



Polar Capital Emerging Market Stars Fund

The Polar Capital Emerging Market Stars Fund invests in the future star companies from across the world's most dynamic, fastest-growing economies.

The Fund is founded on a strong belief that investing in sustainable companies will generate long-term alpha and outperformance. That is why ESG analysis is fully integrated into the portfolio's unique investment process, which has been employed by the team since April 2011 and shown to generate alpha in vastly different environments.

Each year, Earth Overshoot Day¹ marks the date mankind has used up more natural resources than the Earth is able to regenerate in that year. This year, that date was 29 July which means from 30 July onwards, for the rest of 2021, humanity's demand for what nature can provide is in excess of its ecological budget – we are creating a deficit from then on in.

The date is getting earlier each year – between 2017 and 2019 it was within a day or two of 25 July; from 2010-2016 it was in the first week of August; the pattern continues from 2000 when it was 22 September, in 1990 it was 10 October and so on back to 1970, when records were started, when it was marked on 30 December.

The outlier is 2020 when Earth Overshoot Day was 22 August, six months after the World Health Organisation declared coronavirus a pandemic. A coincidence? Or a reflection of the drop in resources used in at least the first half of the year thanks to pandemic-induced lockdowns?

The signs of the damage mankind is causing to the planet have been there for a long while, though it was resoundingly brought home by the pandemic, summed up nicely by the UN's recently announced Decade on Ecosystem Restoration (2021-30), commenting: "There has never been a more urgent need to revive damaged ecosystems than now."

We are seeing this reflected in the number of countries which have set net zero targets, 131, representing 73% of global emissions.

Another focus is the Paris Agreement, signed at COP21 (Conference of the Parties 21) in December 2015 as a legally binding agreement that brings nations together in the common cause of combatting climate change. The primary target set out under the agreement is to limit global warming to two degrees Celsius, ideally 1.5 degree, compared to pre-industrial levels. To achieve this second, more challenging level implies that global greenhouse gas (GHG) emissions need to fall 7.6% each year over the decade to 2030. COP26 will be held in Glasgow at the end of this year and will include the US who formally rejoined the Paris Agreement in February. The goals of COP26 include discussions on how to secure global net-zero by mid-century; how to protect biodiversity; mobilising finance; and working together.

While recognising the significant challenges this all represents, the team behind the Polar Capital Emerging Market Stars Fund also see many of these issues and social and economic development trends as investment opportunities and are committed to investing in a way that is aligned with a sustainable future.

China's big transition

China is the world's largest polluter – it represents 50% of the world's coal consumption and 30% of global emissions, more than the US and EU combined. However, China is also the largest consumer, producer and investor in renewable energy sources, controlling 80% of the world's solar capacity and manufacturing 45% of all wind turbines and 40% of new energy vehicle sales. The country is serious in its intent to create a 'Beautiful [and sustainable] China', and in so doing, to redress what it sees as the global technological balance – they feel they missed out on leadership and the chance to have a real national champion during the last industrial and ICE (internal combustion engine) age. This time they see the opportunity to gain technological prowess, energy self-sufficiency and global standing.

¹ Earth Overshoot Day is hosted and calculated by Global Footprint Network, an international non-profit organisation founded to help make ecological limits central to decision-making. All opinions and estimates constitute the best judgment of Polar Capital as of the date hereof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital, and may not be achieved.

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Awards and Ratings



China has set targets for peak carbon emissions by 2030 and carbon neutrality by 2060, though with little in the way of interim milestones to make these ambitions more tangible. Under the 14th Five-Year Plan, China should reduce its emissions intensity (GHG/GDP) by 18% over 2021-2025. Solar and wind power – which currently account for 5% of China's energy mix – are growing rapidly and targeted to reach 15% of the mix by 2030, with a further 5% coming from hydrogen.

Hydrogen technology is central to the energy transition. Particularly promising is green hydrogen, a zero-emission energy source using water hydrolysis which China is investing in under the current Five-Year Plan as one of their six industries of the future. While it is still in its early development stage and technological barriers need to be resolved to lower cost and shore up economic viability along each stage of the chain, we believe this is a market with vast potential which could play an important role in the move to a world less reliant on carbon to produce its energy.

Millennials in the driving seat

As with innovation, sustainability is born of necessity and solving a problem often results in creating a market. Innovation and jobs are fast moving in this area and the switch to a more sustainable future will result in the loss of some existing jobs but the creation of new ones – up to 30 million globally, according to some studies – with many of these going to millennials. The number of those now aged between 25 and 40 (millennials) overtook the number of baby-boomers (born in the 20 years after World War II) three years ago; they comprise 30% of the world's population and 50% of the workforce, rising to 70% in five years' time; more than 60% of them live in Asia.

In tandem with this workforce shift, over the next 30 years we will see a vast inter-generational wealth transfer between two groups with very different values, as baby-boomers are expected to transfer \$30trn to millennials and Generation X. These latter groups care much more about the ethics and sustainability of how their money is invested. It also means millennials are not only the decision-makers in businesses and organisations, so more likely to drive change there, but also decision-makers in capital allocation – and they do things differently. For example, it is reported that 93% will only purchase vehicles that do not harm society or the environment compared to 23% of baby-boomers.

A revolution is also expected in the vast food industry where trends in consumption and land use need to transition to become more sustainable. Currently, one third of all food produced for consumption goes to waste and 50% of all fresh food is wasted. With food waste accounting for around 8% of greenhouse gas emissions, at a \$2.6trn cost to the environment, consumers are demanding change. Innovation is required across food systems to build more sustainable, secure, fair and healthy ecosystems for our planet. This will require new agricultural practices, more efficient supply chains, changes to products, packaging and diets, all with the ultimate aim of restoring biodiversity.

Seeking Star companies

Over the past 18 months, a light has been shone on the urgency of the sustainability agenda. We have all made structural changes to our way of living and working. We have learned how important and urgent advanced technology can be in enabling the solutions for future ways of living. We have experienced first-hand the transformative power of connectivity as a fuel to participate in workplaces and society – it is just as much an energy source and just as critical a need as the types of power we have discussed above. The path from none, to occasional, to owned, reliable, affordable, high-speed internet access has been the digitisation story that has swept global and emerging markets over the past 10 years, bringing vast swathes of innovation and democratisation. Internet access globally now stands at 49% – the figure is 90% in the US and 26% in Africa – so while most developed and more advanced emerging markets have experienced this initial explosive opportunity, there is now a very solid backbone on which to layer additional services with accelerated impact.

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In a similar way, we believe companies able to position themselves as solution providers for the energy transition, or adapt correctly, are at the outset of nascent but revolutionary opportunities across future mobility, renewables, green materials infrastructure, smart cities and much more besides as the ways we live and work adapt for the future prosperity of our planet.

For all these reasons, the Polar Capital Emerging Market Stars Fund continue to see many exciting active investment opportunities across emerging markets, allowing us to select those companies at the vanguard and steer clear of the many that will lose competitiveness.

Earth Overshoot Day is one marker highlighting the importance of action and the need for behavioural change at an individual and collective level. The pandemic has raised awareness and created a highly necessary sense of urgency in what was in fact our everyday. We are quietly proud that this is how we have been investing since the Fund's inception in June 2018.

Polar Capital Emerging Markets Stars Fund

17 August 2021



Jorry Nøddekær Lead Portfolio Manager

Jorry joined Polar Capital in June 2018, he has managed the Strategy since launch in June 2018 and has 21 years of industry experience.



Naomi Waistell Portfolio Manager

Naomi joined Polar Capital in August 2020 as a Portfolio Manager on the Polar Capital Emerging Market Stars Strategy and has 13 years of industry experience.

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