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After the recent underperformance we've seen in emerging market local currency debt, valuations are very cheap. Yields at the index level are about 6½% and on my strategy north of 7%. Which for an investment grade, five-year duration asset is extremely attractive we think, particularly for European investors where yields are extremely low and durations are very long. In addition to which, currencies are very cheap, having sold off with the strength of the dollar we've seen over the last six to nine months. We think the dollar is expensive and therefore EM currency should outperform over the medium term providing a solid support for performance.

We've already seen contagion from the concerns in Turkey and Argentina bleeding through into other parts of the asset class, and that's been one of the main drivers for the underperformance this year. But they're very idiosyncratic stories. Both had inappropriate policies and valuations weren't attractive to incentivise an inward investment from international investors. In terms of going forward though, we think that some of the necessary changes to macro policy is coming through in both countries. IMF support in Argentina should support the longer-term improvement of the story and in Turkey we are seeing an adjustment of interest rates which is important in terms of re-establishing confidence and dealing with their long-term inflationary problems. So we have seen contagion already, but as a result of that that's meant a lot of countries that are good in emerging markets have good value opportunities and good fundamentals have been hurt and those present opportunities.

One of the biggest opportunities for us from a fundamental point of view is some of the central and eastern European countries. The currencies are relatively cheap. The external situation is positive and growth is improving. They look attractive, particularly when you consider the euro, the currencies to which they are closely aligned, is relatively cheap. So that's one area that's attractive. Elsewhere, with the election in Brazil, valuations have got very cheap. The market has decided that rate hikes needs to be significantly priced in and we think those are unlikely to come through. So a positive result on Brazil will be supportive for yields.

There are a number of considerations to make when investing in emerging market local currency debt. First of all valuations particularly for UK and European investors is very attractive, given the way the yields are and where currency values are. Secondly it's important to realise just how much volatility there is in currency and try and deal with that through relative value, opportunities, so looking to reduce the directional risk in currency, and secondly taking a longer-term view. This is an asset class that has high yield and high coupon which over time drives the returns. Currency often drives the volatility. So if one can use a relative value strategy in many cases to try and limit that sort of risk and that sort of drawdown risk to capital, it results in a better outcome for the client.

Risks - the following risks are materially relevant to the strategy:

China Interbank Bond Market risk - market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the China Interbank Bond Market may result in prices of certain debt securities traded on such market fluctuating significantly.

Country risk (China) - all investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licence or the Stock Connect program may be subject to additional risks.

Country risk (Russia and Ukraine) - in these countries, risks associated with custody, counterparties and market volatility are higher than in developed countries.

Credit risk - a bond or money market security could lose value if the issuer's financial health deteriorates.

Currency risk - changes in currency exchange rates could reduce investment gains or increase investment losses.

Default risk - the issuers of certain bonds could become unable to make payments on their bonds.

Derivatives risk - derivatives may result in losses that are significantly greater than the cost of the derivative.

Emerging markets risk - emerging markets are less established than developed markets and therefore involve higher risks.

Frontier markets risk - small market nations that are at an earlier stage of economic and political development relative to more mature emerging markets typically have limited investability and liquidity.

High yield bond risk –a bond or debt security rated below BBB- by Standard & Poor' or an equivalent rating, also termed below investment grade' is generally subject to higher yields but to greater risks too.

Interest rate risk - when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.

Issuer concentration risk - to the extent that a portfolio invests a large portion of its assets in securities from a relatively small number of issuers, its performance will be more strongly affected by events affecting those issuers.

Liquidity risk - any security could become hard to value or to sell at a desired time and price.

Sector concentration risk - the performance of a portfolio that invests a large portion of its assets in a particular economic sector (or, for bond portfolios, a particular market segment), will be more strongly affected by events affecting that sector or segment of the fixed income market.

General Portfolio Risks

Capital risk - the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Counterparty risk - an entity with which the portfolio transacts may not meet its obligations to the portfolio.

Geographic concentration risk - to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk - a portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk - investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk - the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk - operational failures could lead to disruptions of portfolio operations or financial losses.

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