



Results analysis: BlackRock Frontiers

BRFI has recorded another strong year...

Update
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- **BlackRock Frontiers (BRFI)** has delivered strong returns over the year ending 30/09/2024. The NAV total return in USD, the trust’s functional currency, was 16.5%, compared to the benchmark’s 15.7%. Sterling strength means that the GBP returns were lower, at 6% and 5.3% respectively. The share price total return was 15.8% in USD (5.4% in GBP).
- These returns mean that since inception in October 2010, the trust has delivered a NAV total return of 132.9% in USD terms and 169.8% in GBP, both well ahead of the equivalent benchmark returns of 64.4% and 89.7%.
- Over the 2024 financial year, top performers were diverse and included Eldorado Gold (+94.4%), which benefited from higher gold prices, along with PKO Bank Polski (+68.1%) and National Bank of Greece (+67.4%), both of which reported strong earnings.
- Many countries represented in the portfolio benefited from positive monetary policy and central bank easing, while the managers note the benefits of strategic positioning in under-researched, smaller markets like Pakistan and Bangladesh.
- The discount averaged 9.4% over the year, and as of 04/12/2024 stood at 9.7% compared to an AIC Global Emerging Markets sector average of 9.6%. No shares were bought back during the year, but since then 25,000 shares have been repurchased. The board reiterated, though, that it believes strong investment performance and marketing are more likely to narrow the discount and it is looking to refine its marketing strategy to that end.
- Board chair Katrina Hart said: “As we enter the start of our next financial year, our portfolio managers are enthused by the breadth of the opportunity set, noting the improving fundamentals of several countries in which they have not invested for several years such as Egypt, Kenya, Nigeria, Pakistan and Sri Lanka. Against this improving macroeconomic backdrop, our portfolio managers continue to execute their long-established investment philosophy and process with great expertise and dedication. We believe they are uniquely placed to navigate the company through these interesting and dynamic markets, unearthing hidden gems and providing investors with unrivaled access to the best frontier markets can offer.”

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Kepler View

These are strong results from BRFI, which illustrate a number of the strengths of the unique strategy. Performance has come from a diverse set of countries and companies with varying underlying drivers. This includes a Turkish gold miner, Eldorado Gold, a Vietnamese technology services outsourcer, FPT, and an Indonesia bank, Bank Syariah. In order, these benefited from surging gold prices, a major investment by NVIDIA and improvements in the fiscal outlook in Indonesia.

BRFI’s investment universe is the emerging and frontier markets, excluding the largest eight by market capitalisation. This means that China is excluded, which was helpful to returns for much of the period. BRFI and its universe outperformed the MSCI Emerging Markets Index over the whole year, although there was a sharp rally in Chinese stocks in September. Since then, the Chinese market has retreated, as stimulus measures announced have disappointed. The other key development has been



the election of Donald Trump in the USA, who has stated he will impose heavy tariffs on China. We think the risks to investment in China at this stage make BRFI an intriguing alternative to a benchmark-aware emerging market fund. In fact, many of the countries in the investment universe benefit from tensions between the US and China as they are alternative trading partners.

The team highlight Malaysia as an example, following a recent trip, where they observed reshoring occurring across numerous sectors, particularly in the semi-conductor supply chain. We note they have exposure to this industry via Frontken Corporation. Meanwhile FPT of Vietnam, the country's only outsourcer, also offers exposure to the IT sector, while there is exposure to ecommerce via SEA Ltd of Singapore. This balances a significant exposure to the financials sector which makes up c. 46% of the portfolio and often offers broad exposure to economic growth and supportive monetary policy shifts in specific countries. Banks in Indonesia, Greece, Poland and the Philippines were all standout performers over the period under review, with domestic factors critical in all cases. One of the keys to the portfolio's remarkably low NAV volatility compared to developed markets is the low level of correlation between the growth drivers in the underlying markets.

We think BRFI's differentiated proposition should offer a lot to many portfolios. The smaller emerging and frontier markets are unlikely to figure in the typical emerging market fund, and the resources BRFI devotes to researching companies in these often-overlooked countries increases the chance the managers can add alpha and manage the risks. The trust offers a way for investors to access the potential in countries accounting for c. 30% of the world's population, many of which have some of the highest GDP growth rates yet contribute a minimal amount to global market capitalisation. As they develop economically and financially, the equity markets have the potential to expand and deliver handsome returns.

Despite these good results, the trust's shares remain on a discount, reflecting broader conditions in the emerging markets sector. In our view, this adds to the attractions, compounding the cheap valuations on the underlying markets which trade on a forward P/E around 2.5 times lower than that of the MSCI World. The board has recently bought back shares, which should be accretive to the NAV per share, and indicates they are prepared to step into the market when deemed appropriate for long-term shareholder interest. Additionally, the board committed at launch to offering shareholders a realisation opportunity after each five years, with the latest period to complete at the end of 2025. We think both policies improve the risk/reward calculation in buying shares at the current cheap rating.

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