

SHINING A LIGHT ON..... ALQUITY ASIA FUND

At a glance

Ask many people looking to invest in Asia and Emerging markets who they would choose and the usual suspects are Aberdeen and First State. Both companies have a right to be in that space with strong performance and a good reputation. However, with success comes challenges and in both cases we have seen them limit access to their funds for new investors.

This has been good because it has forced people to look elsewhere and in our travels we have found that there are many alternatives in the market and amongst them it is possible to find hidden gems. One of these potential gems is the Alquity Asia Fund.

There are a few things which we like about the fund but two things we think stand out. Firstly the manager adopts an Environmental, Social and Governance (ESG) Policy under the investment process and secondly part of the company profits are given to transforming lives.

What investors may be more concerned about is the track record. The fund was only launched in May 2014 and although it has delivered strong performance some may argue they need to see a 3 to 5 year record before investing. It is certainly something to consider.

In this update we shine some light on the process and investment style.

Who are the team behind the fund?

The fund is managed by Mike Sell who has almost 20 years' Indian Subcontinent and Asian experience. Prior to joining Alquity he worked at Baring, Thames River and more recently F&C.

At Baring he managed their Peacock Fund as well as being responsible for all Indian equities owned by Baring's institutional and mutual fund clients. At Thames River he was a partner responsible for Asian Investments and at F&C he was manager of their Asian Alpha Fund.

Fund highlights?

In the meeting we started with a brief introduction to the business and what Mike is aiming to achieve. He explained that his aim is to achieve top quartile returns as well as absolute returns. He further explained that this isn't an absolute return fund but he wants to avoid losses for clients which brings in a discipline to his investing. He is also invested in his own fund so he is aligned with fellow investors.

The fund has a social brief and avoids gambling, tobacco, spirits and armaments which are considered harmful. He doesn't rule out wine and commodities which many frontier and emerging economies rely on. As a consequence of this about 10% of investors have an ethical stance with the balance being agnostic!

He also added that the mantra they work under is 'transforming lives' whereby they invest 15% of what they receive into the environments they invest in through things like micro finance.

It also about long term investing and currently the themes he is focusing on are urbanisation and age demographics. The macro (Country) environment does play a part but the companies are where he

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focuses. Currently the fund has 42 stocks but he can invest in anything from 25 to 50 stocks from a universe of 10,000.

Understanding a country is important as the stocks need to be liquid. They also don't want to have lots of stocks as they carry out deep research on each company they invest with an aim to meet companies at least twice a year. For example, they have money invested in Chinese property and they have been out in China seeing these investments. As he explained not all property is bad you just have to find the right investment.

Transparency is also really important and however good something looks if the transparency isn't there he won't invest. It was interesting during the meeting we went through some of the stock analysis reports they do and it is clear how much detail they go into before investing which must provide some reassurance for potential investors.

We then talked about some of the opportunities. Mike likes Vietnam and explained about a holding called Puregold which is a low end supermarket. The reasoning behind it is simple, it is the next step up from street market shopping and has proved a successful model.

Another area is India and we discussed for some time the reforms and whether they have run out of steam. Mike feels they have stalled rather than stopped and there is much more to come. One company he likes is Voltas who produce air conditioning units. As he explained in India 3% of the population have units, in China it is 53%. The growth potential is there and he feels India is where China was about ten years ago.

Taking a quick look at the top ten names I wouldn't say they are your usual suspects. As a quick snapshot; the largest holding is a Vietnamese Bank, Vietcom Bank and other banks include Habib Bank (Pakistan) and Brac Bank (Bangladesh) but it also holds retailing stocks like Puregold and Matahari (Indonesia). This makes it an interesting set of investments.

I found the discussion fascinating, and the ethical slant interesting. Ultimately it comes down to performance and to date this seems to stack up. It may not appeal to all investors (because of its short track record) but it could act as a standalone fund or a blend with another Asian fund. We will continue to monitor this fund over the coming months.

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Fund performance

Performance since launch (5 May 2014) to 30 September 2015

	2014	2015
Alquity SICAV Alquity Asia Fund	13.80%	-7.01%
iShares MSCI AC Far East Ex-Japan	9.97%	-13.08%

1 year and since launch performance:

	1 Year	Since launch
Alquity SICAV Alquity Asia Fund	0.64%	5.82%
iShares MSCI AC Far East Ex-Japan	-9.57%	-4.42%

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.

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