switch out when we see the tides turning, for example there was a period in 2016 and 2017 when Argentina was reforming well after the new government arrived in 2015. But it now looks like that government will lose power, so we moved to zero weighting in Argentina. In short, you can never make money in frontier markets by buying the best stock in a rotten market."

With that, he highlighted Fiera's keen focus on Vietnam currently, which is now the strategy's largest weighting, followed by selected Middle East countries.

Vietnam and the Middle East appeal

"The Middle East," he explained, "is reforming and is actually rather misunderstood. In fact, they are going through huge political, economic and markets reforms, driving huge foreign investor inflows. Saudi Arabia two years ago barred foreign investors, but today it is in the MSCI Emerging Market Index, yet still only 7% owned by foreigners. The Middle East as a whole will rise to 10% of the MSCI, which is going to drive a further USD80 billion of passive inflows into these markets. As the total trading volume of these markets is about USD2 billion a day only, this will have major impact on prices."

Nevertheless, he also noted that Magna never invests on the basis of this top down, funds flow view, but instead analyses the right companies to be involved with, and then assesses that the foreign investors will indeed follow.

"Our approach to investing is bottom-up, stock-focused and research-driven," he explained. "We focus on both quantitative and qualitative analysis and search for less well-understood opportunities.

Regular company management meetings are a key principle of the process. "We like to find companies we can invest in for the long term," he added. "Belief in the sustainability of their growth and evidence of good shareholder relations are key drivers for us. Portfolios are built on the basis of our conviction, and if we don't like a stock, we don't invest in it, regardless of its index weighting."

Saudi Arabia's reform is no mirage

Bokor-Ingram noted that Saudi Arabia's reforms all began back in 2015. "That year," he reported, "when the oil price fell the country realised that in order to survive long term, they had to create a non-oil economy. In order to do that, they had to make many reforms both economically and socially and you've seen some of the biggest economic and social reforms anywhere ever in the world happening over the last three years in Saudi Arabia. The result is growth in many segments of the economy and markets., thereby also reducing the cost of capital for them, as these companies then raise new growth capital on the stock market from international investors, and that enhances growth again."

UAE is a beacon for frontier investing

Bokor-Ingram also focused on the UAE as a good example of a full reform process playing out. He noted that 40 years or so ago the UAE was 100% dependent on oil, which, for Dubai, then ran out.

"A massive reform process began in Dubai re-orientating it away completely from oil to an economy today that is predominantly financial services, tourism and trade," he reported.

He explained that it started with political reform. The politicians realised that reform of the economy had to take place and the role of the state reduce, while banking, legal and physical infrastructure was needed to enable a non-oil economy to develop.

Then came major stock market reforms that in 2012 enabling foreign investors to invest for the first time. Then in 2014 the market moved into the MSCI Emerging Market Index.

"So," he elaborated, "you have twin drivers of corporate earnings growth from the massive reform process and a big re-rating from MSCI inclusion and foreign portfolio activity in the market going from 0% to 14% in the space of two years and the market at the same time soared by 100%."

He closed his fascinating talk by reiterating that the search for growth is also all about the search for quality, of earnings, of management, of governance, and so forth. "If you like the style of investing in quality, growth companies with a catalyst potential for re-rating over time, we believe Magna is a very compelling strategy to be involved in," he concluded. ■

Fiera Capital Corporation - Building Momentum in Asia

Fiera Capital Corporation (FCC) is a leading Canadian investment management firm with a total AUM of more than USD110 billion, which promotes itself as offering thoughtful investment solutions to suit a variety of investor needs.

"Our mission is to provide clients with the highest quality of customised service and performance through a culture of integrity, teamwork, excellence, and innovation," the firm's literature states.

FCC was founded in 2003 and has been publicly traded since 2010. The firm has over 750 employees including more than 175 investment professionals and has approximately USD127 billion under management.

FCC is roughly 56% publicly owned, with the firm's management holding 19% and National Bank of Canada the next largest holder at 18%, as well as Desjardins Group at 7%.

FCC has a growing footprint in Asia, which was substantially enhanced in the USD65 million mid-2018 acquisition of Clearwater Capital Partners, a leading Asia-focused credit and special situations investment firm headquartered in Hong Kong with approximately USD1.4 billion of assets under management at the time.

Vincent Duhamel, Global President & Chief Operating Officer of FCC, explained to guests at the October discussion in Hong Kong that the firm has been diversifying in recent years, for example through the Clearwater acquisition.

"Our strategy," he said, "is essentially to find teams of people wherever they are around the globe, whatever asset class they work in, that are able to generate alpha for the clients, that offer a skill set that we don't have and that help us offer better portfolios for our clients. Clearwater is a good example of that."

Dominic Bokor-Ingram joined Fiera Capital (Europe) in 2013 as part of the team focusing on frontier markets. He previously held a series of senior positions at Morgan Stanley, Goldman Sachs and, from 2006, Renaissance Capital, the EMEA investment bank operating in high opportunity emerging and frontier markets.

He began his career in financial services in 1989, initially specialising in closed-end funds and then, from 1992, in emerging markets. Between 1995 and 2002 Dominic worked for Regent Pacific, from which Fiera Capital was demerged, where he was responsible for 23 Eastern European funds. Dominic is an economics and statistics graduate from the University of Exeter. ■