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[INTRODUCTION]
Ryan Lightfoot-Brown (RLB): Hello and welcome to the Investing on the go podcast brought to you by FundCalibre. I'm Ryan Lightfoot-Brown and today I'm joined by Charlie Dutton, the Elite Rated manager of the Ninety One Asia Pacific Franchise fund. Charlie, thank you very much for your time today.

Charlie Dutton (CD): Thanks Ryan, it's great to be here.

[INTERVIEW]
[0:20]

RLB: Now, trade tensions between the US and China still seem to be an issue despite the leadership change in the former. Does this concern you at all and what are the implications of this for wider Asia?

CD: Sure. I mean trade tensions between the US and China aren't going to go away and yeah, they're going to be brought up for all sorts of reasons going forward, whether it's confrontation around Hong Kong, around Taiwan around the [inaudible]. Yeah, there's going to be continual confrontation between the two countries going forward. Having said that, they are incredibly dependent on each other in terms of trade. And I was reading the other day that you had just under half a trillion dollars of trade between the two countries in 2020. And actually, it grew by around 8% in 2020. So, despite COVID you've seen considerable growth there.

What it means in terms of the investment side though, is that you need to make sure that you are in businesses, which are going to have less concern around that trade regulation going forward. And also, aren't going to be involved in trade spats. And I think that's one of the things that we really focus on as a fund is making sure that we are, as far as possible, in stocks which won't have that trade concern going forward.

[1:28]

RLB: So, if that’s less of a concern, what would you say to investors who are considering investing in Asia this year? What are sort of, the plus points?

CD: Yeah. When you look at Asia and you look at where economic growth is theoretically going to come from going forward, yeah, Asia is a massive driver of that. And it's not just China, but it's India as well. And you're looking at Korea, you’re looking at Taiwan, you’re looking at the whole of ASEAN. And you've got the, the old adages in terms of the demographics which are coming through, but importantly, a lot of these countries are going through that critical stage where they're moving from low income countries to middle income countries. And you're seeing that particularly coming through in terms of the consumer sectors. And you're seeing this massive growth in consumption across the region. And what that is providing is fantastic investment opportunities on the consumer side but it's also playing itself out into other what we call structural areas rather than cyclical areas.

So, you know, when you're looking at the healthcare sector, when you're looking at the IT sector, these are business, these are areas, sectors, companies, which are growing irrespective of the economic cycle. And I think that's what's exciting about particularly the way we like to invest is that we're not looking at Asia as beta on the world's economy that we think the world is going to grow therefore Asia’s going to grow more, but you're actually able now to find investments within Asia, which are growing independent of the economic cycle, they're growing because of that consumption phase coming through, because of what's happening in healthcare, because of what's happening in IT.

[2:58]

RLB: And given you mentioned IT, you’ve got more than half the fund in sort of technology and the consumer companies, are those sort of specific themes, or is it tied into that sort of growing middle classes in the region?

CD: Again, it ties into the philosophy of the fund that we apply this quality investment philosophy. And one of the number of areas that we look at that there is we look at kind of five key attributes and the first one there is trying to find hard-to-replicate you know, competitive advantages. And when you say consumer and IT, and you look at consumer brands or you look at IT network effects, they are very, very hard to actually compete against. But one of the other aspects we're also looking at is businesses which are independent of the economic cycle, I don't want to have to turn round and look at my investors at the end of the year and say, I'm sorry that the fund hasn't done so well this year, because we thought oil was going to go to $60 and it's actually at $40 or that Chinese GDP growth is 4% and we thought it was going to be 6%. We're trying to find those businesses, which are growing independent of that and have that structural growth. Now the sectors which we therefore focus on, do have that structural growth. And as you say, that's why we do have a large proportion of the fund within, in consumer and IT, but also the healthcare sectors.

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[4:15]

RLB: Interesting, thank you. And when we talk to Asian managers, we hear a lot about sort of the Chinese and the Indian companies, two of the economies that dominate the area, but you've got a holding or two in Vietnam. Can you tell us about those sort of more periphery stocks, and maybe any other countries that you've got in the periphery of Southeast Asia?

CD: Yeah. Great question Ryan. And it actually brings, it brings out the real philosophy of the fund and where we're looking at this, you know, the real onus we're looking on within Asia Pacific Franchise, the fund we’re looking at today is that, yeah, we're looking at this emergence of quality in Asia and this great investment universe, which is now applicable to Asian investors.

Interestingly though, when you're looking at ASEAN in particular, there hasn't really been that emergence of quality yet. And the reason for that is that those economies tend to be a little bit more volatile, the politics in some of those economies as well can be a little bit more volatile as well. And the result is that you haven't really had the emergence of those quality sectors, the healthcare consumer, IT, that you have let’s say in Korea, Taiwan, India, and China. Having said that, if we were having this conversation in five years’ time, Ryan, I would expect there to be a significantly higher proportion of the fund within ASEAN, but you're right at the moment. And that's therefore reflected in the fund itself in terms of the holdings, that our only ASEAN position currently is actually within a company called Vietnam Dairy which is within Vietnam. But again, it shows all those attributes that I've just mentioned in terms of hard-to-replicate competitive advantages, fantastic structural tailwinds, very, very strong governance, excellent cashflow dynamics. And we believe that’s a business we've very comfortable on in terms of the long duration investment prospects.

[6:05]

RLB: And thinking maybe sort of the other side of things. You've got a couple of holdings in some countries that you wouldn't expect to see in an Asia fund. So some Dutch, some US, even some Finnish companies in there, what's their link to Asia?

CD: So, the approach I take to investing in Asia is that I think the clients or potential clients who are listening to this call are looking at.. they want to see what can they, what exposure can they get to companies which are growing because of what's happening within Asia. And that doesn't always mean that it's just Asian-listed companies or stocks, which have, as I say, listings within the Asian domiciles. So outside of that, I also look for companies which I think have very high levels of revenue exposure, or have a significant part of their business, I think, is going to be the driver of their share price going forward.

So, you know, we have a Finnish elevator manufacturer called Kone. Now Kone is 50% of its revenue is from China, you know that is the key part of the investment case of where Kone is going to go. It's a fantastic business, very high levels of recurring income and is very levered to economic growth continuing in China. You know, we also own a company called the ASML, which is a Dutch-listed semiconductor equipment manufacturer. Now 80% of its revenues come from Samsung and from Taiwan Semiconductor Manufacturing.

So if you're looking at those types of businesses, we thought, well, rather than just owning the semiconductor manufacturers themselves, why not own the key equipment manufacturer who is actually going to benefit from the required increase in computing power globally going forward? So, I think what adds to the portfolio, is a slightly more diverse in terms of risk aspects within the portfolio. And it means that actually we get still get those very good returns from Asian growth going forward, but also get the added benefits, both in terms of valuations, but also can also be improved corporate governance in some of those companies as well.

[8:11]

RLB: Very interesting. I just wanted to go back to something you said earlier on in the talk about the healthcare sector. Many investors when they think of Asia will think of it more as sort of a manufacturing hub for the world. And wouldn't consider the sort of the healthcare sector. You've mentioned it a couple of times now, so what's so attractive about that for you?

CD: As you said, it's fascinating because you have, you know, I started investing in Asia or looking at companies in Asia, 20 years ago. And when I started doing that, it was exactly as you've just described Ryan, it was about cyclical stocks, it was about the manufacturing sector. It was quite far down the quality scale, or quite far down the value chain as well, whereas you roll forward to today and in 2020 on a cumulative basis, China spent more, well did spend more on R&D than the US did. And I think that surprises people. And if you look at the level of patents being applied for at the moment in China, you know, it's the world leader, and this also applies across the rest of Asia.

So, what you're seeing is that there's been a considerable move up the value chain. Now this applies to on the manufacturing side as we just mentioned, but also within the likes of IT, but also the healthcare sector. And what you're seeing as a result, is fantastic new healthcare stocks coming through, again, predominantly within India and China, who are either producing world-class drugs, world-class kind of healthcare manufacturing products. And again, they are not only very, very competitive on a national basis, but are also managing to export a lot of these products as well. So it is interesting because you don't necessarily think of that when you think of investing in Asia, but it is definitely giving a much more kind of long-term higher return investment opportunity as these increased levels of R&D continue to move up.

[10:08]

RLB: Yeah, because we would have seen with our investors when we, again, when we think about Asia is we take our leading companies and we sell to sort of Europe and our markets. And then we go to Asia as a big area expansion, but it sounds like some of those companies are now becoming the global leaders themselves and doing it in reverse and exporting to sort of Europe and UK and US. Are you capturing that trend at all?

CD: Completely. And you know what's so exciting about these businesses is not only do the domestic markets, not only do they have huge opportunities. And I think the scale of these markets is pretty significant, but they're also, because they're becoming such great world leaders, they're also, as you say, exporting to the likes of Europe and the US and when we just look at that semiconductor industry, as an example, you know, 10 years ago, Samsung and TSMC were pretty poor quality companies. It was a very fragmented industry, very volatile, earnings were very, very cyclical in nature. You roll forward to today and Samsung and TSMC dominate absolutely dominate the semiconductor industry. And they're exporting their semiconductors obviously globally. You've seen that the European and US sectors effectively have been out-competed. So your absolute right on that point as well.

But I do think from the, what we often forget is just the scale of some of these economies. And what I mean by that is, we own a snack company in China, which has got a, it's called Zha cai, it's a root snack company. It's got a $5 billion market cap, it's got about 20% market share within its particular area. Now we think that's a company which is going to go to 40 % or 50% market share, and also the industry as a whole is going to grow. So that market cap, theoretically on our calculations, could go from a $5 billion market cap to a $10 or $15 billion market cap. What's interesting is imagine trying to find a $15 billion market cap company in the UK, or even in the likes of Korea or Taiwan within quite a niche snack area. It would need to have 100% market share in order to try and justify that sort of scale. Whereas in China, because of the size of the market, you can find these niche businesses which aren't small, small cap, they're quite big market cap at the start, but have this great runway for growth because of the scale of the economy.

RLB: Well, Charlie, that sounds like an amazing place to finish. What an opportunity we have with your fund there.

CD: Thanks very much Ryan.

RLB: Thank you. And for more information on the Elite Rated Ninety One Asia Pacific Franchise fund, please visit our website fundcalibre.com and for more from the Investing on the go podcast, please subscribe via your usual channels.