
Rohit Khuller
MBA, CFA
Vice President,
Investment Management,
Lead Portfolio Manager


Mila Krassiouk
MBA, CFA
Co-Associate,
Senior Portfolio Manager


Yongai Xu
CFA
Co-Associate,
Portfolio Manager

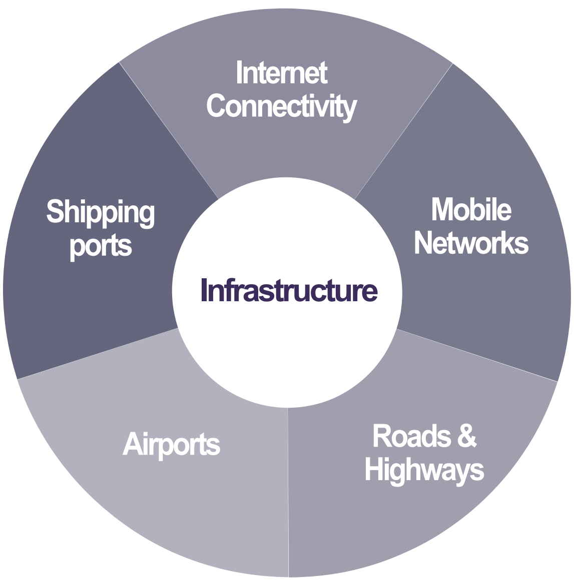
Unconventional Sector Weights in Emerging Markets

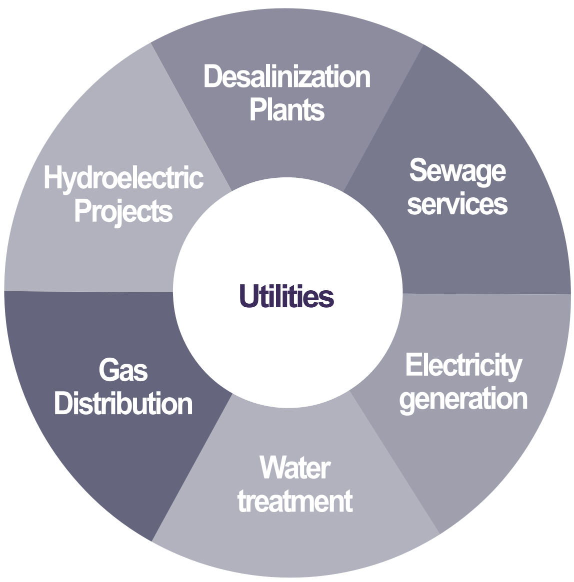
Increasing allocations to utilities and infrastructure sectors in emerging markets, while reducing exposure to technology and financial services can provide investors with several strategic advantages:

OVERWEIGHT

UTILITIES & INFRASTRUCTURE

- **Stable Cash Flows:** Utilities provide stable and predictable cash flows driven by their essential services and inelastic demand, making them less vulnerable to economic downturns.
- **Regulatory Framework:** The regulatory environment governing utilities can create stability, often ensuring consistent returns on equity for investors.
- **Infrastructure Development:** Emerging markets are actively developing and expanding infrastructure, which is essential for driving economic growth.
- **Demographic Growth:** Increasing populations in emerging markets drive demand for utilities and infrastructure, supporting urbanization and industrialization.
- **Public-Private Partnerships:** Governments in emerging markets frequently enter into public-private partnerships to develop infrastructure, providing lucrative opportunities for private investors under favorable terms.
- **Dividend Yields:** Utilities typically offer higher dividend yields, appealing to income-seeking investors, especially in low-interest-rate environments.





UNDERWEIGHT

TECH & FINANCIAL SERVICES

- **Volatility and Valuation:** Technology stocks generally exhibit higher volatility and valuations, which can introduce added risk in the often fluctuating economic environments of emerging markets.
- **Regulatory Risk:** Technology companies in the emerging markets face substantial regulator risks, including evolving privacy concerns and unpredictable changes in data regulations, which can introduce significant uncertainties and impact their operations.
- **Competition and Innovation Risk:** The technology sector's competitive nature and the need for constant innovation can challenge emerging market companies against established global tech giants.
- **Financial Services Sector Sensitivity:** The financial services sector is highly sensitive to economic cycles, interest rate fluctuations, and regulatory changes, which can be more volatile in emerging markets.
- **Banking Risk:** Banks are highly leveraged, with little equity supporting fast growing & unseasoned loan book. Their business model is built on structural asset-liability mismatch (owning long duration assets financed by short term deposits) which make them susceptible to bank runs.
- **Exposure to Domestic Issues:** Banks and financial institutions are directly impacted by domestic economic issues, including non-performing loans and currency risks.
- **Technological Disruption:** Financial services in emerging markets are vulnerable to disruption from modern technologies like mobile banking, potentially undermining traditional banking models.

"...Emerging markets are actively building and expanding infrastructure, critical for economic development...."

Conclusion:

While both utilities/infrastructure and technology/financial services sectors offer investment opportunities, utilities and infrastructure may provide more stability in the dynamic economic landscape of emerging markets. Conversely, technology and financial services often present higher risks due to volatility, competition, and sensitivity to economic fluctuations. Investment strategies should carefully balance growth potential with risk management, which can justify an overweight position in the more stable utilities and infrastructure sectors of emerging markets.