

SHINING A LIGHT ON THE..... Threadneedle Global Emerging Markets Equity Fund

AT A GLANCE

Investment Objective
The Fund aims to achieve capital growth over the long term. It looks to outperform the MSCI Emerging Markets Index over rolling 3-year periods, after the deduction of charges. The Fund is actively managed, and invests at least 75% of its assets in equities and equity-related securities of Emerging Market companies.

Inception Date	15 th March 2006
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR06SVS

Management	
Manager Name	Start Date
Dara White	1 st July 2019

FUND PERFORMANCE

Performance from 1st January 2016 to 31st January 2021:

	2016	2017	2018	2019	2020	2021
Threadneedle Global Emerging Markets Equity Fund	26.66%	20.76%	-15.47%	27.18%	31.09%	4.19%
MSCI EM	7.12%	27.76%	-12.24%	15.05%	16.64%	3.71%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since launch
Threadneedle Global Emerging Markets Equity Fund	37.93%	44.59%	125.45%	270.50%
MSCI EM	25.12%	14.42%	76.41%	123.59%

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.

Tracking Error	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
5.80	63.28	134.51	105.00	63.89	1.16	6.89	Growth/Large

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Volatility Measurements	
3-Yr Std Dev (volatility)	18.31%
3-Yr Mean Return (average)	13.08%

Investment Style Details	
Giant	63.62%
Large	22.51%
Medium	11.56%
Small	0.63%
Micro	0.16%

Top 5 Holdings – 56 holdings		
Taiwan Semiconductor Manufacturi...	Technology	7.77%
Tencent Holdings Ltd	Communication Services	6.93%
Alibaba Group Holding Ltd ADR	Consumer Cyclical	6.50%
Samsung Electronics Co Ltd	Technology	5.67%
Country Garden Services Holdings...	Real Estate	2.61%

Top 5 Sectors	
Technology	25.78%
Consumer Cyclical	19.89%
Financial Services	17.12%
Communication Services	14.43%
Healthcare	6.43%

Top 5 Regions	
China	32.72%
South Korea	14.29%
Taiwan	10.39%
Brazil	10.16%
India	9.25%

UPDATE....

Dara has managed the US Emerging Markets strategy for many years and took over the UK version in 2019. This strategy is now a mirror image of the US strategy. A couple of observations when we were comparing to other EM strategies was that the holdings are very similar, and this is reflected in a fairly low active share class, which means that this is likely to be fairly similar to the benchmark. The fund has managed to significantly outperform the benchmark and the question is whether this is luck or skill. Holding the big players means that you automatically have an advantage. This is something that investors need to consider when looking at this strategy.

Turning to the update, Dara started by explaining that he has never witnessed so much interest in the asset class over the last 10 years, and there have been strong inflows of capital. This reflects a changing universe. EM of the past was about materials, industrials, energy and banks, and this has now changed to global leaders. These global leaders offer good returns with a focus on shareholder returns. Over 60% of the index is now tilted towards structural growth. The number of stocks in the universe has also almost doubled over that period.

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Coming into 2020, there was a fair amount of optimism with the first stage of the trade deal signed, faster projected growth, US economy fairly strong and a stable to declining dollar. The pandemic changed things – the likes of China, South Korea and Taiwan adopted very different policies to the West and have come out stronger. The US hoped the trade war would bring China to its knees and that has not been the case.

India is another region that has reached herd immunity. This may be due to the younger population, the inability to have social distancing and / or a natural immunity due to the different viruses / diseases that the population have to contend with on a regular basis.

The pandemic has split the landscape of companies into three areas:

Beneficiaries – these are the companies with the potential to gain most from the pandemic, benefiting from accelerating trends and improving fundamentals

Short-term pain - those companies where revenues may be challenged but have the potential financial strength and management teams to gain market share as the world re-emerges

Impaired companies – those where demand has collapsed and the ability to survive is questioned

Dara explained that investment in EM is no different to investing in developed markets. There are more and more great companies to look at and they do not need to sell the winners from 2020. Ecommerce, as an example, is still in its infancy and there are incredible opportunities. Tencent has many different elements to its business which will only accelerate going forward.

They are looking at China and the healthcare sector as they have a significant base of scientists and they have moved to global standards on clinical trials. Brazil is another area of interest where interest rates have come down and there are some great opportunities.

They believe that they offer investors a high conviction strategy, and that stock selection is the highest contributor to returns. They do not take bets but take a long-term view of companies. They also take the stewardship of capital very seriously, looking to capture on the upside as well protecting on the downside.

In summary, we cannot argue against the performance of this strategy. However our concern is the low active share class and whether this has done well because it has held some of the big benchmark names, or whether skill has played a significant role. Our concern is that there are a number of emerging market funds which have similar holdings, and we would want to watch the progress of the fund to see how the new manager starts to stamp his identity on the strategy.

The source of information in this note has been provided by Threadneedle and is correct as at February 2021. 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. We would also recommend that you receive advice before following up on any decision.