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CARTICA MANAGEMENT | MANTLE RIDGE AT CSX | ALL ABOARD

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Relationship builders

Cartica's Teresa Barger, Steven Quamme, and Mike Lubrano discuss their different approach to activism in emerging markets.

As investors globally hold their breath and their capital in the early, uncertain days of Donald Trump's presidency, for one Washington, D.C.-based asset management firm it is business as usual. Cartica Management, the world's only global emerging markets activist investor, has tuned out the surrounding noise and finds itself in a favorable position under the new administration.

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"What is quite interesting is you are seeing developed markets like Europe and the U.S. going through very big policy and political changes, which is unusual and something developed markets investors have not had to seriously consider in the past," CEO Teresa Barger told Activist Insight Monthly. "The premium on developed markets is historically due to institutional predictability, but if the predictability were to lessen, it would be interesting to see if premiums over emerging markets decline."

Whether the premium narrows isn't of concern to Barger and her three fellow co-founders, as Cartica is reported to have had annual returns of 9.9% since 2010, while the MSCI Emerging Markets Index has fallen 1% annually over that same period. The $2.4 billion asset manager achieves its success through a different form of activism, one the former International Finance Corporation veteran Barger calls "relationship engagement." After all, 85% of all companies listed in emerging markets are controlled companies, meaning families, founder or estates own more than 50% of the outstanding shares. While its demands are not uncommon, including to alter capital allocation, sell non-core businesses and enhance disclosure protocols, unlike normal activists Cartica prioritizes its relationships with its targets' families and founders. Not only does Cartica need to develop trust with these controlling share owners, but it is also tasked with persuading them that its point makes sense. Despite proxy fights and legal battles being non-existent in these markets, it is still incumbent on Cartica to search for dissidents.

"Public shaming won't work either, at the end of the day we have to persuade them," said co-founder Steven Quamme, who prior to Cartica co-founded activist hedge fund Breeden Capital Management. "These controllers aren't monolithic, you have to identify the champions and the resistors, and align incentives with the champions to overcome the resistance."

Dynamic country selection

Considering the persistence and energy required to enact change at these emerging market companies, Cartica first ensures that it is investing in the right countries. Cartica knows that country selection is a major key in outperformance for emerging market funds, and it looks to invest in countries that are about to enter a low period of risk. Cartica's country selection process is overseen by Farida Khambata, co-founder and Global Strategist. Currently, it has honed in on India – where it is most exposed – the Philippines, Mexico and Brazil. Barger refers to its country selection process as a "dynamic" one due to its fluid nature, and said Cartica relies on weekly country-specific circulars that provide updates on data as well as relevant policy headlines.

"Right now, with the great uncertainty there is globally, we are focusing mostly on countries that have large local production and consumption," said Barger. "Countries that are endogenously robust, where there is a great deal of local consumption, and are not terribly dependent on export revenues."

India has separated itself from the pack in Cartica's eyes, as Barger explains there is a huge amount of cash in Indian banks, that she feels won't be invested in real estate under the microscope of tax collectors, and will instead likely go into the stock exchange.

Cartica Management at a glance

Website:	www.cartica.com
Headquarters:	Washington, DC
Founded:	2009
Level of activism focus:	Primary
Assets under management:	$2,290m

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It is only after "big money" countries are identified that Cartica then begins to search for suitable companies to invest, and in particular places emphasis on the integrity of the controlling family or founder. The nine-year-old firm is calculated in its approach, and first talks with the controlling shareholders before entering, and then engages only after it buys shares.

"Companies can do well, but minority shareholders can do less well if the fellow at the other side of the table is taking asymmetric benefits," said Barger. "These are high quality companies with high integrity owners, but most of them are spending their time on their business and are not focused on their place in international capital markets, and that's where we can help."

A respected presence

It is in these markets where Cartica's presence is respected, through its activist history, participation in shareholder associations as well as by pushing for governance reform in certain markets. In January, the asset manager, with support from other major institutional investors, called on Mexican regulators to abolish unfriendly shareholder practices. Specifically, it asked a pair of financial agencies to extend the period of notice for shareholder meetings to at least 30 days from 15, as well as to rescind charter provisions that require board approval for a shareholder to acquire 10% stakes.

A testament to the firm's influence, in just three weeks the Mexican Stock Exchange came out and recommended that issuers provide more than the minimum 15-day notice prior to annual meetings. Cartica is looking after its nearly $300 million allocation in Mexico through two mid cap companies: Starbucks, Burger King and Chili's franchisee Alsea, as well as regional bank BanRegio. At the same time, it has begun to keep an eye on domestic policy, just as it has for so many years abroad. Still, while its reading diet has changed, its investment philosophy has not.

"We have not changed where or how we are investing, nobody is quite sure what policies will be coming out of the Trump administration and Congress," said Quamme. "It's too soon to tell, but once we see what Trump and Congress are doing, it may impact where we are investing."

Mike Lubrano

Farida Khambata

Steven Quamme

Teresa Barger

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