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FOR PROFESSIONAL INVESTORS ONLY

Acorns to oak trees – Asian small & mid-cap stocks

Cho-Yu Kooi, JOHCM Asia ex Japan Small and Mid Cap Fund

Fund overview

From our base in Singapore, we try to identify acorns with the potential to become the corporate oak trees of the future. We focus on Asian companies with quality, sustainable, long-term growth hallmarks. These are businesses that can grow over economic and liquidity cycles and which generate high returns on the financial capital that they employ.

We are alpha hunters, not beta grazers. We do not hug the benchmark and the active share of the Fund (the proportion of stocks in the portfolio which is not in the benchmark) has been in the range of 96-98% since we launched the Fund on 30 September 2011.

Asian SMID – opportunities abound

We currently see good stock selection opportunities across several markets in Asia. At the moment we have large exposures to the Taiwanese, Hong Kong/Chinese and Indonesian markets, but we also selectively find gems in Singapore, Korea and Thailand. The notable exception is India. Here we view current valuations as excessive.

Taiwan – technology stocks and beyond

Taiwan offers a good hunting ground for us in the technology sector. We are invested in several companies which supply components as part of the supply chain in multiple areas: for the growing number of connected devices (i.e. the rising trend of the so-called Internet of Things) and smart devices (e.g. smartphones and Amazon's smart speaker Echo); datacentre expansion; high speed data transmission; and the increasing adoption of electric vehicles. With augmented reality, which superimposes computer-generated images onto the real world, expected to be the next big trend in smartphones, the increasing adoption of Big Data and Artificial Intelligence by firms to improve their operations, and autonomous vehicles becoming a reality in the not too distant future, especially with the migration to a 5G network, the technology sector has clear long-term structural growth drivers. But it's not just tech stories we're interested in. Non-tech quality companies we like are **Taiwan Paiho**, a sports shoe and apparel accessories company, and **Nien Made**, a global supplier of window blinds, shades and shutters.

China/Hong Kong – new and old economy exposure

We have a mix of old and new economy stocks in Hong Kong/China. The appeal of the old economy stocks lie in their valuations, which we believe have discounted a lot of the negatives.

An example of a new economy stock is **Baozun**, China's leading e-commerce service provider, which offers retail brands end-to-end solutions in areas such as website design and development, IT infrastructure, online store operations, warehousing and order fulfilment. At the end of 2016, Baozun had 133 international and domestic brand customers covering product categories like apparel (e.g. Nike, Zara), electrical appliances (e.g. Philips, Panasonic), and beauty and food (e.g. Johnson & Johnson, Pepsi). With online shopping accounting for 17% of retail sales in China and growing in popularity, it has

become imperative for all retail brands to have an e-commerce strategy. This will drive demand for Baozun's expertise. As Baozun's revenue is calculated based on a percentage of the brands' gross merchandise values, the company will be able to benefit from its customers' rising online sales.

Indonesia – industry consolidation

After suffering three years of weak economic growth, we believe corporate profitability is on the mend in Indonesia. With industry consolidation, especially in the once crowded telecoms and convenience retail sectors, we are optimistic about prospects in these markets. For example, **XL Axiata** is Indonesia's third-largest mobile telecom operator by revenue market share, with 14%. The Indonesian telecoms industry has seen substantial consolidation since 2010. From a very fragmented 10-player market, where aggressive price-based competition led to all telecom operators except the largest generating a return on invested capital (ROIC) less than their cost of capital, three key operators now control about 80% of the market. This has helped to create a more rational pricing environment, with operators pulling back on promotional activities and selectively raising prices. And coupled with smartphone penetration in Indonesia surpassing 50% last year thus driving increased mobile data usage, we expect XL's ROIC to improve from the depressed levels in the last few years.

Selective gems from Singapore, South Korea and Thailand

Singapore O&G (SOG) is a leading group of doctors which is dedicated to providing women with life-long health and wellness. It specialises in pregnancy care and delivery, the female reproductive system, gynaecological and breast cancer, skin and aesthetic treatments and other ancillary medical services. The company currently has 10 specialist medical practitioners and operates 10 clinics in six locations in Singapore.

We like the group's strategy of leveraging its 'bread and butter' obstetrics and gynaecology (O&G) division by adding complementary medical treatments, such as dermatology, which a significant portion of its O&G patients suffer from. SOG's resilient business model, good earnings growth prospects, strong free cash flow generation and its generous dividend pay-out ratio in excess of 80% are attractive attributes.

Founded in 1970, **Hanssem** has been consolidating the fragmented furniture market in South Korea to become the dominant player, with an estimated 28% market share in kitchen furniture and 12% in interior furniture, which includes sofas, beds and tables. The company is much more than a furniture retailer, though, offering interior design solutions provided by well-trained staff to customers who can then purchase all items in the selected design from Hanssem. The customer experience is further enhanced by the company's own team of delivery and installation personnel, ensuring that "what the customers see in the design is exactly what they will get". Hanssem is in a sweet spot to post strong growth in the next three years given the big step-up in housing completions this year and next, a sizeable housing stock which is in excess of 20-years old and due for refurbishment, and continued market share gains.



Thailand's **Tisco Financial Group** provides a full range of financial services, including corporate and retail banking, auto hire purchase loans, securities, bancassurance and asset management. The last few years have been difficult for Tisco, with the company experiencing a contraction in its loan book for three consecutive years while non-performing loans rose and peaked in 2015.

Having repaired its balance sheet and built up strong buffers on its loan loss reserve coverage and capital ratios, the firm is ready to grow again both organically and by acquiring the retail banking business of Standard Chartered Bank Thailand. The acquisition will boost its loan growth by 15% and give Tisco the ability to cross-sell its financial products to Standard Chartered's 300,000 customers to generate fee income. This, coupled with stable net interest margins and a fall in the provisioning levels due to better loan asset quality, should yield healthy earnings growth and a rising return on equity trajectory.

Portfolio and performance review

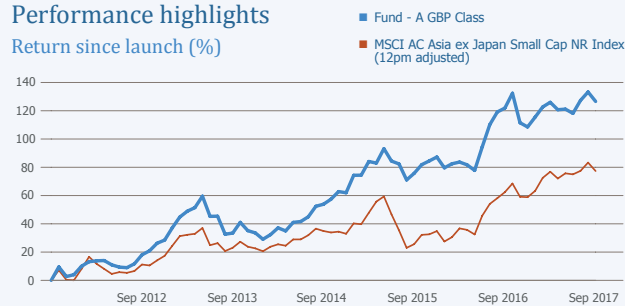
The portfolio's long-term performance is strong, with the Fund ranked in the first decile of its Asia ex Japan peer group** since its launch on 30 September 2011. The short term has been more challenging, however, with the Fund lagging the MSCI AC Asia ex Japan Small Cap NR Index (12pm adjusted) by 6.5% over the 12-month period to 30 September 2017, net of fees and in sterling terms. (Year-to-date-to-30 September 2017 underperformance is 2.7%). There are a few reasons for this disappointing short-term showing:

1. In India, we cut our weighting too early; we underestimated the extent of the liquidity surge that demonetisation brought about. With an increasing proportion of retail investors avoiding the traditional store of wealth, such as gold and property, amid a government crackdown on undeclared income, financial assets, such as stocks and bonds, found appeal. This resulted in stocks rallying to trade at what we believe to be very rich valuations.
2. We began to build up our holdings in Indonesia in 2016 on the assumption that a lot of negativity has been priced into stock prices after two years of weak economic growth and corporate profitability. But stock prices have been hampered by adverse political developments in Jakarta in April 2017 and a much slower than expected economic recovery. Fortunately, the situation has started to improve in the last two months and the central bank has also cut interest rates twice this year to boost growth, aided by benign inflation and a stable currency. This has helped several of our stocks to rebound from their recent lows.
3. Our underweight stance in cyclical such as commodities, real estate and financials has been a drag, as these sectors performed well in the recent rally. Conversely, some of our defensive holdings – steady businesses with good cash flows but relatively more expensive valuations – in the consumer and healthcare sectors sold off as their valuations de-rated.

Past performance is no guarantee of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment. Investors should note that this Fund invests in emerging markets and such investments may carry risks with failed or delayed settlement and with registration and custody of securities. Companies in emerging markets may not be subject to accounting, auditing and financial reporting standards or be subject to the same level of government supervision and regulation as in more developed markets. 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. Government involvement in the economy may affect the value of investments and the risk of political instability may be high. The reliability of trading and settlement systems in some emerging markets may not be equal to that available in more developed markets which may result in problems in realising investments. Lack of liquidity and efficiency in certain of the stock markets or foreign exchange markets in certain emerging markets may mean that from time to time the Investment Manager may experience difficulty in purchasing or selling holdings of securities. Furthermore, due to local postal and banking systems, no guarantee can be given that all entitlements attaching to quoted and over-the-counter traded securities acquired by this Fund, including those related to dividends, can be realised. 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 Holdings Ltd. Registered in England and Wales under No: 2176004. Registered address: Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB.

Performance highlights

Return since launch (%)



Return history

	1m	3m	1yr	3yr	5yr	10yr	SL	Annualised*
A GBP Class	-2.87	3.87	2.12	47.29	91.92	-	126.59	14.60
Benchmark	-3.26	1.34	9.19	31.44	59.47	-	77.34	10.01
Quartile**	1	1	4	2	1	-	1	-

Discrete 12 month performance to

	30.09.2017	30.09.2016	30.09.2015	30.09.2014	30.09.2013
A GBP Class	2.12	26.26	14.24	15.28	13.02

Data as at 30 September 2017

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

*Annualised since launch. **Sector quartile ranking: IA Asia Pacific ex Japan & Lipper UK Offshore Far East ex Japan combined.

Fund Managers



Cho-Yu Kooi

Senior Fund Manager

Cho-Yu has managed the Fund since launch. She joined JOHCM in 2011 and has 24 years of industry experience.



Samir Mehta

Senior Fund Manager

Samir is the alternate fund manager. He joined JOHCM in 2011 and has 27 years of industry experience.



Source and copyright of Citywire. Cho-Yu Kooi is A rated by Citywire for her three year risk-adjusted performance for the period 30/09/2014 to 30/09/2017. Citywire awards apply to the Manager, rather than the Fund.

