

Fund Bites

JOHCM Asia ex Japan Fund update

The JOHCM Asia ex Japan Fund is not part of our portfolios but is a fund under consideration. This "fund bites" is a summary of the recent meeting we had with the fund manager Samir Mehta.

Introduction

With capacity issues both at Aberdeen and First State we have indicated in a number of updates our desire to look outside of the box for alternatives. Two funds came onto our radar from JOHCM; one is an all cap fund and one a small and mid-cap fund.

The all cap fund is managed by Samir Mehta and the small and mid-cap fund by Cho-Yu Kooi. Each manager is the co-manager on the other fund so effectively they both work closely together. They have worked together for 13 years originally at Lloyd George, and then their own company before joining JOHCM.

These funds were launched in 2011, they are Dublin based funds and for this reason we haven't been able to consider these as part of the portfolio until the end of this year at the earliest.

We have already done the forensic analysis of the funds; we wanted to meet the manager however this was always going to be problematic as he is based in Singapore. We were invited to meet him when he came to the UK.

These notes are a summary of that meeting, and our thoughts on their Asian strategy.

The Fund



Samir (see picture) has worked through a number of crisis in the Asian markets in 1997, 2000, 2003 and 2008 and the shock (and this is all he feels it is) in 2013. What he has seen

is that good companies demonstrate resilience in the bad times, and do well in the good times.

His argument is that good businesses will do well whatever the market thinks. This doesn't

mean they are cheap but they are good quality companies.

Sometimes the macro picture goes against them. The fund held around 25% in India, recent changes in the Indian market meant that competition was effectively strangled because it made it harder for new businesses to get credit and therefore gain market share. This meant good companies could provide good value for money.



What they didn't expect was the turn on the Rupee. Some of the big companies took a 40% plus hit on the share price, in

the fund the drive to seek out good companies meant that the hit was around 5 to 7%. Dr Reddys was an example stock they currently hold, the profit numbers are good and although they got the macro picture wrong the equity was able to demonstrate resilience.

They have trimmed back on holdings in India, holding around 17% but they still believe in the underlying companies.

At the heart of the fund is searching for good companies and we spent some time talking



about this. Before we look at the core holdings the fund does have what it calls cyclical holdings. Rather than the deep

forensic analysis this is more about valuation, balance sheets and sentiment. So for example, Samsung was trading at a discount in September 2011 when it wasn't liked and was being sold. So as people were selling Samir was buying. As the shares rallied Samir sold out in June 2012.

A recent purchase was Quanta Computers who are manufacturers or laptops and PCs for major brands. Sales are down but it has strong balance sheets and it is paying a dividend

yield of 6.5%. It is cheap and therefore Samir feels you are being paid to wait.

These holdings make up around 20 to 25% of the fund and typically are held for between 12 to 18 months and have a holding average of between 1 and 1.5%.

The cyclical stocks help the fund keep up with the market when the core stocks are out of favour but over a 3 to 5 year period 90% of the performance comes from the core stocks. The core holdings are really where the focus is and the fund is more driven towards the midcap. The view is that it is these businesses that will be in the index in 5 to 10 years - so scalable, growing businesses.

For the core holdings there is what I call the forensic analysis, this is looking at 8 years past information to assess if there are any anomalies with the data.

Once they are satisfied with this they then embark on meetings. All three attend meetings (this includes the analyst) and they attend between 600 to 700 meetings a year. Samir admitted this was the subjective part but they look to speak to the managers, competitors, and suppliers etc to really understand the business.

Once they come through this it is about deciding at what price they buy.

Some examples we talked about were Sands Casinos. This is a well-run business but with a crackdown on corruption in China there is a



danger this could be dragged into any investigations and therefore Samir is not

prepared to take this risk in the portfolio and therefore he has taken the profit and sold.

An example of a recent holding is Biostime, they distribute imported paediatric nutritional and baby care products in China. It listed in 2010, with the negative history in China

around baby milk and the fact this was an IPO Samir didn't buy in at the start. He started buying in 2011 and the shares have relied strongly and he believes there is still opportunity within the shares.

The core holdings are an important part of the portfolio and account for around 75 to 80% of the portfolio. Conviction is shown with these stocks with holdings between 2% and 5.5%.

We talked about risk and different countries. There are countries where he has concerns; one Asian country he mentioned is difficult to invest in because of language and cultural



differences. The companies also tend to focus on market share rather than profit. We talked about

corruption and he admitted that there is the danger that he could be caught out if a business is corrupt but he does try to mitigate that risk so for example in China he only invests via the Hong Kong stock markets.

The portfolio is well diversified and can invest across 11 countries. As a rule of thumb the fund invests a maximum of 25% in larger countries and around 15% in smaller countries.

Economically Asia has suffered recently, Samir feels the dollar is important because most of the contracts is in dollar. The withdrawal of cheap money will impact some economies but we are not talking about an Asian crisis as was seen in 1997/98 and many governments are adjusting to reflect the restriction of cheap money.



I asked whether Japan QE would help as some fund managers have indicated, his view is

that it will have a marginal impact because of the currency issues. To demonstrate the markets fear or Asian markets, August saw \$60 billion of equities sold and debt was much higher. The difference now is that although growth is slowing the margins are better and this is being ignored by the markets.

In summary the review was mainly about the all cap fund but the same process applies to the small and mid-cap fund. It has assets of around \$100 billion and with Samir you are buying into a manager who has experience across different markets and an excellent track record. For this reason we believe that this fund should be added to our watch list.

Conclusion

We have a number of good Asian funds to consider as replacements to Aberdeen and First State. These funds certainly on paper look very good. The key is the ability to access these and we should know more about this by the end of the year.

The source of information in this note has been provided by JO Hambro and is correct as at 27 September 2013. 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.