



ATO BAM

LBRTY® EM Strategy

Dashboard:

Outperformance &  
Geopolitical events

Original research, actionable  
insight

Q1 2024

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CORE INVESTMENTS

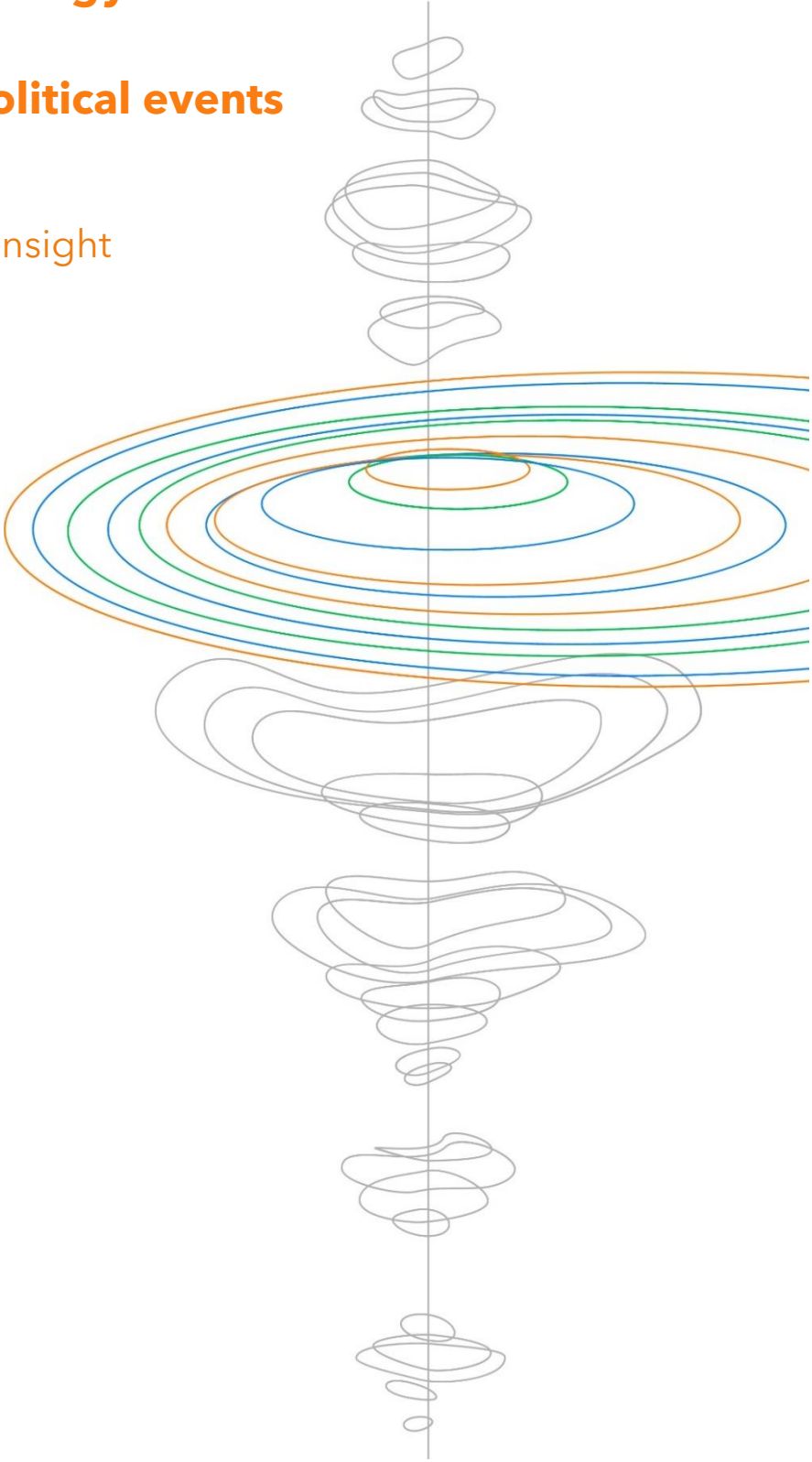
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**TOBAM LBRTY® EM Strategy**  
**Dashboard:**  
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Original research, actionable insight



December 2023

TOBAM's recently implemented a strategy which, by design, reduces direct and indirect exposure to what could be called the autocracy risk factor when compared to standard benchmarks.

TOBAM's investment thesis with LBRTY® is that a portfolio exposed to countries where arbitrariness and economic irrationality reign, does not fully benefit from the risk it is taking in these countries. Said differently, the autocracy risk factor does not reward risk as much as it is rewarded elsewhere.

This note illustrates that the TOBAM LBRTY® investment strategy also functions as a hedge against the severe financial aftershocks that can arise from crises involving authoritarian regimes.

We present below a partial analysis of the TOBAM LBRTY® strategy over the past fifteen years, focusing on its ten best months relative to its cap-weighted benchmark, the Bloomberg EM Large & Mid index.

As Figure 1 shows, eight out of the ten best months of the TOBAM LBRTY® strategy can be attributed to geopolitical events or important internal decisions involving either China or Russia (China underperformed the EM benchmark during the two remaining months). It is also worth noting that eight of these best performance months occurred in the last two years, highlighting the recent rise in geopolitical volatility that can be traced back to autocratic countries. Importantly, all these occurrences were periods of financial stress, as evidenced by these months' mean return of -4.9%.

It is remarkable to note that the 2008-2023 period includes only 2 years of significant relative underperformance (2013 and 2016) for the TOBAM LBRTY® EM strategy. This suggests that the outperformance of the strategy is not limited to the occurrence of negative geopolitical events. In fact, even from 2008 to 2020, a period with few geopolitical incidents, the strategy outperformed its benchmark by an annualized rate of 1.1% (see the appendix for details).

Autocratic regimes have an inherent propensity to systematically destroy value, and even more during periods of geopolitical crises when they steer further away from democracy.

We note that the strategy exhibited on average a 20% volatility reduction during these events, compared to a more modest 7% over the full period. This lower volatility did not preclude LBRTY® from outperforming its benchmark by 17bp every month on average. We note also that the strategy, with a beta of 0.85, distinguishes itself from a Minimum Variance approach, whose beta is 0.72 for the MSCI EM Minimum Volatility: controlling autocratic exposure is not the same as minimizing covariance to all assets, having a minimum exposure to all factors, or having the lowest risk.

**Figure 1: Geopolitical events and TOBAM LBRTY® performances**

Dates	BBG Emg Mkt L/M TR	BBG EM ex China L/M TR	TOBAM LBRTY EM \$ GTR	TOBAM LBRTY excess return	TOBAM LBRTY risk vs. Parent Index	Events	Geopolitical event
Aug-15	-9.3%	-8.5%	-3.9%	5.4%	-15%	Weak Chinese economic data	
Jun-18	-3.8%	-3.4%	0.3%	4.2%	-22%	China-US trade tensions ratcheted up	x
Mar-21	-2.2%	1.9%	4.2%	6.4%	-39%	China underperformed	
Jul-21	-6.1%	-2.1%	-0.2%	5.9%	-46%	Crackdown by Chinese authorities on education technology	x
Mar-22	-5.7%	-4.3%	1.3%	7.1%	-42%	Russia invades Ukraine	x
Jul-22	-0.2%	5.2%	4.2%	4.4%	15%	China underperformed + new Covid lockdown	
Sep-22	-10.6%	-9.5%	-6.8%	3.8%	8%	Party Congress signals no let-up in its aggressive diplomacy	x
Oct-22	-3.4%	3.0%	0.5%	3.9%	-29%	The election of Xi Jinping for his third term	x
Feb-23	-5.9%	-4.2%	-2.7%	3.2%	-13%	A re-escalation in US-China tensions weighed on sentiment	x
May-23	-2.1%	1.4%	2.3%	4.3%	-17%	China underperformed	
Average	-4.9%	-2.0%	-0.1%	4.9%	-20.0%		
Long-term monthly average	0.46%	0.52%	0.63%	0.17%	-6.9%		

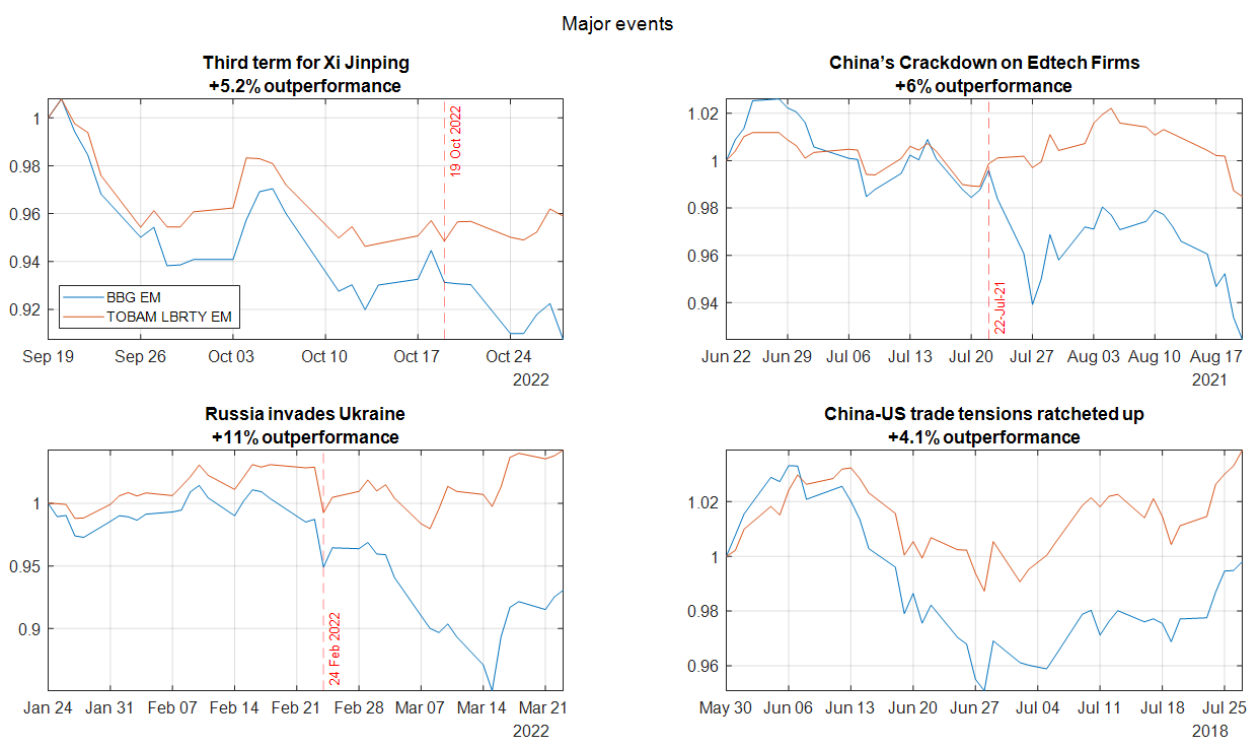
Sources: TOBAM, Bloomberg. For a more precise representation of the Ukraine invasion's impact, our data window has been adjusted to cover the period from 23/02/2022 to 23/03/2022, labelled as March-22.

Figure 2 illustrates the performance of TOBAM LBRTY® EM<sup>1</sup> and its benchmark before and after four of the ten events above, which were chosen for their limited duration and precise timing. We also report below the performance of the strategy during these months:

- Xi Jinping's re-election in October 2022 (excess return of +3.9%)
- China's crackdown against education technology firms on July 22, 2021 (+4.4%)
- Start of Russia's invasion of Ukraine on February 24, 2022 (+7.1%)
- June-August 2018: escalation of the Sino-American trade war (+4.2%)

As shown in figure 2, the outperformance of the TOBAM LBRTY® EM strategy is not strictly limited to the chosen month and essentially begins when the event occurs.

**Figure 2: TOBAM EM LBRTY® performance during four geopolitical events**



Sources: TOBAM, Bloomberg

In summary, TOBAM LBRTY® EM strategy's<sup>2</sup> best monthly excess returns can be attributed to geopolitical events involving either China or Russia, or important internal decisions taken by these two autocratic countries that have negatively shaken financial markets. This is consistent with the strategy's goal to mitigate its exposure to the autocracy risk factor.

During these events, the strategy showed 20% less volatility than its benchmark, while reducing volatility by 7% over the whole period studied. This slightly lower volatility did not prevent the strategy from outperforming its benchmark by an average of 17bp each month.

<sup>1</sup> Performance shown is TOBAM LBRTY Emerging Markets Equity Index.

<sup>2</sup> Performance shown is TOBAM LBRTY Emerging Markets Equity Index.

The strategy behaves differently from a Minimum Variance portfolio, with a beta of 0.85 versus 0.72 for the MSCI EM Minimum Volatility: controlling autocratic exposures is not the same as having the lowest risk.

Lastly, the strategy does not exhibit any sector bias to the usual Benchmark: the active sector allocation contributes to only 0.8% of the total Tracking error (8%).

To conclude: the recent shift in behaviour and hardening stance of autocratic regimes have become a major source of concern for global investors. TOBAM's LBRTY® strategy is a strong candidate to help investors deal with these recent challenges.

## Appendix

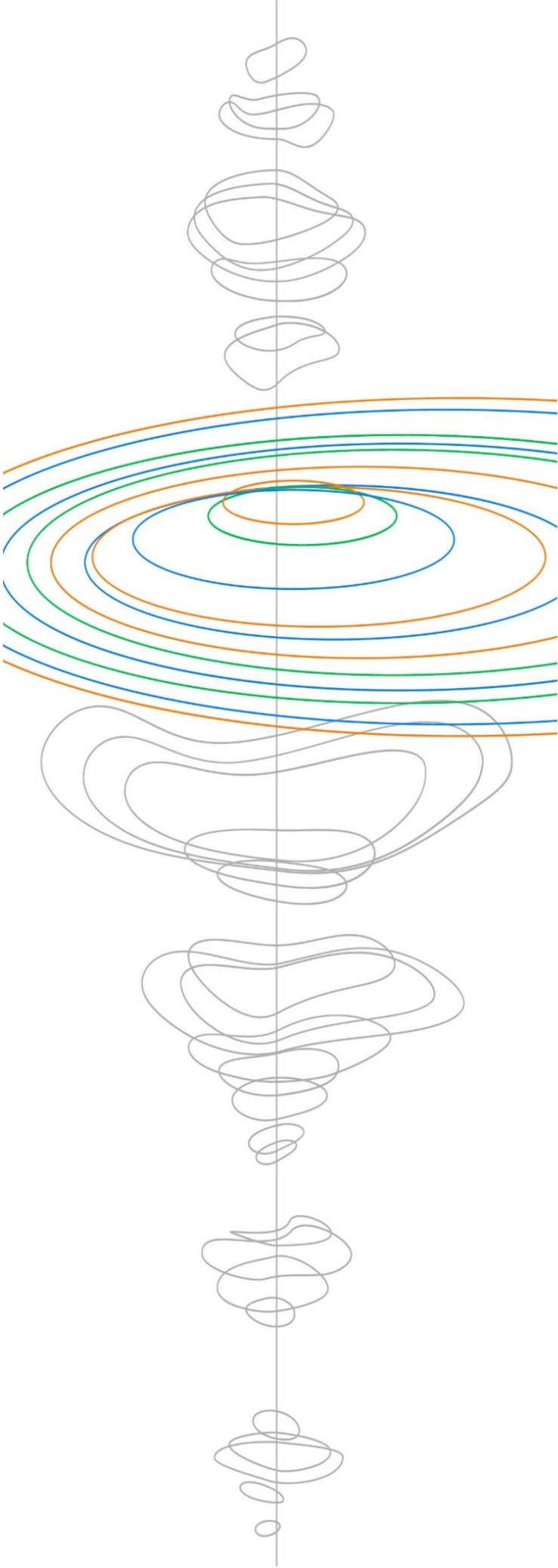
### TOBAM LBRTY® EM Strategy

#### ● Monthly Returns(%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	
													Index	Bench
2023	2.82	-2.68	2.66	2.12	2.27	3.20	5.58	-4.49	-2.39	-3.65			<b>5.01</b>	<b>-2.33</b>
2022	-0.87	1.04	4.54	-7.20	0.70	-11.06	4.18	1.23	-6.81	0.52	9.11	-3.32	<b>-9.32</b>	<b>-20.54</b>
2021	-3.41	-1.46	4.15	3.11	4.72	-0.70	-0.20	4.40	-2.27	-1.61	0.07	2.58	<b>9.31</b>	<b>0.21</b>
2020	-3.04	-6.11	-20.99	12.34	4.52	6.97	9.76	0.96	-2.90	2.83	12.05	8.46	<b>21.47</b>	<b>22.03</b>
2019	4.16	-0.66	2.74	0.78	-3.57	3.61	-1.32	-3.31	4.28	3.73	-0.91	5.35	<b>15.34</b>	<b>18.81</b>
2018	4.93	-3.52	-1.26	1.24	-4.02	0.32	3.92	0.12	-1.59	-8.22	4.51	-0.15	<b>-4.45</b>	<b>-12.01</b>
2017	5.10	4.33	3.96	0.93	2.51	0.83	4.38	1.65	-2.05	2.59	0.55	5.03	<b>33.90</b>	<b>35.95</b>
2016	-4.27	-0.10	8.06	0.13	-0.99	0.85	4.44	-0.25	0.87	-0.54	-5.49	-0.75	<b>1.30</b>	<b>11.61</b>
2015	0.47	2.24	-3.07	3.80	-1.80	-2.16	-5.03	-3.86	-0.48	4.69	-4.29	-1.62	<b>-11.06</b>	<b>-11.75</b>
2014	-4.91	4.37	4.47	1.83	1.18	3.75	0.45	2.69	-7.34	-1.06	-0.68	-4.82	<b>-0.93</b>	<b>-0.94</b>
2013	0.81	-2.38	-0.70	-1.55	-4.86	-5.59	1.81	-1.35	4.19	5.03	-4.91	0.20	<b>-9.50</b>	<b>-1.20</b>
2012	9.48	4.69	-2.16	-1.01	-9.24	3.81	0.52	0.23	5.32	-1.07	0.91	5.53	<b>16.94</b>	<b>20.36</b>
2011	-5.88	0.68	4.29	4.20	-0.82	-1.66	-0.31	-3.26	-14.29	11.02	-5.15	-1.92	<b>-14.26</b>	<b>-18.97</b>
2010	-5.34	2.55	8.00	1.00	-7.52	0.52	9.21	-0.14	10.70	3.91	-2.59	7.22	<b>28.95</b>	<b>19.91</b>
2009	-3.13	-3.83	12.05	11.76	17.00	-0.94	9.93	3.11	9.30	0.33	7.12	4.08	<b>87.36</b>	<b>82.60</b>

Sources: TOBAM, Bloomberg. Indexes are unmanaged and do not incur management fees, costs and expenses. One cannot invest directly in an index.

Warning: Past performance is not an indicator or a guarantee of future performance. The value of your investment and income received from it can go down as well as up and you may not get back the full amount invested. Performance details provided are in USD and include reinvested dividends. Returns reflect back tested data from Aug 29, 2008 to **Jul 03, 2023**, plus live data for the TOBAM LBRTY Emerging Markets Equity Index (AB) from Jul 03, 2023 to date. Back tested results are for information purposes only. They are intended to illustrate how the Strategy may have behaved had it been launched prior to Jul 03, 2023. The back tests are gross of tax and exclude costs of transaction and fee assumptions.



## ABOUT TOBAM

TOBAM is an asset management company offering innovative capabilities designed to maximize the benefits of scientific research to build efficient investment exposures.

TOBAM's expertise relies on 3 core pillars:

- TOBAM's Maximum Diversification® approach, supported by original, patented research and a mathematical definition of diversification, provides clients with diversified core exposure, in equity and fixed income markets.
- A research driven, *Solutions* division (TOBAMSolutions®), dedicated to building customized solutions and services to sophisticated institutional investors,
- A *LBRTY*® strategy range, which aims to help investors substantially mitigate their exposure to authoritarian regimes in their portfolio.

In line with its mission statement and commitment to diversification, TOBAM also launched a satellite activity (CRYPTOBAM®) on cryptocurrencies in 2016.

TOBAM Maximum Diversification®, TOBAMSolutions®, TOBAM LBRTY® and CRYPTOBAM® illustrate TOBAM's systematic "out of the box" dedication to demanding investors.

TOBAM manages USD 6 billion (as of 30 December 2022). Its team includes 47 finance professionals based in Paris, New York, Dublin, and Luxembourg. For more information, please visit [www.tobam.fr](http://www.tobam.fr) or contact us at [info@tobam.fr](mailto:info@tobam.fr)

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### Strategy Specific Risks

This document is a marketing communication.

#### 1) Equity risk

If the equities or indices to which the portfolio is exposed decline, the strategy net asset value will fall.

In the small- and mid-cap markets, the trading volume of listed shares is limited, and so market movements tend to be larger on the downside and also more rapid than for large-cap stocks. The strategy net asset value may thus decline more rapidly and more strongly.

Investors' attention is drawn to the fact that small-cap markets are intended to host businesses that, owing to their specific characteristics, may carry risks for investors.

#### 2) Risk associated with the Management Company's investment process

Investors' attention is drawn to the fact that the portfolio is constructed and its assets selected and weighted using processes developed by the Management Company. The strategy investment process is based on a systematic model designed to identify signals based on past statistical results.

There is a risk that the model may not be efficient, since there is no guarantee that past market situations will repeat themselves in the future. The aim of the processes developed by TOBAM is to achieve healthy diversification of the strategy portfolio, and so use of these processes may lead the Management Company to not select the top-performing assets.

#### 3) Risk associated with the emerging market equities

The equities of emerging countries provide a more limited liquidity than equities of developed countries. Consequently, the possession of these securities may increase the level of portfolio risk. The movements of market decline may be greater and faster than in developed countries, the net asset value may decline more sharply and quickly.

#### 4) Currency risk



Currency risk is the risk of depreciation in the currencies in which the strategy invests relative to the reference currency. This currency risk will be managed according to market opportunities and may thus account for a significant proportion of the risk. In the event of depreciation in foreign currencies, investors are thus exposed to a decline in the value of their units.

5) Credit risk

This is the risk of depreciation in shares issued by a private-sector issuer or default by the latter. The value of the debt securities in which the strategy is invested may decline, leading to a fall in net asset value.

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