SHINING A LIGHT ON……
ALQUITY ASIA FUND

Update….

Trying to find good Asian Funds which are accessible to all is really difficult. The range of funds are simply not there, and understanding how managers invest can add to the complexity. For example, it is not unusual for funds that invest in Asia, Emerging and Frontiers Markets to invest in global companies which derive more than 50% of their business from these markets. Therefore, investors need to somehow cut through all of this to find a fund which reflects what they are looking for.

One fund which we think is worthy of consideration is the Alquity Asia Fund. Alquity we believe is a forward thinking investment manager and on Shininglights.co.uk there is an interview with Suresh Mistry a Director at Alquity which covers this in more detail. However, in this update we talk to the manager, Mike Sell, about the fund and the opportunities he is finding in the market.

Since our first meeting assets in the fund have doubled with investments coming from a broad range of investors both in the UK and Europe. The last 12 months have been tricky but the fund has responded well. In Q3 2015 when the markets struggled the fund was able to deliver some downside protection and coming into Q4 the fund responded strongly helped by Vietnam which is one of Mike's favoured regions. (The funded ended 2015 slightly positive).

In the first quarter of 2016 the whole market went down and there was little that could be done; the market responded irrationally. Mike added that the mantra for investing is about operating in a rational market with good fundamentals and this is where the fund does best.

The fund is not about short term trades but investing long term. This can create a lag and when the market bounced in mid-February the fund was slower to respond. There are a few reasons for this, firstly the short term trades are the ones likely to make the quickest return in the short term (for obvious reasons) and the fund doesn't do this, secondly the fund has a larger weighting to India, false rumours about capital gains meant that when everything was going up investors where still selling India driving down prices and finally the fund has a bias to frontier markets and these tend to be slower in responding.

Where the fund is different is that it is looking for the next investment story and hence the bias to frontier markets. It is these economies that are in the same place as emerging markets 20 years ago and Mike believes Asia Frontiers is a massively under researched region and people just don't look because it doesn't appear on benchmark that many follow. So with this fund the top holding is from Myanmar and Vietnam is the third largest region.

Currently this is a domestic play with no exposure to commodities, energy, telecoms and utilities but a strong focus on banking, retail and real estate. The argument is that with all the uncertainty in the world the domestic play will still work; there will always be a demand for UHT milk and air conditioning units! The fund not only combines a search for the next investment story geographically but also within that the size of the company he invests in. Unlike some funds which claim to be small cap this fund does have a bias to small cap with over 70% in companies with market values below $5billion.

It isn't a deliberate strategy and this could change but it is where Mike is finding the opportunities. It does mean that there is a limit to the size of the fund and it is expected that the fund can grow to around $450 million before limiting flows of new money. (There is still some way to go before the fund hits this limit).

We talked country specifics and Mike explained that although it is about the companies, the countries do play a part. So political uncertainty in Thailand and a heavy reliance on oil in Malaysia currently means there is no exposure in these regions. Whereas India is a region he likes because it benefits from lower oil prices, reform (although this is slow), demographics and a cyclical recovery. If anything the start of the year enabled him to buy on weakness.

In China there are opportunities around the consumer so in property, distributors of high fashion like Nike and Adidas and cinema chains. We alluded to the fact that the fund has a bias to Frontier Markets and Mike expanded on Vietnam which has strong GDP growth, low wages and a young population. Where there are opportunities are in property construction and cement producers. Likewise, Pakistan is benefiting from the China Economic Corridor and investments in the cement sector produce good opportunities.

There are seven economies where Mike sees the greatest opportunities; India, Vietnam, Philippines, Pakistan, Myanmar, Bangladesh and Sri Lanka. I asked whether there was added risk with political instability. Mike added there is political risk around the world whether in the US, UK or Philippines but it can be heightened in these regions. Where there is an event that might hurt the investment Mike will hedge out the risk, this may mean that some growth is lost but it protects on the downside and this really highlights that although this fund looks to grow investments it is not about taking big risks.

In summary our view remains that for investors looking for Asian funds this is one to consider. On the downside it has a short term track record and this may deter investors. On the flip side the fund is about looking to the future and not focusing on the past and this could distinguish the fund from more established funds in the future.

Fund performance

Performance from launch (5 May 2014) to 12 April 2016:

	2014	**2015**	**2016**
Alquity SICAV Alquity Asia Fund	13.80%	1.31%	-1.62%
iShares MSCI AC Far East Ex-Japan ETF	9.97%	-7.98%	5.38%

Performance over 12 months and since launch:

	12 months	Since launch
Alquity SICAV Alquity Asia Fund	-10.16%	13.42%
iShares MSCI AC Far East Ex-Japan ETF	-18.08%	6.63%

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.

The source of information in this note has been provided by Alquity and is correct as at April 2016. 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.*