AJBell Investcentre

Fundamentals with Russ Mould

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Hello, I'm Russ Mould, AJ Bell's Investment Director, and welcome to Fundamentals, where I'm going to look at the second-most popular Exchange-Traded Fund on the AJ Bell Investcentre platform right now, namely iShares BRIC 50.

[CAPTION - iShares BRIC 50 UCITS ETF (GBP)

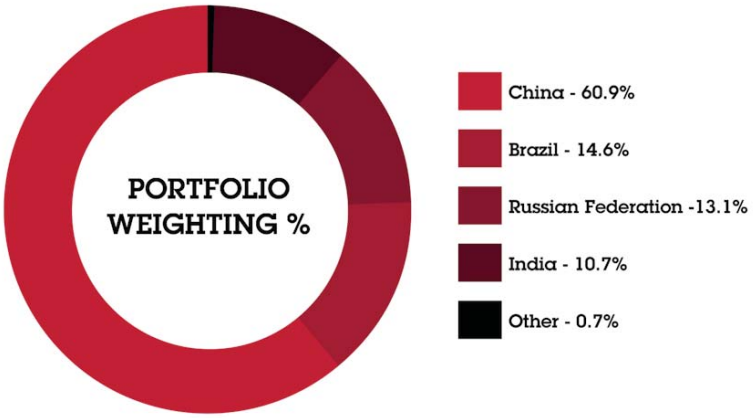
EPIC code – BRIC SEDOL – B1W5MJ2 ISIN – IE00B1W57M07]

This tracker product is an ETF – or Exchange-Traded Fund. It is designed to track, or mirror, the performance of the underlying index or basket of securities. In this case the tracker follows a specialist benchmark, the FTSE BRIC 50, which consists of the 50 largest stocks as measured by their market capitalisation from the Brazilian, Russian, Indian and Chinese stock markets.

iShares BRIC 50 uses physical – or direct – replication to generate performance. This means that it owns the underlying stocks. Note that in this case the tracker only follows stocks which can be accessed through overseas listings known as depositary receipts (effectively packets of shares traded on a non-domestic exchange) the Brazilian, Russian and Indian names and via Hong Kong-quoted H shares for the Chinese firms.

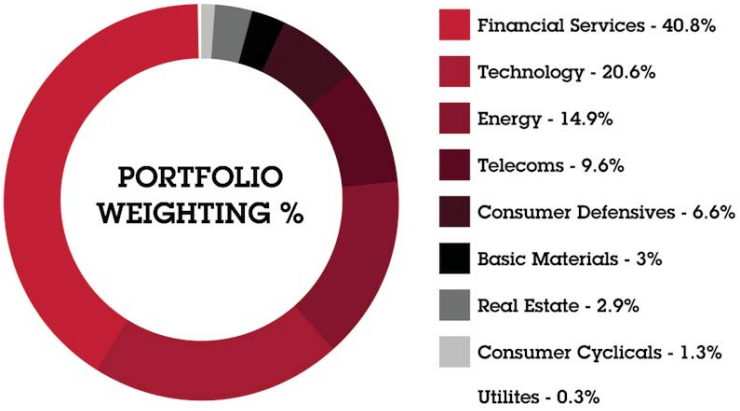
The product, which began trading in 2007, comes with an ongoing charge figure of 0.74%. This is relatively high for an ETF but it reflects the costs of trading in emerging markets and doing so via depositary receipts and H shares. For those who care about such things, the tracker comes with a four-star rating from Morningstar.

In terms of the asset allocation, 61% to China, 15% to Brazil and 13% to Russia and 11% to India, allowing for rounding errors, as per this chart here:



Source: iShares factsheet

By sector, the mix of the four target markets means that financial services, technology and energy are the three biggest exposures. Healthcare and utilities have virtually no presence at all, while consumer staples come in at just 6.6% so there is little defensive ballast here – as you would expect this is an instrument best suited to risk-tolerant clients, even if mining, consumer cyclicals and industrials also have a very modest weighting, as we can see here:



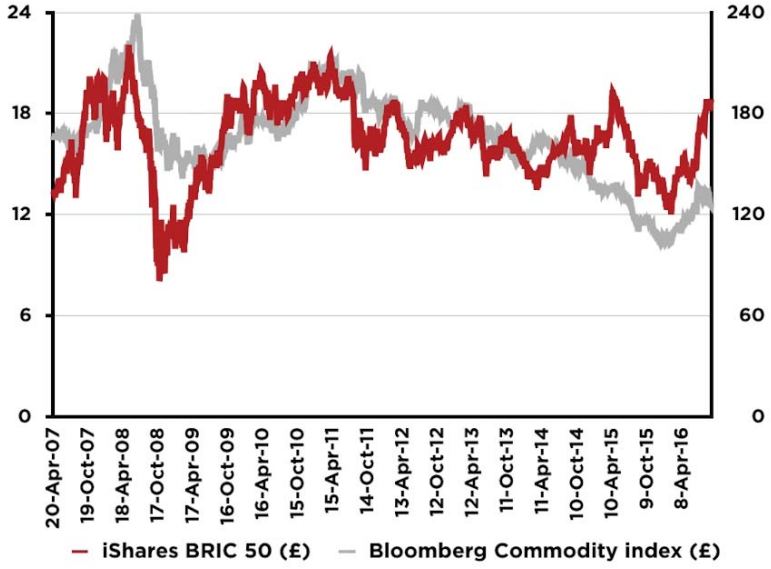
Source: iShares factsheet

By individual stock, the largest holdings are Chinese internet play Tencent, China Construction Bank, telecom giant China Mobile, Industrial and Commercial Bank of China and Indian tech stock Infosys. Brazil's representatives in the top 10 are Bank Itau Unibanco and brewer Ambev. The biggest Russian name in there is Sberbank at number 11 on the list.

So those are the mechanics of the instrument. The next question to address is why would advisers and clients potentially be buying now, besides the low cost and sterling-price option?

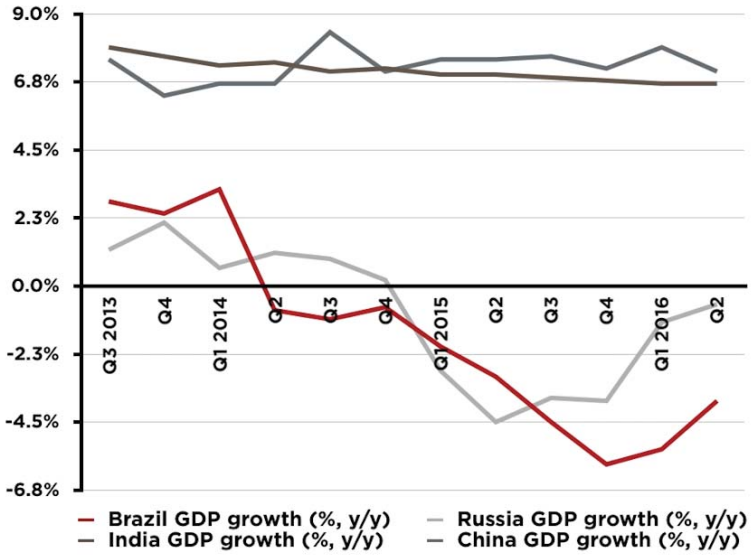
Well, there are three possible reasons, for starters:

- First, commodity prices have staged something of a rally. This is helpful to the Brazilian and Russian economies and could be a sign that China is on the way back, although it's less good in fairness for India. This chart here runs the tracker against the Bloomberg Commodities index back to its inception nearly 10 years ago.



Source: Thomson Reuters Datastream, Trading Economics

- Second, emerging markets are potentially a bit of a haven from any Brexit fears, especially India, which is pretty much a closed economy. For the moment, Chinese economic growth seems to be on track to meet its 6-7% target and India is bubbling along. The prospect of political, social and economic reform in Brazil under new President Michel Temer is raising hopes that Brazil can drag itself out of recession, while the rally in oil from its lows may give Russia a much-needed boost too. This graphic shows year-on-year GDP growth on a quarterly basis for all four nations going back to mid-2013.



Source: Thomson Reuters Datastream

- Third emerging markets overall have been a dog for so long it's possible some advisers and clients are thinking things have got so bad that it has to be good. Emerging Markets were horrid underperformers relative to developed arenas in 2011, 2012, 2014 and 2015 so the combination of growth doubts elsewhere, some improvement in commodities and hopes for reform may have persuaded some there is value to be had.

Now this is clearly not a one-way street. Commodities prices could roll over – iron ore and oil have both stalled to the potential detriment of Brazil and Russia in particular, reforms in India and Brazil could stall and the way China's currency, the renminbi, is sliding suggests someone, somewhere thinks its economy may not be as strong as it seems. Here's the chart: or the renminbi against the dollar.

So any advisers and clients looking at this tracker will need to be risk-tolerant and patient, as well as maybe having a contrarian value bent.

Thank you for watching and I look forward to seeing you next time.