# SHINING A LIGHT ON……
# JOHCM ASIA EX JAPAN EQUITY FUND

**At a glance**

For investors Asia appears unfavourable and has done so for the last three years due to (perceived) relatively poor returns. Taper talk in 2013 again highlighted the fragility of the region. Investors have therefore turned to developed markets where returns have been stronger. However, 2014 has surprised many with Asian markets being some of the strongest year to date.

First State and Aberdeen have traditionally dominated these markets for investors but they have in recent months tried to discourage investors as their funds become too big, and there becomes a danger that performance suffers as a result.

For investors the available universe of funds remains narrow but within this there are clearly some really talented managers meaning that investors don't need to go where they have traditionally gone.

One these managers is Samir Mehta who manages the JOHCM Asia ex Japan Fund alongside his colleague Cho-Yu Kooi who manages the Small and Mid-Cap Fund.

The fund has an excellent track record and his strategy and insight is fascinating and for this reason the fund is worth consideration.

**Who are the team behind the fund?**

Samir Patel has experience dating back many years; originally cutting his clothe at Lloyd George and then in his own business before this was purchased by JOHCM. With a tricky market this experience has enabled him to see through a number of crises in Asia in 1997, 2000, 2003, 2008 and a mini crisis in 2013.

As we will touch on his learning through all of this is that good companies demonstrate resilience in the bad times, and do well in the good time. This philosophy has paid dividends with Samir demonstrating stronger than average returns against his peer group (source: trustnet).

He is supported in managing the fund by Cho-Yu Kooi who he has worked with for a number of years.

**What is the story behind the investment?**

The Asian Markets consist of 11 diverse markets which continue to grow their share of global output. In 2000, these markets represented less than 20% of GDP. This is expected to rise to 35% by 2017.

The main trends underpinning these economies are:

- **Increasing consumption**: Greater industrialisation and the emergence of an urban middle class are generating greater wealth, which in turn raises domestic consumption.
- **Strong economic fundamentals**: Many Asian economies entered the global downturn with relatively sound fiscal positions and monetary policies. This has allowed governments in the

region to implement interest rate cuts and fiscal stimulus packages, thus maintaining domestic consumption levels.

- **Favourable demographics**: Young, fast-growing populations and a shift from rural areas to cities, combined with increases in national and personal income, are stimulating strong economic growth.
- **Improved corporate governance**: This has given rise to a new generation of world-class companies that are increasingly capable of delivering superior returns.

The recent volatility in the markets has seen investors move away from these economies to 'safer' developed economies. However, the fundamentals behind investing in Asia remain and long-term investors are likely to be rewarded.

**Fund highlights?**

The fund currently has 48 stocks with the top ten holdings making up 30% of the fund. Geographically the biggest over weights are India and the Philippines. China has a high weighting in line with the benchmark and together with India and Hong Kong makes up nearly 60% of the fund.

Speaking to Samir he doesn't want to focus on the macro side and although countries do have a place within the fund it is the companies which are crucial. His aim is to find those companies which can still perform whatever the environment.

Of course this doesn't mean that stocks won't fall in 2013 the fund had nearly 25% in India and when the rupee dropped in value many stocks saw falls of up to 40% or more. The holdings in the fund suffered around 7% falls reflecting the strength of the businesses. Samir did trim back his exposure to India but has recently increased this back up to just above 23%.

The fund has two elements to it; core holdings which make up around 75% of the fund and cyclical holdings which makes up the balance.

Cyclical holdings are good companies trading at a discount and often unloved by the market. The assumption is that unless something is fundamentally wrong with the company the price will correct and at this point Samir will take profit. These investments tend to help short term performance but long term 90% of the returns will come from the core holdings.

The types of businesses Samir focuses on are those which are scalable, growing businesses but they only are considered for the portfolio if Samir is satisfied with the underlying fundamentals. Much of the understanding of this is done by looking at past data and identifying potential anomalies as well as doing work on the ground by speaking to competitors, suppliers and managers.

Samir explained that the businesses will not necessarily be cheap but equally he will not buy in at any price, so the price threshold to invest has to be right and if he feels it is too high then he won't invest until the price comes down.

This whole process demonstrates the focus on risk, reward and return. Where some funds may have sudden accelerations in performance only to peg back, this will be steady capturing the upside as well as protecting (as far as possible) the downside.

We touched on Asia and the prospects for the region especially with such negative sentiment. He believes that the market is cheap and out of favour which forms part of the ingredients needed to deliver strong returns going forward. India is one area he particularly favours, the recent election has seen the introduction of a reformist government who should help to stabilise and accelerate reforms already taking place. India has for some time been neglected by investors and he believes now is a sweet spot for investing in the region with potential for strong returns. China is more complicated but the changes being made shouldn't be ignored by investors.

The fund is heavily weighted towards India and China and investors should be aware of this and be happy with this concentration of holdings. However, the style of management is more cautious which may suit investors coming back into the region.

**Fund performance**

The table below shows performance since launch (30 September 2011) up to 31 July 2014:

| | 2011 | 2012 | 2013 | 2014 | Since Launch |
|---|---|---|---|---|---|
| JOHCM Asia ex Japan Equity Fund | 7.60% | 20.35% | 4.44% | 6.60% | 44.17% |
| iShares MSCI AC Far East Ex Japan | 5.36% | 14.03% | -1.21% | 4.62% | 24.17% |

*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. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

**Conclusion**

A fund with a proven track record and a good management team; the focus is on sustainable long term returns rather than chasing short term success. It is potentially an interesting fund for those looking to get back into Asia.

*The source of information in this note has been provided by JOHCM and is correct as at August 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. 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 rise.*