CITY OF LONDON
Investment Management Company Limited

Frontier Market Alternatives to the Magnificent Seven

September 2024

Figure 1: Bloomberg Magnificent Seven vs S&P 500 vs S&P Extended Frontier 150

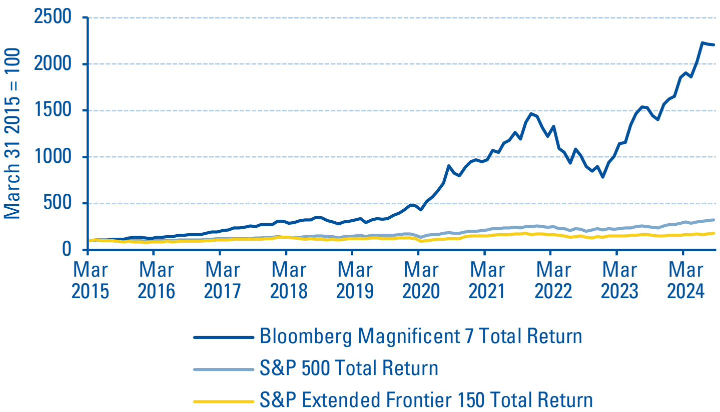

Figure 1 – Bloomberg Magnificent Seven vs S&P 500 vs S&P Extended Frontier 150 indices, all total return. Note Bloomberg Magnificent 7 index not available before March 2015. Source: Bloomberg Data.

Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla & Meta Platforms are world leading stocks that have, on a size-weighted basis, been outsized contributors to the strong performance of the S&P 500 Stock Index for close to a decade. As the “Magnificent Seven” (the common collective term for the aforementioned companies) trade matures, it is worth examining alternative investments across the globe, more nascent in their development. This article highlights seven alternative investments from the Frontier Market universe. Frontier Markets are a sub-sector of global markets that are either not large or developed enough to warrant an upgrade to the Emerging Market asset class. The largest frontier markets are Argentina, Vietnam, Romania, Morocco and Kazakhstan, with most countries experiencing positive demographic trends and high growth rates. Within Frontier Markets there are many opportunities, but to avoid selection bias we have provided a brief overview of the seven largest stocks which account for approximately 40% of the S&P Frontier Extended 150 index[1] (see Figure 1 for a performance comparison of the Magnificent 7 vs the S&P500 vs the S&P Extended Frontier 150). This overview is not a recommendation for these stocks nor an indication of our positioning but rather an informational exercise to highlight the opportunities in this asset class. Note all figures are in US dollars and were sourced from Bloomberg unless stated otherwise. Companies are presented in order of benchmark weight:

MercadoLibre ($105bn Market Capitalization)

MercadoLibre operates the largest e-commerce ecosystem in Latin America and generated revenues of $14.5bn (growing 38% YoY) and net income of $1bn (growing 100% YoY) in 2023. Originating in Argentina but headquartered in Uruguay and domiciled and listed in the USA. The company has spread its operations to 18 countries, with its major markets being Brazil and Mexico. Its two core business areas are comprised of an online marketplace where gross merchandise value reached $44.7bn in 2023 (growing 29% YoY) and fintech solutions where total payment value reached $180bn in 2023 (growing 38% YoY)[2]. The balance sheet is healthy with a reasonable level of leverage (net debt to EBITDA ratio at 0.5x). The company faces competition from Amazon, but the latter faces significant impediments as MercadoLibre has invested heavily in the region ($500m in 2023) creating a strong foothold. The expansion into financial services has strengthened its position by providing an easy-to-use financial solution and payment system to customers (figure 2 depicts how fintech revenue growth is rivalling marketplace revenues). MercadoLibre has been a favourite of analysts who compare it to Amazon and accordingly trades at a premium valuation of 55x 2024 Bloomberg consensus estimated earnings. However, earnings have justified valuation multiples so far and are expected to continue to grow strongly with e-commerce penetration being only about 10% in the region and Bloomberg consensus estimated earnings expected to grow by 89% in 2024 and 32% in 2025.

Figure 2: MercadoLibre Revenue & Market Capitalization

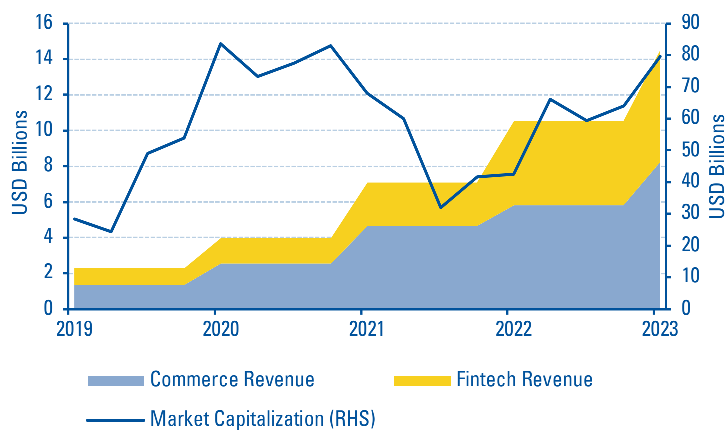

Figure 2 - MercadoLibre Revenue vs Market Capitalization. Note segment data not available prior to 2019. Source: Bloomberg Data.

[1] *The S&P Frontier Extended 150 Index was selected as it is the benchmark for City of London Investment Management's Frontier Emerging Market product. The index seeks to measure the performance of 150 of the largest most liquid stocks from more than 30 frontier markets. The seven largest stocks are as of July 31st 2024.*
[2] *Annual General Meeting Transcript, MercadoLibre, June 5 2024.*

Banca Transilvania ($5.9bn Market Capitalization)

Founded in 1993, with an initial capital of $2m and employing 13 people, this Romanian bank has grown with equity capital standing at $2.6bn at the end of 2023 with over 10,000 employees, attracting 20% of system deposits and issuing 18% of system loans in Romania[3]. The bank has been supported by the European Bank for Reconstruction and Development which became a 15% shareholder in 2001 and remains a shareholder. The bank gained market share following the Global Financial Crisis of 2007-8 due to more conservative banking practices than its peers and has since consolidated underperforming banks through the acquisitions of Bancpost, Volksbank Romania and OTP Bank Romania. The bank leads the market, offering high quality and innovative products to its retail and SME clients, generating a return on equity (ROE) of 26% in 2023. The bank is a beneficiary of Romania's low levels of financial intermediation with convergence with the rest of the EU expected to take another 10 years, driving growth for the foreseeable future (figure 3 compares credit levels between Romania and leading EU countries). Banca Transilvania is listed in Bucharest, with a Bloomberg consensus estimated price to book ratio of 1.6x and estimated dividend yield of 5% for 2024.

Figure 3: Domestic Private Sector Credit as a % of GDP Provided by Banks vs GDP

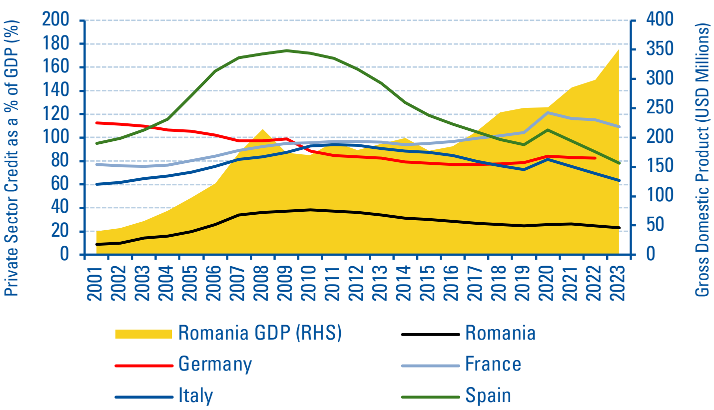

Figure 3 - Romanian & other EU countries domestic private sector credit as % of GDP vs GDP. Note data for western EU countries is only available from 2001. Source: World Bank Data.

Kaspi.KZ ($24.9bn Market Capitalization)

This fintech has become the dominant player in Kazakhstan with 13.2m active payment customers[4] (out of a population of 18m) with revenues and net profits of $4.2bn and $1.9bn in 2023 respectively. The story of the company began in 2002 when a local entrepreneur with an electronics business purchased a middling bank focussed on corporate lending to provide consumer financing. The bank soon attracted an investment by Baring Vostok and from 2007 was led by one of its partners, Mikhail Lomtadze, a young Harvard Business School graduate. With the introduction of smart phones, he restructured the bank towards the retail segment by leveraging on this technology. They began by providing free online bill payments, which proved to be hugely popular in a country where bills had to be paid in person at banks incurring fees. This allowed the bank to capture a large retail base, and it has gone on to provide savings, loans, credit cards, and marketplace and travel services, creating a fintech ecosystem. The company continues to expand its services with revenue and net income having grown by 38% and 44% respectively in 2023. Notably, its payment business which originally was free, has become a large driver of net income, see figure 4. The company is nominally listed in Kazakhstan but has mostly traded through depositary receipts initially listed in London from December 2020 and then in the US from this year to take advantage of greater investor participation in these markets. The 2024 Bloomberg consensus estimated price to earnings ratio is 11x, with an estimated dividend yield of 6%.

Figure 4: Kaspi Net Income Split & Market Capitalization

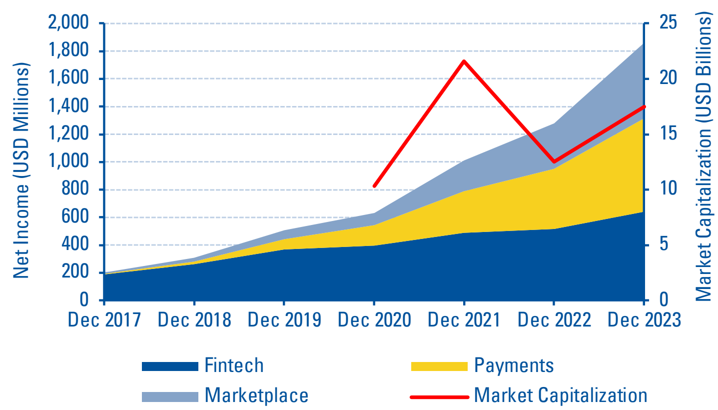

Figure 4 – Kaspi Net Income vs Market Capitalization. Note net income information is only available from 2017 and market capitalization from December 2020 when the security was listed in London. Source: Bloomberg Data.

Attijariwafa Bank ($11.9bn Market Capitalization)

The bank was created out of the merger of two well established Moroccan banks in 2004 and the largest shareholder is the Moroccan Royal family (46.5%). The bank is the largest bank in Morocco by assets and has benefitted from buoyant economic growth and deepening financial penetration in a stable environment. However, the jewel in this particular story is the bank's efforts to expand into the broader African region. For the past two decades it has grown its presence in Africa with subsidiaries in 14 countries encompassing 2,375 branches (on top of the 4,788 in Morocco). It is the sixth largest bank in Africa by assets[5]. The investment has paid off with 35.9% of 2023 net income coming from international retail banking (see figure 5), with the largest exposures coming from Tunisia, Ivory Coast, Senegal and Egypt. Despite a major earthquake in Morocco in the second half of 2023, the bank's ROE was 19.2% for 2023 (an improvement from 16.2% in 2022). The 2030 FIFA World Cup will be jointly held between

[3]*Source: General Shareholders Meeting Presentation, Banca Transilvania, April 25 2024.*
[4]*Source: 2024 2Q Results Presentation, Kaspi.KZ, July 22 2024.*
[5]*Financial Report 2023, Attijariwafa Bank, June 27 2024.*

Spain, Portugal & Morocco, is expected to generate significant infrastructure spending further improving sentiment. The bank is listed in Casablanca, with a trailing price to book ratio of 2x and a 2024 Bloomberg consensus estimated dividend yield of 3%.

Figure 5: Attijariwafa Bank Net Income Split vs Shareholder Equity & Market Capitalization

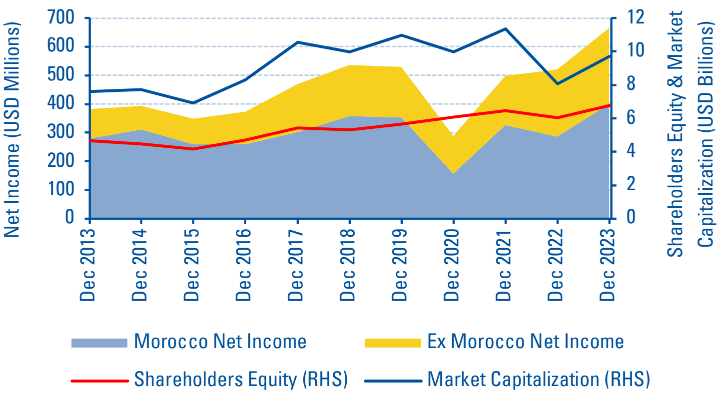

Figure 5 - Chart depicting growing share of net income being generated from outside of Morocco from a modest equity base. Source: Bloomberg Data.

OMV Petrom ($10.5bn Market Capitalization)

This Romanian energy producer has a 167-year history of producing and refining crude oil. Like many others the company was nationalized during the communist era and then re-privatized in 2004 with a new major shareholder, OMV AG of Austria. Most of its operational upstream assets are mature and experiencing declining production, but natural gas discoveries in the Black Sea will make it the European Union's largest natural gas producer. With the conflict in Ukraine, there is significant support for natural gas projects, especially within the European Union which consumes 2 trillion barrels of oil equivalent (boe) annually[6]. Production is expected to begin in 2027 generating more than a 12% IRR over its life (plateauing at 51 million boe/year at an operational cost of $3/boe)[7]. The project is estimated to cost 3.8-4bn, but is being funded out of cash flow, which also provides for a healthy dividend, having paid a 9% yield in 2024 (see figure 6). The company is pursuing further Black Sea exploration in Bulgarian & Georgian territories where early indications have been positive. The company is also taking advantage of EU funding to transition towards renewables with carbon emissions expected to halve by 2030 (Scope 1 & 2)[8], compared to 2010 levels[9]. The company announced a project in partnership with CE Oltenia (another Romanian energy producer) to develop a 450MW solar park with 70% of its cost covered by EU funding[10]. The 2024 Bloomberg consensus estimated price to earnings ratio is 9x.

Figure 6: OMV Petrom Dividend Per Share vs EBIT & Market Capitalization

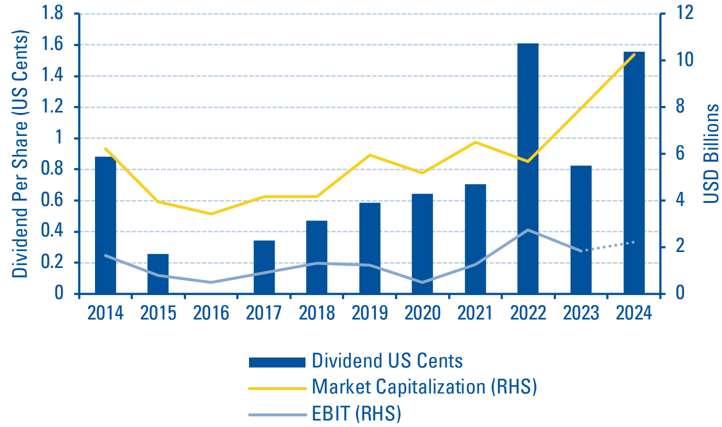

Figure 6 - Chart depicting dividend/EBIT evolution vs market capitalization. Note 2024 market capitalization figure is as of Aug 30 2024 and 2024 EBIT is based on Bloomberg consensus estimated figures. Source: Bloomberg Data.

Copa Holdings ($3.8bn Market Capitalization)

Copa Holdings is a holding company for Copa Airlines and Wingo, based out of Panama and Bogota respectively, providing regional connections to most major cities in the USA, the Caribbean and Latin America. Copa Airlines is a full service operator including cargo, whilst Wingo is a low cost airline. Together they offer approximately 375 daily flights, with a modern fleet of 106 Boeing 737 aircraft as of the end of 2023, with orders placed for a further 57 Boeing 737 MAX aircraft to be delivered over the next four years[11]. The company generated $3.5bn in revenues in 2023 (a 17% increase over 2022) and net profits of $0.5bn (a 47% increase over 2022). Figure 7 provides a representation of the progression of net income generation and miles flown. Borrowings and Lease obligations ($1.5bn at the end of 2023) account for 28% of assets, with two-thirds of debt maturities evenly spread over the next five years and the remainder beyond 2028. Copa Airlines is a code sharing partner of United Airlines and is a Star Alliance loyalty programme member. The company is listed on the NYSE and has a Bloomberg consensus estimated 2024 price to earnings ratio is 6x, with an estimated dividend yield of 7%.

[6] *Annual Gas Market Report 2024, Gas Exporting Countries Forum, April 22 2024.*
[7] *Capital Market Story Presentation, OMV Petrom, May 2024.*
[8] *Direct and indirect greenhouse gas emissions from operations, Green House Gas Protocol, 2001.*
[9] *Capital Market Story Presentation, OMV Petrom, May 2024.*
[10] *Financing contracts signed for four photovoltaic parks to be developed by OMV Petrom and CE Oltenia, OMV Petrom, July 17 2023.*
[11] *Company Profile, Copa Holdings Website, August 2024.*

Figure 7: Copa Holdings Net Income & Revenue Passenger Miles (RPM)

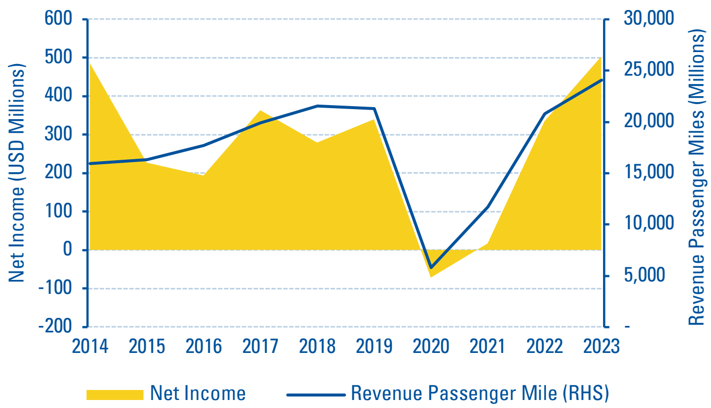

Figure 7 - Chart depicting Net Income and Revenue Passenger Miles (RPM). RPM show the number of miles travelled by paying passengers. 2020/2021 defined by COVID pandemic. Source: Bloomberg Data.

NAC Kazatomprom ($9.7bn Market Capitalization)

Kazatomprom is the world's largest producer of uranium (20% of global production) and has access to the second largest uranium reserves in the world. The company was established in 1997 as a state-owned entity and was later privatized in 2018, though the majority holding is still held by Samruk-Kazyna, Kazakhstan's sovereign wealth fund. The case for uranium has been developing in recent years due to the combined need for energy security and zero carbon emissions. Planned production over the next few years is expected to result in a surplus vs operational demand for the next few years. By the end of the decade, the market is expected to fall into an operational deficit even assuming all new projects achieve production (see figure 8). However, note that the market for uranium can be subject to significant supply disruption, with recent spot prices experiencing volatility due to sanctions on Russia and the coup d'état in Niger. There are 60 new reactors being built currently and a further 110 reactors being planned[12] with operators typically building inventory ahead of their needs by several years (uranium costs are a small part of production costs compared to fossil fuel-based power producers) which is expected to place additional stress on the market. As a low-cost producer of Uranium (1st quartile), due to its use of in-situ mining (leaching using fluids), it has been able to reap significant gains from rising contract prices for Uranium[13]. The company is listed in Astana though the bulk of liquidity is traded through its depositary receipt in London. The 2024 Bloomberg consensus estimated price to earnings ratio is 9x, with an estimated dividend yield of 7%.

Figure 8: Uranium Supply & Demand

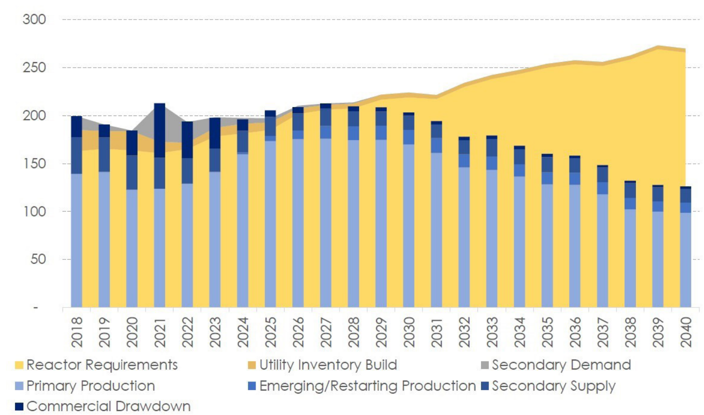

Figure 8 - Chart depicting forecasted Uranium Demand and Supply based on all planned mines comping to production and all planned nuclear reactors being built.
Source: Kazatomprom, who cite as their source Uranium Market Outlook 2023-Q4.
Vertical Axis measures Million Pounds U3O8.

Figure 9: Comparison of Securities Valuations & Price Performance as at Aug 30th 2024

Frontier Alt to Magnificent 7	Price to Earnings 2024	EPS Growth 2024	PEG Ratio 2024	Price to Book 2024	Dividend Yield 2024	Price Performance Annualized 1 Year	3 Year	5 Year
MercadoLibre	54.8	89%	0.6	21.4	0.0%	50%	3%	30%
Banca Transilvania	7.3	29%	0.2	1.6	5.2%	74%	20%	20%
Kaspi.KZ	11.3	20%	0.6	8.3	5.9%	75%	33%	NA
Attijariwafa Bank	13.2	24%	0.6	2.0	3.4%	28%	5%	6%
OMV Petrom	8.9	36%	0.2	1.2	9.5%	72%	38%	27%
Copa Holdings	6.2	-13%	-0.5	1.5	7.2%	-5%	9%	0%
Kazatomprom	8.8	20%	0.4	1.9	7.4%	26%	17%	31%
Simple Average	**15.8**	**29%**	**0.3**	**5.4**	**5.5%**	**46%**	**18%**	**19%**

Original Magnificent 7	Price to Earnings 2024	EPS Growth 2024	PEG Ratio 2024	Price to Book 2024	Dividend Yield 2024	Price Performance Annualized 1 Year	3 Year	5 Year
NVIDIA Corp	34.7	118%	0.3	31.6	0.0%	142%	75%	94%
Apple Inc	31.7	9%	3.4	53.7	0.4%	23%	15%	33%
Tesla Inc	90.1	-26%	-3.5	9.8	0.0%	-17%	-4%	68%
Meta Platforms Inc	24.4	46%	0.5	7.2	0.4%	77%	11%	24%
Amazon.com Inc	37.0	13%	2.8	6.7	0.0%	29%	1%	16%
Microsoft Corp	31.8	12%	2.6	11.5	0.7%	28%	12%	26%
Alphabet Inc	21.3	36%	0.6	5.9	0.4%	20%	4%	22%
Simple Average	**38.7**	**30%**	**1.0**	**18.1**	**0.3%**	**43%**	**16%**	**36%**

Figure 9 – Metrics based on estimated earnings using Bloomberg Analyst Consensus Data. With the exception of NVIDIA, Apple Inc. & Microsoft Corp, all figures are based on a fiscal year end of Dec 31 2024. For NVIDIA, Apple Inc. & Tesla Inc. the fiscal year end is Jan 31 2025, Sep 30 2024 & June 30 2024, respectively. Kaspi.KZ 5 year price performance is not available due to its listing in December 2020.
Source: Bloomberg Data.

[12] *Plans For New Reactors Worldwide, World Nuclear Association, July 29, 2024.*
[13] *Investor Handout Presentation, NAC Kazatomprom, July 2024.*

Frontier Emerging Market Strategy

At City of London Investment Management (CLIM) we use of closed-end funds, investment companies and ETFs to provide exposure to Frontier Emerging Markets. Whilst we have exposure to the above frontier companies, our approach provides more diversified exposure to the asset class. The strategy exercises skill in identifying and trading discounted closed-end funds and investment companies, combined with a macro-overlay providing guidance on the risks and challenges of each of these frontier markets (a separate document is available). The strategy has an 18-year history, spanning multiple investment cycles. The team is led by two portfolio managers with a combined 42 years of experience and is supported by CLIM's research team. Investors are supported by a client servicing department and receive publications relaying our views and activities, as well as readily available access to portfolio managers. Please contact us for further information.

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The portfolio's investment objective is to achieve long-term capital growth. The portfolio will invest primarily in listed closed-end funds ("CEFs") that invest in securities providing exposure to frontier markets. Emerging securities markets tend to be smaller, less liquid and more volatile than the major securities markets in the United States. There is less publicly available information about the issuers in emerging markets than is regularly published by issuers in the United States. Also, there is generally less government supervision and regulation of exchanges, brokers and issuers in emerging markets than there is in the United States. The legal infrastructure and accounting, auditing and reporting standards in certain emerging markets in which the portfolio invests do not provide the same degree of investor protection or information to investors as would generally apply in more developed countries. The portfolio could be adversely affected by delays in or a refusal to grant any required government approval or by the lack of availability of foreign exchange. The portfolio will be subject to the risks of government control, political instability and social unrest with respect to its investments in emerging markets that could, in turn, have an adverse effect on the portfolio's operations and performance. Frontier markets are subject to the same risks as emerging markets, but such risks tend to be more acute, generally as a result of the smaller capitalization of such markets and being the least developed of emerging markets.

The portfolio's country allocation is presented on a look-through basis based on CLIM's determination of the country exposure of each underlying security of each CEF holding.

The S&P Extended Frontier 150 consists of 150 of the largest and most liquid stocks from 30 frontier markets. The index is designed to be a diversified, yet investable portfolio of frontier market stocks.

The index is unmanaged and has no fees. One cannot invest directly in an index. The holdings of the portfolio differ significantly from the securities that comprise the index.

The MSCI Frontier Markets Index captures large and mid-cap representation across 28 Frontier Markets (FM) countries. The index includes 98 constituents, covering about 85% of the free float-adjusted market capitalization in each country. This index is shown for comparative purposes only.

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