SHINING A LIGHT ON……
SLI EMERGING MARKETS FUNDS

At a glance

Emerging markets as an asset class remain unloved, and have in the past been dominated by a handful of big named players.

What we are starting to see are new firms entering the space and this makes it more interesting with smaller funds having greater opportunities to deliver long term benefits to investors (if they have the right team in place).

Standard Life Investments (SLI) have built a strong reputation with their UK Funds and over the last 3 years have been building a strong presence in emerging markets. In 2012 they launched three Emerging Market Funds – Equity, Equity Income and Unconstrained.

The funds have a strong management team and have delivered good performance since launch. In this update we will outline some of the key features of these funds and why investors may wish to select these as an alternative option.

Who are the team behind the fund?

The three managers are Alistair Way who manages the Global Emerging Equity Fund. He joined SLI in 2007 and has managed the fund since its launch in May 2012. Prior to Standard Life he worked for Baillie Gifford from 1993 and was appointed Head of Japanese Small Companies Equities in 2003. His specialism is consumer discretionary and internet stocks.

Dr Mark Vincent joined Standard Life in 2000, and took on the management of the Global Emerging Markets Equity Income Fund at launch in December 2012.

And Matthew Williams who joined Standard Life in 1998 and manages the Global Emerging Markets Unconstrained Fund.

Both Mark and Matthew have spent all their investment careers at Standard Life working as analysts before moving into the management role. They are supported by 28 other managers and analysts ensuring that they have plenty of experience and resource to turn to.

Fund highlights?

The update we had was with Mark Vincent who we have met in the past.

What is clear with emerging markets is that many individuals consider it as a homogenous group. So the downturn in oil prices is bad across emerging markets because of their reliance on commodity exports, and emerging markets lack innovation.

This statement is about as true as saying all developed markets are the same! For me when we talk to managers how they approach emerging markets reflects how they invest in the area (sounds obvious).

Mark started the discussion with something which we have heard many times but something which can't be ignored. Firstly the demographics profile is superior to many developed markets, secondly potential for long term currency appreciation is greater and the thirdly the figures……emerging markets make up 85% of the world population but just 34% of world GDP.

In theory this should mean that emerging markets have a distinct advantage over developed markets however as a whole they have underperformed over the last four years meaning that valuations look attractive.

Clearly if we look deeper certain areas are doing better than others. If we take Russia 69% of its index is driven by commodities and therefore it is suffering in this climate but others like India and China are more diversified.

And just because a country appears oil dependent it doesn't mean it is a bad country as many of these are moving away from their dependency on oil. An example of this was Alhokair which is a Saudi clothing retailer. It has a unique relationship with a major mall operator which means it gets the best positioning. It is also part of the wider reforms in Saudi with a large female workforce. It also has the opportunity to expand across the region into Jordan, Kazakhstan etc. Although the oil price may have some impact it is not dependent on this.

Often we have seen copycat technology but in many cases emerging markets are leapfrogging western technology. China is building 3rd generation nuclear power stations and they will be world leaders in this area. This means as western countries play catch up they will turn to the Chinese for help. In Kenya half of GDP is done through mobile phone payments, the west hasn't caught onto this trend and as it grows across Africa the west will turn to Kenyan companies for guidance.

The point that Mark is making is that Emerging Markets offer fantastic opportunities but selectivity is crucial. A fund that tracks the index may select weak companies and countries but an active manager can be more selective. Another area of interest is the pace of reform – India appears to be the poster child and it is being helped by a fall in oil prices, but China is delivering radical reforms as is Indonesia. All of these offer the potential to unlock shareholder value.

One final point we touched on was the income fund which Mark manages and he used this to highlight the changes in emerging markets as more well managed companies are starting to pay dividends and this makes it an interesting area to gain a yield.

Just touching on the funds the Equity and Equity Income Funds are similar. The Income Fund clearly is looking to deliver income and growth and may have a slightly higher number of holdings. The unconstrained fund is a more concentrated portfolio and is likely to be more volatile than these funds.

In conclusion we have followed these funds since their launch and they have to date delivered above benchmark returns. The funds can invest up to 20% in frontier markets and they do invest in these areas. Their approach is simply about avoiding countries and companies with the biggest problems and seeking value where the opportunities lie.

The managers are not well known but with the support of the wider SLI group these funds open up other opportunities for investors looking to invest in emerging markets.

Fund performance

The table below shows performance in 2013 and 2014 against the benchmark:

	2013	2014
SLI Global Emerging Market Equity Income Fund	5.68%	2.89%
SLI Global Emerging Market Equity Fund	4.96%	2.42%
SLI Global Emerging Market Equity Unconstrained Fund	14.71%	1.23%
iShares MSCI Emerging Markets (Inc)	-5.82%	2.62%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

Three interesting funds which are starting to build up a good track record. Clearly with two of the managers it demonstrates the style of promoting within and this has often delivered positive results for investors.