

Emerging Markets Discoveries: Trends and Innovations

Capturing India's Role in the Global Supply Chain Evolution



Stephen Lew
SENIOR FUND MANAGER



Emery Brewer
SENIOR FUND MANAGER



Ivo Kovachev
SENIOR FUND MANAGER

KEY POINTS

- India emerges as a promising destination for production, as geopolitical tensions drive manufacturers to look beyond China.
- With a projected increase in India's per capita income and consumer spending, the domestic electronics market is expected to witness substantial growth.
- Leading global OEMs are already looking to India for their outsourcing needs, positioning the country as a key player in the global electronics manufacturing landscape.
- Despite being in its nascent stages, India's domestic EMS industry presents a unique opportunity for equity investors to participate in its early growth phase.

The JOHCM Emerging Markets Discovery Team focuses on identifying companies in emerging industries, with pioneering business models or innovative technologies that disrupt the status quo. Through the strategy's process-centric approach, the Team seeks to deliver to investors long-term market-beating performance over equity cycles.

The Great Seismic Shift

"There are lot of people coming into the middle class and I really feel that India is at a tipping point. And the dynamism in the market. The vibrancy is unbelievable,"

– Tim Cook, Apple CEO, commented to Bloomberg in May 2023.

For our regular readers of Emerging Markets Discoveries: Trends and Innovations, you may recall that our more recent issues have predominantly explored trends in East Asia. However, in our upcoming issues, we will delve into lesser-known yet promising area in South Asia: Indian electronic manufacturing services ("EMS"). This sector carries significant growth potential in the decades ahead.

Due to the geopolitical tensions between China and the US and the resulting pressure on the cohesion of global supply chains, a significant number of manufacturers have relocated their production assets to other Asian destinations. We propose that India may be the ultimate beneficiary in the reconfiguration of global supply chains. In fact, the value of announced U.S. and European greenfield investment into India skyrocketed by approximately USD 65 billion, or 400%, between 2021 and 2022. While investment into China dropped to less than USD20 billion last year, down from a peak of USD 120 billion in 2018.¹

The macroeconomic picture is quite clear. India's per capita income is likely to grow by nearly 70% to USD 4,000 by 2030 from USD 2,450 in 2023, helping it become a middle-income economy with USD 6 trillion GDP². On the back of this increase in income and propensity to spend, we have seen a significant growth in various types of consumer electronics within the country. The market is expected to grow at a compounded annual growth rate ("CAGR") of almost 7% by 2030³.

Source: Bloomberg/JOHCM.

¹ Cash, Joe. "Western firms shift investment from China to India as worries mount." reuters.com, Thomson Reuters Corporation, <https://www.reuters.com/markets/western-firms-shift-investment-china-india-worries-mount-2023-09-13>.

² "India's per capita income seen growing nearly 70% to USD 4,000 by FY30." The Economic Times, Bennett, Coleman & Co. Ltd., <https://economictimes.indiatimes.com/top-trending-products/news/amazon-sale-2023-best-deals-on-acs-refrigerators-washing-machines-tvs-and-kitchen-appliances/articleshow/104404717.cms>. Data as of July 30, 2023

³ "India Consumer Electronics Market Size, Share Report, 2030." grandviewresearch.com, Grand View Research, Inc., <https://www.grandviewresearch.com/industry-analysis/india-consumer-electronics-market>. As of July 2023

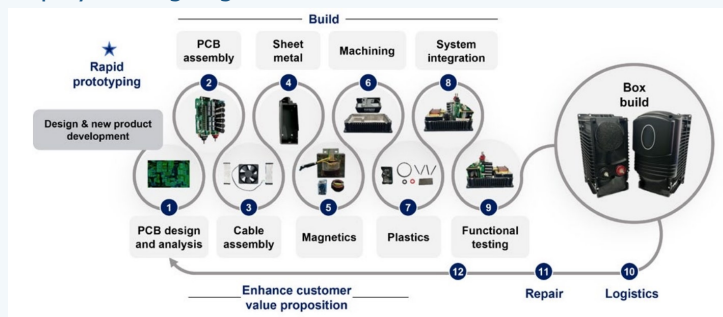
PORTFOLIO HOLDING CASE STUDY

Identifying the Paradigm Shift

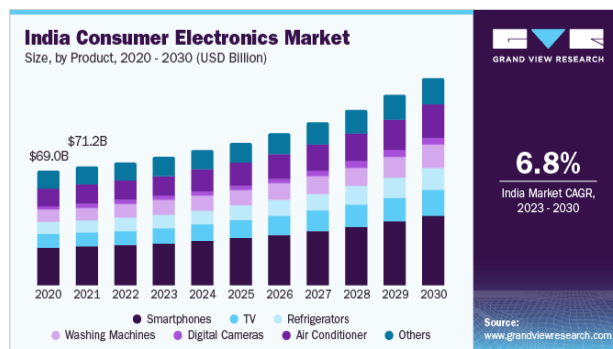
We believe that the shift of manufacturing capacity out of China into other Asian countries is a paradigm shifting event with significant equity outperformance potential in the EM space, particularly in India. More importantly, we are at the beginning stage of this multi-year supply chain shift with a significant runway ahead of us in the depth and breadth of value creation. As the development of the EMS industry continues to mature and evolve over time, domestically-based Indian EMS companies may emerge as the ultimate winners.

The Investment Case

One of the holdings in our portfolio is an Indian domestic EMS provider that offers a full stack product and solution suite, encompassing everything from printed circuit board design and assembly to the manufacturing of complete electronic systems. Its customers include leading global original equipment manufacturers (“OEMs”), spanning those in the United States, China, the Netherlands and Japan. As global OEMs continue to increase their outsourcing needs to countries beyond China, we believe this company has the ingredients to capture meaningful orders within domestic India and generate significant equity value going forward.



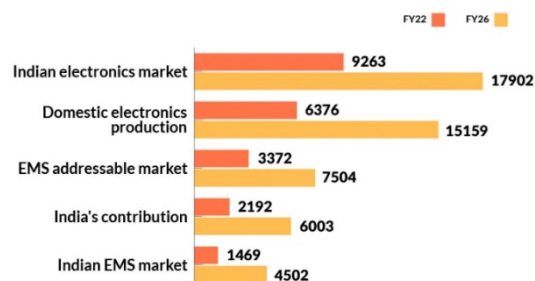
To satisfy this anticipated growth in demand, both domestic and foreign manufacturers have been expediting their relocation of production capacity to India. As an example, Foxconn, one of the main suppliers to Apple, aims to double its workforce and investments by 2024⁴. Additionally, Tesla is currently in discussions with the Indian Government regarding the establishment of a manufacturing plant which can produce approximately 500,000 per year⁵.



As of July 2023

While India’s domestic EMS industry is still at a nascent stage in its development, we believe that this could offer equity investors an opportunity to invest in these companies at the beginning of their lifecycle. Indeed, India’s outsourced EMS market has been growing at a CAGR⁷ of 22% over the last five years, reaching USD 26 billion. Over the next four to five years, it is expected to continue growing at a CAGR of 33%, reaching \$100 billion⁶. Discovering domestic Indian EMS companies capable of capitalizing on this trend is likely to be a rewarding experiencing.

HOW INDIAN EMS MARKET IS POISED TO GROW (RS BN)



As of September 2022

⁴Tanna, Shivani. "Foxconn aims to double jobs, investment in India over next 12 months." reuters.com, Thomson Reuters Corporation, <https://www.reuters.com/technology/foxconn-aims-double-jobs-investment-india-over-next-12-months-2023-09-17>.

⁵Choudhary, Govind. "Tesla eyes investment in India: Plans to set up electric vehicle factory and export hub." livemint.com, HT Digital Streams Ltd, <https://www.livemint.com/companies/tesla-eyes-investment-in-india-plans-to-set-up-electric-vehicle-factory-and-export-hub-11689311718169.html>.

⁶Naidu, Katya. "Electronics manufacturing stocks in focus as India enters super cycle phase." businessinsider.in, Times Internet Limited, <https://www.businessinsider.in/stock-market/news/ems-stocks-in-focus-as-india-is-at-start-of-electronics-super-cycle/articleshow/102719786.cms>. Data as of August 14, 2023.

⁷The compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment’s life span

Past performance is no guarantee of future results.

RISK CONSIDERATIONS: The Fund invests in international and emerging markets. International investments involve special risks, including currency fluctuation, lower liquidity,

different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets. Such risks include new and rapidly changing political and economic structures, which may cause instability; underdeveloped securities markets; and higher likelihood of high levels of inflation, deflation or currency devaluations.

Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity.

The small- and mid-cap companies in which the Fund may invest may be more vulnerable to adverse business or economic events than larger companies and may be more volatile; the price movements of the Fund's shares may reflect that volatility.

The views expressed are those of the portfolio manager as of October 2023, are subject to change, and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice.