



Authoritarian Regimes and Investment Risk: Part 1

Original research, actionable
insight

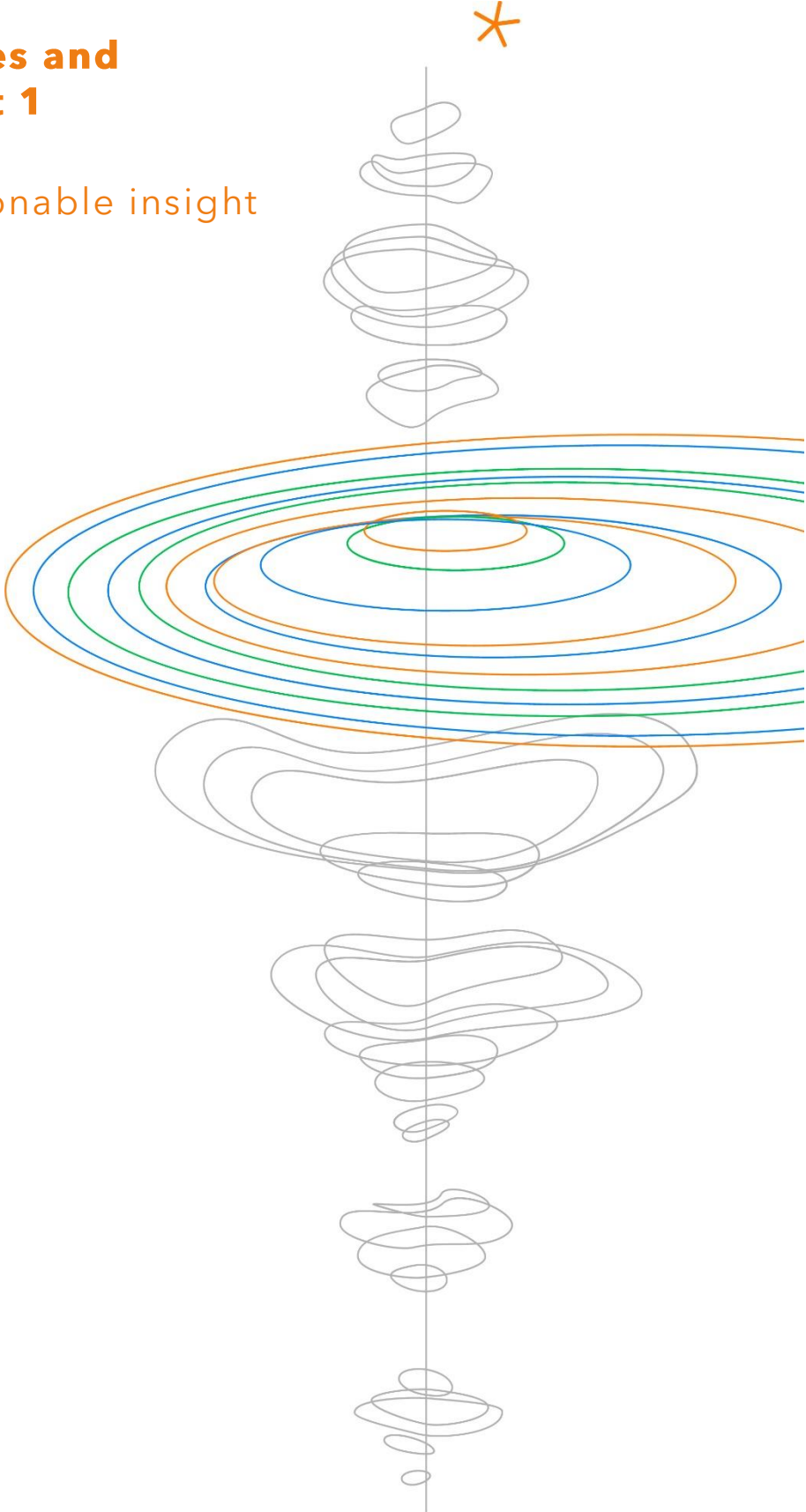
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TOBAM 
CORE INVESTMENTS

TELOS GmbH

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February 2023

out-of-the-box thinking

noun. Thinking that moves away from established convention to incorporate alternative perspectives and which sometimes leads to novel ideas and solutions.

A note from the Research desk...

Wars/conflicts (i.e. - Russia/Ukraine) coupled with rising geopolitical tensions due to autocratic regimes (such as in China, Turkey and many other countries) introduce a change in paradigm which has slowed down the globalization of financial markets and the boom of foreign direct investments across the world.

While back in 2011 some investors claimed that “(...) investors don’t like uncertainty, markets like authoritarian governments (...) and democracies are chaotic (...)”, points of view are reconsidered today.

“Because we live in a largely free society, we tend to forget how limited is the span of time and the part of the globe for which there has ever been anything like political freedom: the typical state of mankind is tyranny, servitude, and misery. The nineteenth century and early twentieth century in the Western world stand out as striking exceptions to the general trend of historical development.”¹

Back in 1982, Milton Friedman noticed what many of us have come to realize today. **Over the last decades we as investors in financial markets have forgotten what the risk of tyranny is and what it could imply for our investments in companies in such countries or in companies that have a significant exposure to such countries.**

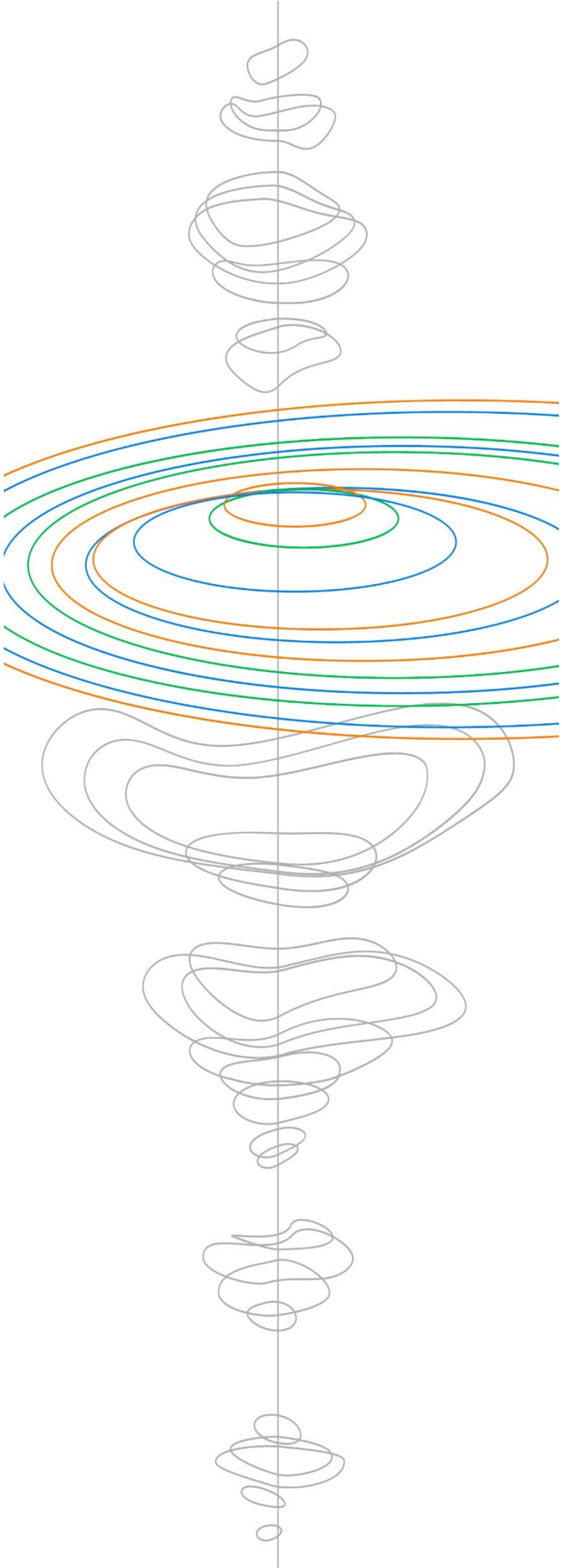
At TOBAM, we are convinced that time has come to address this risk and to provide investors with the opportunity to form an educated opinion about it and to determine ways to tackle this risk in their portfolios.

This note is the first of a series of notes in which we address the topic of “Authoritarian Regimes and Investment Risk” from different angles. First, we review the evidence in academic research that tries to analyze the relationship between democracies and growth, or stock market impact of authoritarian regimes. In a second note we will address the question of authoritarian risk by providing our own empirical evidence on the topic. Finally, we will address in a third note how we think that investors could tackle this risk in their portfolio.

I wish you an insightful reading experience and I am happy to receive your feedback and questions.

Dr. Tatjana Xenia Puhan
Deputy Chief Investment Officer

¹ Friedman, Milton, 1982, *Capitalism and Freedom*, The University of Chicago Press, p.16.



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TOBAM is an asset management company offering innovative investment capabilities designed to increase diversification. Its mission is to provide rational and professional solutions to long term investors in the context of efficient markets.

The Maximum Diversification® approach, TOBAM's flagship investment process founded in 2006, is supported by original, patented research and a mathematical definition of diversification and provides clients with diversified core exposures, across equity and fixed income markets.

In line with its mission statement and commitment to diversification, TOBAM also launched a separate activity on cryptocurrencies in 2017.

As at December 2022, TOBAM manages approx. \$6 billion on behalf of clients globally. TOBAM's team is composed of 47 professionals.

CONTACTS

- Paris
49-53, Avenue des Champs-Élysées, 75008 Paris- France
- Dublin
- New York
- Luxembourg

Client Service
clientservice@tobam.fr

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