

FSSA Global Emerging Markets Focus Fund

Global Emerging Markets

Introduction



This fund invests with an unconstrained approach across emerging markets including frontier markets. It is managed by First Sentier Stewart Asia (FSSA) who have built strong records in Asia, China and India mandates, with a team of three working on portfolio construction headed by Rasmus Nemmo. Rasmus is an experienced emerging market investor having previously worked for Lloyd George in London. There are two other team members working on portfolio construction of the fund although all of the FSSA team work as generalists so look at emerging market stocks. The fund will follow the same process as all FSSA funds with a focus on quality and sustainable growth.

[Click here to read the First Sentier approach to ESG investing.](#)

Why RSMR Rate this Fund

- Experienced lead manager utilising full strength of FSSA team who have delivered outstanding returns both absolute and risk adjusted
- Focused fund holding high conviction names and team best ideas in China/India
- Since launch has established strong record with downside protection at times of market stress
- Outperformance driven by strong stock selection through unconstrained approach
- Multi cap fund which can invest off benchmark approach allowing the opportunity to participate in multi-year growth opportunities of strong business franchises
- Focus on consumer with overweights to domestic oriented sectors of Financials and Consumer Staples/Discretionary
- Opportunity to participate in the secular growth story of best stocks in region

Fund Process

The investment process is similar to that used across all FSSA funds with basic quality filters looking for companies with 10% ROE and 10% earnings growth potential. The emerging market universe has an extremely wide pool of stocks to look at which is then subjected to initial quality and growth filters. This list is reduced to around 750-800 names on the quality factors. The team then do more detailed assessment of the franchise and management quality, together with financials and ESG issues resulting in an active watch list of 150 names. The universe is stocks with a market cap in excess of \$500m which have daily turnover of over \$500K.

There is an emphasis on stewardship, an absolute return mindset through bottom-up long-term stock picking looking for quality companies with sustainable and predictable growth combined with strong valuation disciplines. The concept of stewardship means clients' capital is invested in the same way as if it were the team's own personal money. There is a belief that investment ought to have a social purpose that is the efficient allocation of clients' assets to high quality companies at sensible prices.

This philosophy has a number of key features; the team are bottom-up investors seeking to identify high quality companies to invest in for the long-term. The team look for founders and management teams that have high governance standards and are well aligned with minority shareholders. These will be strong franchises with the ability to deliver sustainable and predictable returns comfortably in excess of the cost of capital.

There is a research driven approach making use of all relevant information to hand including how companies manage ESG issues. Investments are only made if the management is perceived to be operating effectively and in the interests of all stakeholders. As long-term investors the team prefer to follow a buy and hold strategy which can only occur in quality companies.

The fund is indifferent to the benchmark index composition and the manager is not concerned about short-term performance. There is no requirement to invest in any individual country, sector or stock. The fund is managed with two objectives, long-term capital growth and an absolute return mindset.

The investment process is driven up by bottom-up fundamental company analysis with the majority of research internal and proprietary. Investment ideas are then reinforced by extensive company visits and research trips. Flowing from the investment ideas, if a company is deemed investable in terms of quality a detailed company report is produced to evaluate the case for investment which is debated by the whole team.

Whilst everyone on the team works as analysts on a generalist basis the responsibility for the portfolio rests with the lead manager who is responsible for stock selection and portfolio construction decisions. The portfolio is relatively concentrated, holding 40-45 names.

Evaluation

The fund was launched at the end November of 2017 and since then has generated significant added value versus the benchmark index. The fund is multi cap and is managed in typical FSSA style with an eye to the downside and a focus on quality, with the manager showing no inclination to go down the

quality scale. The long-term growth potential of stocks included in the fund is estimated to be around at least 10%p.a. in US\$ terms. The FSSA team has clearly demonstrated a strong understanding of the Asian markets and this fund should equally prove successful in the wider emerging market universe.

Emerging markets in general present investors with a huge long-term opportunity with a large population, often attractive demographics and low penetration of many key businesses and services. There is a high quality universe of stocks available for investment, many of which are fast growing and have high return on capital. The fund looks to back the right people looking for integrity and a long-term mindset from the management. The fund takes a long-term view on valuations of high quality businesses and has demonstrated an ability to perform well in all market conditions, although the highest added value has come in weak markets. Its multi-cap approach has allowed it to capitalise on a number of fast growing consumer orientated names which have delivered strong returns to investors. Periods of rapidly rising US rates will be challenging for the fund as with most emerging markets funds.

Application

Whilst this is a concentrated portfolio, the quality approach makes it suitable to use as a core holding offering investors the opportunity to participate in the long-term growth story of these different regions. The emerging market universe can be volatile. The fund is particularly suitable for long-term investors looking for a decade long secular growth story.

Our Opinion

FSSA operate as an autonomous team within Colonial First Sentier Asset Management. There is an investment team of around 20 individuals, mainly based in Asia, with the overall team headed by Martin Lau, who along with many team members have established outstanding records in both broad Asian and specialist regional funds. Martin Lau is one of the most highly rated managers in Asia and he is backed up by other experienced team members. The fund is suitable as a core holding for investors looking for long-term capital growth.



Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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