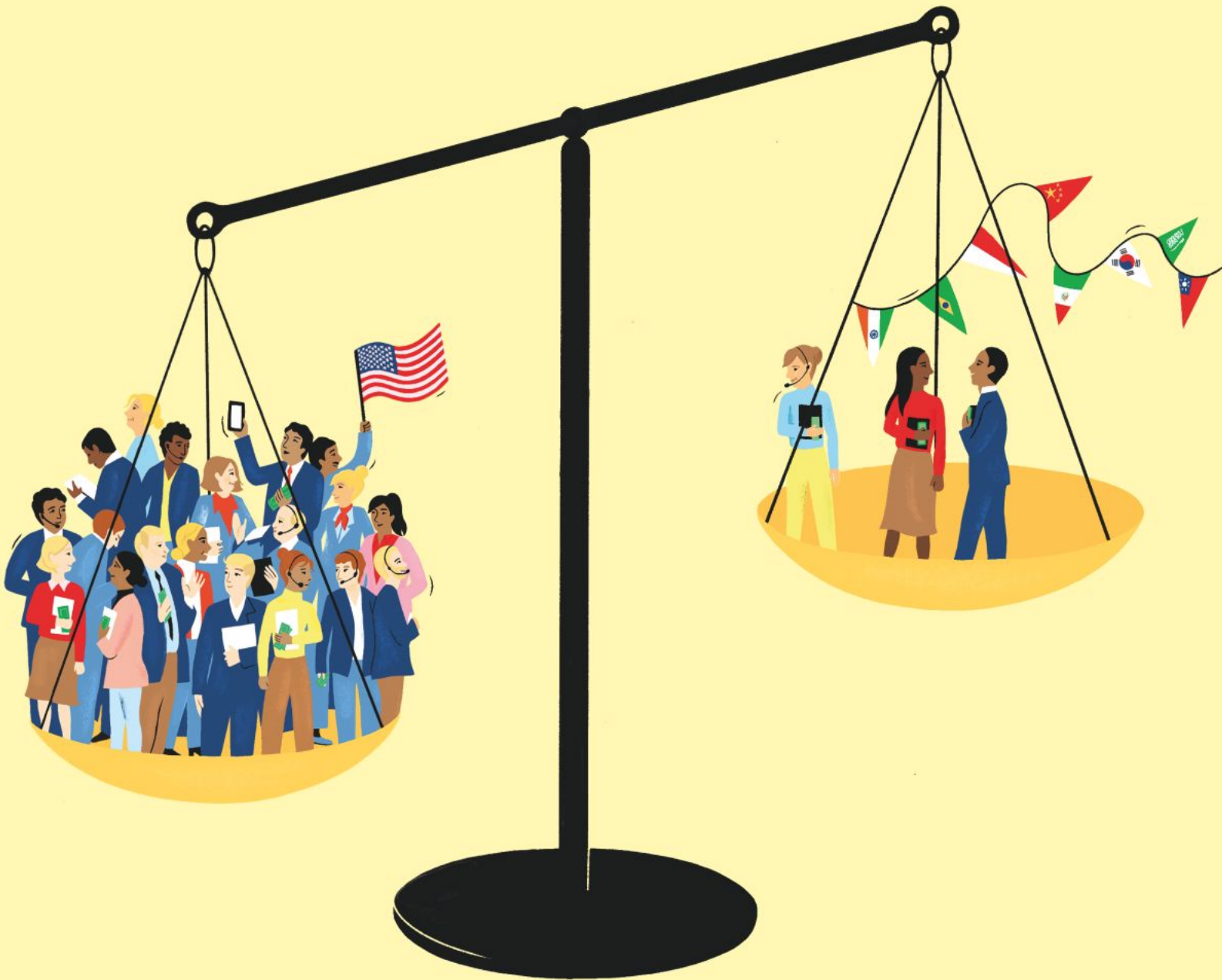


Morningstar

The magazine of independent research for the world's financial professionals

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When Will Investors Shift to Emerging Markets?

Investors have tilted heavily toward US equities for years. They might want to reconsider.

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Emerging-Markets Expertise

Ashmore Emerging Markets Equity is backed by a strong team of specialists.

UNDISCOVERED MANAGER

David Carey

Ashmore Group first launched funds in the United States in 2010, but the London-based firm has been building its reputation as an emerging-markets asset manager since it spun off from ANZ Bank in 1999. At the end of 2024, the firm had nearly \$50 billion in assets under management across 11 emerging-markets strategies, including equity, fixed-income, and alternatives offerings.

This expertise is what initially attracted fund manager Dhiren Shah, manager of [Ashmore Emerging Markets Equity EMFIX](#), to the firm in 2017. “Ashmore enables me to leverage the considerable insights and firepower and market knowledge they have,” he says.

That hasn't been the only plus. “It's a flat structure here, so it's one of the big joys we have,” Shah adds.

While Shah is the only listed manager on the fund, there's a small army of emerging-markets investment professionals working alongside him, as Ashmore would emphasize. The firm steers well clear of a star manager system. Unlike many asset managers, Ashmore doesn't feature individual investment professionals on its website and prefers to avoid media appearances.

Shah came to Ashmore with the goal of building a team within Ashmore's bigger group. He sought people who brought unique insights and shared his passion for emerging-markets investing and has recruited five members to his team. Patrick Cadell, Edward Evans, Ben

Akrigg, Aaron Armstrong, and Ke Li all play an important role here.

Like Shah, Cadell was drawn to Ashmore's specialization: “I wanted to be somewhere where emerging markets mattered and was not just a side thought of the business. Ashmore is one of the few firms that is truly dedicated to the space.”

The group divides coverage along regional lines, but each idea is vetted by all members before it is added to the portfolio.

“I really do believe that great ideas get much stronger when they're stress-tested from every angle,” asserts Shah, “and that's the beauty we have with this team-based approach.”

In addition to his dedicated team, Shah taps Ashmore's broader resources. While most of Ashmore's managers and analysts, including this team, work in the firm's London headquarters, more than 15 are located in various offices around the world, including smaller markets like Indonesia and Peru. This “boots on the ground” research informs the team's opinions on companies and provides it with exceptional insights into macroeconomic trends.

Sifting Through a Vast Universe

Fundamental research underpins Shah and team's search for companies that trade at a reasonable price and can grow at a consistently strong clip. To narrow down the vast universe of more than 30,000 emerging-markets companies, the team excludes stocks with market caps under \$500 million and those that have less than \$3 million in daily trading volume. That leads to a more manageable list of 2,000 stocks. From

there, roughly 250 stocks make the team's focus list, which is subject to rigorous fundamental research.

The quality of a company is paramount to the team's approach. The team likes companies with strong balance sheets and structural competitive advantages. “Quality is your margin of safety,” says Shah. “It protects you from the volatility and it protects you from the macro shocks.”

Tencent [TCEHY](#) is an example of the type of firm they are looking for. They believe the company's ubiquity in China gives it multiple growth opportunities, which should drive margin expansion and share buybacks over the years. Cadell also points to Tencent's WeChat as a powerful yet undermonetized ecosystem.

Aside from a company's quality, its durability of growth and valuation are key pillars of the team's thesis. It believes that prime growth opportunities come when a company has relatively low industry penetration and attractive reinvestment opportunities. As for valuation, the team uses discounted cash flow and multiple-comparison models to determine whether a company is undervalued.

Qualitative input and relationships with company management further inform the team's conviction in a company. Meetings with company management inform their understanding of growth opportunities and strategic initiatives. According to the firm, Ashmore had more than 400 company meetings in 2024.

A Differentiated Portfolio

While stock-picking is key, top-down macroeconomic analysis also shapes the portfolio. “Macro obviously matters,” says Shah.

As part of its risk management, the team uses a proprietary tool that analyzes a range of economic data across various countries and regions. This top-down overlay informs the team of potential risks facing its holdings and helps generate ideas. Other members of the firm also contribute insight to the portfolio's macro positioning.

"I think the macro is also a key part of the Ashmore advantage. Having all this macro expertise sitting next to us just a few meters away, we can go to talk to them as things develop," says Cadell.

Shah adds, "We've very much focused on long-term preservation of capital. And so, when we see and identify countries which have a very severe or very challenged macro outlook, what that means is we use that process to essentially

have zero allocation to that country because the risk/return skew is very unfavorable. So that's one of the critical impacts we have from our macro process."

This macro work guides the team's positioning toward (or away from) various countries. According to Morningstar data, the December 2024 portfolio was underweight India by about 7 percentage points compared with the

MSCI Emerging Markets Index. Meanwhile, the portfolio's 25.7% allocation to Taiwan was roughly 6 percentage points more than the benchmark.

After all the fundamental and macroeconomic research, Shah and his team seek to create a high-conviction portfolio. Ultimately, roughly 60 to 75 stocks make it into the portfolio compared with the typical diversified emerging-markets

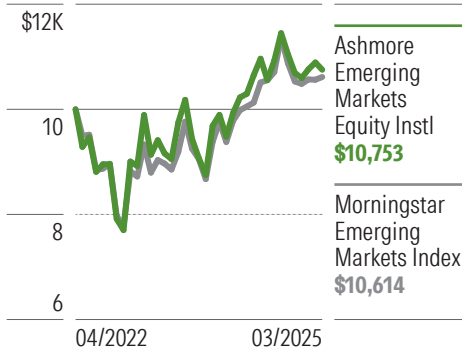


Dhiren Shah and **Patrick Cadell** of the Ashmore Emerging Markets Equity portfolio management team.



Ashmore Emerging Markets Equity EMFIX

Growth of \$10K



Morningstar Category	Diversified Emerging Mkts
Morningstar Rating	★★★★
Expense Ratio (%)	1.05%

Source: Morningstar Direct. Data as of March 31, 2025.

Morningstar Category peer's 95-stock portfolio at the end of 2024.

The portfolio also stands out for its differentiated individual holdings. In December 2024, the portfolio held 23 stocks that were not included in the benchmark, including companies based in developed markets but with large emerging-markets businesses, such as [AIA Group 01299:HK](#) and [Grab Holdings GRAB](#). Meanwhile, the portfolio didn't hold some of the index's largest constituents, such as [Samsung Electronics 005930:KR](#), [Alibaba BABA](#), and [Reliance Industries 500325:IN](#). By Morningstar's calculation, the December portfolio's active share, a measure of how differentiated a portfolio is from a benchmark, was 76% compared with the typical peer's 70%.

In addition to occasional investments in developed markets, the Ashmore team is willing to venture into frontier markets, the least developed in the emerging-markets arena. One such holding is Kazakhstan-based financial technology company [Kaspi.kz KSPI:KZ](#). It's an example of this team working with others at Ashmore to find

ideas: This strategy bought [Kaspi.kz](#) shortly after their colleagues on [Ashmore Emerging Markets Frontier Equity EFEIX](#) purchased it.

Good Prospects

Shah has built a strong return record using this approach. From his start on the mutual fund in December 2017 through February 2025, the institutional shares' 4.7% annualized gain easily beat the MSCI Emerging Markets Index's 2.1% rise.

Strong stock-picking has been the primary driver of success under Shah. At the country level, the team has had strong picks in South Korea, China, and Russia. At the sector level, financials, information technology, and basic materials were among the top contributors.

[Taiwan Semiconductor Manufacturing TSM](#) has been a clear winner for Shah and his team. It is up nearly 400% from when they first purchased the stock in late 2017. Other standout selections include South Korea's [Classys 214150:KR](#), which has gained more than 350% since the strategy added it in mid-2022, and [PB Fintech 543390:IN](#), up more than 150% in 2024 alone.

Because of the portfolio's modest growth tilt compared with its core benchmark, the fund has tended to perform better in market rallies but falter when growth stocks fall out of favor. Such was the case in 2022, when the fund's 26.2% decline was about 6 percentage points steeper than the index's. However, the fund bounced back in 2023, when its 10.9% gain beat the index's 9.8% rise.

Although 2024 wasn't as strong a year as might have been expected—the fund gained a respectable 7.1% compared with the index's 7.5%—this team's experience and history of making the right calls over time bode well for the strategy's future performance.

There are some cautionary notes. For one thing, this is one of the riskier entrants in the diversified emerging-markets Morningstar Category: It earns a Morningstar Risk rating of High relative to its peers. And with less

than \$200 million in assets, the small fund doesn't have the advantage of low expenses, although the institutional and A share classes are competitively priced relative to similarly distributed peers.

That said, the fund's experienced and well-resourced team contributed to its addition last year to Morningstar Prospects, a list of up-and-coming or under-the-radar investment strategies. These promising strategies are monitored by Morningstar's manager research team for consideration for full analyst coverage.

While Ashmore Emerging Markets Equity is not under analyst coverage, the manager research team has given Ashmore Group itself a Parent rating of Above Average for its long-standing and deep expertise. The ratings note cites Ashmore's strong talent retention and recruitment, which is partly bolstered by equity bonus awards with a lengthy vesting period. (Ashmore went public in 2006 and trades on the London Stock Exchange under the ticker [ASHM](#).)

"This is a team sport," says Cadell. "It's about having a team [that's] additive to each other, complements each other, and one that brings a mix of expertise. And I think that's one of the core things we have here at Ashmore." ■■■

David Carey is a manager research analyst at Morningstar Research Services LLC.

Photography by David Woolfall.