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FOR PROFESSIONAL INVESTORS ONLY

A View From Asia

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Prelapsarian – characteristic of the time before the Fall of Man; innocent and unspoilt

Norman Borlaug, the Nobel Peace Prize recipient in 1970, is called the 'Father of the Green Revolution'. As one of the leaders of the movement in the 1950s and 1960s, he is credited with saving the lives of millions of people especially in poor countries. During this time, many parts of the world adopted new technologies in agriculture: high yielding varieties of seeds, mechanisation, chemical fertilisers and agrochemicals, plus lots of controlled water supply. Looked at and analysed in the 80s and 90s, the green revolution was a stunning success. It helped the world at large deal with the looming crisis of food shortages in the wake of a serious population explosion. Dire predictions of large-scale famines, especially in countries in Africa and Asia, never materialised.

Yet, the passage of time and changing human priorities reveal a growing criticism of the green revolution. The ills attributed to this revolution range from excessive use of water, high energy usage due to intensive fertiliser application, reduced agricultural biodiversity, dependence of farmers on debt to secure the necessary inputs leading to bankruptcy, loss of agricultural jobs and large scale urbanisation as people were forced to move away from rural areas.

If our perspective on the green revolution changed in a couple of generations, will the great experiment in printing greenbacks by central banks be assessed benignly? The US Federal Reserve, under Mr Bernanke, learnt from the lessons of the great depressions of the 1930s. It heeded Anna Schwartz and Milton Friedman, who pinned a large part of the blame for the 1930's Great Depression squarely on the Fed. The Fed's rescue efforts in 2008/9 served its purpose. Walter Bagehot enunciated more than a century ago: "A panic, in a word, is a species of neuralgia, and according to the rules of science you must not starve it". Had the Fed not stepped in, the consequences might have been dire.

Yet many scholars and economists are now questioning – whether we have continued this experiment for too long and whether we are becoming permanently addicted to liquidity injections by central banks? Severe social consequences of income and wealth disparity, distortion of interest rates into negative territory, undermining savers to benefit borrowers and pockets of extreme asset price inflation are a few of the ill effects attributed to this experiment. The reversal of quantitative tightening policy provides the answer and reflects the Fed's dilemma. The biggest risk we now face is a mistake by policy makers, which is difficult to model or price.

As we observe markets, businesses that are 'resilient growth' businesses have been rewarded handsomely. This year, in our portfolio too, stocks that have done well represent companies that are able to deliver profitable growth in the face of challenges like trade wars or slowing economic

growth. These very businesses might even see an unseen benefit from debacles like WeWork's. If reports about Softbank and Mr Son's diktats are believable, they will finally ask their investee companies to focus on profits and not on achieving top line growth regardless of the scale of loss-making. That is music to my ears. If followed, a change in strategy could mean a reduction in irrational competition from start-ups and venture-capital-backed firms. It only goes to confirm my thesis that fewer and fewer companies will take most of the spoils and hence multiples for the resilient growth businesses will remain high relative to history.

JOHCM Asia Ex Japan Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	31.10.19	31.10.18	31.10.17	31.10.16	31.10.15
A USD Class	22.00	-24.26	17.20	8.07	-1.84
Benchmark	13.69	-13.87	30.23	6.53	-7.16
Relative return	7.32	-12.06	-10.00	1.44	5.72

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 October 2019. 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.

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