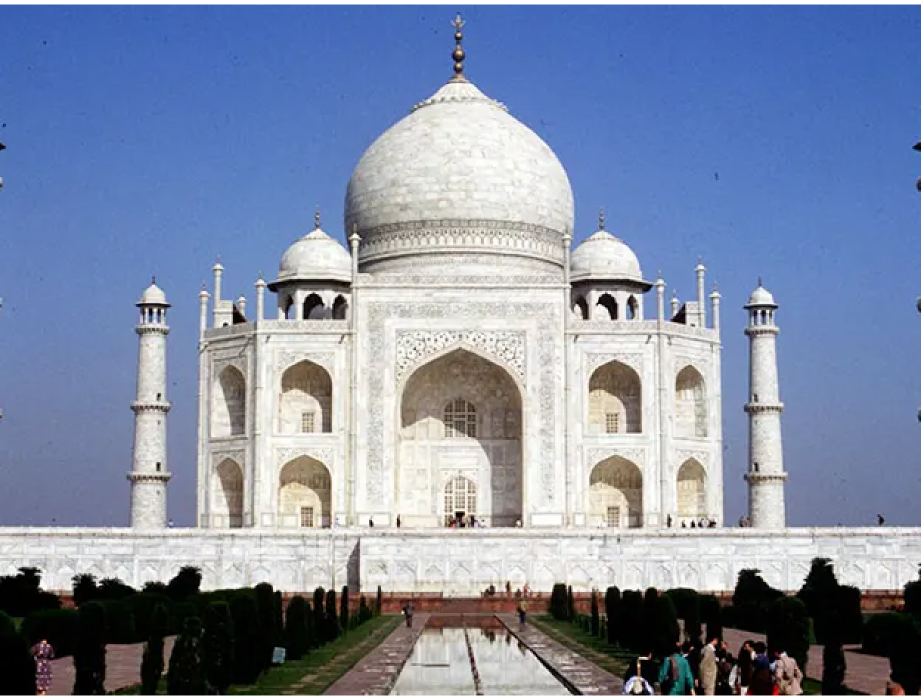


FUNDS & INV TRUSTS

Beyond the China turmoil: single-country funds

Niche plays from Asia and emerging markets

October 6, 2021
By **Dave Baxter**

Having turbocharged Asian and emerging market returns in 2020, Chinese stocks have attracted attention for all the wrong reasons in recent weeks. With this year's regulatory crackdown hurting share prices, the country's CSI 300 index was down by 2.5 per cent in sterling terms for 2021 as September drew to a close. That contrasts with a total return of nearly 35 per cent last year. This has weighed on Asian and emerging market indices, which have a substantial China allocation, and the funds that invest in the region.

With the exception of a few funds, including **Stewart Investors Asia Pacific Leaders Sustainability (GB0030978729)** and **Fundsmith Emerging Equities Trust (FEET)**, both active and passive Asia and emerging market portfolios tend to have a hefty allocation to China. But as we noted a year ago, single-country funds can serve as a play on growth in the region with less reliance on the world's second-biggest economy. With all eyes on China in 2021, how have they fared?

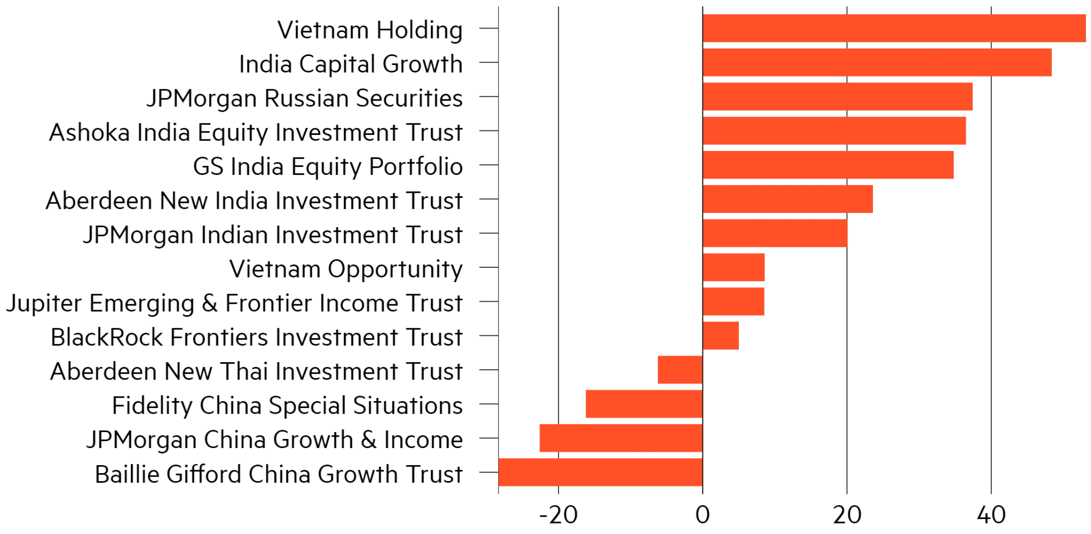
A trade war play comes good

Last year we pointed to Vietnam as a potential winner from the US/China trade war. Even if trade war noises have done little to upset investors since then, its appeal holds up. The country has favourable demographics and can still benefit from countries looking to find suppliers outside of China in areas such as manufacturing. Such demand may only increase in the wake of a tougher regulatory stance from the Chinese authorities.

Vietnam funds have certainly fared well. In a slight reversal of fortunes **VietNam Holding (VNH)**, a modestly sized trust favoured by Simon Thompson, leads the pack after racking up a share price total return of more than 50 per cent in the first nine months of this year, having previously lagged its peers. The fund's management team runs a concentrated portfolio of small and mid-cap companies benefiting from secular growth trends, something that takes in the themes of domestic consumption, industrialisation and urbanisation. It had just 24 holdings at the end of August, with its top 10 holdings making up some 46 per cent of assets. It should be noted that the portfolio had 30 per cent of its assets in cash at the time in preparation for a tender offer, with the portfolio usually looking even more concentrated: at the end of July the top 10 holdings made up nearly two-thirds of assets.

SINGLE-COUNTRY FUNDS: 2021 SO FAR

Total return (%) from the first nine months of the year



Broader frontier market funds included for comparison
Source: FE

The trust's shares have often traded at a notable discount to the portfolio's net asset value (NAV), and this came to 16.2 per cent at the end of September. Shares in **Vietnam Opportunity (VOF)**, one of its rival funds, traded on a wider discount of around 22 per cent, although VietNam Holding has enjoyed much stronger share price total returns lately.

As we noted last year, these two names and **Vietnam Enterprise Investments (VEIL)** inevitably have some shared holdings, including IT services business **FPT Corporation (VIET:FPT)** and **Hoa Phat (VIET:HPG)**, an industrial manufacturing group. All three portfolios are notably concentrated, a common trait of active and passive single-country funds explained by the size of the market available to them. That said, Vietnam Opportunity stands out from its peers because of its greater focus on unlisted companies, which made up around a quarter of the portfolio at the end of August. In Vietnam, a restriction on foreign ownership means investors can sometimes find more interesting opportunities outside of public markets.

India: happier times

Last year we noted that Indian stocks had come unstuck amid the pandemic. The tables have turned since, with the market and the India funds in our chart registering strong share price returns for 2021 so far and for the 12 months to the end of September. Perhaps more importantly, the long-term investment case remains alluring. Ben Yearsley, investment director at Shore Financial Planning, highlights similar themes to those associated with Vietnam, from growing domestic consumption to urbanisation.

Ryan Hughes, AJ Bell's head of investment research, goes further, arguing that India may seem a more palatable market than China.

"India is on a clear growth trajectory that should make it the world's third-largest economy in the next decade, but it is significantly underrepresented in global portfolios due to the dominance of China," he notes.

"In some respects India offers a more compelling story given its strong rule of law, less authoritarian government and less developed economy when compared to China, factors that are currently worrying investors in China today and causing significant market volatility."

He adds that the country has a well-developed corporate culture, with strong companies in the technology and financials sectors looking to capitalise on India's rapid development.

When it comes to funds, **Ashoka India Equity Investment Trust (AIE)** has had notably strong performance. The investment team focuses exclusively on bottom-up stockpicking, with a focus on returns on incremental capital, scalability and good management. The team looks to screen out companies with poor governance. The portfolio itself is more diversified than that of the Vietnam funds, with 66 holdings at the end of August.

While it was only launched as recently as 2018, shareholders in the Ashoka trust have enjoyed double-digit returns in 2019, 2020 and 2021 so far. Investors might also find the trust's fee structure appealing. There is no ongoing management fee, and the team instead levies a 30 per cent performance fee on their rolling three-year outperformance versus the benchmark. This should act as a good incentive for the team to focus on beating the underlying market.

Given its size and popularity, India is a market with many funds dedicated to it. Of the four trusts in the Association of Investment Companies' India sector, **India Capital Growth (IGC)** has also stood out in the shorter term. This portfolio is notably concentrated, with just 33 holdings at the end of August and a decent focus on small and mid-caps, and the management team looks for companies that are "well-placed to benefit from the structural growth potential of the Indian economy, combined with the highest quality of management best able to exploit this opportunity". Its biggest position at the end of August was in **Federal Bank (IND:500469)**, a mid-sized private sector bank.

Investment trusts are not the only option. A fund that maintained its place in the IC Top 50 Funds this year is **Goldman Sachs India Equity Portfolio (LU0858290173)**, a name with a consistent record of performance versus its underlying market. If the fund lags the two investment trusts' share price returns over a one-year period it still holds up well, and leads the pack by five-year returns.