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M&G Global Emerging Markets

Opinion

- The manager of this Recommended fund has been investing in global emerging markets for many years and through different market cycles.
- He is supported by a small team of individuals who have complementary skills. M&G's dedicated Asia Pacific Equities team provides additional input and support.
- The approach is well-established and distinctive. Focused company level research is the backbone of the process, and the team is prepared to hold the line on companies where they believe the long-term investment thesis to be intact.

Characteristics and Utility

- Style-wise, the fund has an overt value bias, which is relatively unusual within the peer group. While the manager can invest in mid and small caps, in aggregate, the fund has a larger-cap profile.
- Given the long-term, index-agnostic, stock-driven approach, the fund's outcome can be out of step with the market, especially as the team is willing to espouse contrarian views on a stock's potential.
- At times, the fund can experience deeper drawdowns and display higher relative volatility. Markets that are led higher by momentum in growth stocks are usually challenging for performance.
- We would expect the fund's exposure to restructuring and other change opportunities to be more handsomely rewarded in relative terms during a positive backdrop for the asset class and when company fundamentals are the driving force of share price action.
- More generally, the fund is also likely to perform relatively well when cheaper stocks are in favour.
- The fund is best suited to long-term investors who are comfortable with a fund that is marked out from the mainstream. With its firm value approach, it would complement a growth fund within a blend.

Risk Commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 6 means the fund's historic volatility is between 15% and 25%.

The fund's realised five-year volatility is above that of mainstream indices. This is to be expected, given the manager's long-term approach and willingness to be contrarian and invest in companies that are experiencing change. Different share classes could have differing SRRI scores.

Key Fund Facts

Inception Date:	05 February 2009
Manager(s) Since:	Michael Bourke (Oct 18)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	MSCI Emerging Markets
IA Sector:	Global Emerging Markets

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at theadvisercentre.co.uk. An asset manager adviser factsheet is also provided there.

Fund Snapshot

An emerging market equity fund that is underpinned by in-depth stock research, investing across high quality, restructuring and growth companies. The team has a strong focus on valuation, and they invest with a long-term mindset. Within its sector, the fund features in our 'Larger-Cap, Value' category.

Investment Team

The fund is managed by Michael Bourke, lead manager and Head of Global Emerging Market Equities at M&G. He joined M&G in 2015 and, before this, spent 10 years as an emerging markets equity analyst and portfolio manager at Legg Mason and FPP Asset Management. He works closely with a small, dedicated team that includes deputy fund manager, Alice de Charmoy, and three analysts, Will Nicklin, Greg Newman and Alan Trovato. They also draw upon the knowledge of M&G's Asia Pacific Equities team.

Investment Philosophy

The manager believes that many emerging market investors focus too much on macro-economic factors, rather than searching for companies that generate value for their investors. He argues that the best way to add value repeatedly is by taking a long-term approach to assessing individual companies' prospects relative to their share prices and investing in those with high and/or improving returns on capital.

Investment Process

The stock-driven process is framed by the belief that companies capable of generating sustainable returns on capital in excess of the cost of capital will create value for investors. The team looks for two types of companies drawn from either end of the return-on-capital spectrum, specifically: low-returning businesses that are going through change which should lead to an improvement in return on capital; and, companies with high and sustainable levels of returns. The team undertakes in-depth research on industry dynamics and company business models before assessing the degree to which their expectations for a business are reflected in its share price. This analysis is undertaken with a long-term investment horizon on the basis that the capital allocation decisions taken by company managements are commensurately long term in nature.

Stocks selected for the portfolio fall into one of the following four categories: 'External Change', 'Internal Change', 'Quality', and 'Asset Growth'. These 'buckets' of companies help to create a diverse portfolio of stocks where the manager believes that the potential returns on capital are mispriced within the market. The majority of the portfolio is invested in the two areas of 'Quality', encompassing established companies with sustainably higher returns than the market believes, and 'External Change' companies, benefiting from industry tailwinds. 'Internal Change' and 'Asset Growth' companies are typically a smaller part of the portfolio; the former are usually restructuring or turnaround opportunities and the latter are growth companies. Allocations across the categories vary through time, depending upon the value opportunities on offer.

Portfolio Construction and Risk Controls

The portfolio comprises 50 to 70 companies and is constructed without reference to the sector and country exposures of the benchmark. Instead, position sizes are calculated according to company size and stock liquidity and most holdings are 1% to 2% of the portfolio. Nevertheless, the inclusion of four different stock types, through the buckets defined above, ensures a degree of balance and diversification within the portfolio.