

**SHINING A LIGHT ON THE.....  
Alquity Asia Fund**

**AT A GLANCE**

<b>Investment Objective</b>	
The aim of the fund is long term capital appreciation by investing at least two-thirds of its net assets in i) equity securities listed on the Regulated Markets of countries in Asia (the "Asian Region"); (ii) equity securities listed on the Regulated Market outside of the Asian Region, whose issuers either have more than 50% of their revenue, net income and /or operating profit, in the Asian Region.	

<b>Inception Date</b>	5 May 2014
<b>Fund Factsheet Link</b>	<a href="http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000TFHU">http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000TFHU</a>

<b>Management</b>	
<b>Manager Name</b>	<b>Start Date</b>
Mike Sell	5 May 2014

<b>Investment Style Details</b>	
<b>Equity Style</b>	
<b>Market Capitalisation</b>	<b>% of Equity</b>
Giant	5.28%
Large	35.47%
Medium	32.58%
Small	15.45%
Micro	11.22%

<b>Top 10 Holdings</b>		
<b>Total number of holdings</b>	40	
<b>Assets in Top 10 Holdings</b>	37.78%	
<b>Name</b>	<b>Sector</b>	<b>% of Assets</b>
PT Matahari Department Store Tbk A	Consumer Cyclical	4.98%
Ma San Group Corp	Consumer Defensive	4.77%
Joint Stock Commercial Bank for Forei...	Financial Services	4.41%
Mahindra & Mahindra Financial Service...	Financial Services	3.91%
Yuzhou Properties Co Ltd	Real Estate	3.44%
PT Ace Hardware Indonesia Tbk	Consumer Cyclical	3.35%
Ping An Insurance (Group) Co. of Chin...	Financial Services	3.33%
IndusInd Bank Ltd	Financial Services	3.24%
V-Mart Retail Ltd	Consumer Cyclical	3.18%
Yes Bank Ltd	Financial Services	3.16%

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Volatility Measurements	
3-Yr Std Dev (volatility)	12.63
3-Yr Mean Return (average)	9.13

## FUND PERFORMANCE

Performance from 5 May 2014 to 31 January 2018:

	2014	2015	2016	2017	2018
Alquity SICAV Alquity Asia Fund	13.80%	1.31%	12.18%	19.18%	2.41%
iShares MSCI AC Far East ex-Japan	9.97%	-7.98%	24.94%	28.84%	2.21%

Performance over 12 months and since launch:

	1 year	Since Launch
Alquity SICAV Alquity Asia Fund	20.85%	52.17%
iShares MSCI AC Far East ex-Japan	26.17%	76.45%

*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....

We have met the fund manager a number of times and although we like the management style and philosophy, the performance has always been a point that we have struggled with. Much of the reason for the underperformance reflects the style of management of the fund and what it doesn't hold (and wouldn't hold). Mike explained that the fund does not hold many of the big tech stocks, where he believes corporate governance is weak, but they have actually delivered exceptional returns leaving his fund lagging in the ratings.

The fund itself is focusing on domestic growth and has a good weighting to frontier stocks, which makes it different from many funds operating in this area. There is a strong argument that if large cap growth companies have outperformed over the last three years, can this continue? It is easy to pick a top performing Asia Fund but many of these have similar holdings and therefore is it better to select something with a different profile which appears to have underperformed. This is therefore the challenge when looking at this fund.

In speaking to Mike, we discussed in detail the global backdrop and his views on Asia. Mike explained that he feels the area remains cheap. Although returns have been 20% for the last couple of years it has not been unusual to see returns of 40% plus in a year. This also has to be put against a prolonged period of underperformance. We talked about the impact of rates rising in the US and Mike explained that rate rises are not always bad news. If rates are as planned then the market has priced this in. What the market doesn't like is unexpected and sharp rate rises, and this doesn't appear to be on the cards.

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There are other external events which could cause greater concerns, including Italy leaving Europe, North Korea etc. However, the global backdrop is positive and it takes time for things to flow through. In the US the tax reforms have just come in. These will feed into the market over time and this naturally helps build confidence which will then flow into growth, which again flows outward to the global economy.

The point for Mike is that many of the Asian funds have already had strong growth, but he feels that there is a rotation out of global Asian stocks to more domestically focused stocks, and this is where the opportunity lies. Although this is early days the chart below shows the last three months up to the end of January 2018. We have used Hermes as this has a global rather than a domestic focus. We can see over the short period that Alquity has started to outperform.



Obviously this is something to monitor as short-term performance is not always a good example as to what might happen in the future, but if things are changing then this should flow through during this year.

In summary, the fund has suffered from underperformance and this cannot be ignored. However, the management team have a strong process and belief, and this hasn't changed, even during the periods of underperformance. They have also seen the fund attracting more assets. The key difference with other Asian Funds is its focus on domestic stocks and frontier markets. As we have indicated, any investor would need to consider whether this type of fund is likely to perform better than more globally focused Asian Funds. Certainly over the last three months there has been a shift but in the long term, this is less certain.

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*The source of information in this note has been provided by Alquity 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.*