

A VIEW FROM ASIA



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- The ability to judge which business had a longer-than-expected fade window (the number of years over which supernormal profits fade to the mean) was critical in 2020.
- As the year progressed and the possibility of a vaccine grew higher, I shifted a part of the portfolio to those stocks that were likely beneficiaries of an economic revival.
- Like many countries, India (a large weighting in the portfolio) has a high concentration of profits in a narrow group of large listed companies.
- A recent analysis I came across showed that just 20 listed firms in India delivered almost 75% of the total corporate profitability in India. That was before Covid-19. I have little doubt in my mind that this pandemic, combined with the technological disruption taking place globally, will only mean that the dominance of the larger, well-managed firms increases further.

JOHCM Asia ex Japan Fund

Reflection; a change in direction of a wave at a boundary between two different media, so that the wave moves back into the medium it came from; in an essay – an examination of experiences in life

In a year of seismic events, the Oxford English Dictionary expanded its word of the year to encompass several “Words of an Unprecedented Year”. ‘Pandemic’ was easy to guess but ‘circuit-breaker’ or ‘lockdown’ hit home the severity of the disruption. In January 2020, most of us were blissfully unaware of the impending havoc. The panic of the unknown gradually morphed into resigned acceptance of the ‘new normal’ and then to the euphoria of a potential vaccine.

In early 2021, I remain quite grounded in my prognosis that things will get better but life is unlikely to return to normal anytime soon. My choice of word for 2020 would undoubtedly be ‘resilience’. Of the lessons learnt during the year, the most relevant one is about human nature. The resilience, adaptability and resourcefulness of people in general is astounding. I do not mean to downplay the loss of life, the abdication of governance in some countries, the mental scarring, or the deep struggles and crushing economic hardship visited on many. Looked at dispassionately, the heroic medical staff, the front line workers, the adaptability afforded by technology and the determination to push through all the gloom is in my view cause for guarded optimism.

On the investment front, understanding the macroeconomic changes, especially the decisions of the Federal Reserve, proved decisive. Once you understood the force of the Fed’s resolve, the critical factor was narrowing down on the attribute that mattered most in picking the right stocks. It was neither stability of cash flows nor valuations. Specifically, it was the ability to judge which business had a longer-than-expected fade window (the number of years over which super normal profits fade to the mean). As the year progressed and the possibility of a vaccine grew higher, I did shift a part of the portfolio to those stocks that were likely beneficiaries of an economic revival.

In my previous monthly, I mentioned the travails besetting Alibaba and the implications for China-listed stocks. The regulatory clampdown clearly indicates a changed approach to large dominant technology platforms. In my opinion, the technology landscape in China is already amongst the most competitive in the world. This government-imposed oversight could lead to lower-than-expected returns on capital and act as a dampener on valuations. Alibaba will need to reorient its business model across both Ant Financial and its main business. Although cheap valuations for Alibaba relative to history look tempting, the ‘fade window’ suddenly looks shorter than previously thought.

Korea and India on the other hand are beneficiaries of ample liquidity and an incipient economic recovery. A bullish view on Korea is not controversial if you believe in an extended global economic recovery. India, on the other hand, is a conviction on my part, which is why I have a sizeable allocation. A collapse in domestic demand combined with lower oil prices means a current account surplus in India after nearly two decades. India has witnessed much lower interest rates thanks to capital flows into Asia in general. Both those factors drive liquidity into

financial assets. Sure, commodity prices have risen of late, which could mean headwinds for profit margins.

Yet the big story in India (similar to many countries) is the concentration of profits in a narrow group of large listed companies. A recent analysis I came across showed that just 20 listed firms in India delivered almost 75% of the total corporate profitability in India. That was before Covid-19. I have little doubt in my mind that this pandemic, combined with the technological disruption taking place globally, will only mean that the dominance of the larger, well-managed firms increases further.

After tightening my risk management process, 2020 was a decent year for performance. Thank you once again to our clients that retained their faith in me.

Best wishes to all of you for a healthy 2021.

JOHCM Asia Ex Japan Fund 5 year discrete performance (%)

Discrete 12 month performance (%):

	31.12.20	31.12.19	31.12.18	31.12.17	31.12.16
A USD Class	40.62	17.70	-22.82	32.89	2.15
Benchmark	25.04	18.09	-14.33	41.84	5.54
Relative return	12.46	-0.33	-9.90	-6.31	-3.21

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 December 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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