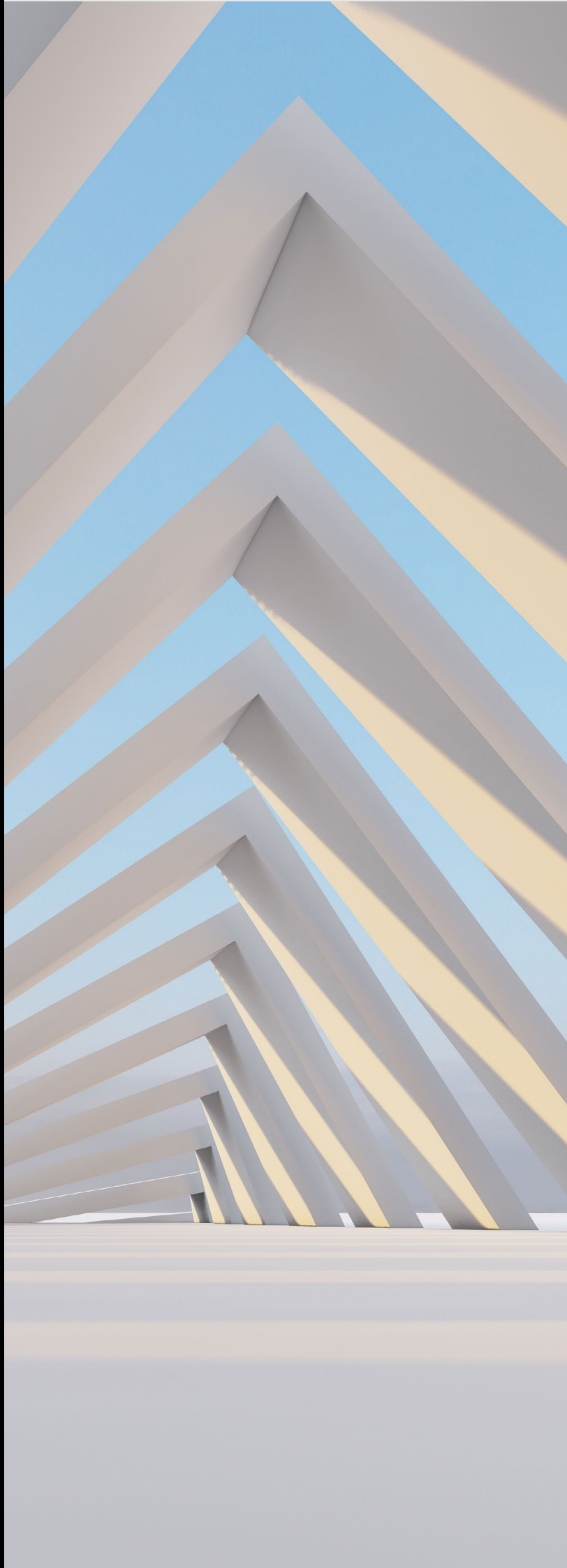


# Walter Scott: Emerging markets capabilities

September 2023



Fuelled by powerful structural growth drivers, emerging markets represent a compelling opportunity for equity investors. Walter Scott has been investing in the asset class since 1997, digging deep into corporate fundamentals to identify what we believe to be exceptional companies capable of generating sustainable wealth over the long term. By seeking to invest only in high-quality businesses, we aim to capture the long-term growth potential of emerging markets, while providing a degree of resilience during downturns.



## Dedicated team with a global perspective

In today's globalised world, economies and companies are increasingly intertwined. That's why we believe it's important to view emerging markets through a global prism.

**"We believe it's important to view emerging markets through a global prism."**

Our emerging market strategy is overseen by a dedicated EM team: the team monitors and reviews all EM investments and scrutinises all new EM investment proposals. Investment ideas, however, can come from anyone in Walter Scott's wider Research team. Every member of the Research team is a global generalist, with a responsibility for researching companies across the global equity universe, including emerging markets.

This approach ensures that every member of the wider Research team has exposure to the challenges and opportunities of emerging markets. Not only does this enable our EM strategy to leverage the collective resource of the entire Research team, but it fosters a genuinely global perspective. Each member of the EM team also sits within one of our three other regional teams (US, EMEA, Asia Pacific) which further facilitates cross-fertilisation of ideas.

Collectively located in Edinburgh, the team's global focus has the advantage of helping to eliminate local-market biases that might occur in a multi-location structure. Proximity to a market is no substitute for considered, objective analysis and rather than necessarily leading to deeper insights it can instead accentuate short-term noise and subjectivity.

From our Edinburgh offices we conduct frequent and extensive research trips to complement our desk-based analysis. As well as facilitating on-the-ground assessment of companies and the wider political and economic environment in which they operate, these trips enable us to build and maintain strong relationships with management teams and gain valuable insights into the influence of local conditions on long-term corporate strategies.



## Research Trips 2017 to 2022



# Aligning clients with quality companies across emerging markets

## Companies must meet our strict investment criteria

We view the emerging market universe as a single opportunity set. Benchmark unaware, we apply disciplined and rigorous fundamental analysis to identify those companies that we believe will protect and grow our clients' assets over time, regardless of country or sector.

The companies we invest in share common attributes. They are financially resilient, profitable and cash generative. Exposed to structural growth trends, they are led by experienced management teams that adhere to high standards of governance and sustainability. When we find a company that exhibits these characteristics, the expectation is that we will be aligning our clients with it over the long term. The result is low portfolio turnover of typically less than 25% per annum.

## What we look for in a company



Industry leaders — defensible market positions built upon, for example, proprietary technologies or powerful brands.



Structural growth vectors — exposure to supportive long-term trends.



High levels of profitability and cash generation — superior rates of sustainable and self-financed organic growth.



Balance sheet strength — conservatively financed businesses.



Excellent management — proven track records and clear long-term growth strategies.



Durability, integrity and repeatable business models - effective standards of corporate governance.



# AIA Group

Hong Kong-based life insurance giant AIA is directly exposed to one of the global economy's most powerful growth drivers: rising prosperity across Asia. As household wealth increases, so too does the propensity to purchase insurance to protect that wealth. In an underpenetrated insurance market, ageing populations, lifestyle-related diseases, and growing healthcare costs have resulted in a significant mortality protection gap. Compounding the shortfall is the inadequacy of state funded social security benefits across much of Asia relative to Europe and North America.

"Few companies are better equipped to grasp the huge insurance opportunity in Asia than AIA. As one of the world's largest life insurers, the business enjoys unrivalled scale and penetration in the region, with a leading position in 18 markets.

AIA's high-quality in-house sales agency targets middle-class and high-end clients with higher-margin, longer-term protection policies. Across all its jurisdictions, the company operates at the premium end of the market. Management is now leveraging this model in the huge growth market of Mainland China, where life insurance penetration lags considerably behind its neighbours."

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**Few companies are better equipped to grasp the huge insurance opportunity in Asia than AIA.”**



Alan Lander, Investment Manager – Co-Head of Research

# TOTVS

TOTVS is a Brazilian ERP (Enterprise Resource Planning) and fintech company with a 50% share of the domestic ERP market and a diversified customer base. After a prolonged period of underinvestment, Brazil's IT sector is expected to grow rapidly in the years ahead as companies play catch up with international peers.

"TOTVS is an excellent example of a great company operating in an often not-so-great political and macroeconomic environment. Despite Brazil having experienced some lean economic years of late, profitability at TOTVS has grown rapidly, thanks primarily to a shift towards Software-as-aService and cloud offerings. It is also building out an ecosystem of solutions to address all the digital needs of an SME in Brazil.

Although operating in a market that includes giants such as Oracle and SAP, TOTVS enjoys a couple of crucial competitive advantages. Firstly, while these companies have more sophisticated products, they're not economical for TOTVS's core market of companies with annual revenues of R\$20-300m. The other reason is the sheer complexity of Brazil's tax system, which can often deter foreign companies. With its Brazilian focus, however, TOTVS can design software to accommodate these complexities."



**Although operating in a market that includes giants such as Oracle and SAP, TOTVS enjoys a couple of crucial competitive advantages."**



Paul Loudon, Investment Manager



# Dino Polska

Dino Polska has risen from humble beginnings to become one of the fastest growing operators in the Polish grocery retail market. Following the collapse of communism, founder Tomasz Biernacki began distributing meat from his processing plant in Krotoszyn in west-central Poland to a retail network spread across the country. Today, Dino has more than 2,100 stores, aimed primarily at Poland's large and under-served rural and suburban populations.

"Standardisation" is the Dino mantra. When customers visit a Dino Polska store, they know what they are getting: roughly 400 square metres, 5,000 product lines, daily fresh food deliveries, and a meat counter. Not only does this proposition resonate strongly with customers, but it allows Dino to plan and develop its store network quickly and efficiently. And whilst by no means the largest retailer in the fragmented Polish grocery sector, Dino's strategy, alongside a laser focus on efficiency and distribution excellence, has established a secure and defensible position in Poland's rural and suburban markets. Any attempt to replicate this footprint would require substantial investment and time.



**When customers visit a Dino Polska store, they know what they are getting."**



Michael Scott, Investment Analyst

**“Long experience of investing in emerging markets has reinforced our belief that fundamental company research is the most effective counter to an often-dynamic external environment.”**

While our approach is resolutely bottom up, we understand the importance of macroeconomic and political conditions when investing in emerging markets. Reflecting this, we augment our company-focused research by giving due consideration to all relevant top-down factors. Ultimately, however, this serves as an adjunct to our bottom-up analysis. Long experience of investing in emerging markets has reinforced our belief that fundamental company research is the most effective counter to an often-dynamic external environment.

Fundamentally, we seek to invest our clients' assets in companies with the resilience to survive and prosper in even the most testing economic and market conditions. No investment is made with the expectation of perpetual calm.

## About Walter Scott

Since Walter Scott was established in 1983 our purpose has been to build prosperity through considered long-term investing. We invest in one asset class, global equities, and seek to align our clients' assets with companies capable of sustaining exceptional levels of wealth generation.

Our approach is underpinned by a commitment to disciplined research, rigorous analysis of company fundamentals, and a team-based decision-making framework that encourages debate and challenge. Our culture is simply a reflection of our purpose and investment beliefs: client-focused, collegiate, and resolutely long term.



### Macquarie Professional Series – enabling local access to global specialists

The Walter Scott Emerging Markets Fund is proudly brought to you by Macquarie Professional Series. We search the world to uncover differentiated investment solutions, enabling local investors to access strategies from world-class fund managers. We leverage our insights into the local investment landscape, seeking to anticipate investment needs and identify relevant opportunities currently overlooked in the market.



**For more information, call us on 1800 814 523, email [mam.clientservice@macquarie.com](mailto:mam.clientservice@macquarie.com), or visit [macquarieIM.com](http://macquarieIM.com).**

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