



Fund Bites

First State Asia Pacific, Global Emerging Markets and Worldwide Strategies

The First State Asia Pacific Leaders Fund is part of our portfolios and the First State Emerging Markets Leaders Fund will be added in 2013. This “fund bites” is a summary of the recent telephone conference we had with two key fund managers, Jonathan Asante and Angus Tulloch.

Introduction

The First State Asian and Emerging Markets Funds are some of the best performing funds in the market. With success comes problems, First State have had to soft close some of their funds as they reach their capacity in terms of size and although these funds are not scheduled to be soft closed we have been warned that they may consider this in the future.

First State are not the only company to become a victim of their own success, Aberdeen face the same problems with their funds.

The key for us is that the funds can continue to deliver on the performance going forward and certainly at this stage there are no indications that the performance has slipped.

This telephone conference was with Jonathan Asante who is co-manager on the emerging markets funds and Angus Tulloch who is co-manager on the Asian funds.

Both managers provided an update on the region and where they consider opportunities going forward.

The Fund



Jonathan Asante is the co-manager of the emerging markets funds.

The fund is below the index in weighting terms for Emerging Asia with around 40% holding against the benchmark of 60%. It

is also behind the index in Latin America with a 16% holding against an index of 22%. However the fund is over the index in Emerging Europe, Middle East and Africa.

Areas in favour include Hong Kong, India, Turkey, Nigeria, South Africa and Chile.

Over the last three years the BRIC countries have underperformed the index with countries like the Philippines, Thailand and Columbia significantly outperforming the index. The key for the manager is to search out good companies rather than countries.



For example, resources have significantly underperformed in the last three years and this has delivered opportunities for the fund including Tullow Oil.

Countries do have a part to play for example bureaucracy in India has a negative lag and there are signs this is changing which could be beneficial to the right businesses. Strong governments in Chile and Columbia have also benefited companies.

It is harder to make money in emerging markets but emerging countries deliver opportunities, they are excited about the Philippines and Malaysia. As this happens good companies will flourish.

The fund will also look to invest outside emerging markets to companies that do

business in these regions. Western Digital a leader in hard drive technology is a US based company with factories and a strong presence in Asia but it 1/3 of the value of some equivalent Taiwanese companies.

For the team although the traditional emerging markets are hard to seek value from there are opportunities in the new countries where more stable governments produce good and exciting investment opportunities.



The Asian picture is little different to emerging markets. The fund is slightly underweight in Greater China but favours Hong Kong and is significantly underweight in China. The fund is overweight in India but underweight Australia and is overweight in South East Asia. Areas like Malaysia, Philippines and Singapore are favoured by the fund.



Singapore has a strong financial services sector and is a good market for the fund to invest in with many opportunities. The highest holding in the fund is the DBS Group which is a leading financial group in Asia (based in Singapore).

The fund has been negative resources and this has benefited the fund although again it has delivered opportunities. So the fund has recently been buying Newcrest Mining.

Other sectors that have done well are Telecom and IT. Two companies favoured by the team are Taiwan Semiconductor and Axiata Group.

Angus talked about China and they do expect growth to slow to around 7 to 7.5%. China faces challenges as it becomes more internally focused rather than external. It has also seen a significant increase in wages which has made it uncompetitive in certain areas. Interestingly it hasn't yet embraced robots in manufacturing and this could deliver opportunities. They prefer private companies but the valuations for good run companies are expensive.

In summary like emerging markets there are areas which have underperformed but equally there are opportunities especially as countries adapt and new businesses flourish in these environments.

Conclusion

These are both well managed funds and use global resources to produce excellent performance. We are aware that as they have closed some funds already that these funds could be closed in the near future.

We are looking for other opportunities and should the funds close then we would look to these opportunities going forward.

The source of information in this note has been provided by First State and is correct as at 7 May. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.