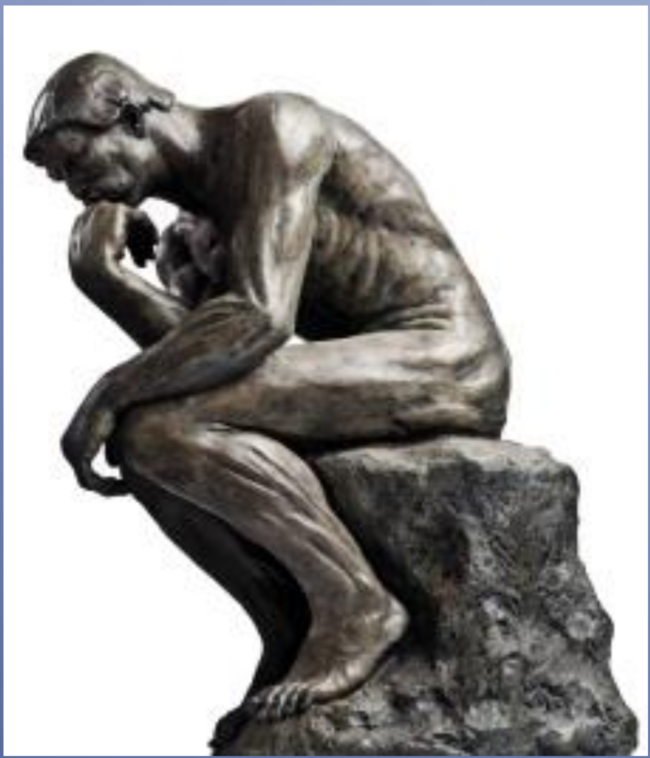

Fund Bites

Lloyd George Global Emerging Markets Income and Growth Fund

The Lloyd George Global Emerging Markets Income and Growth Fund is not currently part of portfolios but part of our watch list. This "fund bites" is our research on the fund.

Introduction

With high profile Emerging Market and Asian Funds reaching fund flow capacity we have been for some time researching the options open to clients. This research has identified some excellent funds which perhaps don't contain the usual household names within their portfolios.

However, one of those options is traded on a weekly basis so currently cannot be used by clients and others are Dublin Based. With the later we are confident that Dublin Based Funds will be available in time for the 2014 / 15 Portfolio Rebalance.

One name we have come across a lot is Lloyd George who are specialists in Asian, Frontier and Emerging Markets. From this boutique management house we have seen managers set up Asian Specialist Funds at JOHCM and Emerging Market Specialist Funds at Somerset Capital Management LLP.

Lloyd George Management was established in 1991 with a focus on Emerging Markets and Asia. It has expanded to include Frontier Markets but remains focused on these areas and nothing else. It manages around $2.7 billion in these strategies but the wider group manages $542 billion.

The Emerging Market Growth and Income Strategy was established in 2007 on the basis that slower economic growth, lower interest interest rates and potential deleveraging gave little scope for valuation expansion and dividends would form an important of the overall return. Dividend is the tangible asset and demonstrates a strong business model.

The Fund

The fund is co-managed by Irina Hunter and Rasmus Nemmoe. Irina joined Lloyd George in 2007 to run this strategy. According to Citywire Irina is a top 20 global emerging markets fund manager out of a universe of 194 managers. So she has an excellent reputation and the performance reflects this. Rasmus joined Lloyd George in 2011 to work alongside Irina as co-manager. We don't have the same detail on his performance track record.

As with the funds from JOHCM and Somerset this is a conviction play although the holdings are higher than Somerset. It is less concentrated with around 50 to 70 holdings. Currently they have 51 holdings and Irina is comfortable at this level. She believes that this can deliver the target return of 3% above benchmark. She indicated that she would go below if she felt it was right to do so.

In our meeting Irina was keen to focus our discussion around four areas which Irina believes is central to the fund's performance:

1. They invest in **quality** companies at reasonable prices
2. They are long term holders (2 years plus)
3. They are not benchmark driven – they are just looking for the best companies and they will consider outside of the benchmark – BRIC is not the only emerging market option
4. They are defensive by nature not design

All portfolio construction decisions are at the discretion of the managers. Although weightings for most stocks are around 2% the managers will differentiate by conviction so for example the top stocks make up around 30% of the portfolio with the largest holding being around 4%.

It has a contrarian approach to investing searching out, out of favour companies on the basis that they will return to favour if they are good companies in terms of for example dividends, quality and valuation.

It has a bias towards mid and small cap companies. The fund will perform well in a staple, modestly rising and declining market but it will underperform in a sharply rising market; in 2009 following the expansion of QE1 markets rose rapidly and again in 2012 with LTRO.

As the companies are at the heart of what they do the stocks should perform independently of general market conditions. The managers aim to outperform the MSCI Emerging Markets Index by at least 3% p.a. on a 3 to 5 year rolling basis.

Investment time scales are long-term but the holdings are regularly reviewed to see if the original reason for investing still holds firm. A sell may occur where the fundamentals have deteriorated and / or their thesis has changed such that the upside is limited.

Turnover is low at 22.7% of which only 15% was actual name turnover.

As an example of a holding, one of the top ten holdings is Giordano International which is a Hong Kong based retailer. This was identified as having strong brand optimization; it had turned around its China operation and had strong management driving earnings growth of 9% p.a. This was combined with good value supported by yields and balance sheets.

When we went through the thesis for investing it was interesting to see the risks. This showed the reasons why the company might be sold in the future but also provided a test against the reason for investing. So for example although the brand is strong it is mid-range casual wear so there is fierce competition in this area.

As a secondary example we discussed Robina in the Philippines. This is a locally produced and consumed brand of food products. It highlights a quality local company which has the ability to grow in its own market but also expand into other markets. It has strong brand loyalty, and has good local distribution networks. It is threatened by Western Brands but they would have to spend a lot of money to gain the ground that they have.

An example of a stock they sold was YPF which is Argentina's largest private oil and gas company. It was felt that the subsidy of energy prices was unsustainable and that liberalization of those prices could lead to increased cash flow generation and the ability for YPF to develop its resources. Shares were purchased in 2011 at $44.29. Local intelligence indicated a change in corporate governance with more interference from government officials. It was felt that this had significantly changed the thesis for investing and they sold out in February 2012 for a 36% loss. The stock price on selling was $28.03, it now stands at $14.00.

Managers are not expected to invest in their fund but Irina has personal assets invested in the fund and it is expected that Rasmus will do the same. As a company although it is not an expectation they believe by investing in the funds it strengthens the alignment between the management teams' interests and investors. Other members of the team are invested across all the strategies offered by Lloyd George.

Conclusion

As a conclusion to the meeting it was clear that quality is the key to this fund. It is defensive by nature and by this the manager means that quality stocks tend to be more protected on the downside but also with the visibility of growth they can and do benefit on the upside.

Although we cannot currently invest in fund we are are hopeful that we will be able to invest in the fund in the future. We like the style of management, the size of the fund and process. We have added the fund to our watch list and will continue to monitor this going forward.

The source of information in this note has been provided by Lloyd George Management and is correct as at 20 May. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. 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.