APQ global

2018 Q1 Review

APQ Global (ticker: APQ LN) is a global emerging markets income company with interests across Asia, Latin America, Eastern Europe, the Middle East and Africa. Our objective is to steadily grow earnings to deliver attractive returns and capital growth to our shareholders. We achieve this through a combination of revenue generating operating activities and investing in growing businesses across emerging markets. We run a well-diversified and liquid portfolio, take strategic stakes in selected businesses and plan to take operational control of companies through the acquisition of minority and majority stakes in companies with a focus on emerging markets.

For more information, please visit apqglobal.com.

2018 Q1 Outlook

The first quarter of 2018 proved to be another firecracker in financial markets. After a storming rally in equity markets in January, February proved to be a bigger challenge for investors globally. Equity markets and, in particular, equity volatility markets, experienced significant distress with several short volatility strategies experiencing very large losses. Interestingly, the mayhem was by and large limited to equity markets. Fixed income, currency and credit markets experienced increased volatility but remained overall well-behaved.

Where do we go from here? Firstly, a recap of the facts. There have been no monetary policy surprises in major economies. The Federal Reserve Board remains on track to raise interest rates gradually in the United States while the European Central Bank is, quite slowly, eyeing an exit from quantitative easing. The impact of President Trump's tax plan continues to boost corporate earnings in the United States and its ripple effects are likely to last through 2018. Growth and inflation projections, while moderating slightly, remain broadly on track.

Secondly, geopolitical risks continue to be elevated - but contained. The Syrian quagmire remains just that - a dreadful human tragedy with no end but also no broader regional impact in sight. Although it is too early to speculate on the outcome of the US-North Korean summit, it is hard to see the downside from where we are. In the worst case, there is no summit or no agreement, and we stay where we are. Italian politics remain messy but not sufficiently so to derail the European recovery. Finally, BREXIT remains BREXIT - a train trundling down the track towards a very soft BREXIT where the UK will lose most political influence in Europe yet remaining tethered to the European economy for all practical purposes.

What does this all mean for financial markets? USD funding costs will continue to rise as the Federal Reserve Board raises interest rates. As the market is starting to look beyond the impact of President Trump's tax cut benefits for corporate America and ahead into 2019, the picture will undoubtedly look less rosy. The latest round of sanctions on Russian businessmen and corporations are likely to have real bite. It limits the room to manoeuvre for Russian businessmen abroad, and the net is slowly closing in. The Russian economy has shown an incredible resilience to the sanctions imposed so far but the latest round will test that resilience.

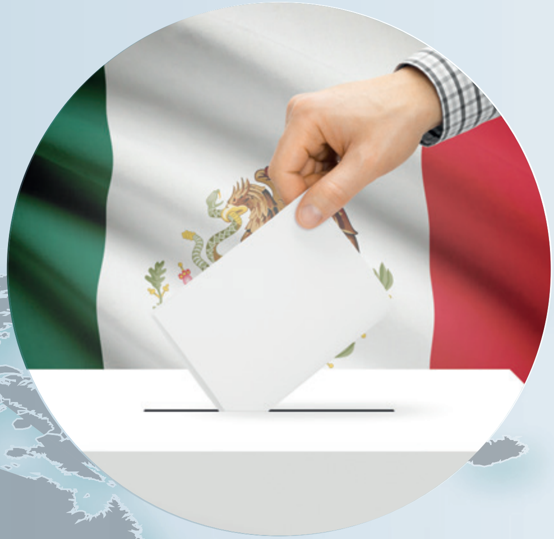
I want to end with a simple observation. 2017 was the second year in a row where almost all major financial markets posted positive returns for the second year in a row. This is highly unusual and making it three years in a row would be unprecedented. Volatility is here to stay, and returns are likely to be suppressed.

Bart Turtelboom

Bart Turtelboom
Chief Executive Officer, APQ Global Limited

2018 Election Update

We are now three months into a busy election year across Emerging Markets. So far, key elections have been held in Russia, Egypt, Cuba and Colombia. Both the Russian and Egyptian elections were relative non-events due to lack of any credible opposition figures to Putin and Fattah el-Sisi respectively. In Cuba, the successor of Raul Castro will be selected from the new parliament in April, representing a historical change on the socialist island. In Columbia, it was the first time that the former FARC guerrillas appeared on the voting cards. As we wait now to see the impact of these results, we turn our attention to the next wave of important emerging market elections – namely Venezuela, Mexico and, further ahead, Nigeria.



Venezuela presidential election, 20th May

Initially scheduled for late 2018, the Venezuelan election was pulled forward to April before being delayed a month until 20th May. The changes in timing have been interpreted as an attempt by the unpopular ruling party to disadvantage the opposition – and, in fact, the most promising opposition candidates, Henrique Capriles and Leopoldo Lopez, have been barred from running. The main opposition Democratic Unity coalition has announced it will boycott the elections as they say the vote will not be fair. It might be that one opposition candidate, Henri Falcon, will break with the Democratic Unity ranks and run, although he is not seen as one of the hardcore opposition and is a real outsider to win. The end game is most likely Maduro staying in power and the only change that will come about is either from further migration of Venezuelan nationals or external pressure.

Mexican presidential and congress election, 1st July

As campaigning kicks off by candidates Andres Manuel Lopez Obrador (AMLO), Margarita Zavala, Ricardo Anaya and Jose Antonio Meade, many eyes are on Mexico in what is arguably one of the most important elections in their history. AMLO's left wing Morena party is in the lead in early polls – currently standing at around 39% of the vote. Ordinarily you would expect the markets to be spooked, but his popularity hasn't been that much of a surprise. But the result is far from a foregone conclusion – the central candidate, Ricardo Anaya, is currently polling at around 25% and has reasonably strong momentum. And if we look back to 2006, AMLO took a similar early lead in the polls but eventually lost the election.

Nigeria general election, 2019

Now formerly out of recession, the Nigerian economy is expected to see 2.5% GDP growth this year, with the chance for more upside if oil prices remain at current levels. But while it remains an area of interest for us, we get the sense that the election has come a bit early and is definitely something to stay aware of. Buhari still hasn't said whether he will run for re-election, despite having the backing of his party and his popularity in the Muslim north. Because he is likely to be the front runner if he does decide to stand again, the election is far from a done deal. A spate of political crises undermine the current government, including threats to agricultural production and most recently Boko Haram Islamist militant violence. Add this to questions regarding Buhari's health (following 5 months in the UK being treated for an undisclosed illness in 2017) and fractures in the coalition that bought him to power, it's uncertain whether Buhari's All Progressive Congress party will be re-elected.

Regardless of the eventual election outcome, the economy should be in a suitably strong position to recover from any aftershocks.

Wesley Davis and Lennart Kaltenbach

Market focus: China

Despite historic changes announced at the 2018 National People's Congress in March, few (if any) were shocked. Given Xi Jinping didn't appoint a clear successor at the 19th National Congress of the Communist Party in October 2017, many people anticipated he would become president for life and therefore the most important party leader since its founder, Mao Zedong. But what other highlights can we take away from the congress? And what other news has been coming out of China in recent weeks?

Global trade: New central bank leader is a positive move, but what will be the impact of President Trump's trade tariffs?

Firstly, there was a change in leadership at the Central Bank. Yi Gang was announced as new central bank governor and this move has been widely appreciated. Yi Gang has a background as a distinguished profession and understands global markets very well. These signs are positive for global trade from China.

Of course, the Trump administration's trade tariffs potentially cause a blow to China's global trade ambitions. But it is difficult to decipher exactly what President Trump really means – how much of what he says is for show, and how much will he actually commit to? Since the conference, trade tensions between the two nations have escalated, with both sides announcing details of tariffs on imported goods. Any tariffs are unlikely to be in force until May or June, so all eyes will be on whether the Trump administration will rethink its plans or whether the situation will escalate further.

Moving forward in the digital age: New openness to cryptocurrencies, but tech space lagging.

One of the biggest surprises from the conference was the statement that the China Banking Regulatory Commission (CBRC) was open to the idea of digital currencies. Beijing had previously banned cryptocurrencies but have now announced they are happy to accept those that "don't directly conflict with the current financial stability and financial order". While many expected tighter regulations in this space, it seems the CBRC is acknowledging cryptocurrencies are the way forward in this digital age.

But is China lagging the rest of the world when it comes to tech? Neither virtual reality nor augmented reality have really taken off in China, and many Chinese manufacturers are simply not focussed on this space right now, preferring to sit back and watch what the rest of the market is doing. And there is one very important differentiator between China and the rest of the tech world: Elsewhere, we are seeing lots of top developers quitting and moving into blockchain – seen as many as the next major development for the internet. But this move isn't happening just yet in China.

Regulation: Strong signals sent to risk-taking conglomerates.

A great deal is happening with traditional conglomerates in China, and it's happening faster than expected. The story that has hit the headlines is the takeover of Anbang Insurance Group Co Ltd by the Chinese government in February. While it's not immediately clear what triggered the government's actions, it does send a strong signal to conglomerates of their intention to crack down on financial risks. Rules are tightening and wings are being clipped across the board, pushing lots of tycoons to de-lever. Is this a sign that the regulator is becoming over-cautious?

Funds creating new solutions for China's High Net Wealth (HNW) investors.

Chinese depository receipts used to be the bread and butter of private investors in China. Investors could lock away money for a fixed term in exchange for yields in excess of 20%, together with an implicit government guarantee. But as yields have fallen to around 7% (and bearing in mind that inflation is around 5%), these products have fallen out of favour with the country's HNW investors and this market has completely gone away. There has been a big move into venture capital and hedge funds, but up until now there has been a lack of proper investment products to replace depository receipts. That appears to be changing, and we're seeing a new trend of funds setting up their own wealth management companies in China. This includes global heavyweights such as Blackrock, JP Morgan Asset Management and Allianz Global Investors.

Gregory Van den Bergh

Zimbabwe: Big change coming?

Almost 5 months since Mugabe resigned as leader of Zimbabwe, his successor Mnangagwa seems to be sticking to the script in terms of reforming the country. Although there are some green shoots of hope, the next few months will be critical to Zimbabwe's future. Mnangagwa has announced elections will be held in the summer and pledged that the election will be 'free, credible, fair and indisputable'. It will certainly be a test of his democratic credentials and the outcome will be key to securing financial international support. However, there is still a great deal of scepticism surrounding Mnangagwa, and questions as to whether this proverbial devil is better than the one we knew.

The incumbent Zanu-PF party are looking most likely to win the upcoming election. They are united behind President Mnangagwa, whereas the opposition parties are being undermined by infighting. The largest opposition party, MDC-T, is particularly weakened, with their leader Tsvangirai passing away at such a crucial time, just months before the election. Meanwhile, the situation is made even more interesting by Mugabe's political come-back. The 94-year old has pledged his support of a new opposition party – the New Patriotic Front (NPF). This begs two questions: firstly, how many defectors from the Zanu-PF will join him? And secondly, how can a man this old with health concerns have the energy?

But despite also having a history plagued by controversy, Mnangagwa has set reforms in process and started Zimbabwe on its long path of recovery. Mugabe did a terrible job of encouraging investment in the country – despite being the second largest resource deposit after South Africa, the country has suffered years of significant underinvestment. There are logistical challenges, such as being a landlocked country, but opportunities are starting to be recognised and there is a growing sense that there is a real change coming.

We have also seen South Africa's President Ramaphosa forming close ties with Mnangagwa. For Zimbabwe, this could mean more investment from South Africa and enhanced bilateral trade.

The welcoming back of white farmers seems to have been an easy win that was capitalised on quickly. Farmers will be offered 99-year leases over their land, in a bid to help rebuild the economy. Zimbabwe's farming sector was historically the most important contributor to its economy so this is potentially an important move – however, it is early days, and it will be interesting to see how this plays out in reality.

We first voiced our scepticism about the dawning of a new era for Zimbabwe in our 2018 outlook and our view remains largely unchanged. Yes, reform is underway and huge, sums of money may start to find their way back into the country, but at the moment we are still happy to let others take the risk on which we adopt a more 'wait and see' approach – especially over the next few months which will be critical to Zimbabwe's future.

Stefano Marani

SUMMARY

APQ is proceeding relatively cautiously, however our International Advisory Board continues to identify opportunities. We have recently increased our exposure in the emerging markets currencies, particularly Turkish Lira, Brazilian Real and South African Rand. Our equity exposure is moderately bullish, and we are building up the hard currency credit portfolio.

From a portfolio perspective, we are seeing interesting investment opportunities in South Africa and Turkey, and are looking into another pool of assets that may or may not prove attractive.

We are confident on finishing the year strongly, as we continue to focus on stable income creation which protects our shareholders from aggressive market swings in an ever-changing market backdrop.
In a twin-track world of volatile politics and stable economics and markets, we remain confident of delivering on our mandate of a 6% dividend for shareholders and achieving book value growth.

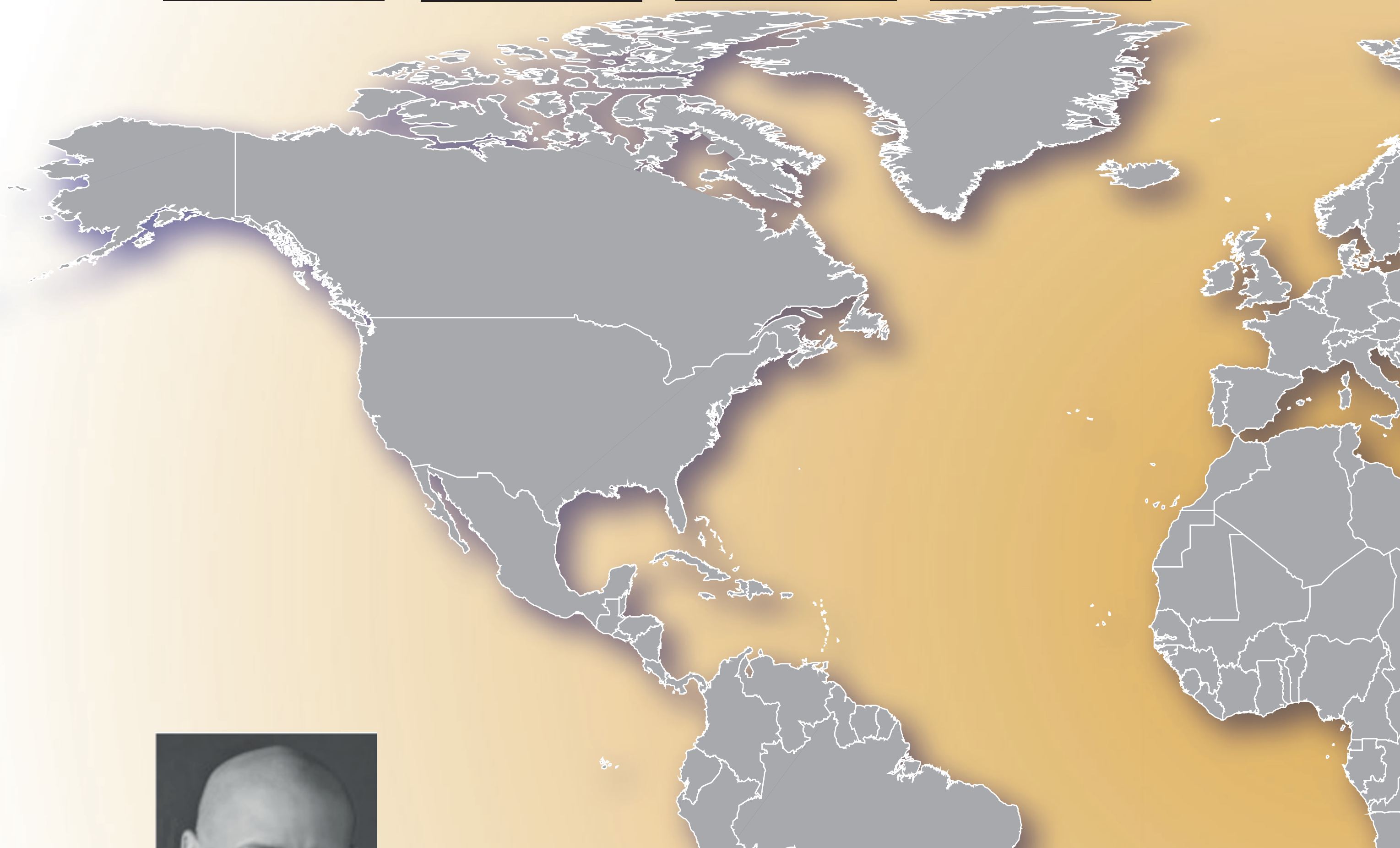
APQ is delighted to welcome the **International Advisory Council** to assist in locating the best investment opportunities across the globe

Bart Turtelboom
CEO, APQ Global

Tal Sandhu
APQ Global

Lennart Kaltenbach
APQ Global

Tania Rotherwick
Chairman, IAC



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Manos Papatheofanous
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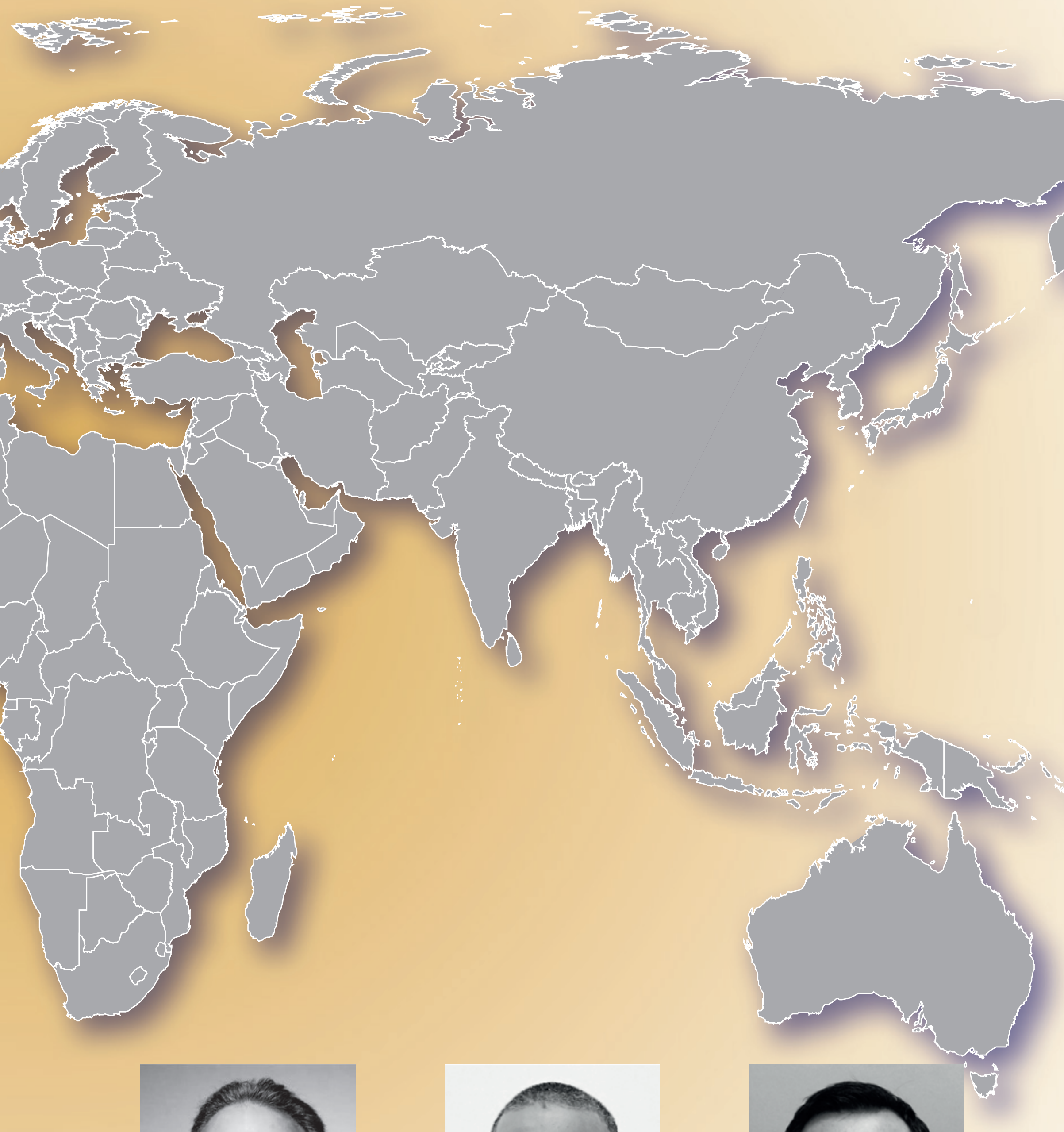

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(Middle East and Gulf)

Yan Naung Lynn
(Myanmar, Southeast Asia)

APQ global

Despite only being a listed company since August 2016, APQ Global's history goes much deeper. In fact, our management team has worked together at other financial institutions for many years and has formed close partnerships and highly valuable experience across emerging markets.

OUR BACKGROUND

Bart Turtelboom, one of the co-founders of APQ Partners LLP, joined the emerging markets sales and trading group at Morgan Stanley in May 2004.

2006

In 2006, he was promoted to co-head of the group, based in London. The group was an integrated unit of around 100 trading, sales and structuring professionals with a presence across local markets in Hong Kong, Korea, Russia, Turkey, Dubai and Brazil. The group facilitated customer flow and was one of the largest principal risk takers in currencies, corporate and sovereign debt in hard and local currency and equities in global emerging markets. In addition to co-heading the global emerging markets sales and trading group, Bart was also responsible for a group of capital market professionals that executed lending and hedging transactions with leading corporations, banks and governments in Eastern Europe, Africa, the Middle East, the Commonwealth of Independent States and Latin America. Overall, this group was a significant contributor to Morgan Stanley's revenue.

2008

In autumn 2008, key partners of Morgan Stanley's emerging markets group joined GLG Partners in London and took over the management of GLG's emerging markets funds from November 2008 onwards. In the years that followed, the team managed Cayman-domiciled funds, UCITS-compliant funds as well as large managed accounts for investors in Japan, Europe and North America. Though individual mandates varied, the overall investment ethos was based on a premise to offer investors risk-controlled exposure to emerging markets globally.

2013

In January 2013, the team founded APQ Partners LLP, an emerging markets asset management boutique based in London. The APQ Alexandria Fund, a Cayman-domiciled fund was launched in May 2013 with a mandate to invest in equities, corporate debt and government debt and currencies in emerging markets globally.

2016

On 11 August 2016, APQ Global Limited was listed on the International Stock Exchange and was shortly thereafter admitted for trading on the London Stock Exchange's AiM market. APQ Global's key objective is to generate sufficient income in the portfolio through Emerging Markets to retain a healthy dividend yield (currently targeting 6%).

2017

In February 2017, APQ launched its International Advisory Council (see detailed overleaf), which is comprised of a geographically spread group of emerging markets specialists. The purpose of this advisory body is to assist the management of APQ by providing valuable insights and market intelligence from around the world. The members are remunerated by a mix of retainers and discretionary payments awarded for making positive contributions to APQ's global business strategy. APQ also anticipates that the creation of the council and the deep industry contacts that its members bring will help to raise the market profile of the company.

APQ global A relentless focus on income

OUR HISTORY

Despite only being a listed company for just over a year, our history goes much deeper. In fact, our management team have worked together at other financial institutions for many years, forming close partnerships and highly valuable experience across emerging markets.

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APQ global A relentless focus on income

APQ Global is an international emerging markets company which aims to deliver a stable and growing dividend and capital growth for shareholders by focusing on generating significant income from business opportunities with good value and long-term growth potential.

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