

FUND SELECTORS OPTIMISTIC ON EM

Eastspring Investments research reveals fund buyers are enthusiastic about global emerging markets. But not all GEM funds are created equal and the best opportunities are still flying under the radar

We recently pinned down 81 fund selectors from the UK, Europe, Hong Kong and Singapore for the low-down on what excites them in Global Emerging Markets (GEM). We asked whether they wanted to decrease or increase exposure over the next 12 months, and what criteria was most important when thinking about these stocks.

The results were good. The respondents were positive on GEM, with Asia, unsurprisingly, being the most popular region. There was less enthusiasm for Latin America perhaps because of the new US president, but investors should be careful not to be too influenced by this. Negative sentiment caused by fears of US protectionism is largely based on supposition.

Over the next 12 months what do you expect to do regarding your equity allocation?

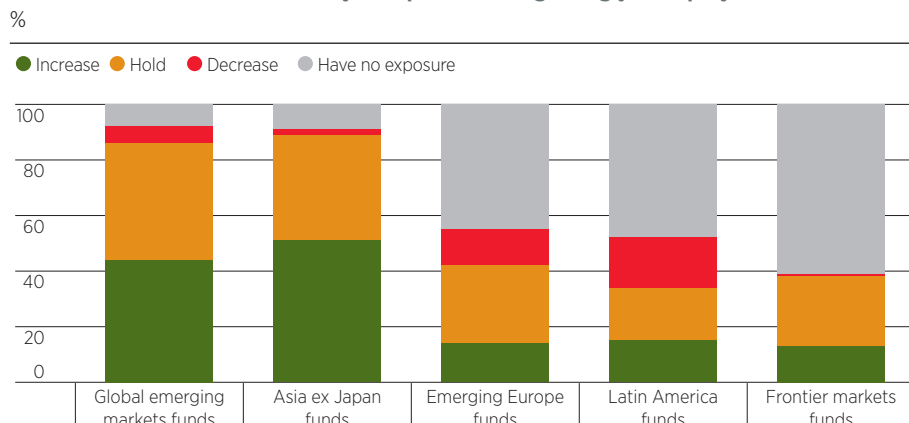
A significant 44% of fund buyers said they would increase their allocation of GEM funds over the next year. The biggest single response was the 51% wanting to increase investment in Asia (excluding Japanese funds). Although 46% have no exposure to emerging Europe, 14% of those who do are looking to increase.

Which options best describe your current or planned investment in GEM equities?

The headline figure here was that all fund buyers in the UK and Hong Kong adopt an active approach to fund management in GEM equities. Some 58% of respondents from Hong Kong use, or plan to use, tactical investment practices. While 52% of fund buyers in Europe adopt strategic tactics during active management.

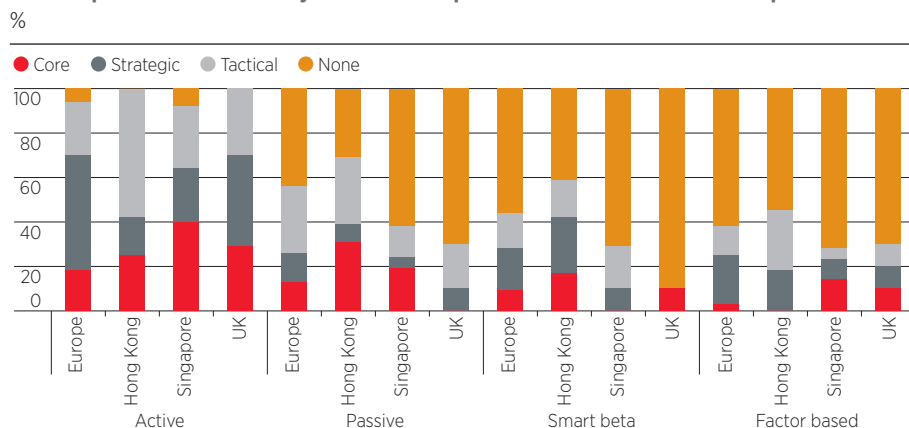
Most buyers use active or passive over smart beta or factor-based investment practices, but Hong Kong scored highest in both these cat-

Over the next 12 months what do you expect to do regarding your equity allocation to:



Source: Eastspring Investments

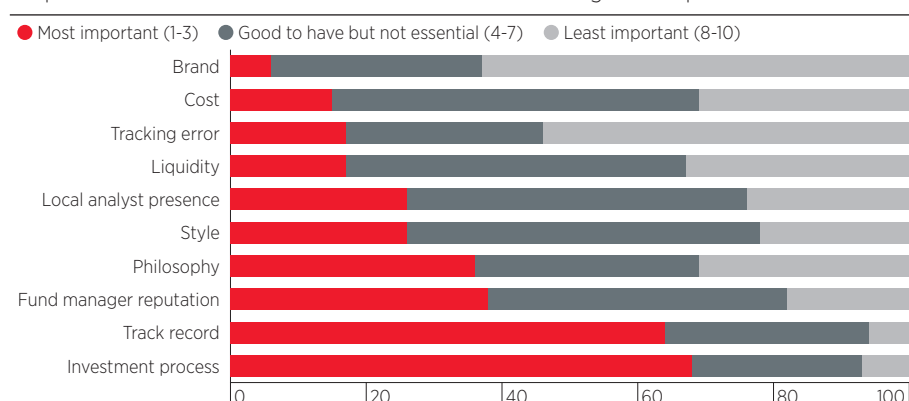
Which options best describe your current or planned investment into GEM equities?



Source: Eastspring Investments

Which criteria are most important to you when looking at a GEM fund?

Respondents were asked to rank criteria from 1-10 with 1 being most important



Source: Eastspring Investments

egories, with 58% using smart beta, and 45% opting for factor based investing.

Which criteria are most important to you when looking at a GEM fund?

An overwhelming 68% of respondents ranked the investment process as most important to them when looking at a GEM fund, with a close second being the 64% who cited track record. Another big result was that 64% of respondents said that brand was least important. Interestingly, cost, liquidity, location and style were considered "nice to have but not essential" by

approximately half of respondents (54%, 50%, 50% and 52% respectively). And perhaps surprisingly, cost was considered least important by a third of respondents (31%).

Singapore respondents: which three countries do you think offer the best investment opportunities?

The clear leader here for fund pickers was India with 26% saying they thought it offered the best investment opportunity. Indonesia was a close second at 21% and China third at 19%.

These were clearly regarded most favourably by the majority of investors. Russia, a top three pick for fund buyers from all other regions, only received votes from 10% of respondents in Singapore.

Hong Kong respondents: which three countries do you think offer the best investment opportunities?

The top three countries for fund buyers based in Hong Kong were India, China and Russia at 23%, 23% and 21% respectively. There is more consensus on the top three countries from fund buyers based in Hong Kong than those from other regions. Indonesia was considered much less interesting by these respondents than those based in Singapore (at 15%).

UK respondents: which three countries do you think offer the best investment opportunities?

Like fund buyers from all other regions those from the UK cited India as most interesting at 23%. But there was less consensus on the second and third most picks, with Russia and Mexico both scoring 17%. UK fund buyers were the only regional group that cited Mexico as one of the top three most interesting countries. It was also the only regional group that did not see China as one of the top three (it scored just 7%).

Europe respondents: which three countries do you think offer the best investment opportunities?

Like fund buyers based in Hong Kong the top three picks for those based in Europe were India (24%), Russia (18%) and China (16%). Again, like Hong Kong buyers they rated Indonesia fourth (11%), but considered Mexico much less interesting than buyers from the UK with only 7% choosing this country. There was less consensus here, with a spread of interest across all countries.

Conclusion

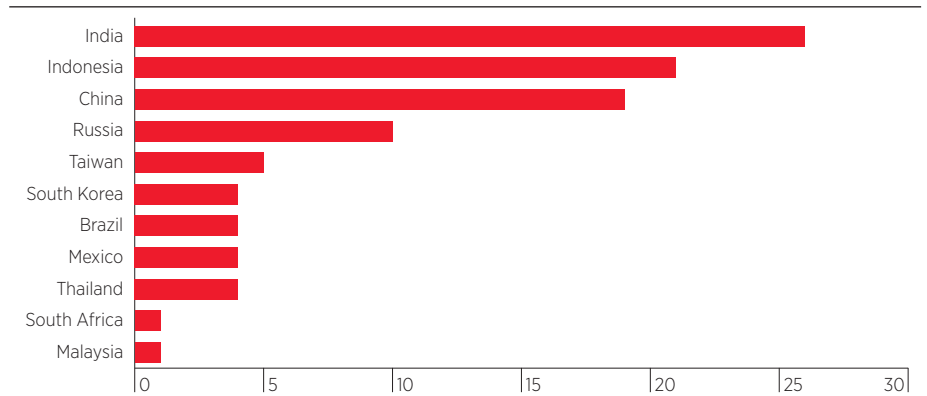
Our survey results were pretty conclusive: fund buyers are excited by the outlook for GEM funds. But not all GEM funds are created equal, and Asia ex Japan was the preferred region by some margin, with India seen as the top country by respondents across all areas.

But investors should be cautious. India has been a consensus overweight for some time now and that has already driven valuations to expensive levels. There is opportunity while Asia remains cheap as a whole, but a consensus overweight on the region and particular countries, sectors or stocks can lead to a rapid correction and overvaluation.

Our approach is to identify value at a stock level and as such we tend to take positions in companies that most investors avoid. This often leads us to invest in stock clusters in countries and sectors that have been out of favour with the mainstream while avoiding popular themes. ●

Singapore respondents

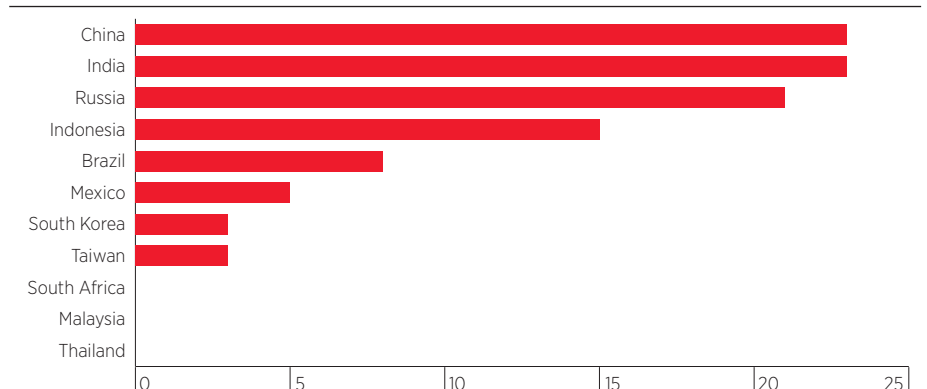
Which three countries you think offer the best investment opportunities? %



Source: Eastspring Investments

Hong Kong respondents

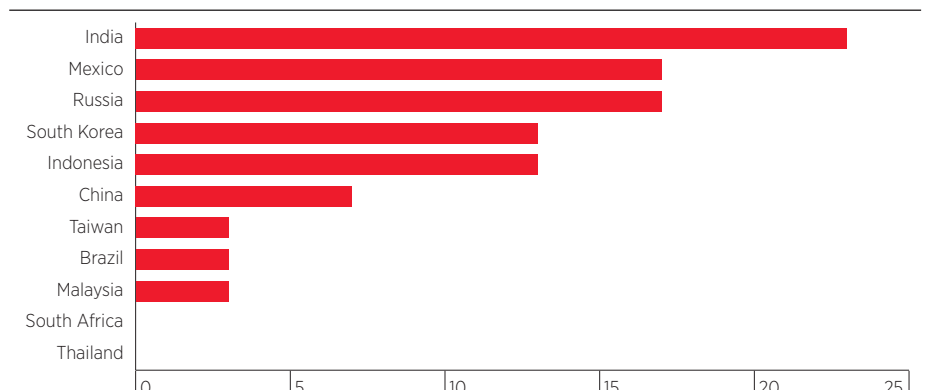
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UK respondents

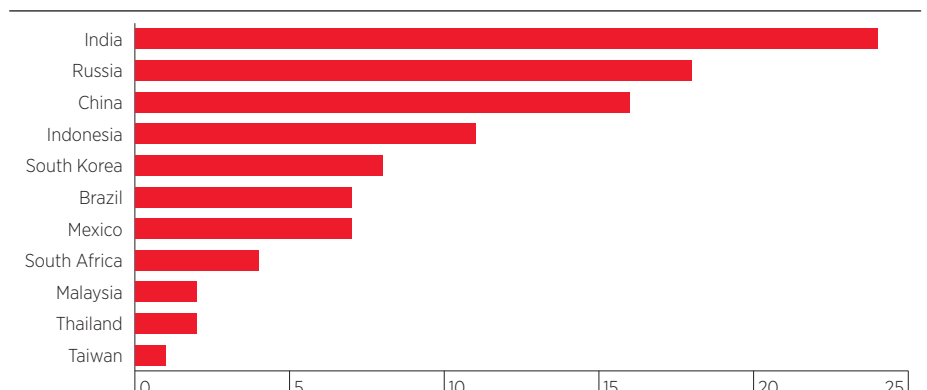
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Europe respondents

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