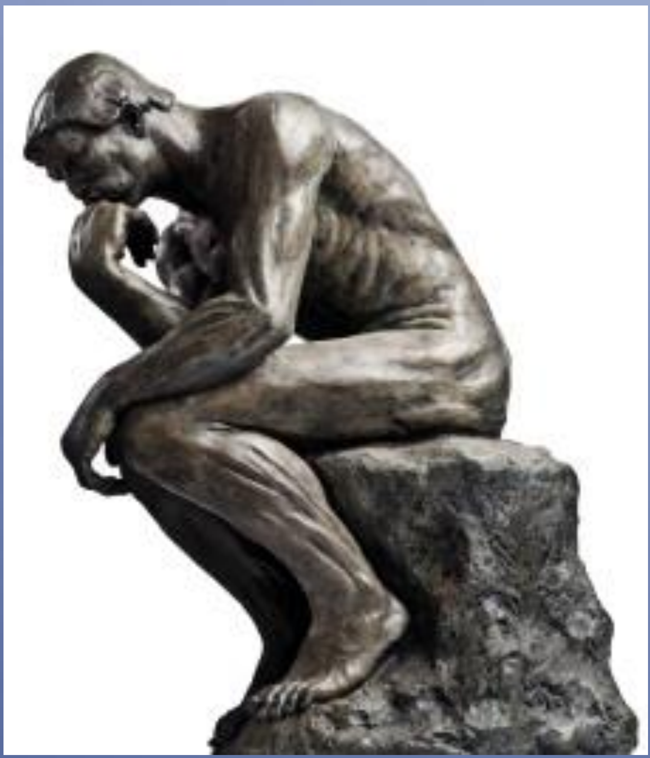

Fund Bites

JOHCM Asia ex Japan and Asia ex Japan Small and Mid-Cap Funds

The JOHNCM Asia ex Japan and Asia ex Japan Small and Mid-Cap Funds are not currently part of portfolios but are part of our watch list. This "fund bites" our research on the fund and notes taken from a telephone conference call with the managers.

Introduction

As part of our analysis of the Asian Sector we are aware that two of the most recognised fund management groups are reaching capacity on their funds. It is clear when analysing the sector there is a limited source of good long-term funds investing in Asia.

However, we have identified investment trusts managed by Aberdeen and First State which we will be carrying out due diligence on. In addition we have also identified funds managed by JOHCM and Barings which also offer opportunities in this region.

This "fund bites" provides our analysis on the JOHCM Funds including our reasons for adding them to the watch list. Currently they are not available to our clients but we expect them to be available by the end of the year.

J O Hambro Capital Management (JOHCM) was launched in 1993 and is a boutique global investment manager. It has strategies in place covering the UK, Europe, Asia, Global Markets and Emerging Markets. In 2011 it launched its Asian strategies.

They have two Asian Funds and their style is similar and both managers co-manager the other fund. The process of management was developed whilst the managers worked for another boutique investment manager, Lloyd George Management before they left to set up their own business and then became part of JOHCM.

The managers look to a maximum size for their funds as they believe beyond that it will impact on the long term performance of their funds. The All Cap fund has $US 84.4 million invested in the fund and is capped at $US 2.5 billion and the Small and Mid-Cap strategy has $US 14.4 million invested in the fund is capped at $US 1 billion.

The Fund

Samir Mehta manages the All Cap strategy and Cho-Yu Kooi manages the Small and Mid-Cap strategy; they co-manage each other's funds. They are supported by Gaurav Sharma who is a specialist analyst. Both Cho-Yu and Samir worked at Lloyd George before working in a specialist Asian Fund Management Company Silver Metis Capital Management Pte Ltd, which was then taken over by JOHCM.

When analysing funds we look at three factors, performance, data analysis (RFP documents) and fund manager meetings or telephone conference calls.

We have covered performance which has been excellent since launch. For Samir he has outperformed his peer group composite 4 years out of five. Trustnet

state "over a fairly lengthy track record, the manager has, period by period, consistently managed to outperform the peer group. Good stockpicking has had a material positive impact on results, which have not been particularly exposed to falling markets." Cho-Yu has not delivered the same performance however we feel that teamed together this should benefit the funds. However, we may favour the All Cap Fund rather than restricting to small and mid-cap.

The data analysis is important because this identifies quickly the style of management. This was verified in the telephone conference call. There are two pillars to performance – core holdings which look at long term sustainable quality growth stocks, and cyclical holdings which are effectively companies with strong valuation appeal.

To provide examples, Samsung Electronics is a cyclical company. They like the the business but feel there is little opportunity to make money. In November 2011 it was trading below its price to book ratio and they purchased the stock, they sold out in June 2012. They are careful; they don't just buy companies because they are cheap but they are looking for companies with low debt levels and are cyclical. Effectively they see this as contrarian so when the stock is unloved they are buying! The All Cap strategy holds around 20 to 25% in these stocks and the small to mid-cap strategy 15 to 20%.

The core of the funds is looking for good quality companies and the All Cap Strategy holds between 75% and 80% in this area and mid and Small-Cap between 80% and 85%. These are the foundation of the fund and holdings will be around 3 to 5 years. These are companies which can consistently deliver across the business cycles. Because these are quality companies they can be expensive but the belief is that despite this they can grow. Whereas cyclical stocks will look at price to book the analysis is much deeper with these stocks. It involves a number of stages including propriety screening so looking at return on capital etc and then company screening.

Company screening is about looking at how a company performs over different cycles. So for example how did they perform in tough markets like 2008 and 2009? This brings the universe down to around 100 stocks and from there they will do what is their fundamental research. So this is where they are looking to understand the business and the downside risk - so what happens if something goes wrong.

It was interesting in the discussion to discuss a company called Robinson Department Store which was identified as a good core company and they set the price at a level which they thought was right. The stock didn't hit that level and they have missed the growth as a result. It gives them a benchmark to work on if they come up with similar companies in the future.

A couple of companies they like are NetEase which is a Chinese Online Games company. It is a subscription service and has high barriers to entry. They do their own games but also distribute other games. It is cash generative and has high returns on capital employed. Although it is not cheap it is a good company with projected growth of around 15 – 20% p.a.

Biosome International is a paediatric nutritional and baby care product provider in China with large market share. Although it invests heavily in R&D in China the products are produced outside of China in Europe and the US. It has repeat business, a sustainable business model and good cash flow.

Although the focus is on the good quality companies as core to the performance the fund also benefits from cyclical stocks. These stocks are still good companies but there could be limitations on long term growth.

In the data we analysed, and something that was emphasised by the managers, is that they see this as an absolute return strategy so they are looking at returning positive returns over the long term. This doesn't mean the fund will not fall in value but long term they are looking for positive above benchmark returns. This is important because both managers have significant amounts of their own money invested in the funds so their personal interests are aligned with investors and they were very keen to emphasis this.

Conclusion

In conclusion the performance of both funds has been excellent since launch, clearly Samir has the better performance track record but as a team they have developed a working strategy over a period of a number of years which we believe will benefit both funds.

The small concentrated portfolio and conviction approach is key to the success of the funds and using a core strategy alongside a cyclical contrarian approach means that they identify short term opportunities without placing additional risk on the portfolio.

The size of the funds is not a concern at this stage but would be something we would have to monitor in a few years' time. As alternatives to the larger well recognised funds these funds provide excellent performance and a strong process and will certainly be added to our list of funds to monitor going forward.

The source of information in this note has been provided by JOHCM and is correct as at 20 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.