POLAR CAPITAL

Polar Capital
Emerging Market Stars Fund

Emerging markets: Opportunities beyond China

Q: Vik Heerah (Head of Marketing): Jorry, there have been two positive years of performance for emerging market equities, but its not been without its challenges. What are the threats and opportunities that you see for the year ahead?

A: Jorry Nøddekær, Lead Fund Manager, Polar Capital Emerging Market Stars Fund:

We are in a situation where I think the upside is very significant but we also must acknowledge there are some risk factors out there. The one that clearly springs to mind is around Trump's policies in the US.

We have already, as we speak, been seeing the 10 year yield start to move up on the idea that inflation has not been 100% dealt with and there is a bit more stickiness. We also have to consider what happened around the budget and around US geopolitics – tariffs, China – which is where we see a bit of risk.

With that said, we are still very constructive on the asset class, and we also think that there are now plenty of extremely high quality, very cheap companies where we feel a lot of the risk is already in the price, and even a bit more. So clearly, in the short term, we could expect some volatility but we generally think with capital being allocated now, it would be a pretty bad structural outcome if you could not make money over the coming 12, 18 to 24 months.

So, we definitely have quite a constructive mindset.

Q: VH: Now you mentioned China, which obviously announced some stimulus in September last year. You've maintained an underweight to the region. What's your thinking there?

A: JN: I think that our underweight is very much driven by our view that China is in what you might call a debt deflation trap in large parts of the economy. Yes, they have consumers with very, very high savings rates and so on but from a balance sheet perspective, for a lot of corporates and in particular for a lot of consumers, most of their wealth is attached to asset value or, particularly with consumers, property value.

On top of that, when you then have uncertainty around job growth creation, particularly driven by some of the geopolitical risk associated to the Chinese economy, I think it's hard to see a very big move upward happening in China. So, with those kinds of deflationary forces and that kind of uncertainty for the consumer at portfolio level, we generally feel comfortable being underweight China.

There are still parts of the China benchmark that we see as investable but it's not something where we, given our investment style and process, think one should really be allocating much capital. Of course, there are government-linked companies where in a number of cases you can get a decent dividend but are they really there for minority shareholders? We're saying no, we don't really think that's the case.

So, when you look at the high-quality part of the China universe – and there is for sure a high quality corporate universe in China driven by some private-led companies with strong entrepreneurs – when we look at that universe, we actually think we are pretty well exposed to China, and we have been allocating capital into what we think are really high quality companies. These are also very cheap right now.

So, I'd say we are definitely constructive on a selective part of China.

Q: VH: Another good performer for the region was India. You've reduced your overweight position. Is that a valuation call?

A: JN: Yes. That is very much a valuation call. If you go back a few years, we had a quite significant overweight in India, very much driven by our stock selection.

We are definitely still able to deploy capital in India and have a number of very high conviction ideas. But there's no question that we have been taking a bit of profit and some of these investment cases are reaching our target price, we have been reducing exposure. We have also been finding it a bit harder to deploy that capital back into India, purely driven by the valuation argument.

We want to make it very clear that we are still very structurally constructive on India, we're just in a period where we need to navigate valuations in a little bit more detail. However, while India was still okay at the margin last year, there was actually quite a bit of weakness, particularly towards the second half of the year. In 2025 this has continued, and now we are actually going back and starting to see a few more of these key investment cases we have been watching suddenly start to look quite a bit more attractive again from a valuation perspective.

Q: VH: Okay, at a sector level, you still favor technology stocks. What do valuations look like there, and how are you playing that?

A: JN: It's correct that we are still quite optimistic on technology. One of the reasons is that for us, when we look across our investment universe, if we imagine a matrix of growth, structural and strong business models, company valuations, and a strong balance sheet, a lot of these key technology companies related to the semiconductor space literally tick all the boxes.

To answer your question – yes, we still find valuations very, very reasonable, even to the degree we find it very attractive. From that perspective, we are pretty comfortable being overweight there.

Again, we also saw a bit of correction there in the second half of 2024, and even some of the companies that have been running relatively well on the AI story have suddenly come down and are now at a very reasonable valuation level.

We like a number of the companies that work in the design, access, or application of specific integrated circuit segments, which is one of the key areas we focus on these days within the semiconductor space; a number of these companies have pretty decent visibility, and we see quite a good growth profile in the years to come. We look at that growth profile relative to the valuation level and find them very attractive.

Q: VH: Now, we've talked about China, India and technology but more broadly how have you positioned the portfolio?

A: JN: I guess the way we like our investors to see our portfolio is almost like two big buckets of allocation, which of course still interlink and have some overlap, but put very simply, there's probably still close to a third of our capital in technology. There's big exposure to semiconductors, but also to the likes of IT services and other forms of specialised technology.

Then you can look at the other two thirds of the portfolio, which are what we call the 'New Multipolar World' where we aim to capture some big structural changes going on within the asset class, namely the extreme dominance China had in the past being trimmed down and reduced. As discussed, I still think there are great selective opportunities in China but it has in many ways become the exporter of consumer goods and capital goods to what you call the Global South. Looking at the likes of India, Indonesia, Vietnam, a lot of Latin America, the Middle East and so on – this is where we see a lot of the new growth happening and so that growth profile of emerging markets is significantly changing and diversifying.

But it also means there are a lot of new sets of growth opportunities, which we as stock-pickers like because it gives us a lot of new great opportunities to allocate capital. Additionally, when we look at the overall portfolio structure, we can actually diversify risk a lot better.

When everybody had half of their capital linked to China there was a lot of concentration risk, and I think we can now spread that risk much better around political systems, economic growth cycles, monetary regimes and so on. So, I think our overall risk profile is looking a lot better going forward.

To add a little bit of a spice, we also very much believe there is a case for commodities, and in our case that is primarily through copper and uranium, as we do believe we need an energy transition and that there's no way other than nuclear for that. We aim to gain exposure to this which is why the opportunities are primarily around uranium, which we find pretty interesting.

Jorry Nøddekær, Lead Fund Manager

Polar Capital Emerging Market Stars Fund

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