At the cutting edge

AWEM continues to add value through stock selection in alpha-rich markets...

Update
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We're often told that to be a skillful investor, you need an edge; some kind of inherent advantage over other investors that allows you to beat the market consistently.

For ordinary investors with limited time, developing or finding an effective edge is tough – and recognising it in fund managers can be even harder, especially without the access needed to truly understand their process.

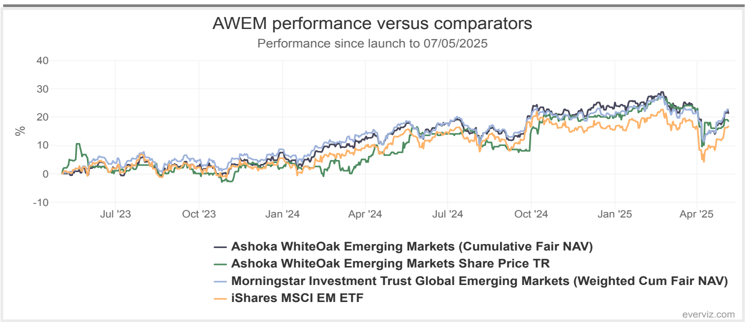
It makes sense, then, that where possible investors prefer to pay a lower fee and settle for the average market return. Now, this arguably works in well-covered markets such as the S&P 500, as they tend to more efficiently price in relevant information about individual stocks and the broader market.

In other markets, however, it's worth taking a bit more time to understand a fund managers' edge. Emerging markets is a prime example of an asset class where a manager with an edge may be able to justify their comparatively higher fees.

WhiteOak Capital Management, the investment advisor to **Ashoka WhiteOak Emerging Markets (AWEM)**, has, in our view, one of the most enduring edges out there – and their compelling performance-fee-only charging structure provides the checks and balances: if they don't outperform, they don't get paid.

AWEM's clear differentiator is WhiteOak's ability to harness what they call the alpha richness of certain segments of the market. They understand which parts of the market are alpha rich and which are alpha poor, allowing them to concentrate their fundamental analysis on the former and ignore the latter.

Fig.1: Performance Since Launch



Source: Morningstar
Past performance is not a reliable indicator of future results.

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As investment director **Loong Lim told us at a recent webinar**, no-one can consistently call changes in the macroeconomic environment correctly. Instead, the WhiteOak team reinforces their sustainable edge to achieve their objective of maximising alpha generation and minimising volatility: stock-picking.

To this end, AWEM's management team targets these alpha-rich segments of the market where limited research coverage or understanding leads to pronounced inefficiencies, creating opportunities to uncover great businesses with strong upside potential at attractive valuations.

Below, we outline a few of the alpha rich areas of the emerging market universe and compare them with alpha poor parts of the market.

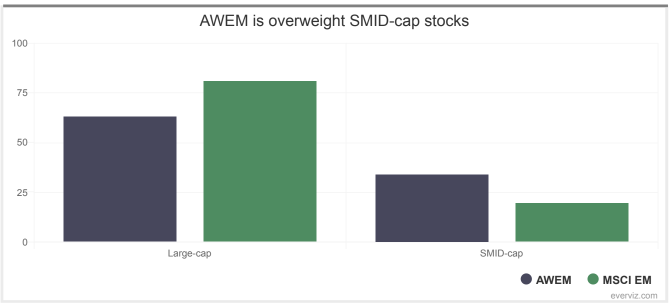
Size

Company size is a key area of focus for WhiteOak because the small- and mid- (SMID)-cap parts of the market are less efficient than the large-cap part of the market. It logically follows, then, that the SMID-cap space is alpha-rich, while the large-cap space is alpha-poor.

Indeed, the sellside research houses tend to spend more time analysing the largest companies in any given country or region, leaving a large proportion of SMID-cap names with zero analysts covering them.

As a result, AWEM's 18.6 percentage point overweight to SMID-caps is not a macro call on their view that SMID-caps will outperform in general, over any time-period; indeed, WhiteOak's belief is that if you blindly invest in emerging market SMID caps, you'll be taking too much risk.

Fig.2: Market Cap Breakdown



Source: Ashoka WhiteOak Emerging Markets

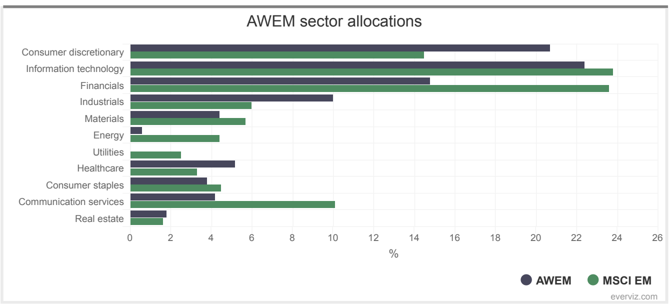
The overweight is purely an outcome of the fact that WhiteOak's analysts are much more likely to find great businesses at good valuations within SMID caps.

Governance

A similarly sensible conclusion reached is that companies with good governance are alpha-rich, whereas those that are badly governed are alpha poor. Indeed, as Loong notes in our webinar, poor governance inserts a random variable into the valuation of a business: it's all-but impossible to fundamentally analyse a business where the management team is intent on extracting value for themselves, rather than for minority shareholders.

It's not only individual company corporate governance that falls under this umbrella, either. Companies or sectors that are heavily regulated score poor on the alpha richness scale because governments and regulators rarely prioritise good outcomes for shareholders here.

Fig.3: Sector Breakdown



Source: Ashoka WhiteOak Emerging Markets

Then, there's those sectors where macro-economic variables are at play and tend to overcome all fundamental analysis. You can pick out the best oil company or bank in the world, but if the oil price or interest rates plunge for one reason or another, their shareholder returns will inevitably suffer.

Democracies

The third and final leg to this alpha richness argument is how democratic a country is – an extremely important consideration within the emerging market spectrum, since country governance varies widely. Here, we'll use the example of the two largest markets in the developing world: China and India.

China scores 2.1 (out of 10) in the Economist Intelligence Unit's democracy index, whereas India scores a very respectable 7.3, a score that's not too far below the US.

Undemocratic countries also introduce a random variable into the valuation of a business. As an example, the Chinese government's crackdown on tech companies that began in 2020 hit all Chinese internet names, no matter how good or bad the fundamentals of their business was.

India, meanwhile, the world's largest democracy, is alpha rich because while it's system of governance is far from perfect, it implements rule of law pretty well and property rights are respected.

As the above would suggest, AWEM appears underweight China on the surface, but the team acknowledges the country's significance within emerging markets and, when assessed by economic exposure rather than solely looking at direct holdings, AWEM's China positioning is closer to neutral.

To navigate geopolitical risks and potential underperformance if China rallies, the team seek off-benchmark stocks, typically not based in Asia, with indirect exposure to China's growth story. These encompass AWEM's developed market holdings in the luxury goods space, such as Richemont and Hermès.

The good news here is that AWEM is well-resourced. WhiteOak's team, which you can read more about in **our latest research note**, is highly experienced and well resourced – one of the largest in the emerging markets sector.

The team's on-the-ground presence enables regular access to company management, stronger local insights and connections with domestic markets, and a deeper understanding of the companies within their investment universe.

Country Weighting

	BY COUNTRY OF LISTING/INCORPORATION			BY COUNTRY OF ECONOMIC EXPOSURE	
COUNTRY	MSCI EM (%)	AWEM (%)	ACTIVE WEIGHT (%)	AWEM (%)	ACTIVE WEIGHT (%)
Asia	**80.0**	**70.9**	**-9.1**	**78.6**	**-1.4**
China & Hong Kong	30.5	26.1	-4.4	32.0	1.5
India	16.9	21.0	4.1	21.0	4.1
Taiwan	19.0	14.0	-5.0	15.3	-3.7
South Korea	9.3	6.8	-2.5	6.8	-2.5
Indonesia	1.2	1.5	0.3	1.5	0.3
Thailand	1.2	0.0	-1.2	0.0	-1.2
Malaysia	1.4	0.9	-0.5	0.9	-0.5
Others	0.5	0.6	0.2	1.2	0.7
Europe & Africa	**5.6**	**6.5**	**0.9**	**6.7**	**1.1**
Poland	1.0	3.4	2.4	3.6	2.6
South Africa	2.9	2.0	-0.3	2.7	-0.3
Others	1.7	0.5	-1.2	0.5	-1.2
Middle East	**7.1**	**2.4**	**-4.8**	**2.4**	**-4.8**
Saudi Arabia	4.1	0.7	-3.4	0.7	-3.4
UAE	1.4	1.7	0.2	1.7	0.2
Qatar	0.8	0.0	-0.8	0.0	-0.8
Kuwait	0.8	0.0	-0.8	0.0	-0.8
LATAM	**6.9**	**5.4**	**-1.6**	**5.9**	**-1.1**
Brazil	4.2	1.6	-2.6	1.8	-2.5
Mexico	1.8	2.2	0.4	2.2	0.4
Peru	0.3	0.3	0.0	0.3	0.0
Others	0.6	1.3	0.7	1.6	1.1
Developed markets	**0.3**	**11.7**	**11.4**	**3.3**	**3.0**

Source: Ashoka WhiteOak Emerging Markets, as at 28/02/2025

As edges go, we believe that all of this provides a crucial one for AWEM where it matters: in stock selection. This, alongside its culture and compensation policy that aligns the interests of the management team with those of shareholders, makes AWEM a potentially strong candidate for a long-term holding in the emerging market space, in our view.

Watch on YouTube: **Trusts In Focus: Everything you need to know about AWEM's investing edge**

View the latest research note here

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