



7 Emerging-Market Funds to Buy and Hold

Emerging markets offer the potential of long-term gains for investors.

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Emerging markets can offer growth, but expect volatility.

As investors look to diversify away from traditional U.S. holdings, emerging markets can offer growth — but they can also be volatile. A few emerging markets have been hit hard by the pandemic, says Jeff Bush, managing partner and chief operating officer of Informed Family Financial Services. Some emerging-market countries are oil exporters, such as Brazil, which made them particularly vulnerable in 2020 because of the collapse in oil prices. Despite these struggles, emerging markets have young demographics and growing middle-class populations with the potential for greater growth than developed countries. “We use emerging-market funds in cases where the risk is warranted and only for a small portion of assets, typically 10% to 15% of the total portfolio,” he says. For investors seeking exposure to emerging markets, here are seven funds to buy and hold.



1. VanEck Emerging Markets Equity Strategy Fund (EMRZX)

Scott Krase, founder and president at CrossPoint Wealth, says the pandemic has accelerated growth in sectors and industries such as digital payments, e-commerce, data centers, telemedicine and video gaming, and a fund such as EMRZX stands to benefit. “They have always been forward-looking, focused on many of these structural growth areas,” he says. The actively managed fund’s managers use a bottom-up investment process driven by fundamental research into the sustainability of a company’s growth

drivers and takes a global view of emerging markets. China represents 43% of the portfolio's assets. Top holdings include Alibaba Group Holding (BABA) and HDFC Bank (HDB). The style is large growth, and Krase notes the expense ratio of 0.9%, or \$90 for every \$10,000 invested annually, is low.

2. DFA Emerging Markets Core Equity Portfolio (DFCEX)

Brian Jass, advisor at Great Waters Financial, says his firm's flagship emerging-market fund is DFCEX. "The primary reason for using this particular fund is that Dimensional Fund Advisors is heavy on research and data-driven, with an impressive track record," Jass says. This fund has a low annual fee of 0.48%, and he points out that DFCEX is diversified not only geographically but also across different sectors as it pulls stocks from around 20 emerging markets. Taiwan Semiconductor Manufacturing (TSM) is a top holding. Although it's classified as a large-cap value fund, it tilts toward stocks on the smaller side with lower valuations, which helps limit stock turnover and keeps costs down.

3. Vanguard Emerging Markets Stock Index (VEMAX)

This large-blend fund has a low expense ratio of 0.14% and a low turnover rate of 9%, meaning it doesn't often trade its holdings. Jass says this Vanguard fund comprises a lot of companies familiar to many investors, such as JD.com (JD) and Infosys (INFY). "It holds concentrated positions in the semiconductor space, which could be exciting from a tech perspective with the emergence of 5G," he says. "It could be a little bit more high risk/high reward and more suitable for long-term investors." VEMAX tracks the FTSE Emerging Markets All Cap China A Inclusion Index, which is a mix of large-, mid- and small-cap stocks from about 24 countries, but it excludes South Korea.

4. American Funds Developing World Growth & Income Fund (FDWGX)

Grant Engelbart, senior portfolio manager and director of research at CLS Investments, says FDWGX takes a dividend-oriented approach to emerging markets, which tilts the portfolio to the value style. "American has a long track record of picking good stocks and really engaging with companies around the world and offering some flexibility in their portfolio," Engelbart says. His firm uses FDWGX as a core position in emerging markets for clients' portfolios. This fund is overweight on financial services and health care compared to the rest of its category and underweight on technology. It has a relatively low annual fee of 0.88% and a 12-month yield of 1.39%.

5. Pimco Emerging Markets Bond Fund (PEBIX)

Bush says the pandemic has hit emerging markets hard and countries such as Brazil and India have seen a high number of cases. "A significant amount of capital has left the emerging-market bond market, leaving future opportunity for yield. The repair will take time, and the investor must take a long-term view to benefit from this asset class," he

says. Emerging markets offer some opportunities for fixed-income investors. His fund pick is PEBIX. Its objective is to seek maximum total return, focusing on capital preservation and prudent investment management. The fund ranks in the top third of its peers in the emerging-market bond space. “I like Pimco in general for bond funds because of their long history of performance and reputation in the bond market,” he says.

6. TIAA-CREF Emerging Markets Debt Fund (TEDNX)

[Jerry Orosco](#), trader/portfolio manager at [Intercontinental Wealth Advisors](#), says when his firm seeks a mutual fund manager, it screens for different factors such as performance, experience and costs. TEDNX invests in a spectrum of emerging-market debt including hard currency sovereign, local currency and hard currency corporate debts from countries such as Brazil, Mexico and Indonesia. Orosco says TEDNX has a seasoned investment team that manages a multibillion-dollar pool of assets, including the general account of TIAA-CREF, so the managers bring “their institutional approach of investing in a mutual fund format.” The fund has a low fee of 0.63% and a 12-month yield of 4.89%.

7. Vanguard Emerging Markets Bond Fund (VEMBX)

VEMBX only has a three-year track record, but it has handily beaten its peers in the emerging-market bond category and its benchmark, the JPMorgan EMBI Global Diversified Index. “This could be a great fund if you are looking for international and emerging-market exposure but looking to hold bond positions,” Jass says. Although bonds traditionally offer less volatility than the stock market, he points out that country credit ratings are lower for emerging markets than that of the U.S., so there is greater risk exposure than purchasing domestic bonds. Still, emerging-market bonds may offer higher potential yields. The fund’s holdings include sovereign debt — issued or guaranteed by foreign governments, agencies and political subdivisions — as well as debt securities issued by corporations.

Seven emerging-market funds to buy and hold:

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- Vanguard Emerging Markets Stock Index (VEMAX)
- American Funds Developing World Growth & Income Fund (FDWGX)
- Pimco Emerging Markets Bond Fund (PEBIX)
- TIAA-CREF Emerging Markets Debt Fund (TEDNX)
- Vanguard Emerging Markets Bond Fund (VEMBX)

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