
PACIFIC FUND – MANAGER INSIGHTS

Roderick Snell, investment manager of the Pacific Fund gives an update on the portfolios and explains why he believes it's time to look East.

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Roderick Snell: Hello. 2020 has obviously been a very challenging period for investors globally, however despite all the concerns around the world today, we believe the outlook for Asia ex Japan looks increasingly attractive.

It is the first major region to be coming out of the Covid crisis, with roughly 80 per cent of the countries in our portfolios open and getting back to work. It is doing so in relatively good shape without having destroyed its balance sheets with stimulus like many western economies, and valuations are attractive. We are near the lows of the Global Financial Crisis in terms of Price-to-Book multiples for example.

And what have we been doing? Well not too much. We have added a little bit to beaten up quality cyclical companies, but as long-term investors we believe our portfolio, with its focus on technology and innovation, is well placed for the changes that are being accelerated by the Covid Pandemic and are really excited by the stronger growth we may see in some of the region's best companies. So let's talk a bit more about the region and then our portfolio.

Outlook

Put simply we see the world splitting between the countries which have been properly managed in this pandemic – predominantly in Asia – and those which have not – mostly in the West (ie Europe and possibly America). Across the latter group we have seen prolonged lock downs, and enormous stimulus, with trillions being spent and interest rates plunging back towards zero.

In Asia on the other hand, large parts of the region are now open or opening for business. Korea, Taiwan and Hong Kong never locked down like the West, while in China, in major cities like Shanghai, 80 per cent of business are now open, and we are seeing leading indicators such as auto sales picking up double digits.



And more importantly, Asian countries are not being forced into any of these drastic stimuluses that we've seen in the West. We have reasonably sensible interest rates and no ballooning balance sheets putting many of the region's economies and currencies in a much stronger position over the coming years.

Finally, Asia ex Japan is likely to be one of the biggest beneficiaries of collapsing oil prices, with the majority of countries being net energy importers.

So putting this all together, Asia is getting back to business faster than anyone else, and is arguably in a far superior financial position compared to other developed regions.

What has been happening in our portfolios?

So what's been happening in our portfolios? Not a huge amount. We remain bullish on the region's underlying demographics, adoption of technology and the rise of the Asia consumer, which is where our portfolios are positioned. Our biggest question is whether the current crisis accelerates trends that were already underway.

For instance, one of our largest holdings, that's SEA international, an ASEAN e-commerce business, has been booming under lockdown, especially in Indonesia, so we believe gross merchandise sales could now well grow more than 100 per cent this year to more than \$30 billion, significantly higher than our original estimates. And more importantly, we see a permanently higher shift in the adoption of the online economy across south east Asia.

Over in China, many of our technology companies have been expanding rapidly into new categories. JD.com, the online retailer, has seen orders for online groceries accelerate by 3-400 per cent, and has had to add more than 20,000 employees to help with logistics.

Trading in the portfolio has been pretty limited, albeit we did take advantage of some extreme price moves, for example we purchased Longyi Green Energy, China's largest maker of solar cells, and added to some quality cyclical companies like Nexteer, the auto component maker, which is well placed for an era of autonomous driving.

By country, funding has come in part from India, where we do have some concerns, the country was already experiencing a lacklustre economy before Corona, with significant issues in the financial sector, and it has therefore not come into this crisis in good shape.

We have broadened our portfolio out a little into parts of ASEAN, for example Indonesia, where valuation looked extreme, but our biggest relative position remains Vietnam, which is likely to benefit from the relocation of manufacturing away from China, a process likely to be accelerated by the current crisis.

Conclusion

So to conclude, we are positive. We believe Asia is coming out of this crisis first, in far better financial shape than western economies, with superior long-term growth prospects and at cheaper valuations. And we believe our portfolios of growth companies focused on technology and innovation are extremely well placed in a post-Covid world. So for investors, we believe it is time to look East.



Annual Past Performance to 31 March Each Year (net %)

	2016	2017	2018	2019	2020
Baillie Gifford Pacific Fund	-13.7	17.3	38.8	-7.5	-7.0
MSCI AC Asia ex Japan Index + 2% p.a over rolling five-year periods	-9.8	20.2	28.7	-3.1	-11.4
MSCI AC Asia ex Japan Index	-11.6	17.8	26.2	-4.9	-13.2

Source: StatPro. Based on B share classes in US dollars. Returns reflect the annual charges but exclude any initial charge paid.

The managers believe the MSCI AC Asia ex Japan Index + 2% is an appropriate benchmark given the investment policy of the funds and the approach taken by the manager when investing.

Past performance is not a guide to future results.

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