

# Gartmore Emerging Markets Opportunities First State Global Emerging Markets Leaders

This week's contenders have both benefited from the buoyant economies that dominate their investment remits but their differing approaches have produced diverging performance and responses from our panel. **Tim Cooper** reports.



This fund, launched in 1987, offers exposure to global emerging markets. It is well diversified and has 90 holdings with £279.2 million under management. The benchmark is the MSCI Emerging Markets index.

'In the three months to 31 August, the fund has returned 6.2%,' says the fund manager, Chris Palmer. 'It therefore outperformed both the MSCI Emerging Markets index and the sector average.'

'The fund remains overweight in Brazil, China and Russia, where consumer and infrastructure-related themes have generated solid outperformance. The fund is also structured to take advantage of rising domestic investment and greater appetite for equity investments by locals.'

'In contrast to late 2006, we saw an acceleration of earnings growth expectations in the second half of 2007. Emerging equity markets appear to have decoupled

from the US. We expect a marked contrast with earnings performance in the developed world.

'The fundamentals underpinning emerging markets remain attractive and we have great confidence in the performance of the sector over the medium term. We believe there are persistent sources of alpha in emerging markets, and we will strive to extend the recent outperformance of our fund.'



**Tim Cockerill**  
Head of research  
Rowan Capital Management

This fund has a strong long-term performance record. It has tended to be in the first or second quartiles and has delivered over 40% growth in the last 12 months and over 140% in the past three years.

Six people in the emerging markets team focus on finding companies where they expect positive earnings surprises. Analysis is deep and covers broad macro issues, such as political risk, as well as fundamental discounted cash flow analysis. Earnings and growth forecasts are generated via an in-house system.

The fund tends to invest along benchmark lines in large and medium capitalisation stocks. But it also has the flexibility to move away from the benchmark when significant opportunities arise - whether these are driven by top-down analysis or bottom-up research. At present the fund's broad geographical allocations are Asia 50%, Latin America 21%, Eastern Europe 13% and the Middle East and Africa 6%. This fund provides good quality exposure to emerging markets, so I rate it as a **hold**.



**Peter Chadborn**  
Principal  
CBK

The emerging markets sector has been one of the best performers in the past few months and has held up better than most in the market turmoil. China and Latin America have been two very strong areas in this sector, so funds with a high level of exposure to these areas have tended to do well. These two regions make up approximately 25% of this well diversified fund, which holds 90 stocks.

This highly-rated fund has an impressive track record with top quartile cumulative performance over one, five and 10 years and second quartile performance over three years. The volatility is slightly higher than average but the consistently good performance has justified this.

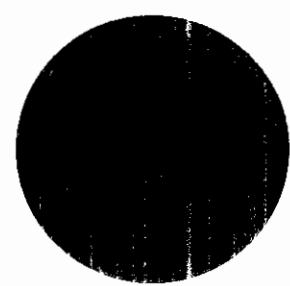
While this is a very well established fund, its manager's tenure is only 14 months, so how much of the outperformance is down to him is debatable. Nonetheless, in that time he has posted an impressive 46% growth, which ranks him fourth out of 32 funds in the global emerging markets sector, making this fund a **hold**.



**Peter Heckingbottom**  
Investment director/deputy managing director  
Pearson Jones

This fund has been managed by Chris Palmer since June 2006 and has outperformed the sector dramatically since then. The fund is top decile over three, six and 12 months. Looking further back, this outperformance has continued and the fund is first quartile over most time periods.

The fund is clearly suitable for more speculative investors. It is well rated by the other ratings agencies and this reflects well on the qualitative approach taken by Palmer and Gartmore. A definite **hold**.



31 July 2007

- Emerging Asia
- EMEA
- Latin America
- Cash

56.9  
25.1  
17.9  
0



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## First State Global Emerging Markets Leaders

### What *New Model Adviser*® says:

The fund invests in large and mid cap equities in emerging economies. This includes those companies listed on developed market exchanges whose activities predominantly take place in emerging market countries. The fund was launched on 1 December 2003 and has £261 million under management with 58 holdings.

### What First State says:

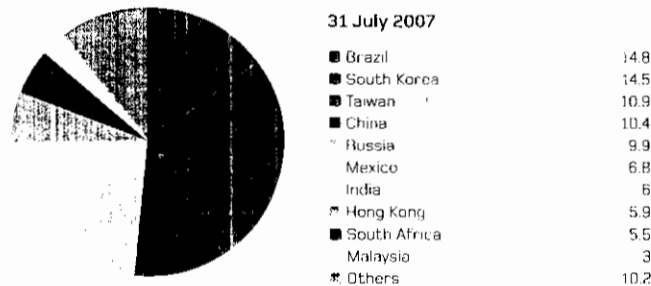
'We believe that economies in emerging markets will deliver higher levels of growth over the long term, offering companies substantial opportunities to boost both sales and profits,' says senior portfolio manager David Gait.

'The emerging market asset class gives investors access to the growth dynamism of China, India and other countries, and an increasing number of well-managed companies which are focused on long-term shareholder value.'

'We are bottom up, fundamental stock pickers. We invest in companies offering quality in terms of business franchise and management and those that have pricing power within their industries.'

'This concentration on quality results in a focus on preserving investors' capital and our investment decisions are not dictated by the benchmark. We therefore offer the investor the upside of emerging markets with the lower risk of a conservative investment style.'

First State Global Emerging Markets Leaders Portfolio breakdown Source: First State



### What the advisers say:

**Tim Cockerill**  
Head of research  
Rowan Capital Management

First State's reputation is built on its Far Eastern and emerging market expertise. However, the performance of

this fund has been sub-standard compared with the peer group, with fourth-quartile performance in 2004 and 2005. This year the fund is positioned in the third quartile. Despite this, the fund has delivered nearly 30% over the past 12 months and more than 100% over three years, so investors shouldn't be too unhappy.

The team looks for large and medium-sized companies with sustainable earnings over the long term and undertakes extensive work before investing. The fund is therefore suited to investors who want emerging market exposure with a thorough, conservative investment approach to reduce risk. On this basis it is a **hold**.

**Peter Chadborn**  
Principal  
CBK

Global emerging markets is a very broad term, so it is important to know where the fund is invested. This also makes comparisons within the sector difficult since the underlying markets and allocations can be very different.

One of the managers, Angus Tulloch, also manages the Asia Pacific Leaders fund, which could explain the preference for this region over others in the Global

Emerging Markets sector. While the Asia Pacific Leaders fund ranks well against its peers, the Global Emerging Markets Leaders' performance has been rather lacklustre.

In absolute terms, any investor would be pleased with a 12-month return of 36% without excessive volatility, in relation to the sector. Although there is a general consensus to retain a good level of exposure to this sector, the overall position does not particularly inspire. **Fold**.

**Peter Heckingbottom**  
Investment director/deputy managing director  
Pearson Jones

The risk profile of this fund is slightly lower than the other featured fund this week and this is reflected in the performance statistics. It has generally failed to keep up with the sector in almost all periods under review.

When discussing this underperformance with the fund managers, it is apparent they invest more defensively in high quality names. Generally, this fund will underperform a strongly rising market but outperform a static or declining one. When considering the credibility of manager Angus Tulloch and the fund's strong qualitative independent ratings it becomes a **hold**, but for ongoing review.

## New Model Adviser's® verdict



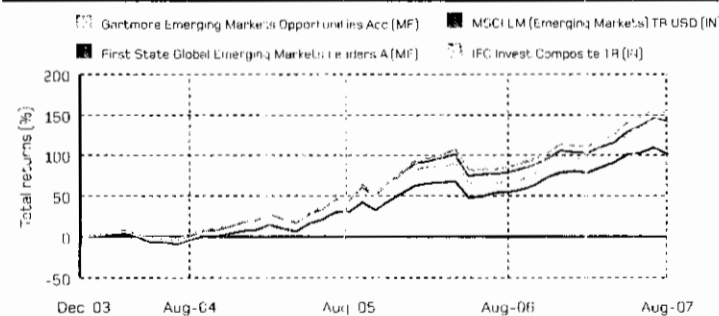
Very good short- and long-term performance and a talented manager – this fund gets three holds.



### First State Global Emerging Markets Leaders **HOLD**

A more conservative approach has suppressed this fund's relative performance. But it has still done well in absolute terms and the house is respected, earning it two holds out of three.

Gartmore's comparatively more adventurous approach has paid off



JPM Emerging Markets has shown strong and consistent outperformance in this sector.

## Book Review



**The Female Brain**  
by Thomas A Harris

Men and women experience the world differently thanks to each gender's vastly different exposure to sex hormones.

