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FOR PROFESSIONAL INVESTORS ONLY

# A View From Asia

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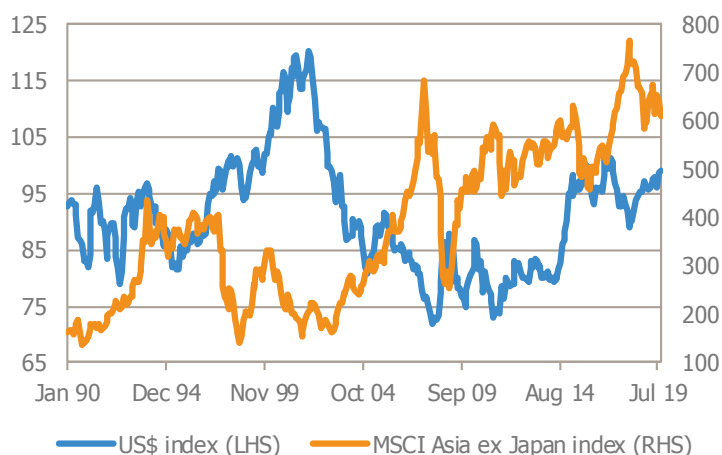
*Ratchet: a device consisting of a bar or wheel with a set of angled teeth in which a pawl, cog, or tooth engages, allowing motion in one direction only; a situation or process that is perceived to be changing in a series of irreversible steps*

At first, I mulled if 'Treppenwitz' is an apt word to describe President Trump's comebacks to the tariff pronouncements by China. I have experienced this phenomenon before. When someone says something to me which overwhelms me, leaves me speechless, and I cannot come up with a snappy comeback on the spot. Yet once I have walked away from the situation, the perfect response suddenly pops into my head. Literally translated, Treppenwitz, a German word, means staircase joke, because the witty retort hits you in the stairwell on your way out. By then it is usually too late.

However, I quickly realised my folly. That is probably the opposite of how President Trump reacts. He is more off the cuff, speak your mind and ratchet. Since mid-2018, one of the risks markets have to contend with is whether this trade war will persist for a long time. If ever there was a doubt on that outcome, it is possibly been snuffed out in August 2019. I think it is fair to say that decision-makers in China and companies on both sides of the tariff divide have decided that a resolution, if any, will at best be temporary in nature.

Then what about the other ratchets around the world? Prime Minister Johnson has engaged on a path that seems to indicate a very high probability of a no-deal Brexit. In Hong Kong, the government backed by Beijing seems in no mood to give an inch while the disgruntled public, especially students who boycotted the start of school, protested with greater commitment. In Argentina, despite a US\$57bn bail-out by the IMF, we have capital controls, while Ms Legarde, the ex-IMF chief, will head the ECB. These different, seemingly unconnected events manifest themselves in the markets in one measure – the strong US dollar.

**USD vs. Asia ex Japan Index**



Source: Bloomberg.

When risk aversion increases, the usual beneficiaries of the flight to safety trade reflect this angst. I have no clue whether we are in a phase of an even stronger or possibly weaker US dollar. History provides a reasonable guide to outcomes in markets in either case. However, in an era of nationalism, policy activism and intervention, it would take a brave soul to predict the future.

Luckily, I remember that fortune favours the brave. As the tiff with China has intensified, you might have noticed that we have ratcheted up our holdings in China, particularly the 'A' share market. At the end of last month, our holdings in 'A' shares represented approximately 10% of the portfolio. Our rationale is threefold:

1. Invest in quality businesses with high or rising margins/return metrics (with low volatility of those metrics) and a growing top line. In a world of low growth, it is a global phenomenon that higher growth companies are being rewarded more by the markets. However, these companies must have the ability to withstand disruption (whether online or policy) or benefit from it.
2. From 1978 until around 2015, China enjoyed almost uninterrupted high economic growth. In that environment, it is not easy to pinpoint businesses that have genuine resilience to economic cycles. Yet from 2015/16, we have witnessed a marked slowdown in growth, volatility in the renminbi and sharp policy zigzags in China. What is normal in any other emerging market companies in China are now facing with gusto. This provides a more fertile environment for quality businesses that can manage better to shine through as compared to the average ones. (Additionally, in the past, some of the best firms listed in either Hong Kong or the US, obviating the need to access the 'A' share universe).
3. With index providers increasing weightings for Chinese 'A' shares, there will be a trend over the long term towards the 'institutionalisation' of equity markets. Trading is currently dominated by retail investors, tends to be short term in nature and mostly, I hear (no pun intended), based on rumours and news flow. Over time, as larger pools of institutional capital pour in, it is reasonable to expect this to change. There is a caveat to this, of course. If most of the capital flows from index funds and ETFs perhaps that stream of capital might not focus on the quality names we have an interest in.

Time will tell whether this line of thinking is brave or foolhardy. Increasingly, there are signs that lower interest rates and looser monetary policy engineered by central banks are less potent than before. Some term it the 'Japanisation' of a world marked by disinflationary tendencies and beset with debt. Countries held hostage to external funding, like Argentina, pay a price in the US dollar value of assets. Those who have an ability to finance themselves with domestic debt pay a price in lower and faltering growth. If this indeed turns out to be the case, China might indeed be more like Japan. The probability that high growth domestic business make good long-term investments might be high. As insurance we hold some cash in the portfolio. Yet, as stated earlier, our attempt is to find and invest in more of the quality names in 'A' shares in China.

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### JOHCM Asia Ex Japan Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	31.08.19	31.08.18	31.08.17	31.08.16	31.08.15
A GBP Class	7.00	-13.13	20.18	29.99	0.44
Benchmark	0.13	1.65	27.29	32.57	-9.69
Relative return	6.86	-14.54	-5.59	-1.95	11.21

### 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 31 August 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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Past performance is no guarantee of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Investing in companies in emerging markets involves higher risk than investing in established economies or securities markets. Emerging Markets may have less stable legal and political systems, which could affect the safe-keeping or value of assets. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation. Issued and approved in the UK by J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority. JOHCM® is a registered trademark of J O Hambro Capital Management Ltd. J O Hambro® is a registered trademark of Barnham Broom Ltd. Registered in England and Wales under No: 2176004. Registered address: Level 3, 1 St James's Market, London SW1Y 4AH, United Kingdom.