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FOR PROFESSIONAL INVESTORS ONLY

A View From Asia

Samir Mehta, JOHCM Asia ex Japan Fund

Turnaround: an abrupt or unexpected change, especially one that results in a more favourable situation.

It is easy to remain pessimistic on the outlook for global economic growth when so much is dependent on the vicissitudes of trade negotiations. This is particularly the case for China. Like many observers, I remain wary of the pace at which systemic leverage is growing in China, combined with the country's inevitable economic moderation after four decades of breakneck and, at times, unbalanced growth.

Yet results from Li Ning (now the largest holding in the portfolio) this month provided confirmation that, despite all the potential impediments, life does go on and businesses have to adapt to the new environment. A few months ago, I mentioned the transformation that Li Ning had been undergoing over the past couple of years. Starting with a focus on tighter working capital and optimising costs, the company has followed a textbook example of reinvestment in the brand to drive sales and lift margins. Just before month end, it updated the market that H1 2019 sales will be up around 30% year-on-year, while operating profits from ongoing operations will be double that of H1 2018.

I have added gradually to our China 'A' share holdings over the past couple of months. Wuliangye Yibin (a Baiju or Chinese wine brand) and Shenzhen Mindray Bio-Medical Electronics (a research-driven manufacturer of medical equipment) are two additional names in our portfolio. As with fellow portfolio holding Foshan Haitian, the condiment maker, these two share, in my view, the characteristics of high margins in oligopolistic and growing markets, where each of them is further gaining market share from competitors and achieving high returns on capital employed to boot.

In India, where we have a large exposure, Prime Minister Modi led the BJP to a thumping majority in the recent national elections. I was pleasantly surprised by the outcome. This paves the way for continuity for another five years, yet the immediate challenges for the economy remain daunting. It seems that Mr Modi's initial focus will be on the provision of running water and cheap medical insurance and healthcare to the millions who do not yet have access. The intention is noble and, as a matter of national policy, it is a priority. How the government will fund these schemes is as yet undecided, though. I doubt raising taxes is the answer when the economy is already adjusting to the nationwide goods and services tax (GST) rollout. Privatisation of state-owned enterprises (SOEs) might be part of the answer, but I do think the government will have to raise more debt. If the US Federal Reserve retains its benign outlook on interest rates, India might not feel the ill effects of a rising fiscal deficit, but this will remain a vulnerability.

Despite the macro uncertainty, a majority of our portfolio comprises companies that are, in my opinion, either benefiting from disruption or aiding the disruption in their respective industries. I have tightened the monitoring process for each and remain cognisant that changes in today's economic environment happen much faster than ever at a time when fickle stock markets can turn on a Trump tweet.

JOHCM Asia Ex Japan Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	30.06.19	30.06.18	30.06.17	30.06.16	30.06.15
A GBP Class	2.87	-5.16	24.78	6.44	15.33
Benchmark	3.10	8.57	31.82	2.58	12.52
Relative return	-0.22	-12.64	-5.34	3.76	2.50

Past performance is no guarantee of future performance.

Source: JOHCM/MSCI Barra/Bloomberg, NAV of Share Class A in GBP, net income reinvested, net of fees as at 30 June 2019. The A GBP 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.

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