ASIA citywire.co.uk/wm

Q&A

ANSWERS

JOHN P CALAMOS SR, CEO AND CO-CHIEF INVESTMENT OFFICER, CALAMOS INVESTMENTS



HOW IMPORTANT IS THE CHINA STORY TO EMERGING MARKETS?

The China story is extremely important not only for emerging markets, but for the global economy. As a leader regionally and among emerging markets (EMs), China provides a roadmap for other EMs and often heavily influences the tone of policies.

China exemplifies the transformational impact of EMs on the global economy – from its move toward greater economic freedoms, to the explosive growth of its middle class, to its increasingly important role as a lender to other countries.

We expect the growing purchasing power of China's consumers to provide an economic engine for the Asia region and other EMs, in turn fuelling the growth of a middle class elsewhere. Because emerging markets often take their cues from China, the currency, monetary, and trade policies of its leadership have important implications for emerging markets.

Emerging and developed nations are increasingly intertwined; global growth for all depends on acknowledgement of this. Over recent months, China has taken steps to align with the reflationary efforts of developed countries. More needs to be done, however, in regard to establishing fair currency relationships and encouraging imports from developed markets. Additionally, China needs to establish a viable capital market for its companies to access capital, instead of merely relying on banks. I believe this is extremely important for China's future growth.

WHAT IS YOUR BROAD MACROECONOMIC OUTLOOK FOR EMERGING MARKETS?

Although the pace of economic growth in EMs may have slowed from the torrid levels of recent years, we believe they will continue to drive global growth. China, for example, has the tools and resources to navigate a soft landing and manage growth.

However, in a truly global economy, our view is that the longerterm economic strength of the EMs depends upon developed markets doing a better job of getting their balance sheets in order.

While we are encouraged by the rapid economic progress and healthy balance sheets in many of the EMs, we expect volatility and uncertainty to continue on the back of domestic policies, social change and geopolitics. Many of these economies are in the midst of an important shift from infrastructure building to consumerism. Because so much change is occurring, at a rapid rate, investors should maintain a high attention to potential risks.

HOW DOES YOUR MACRO OUTLOOK INFLUENCE YOUR

In our security selection, we take a 'companies, not countries'

approach, which means focusing on what a company is doing and the source of its revenues, not where its headquarters are located. For example, we participate in EM growth through companies based in developing as well as emerging markets. In particular, we are favouring global businesses with geographically diversified revenues that are capitalising on secular growth themes, such as the rise of the middle class or the infrastructure needs of EMs. We believe this approach allows us to gain the broadest opportunity set, while mitigating the risks of investing in EMs exclusively.

Our investment process favours countries moving toward a higher level of economic freedom. We seek companies doing business in areas of the world where capital is well treated – countries with orderly markets, more stable governments and private property rights. This emphasis on more stable markets enhances the risk/reward of our strategies.

HOW EXPENSIVE ARE EMERGING MARKETS AT PRESENT, AND ARE STOCKS IN CONSUMER SECTORS TOO EXPENSIVE?

Calamos proprietary research suggests that emerging market equities are not overvalued by a number of measures. Among them, median valuations based on free cashflow that are below long-term averages. There is a disparity in valuations that we believe validates the benefits of an active 'companies, not countries' approach.

In some instances, we have capitalised on high EM demand for consumer staples by investing in developed market companies that have broad distribution and strong brand recognition within the EMs. We have found many of these global growth companies at very compelling valuations. Because of economic uncertainties, future growth is not priced into present stock prices and we believe this provides particularly attractive growth opportunities for the longer term.

The opinions referenced are as of the date of publication and are subject to change due to market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purpose only and should not be considered investment advice.

Calamos Investments was founded in the 1970s by John P Calamos, Sr and serves a global base of institutional and individual investors. The firm manages more than \$36 billion* in assets in growth equity, low-volatility equity and enhanced fixed income strategies, available as UCITS funds and separate accounts.

*Assets under management data is as of March 31, 2012. Calamos Advisors, LLC