Emerging Markets Bond Fund – Predicting the future shape of the world.

We view the Emerging Markets Bond Fund not as risking money in emerging markets, but investing in the future shape of the world. We take an active management approach to pick the winning countries. Discover how we aim to go about doing that for our Emerging Markets Bond Fund clients.

Sally Greig – Future World

Taking a farsighted view in a short-sighted world; what do we mean by that? We're living in a world where social media is now the dominant provider of news, and headlines and tweets can change sentiment overnight. And that's exactly the same in the markets. Asset prices can move up and down daily on nothing more than rumours and noise. But these moves have almost nothing to do with the value in a country's bond or currency over the longer term.

What really matters is how that economy is growing, how the global forces are shaping it, and how it's being managed. But ultimately, that is the key driver of returns over the longer term, when the noise has died down.

The good news is that how a country is growing and its challenges are much more analysable than tomorrow's headlines. Our investment team devotes its time to thinking about, for example, the structural changes in inflation in India, or the impact of poor governance in South Africa. And we use our experience to translate that into a view on how the country's bond prices and currency will evolve over time.

So why doesn't everyone invest in this way? Well, the simple answer is that it's difficult to be patient. A lot of investors face pressure to focus on short-term performance. And the benefit that Baillie Gifford's longer-

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term approach gives us is an ability to stay focused and to be farsighted. That helps us to identify the opportunities that the market may miss.

Yannis Lykouris – Connections

We think to make money in emerging-market bonds it’s all about connections. In the old days, who you knew in the emerging markets was all that mattered. That no longer holds. The information era means that it is a level playing field in terms of information and data. Now, what matters is how you process and connect this information.

First, we're closely analysing the fundamentals in the different emerging-market countries. We use a variety of information sources: crunching economic data at the desk, visiting the countries through research trips, talking with economists and political analysts, and finally, exchanging views and research with the many experienced emerging-market investors that we have in Baillie Gifford.

We then compare different economies and draw parallels between them. For example, we think that Argentina will grow faster than South Africa, because the economy is modernised through political reforms. That should mean that the investment should flow into the country, and the currency should appreciate.

But it is not enough. It is not enough to see a country in isolation; we need to understand the country's position in the world. We are a team of global investors. The next step is to connect the upcoming global structural and cyclical trends with the countries that we invest in. For example, if we think that Chinese growth is going to be strong, that should affect countries that export a lot of products to China.

Connecting the dots in these two different ways helps us compare the different opportunities in emerging-market bonds and currencies. And that is how we select the best opportunities across the EM (emerging markets) universe.

Steven Hay – Future World

For us, it's not about risking money in emerging markets; it's about investing in the future shape of the world. Thanks to technology, the world is changing faster than ever before. China is now the world's biggest economy, and it's only matter of time before India overtakes it. These two countries were the biggest economies in the world in the 17th century, and it's only a matter of time before they become so again.

Active management is all about picking those countries that will be the winners, and avoiding those that will be the losers. But how do we benefit from this growth? Many of these countries do not yet have investible equity markets, but as they grow and as they prove they can do so sustainably, two things will happen. Their currencies will appreciate, and they will become more creditworthy as they become more developed and more stable.

We can benefit from this by buying the government bonds of these countries. As they become more creditworthy, the prices of these bonds will appreciate. And it's really important to hold these bonds in the currency of these emerging markets to benefit from this currency appreciation.

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But there's a paradox in investor beliefs about emerging-market bonds. The paradox is that in the longer run, the safest way to preserve the real value of your capital is to invest in these faster-growing, sustainable countries. But investors think of these as risky, and, therefore, only a fraction of their wealth is invested in this asset class. But the real risk is not investing in this asset class, and not sharing in the growth.