

EM STOCK PICKING - OUTPERFORMING PRIVATE EQUITY?

We believe that Emerging Markets have left the starting gate and opportunities abound for stock pickers as demonstrated by our outperformance over the benchmarks in 2020.

SLG PORTFOLIO	2020 RETURN	% OVER BENCHMARK
Diversified EM	30.2%	+12.6%
India Focus	31.1%	+16.3%
China Focus	84.1%	+26.8%

China Focus Return Period 4/1/20 - 12/31/20; others 12/31/19 - 12-31-20
 Fund level returns are reported NET of management fees; Benchmark returns provided by Morningstar Office
 Benchmarks: IOP (ticker EEM), India (ticker INDA), China (ticker CNYA)

The best opportunities in our view, reside on the local exchanges as opposed to the huge multi-nationals listed on U.S. Exchanges.

To buy or sell emerging market stocks traded on domestic exchanges such as India's Bombay Stock Exchange, requires registering with governing authorities, a process that can be arduous and expensive. Additionally, trading occurs in local currency, another complexity for U.S. investors.

Thus, for U.S. Investors to access EM companies directly, they generally must wait for the company to register as an American Depository Receipt (ADR) and trade on U.S. exchanges.

However, in our experience fast growing foreign companies gain market cap on their local exchanges and then register on the NASDAQ or NYSE to gain access to U.S. investors. In many cases their highest growth years are behind them once they become available to U.S. Investors.

Examples:

- A. In 2004 Chinese Internet giant Tencent listed in Hong Kong. In 2008 U.S. brokers created a synthetic ADR that went for days without any trading, and only attracted investor attention in 2010, missing at least **10,000%** return from 2004 – 10.
- B. Infosys, an Indian IT services leader, listed in India in mid-1993 at Rupee .15 or USD \$0.0047. In early 1999, Infosys listed on NYSE at U.S. \$0.53 for an **11,076%** gain.

Silicon Valley private technology companies are increasingly founded by a small group of billionaire private equity funds, Uber, Lyft, etc., with multiple rounds of offerings each occurring at increasingly higher prices.

Once the company has achieved a targeted market penetration, it lists and trades, at which time mutual funds and other institutional investors buy shares, pushing prices up.

Often, early round investors use this as an opportunity to cash out some or all of their position, which may be up 1,000% or so over their early round investment.

We believe the process of finding good emerging market companies trading on local exchanges in local currencies with few or no non-local investors presents a similar opportunity as the above private equity example.

Great U.S. companies have multiple analysts following them making it more difficult for investors to have an edge over the crowd.

However, many great companies trade in China, India, Vietnam, etc., with no analyst coverage from the big global brokers such as Goldman, Morgan Stanley, and HSBC, thereby allowing investors to do their own assessment for early entry.

Examples:

JOINN LABORATORIES (603127 CH)

China's leading animal testing company
Shanghai Stock Exchange
Stanley-Laman Group, only foreign investor of top 35 shareholders
+157% since investing in early 2020.

PERSISTENT SYSTEMS

Small Indian IT services players
Stanley-Laman Group and one foreign fund ownership in top 20 shareholders
+122% since purchase in the middle of 2020.

In closing, we believe that the promise of Emerging Markets with massive young populations, rapidly growing consumer classes, strong national balance sheets, etc., may provide investors with a decade of excess returns over developed markets.

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BIOS:

Wei Huang joined the Stanley-Laman Group in Jan. 2020. Prior to SLG, he successfully managed an EM portfolio for a major financial institution in New York. Born in China, Wei has a Doctorate in Industrial Engineering, an MBA from The University of Pennsylvania's Wharton Business School, and holds a Chartered Financial Analysts designation.

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BS Computer Science, Carnegie Mellon University
Chartered Financial Analyst Charterholder
Designed SLG's Proprietary Ad-Star Computer System
Winner of Multiple Manager Performance Awards from Global Institutional Manager Tracking services

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