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ASIA EX JAPAN

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Morph – to change the form or character of; transform

Nobody knows. In most factsheets, our usual disclaimer is ‘past performance is no guarantee for future returns’. This year the banner ad has to be - nobody knows. I could recite Donald Rumsfeld’s rant on ‘known knowns’ but obfuscation rarely ends well.

With little certainty, we can only take a guess on a few things that have a higher probability of occurrence:

1. This pandemic will subside over time (we don’t know when)
2. Fiscal deficits are now acceptable and will become very fashionable
3. Bailouts of all sorts will become common
4. The Thatcher-Reagan era of privatisation is over – nationalisation is the new mantra
5. Regulatory forbearance; state-guaranteed and directed credit could be the new norm
6. National security will drive economic activity (de-globalisation)
- 7. ROE now stands for Return on Employment**

For most individuals, expenses remain almost unchanged. Rents or mortgage payments fall due and medical expenses are an uncertainty. Similarly, for businesses, lost revenues mean a direct reduction in cash inflows. While companies might adjust some expenses, the dramatic plunge in business activity leaves little room to manoeuvre as quickly. When businesses do cut costs, their first move will likely be lay-offs.

Yet, this time it could be different. The last thing a government needs now is large-scale unemployment. Hence, I think it is fair to assume an effort by governments to preserve employment. Central banks can provide liquidity to markets but they cannot provide a salary to the vast majority. Governments will step in to nationalise companies or direct banks to keep lending to firms and guarantee those loans. This will probably be in the most cyclical and asset-intensive industries, along with service industries that employ large numbers of people.

In my view, we are on the cusp of implementing Universal Basic Income in some countries and nationalising companies to provide employment in many others. The world is likely to call an end to the era that started with Thatcher and Reagan. The turmoil across the globe is the direct result of the after-effects of the 2008/9 crisis now compounded by COVID-19. The state will be in charge of large swathes of society. Welcome to the world of zombie companies whose measure of success will be the new ROE – Return on Employment.

We have precedents: following the 1990 crash in Japan, construction companies received large-scale support from banks to stay afloat; after the 1997 Asian crisis, The Bank of Thailand changed the definitions of non-performing loans in an act of massive regulatory forbearance; India, just this month, quasi-nationalised Yes Bank (in a truly bureaucratic, incompetent manner and thereby damaging an already tottering financial system); and Malaysia nationalised Malaysian Airlines in 2014. The list goes on.

In the portfolio, I have raised some cash by selling companies that I think are structurally damaged due to the crisis. I have and will add businesses that are likely to come through the other side of the crisis much stronger. With immense turbulence in financial markets, it is very possible even those stock prices will be hit. Currently, the asset markets are ruled by a ‘sell what you can, not what you should’ mentality.

I have witnessed many crises. If I were to draw a parallel, the famous quote by Tolstoy in his classic ‘Anna Karenina’ comes to mind: “Happy families are all alike; every unhappy family is unhappy in its own way.” All bull markets are alike – deregulation, cheap money, increased debt and greed. The reasons for every bear market are different. This one in particular is a black swan and most of us have to admit – nobody knows.

Hoping that all of you and your families remain safe.



JOHCM Asia Ex Japan Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	29.02.20	28.02.19	28.02.18	28.02.17	29.02.16
A USD Class	1.89	-17.17	22.23	19.31	-16.46
Benchmark	-0.01	-8.11	31.73	26.79	-20.42
Relative return	1.90	-9.85	-7.21	-5.90	4.98

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 29 February 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.

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