

**SHINING A LIGHT ON THE.....
Hermes Asia Ex Japan Fund**

AT A GLANCE

Investment Objective	
The investment objective of the Fund is to achieve long-term capital appreciation by investing primarily in a portfolio of equity securities and equity related securities (such as global depository receipts and American depository receipts) issued by companies in or deriving substantial revenues from emerging countries within the Asia excluding Japan region.	

Inception Date	5 th December 2012
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F000000ZCW

Management	
Manager Name	Start Date
Jonathan Pines	1 st October 2013

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	37.18%
Large	42.52%
Medium	18.75%
Small	1.56%
Micro	0.00%

Top 10 Holdings		
Total number of holdings	65	
Assets in Top 10 Holdings	37.69%	
Name	Sector	% of Assets
Baidu Inc ADR	Technology	5.66%
Alibaba Group Holding Ltd ADR	Consumer Cyclical	5.37%
JD.com Inc ADR	Technology	4.02%
Clsa P-Note Wuliangye 'a	-	3.88%
LG Chem Ltd	Basic Materials	3.66%
COSCO SHIPPING Ports Ltd	Industrials	3.37%
Samsung Electronics Co Ltd	Technology	3.10%
Hyundai Steel Co	Basic Materials	2.96%
MediaTek Inc	Technology	2.86%
Kunlun Energy Co Ltd	Energy	2.80%

Volatility Measurements	
3-Yr Std Dev (volatility)	15.74%
3-Yr Mean Return (average)	21.36%

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FUND PERFORMANCE

Performance from 1st January 2013 to 31st January 2018:

	2013	2014	2015	2016	2017	2018
Hermes Asia Ex Japan Equity Fund	25.85%	14.69%	4.24%	30.65%	33.27%	1.76%
iShares MSCI AC Far East Ex Japan	0.54%	8.54%	-5.92%	27.34%	28.84%	2.21%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since launch
Hermes Asia Ex Japan Equity Fund	30.13%	72.55%	149.13%	176.37%
iShares MSCI AC Far East Ex Japan	26.17%	51.27%	67.21%	83.78%

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.

UPDATE....

There are a number of funds in the Asia Sector and it is very easy to see that many invest in the same companies (i.e. there is little diversity within the sector). This fund was launched in 2012 and has consistently outperformed its benchmark. The fund itself has for some time been closed to new money and this is deliberate to protect existing investors. The fund is managed by Jonathan Pines and our meeting was with James Cook who is part of the investment team that manages the fund.

We started by discussing how the market responded last year and James acknowledged that much of the returns came from the big four companies; Tencent, Baidu, Alibaba and Samsung. They do hold three of these companies and the fund did well with its exposure to these stocks, as well as other large cap names. Where they didn't do well was in their small / mid cap stocks. James explained that this isn't because stock selection was wrong, but was a reflection that 60% of the flows into Asia went into passive instruments; as this is predominantly large cap this has artificially pushed up prices.

Even with this headwind the fund outperformed. This is reflective of how Jonathan approaches the management of the fund. He is looking for those companies missed by the market, and although he may hold the likes of Baidu it is because he believes there is value in the trade. So, for example Tencent is trading at 55 times earnings but Baidu, which he believes to be a better run company, is trading at 14 times.

Some of the stocks he holds have fallen and much of this is driven by the market not understanding the business. But as patient investors they are happy for some stocks to remain "dormant" because it is these that will drive the returns in the future. As an example, SL Corporations make lamps for the likes of Hyundai and GM – they were hit by China / South Korea relations irrespective of how good the business was. It holds 7% global market share and as sentiment improved so the share price improved.

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Other examples include Hyundai Green Food – the market is focused on the catering business which only makes up 10% of the business. The rest covers land, cash and other listed businesses and it is these parts that add value to the shares. Taiwan Fertilizer is operating in a depressed market but again the market is missing other parts of the business. It is a big land owner, the value of which has doubled, and rental income is growing. Other examples of holdings include LG Cam and Samsung SDI.

The fund is focused on China and Korea and they are bullish for returns moving forward mainly because their best names haven't performed yet. To some extent this will protect if the market falls as many of the share prices are already depressed but when sentiment improves then these will re-rate. Jonathan likes neglected stocks and often it is in this part of the market that the real gems are found.

Jonathan isn't worried that the fund is focused on China and Korea. He knows parts of the market are expensive, and some are cheap for obvious reasons, just likes banks. He wants to be buying things that perhaps others are missing. This is a pure stocking picking fund and he knows much of this is about talent, but he cannot rest on past success and this is what drives him.

We talked about India and James explained that if the valuations dropped and opportunities arose then Jonathan would look to India but at the moment the opportunities are simply not there.

In summary, the fund continues to perform strongly and although it does hold some well-known stocks it also focuses on finding the hidden gems which is how James believes the fund can and will continue to outperform. The fund is currently closed to new money and therefore only existing investors can invest in the fund.

The source of information in this note has been provided by Hermes and is correct as at February 2018. 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. We would also recommend that you receive advice before following up on any decision.