



Fund Bites

Baring ASEAN and Frontier Strategies

This fund bite is an overview of the Baring ASEAN and Frontier Strategies.

Introduction

In this review I want to focus less on the funds and more on the fundamentals of investing in ASEAN economies and frontier markets.



Clearly the world is changing and we have highlighted the growth of the Asian and Emerging Markets. In doing this we have touched on ASEAN

and frontier economies and the potential is that many of these economies are at the early stages of the growth cycle and therefore the potential is very strong.

It should be stressed that although the underlying fundamentals are strong there is the potential for greater volatility within these regions so short term it could be a little bit more like a rollercoaster ride but long term if the fundamentals are right then these could be good long term investment areas.

If we are considering long growth potential then these markets should not be ignored. However in considering them we need to ensure that it doesn't laden too much risk on the portfolios and consider how they blend with other assets.



Another point to consider is that all these areas are like marmite, there are people who point to the underlying fundamentals as being the reason to invest but the counter argument is that these fundamentals are irrelevant. Interestingly the same people have a tendency to ignore the underlying fundamentals of western economies.

We are strong believers in Asian, Emerging, ASEAN and Frontier economies because the underlying fundamentals cannot be ignored, but we are aware that these economies do have challenges.

The funds

Both funds following a similar style; they have a lead manager and a co-manager together with a stand-in manager providing depth to the team. They also have access to the wider group of analysts and managers who feed into the overall process.

Just to touch on the style, they call this GARP – growth at a reasonable price. They are stock pickers with the aim of searching out undervalued companies that will surpass consensus earnings expectations.

There are five key elements:

- Growth – potential for growth surprise
- Liquidity – ability to finance growth
- Currency – sensitivity to currency movements
- Management – commitment to a creditable strategy
- Valuation – is the outlook reflected in the prices

So from a process and philosophy approach their style fits well with the types of managers we are looking for. The types of companies they invest in are larger cap.

ASEAN Frontiers



The ASEAN economies are some of the strongest growth regions in Asia; it includes economies such as the Philippines, Indonesia, Malaysia, Thailand, Singapore, Vietnam.

It is a growing population of around 600 million people.

To provide a couple of examples of economies which are changing the face of this region. In 2000 Indonesia had a public debt to GDP ratio of near 90%, this is now around 30%.

It has one of the lowest credit penetrations in the region and a policy rate of just over 4%, with inflation just below 4%. 67% of the

population is between age 15 to 64 and just over 5% is over 65. The middle class is expected to rise to 48% by 2020.

The picture is similar across the region. Philippines is another growth area and is likely to follow Indonesia. It is no longer seen as the sick man of Asia and has been one of the strongest markets over the last couple of years.

From a demographics side 44% of the population are under 20 years of age.

So the fundamentals for the region are strong but some have a lot to do before they move to mature markets, it is therefore at this stage that the opportunities lie over the long term.

Frontier Markets



This is effectively all regions not covered by developed and emerging markets. It includes economies such as Nigeria, Vietnam, Ghana, Saudi Arabia. Many of these are inefficient markets at the early stages of development, in fact similar to emerging economies twenty years ago.

It is estimated that the average growth across these economies between now and 2055 will be 5.8%. Emerging markets is expected to be just under 5% over the same period and developed markets below 3%. Growth is one aspect but demographics are also an important factor.

Population growth is expected to be significantly greater than the developed markets and emerging markets and population is much young.

Where emerging markets is seeing a growth in the middle classes many of the frontier markets are some way behind. Car ownership is around 70 per 1,000 adults and debt is low at around 10% of GDP and public sector debt is below 40%.

So the story is there but these are inefficient markets and it is difficult to do business in some of these economies. We have seen specialist funds in Africa fail but frontier funds do provide diversification across regions.

There is the potential for long term opportunities however short term it will be volatile.

Conclusion

There are two aspects; clearly we believe there are opportunities in these regions. We accept that the underlying story is not the only reason to invest however it is the underpinning factor which drove developed markets to where they are today and when you consider this then you can see why there is the potential for long term opportunities.

In meeting fund managers we believe it is important to use specialist fund managers and from our experience with Barings they fit that aspect well. We will over the next 12 months monitor these funds and consider how they may potentially fit into the portfolios.

The source of information in this note has been provided by Barings and is correct as at 25 June. 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.