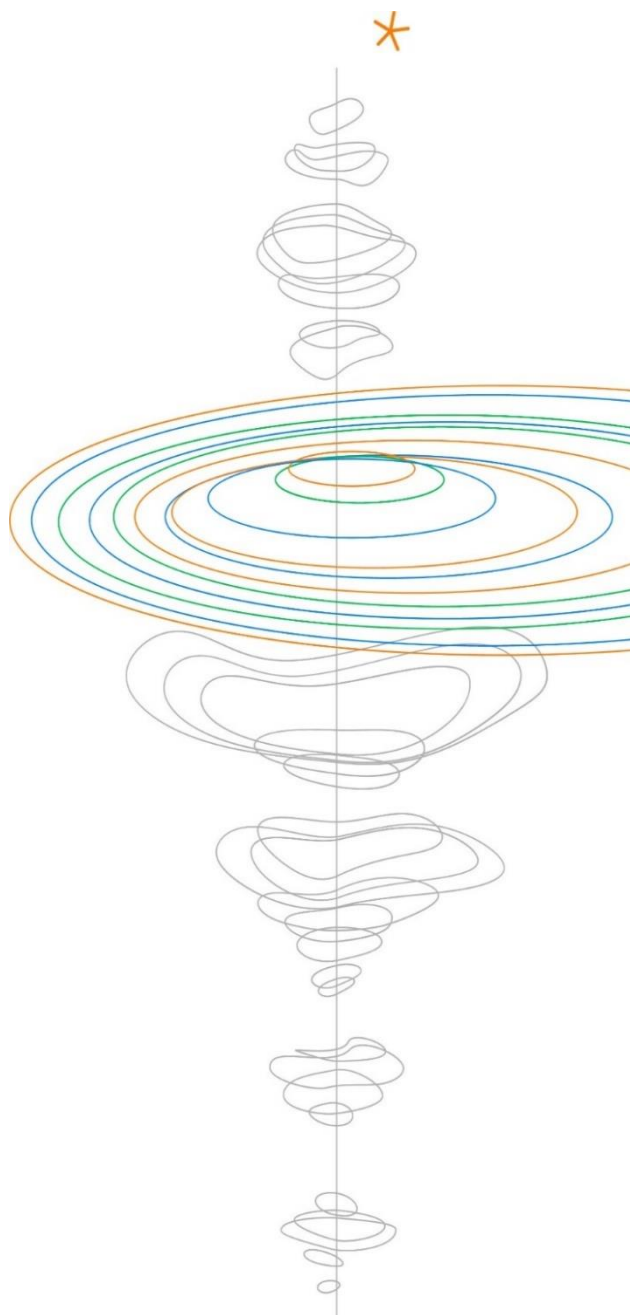


TOBAM LBRTY® EM STRATEGY:

Impact of the Indian election

Key Highlights:

- Emerging market investors, hesitant to increase China exposure after years of underperformance, are increasingly turning to India. With favorable demographics, infrastructure expansion, and a thriving tech sector, India offers compelling opportunities. However, like over 60 other nations facing elections in 2024, India has not been immune to political risk.
- On June 4, 2024, the Indian financial markets experienced a significant shock due to the unexpected results of the general elections. The BBG India index dropped by 7.2%, largely driven by heavy selling from foreign institutional investors.
- The LBRTY® EM strategy returned 3.3% vs. the EM Market Cap weighted benchmark* return of 1.6% during the week of the Indian election results (from May 31, 2024, to June 7, 2024).
- The majority of the fund's outperformance came from selecting stocks with lower Authoritarian Exposure (AE). During the election week, Indian stocks with the lowest AE noticeably outperformed those with higher AE.



October 2024

**The Benchmark returns reflect the Bloomberg EM Large & Mid Cap TR USD index.*

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I. THE ELECTIONS IN INDIA

Emerging market investors, hesitant to increase China exposure after years of underperformance, are increasingly turning to India. With favourable demographics, infrastructure expansion, and a thriving tech sector, India offers compelling opportunities. However, like over 60 other nations facing elections in 2024, India has not been immune to political risk.

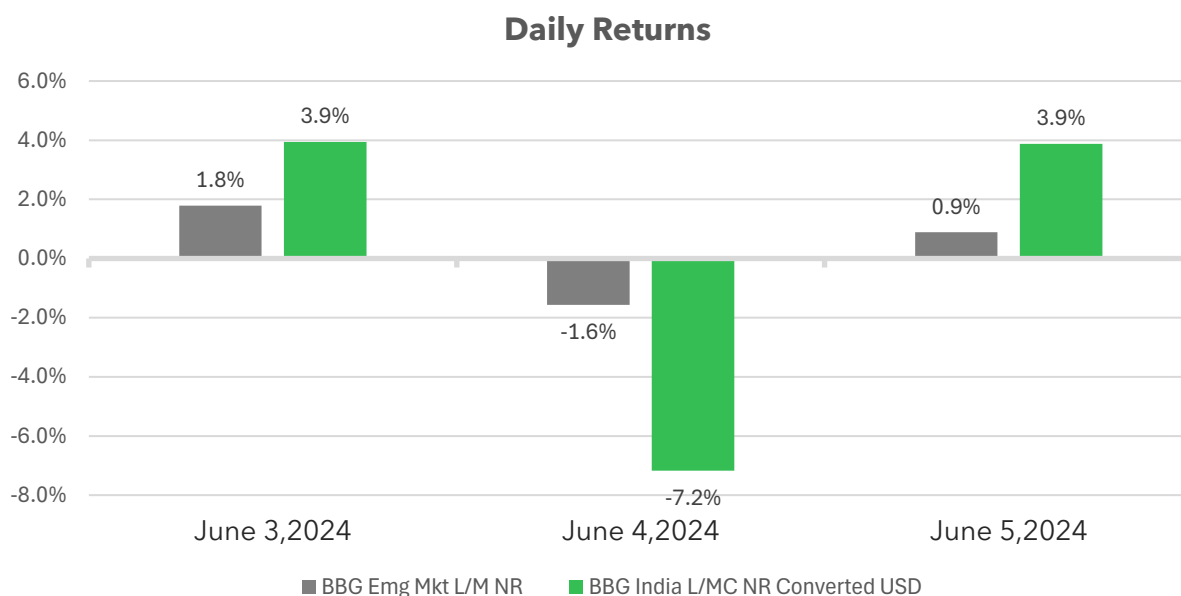
A closer look at the Indian market reaction around election week can help grasp how authoritarian risk – held indirectly in a democratic country – can be linked to value destruction.

The LBRTY® strategy aims at investing in stocks with low exposure to autocratic countries. The rationale is that stocks exposed to these countries carry an additional uncompensated risk. As a result, the strategy can be expected on aggregate to overperform its benchmark during periods of political or geopolitical upheavals.

A recent example occurred with the Russian invasion of Ukraine¹. More recently, Indian general election provided another example of politically induced market volatility. On the first week of June 2024, the Indian financial markets experienced a significant shock following the unexpected results of the general elections.

- June 4, 2024: India Stock indices plummeted, with the S&P BSE Sensex falling 5.7% and the BBG India L/MC dropping 7.2% after the Bharatiya Janata Party (BJP), led by Narendra Modi, failed to secure an absolute majority in the general elections, contradicting exit poll predictions.
- June 5, 2024: Indian Stock indices started to stabilize after the sharp sell-off from foreign institutional investors the previous day. Signs of recovery emerged as political stability returned with the BJP forming a government, despite having a reduced majority.

Figure 1: Daily returns over three consecutive days: June 3, June 4, and June 5, 2024.



Source: TOBAM and Bloomberg.

¹ TOBAM's LBRTY EM strategy outperformed its benchmark by 13% during the first quarter of 2022

II. PERFORMANCE OF THE LBRTY EM® AROUND THE ELECTION DAY

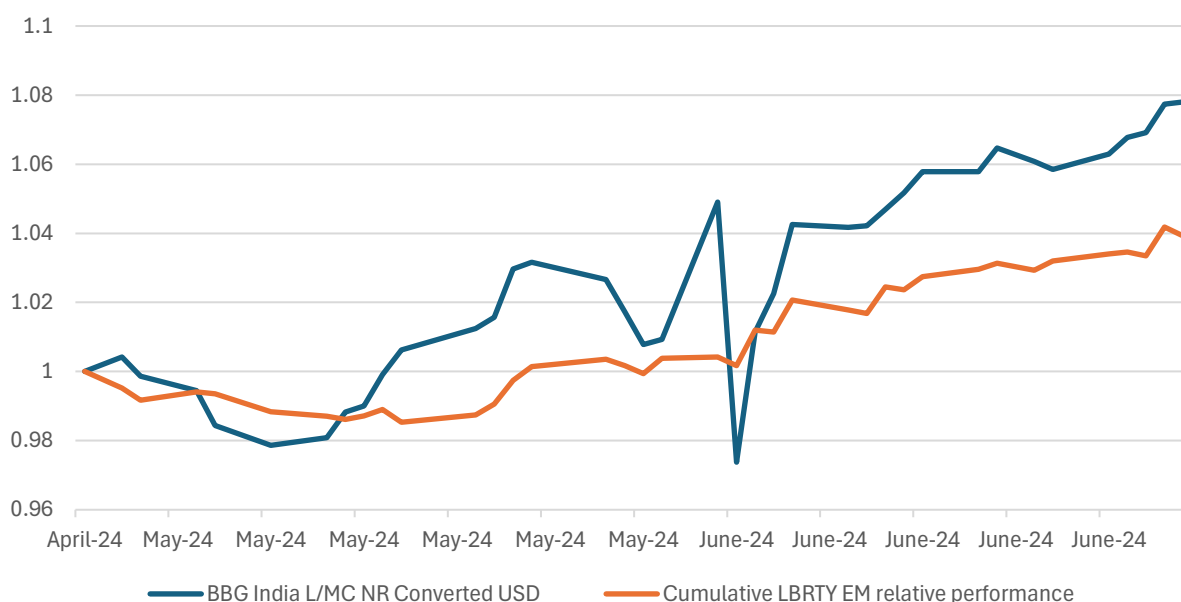
Reducing authoritarian exposure requires excluding autocratic regimes from the investment universe, with China—being the largest—taking center stage. In contrast, India, the world's largest democracy, emerges as the most liquid and natural alternative for EM investors. Unsurprisingly, the TOBAM LBRTY EM strategy reflects this with an overweight on India relative to the EM index. However, even after filtering out autocracies, indirect authoritarian exposure persists. Consequently, LBRTY's Indian stock selection diverges significantly from the index, reflecting a more refined approach.

How did TOBAM's reduced Authoritarian Exposure strategy perform during elections?

The figure below shows that the MDP LBRTY® EM fund was as affected as the BBG EM index during the Indian market downturn on June 4, 2024 (-1.8% versus -1.6%). However, the fund capitalized more effectively on the rebound on June 5 (+1.9% versus +0.9%), demonstrating greater resilience and a stronger participation to the Indian market upside compared to the BBG EM index.

This phenomenon is even more remarkable given that LBRTY® EM had an average exposure to the country of 40.7% MtD, compared to 18.3% for the benchmark (average weights over the analysed period). When looking at a longer three-month period from April 30, 2024, to June 30, 2024 (see figure 2), we observe that the fund relative performance (vs. BBG EM index) is positive and remained largely unaffected by political events in India.

Figure 2: Cumulative performance of BBG India L/MC (in Blue) and relative performance of the LBRTY® EM vs. BBG EM index (in Orange)



Source: TOBAM and Bloomberg. Period covered 30-Apr-2024/30-Jun-2024

III. UNDERSTANDING THE LBRTY® RELATIVE PERFORMANCE FROM AN AUTHORITARIAN EXPOSURE PERSPECTIVE

Going one step further, as illustrated in Figure 3, most of the LBRTY fund's outperformance over the week of the election results can be attributed to India, contributing 1.5% to the total outperformance of 1.7%. This can be broken down into two key effects: allocation and selection. Noteworthy, the LBRTY® EM fund's higher allocation to India (41% versus 18% for the BBG EM index) explains less than one-third of this outperformance (See allocation effect in Figure 3). The remaining two-thirds of the fund's outperformance comes from stock selection, with a focus on companies that have lower Authoritarian Exposure (AE). This does not come as a surprise, the LBRTY® fund specifically

minimizes AE, making the relationship between a stock's AE and its relative returns crucial for analysing the fund's performance compared to the benchmark. The LBRTY® fund intentionally overweights companies with lower AE compared to its benchmark.

As shown in Figure 4, within Indian stocks, those with the lowest AE had an average return of 5.3% over the week, compared to just 1% for those with the highest AE. On a more granular level (Figure 5), the data reveals that the performance of Indian stocks consistently declined as AE increased. Since the LBRTY® EM fund is specifically weighted towards low AE stocks, while the benchmark is indifferent to AE levels, the fund significantly benefited from this approach.

Figure 3: Performance attribution by country, (31-May-2024 to 07-Jun-2024)

Country 31-May-2024 to 07-Jun-2024	Average Relative weight	Total effect	Allocation effect	Remaining effects
China	-33.61%	0.33%	0.34%	-0.01%
India	22.19%	1.48%	0.45%	1.03%
Taiwan	15.80%	-0.42%	0.48%	-0.90%
Korea, Republic of	0.49%	-0.13%	0.02%	-0.14%
Saudi Arabia	-5.84%	0.11%	0.12%	0.00%
Brazil	-2.40%	0.13%	0.09%	0.04%
Mexico	-2.30%	0.38%	0.18%	0.20%
South Africa	2.11%	-0.10%	-0.05%	-0.05%
Indonesia	2.98%	0.04%	-0.11%	0.15%
Rest of the World	0.58%	-0.13%	-0.07%	-0.06%
Authoritarian sub total	-46.65%	0.97%	0.78%	0.19%
Indirect Exposure contribution	46.65%	0.73%	0.67%	0.06%
Total	0.00%	1.70%	1.45%	0.25%

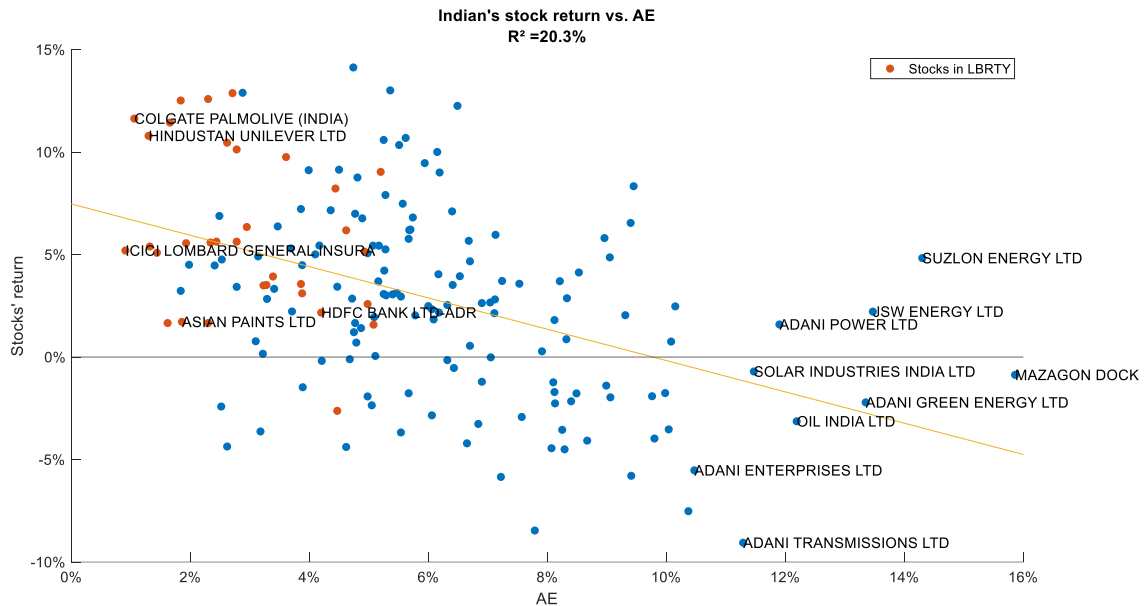
Source: TOBAM and Bloomberg. Performance returns are stated in USD and shown gross of fees and do not reflect the deduction of TOBAM's fees. TOBAM client's return will be reduced by the advisory fee and any other expenses that it may incur in the management of its investment advisory account. The period presented above shows the gross performance of the strategies from 31/05/2024 to 07/06/2024.

Figure 4: Performance attribution by AE of Indian Total Effect, (31-May-2024 to 07-Jun-2024)

AE	Total effect	Avg. ptf weight	Avg. ref weight	Average relative weight	Return
AE 0% - 3.3%	1.33%	28.10%	6.21%	21.89%	5.26%
AE 3.3% - 5.7%	0.14%	12.20%	6.37%	5.83%	4.32%
AE > 5.7%	0.02%	0.00%	5.54%	-5.54%	0.99%
Total	1.48%	40.30%	18.11%	22.19%	3.29%

Source: TOBAM and Bloomberg. Performance returns are stated in USD and shown gross of fees and do not reflect the deduction of TOBAM's fees. TOBAM client's return will be reduced by the advisory fee and any other expenses that it may incur in the management of its investment advisory account. The period presented above shows the gross performance of the strategies from 31/05/2024 to 07/06/2024.

Figure 5: Indian Focus: Stock return with respect to AE (31-May-2024 to 07-Jun-2024)

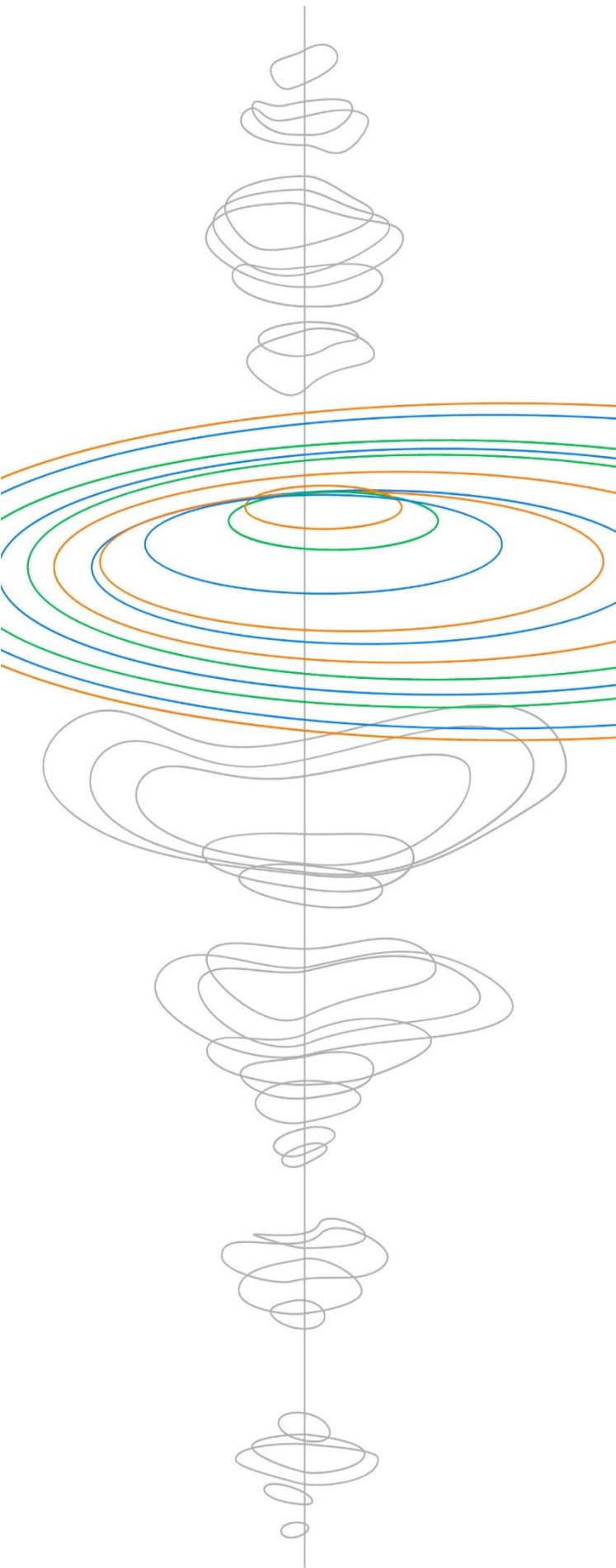


Source: TOBAM and Bloomberg. Performance returns are stated in USD and are calculated over the period 31/05/2024-07/06/2024.

IV. CONCLUSION

- Emerging market investors, hesitant to increase China exposure after years of underperformance, are increasingly turning to India. With favorable demographics, infrastructure expansion, and a thriving tech sector, India offers compelling opportunities. However, like over 60 other nations facing elections in 2024, India has not been immune to political risk.
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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 build customized solutions and services to sophisticated institutional investors,
- A *LBRTY*® strategy range, which aims to help investors substantially mitigate their exposure to autocratic regimes in their portfolio.

In line with its mission statement and commitment to diversification, TOBAM also launched a satellite activity (CRYPTOBAM®) on cryptocurrencies in 2017.

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

TOBAM manages north of USD 5 billion (as of 31 Dec 2023). Its team includes 40 finance professionals based in Paris, New York and Dublin.

For more information, please visit www.tobam.fr or tobamdirect.com

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