



FUND LAUNCHED

2005

FUNDS UNDER MANAGEMENT

£506.4
MILLION

NET ASSET VALUE PER SHARE

436.2%
SINCE INCEPTION*

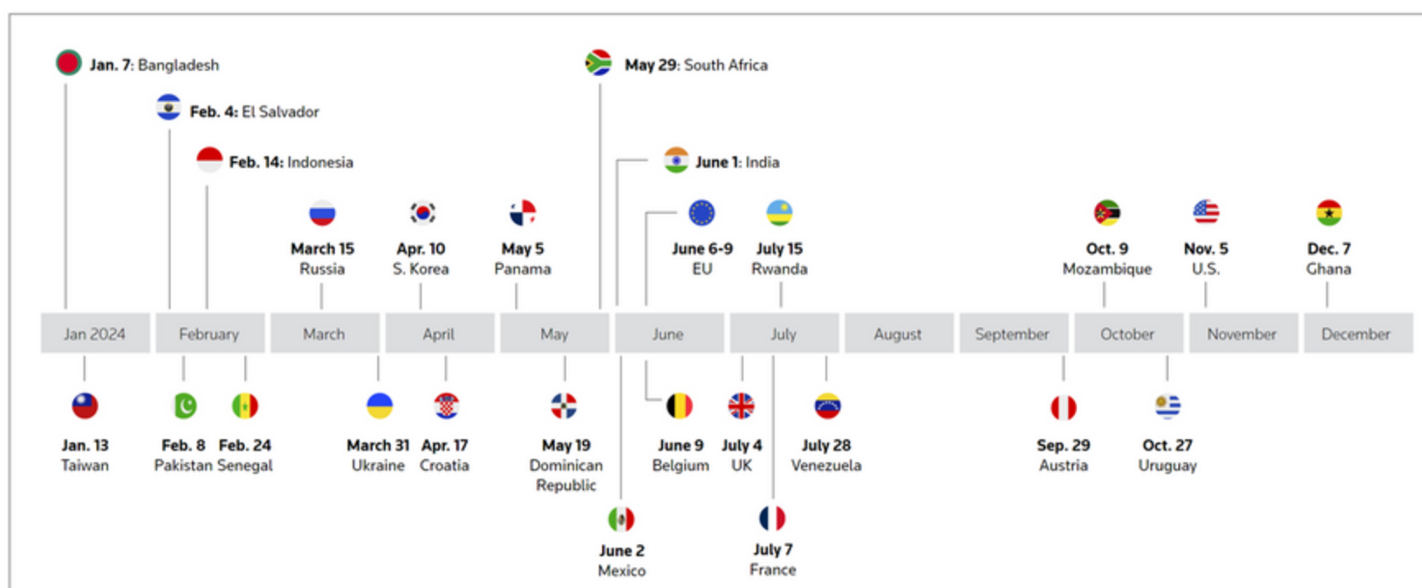


A Year of Elections

August 2024

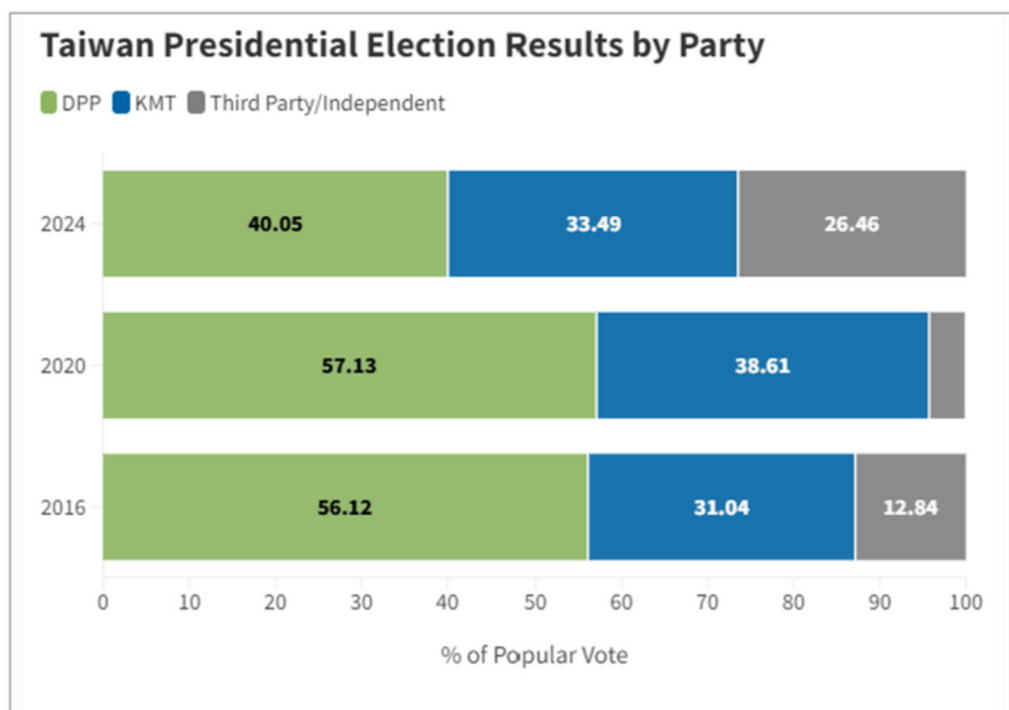
2024 was always going to be a year of elections with almost half of the world’s population going to the ballot box.¹ One thing that is very clear, is that voters are going to the polls at a time when geopolitical and economic tensions are mounting, making predictability over electoral outcomes much harder. Utilico Emerging Markets’ (UEM) investment strategy of predominantly investing in infrastructure and utility assets, typically backed by sound underlying long-term concessions or monopolistic positions, means that the portfolio should continue to perform well despite the increased electoral uncertainty.

Elections in 2024 and Global Politics



Source: Reuters.com

One of the first elections for the emerging markets this year was in Taiwan - the Taiwanese presidential election, which drew global attention because of growing tension in the Taiwan Strait. The result was largely in line with market expectations as William Lai from the ruling Democratic Progressive Party (DPP) won the Presidency with just over 40%² of the vote, albeit the party lost its majority in the legislature. Policy continuation is expected with the status quo being upheld, yet with the balance of power lying in favour with the legislature.



Source: Central Election Commission of Taiwan²

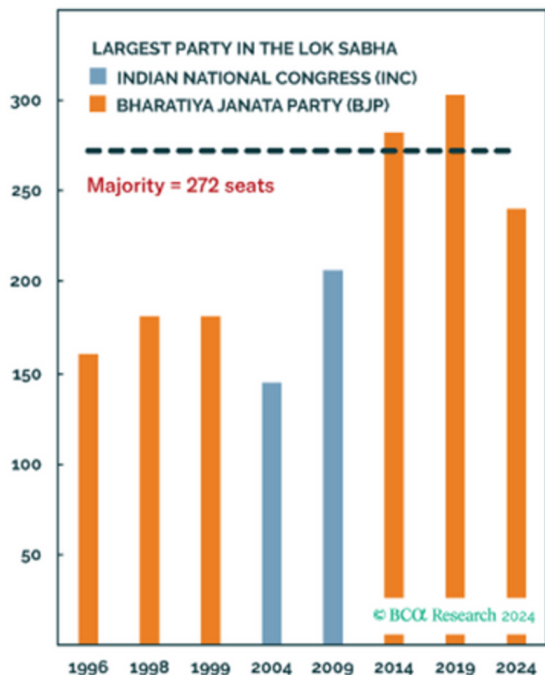
The Indonesian election, held on Valentine's Day, also played out very much as the market expected. With the immensely popular Joko Widodo (Jokowi) reaching his two-term limit as the President, unconventionally two of the three major candidates were aligned, both campaigning for the continuation of Jokowi's policy direction of infrastructure-led development (Jokowinomics). The eventual winner in the first round with 58.6% of the vote was not a candidate originating from Jokowi's party.³ Instead it was a former opponent from 2014 and 2019 - previous military general strongman, Prabowo Subianto, who garnered support after announcing Jokowi's son as his running mate and rebranding himself. The electoral result has been perceived as one of stability, given the expected continuation of Jokowi-like policies when Prabowo takes office in October. Although noise from the president elect that debt to GDP could increase from 40% to 50% and the budget deficit could increase above the 3% of GDP, resulted in the Indonesian market to wobble, with such claims now being denied.

There were also market jitters around Senegal's elections, after the incumbent President, Macky Sall, indefinitely delayed February's presidential election by decree. This decree was then overturned by the Senegalese Constitutional Council, restoring faith in the country's institutions. The election took place in March and was won by former tax inspector, Bassirou Diomaye Faye, on an anti-corruption ticket. Investors had initially reacted negatively to both the delay and left-wing and nationalistic policy risks under a Faye government. However, the market is becoming increasingly more comfortable with the view that policy direction has been much more pragmatic than the election rhetoric implied, and is likely to focus on issues such as governance and tax compliance rather than any policies that could deter foreign investment.

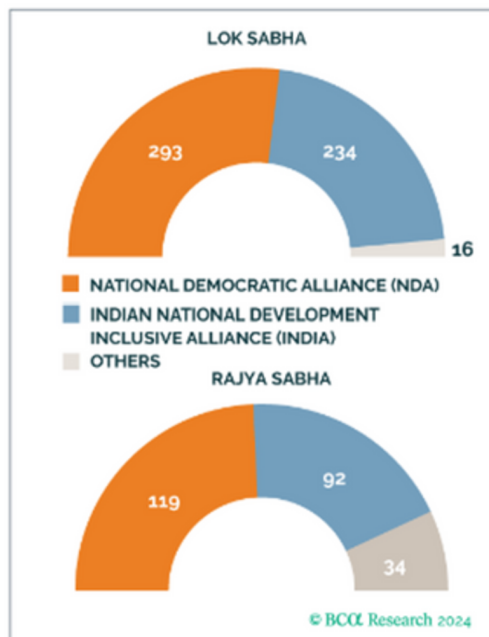
The first major election of 2024 where the election outcome was different to what was expected was India. Given that the world's largest democracy has a population of over 1.4bn people,⁴ holding an election is no mean feat! The election comprised of 7 voting phases spanning 3 months. In the run up to the election, the incumbent leader, Narendra Modi was overwhelmingly popular with a 69% approval rating, the highest among major democracies.⁵ Understandably many expected his Bharatiya Janata Party (BJP) to extend their already dominant majority. To much surprise, not only did the BJP lose seats,

but it also fell short of a majority in the Lok Sabha, India's lower house, securing only 240 of the 543 seats, down from 303.⁶ This meant that for the first time, Modi had to rely on his National Democratic Alliance (NDA) coalition partners to reach the 272 seats required to form a government.

Single Party Majority Is Not The Norm



Political Power In The Parliament



Source: BCA Research⁶

Why did Modi lose his majority? Much of the underperformance has been attributed to sustained inflation (particularly food), high youth unemployment and stagnant agricultural incomes, for which the discontent translated to a resurgence in the opposition I.N.D.I.A. coalition led by the Indian National Congress. In response, it is now expected that there will be a populist shift from Modi to address these key issues, already evident from the recently announced budget in July.

Immediately post announcement of the election results, the market reacted negatively, viewing the results as a blow to the pro-business BJP. However, in reality this election is a clear demonstration of democracy working as intended by reintroducing checks and balances from coalition partners and an emboldened opposition, contrary to the narrative that Modi had formed an authoritarian grip. The BJP remains by far and away the largest party in India and is joined in government with a closely aligned coalition. Whilst not controlling the upper house, the NDA maintains a narrow majority in a joint sitting, the mechanism to resolve a deadlock between the two houses, allowing for continuation in the direction of policy of structural economic and regulatory reforms but acting as enough of a check on Modi.

Uncertainty into the South African election was also prevalent. The growing disenchantment into the election held at the end of May, arising from years of mismanagement and unemployment rates upwards of 30%, meant expectations were that the ruling African National Congress (ANC) would lose ground. This materialised with the ANC falling short of a majority for the first time in post-apartheid South Africa, securing 40.2% of the vote. The loss in vote share can be almost entirely attributed to the 14.6% vote share accumulated by the newly formed uMkhonto weSizwe (MK) party led by former president Jacob Zuma, whilst the market-friendly Democratic Alliance (DA) held its usual share at 21.8% and the communist Economic Freedom Fighters (EFF) took 9.5%.⁷

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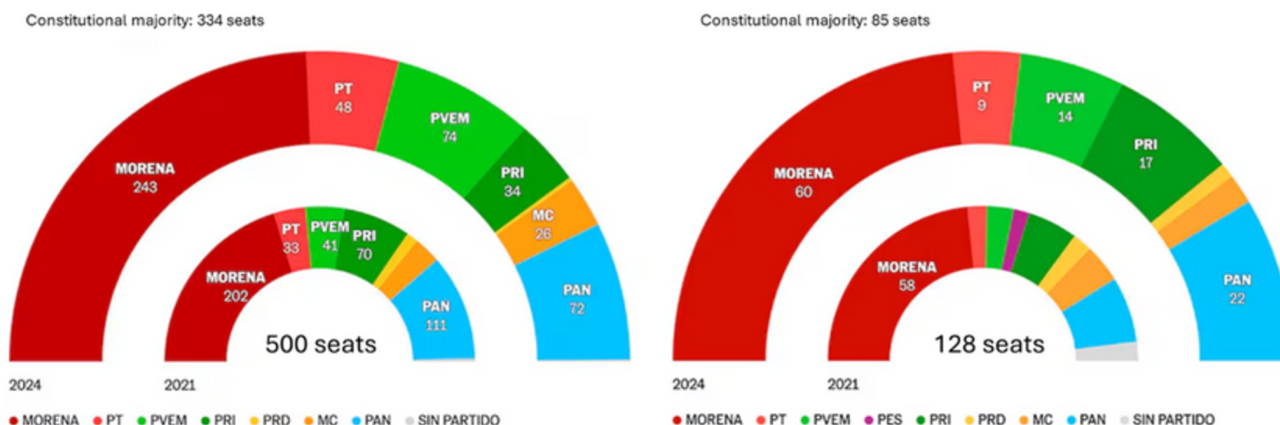
At an apparent deadlock and not wanting to show preference to either side of the political spectrum, the ANC invited all opposition parties to form a Government of National Unity. With the MK insisting on ANC leadership change and EFF refusing to participate with the presence of the DA, a National Unity Government was formed between the ANC and the remaining 11 other parties, leading to the re-election of Cyril Ramaphosa as president. The result is a centrist coalition in which parties will broadly play a proportionate role. The question however, is how effectively the diverse coalition will be able to govern and how much influence the DA will be able to exert in order to implement key structural reforms that the country needs whilst maintaining fiscal discipline.

In the lead up to the Mexican election on 2nd June, polls and the market expected Claudia Sheinbaum from the incumbent left-wing Morena party to win, but not with the unprecedented victory of 59.4% of first round votes.⁸ This win secured Morena and its allies a constitutional majority in the Chamber of Deputies - a milestone last seen in 1988.

This historic win making Sheinbaum Mexico's first female president, means that Morena, in power since AMLO's victory in 2018, will continue for another six years. Despite Morena falling short of a constitutional majority in the Senate, due to the magnitude of the party's win, it should not be difficult for the party to achieve a majority in most discussions – and this unchecked power has been the markets' concern.

Lower House Composition Estimate

Senate Composition Estimate



Source: El Pais⁹

On the first trading day post-election, the overwhelming defeat of the opposition led to a market sell-off. The Mexican peso depreciated 3.7% and the local index dropped by 6.1%. By the end of that week, the peso had dropped by 7.5% and the index fell by 4.0%, reflecting concerns about the lack of institutional checks and balances with Morena's majority in Congress.¹⁰

However, Sheinbaum is expected to have a more business-friendly administration than AMLO. To date she has appointed some technical experts, including Rogelio Ramírez de la O as Minister of Finance, alleviating concerns about fiscal austerity and maintaining the stable macroeconomic environment of AMLO's tenure. Overall, we expect Mexico to continue benefitting from its advantageous position next to the world's largest economy (the United States), playing a pivotal role in the nearshoring trend, which is motivated by the goals of reducing supply chain and geopolitical risks. Albeit, it is fair to say Sheinbaum moves continues to be closely monitored.

One of the biggest elections of the year is yet to come - the US election. Despite not being an emerging market, it is an election an emerging markets investor cannot ignore. The November election at present continues to be difficult to call, although with Harris now at the helm of the Democratic Party, the race between Trump and Harris looks to be getting closer. As the election nears, the reality of a Trump

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presidency must be considered. Trump's rhetoric, and what this means in terms of domestic and foreign policy (especially in relation to China), and what impact this could have on the US dollar and interest rates, remains unclear. What impact Harris will have also remains unclear. Unfortunately, many emerging markets remain at the mercy of the direction in which the US moves.

Nevertheless, UEM's underlying investment strategy of being long-term investors predominantly investing in infrastructure and utility assets, means that the portfolio should continue to perform well, despite the increased electoral uncertainty that is now more prevalent in today's world. UEM's investments are typically defensive in nature, and often benefit from being monopolistic or underpinned by long-term concessions, resulting in sustainable and stable cash generation and solid long-term returns for investors.

Utilico Emerging Markets Trust plc

28 August, 2024

[1] Global elections in 2024 - Statistics & Facts | Statista

[2] Central Election Commission of Taiwan, retrieved from 中央選舉委員會::中選會委員會議審定通過並公告第16任總統副總統選舉當選人名單:: (cec.gov.tw)

[3] General Elections Commission of Indonesia (KPU) <https://jdih.kpu.go.id/detailkepkpu-4a645456523031524a544e454a544e45>

[4] India Population (2024) - Worldometer (worldometers.info)

[5] World leader approval ratings 2024 | Statista

[6] 'Post-Election India: A Blessing in Disguise?' BCA Research https://www.bcaresearch.com/reports/view_report/40399/ems

[7] Electoral Commission of South Africa <https://results.elections.org.za/home/>

[8] INE (Instituto Nacional Electoral) from <https://prep2024.ine.mx/publicacion/nacional/presidencia/nacional/candidatura>

[9] Morena, a dos escaños de lograr la mayoría calificada en el Senado | Elecciones mexicanas 2024 | EL PAÍS México (elpais.com)

[10] Factset: Mexico market data 2024.

Source Data: ICM Limited, Bloomberg.

*Total return is calculated based on undiluted Net Asset Value, plus dividends reinvested and adjusted for the exercise of warrants and subscription shares.

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