Meet a fan of emerging markets

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Mark Mobius is 74 and still jetting around the world looking for investment opportunities in developing nations

Emerging-markets pioneer Mark Mobius just passed his 74th birthday, but the fund manager's legendary travel itinerary remains as busy as ever. He took time out from a stop in Tokyo - squeezed in between visits to Vietnam and Romania - to make a call about his views on investing in developing markets

Emerging markets are at the top of a lot of people's minds right now as they try to figure out where they're going to find some growth and return for their investments. But with the global economy stumbling and people talking about a double dip, how do emerging markets look in the face of another slowdown?

We don't see a slowdown. Every place we go in the emerging-market world, things are humming along at a very fast pace. This year in China we're expecting almost 10 per cent growth; in India, about 7 or 8 per cent. These are very fast-growing areas. We don't see the kind of slowdown that people are talking about.

In the U.S., of course, people are talking about a double dip. I think it's a valid argument, because the Obama policies have not been stimulative in the sense of getting companies to hire more people. But if you look at exports from China or from Asia to the U.S., they're holding up. And domestic consumption [in these Asian economies] is holding up, and in fact is increasing at a fast rate.

So, we find it difficult to reconcile these fears with what in fact is actually happening in the emerging markets.

You don't think a generalized slowdown in the developed economies would be a threat to emerging-market growth?

Not much. A lot of this has been priced into the market. And a lot of this fear extends from the U.S. primarily. ... Generally speaking, we're in a situation where the export market continues to hum along, but the domestic sales in these [emerging-market] countries are picking up faster. So you're gradually seeing replacement of exports by domestic consumption.

But even in the U.S., the Purchasing Managers' Index in the U.S. is not down, it's up. That's a very important thing to remember when you look forward. The purchasing managers are telling you that things are looking up, that we're going to have a good year - because the purchasing managers are purchasing. So, we're pretty confident at this stage of the game.

We've just come out of a period where people have become much more sensitive to risk. How can investors reconcile putting a bigger portion of their portfolio into emerging markets with the risk exposure that this might mean for their portfolios?

Investors are beginning to get much more sophisticated when they look at risk.... If you consider what a single-country portfolio would look like, versus a diversified portfolio including emerging markets, the risk comes down pretty substantially. I think people are beginning to wake up to the fact that if they want to *lower* their risk, don't watch the U.S. Treasuries, but get into a diversified global portfolio with a heavy dose of emerging-market equities. Because emerging-market equities now represent something like 30 per cent of the global market capitalization.

In 2005, emerging markets surpassed the developed countries in terms of the amount of foreign reserves they have. That gives a lot of comfort to people to know that these countries have plenty of money, in case they want to get money out, they can do so. The other thing is that the debt-to-GDP levels in emerging markets are substantially less than they are in the developed countries. Just looking at the numbers, you've got to admit that these emerging countries now look a lot less risky.

It's beginning to get recognized. If you look at the credit default swaps ... you're getting a situation where some of the emerging markets have a higher rating - in other words, people feel less risk in those countries.

What do you think about the potential of a slowdown in the Chinese economy - and what might it mean for investing in the Chinese market and other markets in the region?

I think the Chinese have been aware of a hot property market. ... There has been an effort by the government to slow things down, but they still are looking at very high growth rates. What we're seeing is concern on the part of these countries that they don't want their economies to get too hot. At the same time, they don't want a big slowdown, because then you've got unemployment and so forth. It's a big balancing act that they have. And I would say there has already been a downturn in the property prices in the coastal cities - some estimate as much as 20 per cent.

Of course, people talk about a [housing] bubble, but it doesn't mean anything

unless that bubble bursts. What you're seeing in these countries, the high savings rates are such that people are able to hang on even though the property prices have come down. It's not like in the U.S. and some parts of the world, where people leverage themselves up ... and now the property prices come down and they're stuck and they have to sell, they just can't make payments. That is not the case in China.

What do you think of the other so-called BRIC markets (Brazil, Russia, India, China)?

We're very much bottom-up investors, so we find opportunities in every one. But if you look at just pure weightings of our portfolios, you see that our biggest holdings are now in Brazil, followed by China pretty closely, and then India and then Russia.

But that doesn't mean we're not buying Russia or India. It's just that we now have less there. We continue to find great opportunities in all of them.

We see lots of opportunities in Brazil ... We're particularly interested in both consumer and commodity stocks. We have some big holdings in cosmetic companies, and of course the oil sector and iron ore. You're talking about companies with very, very high profitability.

What regions or segments do you think have more potential, where you think the best growth will be?

In the frontier markets, we're looking at a lot of opportunities. Countries like Nigeria, Botswana, Kenya, Ghana, of course in South Africa itself. And then in North Africa, Egypt, Morocco. In central Asia, Kazakhstan. Then in Asia, you've got Vietnam, Sri Lanka, Pakistan.

Two main reasons: First, the growth rate is higher than in emerging markets, because we're starting from a lower base. Second, these markets are not very well researched. With our team, scattered around the world, we're able to dig up opportunities in these places, which other people would not be able to do. We can uncover opportunities early in the game before a market gets too crowded.

It's the commodity areas that we're particularly excited about - buying oil companies in particular, but also companies producing nickel, palladium, platinum, gold, iron ore. ... All of these commodities are, from a long-term point of view, going up.

You've just turned 74. At 74, a lot of people wouldn't still be running around the world non-stop. How much longer do you think you'll do this?

(Laughs) I really don't intend to retire. I love what I'm doing. I have a great organization working with me and helping me. It's very much of a family we have. People have been with us for 20 years or more. I just love being with the people, travelling with them, visiting companies, exchanging ideas. It's such a stimulating business, I wouldn't want to give it up.

If you *had* to retire, where would you choose to put up your feet? You've travelled all around the world.

I'd probably continue moving around. Spend some time in Brazil, then South Africa, Tokyo ... Malaysia is beautiful ... I wouldn't stay in one place.