SHINING A LIGHT ON THE……
Stewart Investors Asia Pacific Leaders Fund

AT A GLANCE

Investment Objective
The Fund aims to achieve long-term capital growth by investing in large and mid-capitalisation equities issued by companies that are incorporated or listed, or which conduct the majority of their economic activity in the Asia Pacific region (excluding Japan, including Australasia).

Inception Date	1st December 2003
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04H80

Management	
Manager Name	**Start Date**
David Gait	1st July 2015
Sashi Reddy	1st June 2016

Investment Style Details	
Equity Style	
Market Capitalisation	**% of Equity**
Giant	40.55%
Large	55.37%
Medium	4.08%
Small	0.00%
Micro	0.00%

Top 10 Holdings		
Total number of holdings	46	
Assets in Top 10 Holdings	44.90%	
Name	**Sector**	**% of Assets**
Tata Consultancy Services Ltd	Technology	6.96%
Oversea-Chinese Banking Corp Ltd	Financial Services	5.28%
Mahindra & Mahindra Ltd	Consumer Cyclical	5.21%
Unicharm Corp	Consumer Defensive	4.50%
Tech Mahindra Ltd	Technology	4.46%
CSL Ltd	Healthcare	4.41%
CK Hutchison Holdings Ltd	Industrials	3.74%
Hong Kong and China Gas Co Ltd	Utilities	3.55%
President Chain Store Corp	Consumer Defensive	3.47%
Brambles Ltd	Industrials	3.32%

Volatility Measurements	
3-Yr Std Dev (volatility)	12.24%
3-Yr Mean Return (average)	9.73%

FUND PERFORMANCE

Performance from 1st January 2013 to 30th April 2018:

	2013	2014	2015	2016	2017	2018
Stewart Investors Asia Pacific Leaders Fund	1.17%	19.96%	2.04%	19.70%	13.45%	0.97%
iShares MSCI AC Far East exJapan ETF	0.54%	8.54%	-5.92%	27.34%	28.84%	-0.68%

Performance over 12 months, 3 years, 5 years and 10 years:

	1 year	3 years	5 years	10 years
Stewart Investors Asia Pacific Leaders Fund	7.78%	29.49%	55.95%	182.06%
iShares MSCI AC Far East exJapan ETF	16.74%	33.79%	60.25%	123.13%

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….

On paper the performance of this fund is not fantastic, and this may deter investors. The managers explained that the fund will outperform in rising markets 42% of the time. This doesn't sound great, but it explains a lot of what they aim to achieve. Their key focus is capital preservation and to understand how much money they can potentially lose.

In a strong market which we are currently seeing the fund tends to lag. As they explained tech companies have driven the markets and although they might look to own these companies they are expensive, and they are not comfortable with the corporate structures. For example, you are not buying Alibaba but a shell company. It is likely that the structure wouldn't be tested but if the government took over the company then how would you get the money back.

Another concern is political risk. The Chinese President has purged all opposition and now power is very concentrated. If the owners of Tencent and Alibaba stray into politics, there is a risk to these companies. Tencent also has another worry for them in that 70% of the business comes from games and they don't see this as a stable form of long term earnings. In summary, although they see these as potentially good businesses they have concerns over management, accounting and how they report information.

The advantage with their strategy as they see it is that they have a blank sheet of paper to work from. They look at each company with the same thought process i.e. what are we entrusting client's money to. In terms of companies they don't have to invest directly in China, but they can have exposure. The fund has about 15% exposure to China and India.

Some examples include Unicham, Nippon Paint and Pigeon. All are Japanese companies which have exposure to China. Unicham makes nappies and sanitary products and started to expand into China twenty years ago. It has always taken a long-term view and therefore is prepared to wait 10 years plus for the expansion to work. As China is starting to pay dividends for the company they have started to expand into India and Indonesia, again taking a longer-term view.

Nippon Paint is a Japanese company but has the largest market share of paint in China. Pigeon is a leading baby products business. In Japan there are 1 million births a year, in China there are 17 million and in India 27 million. They have used their free cash flow to build exposure to China and this now accounts for 60% of the business. They are now expanding into other countries.

If these companies were listed in China, they would be a lot more expensive. The other advantage is that these businesses do not carry political risk: - baby products, nappies, sanitary towels and paint will be needed whatever happens in the political arena.

Tata Consulting is their largest holding and although based in India is a global franchise with projects with the NHS, and in Canada, so again what happens in India has nothing to do with how the business operates.

In terms of management they are very careful. They like to see family ownership and are mindful of businesses moving into next generation ownership. Just because the business was well run under one generation it doesn't mean the next will do the same. Ownership structures are also important, for example with Samsung the family own 20% of the business but have full control.

Fundamentally, when investing they start with the company but they consider country risk as well. Political risk is important as political connections can be a weakness and not a positive.

In summary, it is clear from the update that the managers are risk aware but equally they operate with a total return mindset. This approach means that there will be companies which other funds hold which would not appear in their holdings. The performance hasn't been strong, but it is a fund which the managers believe is a long-term hold which can cushion on the downside and capture some of the upside. In runaway markets the fund will lag but in underperforming markets this fund tends to perform stronger.