



Five Years of Peace and Prosperity in Frontier Markets

August 2019

When we launched our frontier markets equity strategy five years ago, we noted this universe bore a striking resemblance to the emerging markets of the late 1990s.

We saw strong structural drivers across these economies, as well as country-specific drivers, with many of these countries moving along the path of peace, improved politics, investment and growth. On the structural side, the peace dividend was by far the most important.

If you go back to the 1990s, almost 50 of these countries were at war or in some sort of conflict. We have only witnessed a handful of battles within frontier nations in recent years, with the spreading base of peace enabling the start of real economic growth and investment. We have been encouraged by the peaceful transitions of power to democratically-elected governments in recent years – in Pakistan and Nigeria, for example.

We have always understood frontier was not a homogenous asset class and many markets at different times would carry higher individual risk. Over the past five years, we have seen considerable variations in political stability, economic performance, foreign investor access, corporate governance practices and exchange rate risk.

Encouragingly, active management has shown to be pivotal when navigating this universe. We continue to believe

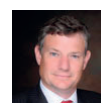
there is long-term alpha to be captured in these markets, which is not being accessed by broader global or emerging market investors. Below, we highlight the six markets most impactful for alpha generation since the inception of our strategy and the prospects for these outposts over the coming years.

Vietnam

We generated more alpha from Vietnam than any other market. While we have long been overweight the country, this was very much a contrarian position five years ago. Back in 2014, not many external investors were interested in Vietnam, but it all changed about two or three years ago when the government relaxed foreign ownership limits and significant investment flowed into the country.

Fast forward to now, Vietnam's GDP growth this year is expected to be one of the highest in the world at 6.5% - which appears to be sustainable¹. Vietnam is fast becoming a hotspot for multinational companies wanting to setup low-cost manufacturing, especially for businesses seeking to divert supply chains away from China.

It is not difficult to see why. Wage costs average below \$250 USD a month, while Vietnam boasts a strong network of free trade deals and a strategic geographical location². As more and more global companies look outside of China, we see Vietnam benefitting from associated job creation, wage



Oliver Bell

*Portfolio Manager of the
T. Rowe Price Frontier Markets
Equity Strategy*



¹ Source: International Monetary Fund / Haver Analytics.

² Source: Haver Analytics.

6.5%

Vietnam's GDP growth this year is expected to be one of the highest in the world

growth and increased demand for housing. Our current holdings are well positioned to benefit, extending across the banking, IT, consumer and real estate sectors.

Argentina

The tide started to turn for Argentina in 2015, when Mauricio Macri's market-friendly administration took over the country. An ambitious reform agenda was a step in the right direction, but memories of the country's 2001 default came back to haunt us in 2018 – when a combination of climbing inflation, rates and debt impacted liquidity.

Despite some turmoil, stock selection in Argentina has been a bright spot. When fixed income colleagues warned us of increasing risk around the peso in late 2017, this prompted us to trim domestically focused companies in favour of more geographically diversified global stocks with US dollar earnings. Our holdings in a fintech-oriented trading platform and a digital services business helped us mitigate some of the stock market's 50% plunge.

Argentina's path looks much more uncertain going forward, with President Macri suffering a resounding loss in recent primary elections, leaving his chances of winning October's presidential election slim. With ex-President Christina Kirchner as his running mate, leading candidate Alberto Fernandez is an uncertain prospect and markets are likely to remain volatile with concerns of a return to populist policies. Argentina was recently propelled back into MSCI's Emerging Markets index, but its transition may not continue smoothly.

Nigeria

Nigeria returned to the investible map last year, after recovering from a two-year recession. This downturn was primarily driven by the central bank's reluctance to allow the naira currency to reflect its worsening economic conditions. We spent the large part of five years underweight the Nigerian market, which has been beneficial.

Oil price stability has been key to kick-starting Nigeria's return to growth, experienced alongside improving data coming from the consumer. We played this cyclical recovery through Nigeria's banks. In 2017, banks were trading at valuations implying most institutions were poised to go bust and this proved to be too pessimistic.

However, while the top-down environment looks better today, fragilities remain. This particularly surrounds the currency, which has yet to converge to one official exchange rate. While hopeful, we are also uncertain if President Muhammadu Buhari's second term will provide the necessary focus on economic progress. We dialed down our position sizes.

Bangladesh

Bangladesh is a country undergoing monumental change. Over the past decade, GDP per capita nearly doubled to over \$1,500 USD, foreign direct investment (FDI) trebled and exports compounded in the high teens. In addition, adult literacy rates rose from 47% to 73% and power generation tripled – now reaching 90% of the population³.

Economic reforms have the potential to help Bangladesh evolve its export market, as low-cost manufacturing moves from China to countries such as Bangladesh, Cambodia, Myanmar and Vietnam.

In addition, Bangladesh has a burgeoning middle class of nearly 19 million people, which is growing by more than 10% annually⁴. This has profound implications on the growth prospects of most consumer companies. For example, the packaged food market has trebled in size over the past decade to nearly \$4bn USD. On our recent trip to the country, we met with companies likely to be beneficiaries of reforms and population growth dynamics.

³ Source: Haver Analytics / World Bank.

⁴ Source: Haver Analytics / World Bank.

“We continue to believe there is long-term alpha to be captured in frontier markets, which is not being accessed by broader global or emerging market investors.

Oliver Bell

*Portfolio Manager of the
T. Rowe Price Frontier Markets
Equity Strategy*

Saudi Arabia

Like Argentina, Saudi Arabia was recently upgraded to the MSCI Emerging Market Index from its standalone classification. However, given the sheer size and liquidity of its stock market, it will have a more meaningful 3% weighting⁵.

We have been optimistic on Saudi Arabian equities for some time, largely sparked by continued reforms and its ambitious Vision 2030 blueprint.

Positioning-wise, financials have been the highlight, where select stocks have been on a continuous rally since 2017. Banks benefitted from a series of hikes in the local ‘SAIBOR’ interest rate, which effectively mirror the path of the US Federal Reserve (the Fed), given the Saudi’s dollar peg. Combined with a higher level of government spend, it unlocked a better credit growth trajectory.

Kuwait

Up until very recently, we had been underweight Kuwait through the entirety of our track record. Its banking sector suffered in the aftermath of 2008 and although a relatively stable economy, we viewed its opportunities as less compelling relative to the exciting risk/reward profiles available in frontier Asia, as well as Argentina.

Avoiding a few large cap names was beneficial in earlier periods, but this worked against us last year, when enactment of progressive capital reform caught the eye of the FTSE

Russell index compilers and many stocks re-rated.

This year, we’ve been getting more excited about Kuwait’s opportunities, especially the banks where we’ve lifted our weight considerably. The hangover is clearing, fundamentals have improved, and we’ve identified franchises with an edge in Islamic banking and fintech. Meanwhile, infrastructure projects are visibly underway and an extensive government budget paves the way for substantial spending.

An under-owned and undercapitalised asset class

Like much of the emerging world over the past couple of decades, many frontier markets have made huge economic strides, as economies and capital markets liberalised. Despite this, the frontier asset class remains undercapitalised and under-owned. While the potential magnitude of frontier growth is not reflected in the scale of the current stock market capitalisation, we expect this to change over the coming years.

In addition, frontier markets continue to have a low correlation with both emerging and developed markets. We believe this is due to the idiosyncratic nature of the economies, as well as the fact most are not tapped into the global consumption/trade cycle and are more dependent on earlier stage growth. This keeps us excited about the investment possibilities we can access through a portfolio of high-quality frontier stocks.

Key Risks—The following risks are materially relevant to the strategy highlighted in this material: Transactions in securities denominated in foreign currencies are subject to fluctuations in exchange rates which may affect the value of an investment. Returns can be more volatile than other, more developed, markets due to changes in market, political and economic conditions. Investments are less liquid than those which trade on more established markets.

Additional Disclosure

MSCI and its affiliates and third party sources and providers (collectively, “MSCI”) makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

⁵Source: MSCI. Please see Additional Disclosure.

INVEST WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term. To learn more, please visit troweprice.com.

Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA ex-UK—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

Hong Kong—Issued by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Singapore—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

UK—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

USA—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2019 T Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE and the Bighorn Sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.