

SHINING A LIGHT ON..... INVESTEC EMERGING MARKETS BLENDED DEBT FUND

Update....

For investors seeking bond investments some have turned to emerging markets as an alternative option. Emerging market debt benefited from quantitative easing and yield hungry investors flocked to the asset class. However, since 2013 performance has lagged and outflows from the asset class reached unprecedented levels in 2016 (source FT.com).

There is a strong argument that the worse is priced into the sector and therefore now could be the time to invest. There is no doubt that there are risks investing in this sector which include both currency and default. It is difficult for investors to find a manager with experience in this sector and furthermore choosing between local currency or hard currency fund. Each have their advantages and it is something that any investor has to research further.

One alternative is to turn to a blended solution. It means that an investor doesn't need to select whether they choose hard or local currency because the manager makes that decision. It does mean that they won't capture the full upside on whichever strategy is performing better but equally blended together it should outperform.

One fund to consider is the Investec Emerging Markets Blended Debt Fund and our update was with Mike Hugman. The fund follows a fairly simple strategy of investing in debt issued by governments, institutions or companies in emerging markets. Currently the strategy has a positive bias to dollar debt (hard currency) but is finding more opportunities in local currency debt.

The team argue that the last couple of years have been difficult for the sector with structural repricing in currency and equities driven by China, commodities and other country specific factors. However, towards the end of 2015 and the start of 2016 they have seen a more stable environment with surprises on the upside.

They also believe that the key shock on commodities seems to be over. With the rerating over the last couple of years emerging market debt seems cheap compared to other asset classes and they argue that yield is an attractive feature. In developed markets the average yield is now -1% whereas in emerging markets it is 2.8%, a 4% difference.

Despite all the positive sounds investors need to accept there are challenges around Chinese leverage and currency, renewed Fed tightening, BREXIT and the US presidential elections which could all impact on performance.

In summary in the discussion there was nothing that led me to conclude that there was something different with the fund other than it may appeal to investors who want to invest in this sector but want to pass the risk of selecting the type of debt to a third party. Investec have a good reputation in emerging market debt and therefore investors will benefit from this. Investors obviously need to be aware that although there might be opportunities there are risks which need to be considered carefully.

Fund performance

The fund was launched on 1 October 2012 and performance is to 30 April 2016:

	2012	2013	2014	2015	2016
Investec Emerging Markets Blended Debt Fund	2.28%	-10.40%	5.03%	-4.07%	9.50%
iShares Emerging Markets Local Govt Bond	1.67%	-17.10%	-5.02%	-13.22%	11.51%
iShares JP Morgan \$ Emerging Markets Bond	0.03%	-13.27%	8.06%	1.22%	6.50%

Performance over 1 year, 3 years and since launch.

	1 Year	3 Years	Since Launch
Investec Emerging Markets Blended Debt Fund	2.83%	-6.62%	-0.78%
iShares Emerging Markets Local Govt Bond	-4.01%	-29.84%	-25.08%
iShares JP Morgan \$ Emerging Markets Bond	4.23%	-1.32%	0.38%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

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