

SHINING A LIGHT ON..... STEWART INVESTORS GEM LEADERS FUND

Intro

First State/Stewart have built a fantastic reputation in the Emerging Market space and this is one of their flagship funds. The fund is co-managed by Tom Prew and Jonathan Asante.

In this update we talked about their investment approach and outlook moving forward.

Update

Tom started by explaining that returns of less than 3% pa. over 5 years is not a fair risk/reward ratio. By that he means that for the additional risk an investor takes by investing in a particular asset they should get rewarded through higher returns and this just hasn't happened.

He explained that the market is difficult but they are long term investors and they continue to believe in the long term outlook. They have reduced their weighting to Emerging Asia which still makes up 46% of the fund but they are finding fewer and fewer opportunities. Within that corporate governance is poor in the likes of South Korea and China which reduces down the opportunities further.

The fund is a stock pickers fund and the company is 90% of the decision but 10% is country focused and this might stop an investment being made. He added that the fund does have non EM companies but these are companies where 50% of the revenue comes from emerging markets. An example of this would be Unilever where for some time they had considered investing in subsidiary companies but the focus came back to the main company which is the largest holding in the fund at over 8%.

Unilever has been one of the top performers for the fund over three years as has Housing Development Finance. The fund tends to avoid energy and cyclical names but it has held Tullow Oil which hurt the fund, as Tom added the investment was made for the right reasons and it remains a high quality company but at a low price!

It is a long term hold strategy and the only real changes have been adding to Brazilian holdings, resources, reducing SAB Miller and reducing some consumer companies which have become expensive. Touching on Brazil one holding they have added to is Banco Bradesco which is a well-run bank which is cheap and the management are aligned to the banks fortunes. Shares are not released until retirement and it is lowly geared.

Favoured countries are India and sector wise the company is skewed towards financials, consumers and IT. It does have a high weighting of cash (6%) and although the manager is uncomfortable with this he doesn't want to rush into buying something for the sake of it.

In summary this is a well-managed fund with a good team but like all emerging market funds has struggled to deliver positively over the last five years. This may deter investors but if not it is certainly a fund to consider.

LWM Consultants Ltd

Fund performance

Performance over the last five years (to 31 December 2015):

	2011	2012	2013	2014	2015
Stewart Investors Glb EM Ldrs Fund	-6.49%	18.08%	-0.66%	6.90%	-5.58%
FTSE Emerging TR GBP	-18.36%	12.76%	-5.29%	7.87%	-10.31%

Performance over 1, 3, 5 years and since launch 1 December 2003:

	1 year	3 years	5 years	Since Launch
Stewart Investors Glb EM Ldrs Fund	-5.58%	0.28%	10.72%	308.20%
FTSE Emerging TR GBP	-10.31%	-8.37%	-15.65%	228.71%

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.

The source of information in this note has been provided by Stewart Investors and is correct as at January 2016. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision.