GLOBAL EMERGING MARKETS

MARTIN CURRIE

FINANCIAL INCLUSION IS DRIVING INVESTMENT OPPORTUNITY IN EMERGING MARKETS

MAY 2021 FOR INSTITUTIONAL, PROFESSIONAL AND WHOLESALE INVESTORS ONLY

THE UNBANKED

Increasing financial inclusion across emerging markets (EM) is creating opportunities for both financial returns as well as enabling positive social change.

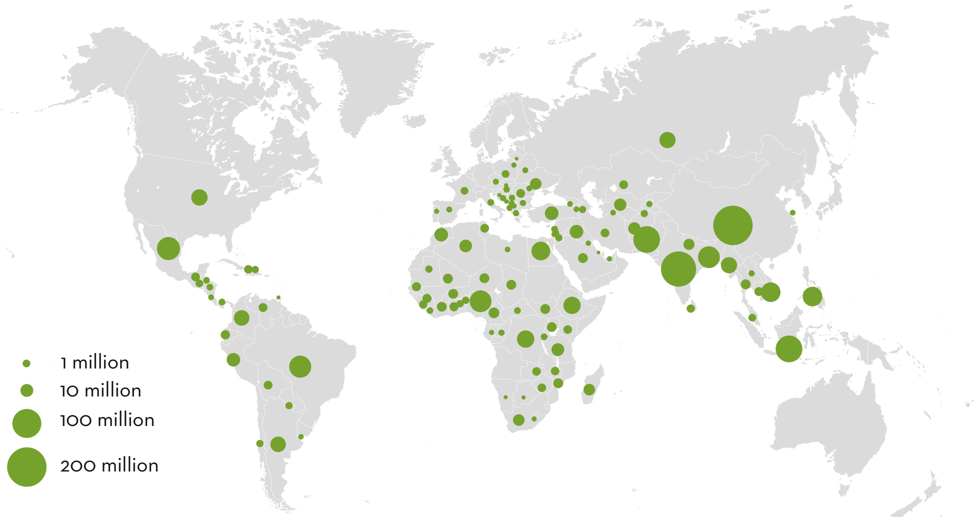
Currently, a substantial number of the EM population remain unbanked. Of the 1.7 billion adults globally, who lack a bank account, a large proportion are in developing economies[1].

This means that compared with more developed countries, where 94% of adults have a bank account[1], the potential for full financial integration (and the opportunities it brings) has a much longer pathway to run in EM.

As this change plays out, we can we expect to see a raft of economic and social benefits that will drive major structural growth across the asset class.

Globally, 1.7 billion adults lack an account

Adults without and account, 2017



Source: Global Findex database.

Note: Data are not displayed for economies where the share of adults without an account is 5 percent less.

A GROWING NEED

Financial inclusion is recognised as vital for enabling economic growth and improving social welfare.

Transactions become easier and more numerous with the use of digital financial services, including payment cards, e-commerce, mobile money services and other financial technology applications. Access to credit also enables businesses to start up and expand, creating jobs and reducing inequality.

What's more, as more people become accountholders, they are able to buy a wider range of good and services, are more inclined to use other financial services, such as credit and insurance, and are more likely invest in education or health.

As women are overrepresented in the unbanked, (globally 56% of women are outside the financial system, with that number rising to nearly 60% in China and India, and as many as two-thirds of the population in other countries[1]), financial inclusion is also seen as a crucial step in improving gender inequalities.

As such, the need to increase financial inclusion has been growing in importance for policy makers in the past decade, with the issue now implicit within seven of the 17 UN Sustainable Developments Goals.

[1]Source: World Bank, the Global Findex Database, 2017: 2017 Findex full report_chapter1.pdf (worldbank.org)

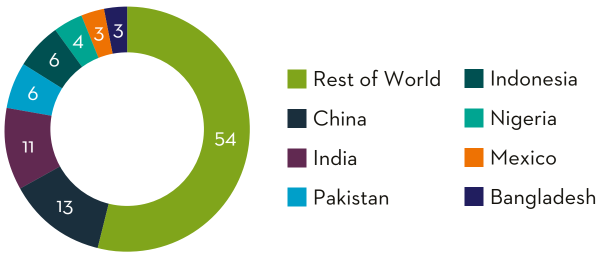
OPPORTUNITIES IN EMERGING MARKET FINANCIAL INCLUSION

The unbanked

- 1.7 billion adults globally are unbanked, a large proportion in developing economies[2]
- Many rely solely on cash transactions, making it harder to pay bills, access credit and build savings
- China has the world's largest unbanked population (225 million), followed by India (190 million)[2]

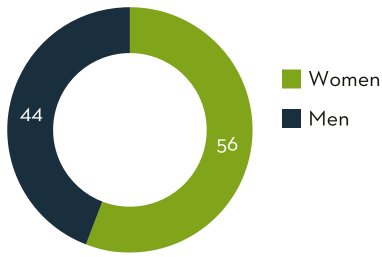
Nearly half of all unbanked adults live in just seven economies

Adults without an account by economy (%)



Worldwide, most unbanked adults are women

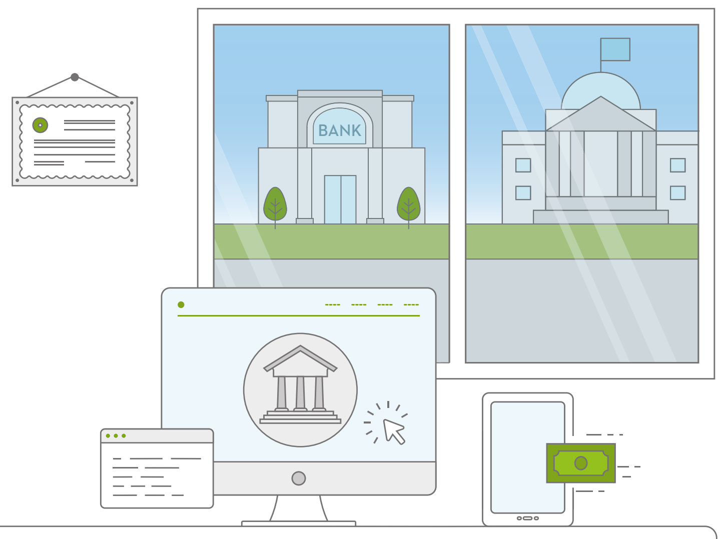
Adults without an account by gender (%)

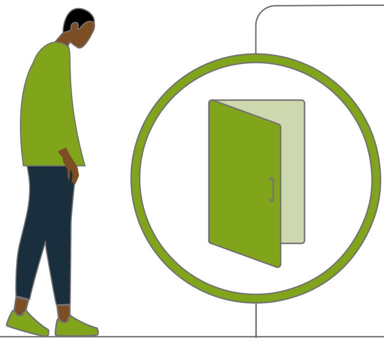


The financial gateway

Improving inclusion through:

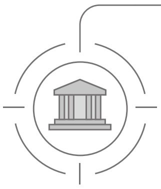
- Digital government payments
- Electronic wages
- Legal systems
- Improved financial infrastructure
- Technology
- Education
- Microfinance





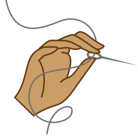
Opportunities for the portfolio

How the portfolio benefits from the enablers and outcomes of financial inclusion:



Underpenetrated banking

Kotak Mahindra
Sberbank
Credicorp
ICICI



Microfinance

Bank Rakyat

Fintech and innovation

TCS
HDFC

Financial Services

AIA
Ping An Insurance

E-commerce

Alibaba
Tencent
Meituan

[2]Source: World Bank, the Global Findex Database, 2017: 2017 Findex full report_chapter1.pdf (worldbank.org)

THE STRUCTURAL DRIVERS AND INVESTMENT OPPORTUNITIES IN FINANCIAL INCLUSION

Payment digitisation

Financial inclusion in EM is being driven by numerous long-term factors. In many EM countries, governments are at the forefront of this enablement. Encouraging digital payments in either wages or benefits is bringing vast numbers into the formal financial system.

Recent data shows that 140 million people opened their first account to receive government transfers, including 75 million adults in the poorest 40 percent of households[3].

Likewise, huge scope exists for digitising private sector wage payments. In countries such Indonesia and Philippines this change will reduce the number of unbanked by a third – expanding account ownership by up to 25 million in the former[3]. As the leading bank in one of the world's most populous and least credit penetrated countries (<50% of adults have bank accounts), portfolio holding **Bank Rakyat Indonesia** (which also has the world's largest micro-banking operation) is extremely well placed to benefit from this rising financial inclusion.

Underpenetrated banking

The investment opportunity of financial inclusion is also particularly evident in India. Despite a big increase in the share of adults with bank accounts (to almost 80%), it still ranks as the world's second-largest unbanked population with 190 million excluded from the formal banking network, only behind China which has 225 million[3].

India is also an attractive market due to low debt, changes to bankruptcy laws, and rapid adoption of technology.

The portfolio's holdings in three Indian banks, **HDFC Bank**, **ICICI**, **Kotak Mahindra**, are all primed to access not only the large unbanked population, but also take market share away from capital constrained and poorly run state owned banks. All three of our Indian banks are also leaders in digital services and therefore able to drive more innovative client acquisition.

Similar structural tailwinds exist for other holdings, notably Russian financial holdings **Sberbank** and **TCS** where most market segments are underpenetrated. For the latter, a combination of 40% ROE in an underpenetrated market makes it the most profitable EM bank we invest in.

Wider financial networking

Increases within the formal banking network also encourage the adoption of other financial services. As such, the largest pan-Asian life insurer **AIA**, and China's leading life insurer **Ping An** are also exposed similar structural growth drivers of population growth, urbanisation, rising incomes and wealth plus low levels of existing social welfare and private insurance cover.

Finally, technology (specifically mobile phone adoption and access to the internet) is another significant structural driver of financial inclusion in EM. As well as providing innovative financial solutions, it also represents a significant opportunity in itself for EM investors.

E-commerce platforms such as **Alibaba**, **Tencent** and **Meituan** continue to access a growing online retail market enabled by increasing technology-driven financial accessibility.

ENCOURAGING DIGITAL PAYMENTS IN EITHER WAGES OR BENEFITS IS BRINGING VAST NUMBERS INTO THE FORMAL FINANCIAL SYSTEM.

[3]Source: World Bank, the Global Findex Database, 2017: 2017 Findex full report_chapter1.pdf (worldbank.org)

And despite recent rapid internet adoption, there is still a large runway here. For example, with overall internet penetration currently at 70% in China overall (56% in its rural areas) and still growing, the country's e-commerce sales are projected to increase over 80% from US$863 billion in 2019 to US$1,556 billion by 2024[4].

SUMMARY

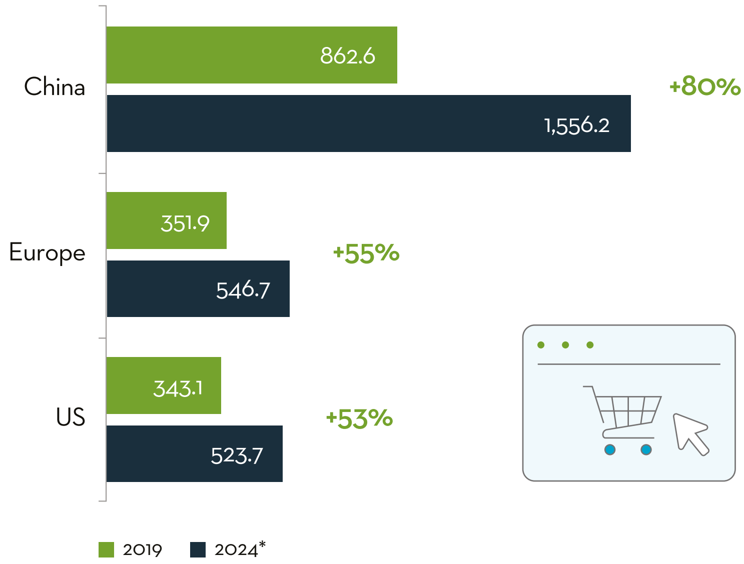
Increasing financial inclusion across emerging markets (EM) is creating opportunities for both financial returns as well as enabling positive social change.

The need to increase financial inclusion has been growing in importance with policy makers in the past decade, with the issue now implicit within seven of the 17 UN Sustainable Developments Goals.

As such, we believe the robust long-term drivers behind financial inclusion make it a key thematic area for the portfolio, with numerous holdings in the portfolio directly exposed to the structural growth it brings.

Where e-commerce is growing fastest

Projected increase in e-commerce sales in selected countries between 2019 and 2024 (in billion US dollars)



Source: Statista Digital Market Outlook.

*Projected

> **THE NEED TO INCREASE FINANCIAL INCLUSION HAS BEEN GROWING IN IMPORTANCE WITH POLICY MAKERS IN THE PAST DECADE, WITH THE ISSUE NOW IMPLICIT WITHIN SEVEN OF THE 17 UN SUSTAINABLE DEVELOPMENTS GOALS.**

[4]Source: Statista 2020.

IMPORTANT INFORMATION

This information is issued and approved by Martin Currie Investment Management Limited ('MCIM'), authorised and regulated by the Financial Conduct Authority. It does not constitute investment advice. Market and currency movements may cause the capital value of shares, and the income from them, to fall as well as rise and you may get back less than you invested.

The information contained in this document has been compiled with considerable care to ensure its accuracy. However, no representation or warranty, express or implied, is made to its accuracy or completeness. Martin Currie has procured any research or analysis contained in this document for its own use. It is provided to you only incidentally and any opinions expressed are subject to change without notice.

Past performance is not a guide to future returns.

The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the securities discussed here were or will prove to be profitable.

Risk warnings – Investors should also be aware of the following risk factors which may be applicable to the strategy shown in this document.

- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. Accordingly, investment in emerging markets is generally characterised by higher levels of risk than investment in fully developed markets.

For institutional investors in the USA:

The information contained within this presentation is for Institutional Investors only who meet the definition of Accredited Investor as defined in Rule 501 of the United States Securities Act of 1933, as amended ('The 1933 Act') and the definition of Qualified Purchasers as defined in section 2 (a) (51) (A) of the United States Investment Company Act of 1940, as amended ('the 1940 Act'). It is not for intended for use by members of the general public.

For wholesale investors in Australia:

This material is provided on the basis that you are a wholesale client within the definition of ASIC Class Order 03/1099. MCIM is authorised and regulated by the FCA under UK laws, which differ from Australian laws.

MARTIN CURRIE

Martin Currie Investment Management Limited, registered in Scotland (no SC066107)
Martin Currie Inc, incorporated in New York and having a UK branch registered in Scotland (no SF000300), Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES

Tel: (44) 131 229 5252 Fax: (44) 131 222 2532 **www.martincurrie.com**