APQ global

2017 Q4 OUTLOOK

APQ Global (ticker: APQ LN) is a global emerging markets income company with interests across Asia, Latin America, Eastern Europe, the Middle East and Africa. The Company's objective is to steadily grow earnings to deliver attractive returns and capital growth to shareholders. This objective is achieved through a combination of revenue generating operating activities and investing in growing businesses across emerging markets. APQ Global run a well-diversified and liquid portfolio, take strategic stakes in selected businesses and plan to take operational control of companies through the acquisition of minority and majority stakes in companies with a focus on emerging markets.

Scan this QR code
to visit apqglobal.com.

2017 Q4 Outlook

A TWIN-TRACK WORLD OF CALM MARKETS AND VOLATILE POLITICS

INTRODUCTION

For politics, economies and markets these are exceptional times. While politics are volatile, the global economy is recovering and financial markets are buoyant. As central banks keep rates at record lows, being careful not to jeopardise the global recovery, abundant financial liquidity is supporting markets. In the United States, markets are unperturbed by political controversy. It has been a long time since someone as senior as the former head of the FBI performed a special investigation. Whether what he uncovers will stoke market volatility remains to be seen.

Regulation is a theme that is benefiting stocks in the US and elsewhere across the globe. Top of that list and accounting for more than a quarter of the economy, healthcare is a key sector set to gain from deregulation. The pace of innovation is snowballing and there is a drive to access a global market, including India, China and many other countries. There are many opportunities, not just for diagnostics and cures but also intervention.

Technology is another key theme driving the investment agenda. Leaders in the technology industry say there is no such thing – just start-ups and disrupters that leap frog established businesses. Valuations are still rising for technology companies. In the next 12-18 months, there will be an uptick in mergers and acquisitions and a rush to list through initial public offerings (IPOs).

In Alternative Intelligence (AI), people hold semi-religious opinions. Will AI lead to robots taking over all jobs or a more benign world where people do not have to work so hard? Visionary entrepreneurs like Elon Musk are forcing a thoughtful debate. AI will affect most businesses. Some businesses are already finding that the technology is mature enough to reduce their overheads substantially. And there is no sign of criticism from customers or their supply chains.

Turning to the US Federal Reserve Board, who will replace Janet Yellen as chair in early 2018 if she is not reappointed? In some ways, this question is academic as she will remain on the board until 2024. People inside the Fed are not concerned because the board is non-partisan and there is always a robust debate about policy.

Perhaps the biggest threat to financial markets is the stand off between North Korea and the United States. In Japan, people have lived with this threat for a long time but fear is building now, which in turn creates uncertainly and potential volatility for investors.

Sincerely,

Bart Turtelboom
Chief Executive Officer, APQ Global Limited

GLOBAL OPPORTUNITIES IN FOCUS

India

India, South Asia and China are in a great state of confusion, which is not widely reported. Although Prime Minister Modi's position remains strong, social unrest is peaking in India and there is political dissent related to assaults on women.

Additionally, there is a border dispute with China and ongoing rhetorical hostilities with Pakistan. Ironically, this is not affecting India's economy or finances. For example, Tata Steel is the white knight in the ongoing merger of European steel activities with ThyssenKrupp, saving thousands of jobs. Indian companies like Tata are making international purchases and attracting investment.

Turning to corporate governance, which has a chequered history in India, standards are improving significantly. This is good for international investors, as Indian companies tend to be either family-controlled or government enterprises. Stronger corporate governance will mean better investment and exit opportunities.

The investment environment in select companies has never been better. While India's foreign direct investment has traditionally been in goods such as sugar, leather goods, timber, tea and coffee, this has changed. There is increased interest from foreign investors — corporate and institutional — in Indian companies. Much of it is strategic. Since the beginning of 2016, for example, Chinese companies have poured $2.37bn into Indian companies. Investments by Chinese companies such as Tencent, Alibaba and CTrip into large Indian internet company startups such as Flipkart, Paytm and MakeMyTrip have been strategic in nature. But over the last year, Chinese venture capital firms are making purely financially focused investments in smaller and lesser-known Indian companies.

India's social issues are not affecting investor demand and, furthermore, the risks surrounding the currency have mitigated improving the scope for investment.

South Africa

The presidential race is the key issue in politics and one which is currently wide open. This coming December, the ANC elective conference must select a candidate for 2019's general election. The two main candidates are Cyril Ramaphosa, the deputy president, and Nkosazana Dlaminini-Zuma, Mr Zuma's ex-wife. Mr Ramaphosa has the advantage of being the anti-corruption candidate. Arguably, if Ms Zuma were selected the ANC would be unlikely to win a majority in 2019. They might have some kind of coalition government. Factionalism in the ANC is increasing dramatically. If Ramaphosa is selected, it is anticipated that his appointment will increase market stability.

From a macroeconomic perspective, inflation is within the 3-6% band targeted by the South African Reserve Bank. In fact, it has fallen to 4.4% due to low economic growth, anaemic luxury goods imports and low food price inflation. However, with oil prices relatively firm, it is likely that higher energy prices will creep into inflation. Unless the government manages to reduce the high unemployment rate there may be some serious problems ahead.

In the energy sector, the government recently forced Eskom, the state utility, to sign its power purchase agreements in the Renewable Energy Independent Power Producers programme (REIPP). The Department of Energy has one of the world's largest government-run renewable energy programmes, and has put pressure on Eskom to sign this next round of deals. These agreements are being executed at below ZAR 0.70 per kilowatt hour in some cases, or just under 5.2 US Dollar cents per kilowatt hour, which is exceptionally cheap for the renewable industry. However, investors are still getting 12-15% IRRs on their equity in ZAR. Companies like Hulisani have managed to capitalise by acquiring secondary market stakes in previous rounds of the REIPP when the tariff was significantly higher, and they should start to reap the benefits when the assets come online and generate power into the grid.

From an investment perspective, there is an interesting situation brewing at Naspers, the largest company on the Johannesburg exchange, accounting for more than 22% of the South African index. This media company owns newspapers and TV broadcasters across Africa. About 10 years ago it bought 33% of Tencent, China's equivalent to Amazon, which was then a start-up. Tencent now has a $431bn market capitalisation and Naspers' stake is worth about ZAR 1.5 to 1.6 trn. But Naspers' market capitalisation is only ZAR 1.2trn, implying a discount for Tencent and applying no value to the original Naspers business which continues to deliver profit. Some of the smarter local fund managers are going long Naspers and short Tencent in the futures market, in anticipation that their valuations may converge.

Middle East

Syria's war appears to be approaching an end. Yet as this has been a proxy war, one needs to ponder how the various sponsors want to continue the geopolitical contest. The signals are mixed, and generally there is little reason to believe that a grand and sustained bargain is on the horizon. Not all the players in the game accept the outcome and, therefore, they may continue to destabilise the country. Nevertheless, an impressive 1,000-person delegation from Saudi Arabia is visiting Moscow this week, suggesting that there genuinely is a ceasefire on that front.

What is going to happen in terms of reconstruction? Russian and Iranian companies are trying to benefit. But so will Turkey. Jordan is also shifting its attention to Syria and Iraq, as Gulf largesse has been less forthcoming than expected. Europe may be cautiously involved; and it is easy to imagine China executing some deals.

The shape of the regional contest has become well-defined. Syria, Iraq, Iran, Russia and, potentially, Turkey are forming a bloc in the northern part of the Middle East. After several wars in the last few decades, this is a hardened place. Another alliance is forming in the south between Saudi Arabia and the Gulf states, and increasingly openly, Israel. Every regional event, big or small, involves this contest, from obvious ones like Yemen and Lebanon, to less obvious ones such as Kurdistan and Palestinian politics. While one big proxy war (Syria) seems to be concluding, others exist (Yemen) or may flare up, and the worry of course is whether these will become more direct.

If polarisation seems to be taking hold, equally impressive are the entanglements of each country with their foes. Turkey, Saudi Arabia, Jordan, Egypt, the US and every smaller Gulf country are commercially and politically transacting across alliances. Qatar's relationships with different countries is an example of how complex these relationships have become. Where the Qatar crisis is going is not clear. The impression was that relations with Saudi Arabia and its allies were looking better, until global newswires reported that Trump had interceded to ask the Saudis not to take military action against Qatar, allegedly because he needed it to be onside because he intends to escalate with Iran.

Direct escalation with Iran is the key risk for oil prices, which appear stable and range bound. Between the usual risk of an event-driven price spike, and the forthcoming Saudi Aramco IPO, selling puts for calls, synthetically or directly, seems reasonable. Indeed, a successful IPO is important not only for the Saudis, and should therefore stabilise the region in the short-term.

Myanmar & Vietnam

The Rohingya refugee crisis is dominating the news. This crisis has been simmering for a long time, from the days of British India when these inhabitants migrated from Bengal. The root cause is not religious – it is more about communal violence, resource sharing and immigration.

This issue is putting Aung San Suu Kyi's government under pressure. It is being criticised by international bodies including the United Nations.

Economically, the administration lacks experience. A lot of its ministers are former activists and political prisoners, who consequently do not have expertise in economic matters. Local business people are disappointed with the pace of economic reform. In the medium to long run, Myanmar's economic outlook appears positive. There are also occasional private equity opportunities. But the current troubles are likely to deter foreign direct investment, slowing development of much needed infrastructure.

Vietnam's economy is 10-15 years ahead of Myanmar and offers some attractive private equity opportunities. The government is accelerating its privatisation of state-owned enterprises. For example, the government is selling down its stake in a milk business and two state-owned beer companies. In an environment of buoyant consumption spending, they may make attractive investment opportunities.

Nigeria

Nigeria is recovering well from when oil fell towards 20 US Dollars a barrel, as the economy depends on oil which accounts for about 80% of government revenues. Banks and companies have taken advantage of the higher oil price to rebuild their balance sheets. The fiscal position is also much better, although the government must broaden the economy and the tax base going forward.

President Buhari's health is dominating politics in Nigeria. He has been out of the country for about 150 days this year, mostly for treatment of an undisclosed condition in London. A lot of politicians have softly put themselves in the public eye as potential successors. But Buhari has recently returned, seemingly strong and healthy, so it is difficult to know what is happening. That said, the vice president is a competent leader, so Buhari's poor health does not pose a big risk to market stability.

Boko Haram in the North has been weakened and is unlikely to harm economic growth. More concerning is the Independent Peoples of Biafra (IPOB), the secessionist movement in the oil-rich south. In the 1967-1970 civil war as many as two million people died. The government has just designated IPOB a terrorist organisation, and there is dialogue about constitutional reform. How this develops remains to be seen but there is a strong desire to placate IPOB.

The Nigerian government has also been engineering a shift in its debt stock composition. It has been paying yields in the low 20% on local Nigerian T-bills. But why should the government finance itself at yields in the 20s in Naira when it could pay in the 4-6% range in US Dollars which matches the bulk of their revenue? It is for this reason that the government is trying to shift the debt stock from an 80:20 domestic/foreign split to 60:40, which will reduce its cost of borrowing and extend the maturity.

T-bill yields have rallied around 300-400 basis points over the last few weeks. A number of emerging market funds have poured cash into this trade and the rally may well continue. The yield curve is likely to flatten as investors view the bonds as better value. Selective local equities are also worth considering for investment.

MARKETS

Equities

Realised volatility in not just equities but every asset class has fallen to record lows. The Fed, European Central Bank, Bank of Japan and Bank of England are all keeping rates close to all-time low levels, being careful not to jeopardise the global recovery. After the shock of the Brexit vote, and with populism appearing in the ascendancy, a lot of money was held back from markets ahead of the US and French elections. However, Macron's election reassured investors that there would be no major political upset in Europe and this money has been put to work.

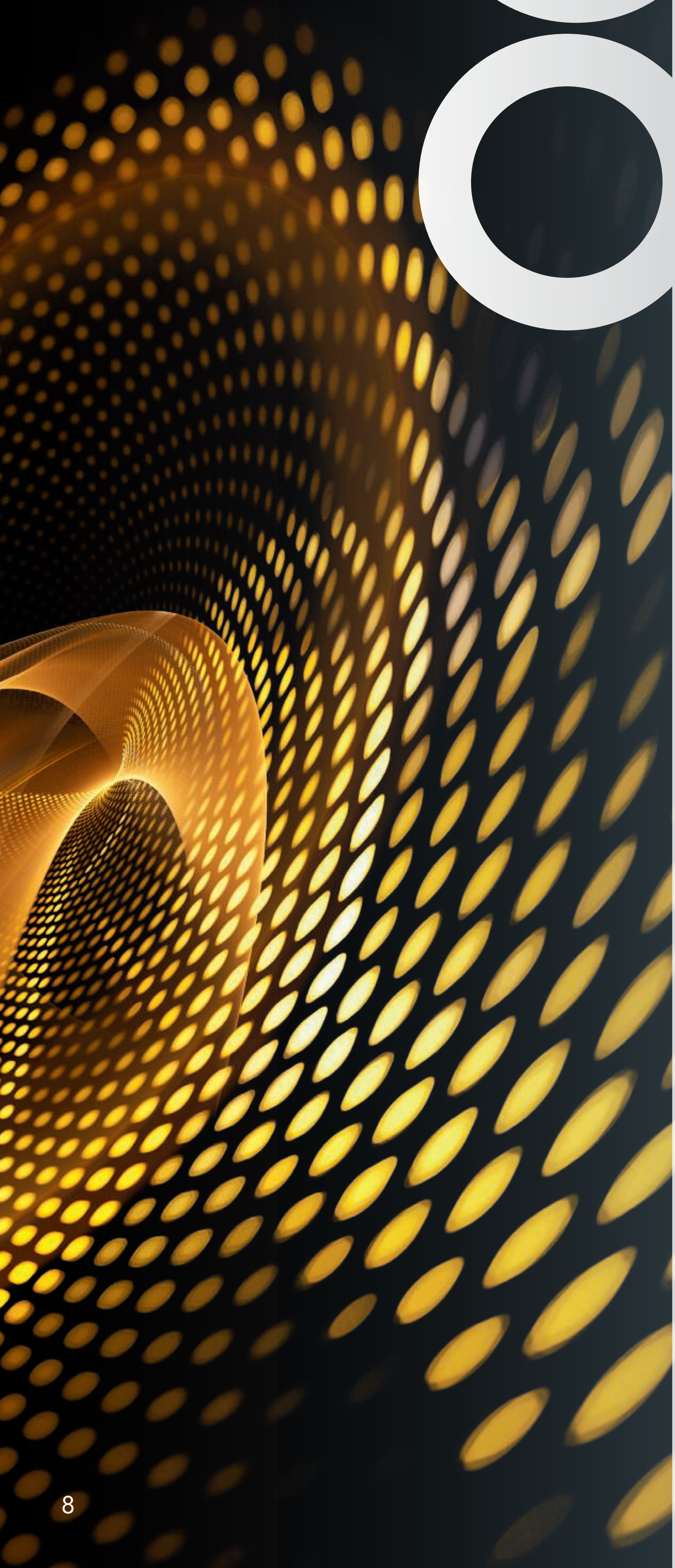
US equities have reached record highs, with price / earnings multiples of close to 19 times. Share buybacks drove much of that rally; although these buybacks are tapering off equities remain at highs. Now the baton has been passed to European and emerging market equities, which are seeing positive uplifts with emerging market equities up 30%, along with European up 15% and US seeing a 12% gain this year. It seems likely that emerging markets and Europe will go on outperforming the US in the months ahead and probably into next year.

Every sell off in equities is treated as a buying opportunity. However, if North Korea fired a missile towards the US it might derail markets. An awful lot of money has been invested and market participants appear very complacent. It is a sign of just how powerful liquidity is that North Korea's testing of ballistic missiles and a nuclear bomb has not upset equity markets. Despite the seriousness of these events, the markets have recovered in a day.

Credit

Central bank-provided liquidity is driving a massive hunt for yield and emerging markets credit is a prime beneficiary. The extremely low volatility in this asset class tells you everything. Issuance is high and the more bonds get issued the more portfolio managers need to buy to keep in line with benchmark index.

Developed economies are in a goldilocks situation – neither too hot nor too cold. That makes emerging markets credit look very attractive. Furthermore, emerging markets remain very under represented in global portfolios. Emerging markets represent 40-45% of the global economy yet allocations are just 5-10%.



SUMMARY

APQ is proceeding relatively cautiously, however our International Advisory Board continues to identify opportunities. We have recently increased our exposure in the emerging markets currencies, particularly Turkish Lira, Brazilian Real and South African Rand. Our equity exposure is moderately bullish and we are building up the hard currency credit portfolio.

From a portfolio perspective, we are seeing interesting investment opportunities in South Africa and Turkey, and are looking into another pool of assets that may or may not prove attractive.

We are confident on finishing the year strongly, as we continue to focus on stable income creation which protects our shareholders from aggressive market swings in an ever-changing market backdrop.
In a twin-track world of volatile politics and stable economics and markets, we remain confident of delivering on our mandate of a 6% dividend for shareholders while at the same time achieving book value growth.

Despite only being a listed company since August 2016, APQ Global's history goes much deeper. In fact, our management team have worked together at other financial institutions for many years, forming close partnerships and highly valuable experience across emerging markets.

OUR BACKGROUND

Bart Turtelboom, one of the co-founders of APQ Partners LLP, joined the emerging markets sales and trading group at Morgan Stanley in May 2004.

2006

In 2006, he was promoted to co-head of the group, based in London. The group was an integrated unit of around 100 trading, sales and structuring professionals with a presence across local markets in Hong Kong, Korea, Russia, Turkey, Dubai and Brazil. The group facilitated customer flow and was one of the largest principal risk takers in currencies, corporate and sovereign debt in hard and local currency and equities in global emerging markets. In addition to co-heading the global emerging markets sales and trading group, Bart was also responsible for a group of capital market professionals that executed lending and hedging transactions with leading corporations, banks and governments in Eastern Europe, Africa, the Middle East, the Commonwealth of Independent States and Latin America. Overall, this group was a significant contributor to Morgan Stanley's revenue.

2008

In autumn 2008, key partners of Morgan Stanley's emerging markets group joined GLG Partners in London and took over the management of GLG's emerging markets funds from November 2008 onwards. In the years that followed, the team managed Cayman-domiciled funds, UCITS-compliant funds as well as large managed accounts for investors in Japan, Europe and North America. Though individual mandates varied, the overall investment ethos was based on a premise to offer investors risk-controlled exposure to emerging markets globally.

2013

In January 2013, the team founded APQ Partners LLP, an emerging markets asset management boutique based in London. The APQ Alexandria Fund, a Cayman-domiciled fund was launched in May 2013 with a mandate to invest in equities, corporate debt and government debt and currencies in emerging markets globally.

2016

On 11 August 2016, APQ Global Limited was listed on the International Stock Exchange and was shortly thereafter admitted for trading on the London Stock Exchange's AiM market. APQ Global's key objective is to generate sufficient income in the portfolio through Emerging Markets to retain a healthy dividend yield (currently targeting 6%).

2017

In February 2017, APQ launched its International Advisory Council (as detailed overleaf), comprising a geographically spread group of emerging markets specialists. The purpose of this advisory body is to assist the management of APQ by providing valuable insights and market intelligence from around the world. The members are remunerated by a mix of retainers and discretionary payments awarded for making positive contributions to APQ's global business strategy. APQ also anticipates that the creation of the council and the deep industry contacts that its members bring will help to raise the market profile of the company.

APQ global A relentless focus on income

APQ Global is an international emerging markets company which aims to deliver a stable and growing dividend and capital growth for shareholders by focusing on generating significant income from business opportunities with good value and long-term growth potential.

Scan this QR code
to visit apqglobal.com.