

SHINING A LIGHT ON..... BARING ASEAN FUND

At a glance

First State and Aberdeen have dominated the Asian and Emerging Retail Investment Market. The managers are now looking to limit new money coming into their funds as they have grown in assets to a level that limits investment options.

For some Asia may not be a region to consider especially with the poor returns over the past couple of years against Western economies. For others now may be a good time to invest, the old adage 'invest when others are fearful'. With this in mind the question arises as to where is the best place to invest.

Many pure Asian Funds will favour particular economies and many have a bias to China and Hong Kong. There is an argument that by doing this investors can miss out on the ASEAN (Association of South East Asia Nations) economies and there are strong reasons to consider investing in this area.

The Barings ASEAN Fund specifically targets this region with a strong track record going back to 2008. In this review we will consider whether this is the right investment for investors.

Who are the team behind the fund?

Soo Hai is the lead manager of Baring Australia Fund and Baring ASEAN Frontiers Fund, and directs research in Australasia and ASEAN markets. He is also a key member of the portfolio construction team for their Asian regional mandates. He joined Baring Asset Management in November 2005. Prior to joining Baring Asset Management, he was the country specialist for Australia and Malaysia at Daiwa SB Investments (Singapore) where he spent 5 years.

Kai Yang is the co-manager of Baring ASEAN Frontiers Fund and is involved in ASEAN research and the management of Asian regional portfolios. He joined Baring Asset Management in 2006 from HSBC where he worked for five years.

Fund highlights?

The index this year is down nearly 4% whereas the fund is up over 6%. Since launch the fund has returned nearly 95% compared to the index of nearly 40%. Clearly these regions offer investors growth potential but it comes with greater volatility.

The region is made up of "developed" economies (Singapore, Malaysia, Indonesia, Thailand and the Philippines) and "frontier" economies (Brunei, Cambodia, Laos, Myanmar and Vietnam) and this makes it an interesting region to focus on.

The argument for many is that there are not many Asian funds which invest in this region and that is true. But the manager invests around 70% of the fund in "developed" economies and in fact four of the top 5 holdings are from Singapore making up nearly 20% of the fund which means access to the smaller frontier economies is still restricted. In fact those wanting to access some of these economies may be better served using a frontier or emerging market fund and it is likely there will be some cross over in holdings.

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This region is strategically well placed between China, India, Japan and Australia. Japan has invested significantly in the region as has China. In fact trade with China is expected to reach \$500 billion this year.

The region is the eighth largest economy in the world and there are changes coming in next year which will have a significant upside to the region; including a breakdown of trade barriers and tariffs between the regions and this will significantly change the face of the region making it a stronger trading platform.

We have been impressed by the management team who have been at the helm since launch and are looking to exploit the opportunities within the region. Clearly investing in Frontier Markets would expose the fund to greater volatility and risk and the managers are careful not to do that and hence the 70 / 30 split. The managers also focus on large to mega cap companies again reducing risk for investors.

The top ten stocks are around 30% of the fund which shows a high degree of conviction but four stocks make up nearly 20% of that and certainly Singapore is a favoured region with financials making up 30% of the sector holdings.

Although there is conviction at the top there is a drag in that the fund has 93 holdings which seems large. However, this hasn't hampered performance and one suspects listening to the managers that to some extent this controls and protects volatility.

A concern with the fund is that if this region is out of favour the manager has nowhere to go. We have seen that with BRIC Funds which have had to change their objectives to enable them to invest in other regions. In 2013 clearly the fund suffered harder than other Asian Funds because some countries like Indonesia which saw their currency fall heavily as a result of taper talk.

An investor already holding Asian, Emerging and Frontier Funds may already have exposure to this region and therefore the investment could be just doubling up on what they already have. Investors need to take care. It may act well as a blend with an Asian Fund especially where it has little exposure to the area.

The management team is strong and they have demonstrated strong performance. The changing dynamics of the region cannot be ignored and therefore this could offer investors a good investment opportunity. Even with the large portfolio the fund is likely to be more volatile as 2013 demonstrated and investors will need to accept that if they are to invest in the fund.

Fund performance

The table below shows performance since launch (5 August 2008) against First State Aberdeen and the index:

	2009	2010	2011	2012	2013	2014	Since Launch
Barings ASEAN Fund	67.66%	43.29%	-11.20%	16.82%	-8.07%	6.15%	94.46%
Aberdeen Asia Pacific Fund	52.49%	31.48%	-14.70%	18.80%	-5.08%	2.46%	70.45%
First State Asia Pacific Leaders Fund	34.99%	26.80%	-7.90%	18.60%	0.43%	2.26%	84.11%
iShares MSCI AC Far East Ex Japan	33.27%	34.93%	-16.58%	14.03%	-1.21%	-3.70%	38.74%

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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

The fund has clearly been able to demonstrate value within the region and could be used as a standalone offering if investors are prepared to accept the volatility or as a blend with another Asian Fund. However, care needs to be taken where investors use Emerging Market or Frontier Market Funds as there could be a crossover of holdings.

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