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A VIEW FROM ASIA

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***Dirigiste** (or dirigisme) is an economic doctrine in which the state plays a strong directive role (as opposed to a merely regulatory or non-interventionist role) over a capitalistic market economy.*

The days are long but weeks seem extremely short. This crisis is laying bare the brittleness in political leadership and institutional capabilities across countries. When I step back and reflect on this crisis, three things stand out clearly:

- Nobody knows
- No leader, expert or policy-maker can imagine the unintended consequences of the actions taken today
- Leadership is ultimately about empathy and humility

Slowly but surely, the long arm of the state creeps into all parts of society in an almost predictable manner. A Republican administration in the US exudes a patina of aloofness, yet I am certain that all emerging markets and European countries have no choice but to converge towards a state-directed economy. The main goal will be to provide employment. On that path is disruption to civil society and, in some countries, severe economic hardship and political upheaval. Every government will introduce 'temporary measures in unprecedented times'. Human nature and history are proof that, once introduced, attempts to take back such measures are virtually impossible.

The one redeeming feature in Asia: we have always had a large government presence in our economy. In Singapore and Hong Kong, the housing market is a good example. In China, India and Indonesia, it is evidenced across most strategic industries. Ironically, some of the most successful businesses across Asia have grown because of the bureaucracy, inefficiency, incompetence or apathy of governments. I do not minimise the debilitating force of the approaching nationalisation, either direct or through state support from state-owned banks. The opinion I proffer is that the best-managed private companies in Asia have thrived in an environment surrounded by government. That history combined with the use of technology could help many businesses to continue doing what they do best, albeit with lower returns on capital.

But enough about macroeconomics. What we must not lose sight of is that the virus will be contained at some point in time. I wanted to share some colour on a few conversations I have had with companies to gauge business conditions in China. The usual caveat is that nobody knows. Management teams are dealing with abrupt and dramatic changes, so take these anecdotes with a note of caution. China is seeing a big improvement in conditions from the depths of February. Orion Corp (listed in Korea) is a branded confectionery business. Its forte is pies, chips and biscuits (PCBs), more than gummies, sweets and chocolate. Its revenues are derived from China (47%), Korea (35%), Vietnam (13%), Russia and others (5%). As of the end of March 2020, 98% of sales offices and wholesalers in China are back at work. Consumers have shifted from dining out to ordering home and buying snacks and biscuits. Sales are up hugely (very high double-digits) and the company's factories are running at 120% utilisation levels.

ENN Energy, a Chinese piped gas supplier, has seen a revival in natural gas demand to 75-80% of normal levels from their industrial and commercial customers. It is the 80:20 rule – 20% of customers (the larger ones) consume 80% of the natural gas and those are mostly back in business. The smaller ones struggle or are shut down.

It would be remiss if I truncated words from Nike's CEO John Donahoe on their Q3 earnings call on 24th March, so here is a section of it in full:

"So let me tell you what we've seen over the past two months. When COVID-19 began to aggressively spread across China in late January, our top priority was to protect the health and safety of our teammates and our consumers. We immediately began closing stores and as of 45 days ago, we had closed more than 5,000 stores in Greater China. While the remaining open doors were operating with severely reduced hours. Not surprisingly, retail volume in China plummeted, but we acted quickly and decisively, leveraging our diverse sourcing base and digital capabilities to manage the business with flexibility and shifting our inventory to serve consumer digital demand.

At a time when people were confined to their homes, we moved swiftly to leverage our digital app ecosystem and NIKE expert trainer network to inspire and support consumers across China to stay active and connected while at home. As a result, our Nike Training Club workouts in China saw an extraordinary rise in sign up and engagement. In fact, our weekly active users for all of our NIKE activity apps were up 80% by the end of Q3 versus the beginning of the quarter. And here's what happened, the strong *engagement of Chinese consumers with our activity apps translated into strong engagement with our NIKE e-Commerce app. As a result, our digital business in China grew more than 30% and maintain strong momentum throughout this challenging period. A powerful statement of NIKE's agile problem solving in times of disruption. Then approximately 30 days ago, we began to gradually reopen stores in China. People got back to work and retail traffic again improving significantly.*

Today, nearly 80% of our stores in China have reopened with more coming back online every day. In fact, just last week, we re-opened our first store in the Wuhan area and the results are encouraging. Our digital business in China has accelerated even further over the past months and we are now seeing double-digit increases in retail traffic week over week with some stores, having already returned to prior year levels." (Nike's CEO John Donahoe on the company's Q3 earnings call, 24 March.)

After a stringent lockdown and isolation a semblance of normality is returning in China. Things are not yet back to normal. However, it is not all doom and gloom. Challenges for China's economy are manifold: a significant fall in demand from the US and Europe; inventory write-offs; small business failures; loss of jobs in service industries; and debt in the financial system.

As I mentioned in one of the earlier missives, the big will get bigger; the strong will consolidate as the weak falter; digital disrupters will forge ahead. If I focus on those businesses that have liquidity in the short run, should remain solvent over the next year and have the ability to grow their top line, on balance we should be fine with our holdings.

The biggest risk to Asian markets is the direction of the US dollar. So far, actions by the Fed to provide unlimited liquidity and buy investment grade-rated bonds appear to have settled the markets. Yet what risks lurk in the complex world of derivatives and structured products? Will the euro survive another damaging crisis? Will any country impose capital controls as they face a severe balance of payments shock? Will any of the large shale producers or oil-producing countries go bankrupt? Any of these could drive markets back into risk aversion. These are questions I do not have no answers to, but I will hold some cash on the books as some insurance against these risks.

JOHCM Asia Ex Japan Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	31.03.20	31.03.19	31.03.18	31.03.17	31.03.16
A USD Class	-9.99	-10.77	11.86	16.94	-11.20
Benchmark	-13.53	-5.17	25.41	17.40	-11.78
Relative return	4.08	-5.91	-10.80	-0.39	0.65

Past performance is no guarantee of future performance.

Source: JOHCM/MSCI Barra/Bloomberg, NAV of Share Class A in USD, net income reinvested, net of fees as at 31 March 2020. The A USD Class was launched on 30 September 2011. Benchmark: MSCI AC Asia ex Japan NR (12pm adjusted). Performance of other share classes may vary and is available on request.