



## PREDICTABLE BUT STEADY WINS THE RACE IN ASIA

AUGUST 2019

Eric Moffett

*Portfolio Manager, Asia Opportunities Equity Strategy*



These are interesting times to be an investor in Asia. There is a wide gap in valuations between Asian markets and the rest of the world; and Asian markets also look attractive relative to their own history. Earnings growth is positive in Asia and consensus expectations are for this trend to continue in 2020.<sup>1</sup> The break down in trade talks between China and the U.S. is a clear headwind in the near-term, however, on the positive side, valuations in China have fallen to crisis-like levels. Meanwhile, the longer-term Asia market outlook remains compelling.

### STABILITY AND LONG-TERM HORIZONS

We've held a number of companies for a long time within the T. Rowe Price Asia Opportunities Equities Strategy. More than half of our portfolio today is in names held for three years or more. These tend to be high quality companies in 'boring' areas, such as restaurants or convenience stores. These will typically have attractive long-term cash flows and predictable earnings but may not have the fiery growth that investors have come to expect of some Asian companies.

We make no apologies for this, striving to find those companies that have real durability. We would rather find a company that can reliably grow 10%-15% in both good times and bad, than buying companies where the upside may be 100% one year, but it might go bust the next. With this in mind, the portfolio includes companies such as AIA Group, the largest independent life insurance firm in Asia. We believe AIA is well positioned to benefit from the growing middle class and greater financial inclusion, particularly in China. We also like cash-generative convenience stores and fast food restaurants, such as Yum! China, and CPall, which owns the 7-11 and Makro franchises in Thailand.

### LOOKING BEYOND TECHNOLOGY

In Asian markets more recently, a large proportion of relative performance has depended on a fund manager's position on technology. Internet companies can be complex and subject to disruption. That said, we believe Chinese internet giant Tencent is a good company run by smart, honest people. In our view its strength lies in advertising spend going from offline to online and this has been an important holding within our portfolio.

<sup>1</sup> As of 26 July 2019. Source: Refinitiv

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

In today's market, we are finding many opportunities in the domestic China 'A' share market, which is newly opened up to international investors. It is still an 'emotional' market: domestic retail investors are often selling because they are panicking or buying because they are chasing a trend. That makes it a stock picker's paradise

Nevertheless, it requires discernment. There are plenty of low-quality companies that have been deservedly sold down.

However, valuations now suggest a crisis and we've never seen local investors more bearish. Foreign ownership in this market is just 3.0%<sup>2</sup>. As foreign ownership rises, so will the attention paid to fundamentals. That means the strongest companies should see a re-rating.

In India, we have gone 'back to basics', avoiding the highly rated mid-cap consumer companies and instead focusing on companies benefiting from improving infrastructure across the region. We own a commercial vehicle financing company - Shriram Transport - along with some of the most conservatively run banks. While India never looks cheap, these companies are trading at the bottom end of their trading ranges.

#### **A CRUCIAL NETWORK OF INFORMATION**

In finding companies for the portfolio, we are bottom-up in focus, intentionally managing the portfolio to be neutral on geographic exposure. While occasionally we will be overweight one country over another because of where the opportunities lie, we try not to take large asset allocation positions in the portfolio.

At the same time, the portfolio has always been focused on domestic demand. That means we haven't been as exposed to the trade war between the US and China.

Across the portfolios our secret sauce is our analysts. T. Rowe Price has highly specialist career analysts, who are immersed in their market and who have seen multiple cycles. That means that when they meet companies, they can get to the heart of the issues, engaging in a full and frank conversation with the chief executives.

In our view, Asia is an attractive place to invest today on many metrics. However, it still requires careful navigation to ensure the growth opportunities don't come with a nasty bite.

<sup>2</sup> As of 31 March. Source: National Bureau of Statistics of China via Haver

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

## Risks

The following risks are materially relevant to the portfolio.

**Country risk (China)** - All investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licence or the Stock Connect program may be subject to additional risks. **Currency risk** - Changes in currency exchange rates could reduce investment gains or increase investment losses. **Emerging Markets Risk** - Emerging markets are less established than developed markets and therefore involve higher risks. **Issuer concentration risk** - To the extent that a portfolio invests a large portion of its assets in securities from a relatively small number of issuers, its performance will be more strongly affected by events affecting those issuers. **Small and mid-cap risk** - Stocks of small and mid-size companies can be more volatile than stocks of larger companies.

### General Portfolio Risks

**Capital risk**- The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

**Equity risk**- In general, equities involve higher risks than bonds or money market instruments. **Geographic concentration risk**- To the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area. **Hedging risk**- A portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

**Investment portfolio risk**- Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

**Management risk**- The investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably). **Operational risk**- Operational failures could lead to disruptions of portfolio operations or financial losses.

---

### Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

**EEA ex-UK**—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**UK**—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**South Africa**—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

© 2019 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.