

Frontier International – Perspectives from Europe – Equities (Part two)

October 2024

In May, our Equities Team conducted a European research trip, travelling to three cities (London, Edinburgh and Copenhagen), meeting with 23 fund managers covering 29 different strategies. We also held in-depth discussions with asset owners and our London-based research partner, Lane Clark & Peacock (LCP). The trip was focussed on rated and client-held strategies while advancing our onsite due diligence for potential new ratings, including a listed impact strategy and a core strategy.

In [part one](#) of this two-part series, we explored the challenges active management faces in concentrated markets, particularly highlighting the underperformance of a broad range of quality growth managers. In this paper, we turn our attention to geopolitical dynamics from a European perspective, a key theme at our client conference in June.

We were interested in understanding how European-based fund managers and stakeholders were addressing these complex geopolitical issues. Australian asset owners are becoming increasingly aware of the rising risks – and to a degree the potential opportunities – stemming from geopolitical tensions and possible escalation. It is no longer an option to ignore these risks as it may have been in the past, as demonstrated by the significant capital loss suffered by emerging market investors following Russia's invasion of Ukraine two years ago.

Geopolitics, by nature, is multifaceted. In this paper, we focus on key observations regarding different fund managers' approaches to geopolitical concerns, particularly in relation to China. We also explore notable shifts in positioning and the less obvious link between geopolitics and climate change. Interestingly, our visit coincided with a sharp rebound in Chinese equities and the announcement of new tariffs by the Biden administration ahead of the upcoming US Presidential Election, which added further context to our discussions with managers.

Our detailed analysis also delves into the strong connection between geopolitics and the energy transition, with implications for stocks on both sides of the pond. Additionally, we consider the broader risks and opportunities for long-suffering emerging market investors.

The final word

One of the more surprising takeaways from our trip was that some global equity managers didn't seem to fully grasp the significance of geopolitical issues, or at least didn't appear to be giving this much consideration at either a company or portfolio construction level. For those who were more engaged with the layers of geopolitics, there was little evidence to suggest their approach differed significantly from managers in other regions (e.g. discount rate or explicit forecast adjustments, scenario and sensitivity analysis, quality rating).

Caution towards China remains a prevailing sentiment among managers. However, several indicated they are cautiously re-entering Chinese stocks. Even some of the most index-unaware, governance-focussed emerging market managers we cover are now open to increasing their China exposure, with one taking on a substantial allocation. Nonetheless, many managers highlighted an upper limit on their portfolio exposure to China, citing geopolitical uncertainty, even in the face of compelling valuations. Those with larger allocations to China have generally remained cautious, trimming their positions following the recent rally.

We continue to closely monitor investor behaviour as they navigate the risks and opportunities posed by geopolitics across both developed and emerging markets.

Want to access the full paper?

Our comprehensive paper delves into the strong connection between geopolitics and the energy transition, with implications for stocks on both sides of the pond. Additionally, we consider the broader risks and opportunities for long-suffering emerging market investors.

If you are interested in learning more, please reach out to your consultant or a member of the Equities Team. Clients can access the comprehensive research paper on Partners Platform.