10 minutes with...
TONY JORDAN

We talk to Senior Portfolio Manager, Tony Jordan, who gives us insight into the investment process behind the New Capital Asia Pacific Equity Income Fund, and shares with us his outlook for the rest of 2016.

TONY JORDAN
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NEW CAPITAL ASIA PACIFIC EQUITY INCOME FUND

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What is the aim and process of the Fund?

We launched the Fund back in 2011, believing that we are in an era of structurally low interest rates and that investors who are living longer will need to protect their income in real terms, as well as receiving a higher yield than is possible in most fixed income assets. It helps of course that over the long term this has been an outperforming strategy in Asian stock markets, more so than in more developed markets. With interest rates falling and demographics changing in most of Asia-Pacific, it is also interesting to note that local investors have become interested in this asset class.

In terms of the process, the focus is on high yielding stocks that in our opinion have the earnings and balance sheets to sustain their pay-outs. However, although our turnover is relatively low we do not believe in holding stocks once they have become expensive, preferring to rotate to higher-yielding stocks once they are paying the average market yield, or if there are more attractive opportunities elsewhere on other valuation metrics. There are certain times therefore, when a sector or country does well when turnover can increase as switching takes place.

> Companies are being encouraged to allocate capital more efficiently

Has this changed and evolved over time?

In terms of the process we still focus on top quintile high-yielding stocks but are including buy backs as part of total pay-out. We believe this will become a significant driver of stock performance in Asia, given low interest rates and record high cash on balance sheets. This has not made much difference to many sectors we can invest in, but has made Korea more accessible recently now that companies are being encouraged to allocate capital more efficiently.

Do macroeconomic factors affect the process?

Usually the macro side is incorporated in and influences earnings forecasts. However, our economists have kept us out of energy stocks and focused on beneficiaries of lower input costs at a sector level, and historically underweight countries such as Australia until recently.

How has the Fund performed and why?

It has been a fairly tough couple of years for high dividend yield investing, since the taper tantrum of 2013. The possibility of higher rates has been a headwind, as has the continuing outflow from the region as a whole and high-yield dividend funds in particular. Rather unusually we were down more than the index last year. We are normally defensive although this is changing so far in 2016. I would also add that the style, rather unusually compared to the rest of the world, has worked particularly well when markets are recovering.

What stocks/sectors/holdings have done well?

Generally investments in Indonesia have done well both long term (Telkom Indonesia) and in the short term (Indofood up 40% since the beginning of the year). Some stability in the currency has been required to get this outperformance (as it will be for the region), but signs are that this is returning from extremely oversold levels. Similarly after a dramatic fall in July last year, Taiwanese technology stocks have also outperformed (e.g. King Yuan, up 25%). Providing you are confident in the cash flow outlook it is generally the case that valuations revert to the mean over time.

What stocks/sectors/holdings have detracted from performance?

Financials have generally underperformed for some time, for example, DBS or any of our HK property holdings are down 20% this year. In the case of our HK property stocks they are trading at anything from 50 to 60% discount from estimated 2016 valuations (down 10-15% from 2015 in some cases), yet will be increasing their recurrent revenue by up to 30% (out of which they will pay an increasing dividend) over the next 2-3 years. e.g. Hopewell Holdings.

In this environment we expect opportunities for active stock pickers

What is the outlook for 2016, what are the main headwinds/tailwinds to performance?

In Asia it is not about valuations, they have generally been attractive for some time both on a relative and absolute basis (historical price to book). It is also not about sentiment, which seems at extreme negative levels looking at the continued outflows over the past few years and various love/hate indicators. Rather concerns are of a global slowdown and perhaps a currency crisis possibly caused by a devaluation in the yuan. In both instances we feel concerns are overdone as we are expecting slow but steady growth out of the US, and a slight decline in the Chinese currency which should allow ample liquidity into its economy. Overall another year of sluggish growth but one which has been discounted in most markets. In this environment we expect opportunities for active stock pickers rather than momentum trades driven by macroeconomic concerns.

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Source: EFG Asset Management, Bloomberg. Data as at 29 February 2016.