

EMERGING MARKETS FUND W - ACC SHARES

Portfolio manager: Nick Price

Market Environment

Emerging markets fell during the third quarter in US dollar terms but were flat in euro terms. Investors remained concerned about the deteriorating global outlook and trade tensions between the US and China. However, market gains in September offset some of these losses, supported by the US Federal Reserve's (Fed) accommodative monetary policy stance and the US' decision to postpone the planned increase in tariffs on Chinese imports. Latin American equities were volatile. Argentinian shares came under pressure after incumbent President Mauricio Macri lost the primary election by a wide margin to populist opposition candidate Alberto Fernandez and his running mate (and former President) Cristina Fernandez de Kirchner. Elsewhere, the International Monetary Fund (IMF) downgraded India's economic growth projections for 2019-20 in light of subdued domestic demand. However, India's surprise move to cut corporate tax rates in September in order to lift growth provided some reassurance to investors. The Turkish market recorded gains and the lira strengthened. Despite the recent drone attack on Saudi Arabian oil facilities, oil prices settled down amid assurances of a quick restoration of capacity.

Fund Performance

The fund outperformed the index in a falling market. Performance was supported by the focus on stocks with robust fundamentals that can withstand macroeconomic headwinds arising from global uncertainty. At a sector level, stock picking in information technology (IT), industrials and consumer discretionary added value. However, certain holdings in the consumer staples space detracted from performance.

Holdings in consumer discretionary gained

The position in Chinese sportswear giant Anta Sports added value as it posted solid results with strong top line growth and an increase in net profits in the first half of the year. Shares in Zhongsheng Group rose as it reported earnings growth that beat market expectations.

IT names were positive

The allocation to SK Hynix and Taiwan Semiconductor aided performance as the market started pricing in a recovery in memory-chip prices. Despite trade wars, demand trends appear to be bottoming out, which benefited IT companies. Conversely, the underweight stance in Samsung, one of the key memory-chip providers that competes with SK Hynix, was a small drag on relative performance.

Selected Chinese stocks aided performance

Shares in premium baijiu producer Kweichow Moutai gained. Its share price rose after it announced a long-awaited plan for connected party transactions, which means that transactions with its parent this year will not exceed 5% of its net asset value at the end of 2018. Investors took this as a positive development, as it can boost revenues and alleviates some concerns over corporate governance. CSPC Pharmaceuticals supported returns as it posted strong top line growth.

Fund Positioning

The fund's sector positioning is a by-product of stock selection and where the most compelling investment opportunities are found. The fund is currently overweight in the financials and consumer discretionary sectors, where I find many ideas across areas as diverse as dairy, sportswear, banking and insurance.

Preference for high-quality financials

I hold a range of emerging market banks and insurance companies. In India, HDFC Bank has a strong track record, a credible management team and robust growth plans. It is likely to gain from government reforms, such as the recently announced corporate tax cuts. Insurer AIA Group is a play on the structural growth story in the Asian life insurance market. Elsewhere, I hold Russia's Sberbank for its dominant market position and access to low-cost customer deposits.

Key positions in the consumer sector

Rising purchasing power and a large consumer base in the emerging world will lead to an increase in demand for discretionary goods and services. As a result, I hold media company Naspers. The South African internet company has stakes in high-growth internet and ecommerce businesses in China, Russia and India. In the staples sector, China Mengniu Dairy and Inner Mongolia Yili are likely to benefit from an increase in dairy consumption in the country. Zhongsheng Group Holdings is one of the largest automobile dealers in China and has a high-quality management team with a clear focus on aftersales retention. Vehicle servicing, finance and used cars are areas of growth, which help to offset weaker new car sales profits during a downcycle in automobiles.

Selective allocation to IT

The fund has significant exposure to the world's largest semiconductor foundry Taiwan Semiconductor. The company benefits from its sheer scale and industry leading research and development.

Important Information

Past performance is not a reliable indicator of future results. The fund's returns can be affected by fluctuations in currency exchange rates.

The value of investments and any income from them may go down as well as up and an investor may not get back the amount invested. The use of financial derivative instruments may result in increased gains or losses within the fund. This fund invests in emerging markets which can be more volatile than other more developed markets. In some emerging markets, such as Russia, the safekeeping provisions for securities benefit from less governed standards. Liquidity is a measure of how easily an investment can be converted into cash. Under certain market conditions assets may be difficult to sell.



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