



Emerging Markets Discussion with Bruno Vanier, President & CIO of Gemway Assets



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Elena Kosheleva, Bruno Vanier & Ariel Wang from Gemway Assets

[Could you give us a bit of background about your firm and your relationship with RJ Management?](#)

Gemway Assets is a Paris based asset management company specializing in Emerging Market equities. The company was established in 2012 by Bruno Vanier and Michel Audeban. Gemway Assets is accredited by French regulator AMF (the equivalent of the UK FSA). Its major focus is to invest in companies that would benefit from rising purchasing power of emerging countries populations. Our investment process is 2/3 bottom up, 1/3 top down. We manage this strategy via two UCITS vehicles, GemEquity and GemAsia. GemEquity focuses on all emerging regions from Asia to Latin America to Eastern Europe and to Africa while GemAsia only focuses on Asia ex Japan listed equity. As of 20/11/2018, the total AUM stand at \$612M.

We have a team of 7 people, and our investment team consists of 3 seasoned specialists including lead manager Bruno Vanier who has more than 30 years of experience in emerging markets (including 7 years stationed in Asia (Bangkok and Hong Kong)). Prior to founding Gemway Assets, Bruno spent 16 years with Edmond de Rothschild Asset Management and regularly met RJ founders Sylvain Roditi and Elie Joory during that time. When we started Gemway Assets in 2012, it was only natural to approach long standing friends at RJ Management. They became investors from day one and hopefully do not regret it.

[What is your view on the trade war between America and Europe and how are you adapting your strategy accordingly?](#)

This trade war has poisoned investment in Asia for the last 8 months. Markets have been very worried about this issue, its impact on the Asian exports value chain and how it affects sales and profit outlook not only for Chinese but also for North Asian companies.

President Trump has mentioned the possibility of a deal with President Xi on November 30th at the Buenos Aires G20 summit. Indeed, such a deal would now make sense. It would provide Donald Trump with a “win”, always a delight for the US president. Having such a deal now would also prevent unnecessary economic damage to US economic prospects (tariffs=more inflation and not necessary more jobs because the US unemployment is already very low). This will become very important in view of the 2020 US election season starting as early as next year.



Both Trump and Xi could win personal kudos with a compromise that involves Chinese concessions not just on the size of the trade imbalance, but also on market opening, intellectual property, joint venture rules and access for US financial institutions. In fact, China has already said that it could meet roughly 40% of the 142 trade demands presented six months ago by the US and could negotiate another 40% in the next few years. It is the remaining 20%—involving technology and industrial policy—that are non-negotiable for China.

In the long run, both countries are likely to remain competitors both from a political and economic point of views. Gideon Rachman from the FT argues that a deal between Trump and Xi will not last given this backdrop of growing superpower rivalry. We are not so sure that President Trump has such a long term view.

Having said that, we believe Chinese equities are now priced at an attractive level. The Chinese economy has slowed down this year and we believe Beijing is likely to intervene in order to support domestic activity particularly when exports are likely to further slow in 1Q19. In fact the government has already announced tax cuts for the middle class and the benefit of these measures should become apparent in 2019. Hence our strategy to focus on high quality Chinese companies protected by wide moat and able to benefit from sustainable growth driven by domestic demand. We like companies with strong management and good balance sheet as they are better positioned for macro headwinds and able to finance their growth with internal sources.





GemEquity has a very strong exposure to China (38%) with important positions in both Tencent and Alibaba. Both stocks have been suffering in the last months. What are your thoughts on these two positions?

“Tencent has a virtual monopoly in Chinese social media and is well positioned for the strong growth of different addressable markets.”

Indeed, Tencent is our nb1 position (7.9% of GemEquity - \$342bn market capitalization). We really like the moat of this company. It has a virtual monopoly in Chinese social media and is well positioned for the strong growth of different addressable markets (online entertainment, local services, payment, cloud...): Tencent has more than a billion daily users on Wechat mobile platform, 800M users of Tencent payment solution; it has 60% revenue share in gaming, 25% in online video, 50% in literature and majority user share in music and e-sports. Despite its gaming activity (33% of sales) slowing, company revenue increased 24% in 3Q18, helped by advertising and cloud monetization. Pony Ma's group is also one of the two largest investors in internet ventures across Asia. The stock has suffered during summer (China proxy, gaming activity disappointment in 2Q18). At 25x expected profit for 2019, valuation has rarely been so low.

E-commerce giant Alibaba (2.6% of GemEquity - \$390bn market capitalization) also benefits from new consumer trends in China. It controls close to 70% of e-commerce via its two platforms Taobao and T-mall and is expanding its addressable market to offline through “new retail” and local service strategies which is a much bigger market vs. online. On November 11, 2018 (Chinese Singles' Day), total GMV reached \$30bn (a yoy increase of 27% and 5 times bigger than US Cyber Monday 2017 spending frenzy). We like Alibaba's business model. We could have more of it in GemEquity, but in the short term, we are concerned about the coming e-commerce regulations, effective in January 2019 (hence underweight in Alibaba).

Russia has been performing better in 2018 than most other emerging markets. Are you considering reinforcing your positions in Russia & CEI?

Despite political headwinds (Western sanctions, Syria), the Russian market has performed well year-to-date. Oil price strength has undoubtedly helped the market. We have maintained an overweight position in this market all year long but in a selective manner. We sold our position in Sberbank and concentrated our investment in 2 companies: LNG leader Novatek and oil producer Lukoil (7.3% of GemEquity). Both companies have performed extremely well for specific reasons (LNG prices, better governance, dividend increase).

Despite higher oil price, Russian economy has not yet exhibited signs of economic recovery, consumption remains subdued and the Ruble has weakened in the last 12 months. In addition, the Central Bank has done a great job at keeping inflation at bay. From a macro perspective, Russia domestic companies are likely to show some strength next year. While keeping an overall exposure to Russia at 7-8% of the fund, we are likely to switch some of our hydrocarbon exposure into a more consumer oriented theme.

A close-up photograph of a lion's face, showing its eyes, nose, and whiskers. The image is slightly blurred and has a dark overlay on the left side where the text is placed.

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