

# Domestic demand, low penetration: PM's EM sweet spots

By Sam Benstead / 19 July, 2019

China is a sweet spot for Lewis Kaufman, who targets markets with high levels of domestic demand combined with low business penetration.

The fund manager, who runs emerging market portfolios at Artisan Partners, told Citywire Selector this creates the maximum opportunity for companies to grow.

'China has a per capita GDP of \$10,000, which, historically, is a level where a lot of interesting domestic demand outcomes become possible.

'What you are seeing in China is a higher level of services growth and consumption growth, whereas investment growth and capital expenditure are growing more slowly than GDP.

'That is a very simple but powerful observation and Chinese consumers are at a level of wealth where they are starting to demand healthcare and they are using the internet in new ways.'

## Top plays

To tap this theme, Kaufman has invested in a hotel group in China, as well as a high end spirits company Kweichow Moutai. Both of which are examples of the arrival of the Chinese consumer.

Another attractive characteristic of the Chinese market is that there is a tremendous scale to the consumer opportunity there, Kaufman said.

'With \$10,000-per-capita GDP it is not at developed market levels but it's not small, and you have 1.3 billion people, multiplied



together you get pretty big number,' said Kaufman.

'Kweichow Moutai is a \$170 billion company essentially selling one brand in one country. For comparison, Diageo is a \$100 billion company that sells a range of products around the world.'

## Investors beware

A common pitfall for investors looking at developing markets is to look at the world through a developed market lens, essentially saying they have seen these trends before, Kaufman said.

'In developing world, for example, there are young populations accessing technology in new ways.

'One of our top five investments is a company called Sea Ltd. It has the right to distribute Tencent games in South East Asia but the value driver of the investment so far has been for a self-developed game called Free Fire.

'They used quick download speeds and smart phone adoption to win customers. They also have an ecommerce business which competes well against Alibaba's alternative. They have done well through 'social commerce', where consumers and merchants react with each other.'

*Kaufman manages the \$2.7 billion Artisan Developing World fund which has returned 15.3% annualized in three years to 30 June 2019 against a 10.7% average annual return in the MSCI EM Index.*

Lewis Kaufman is the portfolio manager of the Artisan Developing World Fund. This article represents the views of Sam Benstead of Citywire and Lewis Kaufman as of the 19 Jul 2019 and those views and opinions presented are their own. Artisan Partners is not responsible for and cannot guarantee the accuracy or completeness of any statement in the discussion. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

#### Artisan Developing World Fund

Investment Results as of 30 Jun 2019 (%)	QTD	YTD	1 YR	3 YR	5 YR	10 YR	ITD	Expense Ratio*
Investor Class (ARTYX)	6.52	30.79	18.76	15.31	—	—	9.94	1.37
Advisor Class (APDYX)	6.49	30.86	18.93	15.52	—	—	10.14	1.18
Institutional Class (APHYX)	6.55	30.87	19.04	15.62	—	—	10.25	1.09
MSCI Emerging Markets Index	0.61	10.58	1.21	10.66	—	—	4.84	

Source: Artisan Partners/MSCI. Returns less than one year are not annualized. Fund inception: 29 Jun 2015. \*Prospectus 30 Sep 2018

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