

## David Cornell on Emerging Markets



### (IA) Global Emerging Markets: Over three years

	3yr % chg	Rank	Vol monthly	Fund size (£m)	Morningstar rating™
<b>Top 5</b>					
Baillie Gifford Emerging Mkts Gr	80.78	1	4.35	944.67	★★★★★
Baillie Gifford Em Mkts Lead Coms	77.42	2	4.51	562.77	★★★★★
UBS Global Emerging Markets Equity	69.34	3	4.36	712.72	★★★★★
BlackRock Emerging Markets	68.73	4	4.15	204.95	★★★★
Legg Mason IF MC Emerg Mkts	67.24	5	4.33	22.81	★★★★
<b>Bottom 5</b>					
Janus Henderson Emerg Mkts Opps	29.90	68	3.94	441.90	★★★
Newton Emerging Income	28.35	69	3.67	101.71	★
Carmignac Pf Emergents	27.31	70	4.01	121.60	★★
Legg Mason QS Em Mkts Eq	24.38	71	4.05	10.36	★
AS SICAV I EM SmI r Coms	19.14	72	3.89	252.91	★★★
<b>SECTOR AVERAGE</b>	<b>48.46</b>		<b>4.12</b>	<b>649.96</b>	

Performances calculated bid to bid, net income re-invested, GBP to 20/04/19. Source: © 2019 Morningstar.

Political leadership elections inevitably create a focal point for investors, particularly so in emerging markets. Politics is assumed to significantly influence economic activity in less mature markets, and if similar logic applies, the larger the economy, the more important the outcome.

When thinking about elections and markets, it is worth remembering the old truism that China grows because of the government, while India grows in spite of the government. And while India market watchers will agree the 'best' and most likely outcome will be a renewed mandate for Prime Minister Narendra Modi, our view is contrarian. We believe investors should be bullish on India in any election scenario, but a market dislocation arising from a surprise result would be a rare and exciting buying opportunity.

Without a doubt, under Modi's leadership, progress has been made; road construction has increased by 60%, tax collection is rising, corruption is falling, and financial inclusion is progressing. Any politician will claim the credit for this, but the truth is different.

It is the technological revolution, of which India is in the vanguard, that is forcing irreversible change towards more growth orientated policy decisions, and politicians of all creeds in India have no choice but to ride this wave. Web usage is driving productivity growth through the creation of virtual and financial networks, now combining with a growing physical infrastructure, which

### Bull Points

Growth set to continue regardless of election outcome thanks to improved technological and physical infrastructure

A shock election result will open up an exciting buying opportunity

### Bear Point

Family-owned businesses may not prioritise interests of minority shareholders

will deliver the combination of high growth and low inflation. India has the cheapest, fastest growing per capita consumption of data globally, and with a population matching China's for size, but where 50% are under 25 and GDP per capita is one fifth, to what extent can bad politics really interfere? In the past ten years, India's mid-cap companies have delivered 12.8% CAGR in US dollars and these returns in periods of both high and low oil prices, good and bad governments.

The only long-term downside risks arise from having no direct exposure to the mid-cap universe, or picking companies that do not have strong corporate governance given many Indian companies are run – and majority owned – by families, who may not have minority shareholders' best interests at heart.

*David Cornell is manager of the Ocean Dial India Growth fund*

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