

Samir Mehta, JOHCM Asia ex Japan Fund



# A VIEW FROM ASIA

JANUARY 2020

## The past decade in three phrases: *spume*, *'vis amplificans vim'* and *profligacy*

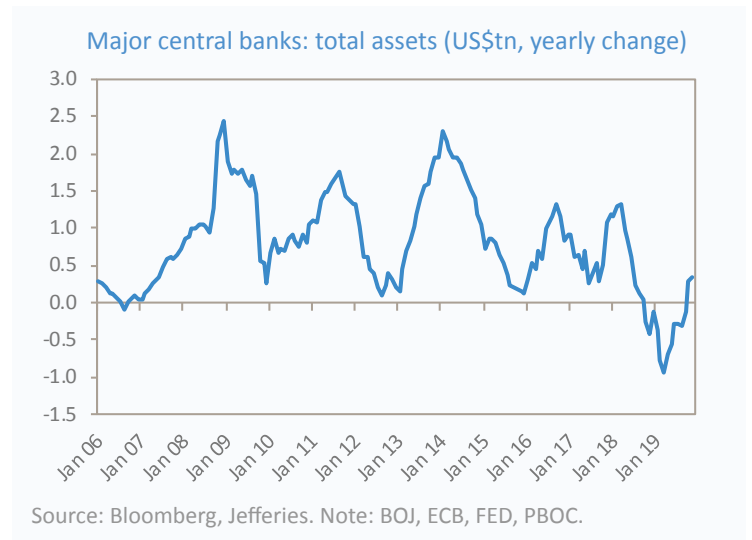
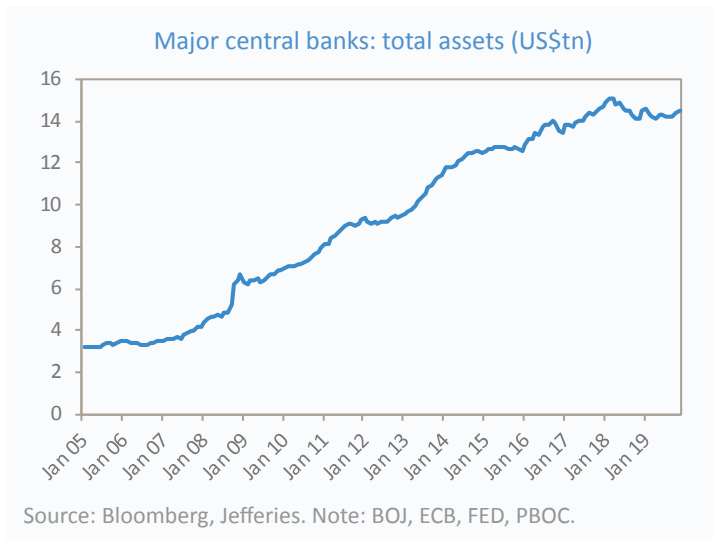
It is that time of the year. Like clockwork, at the time of writing, as we approach the end of December and, this time, the end of the decade, the media starts to indulge in its favourite pastime: a ritual drawing up of lists – the best movies, the defining political events, the best books. I could go on. A fractured old media replaced by personalisation and social media can yield lists for even the most trivial of subjects.

Not one to be left behind, I racked my brains to find three phrases that, in my opinion, best define the investment landscape of the past 10 years.

### Spume: frothy matter on liquid; foam or froth, as on waves

If you were even minutely sceptical about the power of central banks; if you needed proof that monetary assets were best visualised as foam on the waves of a liquidity tsunami, take a look at the charts below.

#### Whose money is it anyway?

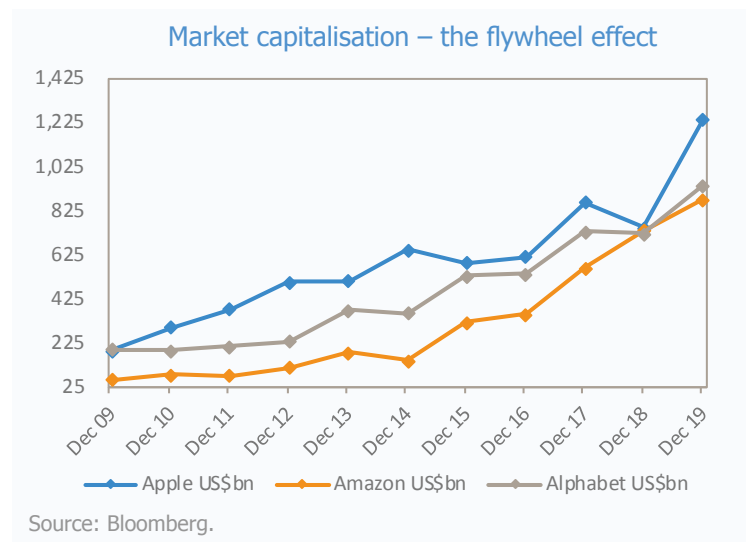


We fret and fume about GDP, unemployment, geopolitics, elections and more. Sit back to think about it and central bank actions made the biggest impact on asset prices. This was starkly reflected in the 2018 market sell-off when we had quantitative tightening, whereas we have Mr Powell to thank for the change of heart in 2019.

### 'Vis amplificans vim': by broadening the force; amplification

In business, we all know about network effects. When a network effect is present, the value of a product or service increases according to the number of others using it. If achieved, it leads to economies of scale and relative dominance in a sector. Today, a proliferating, mature internet presents an even more potent combination: zero-cost distribution and the flywheel effect. A flywheel is a massive metal disk or wheel. It takes a lot of effort to get it started, but once it starts to turn, there are counterweights around the outside of the wheel that start to take effect and it starts to build momentum almost by itself. From that point, the same effort can be placed on the flywheel, and it will start to turn faster and faster. This is best encapsulated in Amazon's Mr Bezos's pithy but hard-hitting statement of intent: 'your margin is my opportunity'.

The amplification of the economic and political power of companies like Amazon, Google, Facebook and Apple – Ben Thompson of Stratechery refers to them as 'Super Aggregators and Platforms' – is overwhelming.



Disruption is the name of the game and the effort of staying ahead is gigantic. Threats from technology leaders in every industry are multiplying and the ability for a business to adapt and compete against these behemoths defines success.

**Profligacy: reckless extravagance or wastefulness in the use of resources**

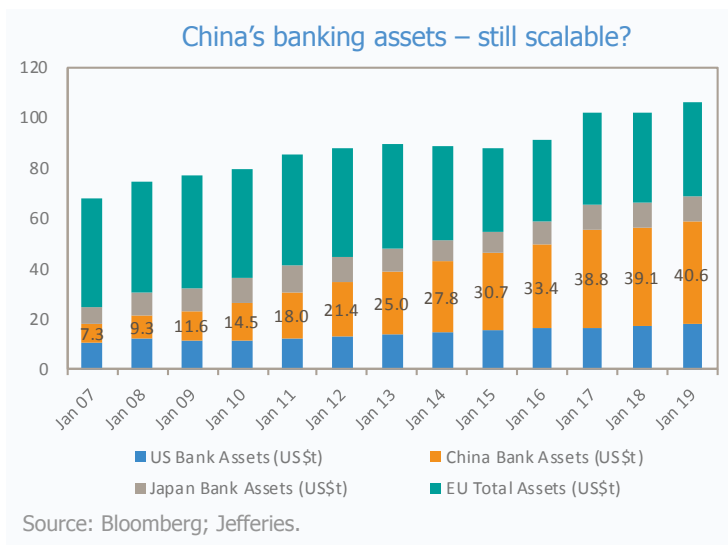
“We should be happier to have a job than to have savings protected. I think that it is in this spirit that monetary policy has been decided by my predecessors and I think they made quite a beneficial choice.” Thus spoke Ms. Christine Lagarde, now Chair of the European Central Bank. She almost castigated Germany and Netherlands for saving and not taking on debt to spend.

Piling on debt, so far, has had almost no consequence for policymakers. Inflation in the traditional sense is subdued. Job creation is certainly a priority for all countries. Yet, in the face of technological challenges, are we creating ‘zombie’ companies that survive on evergreen loans from state-directed banks? Financial inclusion, in my opinion, is just a euphemism for encouraging the poor to borrow more.

Could the chart on the right qualify as one of the most staggering statistics of the past decade? The Chinese banking system has added approximately US\$33.4tn new assets in the past 12 years. That is six times the assets created in the banking system by the other three large economic areas put together. Go figure. There are some caveats – the developed markets rely on debt markets; I should compare this to the GDP of the blocs rather than just absolutes. Even still, it took me a while to digest this statistic.

What is the lesson learnt you might ask? A stark one: do not make predictions on what the next year or the next decade hold for us.

Best wishes for 2020 (and the next decade).



**JOHCM Asia Ex Japan Fund**

5 year discrete performance (%)

Discrete 12 month performance (%):

	31.12.19	31.12.18	31.12.17	31.12.16	31.12.15
A USD Class	17.70	-22.82	32.89	2.15	-5.89
Benchmark	18.09	-14.33	41.84	5.54	-9.33
Relative return	-0.33	-9.90	-6.31	-3.21	3.80

**Past performance is no guarantee of future performance.**

Source: JOHCM/MSCI Barra/Bloomberg, NAV of Share Class A in USD, net income reinvested, net of fees as at 31 December 2019. The A USD Class was launched on 30 September 2011. Benchmark: MSCI AC Asia ex Japan NR (12pm adjusted). Performance of other share classes may vary and is available on request.

Past performance is no guarantee of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Investing in companies in emerging markets involves higher risk than investing in established economies or securities markets. Emerging Markets may have less stable legal and political systems, which could affect the safe-keeping or value of assets. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation. Issued and approved in the UK by J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority. JOHCM® is a registered trademark of J O Hambro Capital Management Ltd. J O Hambro® is a registered trademark of Barnham Broom Ltd. Registered in England and Wales under No: 2176004. Registered address: Level 3, 1 St James’s Market, London SW1Y 4AH, United Kingdom. Notice to Swiss investors: RBC Investor Services Bank S.A., with registered office at Esch-sur-Alzette, Badenerstrasse 567, P.O. Box 1292. CH-8048 Zurich has been appointed to act both in a capacity as Swiss representative and Swiss paying of the JOHCM Asia ex Japan Fund. All legal documentation pertaining to the JOHCM Asia ex Japan Fund can be obtained free of charge from the Swiss representative. The place of performance and jurisdiction in relation to [shares/units] distributed in Switzerland is at the registered office of the Swiss representative.

