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## Investing in Emerging Markets' Electric Vehicle Revolution

**Exploring the growth of Chinese EVs, the dominance of local brands, and the impressive infrastructure supporting Asia emerging markets.**

### KEY POINTS

- In China, local brands dominate the market and have built up a strong supply chain and charging infrastructure, making it the largest EV market globally.
- EVs have the potential to transform our perspective on automobiles, and Asia will drive developments in EV ecosystems.
- The arrival of EVs is a paradigm-shifting event with the potential for significant equity outperformance in EM, particularly in Asia.
- A core holding is one of the world's largest automobile display suppliers, well-positioned to benefit from increased cabin digitalization and the rapidly growing Chinese EV market.

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The JOHCM Emerging Markets Discovery Fund aims to find companies operating in emerging industries with innovative business models or technologies that challenge existing norms. The fund employs a process-centric approach to achieve its goals, and the team strives to provide investors with long-term market-beating performance over equity cycles.

### Electric Vehicles 2.0: The Rise and Rise of China

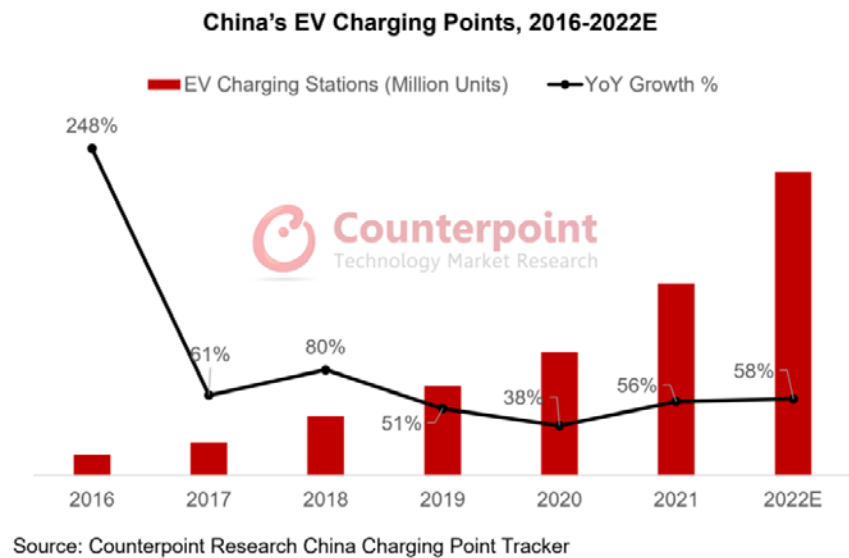
*"We really designed the Model S to be a very sophisticated computer on wheels. Tesla is a software company as much as it is a hardware company. A huge part of what Tesla is, is a Silicon Valley software company. We view this the same as updating your phone or your laptop"* Elon Musk, CEO of Tesla Inc., while announcing software updates for the Model S in March, 2015.

In September 2021, we published a report on the growing development of electric vehicles (EVs) in Asian emerging markets (EM). Since then, the trends we presented have become even more prominent. In particular, the Chinese EV market and Chinese manufacturers have quickly grown into global leaders.

Let us consider,

- By the end of 2022, China was the largest EV market globally, accounting for approximately two-thirds of all EVs sold in the world<sup>1</sup>.
- While Tesla remains a significant player globally and in the Chinese market, local brands dominate the domestic EV market. Of the top 20 EV and plug-in hybrid brands sold in China by volume, 18 are local Chinese brand names<sup>2</sup>.

Although the above statistics are noteworthy, the supply chain build-up and infrastructure supporting the Chinese EV market is even more remarkable. One province in China has nearly three times as many public charging stations than the entire United States<sup>3</sup>.



In our previous issue highlighting EVs, we stated that the center of the “EV revolution” would take place in Asian EMS, with China likely becoming the largest EV market in the world and many critical companies involved in the supply chain based in Asia. More importantly, we believe what we see right now is just the beginning of an “EV revolution”.

EVs have the potential to dramatically change our perspective on automobiles, much like how smartphones have fundamentally transformed our perception of mobile devices. An EV is more than a car with a computer; it is a computer on wheels. As with the rollout of supply chains for IT devices and smartphones, developments in EV ecosystems will also be largely driven by Asia.

While we are optimistic about the future of EV developments, we are also mindful of the challenges that may lie ahead. There is meaningful competition not just among companies but also among countries. There may be regulatory hurdles to overcome when companies conduct international collaborations, such as with CATL’s proposed tie-up with Ford in battery production<sup>4</sup>. This is an important area we will follow closely and discuss in future issues of “Emerging Markets Discoveries: Trends and Innovations.”

<sup>1</sup> “China drives up global EV sales to new record.” China Daily Global, China Daily Information Co., January 17, 2023.

<sup>2</sup> Pontes, Jose. “China Electric Car Market — 31% Market Share In May!” CleanTechnica.com, CleanTechnica, June 24, 2022.

<sup>3</sup> Xu, Selina. “This Chinese Province Has More EV Chargers Than All of the US.” Bloomberg.com, Bloomberg L.P., October 21, 2022.

<sup>4</sup> “China to Scrutinize Ford-CATL EV Battery Deal to Ensure Core Technology Isn’t Shared.” Bloomberg.com, Bloomberg L.P., February 16, 2023.

## Portfolio Holding Case Study

### Identifying the Paradigm Shift

We think that the arrival of EVs is a paradigm-shifting event that has the potential to create significant equity outperformance in EM, particularly in Asia. More importantly, we are just at the beginning of this shift, and there is a lot of potential for value creation in the future. As the development of EVs evolves and matures, there will be new opportunities and business models that we have not seen before.

### The Investment Case

One of our core holdings in the portfolio is one of the world's largest automobile display suppliers. As more and more vehicles become electric, the interior cabin is becoming smarter, more digital, and more focused on displays. This means that the displays will shift from analog to digital and that there will be an increase in the number and size of screens. We believe that this company is well-positioned to benefit from the trend of increased cabin digitalization, combined with the rapidly growing Chinese EV market, and will create value for investors in the future.

Source for all data JOHCM/Bloomberg (unless otherwise stated)

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***An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund can be found in the Fund's prospectus or summary prospectus, which can be obtained at [www.johcm.com](http://www.johcm.com) or by calling 866-260-9549 or 312-557-5913. Please read the prospectus or summary prospectus carefully before investing.*** The JOHCM Funds are advised by JOHCM (USA) Inc. and distributed through JOHCM Funds Distributors, LLC. The JOHCM Funds are not FDIC-insured, may lose value, and have no bank guarantee.

Past performance is no guarantee of future results.

#### RISK CONSIDERATIONS:

The Fund invests in international and emerging markets. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets. Such risks include new and rapidly changing political and economic structures, which may cause instability; underdeveloped securities markets; and higher likelihood of high levels of inflation, deflation or currency devaluations.

Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity.

The small- and mid-cap companies in which the Fund may invest may be more vulnerable to adverse business or economic events than larger companies and may be more volatile; the price movements of the Fund's shares may reflect that volatility.

The views expressed are those of the portfolio manager as of March 2023, are subject to change, and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

