For Professional Investors and Advisers Only

RWC Emerging & Frontier Markets

Strategy Update Q3 2019

In this edition, we give you an overview of the third quarter of 2019 before exploring investment opportunities in the healthcare sector in emerging and frontier markets.

The Team

John Malloy and James Johnstone co-manage the RWC emerging and frontier markets team. The team is composed of a further 17 analysts, economists and strategists based in Miami, London and Singapore, many of whom have worked together for over twenty years. The team joined RWC Partners in 2015 and now manages c. $9bn for its clients.

Emerging and frontier markets represent the fastest growing countries in the world. The RWC team believes the continued growth in these markets represents opportunities across a range of industries.

The highly experienced and dedicated team takes an index-agnostic, opportunistic approach which allows it to explore investment opportunities that are often off the beaten track.

RWC Emerging & Frontier Markets

Emerging and frontier markets fell during the third quarter of 2019 as trade tensions re-ignited and concerns surrounding global macroeconomics caused the Federal Reserve to cut interest rates. The MSCI Emerging Market Index fell -4.1%, while the RWC Emerging Markets Equity Fund fell -3.0%. China fell significantly during the quarter despite relatively positive macroeconomic data. While manufacturing PMIs remained under pressure, fixed asset investment is robust at +5.5% year-on-year and foreign exchange reserves remain above $3 trillion. Exports from South Korea were weak, but inflation is low at +0.9% and unemployment fell to 3.1%. Brazil corrected during the quarter after a strong performance since November 2018. Pension reform has been approved and the Central Bank cut the SELIC rate to 5.5%, a new historic low. Although the oil price suffered an -8.8% correction to below $60 per barrel, the Russian equity market was flat for the quarter. Frontier markets also fell during the quarter. In Asia, Vietnam rose +1.1% as positive macroeconomic data boosted investor sentiment. However, in Latin America, Argentina fell significantly, including a -50% drop in one day as Mauricio Macri suffered a substantial defeat in the country's primary elections. In the MENA region, Kuwait fell -3.9% as the equity market finally corrected after a strong performance year-to-date as succession risks related to the Emir plagued investor sentiment and valuations remain unattractive. Nigeria fell -11.3% as oil fell -8.7%, despite a challenged supply outlook. Nigeria's second quarter GDP grew +1.9% and inflation continues to fall.

Taiwan was a significant contributor to performance for the RWC Emerging Markets Equity Fund. Win Semiconductors rose +43.4% during the quarter as confidence surrounding the 5G thematic grows in addition to its optical devices business which should continue to benefit from further adoption by smartphone vendors. Mediatek rose +21.0% as the company should gain meaningful market share and increase revenues and margins as 5G implementation increases. Brazil was also a contributor to performance. Hapvida rose +26.2% as the company reported strong results with meaningful market share gains in the North and North East of the country. The outlook for the company remains optimistic due to its continual drive for vertical integration, evidenced by the acquisitions of Sao Francisco and Grupo America. Food producer, BRF, rose +19.1% as the company is a beneficiary of increased substitution as African Swine Fever continued to cause a significant decline in the Chinese hog herd. Turkey also performed well during the quarter as the central bank continued to cut interest rates to 16.5%. The current account is adjusting, and the political environment is becoming calmer.

China was a detractor for the quarter as unresolved tensions relating to trade continued to plague investor sentiment. The investment theses for the fund's holdings remain intact. We believe Ctrip will continue to benefit from the secular growth in outbound tourism and that Baozun will profit from the increasing formalisation of Chinese retail. Momo also fell during the quarter despite reporting strong results for the second quarter of 2019. The company may continue to benefit from increased adoption of social networking and monetization of its platform through membership subscription packages, mobile games and mobile marketing services. The copper price fell -4.7% during the quarter which caused the fund's copper positions, First Quantum Minerals and KAZ Minerals, to drop despite a recovery in the latter half of the quarter. In our view, the electrification of vehicles, renewable energy and further urbanization will all drive demand while supply remains curtailed.

All markets referred to above relate to the respective MSCI index.

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The United Arab Emirates was a significant contributor to performance for the RWC Frontier Markets Equity Fund. Emirates NBD rose +18.8% as the government made further liberalisation plans for the economy. Emaar also continues to benefit from strong off-plan sales momentum and gains in market share. Vietnamese financials were an absolute contributor to performance. Military Commercial Bank, Vietnam Prosperity Bank and Vietnam Technological Bank rose +18.4%, +17.2% and +15.3%. The outlook for the sector remains positive as banking penetration continues to rise, financial markets deepen and the macroeconomic environment remains encouraging. Sri Lanka was also a contributor to performance during the quarter. The country is undergoing a successful macroeconomic adjustment and confidence continues to build surrounding the country's elections later this year.

Argentina was a significant detractor for the fund. Share prices now reflect a return to the worst political and economic environment since the Kirchner years of 2009 to 2015 which were blighted by high inflation, capital controls and widespread default. The fund has a small exposure to the banking system which continues to record substantial profits and return on equity partially due to its limited loan book and large exposure to high yields in local bonds. The actual path over the next few months will undoubtedly be volatile. Kazakhstan was a significant detractor for the fund but we think this should be reversed over the next few months. Halyk Savings Bank and Kazatomprom fell -5.8% and -7.7%, respectively, as they announced secondary placings that were anticipated and well-covered as they bring welcome liquidity into both stocks at attractive valuation levels. We expect a full recovery in both companies.

Capacity Update

As communicated earlier in the year we had made a decision to close the core emerging markets strategy to any material flows with an anticipated implementation date in the fourth quarter. We have now reached that point and wanted to further describe how the closing will be managed. The rationale for the closing has always been to ensure that we feel comfortable with the asset level relative to a range of metrics, but we also understand that many of our investors ideally would like the ability to make smaller adjustments to their position depending on cash needs or overall portfolio positioning. Hence we will allow incremental adjustments as long as the aggregate in any given month is below 1% of assets at the strategy level. Beyond that level we will maintain a waitlist prioritized according to the timing of requests. Such requests will, in the first instance, be met from capacity created by net redemptions. Unmet demand will be recorded and met if we decide to reopen the strategy for additional flows. It should be noted that some growth in assets is expected over the coming months as some investors with agreed commitments are currently finalizing their funding. The daily priced funds will, as previously communicated, stay open for now. They have reduced exposure to the less liquid positions and consequently have a smaller impact on capacity.

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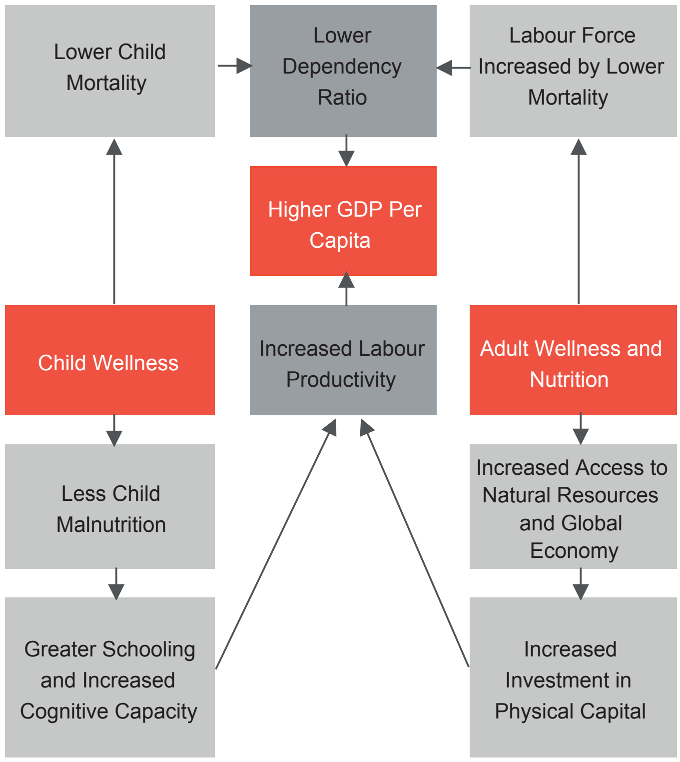
Healthcare

Introduction

Healthcare is an important aspect of economic development within emerging and frontier markets. The health of the world's population has a significant impact on growth in productivity and GDP. Since the establishment of the World Health Organisation (WHO) in 1948, governments and regulators worldwide have been working together in order to improve the quality and efficiency of healthcare services. Today, there is still a great imbalance in healthcare expenditure both in absolute and relative terms. Currently, total aggregate global expenditure on healthcare is around 10% of GDP which equates to c. $9 trillion, with the United States alone accounting for c. $3.5 trillion. According to the WHO, global spending on healthcare will likely increase to $24 trillion by 2040 with the majority of growth set to come from emerging and frontier markets.

FIGURE 1:
Healthcare's Links to GDP



Source: RWC Partners, IMF, International Public Health (Ruger, Prah, Jamison, Bloom 2001)

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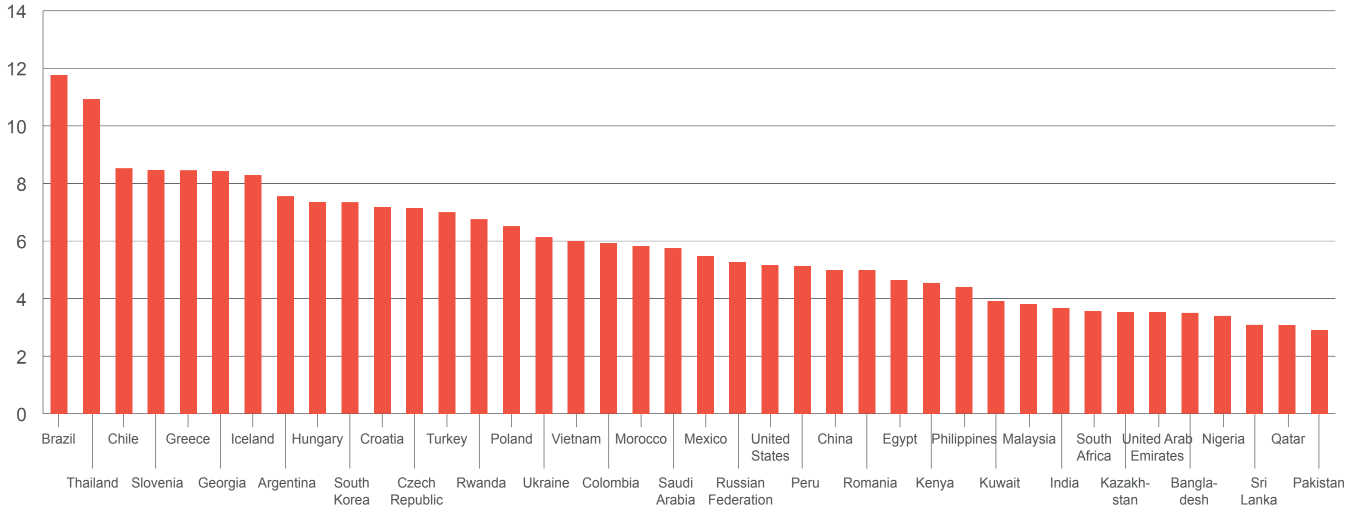
FIGURE 2:

Healthcare Expenditure as a percentage of GDP



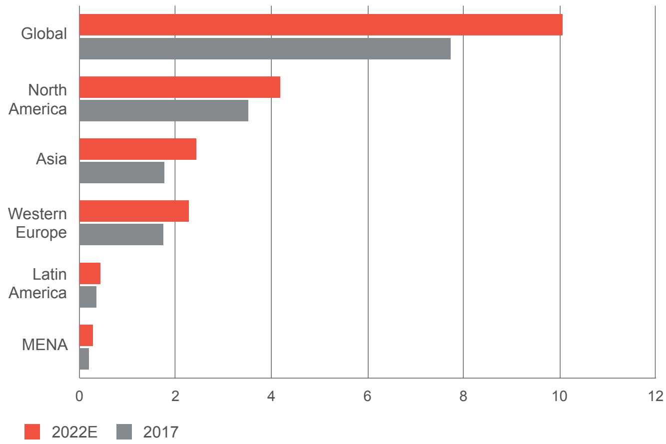
Source: RWC Partners, World Health Organization 2017

Healthcare in Emerging and Frontier Markets

As with any other global thematic, there are considerable disparities in the efficiency, quality and resource allocation of healthcare in emerging and frontier markets. In the early stages of development in healthcare systems, a population usually relies on its own knowledge of hygienic and preventive practices to provide remedies and cures for illness and disease. As economies and countries develop, more complex treatments become available which leads to a greater involvement of governments and regulators in the specific processes and funding related to healthcare. Broadly speaking there are four main drivers of global healthcare expenditure: demographics, disposable incomes, technology and public policy.

FIGURE 3:

Healthcare Spending by Region ($ trillion)



Source: RWC Partners, Economic Intelligence Unit 2017-2022E

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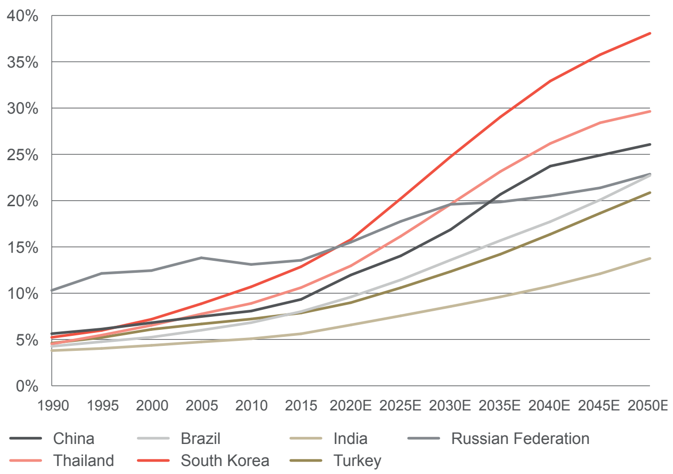
Demographics

Populations in emerging and frontier markets are aging rapidly. The percentage of populations that are 65 years or older has doubled to 10% since 1980 and will likely reach 15% by 2030 and 25% by 2060, according to forecasts conducted by the United Nations. In Asia, the trend is especially pronounced. In China alone, the United Nations forecast around 25% of the population by 2040 will be over 65, which equates to c.345 million people.

FIGURE 4:

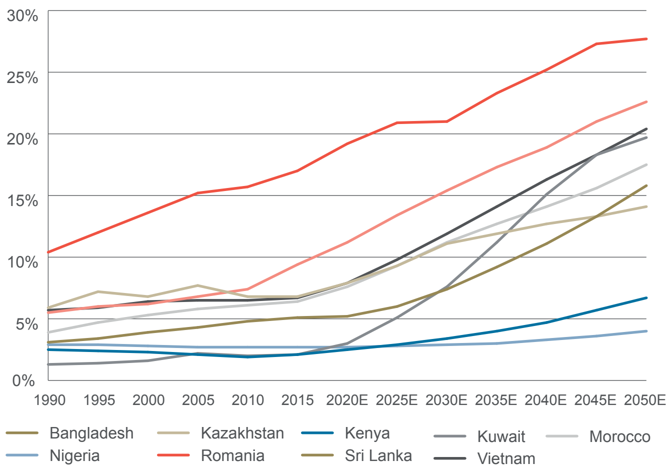
Emerging Markets Population Share (65+)



Source: RWC Partners, United Nations 1990 – 2050E

FIGURE 5:

Frontier Markets Population Share (65+)



Source: RWC Partners, United Nations 1990 – 2050E

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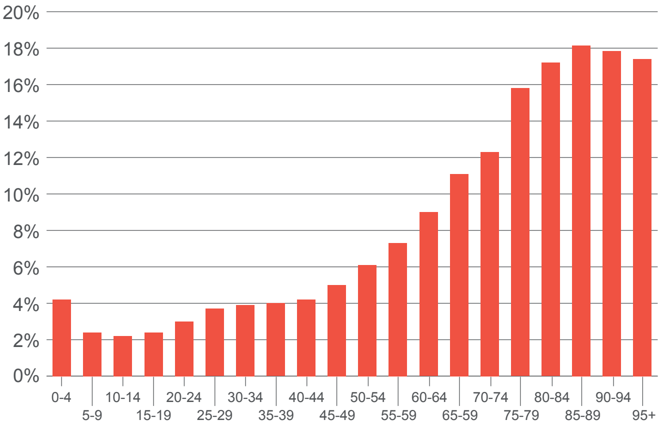
Disposable Incomes

The distribution of healthcare expenditure is highly skewed. In both developed and developing countries, approximately 50% of a country's total healthcare expenditure in any given year is spent on 5% of the population, according to the IMF. There is also a high disproportion in terms of income groups. Low income countries (as defined by the World Bank)[1] spend between 4-6% of GDP on healthcare expenditure whereas high income countries spend between 9-13% of GDP. However, out-of-pocket spending is dropping in emerging markets and is being replaced by social insurance, foreign and local government schemes.

FIGURE 6:

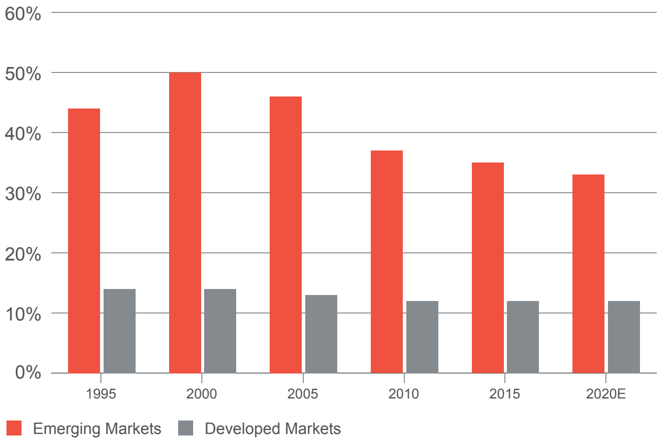
Public Healthcare Expenditure as percentage of GDP by Income Group



Source: RWC Partners, World Health Organisation, UBS 2017

FIGURE 7:

Out-Of-Pocket Expenditures as percentage of Healthcare Expenditure



Source: RWC Partners, Bloomberg, World Health Organisation 1996 – 2020E

1 World Bank Classification: Low Income – GDP Per Capita less than $1,000; Lower Middle Income – GDP Per Capita of between $1,000 – $4,000; Upper Middle Income – GDP Per Capita of between $4,000 - $12,000; High Income – GDP Per Capita above $12,000

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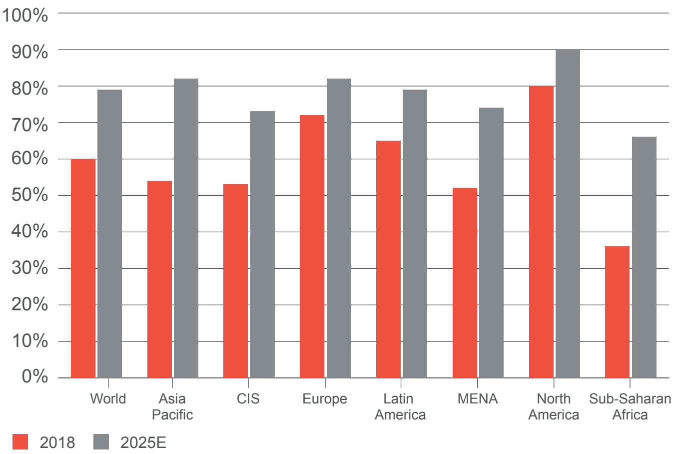
Technology

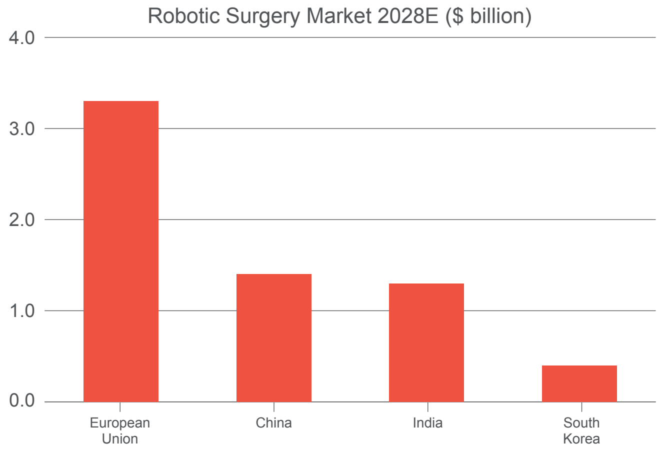
Technology has the ability to change the course of healthcare in emerging and frontier markets dramatically. From simple improvements such as electronic medical records to more complicated processes relating to research and development for specific therapies, and artificial intelligence for surgical operations, technology will likely improve health service efficiency, expand treatment delivery and ultimately improve patient outcomes. In more developed countries, advanced technologies such as robotic surgery are already emerging which should improve the quality and service of operations.

FIGURE 8:
Smartphone Penetration



Source: RWC Partners, GSMA 2018-2025E

FIGURE 9:
Robotic Surgery Market Size 2028E ($ billion) by Country

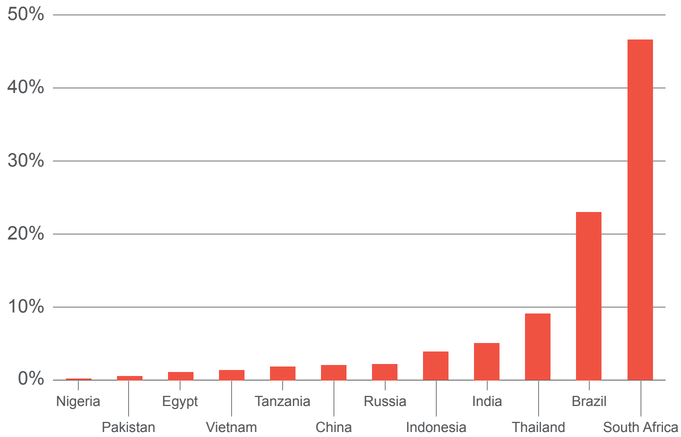


Source: RWC Partners, Goldman Sachs 2028E

Public Policy

Generally speaking, there are four main healthcare financing systems: social insurance, which is based on tax-like contributions; government funding through tax revenues or other public resources; private direct payments and private health voluntary insurance. Every country's breakdown differs depending on factors such as government policy, GDP per capita and other macroeconomic variables which constitute the health protection gap.

FIGURE 10:
Private Health Insurance Contribution to Healthcare Expenditure



Source: RWC Partners, Geneva Association, World Bank 2018

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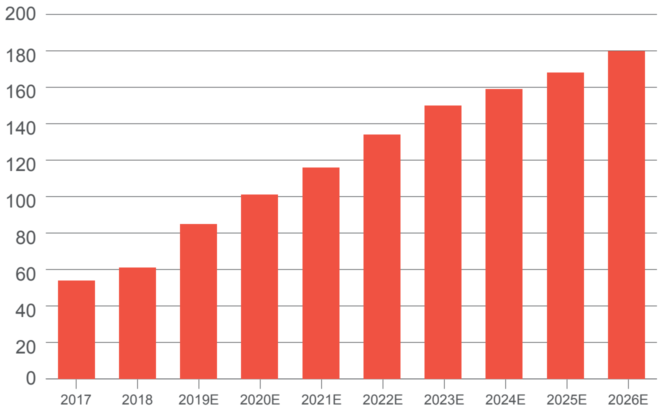
Medical Tourism

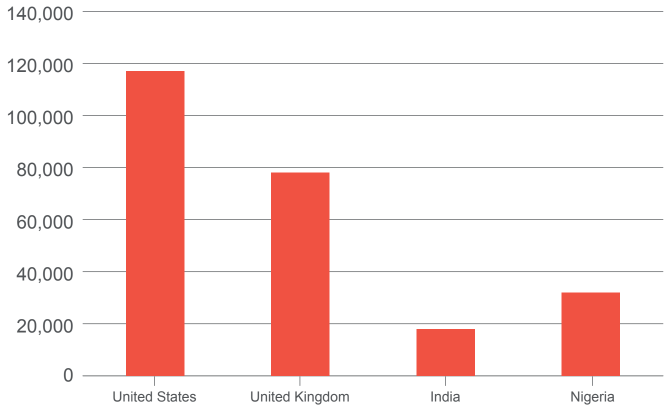
As healthcare spending differs from country to country, medical tourism has emerged to combat affordability pressures. Inhabitants of developed countries facing high medical costs may choose to visit emerging economies to take advantage of a lower cost of healthcare treatment. Furthermore, knowledge surrounding treatments and medicines for specific illnesses and diseases is generally more accessible than treatments in some countries due to the emergence of the internet. This results in patients from poorer, less developed countries migrating to more developed countries which offer better healthcare and more affordable treatment. The global medical tourism market is expected to reach $179.6 billion in 2026, registering a 21% CAGR from 2019.

FIGURE 11:
Global Medical Tourism Market ($ billion)



Source: RWC Partners, Businesswire 2017-2026E

FIGURE 12:
Kidney Transplant Cost (USD)



Source: RWC Partners, US National Health Institute 2018

Investment Opportunities

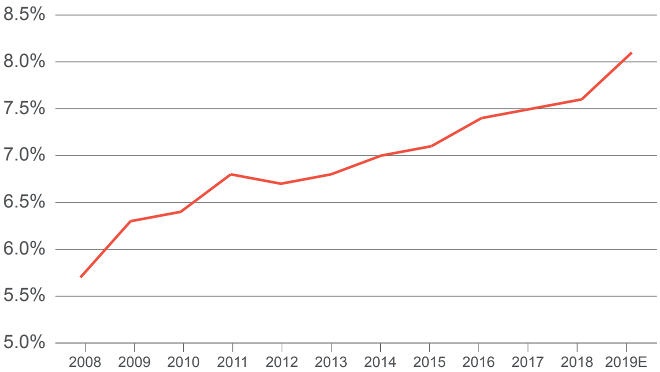
Investing in healthcare in emerging and frontier markets requires an appreciation of the idiosyncrasies of each country with respect to its own healthcare system. Regulation, drug pricing, funding and insurance are just some of the important facets on which we focus in order to uncover attractive and reasonably priced growth opportunities in our universe. Monitoring physical delivery infrastructure such as hospitals and pharmacies in addition to services including diagnostics and emergency care are also key tenets of our research. Additionally, healthcare and pharmaceutical exports can be an essential component of the current account of some emerging and frontier markets.

China

China's healthcare system consists of both public and private medical institutions and insurance programs. It operates a three-tiered approach for healthcare delivery. Health organisations and providers operate at county, township and village levels in rural areas and at municipal, district and community levels in urban areas. Around 95% of the population has access to basic insurance coverage and c.80% of inpatient care is conducted by public hospitals. China's demographics are encouraging from a healthcare standpoint with estimates suggesting that 25% of the population will be over 65 by 2040.

FIGURE 13:

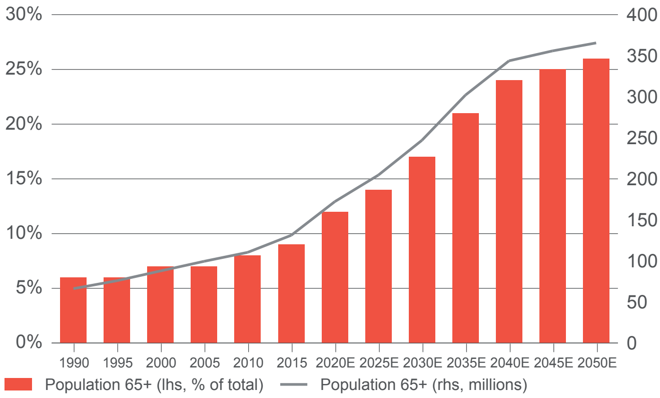
Chinese Healthcare Spending as a Percentage of Government Spending



Source: RWC Partners, National Bureau of Statistics of China, Macquarie 2008-2019E

FIGURE 14:

Percentage of Population 65 years old and above in China

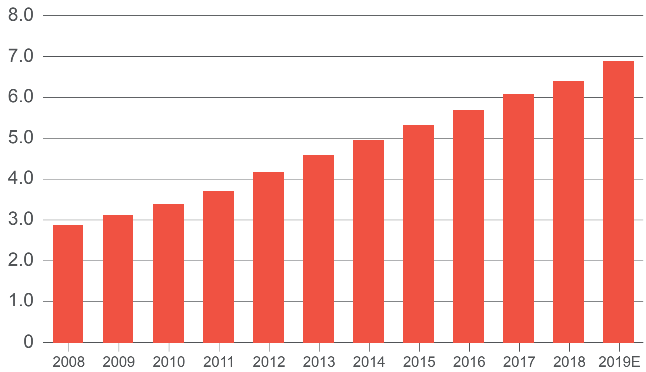


Source: RWC Partners, United Nations 1990 – 2050E

Since the launch of the New Rural Co-operative Medical Care System (NRCMCS) in 2005, around 800 million people in China have gained access to basic medical coverage. A total of RMB 5.8 trillion was invested in China's healthcare system in 2018 alone with a 16.5% CAGR from 2008. As a result, out-of-pocket spending has dropped by 11% since 2008 and contributes only 29% of total healthcare spending.

FIGURE 15:

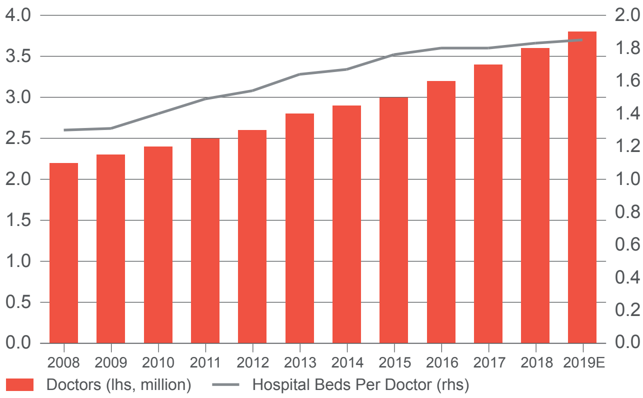
Number of Hospital Beds in China (million)



Source: RWC Partners, National Health and Family Planning Commission of China, HSBC 2008-2019E

FIGURE 16:

Doctor Number and In-Patient Workload



Source: RWC Partners, National Bureau of Statistics of China, Macquarie 2008-2019E

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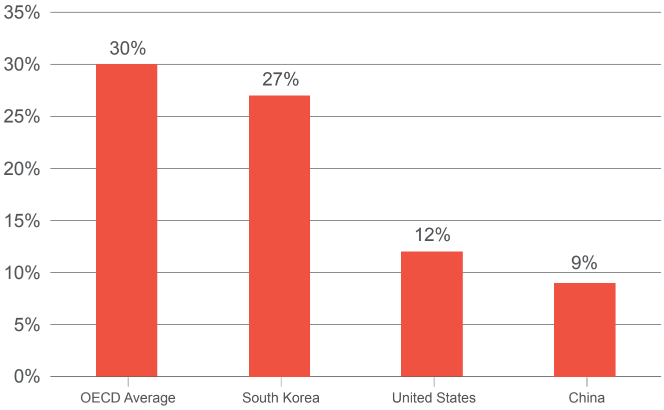
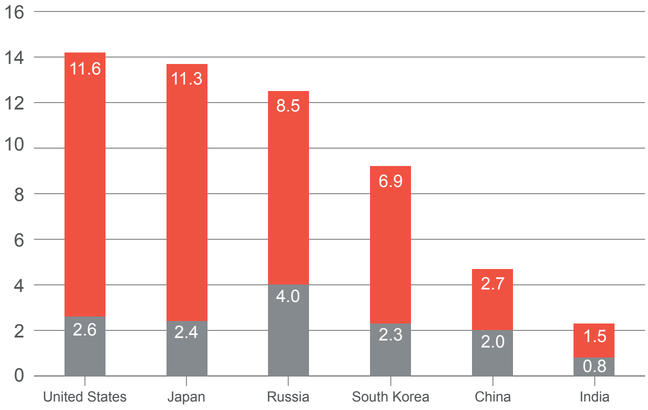
However, despite an overall improvement in the efficiency and quality of healthcare in China, the system still faces many challenges. Although the number of licensed doctors in China has increased to 3.6 million from 2.2 million in 2013, there is still a shortage of medical staff versus demand, in addition to an uneven distribution of quality medical resources. Family doctors across the country only represent 8.6% of all doctors, compared to the OECD average of 30%. Consequently, 45% of total out-patient visits in China occurred at the top, Class 3 hospitals which represent only 4% of total medical facilities in the country.

FIGURE 17:
China's Family Doctors as a Percentage of Total Doctors



Source: RWC Partners, OECD, National Bureau of Statistics of China, Macquarie August 2019

FIGURE 18:
Medical Staff Per 1,000 People

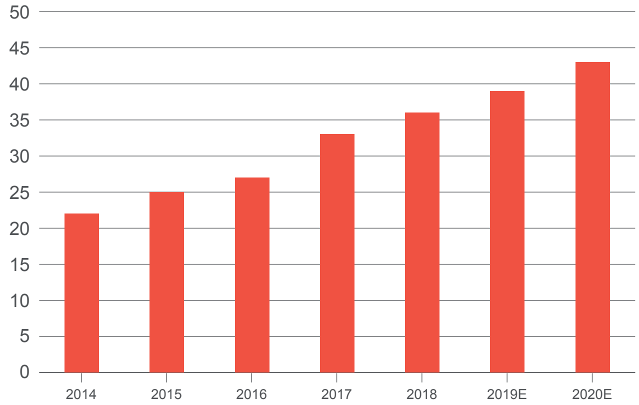


Source: RWC Partners, OECD, Macquarie August 2019

Internet healthcare is growing as a solution to the current problems that the Chinese healthcare system faces. There are two main types of internet model that cater to the needs of the population. The online hospital model involves patients consulting doctors through an online platform while the online pharmacy model consists of patients purchasing drugs and health-care related products from an online pharmacy. The internet healthcare industry is expected to grow at a 7-year CAGR of 31% to reach approximately RMB 136 billion by 2025.

FIGURE 19:

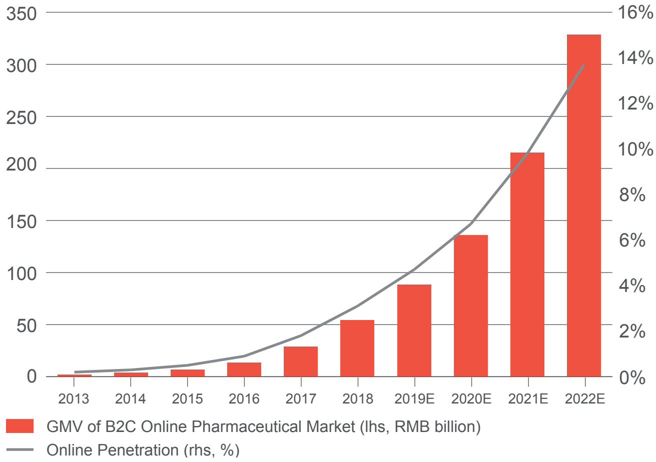
Healthcare IT Market Size in China (RMB billion)



Source: RWC Partners, CHYXX, Macquarie 2014-2020E

FIGURE 20:

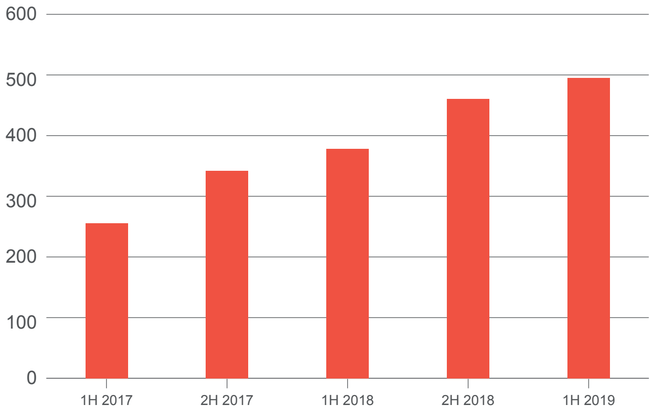
Gross merchandise volume of Business to Consumer Online Pharmaceutical Market in China vs. Penetration



Source: RWC Partners, Frost & Sullivan 2013-2022E

FIGURE 21:

Online Consultations in China (million)



Source: RWC Partners, Analysys, Macquarie August 2019

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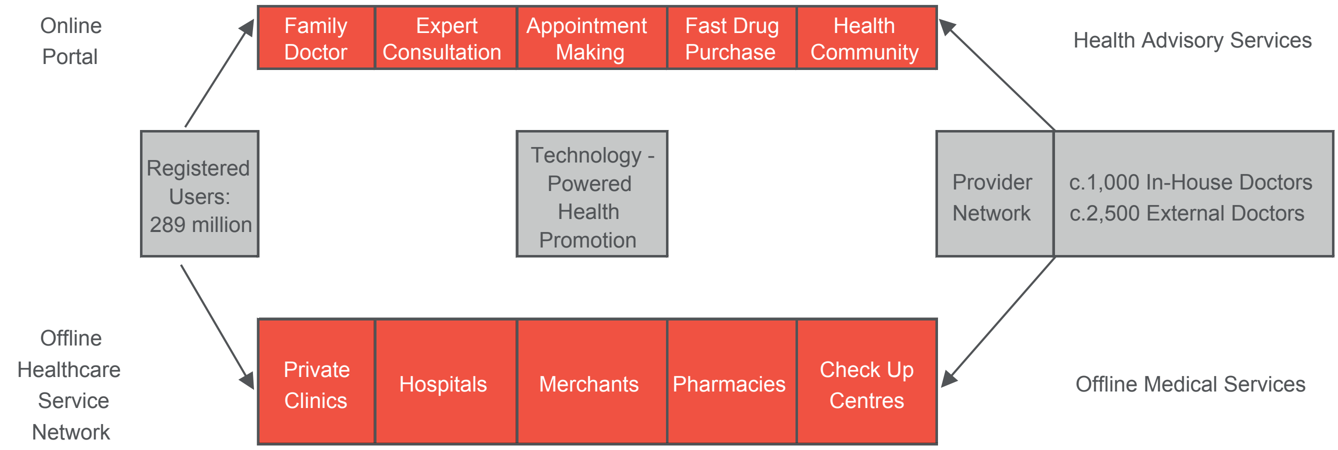
Ping An Good Doctor

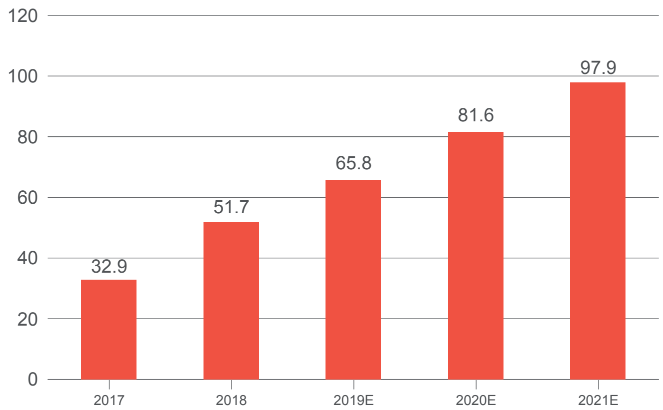
Ping An Good Doctor is the leading one-stop online healthcare provider in China. It is 41% owned by Ping An Insurance Group, one of the strategy's holdings. There are three main business lines, namely online medical services, consumer healthcare and health mall which can be accessed via an online platform. As of June 2019, Ping An Good Doctor had 289 million registered users, having begun its operations in 2015 with a monthly average user base of 65 million. We believe the brand recognition of Ping An Insurance Group in addition to the parent company's distribution network and client base has been instrumental to Ping An Good Doctor's success.

FIGURE 22:
Ping An Good Doctor Framework



Source: RWC Partners, Ping An June 2019

FIGURE 23:
Ping An Good Doctor Monthly Average Users (million)



Source: RWC Partners, Ping An Insurance, Macquarie 2017-2021E

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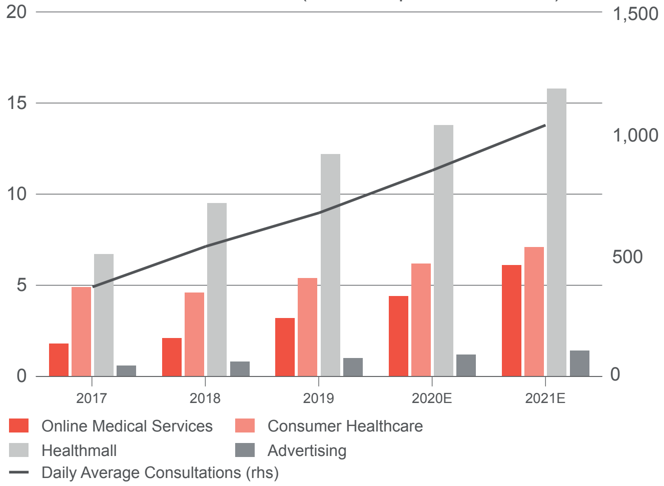
Although Ping An Good Doctor only contributes 4% of Ping An Insurance Group's revenue and is a drag on profitability, the company is starting to execute its monetization strategy which will likely contribute to Ping An Insurance Group's earnings over time. The company is monetizing through membership, its health mall and advertising while driving increased traffic through online medical services and partnership which may increase revenue per consultation over time through all its segments. The company is correlated to the macroeconomic environment of China and will likely suffer if there is a significant downturn.

FIGURE 24:
Ping An Good Doctor Daily Online Consultation and Monetization Trends



Source: RWC Partners, Ping An Insurance, Macquarie 2017-2021E

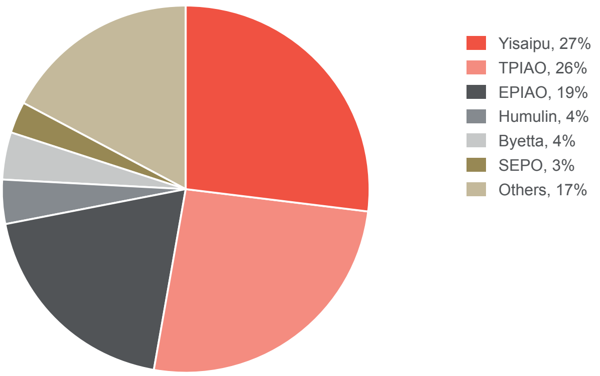
FIGURE 25:
Ping An Insurance Group Share Price ($ terms)

Source: RWC Partners, Bloomberg, 3 October 2014 – 30 September 2019

3SBio

3SBio is a fully-integrated biotechnology company in China with market-leading biopharmaceutical franchises in oncology, auto-immune diseases and nephrology. The core products of the group include TPIAO, Yisaipu and EPIAO which treat deficiency of platelets, rheumatoid arthritis and kidney diseases, respectively. These account for c.75% of revenue and the products should see strong growth due to their inclusion in the most recent National Reimbursement Drug List (NRDL). The company also has c.30 innovative biologics in its development pipeline. The company is correlated to the macroeconomic environment of China and will likely suffer if there is a significant downturn. The company trades at 13.8x EV/EBITDA – a slight discount to regional players.

FIGURE 26:
3SBio Revenue Breakdown



Source: RWC Partners, 3SBio, JP Morgan 2019E

FIGURE 27:
3SBio Share Price ($ terms)

Source: RWC Partners, Bloomberg, 6 October 2015 – 30 September 2019

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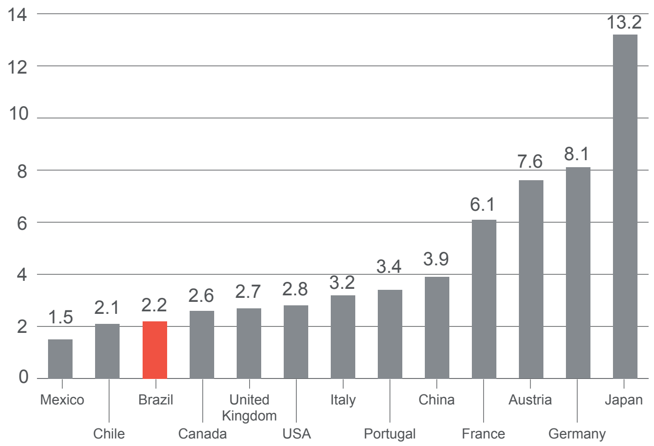
Brazil

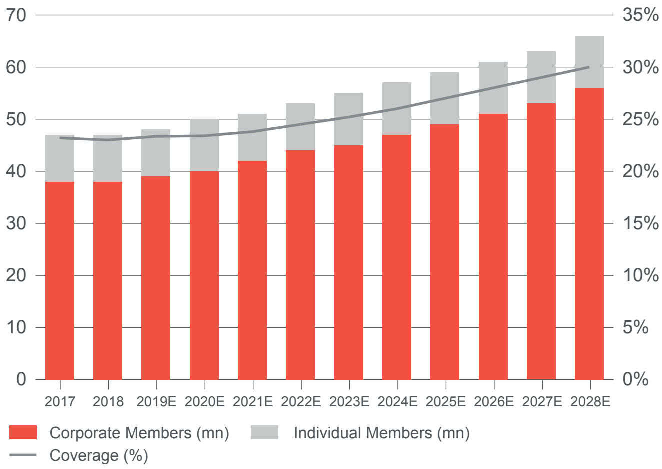
The private sector plays an important role in Brazil's healthcare system. Private healthcare facilities, from simple medical offices and diagnostic centres to full-service hospitals, make up 74% of all healthcare facilities in the country. Only 26% of the country's population has medical coverage but this is expected to increase to 34% by 2028. The country also has attractive demographics from a healthcare perspective with a growing number of people over the age of 65.

FIGURE 28:
Brazil Hospital Beds Per 1,000 People



Source: RWC Partners, OECD, Goldman Sachs 2018

FIGURE 29:
Brazil Private Healthcare Coverage



Source: RWC Partners, ANS, BTG Pactual 2017-2028E

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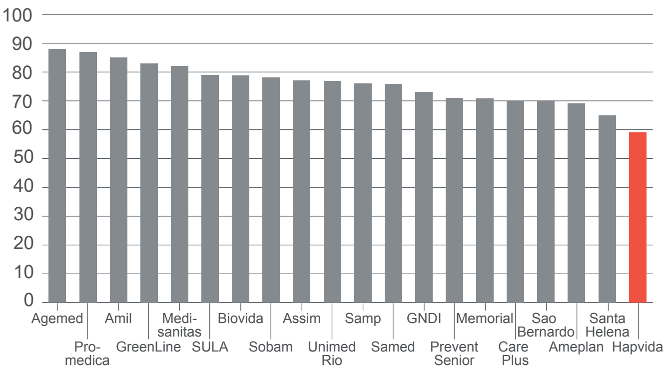
Hapvida

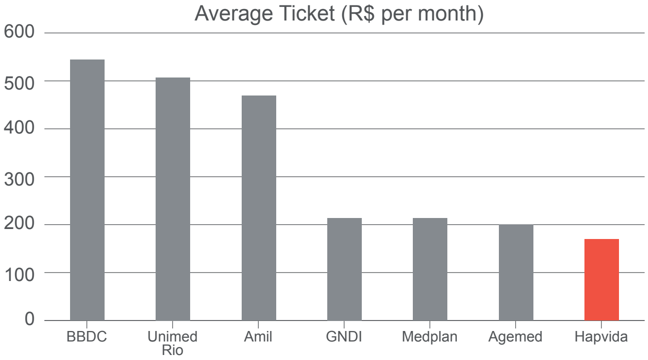
Hapvida is the largest private healthcare insurance company in the North and North East regions of Brazil with 25 hospitals, 1,671 beds, 19 emergency care units, 74 clinics and 83 labs as at June 2019. While c.23% of Brazilians have health insurance, in the states in which Hapvida operates, penetration is much lower at around 11.2%. The healthcare sector is becoming more cost conscious as penetration increases and we think vertically integrated players, such as Hapvida, are well-positioned to weather the environment due to competitive pricing and revenue diversification. Risks to the company include the possibility of future acquisitions that are not accretive, in addition to Brazil's macroeconomic environment.

FIGURE 30:
Hapvida Medical Loss Ratio (%)



Source: RWC Partners, Companies, BTG Pactual 2018

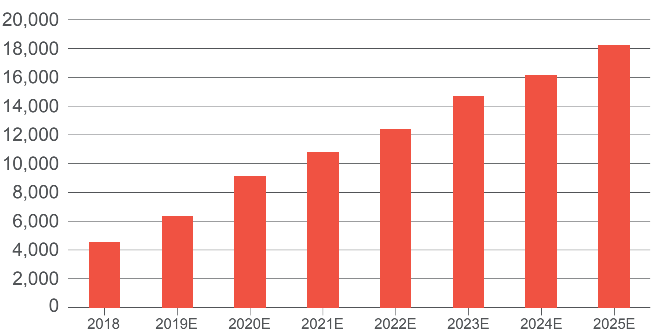
FIGURE 31:
Hapvida's Competitive Pricing



Source: RWC Partners, ANS, BTG Pactual 2018

Hapvida raised $2.6 billion via an initial public offering during 2018 and has recently announced two acquisitions. In May of this year, the company announced the acquisition of Sao Francisco for R$ 5 billion with 800k health beneficiaries and annual EBITDA of R$ 205 million. The company is a leading player in the South and South East of Brazil, thereby improving the company's geographical coverage. One month later, Hapvida announced the acquisition of Grupo America, the leading vertically-integrated operator in the state of Goias, for R$ 426 million. The company has 187k health beneficiaries with annual EBITDA of R$ 40 million.

FIGURE 32:
Hapvida Pro Forma Revenues (R$ million)



Source: RWC Partners, Bloomberg, Credit Suisse 2018-2025E

FIGURE 33:
Hapvida Share Price ($ terms)

Source: RWC Partners, Bloomberg 24 April 2018 – 30 September 2019

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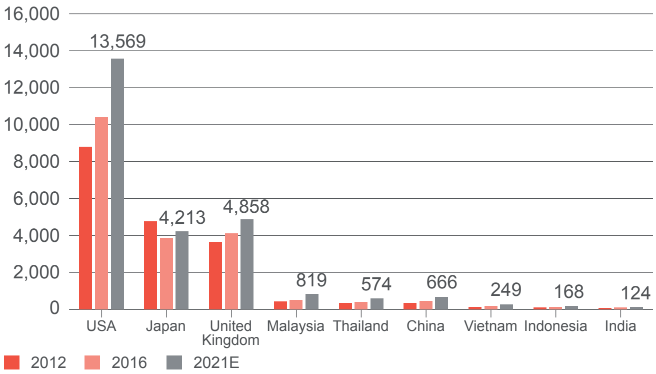
Indonesia

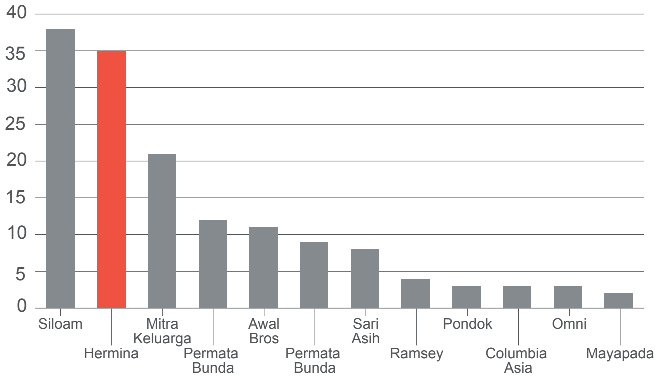
The Indonesian healthcare market consists of two main delivery models, the public delivery model, owned by the government and the private delivery model, owned by private entities. Each model provides four classes of services ranging from Primary Care Services such as routine check-ups and treatment to Quaternary Services including complex surgical procedures and organ transplants. There are around 2,600 hospitals in Indonesia with 930 private and 1,670 public hospitals.

FIGURE 34:
Per Capita Healthcare Spending (USD)



Source: RWC Partners, Frost & Sullivan 2012-2021E

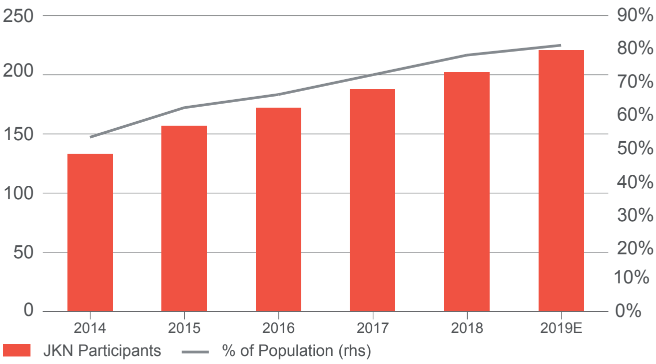
FIGURE 35:
Private Hospital Players in Indonesia



Source: RWC Partners, Frost & Sullivan 2019E

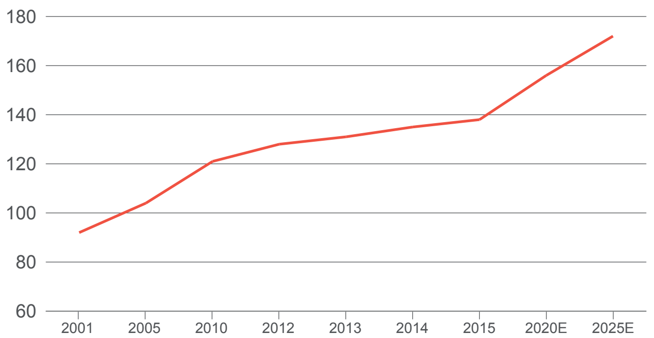
The government introduced a Universal Health Coverage program in January 2014, known as Jaminan Kesehatan Nasional (BJPS / JKN). The health insurance system operates under a referral scheme whereby patients must seek treatment from primary care service providers before being referred for secondary healthcare services. The BJPS will then reimburse a fixed amount to healthcare providers based on a code that corresponds to different disease groups and healthcare procedures. Reimbursement value has increased from $3.2 billion in 2014 to c. $8.0 billion today.

FIGURE 36:
BPJS Participants Progress



Source: RWC Partners, BPJS Kesehatan, Citi 2014-2019E

FIGURE 37:
Indonesia Urbanization (million)



Source: RWC Partners, World Bank, Citi 2001-2025E

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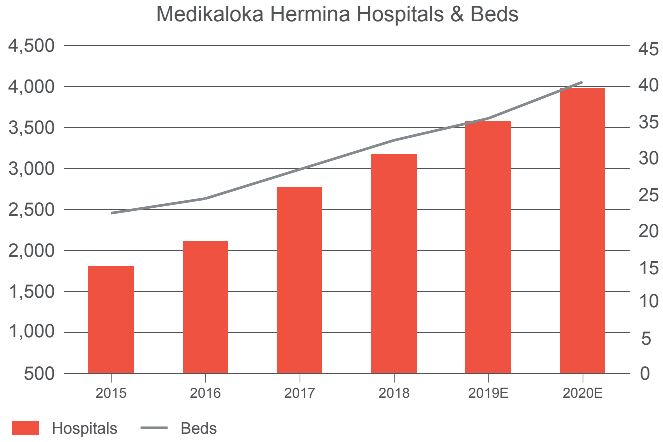
Medikaloka Hermina

Medikaloka Hermina is one of the leading hospital groups in Indonesia with 35 hospitals and c.3,500 beds. However, it is the only one that employs a doctor-partnership model which is a competitive advantage for the company given the shortage of doctors in Indonesia. The company is planning to add 4 new hospitals a year to reach 40 hospitals and 4,000 beds by the end of 2020. Risks to the company include aggressive expansion by competitors and the Indonesian macroeconomic environment. The company trades on 12.6x EV/EBITDA, a slight discount to regional peers.

FIGURE 38:
Hermina Hospitals

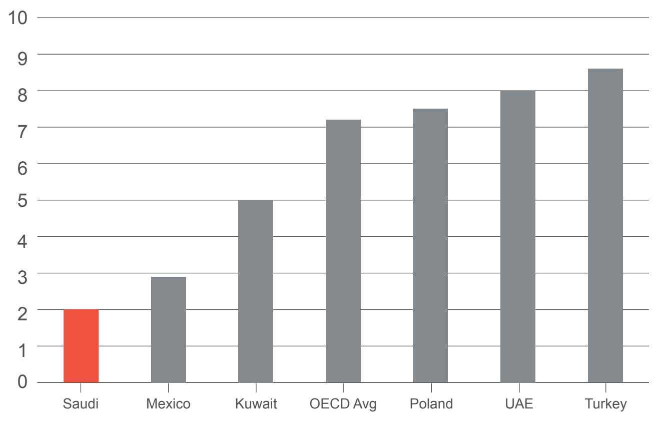


Source: RWC Partners, Medikaloka Hermina, Citi 2015-2020E

Saudi Arabia

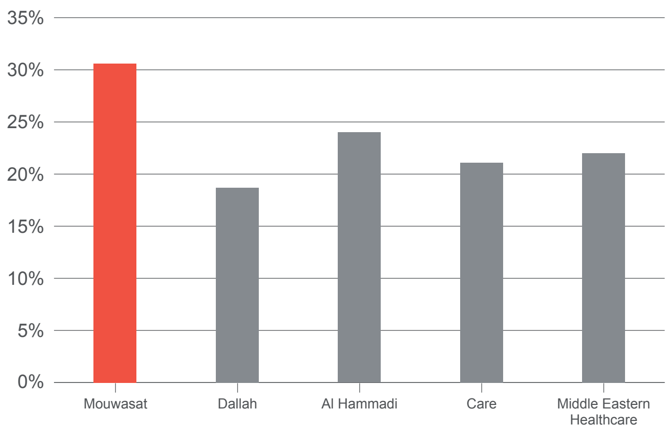
Saudi Arabia is among the most obese countries globally, with a high prevalence of lifestyle related diseases. To combat this, the government has introduced reforms to increase the participation of private operators in the healthcare sector and enhance medical insurance coverage. State involvement is high at 75%, but Vision 2030, implemented by Crown Prince Mohammed bin Salman, seeks to increase private sector involvement to 35%.

FIGURE 39:
Hospital Visits Per Capita



Source: RWC Partners, Bloomberg, OECD - 2018

FIGURE 40:
EBITDA Margin of Saudi Hospital Operators



Source: RWC Partners, Bloomberg – 2018

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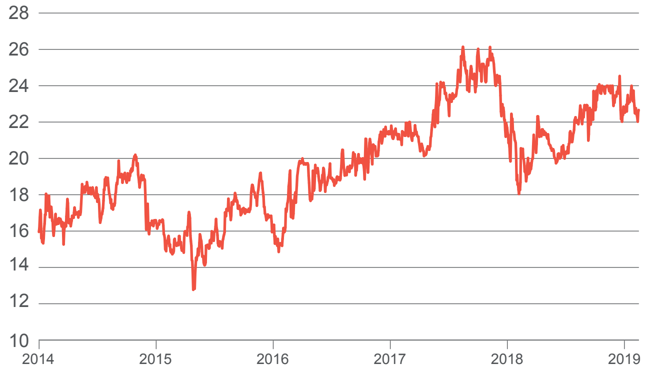
Mouwasat

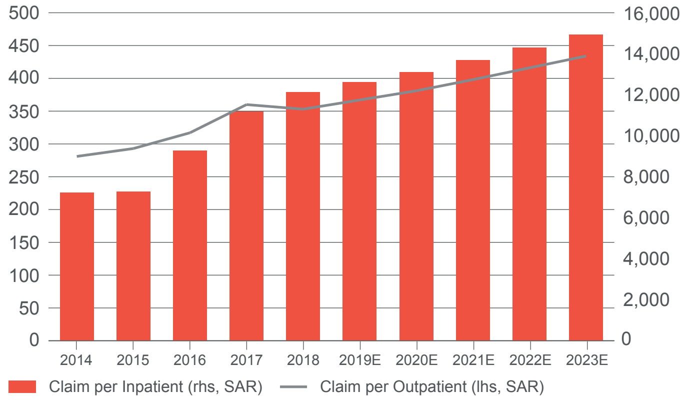
Mouwasat Medical Services is the most geographically diverse hospital operator in Saudi Arabia with the majority of its bed capacity located in the Eastern province. The company aims to expand bed capacity from 900 beds to 1,500 beds by 2020. We believe this will allow the company to expand its reach while continuing to generate higher operating margins and returns than its competitors due to its pricing power.

FIGURE 41:
Mouwasat Share Price ($ terms)



Source: RWC Partners, Bloomberg, 28 September 2014 – 30 September 2019

FIGURE 42:
Mouwasat Claim per Patient

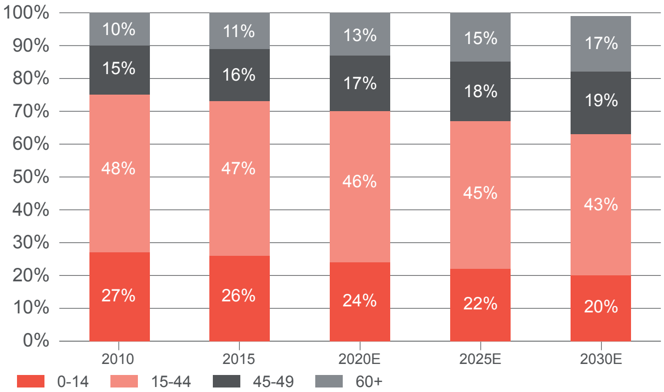


Source: RWC Partners, Mouwasat, EFG Hermes 2014-2023E

Turkey

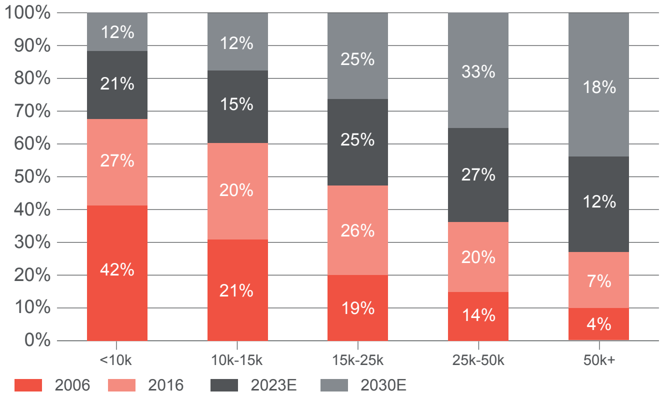
Turkey has attractive dynamics from a healthcare perspective. An aging population combined with only 4.6% of GDP spent on healthcare shows that the country has considerable potential. Despite significant growth in the share of private sector infrastructure and usage of facilities, 79% of the healthcare spending is still funded by the government through premiums collected by the Social Security Institution (SSI) who fully cover the cost of public sector treatment.

FIGURE 43:
Turkey's Aging Population



Source: RWC Partners, United Nations 2010-2030E

FIGURE 44:
Growing Share of Higher Income Groups in Turkey



Source: RWC Partners, HSBC 2006-2030E

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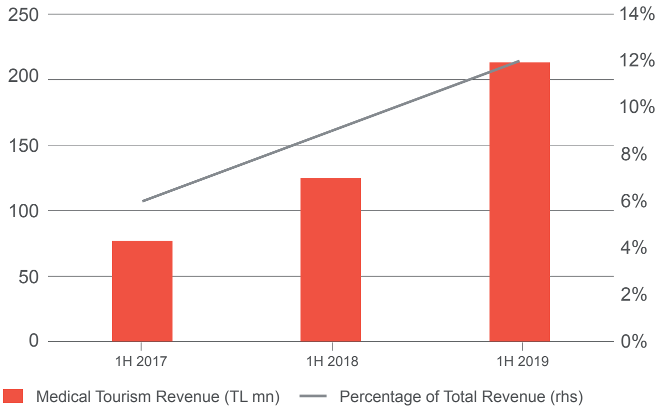
Medical Park

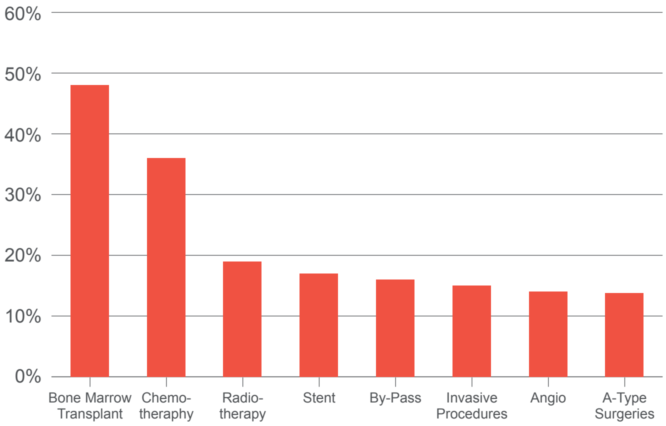
Medical Park is the largest private hospital operator in the country with around 11% market share in private sector beds and 15% share in inpatient volumes. The company has 31 hospitals in operation with c.6,000 beds and has grown its market share through greenfield rollouts and acquisitions. 12% of the company's revenue comes from medical tourism which is hard currency based and should grow as the company has meaningful market share in complex surgeries in the country. The company is also in the process of deleveraging from 4.5x Net Debt to EBITDA to around 2.0x currently. The macroeconomic environment in Turkey is currently a risk for the company. The company trades on 6.5x EV/EBITDA, a steep discount to global hospital stocks.

FIGURE 45:
Medical Park's Medical Tourism Revenues



Source: RWC Partners, Bloomberg, Medical Park – 2017 – 30 June 2019

FIGURE 46:
Medical Park's Market Share in Complex Surgeries



Source: RWC Partners, Medical Park 30 June 2019

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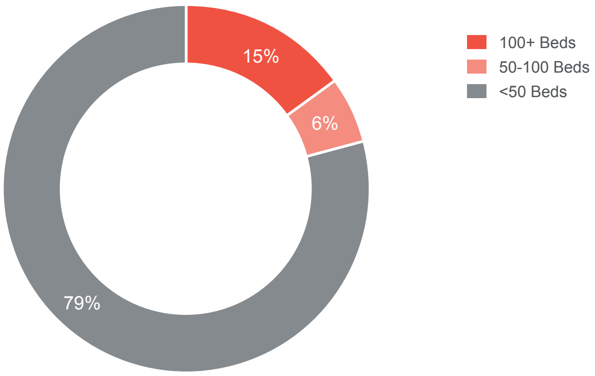
Egypt

Demand for healthcare in Egypt continues to increase. With c.100 million people and with a high incidence of chronic diseases such as diabetes and hepatitis C, the growth potential for healthcare is considerable. Around 60% of the population has some form of medical insurance and the government is in the process of implementing reforms in order to improve the quality of domestic healthcare.

FIGURE 47:
Breakdown of Private Hospital beds in Egypt



Source: RWC Partners, USAID, HSBC 2018

Cleopatra Hospitals

Cleopatra is the market leader in terms of bed count in Egypt with 693 beds in a fragmented market. Currently, public hospitals account for almost 75% of total hospital beds in Egypt while the top three hospital groups account for less than 5% of the beds in the country. Cleopatra may take advantage of this fragmentation and garner market share over time.

FIGURE 48:
Cleopatra Hospitals Share Price ($ terms)

Source: RWC Partners, Bloomberg 1 June 2016 – 30 September 2019

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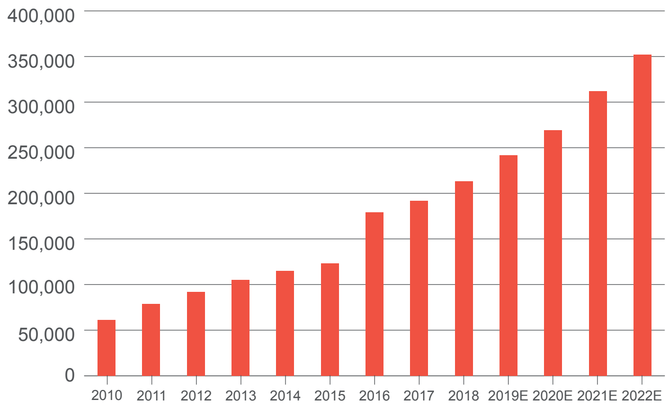
Bangladesh

Healthcare expenditure accounts for around 3.5% of GDP and the country possesses significant growth potential. The pharmaceutical industry is one of the fastest growing sectors in the country with c.250 companies and 8,000 branded generics. Over the last ten years, the industry has grown at a 16.5% CAGR and industry sales have risen to BDT 177.4 billion.

FIGURE 49:
Pharmaceutical Industry Growth (BDT million)



Source: RWC Partners, Square Pharmaceuticals 2010-2022E

Square Pharmaceuticals

Square is the leading player in the pharmaceutical space with around 21% market share. The company should benefit from price hikes and meaningful volume growth over the near to medium term, in addition to growth in the export sector which currently accounts for only 17-18% of sales. The company has received FDA approval for certain drugs and US-based exports are expected to grow. One of the risks for the company is the Bangladesh Taka. If the currency devalues, margins will likely be negatively impacted.

FIGURE 50:
Square Pharmaceuticals Share Price ($ terms)

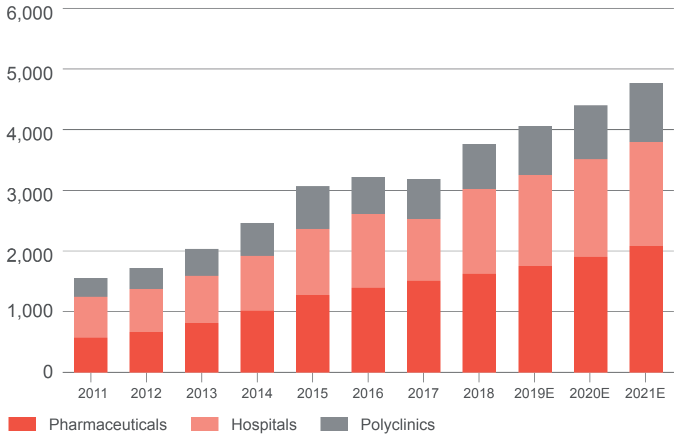
Source: RWC Partners, Bloomberg, 28 September 2014 – 30 September 2019

Georgia

The Georgian healthcare market is underdeveloped even by emerging market standards and possesses significant growth potential. We believe per capita healthcare spending will likely increase from around $303 to a regional average of c. $600 over the next 5-7 years.

FIGURE 51:

Georgia Hospitals, Clinics and Pharmaceuticals (GEL million)



Source: RWC Partners, Frost & Sullivan 2018

Georgia Healthcare Group

Georgia Healthcare Group is one of the largest private healthcare providers in Georgia with c.2,500 beds that offer secondary and tertiary level services, community hospitals and ambulatory clinics that provide outpatient healthcare services. The company also operates the largest pharmacy chain in the country in addition to offering health insurance services.

FIGURE 52:

Georgia Healthcare Group Share Price

Source: RWC Partners, Bloomberg, 6 November 2015 – 30 September 2019

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Conclusion

Healthcare differs considerably in each emerging and frontier market. As these economies develop, GDP per capita grows and healthcare services become more comprehensive. We therefore believe investment opportunities will continue to present themselves. Technology will likely improve and enhance efficiency, speed and breadth of coverage. Rising Internet penetration will likely result in telemedicine bridging unmet demand for consultation and basic diagnostics in countries where healthcare infrastructure is relatively undeveloped. Artificial intelligence and robotics could standardize patient outcomes and be a solution to healthcare shortages in many developing countries. In these countries, private healthcare service providers are at the forefront of innovation and quality service delivery. Their role will continue to increase as nations reiterate their commitment to ensuring healthy lives and promoting well-being for all.

On the Road – Third Quarter 2019

Jaimin Shah outside a Shilla Duty-Free Shop

Victor Erch outside a Georgia Healthcare facility

Marina Bulyguina at the UBS ESG Symposium in London

Shivesh Haulkhory at a Vivo petrol station in Morocco

Jessica Lim at the entrance to Vincom Mega Mall in Hanoi

Thomas Allraum in Russia

CONTACT US

Please contact us if you have any questions or would like to discuss any of our strategies.

E invest@rwcpartners.com | W www.rwcpartners.com

RWC London
Verde, 4th Floor
10 Bressenden Place
London SW1E 5DH
T +4420 7227 6000

RWC Miami
2640 South Bayshore Drive
Suite 201
Miami
Florida 33133
T +1 305 602 9501

RWC Singapore
80 Raffles Place
#22-23
UOB Plaza 2
Singapore 048624
T +65 6812 9540

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Unless expressed otherwise, all opinions within this document are those of the RWC Emerging & Frontier Markets investment team, as at 31 October 2019.