Börsen-Zeitung

Interview: Justin Leverenz, Invesco

'India could become a story'

The top manager for emerging markets talks about the opportunities offered by individual companies, and the attractiveness of Asia

Invesco's Justin Leverenz has outperformed the benchmark for years with his emerging markets equity fund. As a result, he now manages more than USD 50 billion in assets. The fund manager sees great opportunities in China and India. But the individual company is what counts more than anything else, according to Leverenz.

By Werner Rüppel, Frankfurt

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Justin Leverenz works in New York as head of the OFI Emerging Markets Equity Team at Invesco. The emerging markets specialist, who has been active in the investment industry since 1993, is responsible for one of the world's largest emerging markets equity funds, with invested assets of more than USD 50 billion. In an interview with Börsen-Zeitung, the top manager, whose Developing Markets Equity Fund has clearly outperformed the MSCI Emerging Markets benchmark over the long term, provided some surprises with his well-founded and distinctive perspective on things. Morningstar also attributes the fund's success to its "unusual approach."

The renowned fund manager naturally considers the macroeconomic outlook when making his investments, but the opportunities and risks of individual companies are decisive factors in choosing to commit to a particular stock. "We pay close attention to the macroeconomic environment in emerging markets since it impacts the companies in which we invest, but we especially focus on bottom-up fundamental research on individual companies," Leverenz explains. And this isn't about short-term commitments, but about securities that are promising over the long term. "We are active buy-and-hold investors with a long-term view," he says. "Our investment horizon for a stock is more than five years."

Largest selection worldwide

Leverenz, who speaks fluent Mandarin, rates China as the "dominant growth engine," not just for the economies of emerging nations, but worldwide. The Middle Kingdom offers active investors huge choice right now, according to Leverenz. "China has the largest selection of companies worldwide," the fund manager says. "For this reason, there are quite a few promising opportunities for investors," he adds. With his investments, Leverenz doesn't stick closely to a benchmark like the MSCI Emerging Markets Index. For example, he also invests in small companies that are well positioned and have potential for sustained growth. "We have been invested in Tencent for 14 years," he explains. "When we bought the stock, it was still a very small company, but we saw big growth prospects at an early stage." He recently took some profits and reduced the position in Tencent somewhat, Leverenz adds. At the end of February, Tencent still represented 7.1% of total holdings in the Invesco Developing

Markets Equity Fund. China has a weighting of 32.4% in the fund, compared with 39.4% in the MSCI Emerging Markets Index.

Balancing act in China

Worldwide, selected emerging markets have been particularly successful at fighting and containing the coronavirus, Leverenz says, adding that many investors have discovered the Chinese market against this backdrop. This, he says, has led to pockets of exuberance in the Chinese equity market, particularly as domestic private investors – who play an important role in China – have speculated heavily in stocks, he says. This even worried the Chinese government, which wants to avoid market bubbles and excessive volatility. It is certainly a difficult balancing act to control this, according to Leverenz. However, it is important to differentiate the short-term and long-term prospects, he says. Despite short-term price declines, the Chinese equity market remains attractive in the long term with its many rapidly growing companies, Leverenz says. Furthermore, China offers many high-growth companies, he says. "Particularly in the biotech sector, there are a number of promising companies in China at the moment," Leverenz says. These firms have made enormous progress in recent years, he says, adding that there are also real opportunities in the biotech sector in South Korea.

Differentiated value approach

The Invesco Emerging Markets Team expects the huge gap that opened up between growth and value stocks last year to close abruptly this year. This will probably be painful, but it won't lead to a sudden comeback of all traditional value stocks, Leverenz says. This is because many of them are battling heavy structural problems. In this respect, a differentiated value approach holds promise for investors.

Besides China, there are increasingly attractive investment opportunities in India, according to Leverenz. "This could become the next big investment story in emerging markets," the fund manager says. Indian stocks account for 13.6% of the Invesco fund and therefore have a much higher weighting than in the MSCI Emerging Markets Index (with 9.2%). Leverenz rates South Africa, Brazil and Turkey among the countries that are structurally under pressure or should record only weak economic growth. Turkey, in particular, has the problems that are typical of emerging markets, such as a high dependency on foreign capital, along with the government's unrealistic growth obsession. On the other hand, the decarbonisation trend will have impacts on Russia, the Gulf states, Nigeria, Colombia and Mexico, he says.

However, Leverenz invests in more than just high-growth regions like China, India and Southeast Asia. "Attractive companies are also to be found in other emerging markets," the fund manager says. "And that also means countries that are not entirely convincing based on their fundamentals," Leverenz says. The decisive factors are always the valuation, balance sheet, market position and growth outlook of the individual companies, he says. "In Russia, we like the search engine Yandex," Leverenz explains. He is also confident about the Russian energy company Novatek, in which his fund has a large position.

Tesla with stretched valuation

Leverenz and his team pay close attention and have a strong interest in industry details and company specifics. For example, luxury goods maker Kering has not only managed to sustainably revive a dynamic portfolio of well-known brands – it can now expand its portfolio through acquisitions at attractive valuations, he says. “In the automobile industry, there are considerable risks for manufacturers and suppliers due to the transformation toward electromobility,” Leverenz explains. “Above all, the barriers to entry are much lower for electric cars than for combustion vehicles.” This also changes investors’ view of the industry. “Opportunities are more likely to be found in new components, like batteries, at the moment,” he says. Naturally, there are also signs of exuberance on the road to electromobility, according to Leverenz. “I don’t believe that Tesla’s current valuation is justified,” the fund manager explains. “Given the global focus on electric cars and sustainable energy, Tesla isn’t so unique.”

In his interview with Börsen-Zeitung, Leverenz appeared confident in his active investment approach: “I am also personally invested in my fund.”

<u>Graphic</u>:

Top 10 stocks in the Invesco Developing Markets Equity Fund

As of 28 February 2021