Fund Manager Samir Mehta Calls Private Investors Investors to J O Hambro Capital Management's Asia ex-Japan Strategy

Samir Mehta is Senior Fund Manager, Asia ex-Japan strategy at J O Hambro Capital Management and runs the firm's Asia-ex Japan strategy, which he helped first launch in September 2011, shortly after JOHCM acquired his small boutique asset management firm in Singapore. Mehta is passionate about his mission and committed personally to the fund, in which he has significant personal wealth invested. He is also remarkably clear in his views and eloquent in his communication. The fund has primarily institutional type investors, including sovereign wealth, and he believes that Asia's private wealth management community should take a closer look, especially as the fund has returned 10.9% compound since inception, after fees, and he takes a cautious approach to risk management and valuations. Hubbis met with him recently. We have summarised his many insights in this Q&A.

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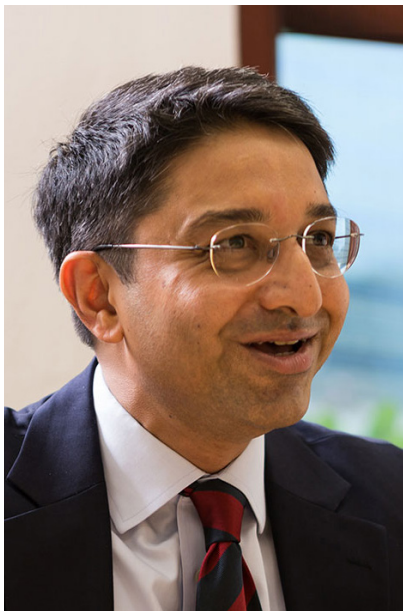

SAMIR MEHTA
J O Hambro Capital Management

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What is your particular approach to the JOHCM Asia ex-Japan fund, which we understand is one of the few active funds that is really underweight China and overweight India?

Before I address my country weightings, a quick backdrop about the philosophy. As fund manager, launching this fund with JOHCM just over a decade ago, my approach to the fund is very simple. It is a long-only equity product. My objective is to try compound returns with shallow drawdowns. Identify the best stocks in the region that break the middle-income trap. As emerging market countries struggle to properly break into the developed country fold, only a few of which have succeeded. So, I search for those few companies in each of these countries that genuinely behave as if they are in a developed market; these businesses do very well, they manage their businesses very well, they achieve very high returns on capital employed and offer real growth."

What is your background?

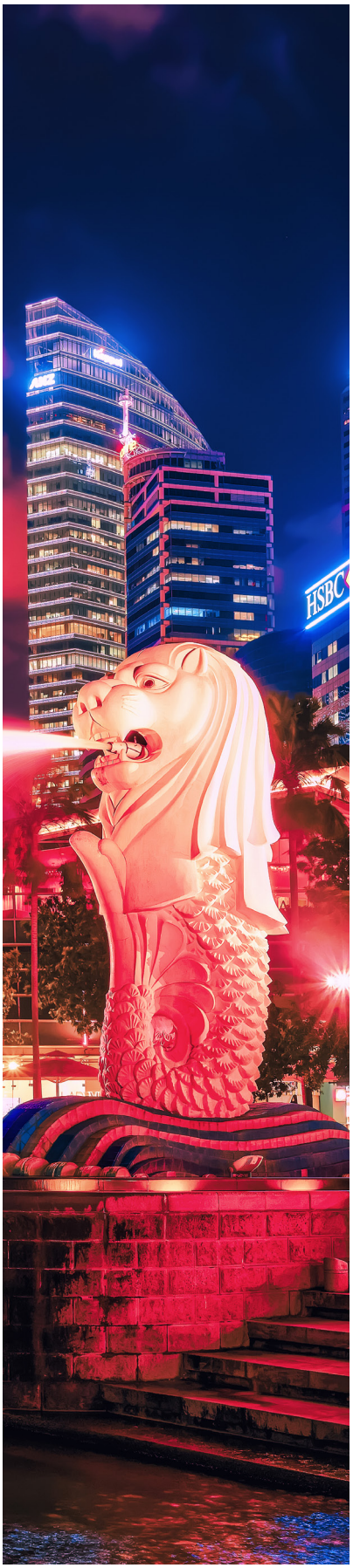
I started managing money from 2000 onwards, and in total have been in the equity markets in this region for more than 30 years. I grew up in India, worked with a firm then famous in the early 90s on the sell side called Peregrine Securities, moved to Hong Kong in 1997, then after the Asian Financial Crisis joined Lloyd George Management, also in Hong Kong and as CIO, and began managing money with them, around USD5 billion and also Asia ex-Japan. I moved to Singapore in 2007 to set up my own firm, which only worked modestly well and then JOHCM were keen to expand in this region and bought me over in May 2011, and we then launched this fund in September of 2011. The investors are mainly institutions and those who distribute to accredited investors. We now have about USD1.1 billion under management."

Can you explain why you are so overweight India and underweight China?

We are indeed significantly overweight in India relative to the index, so in early September we stood at about 37% and we have been around 35% to 37% for some time already, whereas the index weight for India is closer to 11-12%.

I began to reduce exposure to China from November last year, dropping sharply from around 40% of the fund after the Ant Financial episode, selling out of stocks like Alibaba and other major stocks. When the markets there rallied towards February this year, I found the stocks too expensive and further reduced exposure l in the February to April period, disposing of names such as Foshan Haitian which is a condiments maker, Wuliangye Yibin, which is the second largest baijiu company in China, Shenzhen Mindray, the medical equipment company. The disposals were driven by valuations, I liked the business, but valuations did not account for any room for error. However, I kept certain technology stocks like Tencent and Meituan, and in the sell-off in the last week of July actually added to those holdings.

All in all, I have been fortunate as I have been so underweight China, where the index is down 2% in 2021, so relatively I have performed really well



there. And now we see more investors getting very negative on China, because of changing regulations, and especially the attitude of the Communist Party towards many of the businesses moving towards common prosperity, as the term is. And such is the negativity, I find that the pendulum is now swinging to a level where I have to get my antenna back in to finding businesses that I would like to own.

I should also add that any decisions to sell are purely driven on valuations. Many of those valuation metrics in China whether price/sales or price to earnings, by January-February of this year were almost stratospheric. Nobody knew what was coming in terms of policy changes or clamp-downs from the government and leaders. I did not take a view on macroeconomics, only on valuations relative to their prospects.

Why then will you consider buying back into China, selectively?

As sentiment becomes really negative, with clients even asking if China is investible or not, valuations are now becoming a lot more reasonable, not at distress levels by any means, but more sensible. Liquidity is against the market, so I am not rushing in, but I am selecting the right stocks for when the time is right. I cannot say what I am assembling in my China portfolio, but I am picking carefully.

What about India, where the market has performed so very well since the worst of 2020?

Yes, we have been fairly overweight and that has done pretty well. Cash flow generation by companies in India has been staggering. There has been a massive consolidation from the unorganised towards the organised sector, meaning the larger companies that have overcome a lot of challenges since 2016, such as demonetisation that year, the implementation of the Goods and Services Tax in 2018, the collapse of ILFS, the finance company in 2018, and then the pandemic. The larger companies have been able to use technology to help them overcome challenges, managements have been very nimble, and even though the GDP itself may have shrunk, a larger share of the pie of the GDP that has gone towards the organised sector.

Companies like Jubilant FoodWorks, which is one of my largest holdings in the fund, which is the Domino's Pizza franchisee for the

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whole of India, they've done phenomenally well. The stock price of SBI Card, a subsidiary of State Bank of India, fell due to travel cutbacks, but as the economy is starting to revive, travel is starting to come back and tourism is starting to see some glimmers of hope, spending on credit cards is coming back with a vengeance.

I am not permitted to go into much more detail than I am offering here, and it is important to note that I am not making macro calls on India or other economies. But in India, and elsewhere, we select because the companies are delivering great numbers and cash flows.

But what about valuations in India after such a strong rise in prices since May last year?

I still remain very invested, but valuations are coming to such levels that I am starting to get a little bit careful, trimming some positions, making sure that the companies I own keep delivering, and steering clear of surprises.

The fund is Asia ex-Japan, so what about other key segments of the region, for example Southeast Asia?

Yes, ASEAN countries are certainly part of our region but one that has been completely neglected. There are however good reasons, especially the pandemic, which has really hit many of the larger countries really hard, and those that have managed it very well, for example Singapore, have had to really close or tighten their borders and travel. Stocks have been battered, and valuations suffered hugely. This represents an opportunity, so selectively I am starting to choose stocks, for example I have been buying one company in Indonesia, a company in the Philippines, two companies in Singapore, all of them purely on the basis that this is a neglected part of the world, but these are businesses that have survived, and I anticipate them performing well when we see that revival in economic growth.

What about Korea and Taiwan?

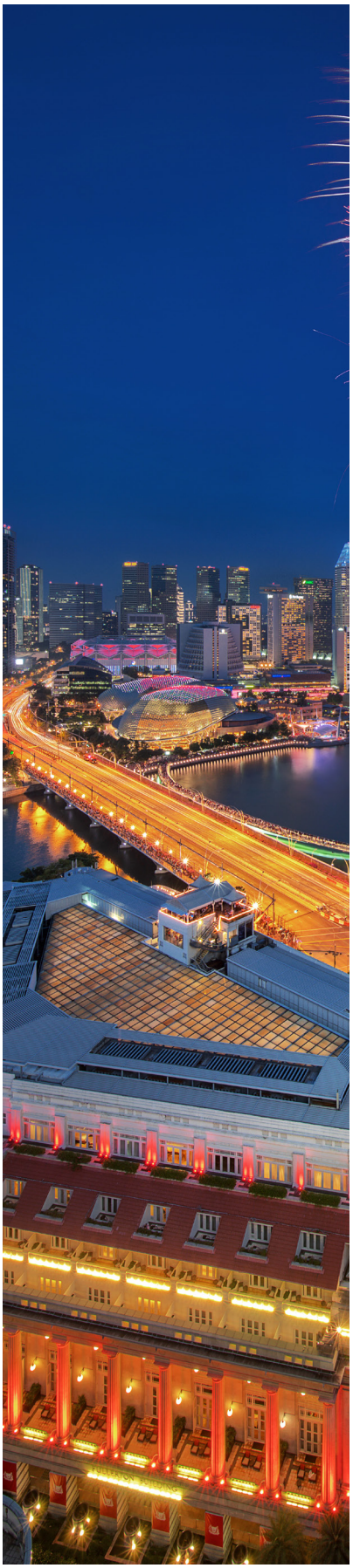
Korea and Taiwan are a little bit different. They are proxies to global growth. I've been overweight in Korea, but I'm starting to trim that, for example trimming major holdings such as Samsung Electronics or TSMC, by almost half my positions since early this year.

Have you adapted your approach at all in the past year or two, for any reasons?

No change other than tightened risk management. Why? Because we are living in such difficult times. Regarding macroeconomics, for example, the US Federal Reserve, the Chinese PBOC, the governments around the world, are all taking major action and there is vast stimulus, which create enormous tailwinds and headwinds, which can come and go very quickly, hence my focus on risk management has certainly improved.

Accordingly, every Monday we look at the portfolio of 100 to 120 companies on the portfolio or the radar and review based on three factors.

First is the stock price movement, because momentum has been one of the big factors in the rally, so I need to be aware of what is happening to stock prices both in absolute as well as relative to the



index. Second, I look at what is happening to earnings for that company as well as the sector, as well as the country to help decipher some trends. The third is liquidity.

A few years ago, I wouldn't probably have been as focused on risk management.

What particular relevance is there for this fund to the wealth management community in Asia?

Well, I personally have most of my liquid net savings in this fund, so perhaps that is a reassuring element. I manage money for my clients as I do myself. I don't like to lose too much money in bad markets, and I'm here for the long run.

And the fund has some key characteristics. It has lower volatility than the index. It has a very, very high active share close to the high 80s. Thirdly, I am certainly not a one-trick pony – I am open to a wide range of ideas and themes, and not wedded to any particular vision. I've tried to always do is to have a diversified approach to managing money so that you're never too immersed in one stock, or a country or a thematic, because you never know what could change, or how quickly. And therefore, the way I would think about approaching this from a client's perspective, is that I've tried to compound returns.

We are now some 10 years old, and after fees I have compounded close to about 10.9% per annum throughout the decade. Since 2020, the index was up close to 25%, the fund is up close to 40%. 2021 year to date, at the 27th of August, the index in China is down 2% and it has been a very challenging year with a negative bias, the fund is up 8%. I'm not claiming this is going to be forever, but it is a genuine measure.

As to distinguishing from peers, I mentioned risk management and I think that is incredibly important to HNWIs and other wealthy private clients. We have lower volatility, the beta is invariably less than 1, in fact, on average, the beta of the fund is closer to 0.86 or 0.87. So, we have low volatility but robust compounded returns. And we have skin in the game, I as manager am deeply invested.

We are here in Asia, this is an Asia fund, could you offer an insight into Asia relative to the world of EM?

Some 80% of the global EM index is Asia, and that percentage is rising year on year, and so too China is rising as a percentage of Asia. My conviction is that if you're investing in emerging markets, it's probably better to tail down towards Asia, because of the many advantages that you will get being in Asia rather than in emerging markets. And for exposure to other markets, for example Latin America, you can find that with selected ETFs. But in Asia there is such an incredible array of wonderful businesses, that selective stock picking is undoubtedly the best approach. ■