



Beyond Emerging: The Rise of Frontier Markets

October 2024

What is a Frontier Emerging Market?

MSCI Frontier Emerging Markets (FEM)

- All MSCI Frontier Markets plus four small emerging markets – Colombia, Egypt, Philippines, and Peru
- Emerging markets are included in the MSCI FEM Index if:
 - They are small – i.e. country's weight in MSCI AC World Index < 10bps
 - And they are less developed – i.e. Gross National Income (GNI) per capita is lower than the average GNI per capita of countries classified in the upper middle income category (World Bank)

MSCI Frontier Markets

For inclusion in index a security is required to meet the following:
Free float > \$88m, 2.5% ATVR¹, Foreign Inc. Factor: *At least some*

Demonstrate a relative openness to and accessibility for foreign investors

Partial ease of capital inflows/outflows

Modest efficiency of the operational framework

MSCI Emerging Markets

For inclusion in index a security is required to meet the following:
Free float > \$1,171m, 15% ATVR¹, Foreign Inc. Factor: *Significant*

Ideally, international investors would like to see no difference in the opportunity set available to them and to local investors

Relative ease of capital inflows/outflows without disruption

High efficiency of the operational framework

FEM = FM + small, less developed EM

Source: Schroders, MSCI, as of June 2023.

¹Annualised Traded Value Ratio.

MSCI Frontier Emerging Markets (EM Capped at 10%) Index

Europe

Country	Weight (%)
Croatia	2.5
Estonia	0.8
Iceland	6.6
Kazakhstan	8.9
Lithuania	0.5
Romania	12.3
Serbia	0.1
Slovenia	5.5
Total	37.3

Africa

Country	Weight (%)
Waemu	0.6
Kenya	2.3
Other	2.0
Total	4.9

Middle East

Country	Weight (%)
Bahrain	2.3
Egypt	0.7
Jordan	1.9
Morocco	10.3
Oman	3.4
Tunisia	1.0
Other	0.0
Total	19.6

Asia

Country	Weight (%)
Bangladesh	2.4
Pakistan	3.5
Philippines	5.0
Sri Lanka	0.7
Vietnam	22.7
Total	34.3

Latin

Country	Weight (%)
Peru	2.9
Colombia	1.0
Total	3.9

Regions

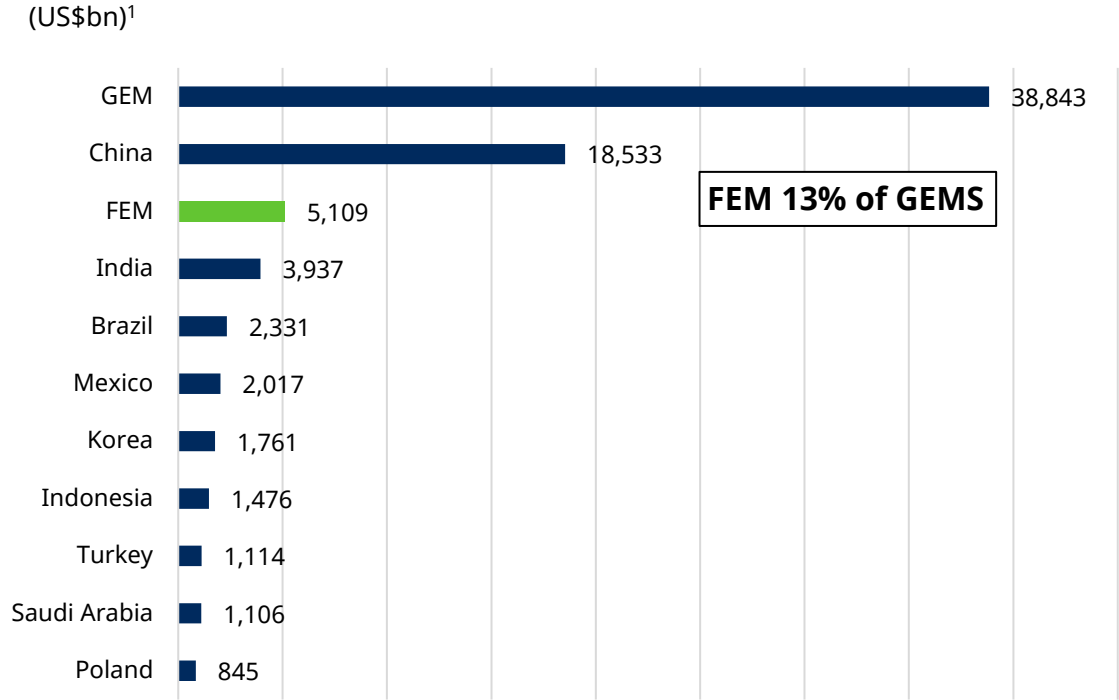
Region	Weight (%)
Europe	37.3
Latin America	3.9
Africa	4.9
Middle East	19.6
Asia	34.3
Total	100.0

Reasonable country diversification

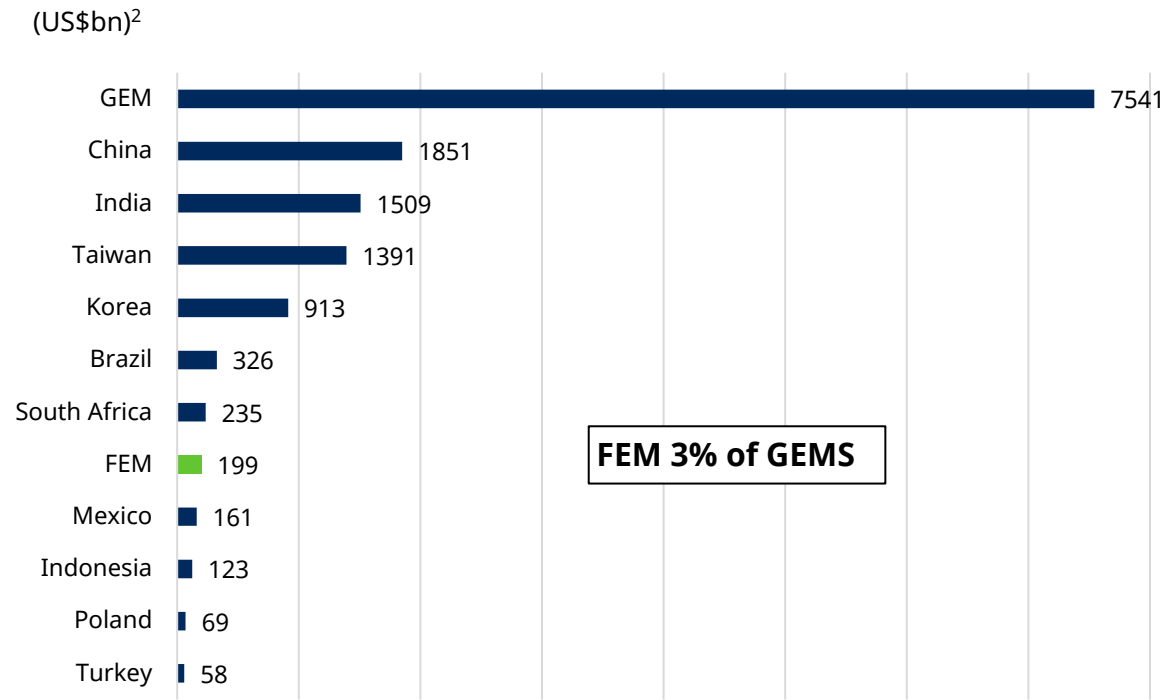
Source: FactSet, MSCI. Data to Jul 2024. Highlighted countries are constituents of the MSCI Emerging Markets index and are not constituents of the MSCI Frontier Markets index. Countries are mentioned for illustrative purposes only and should not be viewed as a recommendation to buy/sell. Weight shown may not add to 100% due to rounding.

Market capitalisation and GDP relative to other emerging markets

Nominal GDP 2024e



Market Cap⁴ comparison - Frontier vs. Emerging Markets



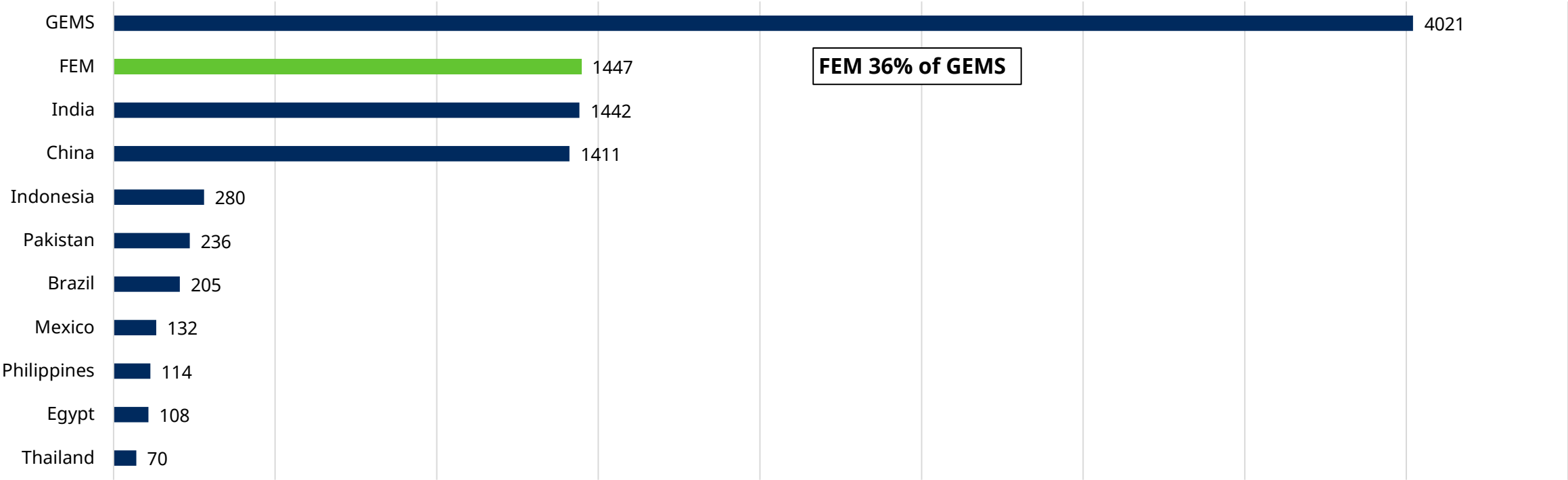
Frontier emerging markets have 2nd largest GDP after China, but the stock markets are massively underdeveloped relative to their economies

¹Source: IMF world economic outlook database. Estimates for 2024 as of Jul 2024. ²Source: FactSet, MSCI. Data to 31 Jan 2024. ³FM (Frontier Markets): Argentina, Bahrain, Bangladesh, Burkina Faso, Colombia, Croatia, Egypt, Estonia, Iceland, Jordan, Kazakhstan, Kenya, Lithuania, Mauritius, Morocco, Nigeria, Oman, Pakistan, Peru, Philippines, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Vietnam, Waemu,. ⁴MSCI Free float adjusted. Countries are mentioned for illustrative purposes only and should not be viewed as a recommendation to buy/sell.

Population relative to other emerging markets

Population

(Millions of people)

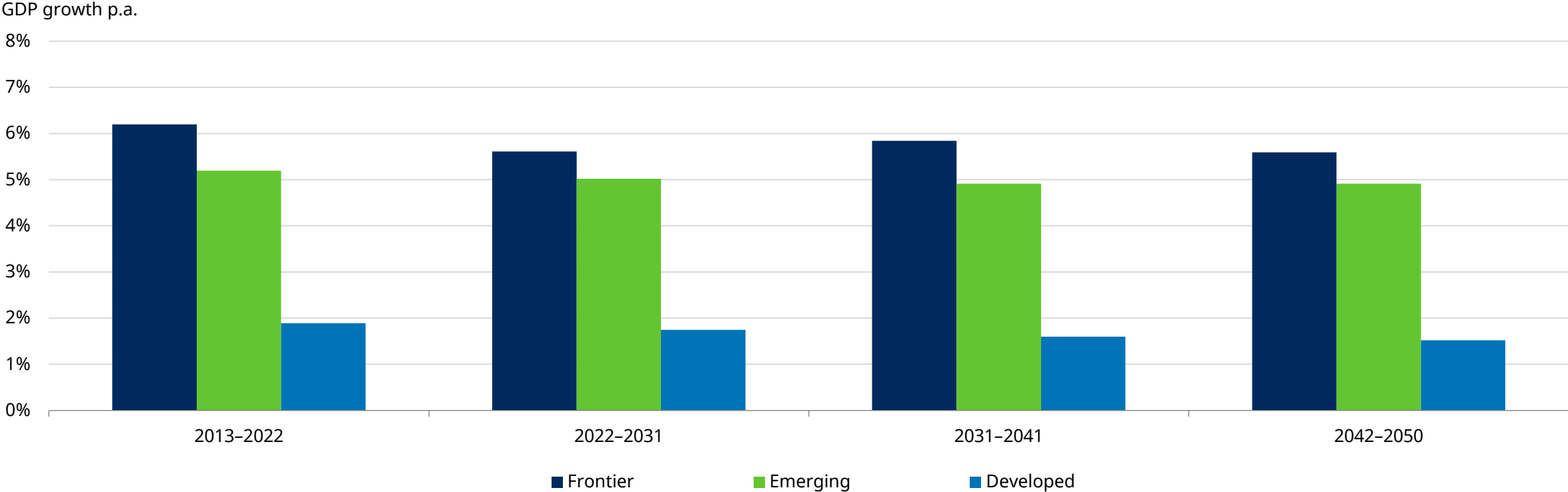


Frontier emerging markets have larger population than Emerging countries

Source: IMF world economic outlook database. Estimates for 2024 as of Jul 2024

GDP growth

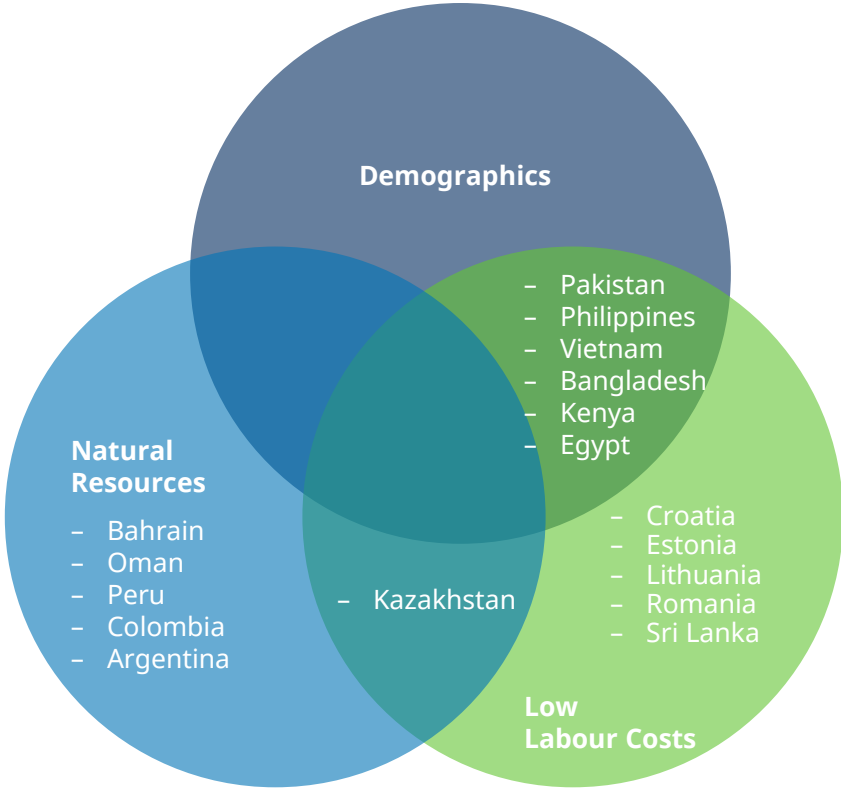
Differences between FM, EM and DM GDP growth (forecasts)



Frontier economies expect to grow faster than emerging and developed economies

Source: IMF DataMapper, CITI Investment Research and Analysis. Estimates as at April 2017. The opinions stated in this presentation include some forecasted views. We believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that any forecasts or opinions will be realised. Please see important notes at the end of this document.

Competitive advantages



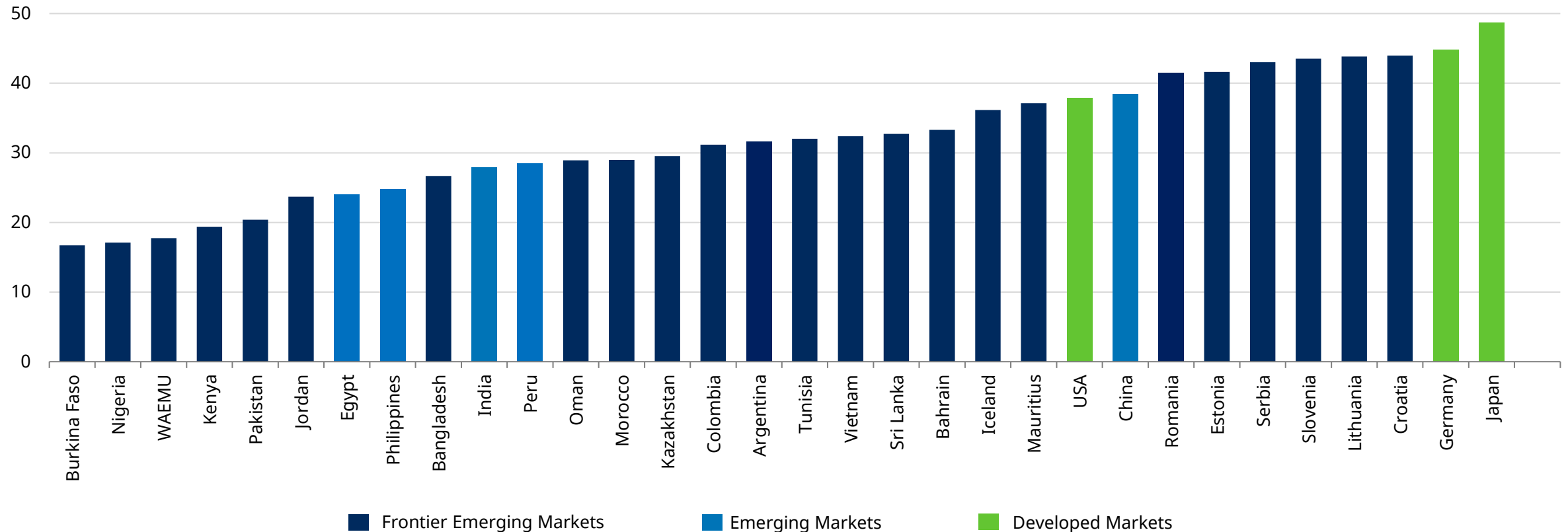
Diverse competitive advantages

Source: Schroders. Oct 2023.

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Demographics

Median age in years

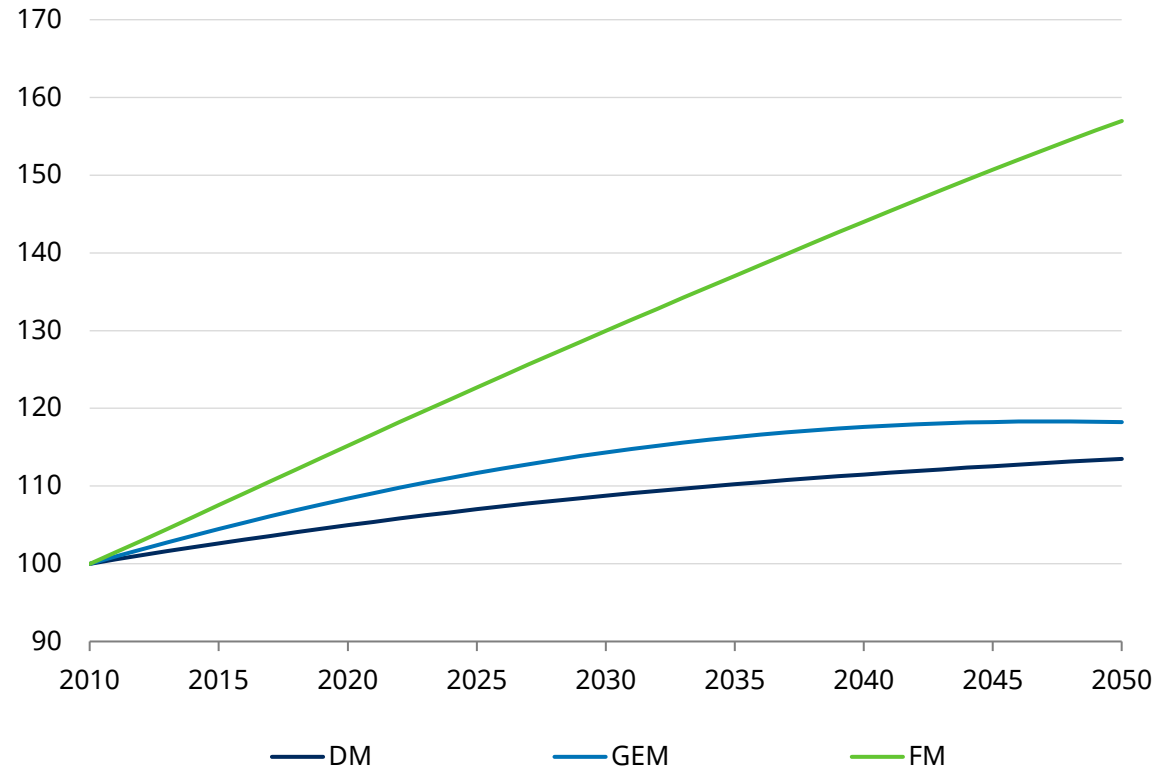


...and tend to have relatively young populations

Source: <https://www.cia.gov/the-world-factbook/field/median-age/country-comparison/>, estimates for 2024; updated July 2024.

Demographics

Populations rebased; 2010 = 100



Forecast annualised population growth rate

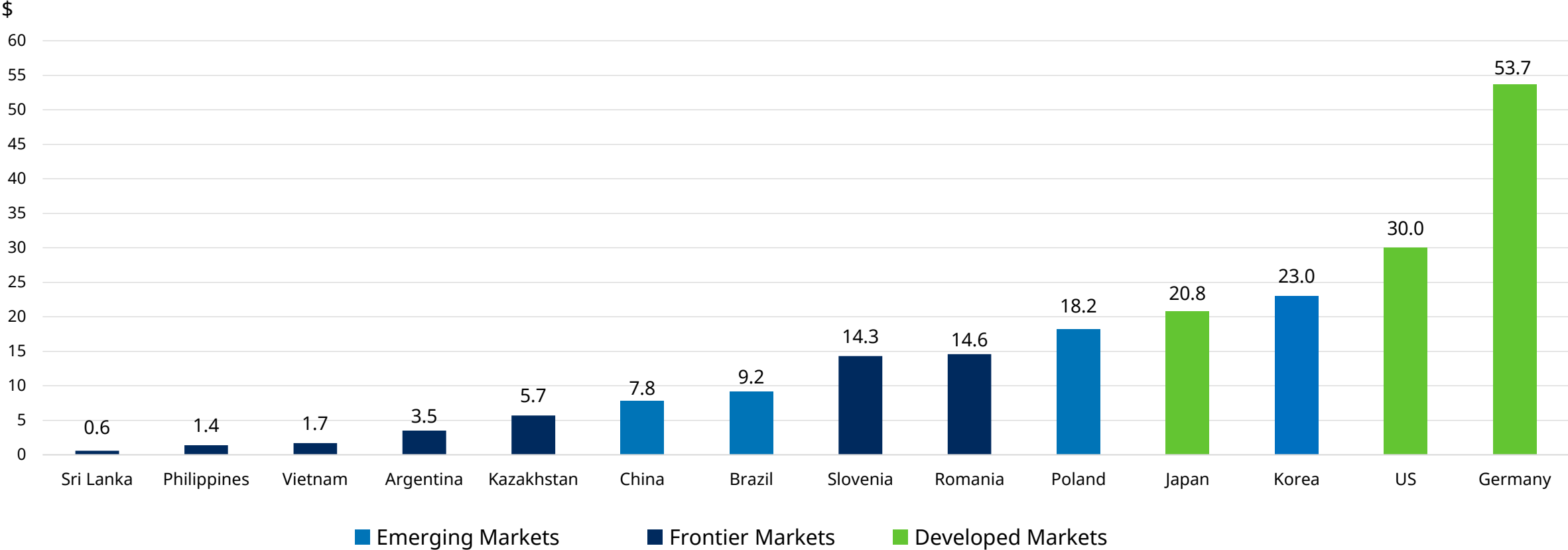
	DM	EM	FM
2025	0.45%	0.74%	1.37%
2030	0.42%	0.67%	1.32%
2050	0.32%	0.42%	1.13%

...and have strongly growing populations

Source: UN Population Division, Estimates to 2050. Updated June 2021.

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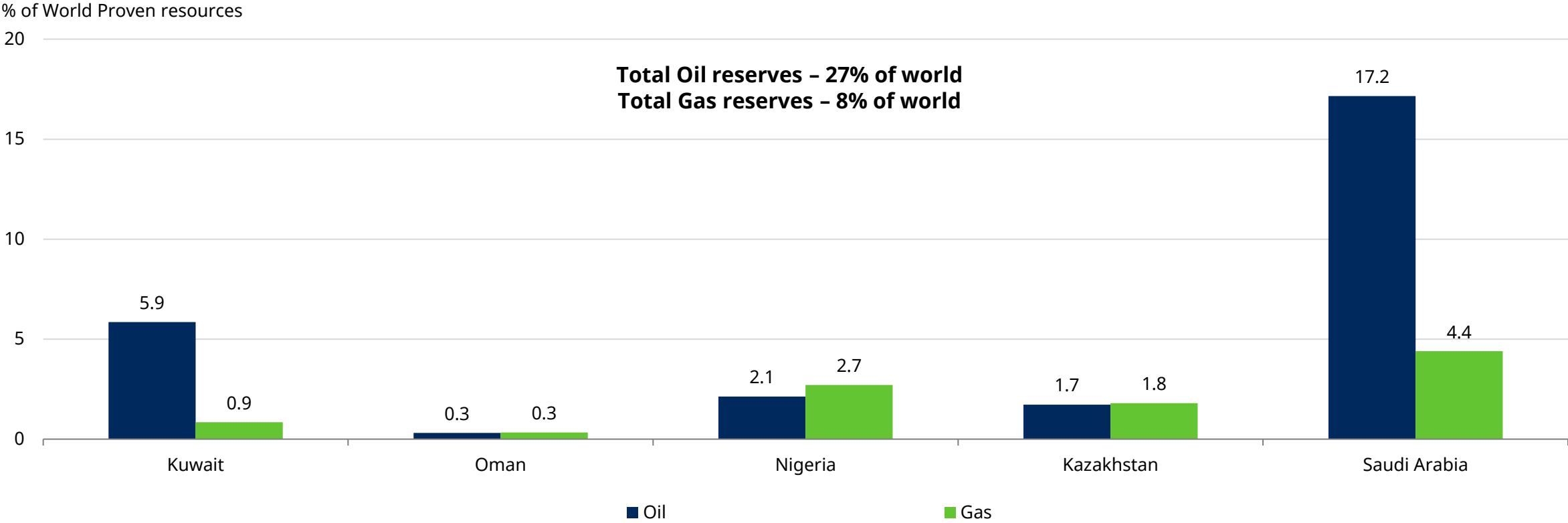
Labour costs per hour (in US\$)



Frontier Markets benefit from competitive labour costs

Source: Haver, EIU based on Central Statistical Office. 2024 estimates as at Jul 2024. Average cost of labour per hour (pay and non-pay costs). Nominal gross wages of the enterprise and budgetary sectors. Countries are mentioned for illustrative purposes only and should not be viewed as a recommendation to buy/sell.

Oil and gas reserves



Significant natural resources

Source: BP Statistical Review World Energy, June 2023. Data for 2022.
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Correlations¹ 2005–2024

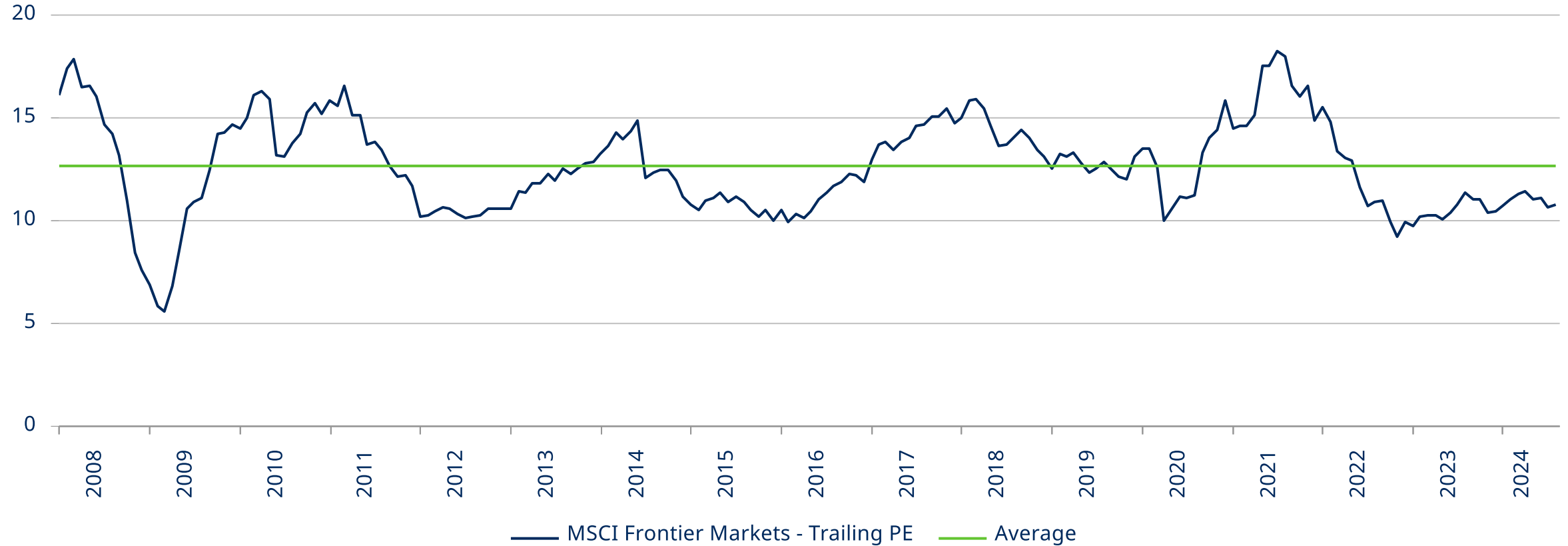
Correlation coefficients	Argentina	Kazakhstan	Kenya	Morocco	Oman	Vietnam	MSCI Frontiers & EM	MSCI GEMs	MSCI World	MSCI ACW Energy	MSCI ACW Materials
Argentina	1.00										
Kazakhstan	0.19	1.00									
Kenya	0.06	0.08	1.00								
Morocco	0.15	0.18	0.07	1.00							
Oman	0.08	0.15	0.09	0.09	1.00						
Vietnam*	0.06	0.12	0.08	0.06	0.13	1.00					
MSCI Frontiers & EM	0.41	0.38	0.11	0.26	0.20	0.20	1.00				
MSCI GEMs	0.41	0.38	0.11	0.26	0.19	0.19	0.99	1.00			
MSCI World	0.55	0.32	0.07	0.26	0.11	0.10	0.67	0.67	1.00		
MSCI ACW Energy	0.51	0.31	0.07	0.24	0.12	0.08	0.63	0.63	0.79	1.00	
MSCI ACW Materials	0.51	0.36	0.08	0.29	0.15	0.13	0.81	0.81	0.85	0.80	1.00

Frontier Markets typically tend towards low correlation with MSCI GEMs, MSCI World, MSCI Commodities and each other

Source: FactSet, Schroders, data to 21 Aug 2024. Countries are mentioned for illustrative purposes only and should not be viewed as a recommendation to buy/sell. ¹Note: A Correlation Coefficient of +1 shows that two series rise and fall together, -1 shows that when one rises the other falls (and vice versa), 0 shows there is no relationship. Based on daily returns between 31 Dec 2005 and 21 Aug 2024.

*Vietnam data starts on 1 Dec 2006

Valuations



Reasonably attractive valuations

Past performance is not a guide to future performance. The value of investment can go down as well as up and is not guaranteed.

Source: Refinitiv, MSCI. Data to Jul 2024.

Summary

- Strong economic growth potential in combination with capital market liberalisation leads to excellent investment opportunities
- Attractive demographics and large resource base
- China moving up the manufacturing ladder over the past decade has resulted in a large expansion in the wage base, rendering Frontier markets and smaller EM more competitive
- Frontier markets are rapidly emerging as vital alternative manufacturing hubs, driven by the growing necessity for supply chain diversification
- Large FDI's are leading to strong job creation, which is expanding the middle class and supporting domestic consumption
- Low correlation with developed and emerging markets provides potential diversification benefits
- Generally under researched and under owned
- Less efficient capital markets underrepresented in global indices

Excellent investment opportunities

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