

Seeking Advantage in Asia

While most investors tend to go with the flow when exploring the Asian markets, the Wells Fargo Advantage Asia Pacific Fund is using every tool at its disposal to get in early on new investment ideas. In order to take advantage of all the opportunities in developed and emerging Asian countries, portfolio manager Anthony Cragg seeks both growth and value situations, as well as larger- and smaller-cap stocks.

Q: What is your investment philosophy?

A: There are plenty of ways to passively gain exposure to Asia. But to me, gaining exposure is only half the story. The other half is gaining the right exposure to Asia. Knowledge and experience are important because a lot of people approach Asia in a sort of a generic product manner. When you are exploring these new and unfamiliar markets, there is a natural tendency to follow the crowd. But that will also condemn you to mediocrity and we do not seek mediocre performance. We are deliberately being active, decisive, striking out on our own, getting early into names and exploring new ideas and markets.

We are not in the business of producing a generic product. We are trying to provide a product that genuinely adds value. Our core philosophy is that we believe that through active management we can make money for our clients.

Q: Are you looking for absolute returns or for relative returns?

A: In this business you are usually judged by relative returns but our goal is to make money so we are looking for absolute returns. I believe our markets are conducive to doing that.

Q: Do you measure yourselves against any benchmark?

A: We are divergent from benchmarks, but

the key thing is to be aware that you are diverging from them, and to be conscious that you have done that. We have no compunction against being very different from the benchmark, but it has to be for a reason.

Q: Do you consider yourself a fundamental investor, or are you looking to buy stocks cheap and hold them for three to five years?

A: We focus our performance on the stock selection level. We look at the top down, we look at the macro, and we look at the country risk. I don't believe you are going to add a lot of value over time by taking big bets for and against certain markets.

Our competitive advantage is on the stock selection level. We can know more about a company than most of our competitors. We can get into a specific company earlier than our competitors.

On the macro level, we cannot really analyze what's happening in Japan better than all our competitors. So, what we are trying to do is risk management. We are looking at the macro level to avoid currency problems, political problems, inflation problems and so on.

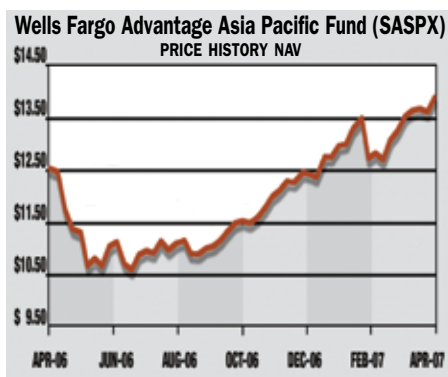
Q: How do you go about portfolio construction?

A: I'm not a believer in having a single, one-size-fits-all strategy.



ANTHONY CRAGG has managed the Asia Pacific Fund and its predecessor since 1993. Cragg joined Wells Capital Management in 2005. Prior to joining Wells Capital Management, he was a portfolio manager with Strong Capital Management, Inc. ("SCM"). Beginning there in April 1993, Cragg developed SCM's international investment activities. During the prior seven years, he helped establish Dillon, Read International Asset Management, where he was in charge of Japanese, Asian, and Australian investments.

Cragg began his investment career in 1980 at Gartmore, Ltd., as an international investment manager, where his tenure included assignments in London, Hong Kong, and Tokyo. He received his M.A. degree in English Literature from Christ Church, Oxford University.



We are typically investing in fourteen markets in Asia. These markets are at different stages of development, economic cycles, and industrialization. That means we will buy growth if we can find growth at a reasonable value. In other situations, the value approach may be more appropriate. Similarly, we love a balance between large cap, mid cap and small cap. It's very important to construct a portfolio with exposure in all those areas to balance each other out.

Q: Is your investment style short-term or long-term oriented?

A: We are trying to create performance. We have a number of core holdings in the portfolio that we would hope to earn for years rather than months. If we can make a quick 25% in a month on a smaller name, we'll take that as well.

Our fund is about \$500 million at the moment. If I saw an investment opportunity that I thought would make our shareholders money, I would do it. I am happy we have the luxury of not having to only buy U.S.-listed companies or ADRs, for example.

“We are looking to exploit inefficiencies. The beauty of Asia and emerging markets is the fact that those inefficiencies do exist. In a much more mature market like the U.S., the capacity to add value is less. In Asia there is plenty of room to get ahead of the crowd.”

Q: Would you call your investment style opportunistic?

A: No, I think opportunistic has a slightly negative connotation. We are looking to exploit inefficiencies. The beauty of Asia and emerging markets is not just their growth, but the fact that those inefficiencies do exist. In a much more mature market like the U.S., the opportunity to add value is more marginal and fleeting. Information sources are much more efficient, there are many more people at the same knowledge level. In Asia there is plenty of room to get ahead of the crowd if you are experienced, if you have met many companies and have good contacts. You need to be proactive and you need to be sometimes a little courageous because invariably, the best investment decisions are those where you are in the minority when you make it, and then the majority gradually catches up later on.

Q: What are the main characteristics of investing in Asia?

A: First, it's an expanding universe. If you go back to the early '80s, you are talking about six or seven markets that constituted what we now regard as Asia. People did not invest in India and they didn't even mention China.

Back in the '80s and '90s there were very few safe places in Asia. Over time, politics have improved, transparency has improved, accountability has improved and the dangers at the macro level have diminished. It's now rare to want to avoid a market on a macro view. Some of the previous weak financial markets of Asia have now grown to be mature and they are now evaluated on global basis for investment destinations.

Q: How has the investors' attitude to investing in Asia changed?

A: Over time, the family structure in Asia has almost been vindicated. The American investors didn't like the fact that these companies were all run by families and they had an overwhelming belief in professional managers, hired hands, executives. Those hired hands in the U.S., in many cases, have led to disasters, because they had a very short-term perspective.

In Asia, they have a great belief in ancestors, children and grandchildren. Most businessmen are trying to make money for their family for many generations. They are not going to sell the company out in a couple years and go and retire in the Bahamas.

In the early days you were a victim of the mentality that Asia was a sort of casino. If you were a brave investor in the UK or America, you took a few spins of the wheel, tried to make some quick money, and then you got out. That was very damaging as it meant people weren't looking at the long-term potential in Asia. It meant there were a lot of fast inflows and outflows.

In the recent two or three years increasingly people have stopped treating Asia as a quick trade, but as a proper investment. That has led to good liquidity flows, greater stability, and less panic. The international investor's attitude to Asia has grown up. They now see it as a strategic and permanent part of their portfolio.

Q: How do you go about stock selection?

A: From top down, we are looking on the risk avoidance perspective. We are not being very aggressive, deliberately overweighting or underweighting markets for their own sake. We just don't pay much attention to benchmarks and we don't want proxy holdings in the fund. We want every name in the portfolio to be there because there is a fundamental reason for it.

Our biggest holding in Thailand, for years, has been Minor International, a hotel company. They started in pizza and then they got into hotels. They have a Four Seasons franchise in Thailand now. This stock went up about tenfold over the time we held it. The market during that time was rocky and turbulent. People often say, "You can't perform in a market that's not performing." I think that's nonsense. You can be in the right stock in the wrong market and you can be in the wrong stock in the right market. There are always opportunities.

Q: How is your research process organized?

A: We start with the risk analysis for the countries - we look in the currencies, government, policy, inflation. Very quickly, we can move down to themes. Thematic portfolios are really important in our funding. There are themes we like and we play again and again in the same market, and in other markets. So, you can start from the broad theme.

Then we narrow that down to sub-themes. Whenever you talk about growing affluence in Asia, people always think you mean buying Gucci handbags and BMWs, and I mean a lot more serious things than that. For example, education, health care, medical treatment, travel, tourism, entertainment and the whole quality of life improvement that you would expect of the people, who have more money in their pocket.

Then from the sub-theme level we go down to the company level. Then we try to identify what the best play on tourism in Singapore or Thailand is. That is where the ability to skip from market to market helps because you find that markets will be at different stages of recognizing that particular sub-theme.

Then we are left with 80 or 90 names in a portfolio. I sometimes get the question, "How can you keep on top of 80 or 90 names?" If you divide them into those themes, sub-themes and sub-sub-themes, they begin to form a pattern. It really isn't 80 completely different ideas. It's often an adaptation, moving to a different market. It's a similar theme that we are pursuing and that's how we get down to the stock level.

Q: Can you give an example of some investment themes that you consider important in the context of Asia?

A: Let's take tourism, for example. People often think that's a trivial theme, but for a lot of the Asian countries, tourist income is by no means trivial. It is an important industry and a sort of natural comparative advantage, especially set in the regional

context. I have a notion of Asia being a sort of extended family, where each family member has different skills and different resources, and adds something different to the party.


Tourism is not to be underestimated because I remember when nobody went to Thailand on holiday at all. It would be like going to Nepal or Sri Lanka. Today, there are people living in the midlands in England working as accountants who own a place in Thailand. It has become completely normal. I think Vietnam will soon see the same thing happen. Vietnam has the rich history, the ancient culture, beautiful beaches, long coastline and just everything you want if you are a tourist.

Q: What risks are you cognizant of and how do you mitigate them?

A: Being an active stock selector the main risk is at stock level. We can be fairly aggressive on our stock selection, therefore it is important to put a risk parameter on that exposure. We will only typically own about 3% maximum in any one position. That is sort of safety net valve, sort of risk reduction. If we are right about it and it does well, it will have a nice impact on the portfolio without betting the ranch.

Q: Do you hedge against currency risk?

A: We are bullish for Asian currencies. We also believe our investors usually take that view, so if they want to put money in Asia, they are deliberately divesting away from the dollar. I would say that 95 times out of 100, they want the diversification into other currencies.

It can be expensive and difficult to hedge currencies in Asia. There are, obviously, investment hedges you can take. If we think currency is going to weaken, there are stocks we can buy predicated on that so we can make money, even in the declining currency, but typically we don't hedge. The risks are on country and stock levels so we try and restrain overexposure at both those levels. 

Wells Fargo Advantage Asia Pacific Fund

Symbol	SASPX
Website	www.wellsfargoadvantagefunds.com
Address	Wells Fargo Funds Management LLC 525 Market Street, 12th Floor San Francisco, CA 94105
Tel. No.	800-222-8222
Inception	12/31/1993

PORTFOLIO	
Total Net Assets*	\$486.6
Avg Mkt Cap (\$ Weighted) *	\$7,500
Average Price/Earnings Ratio	21.18x
Average Price/Book Ratio	2.78
Turnover Ratio	167%

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$2,500
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$1,000

RISK (AGAINST MSCI EAFE ND INDEX - 3 YEARS)	
Alpha	-0.22
Beta	1.22
R-Squared	0.71
Ann. Std Deviation	13.37
Sharpe Ratio	1.46

RETURNS VS. MSCI EAFE ND INDEX		
	SASPX	Index
1 Year (Cum.)	10.82%	19.81%
5 Year (Ann.)	24.76%	22.51%
10 Year (Ann.)	21.72%	16.64%

RETURNS VS. MSCI WLD X-US SMCP ND INDEX		
	SASPX	Index
1 Year (Cum.)	10.82%	14.81%
5 Year (Ann.)	24.76%	26.01%
10 Year (Ann.)	21.72%	24.07%

FEES AND EXPENSES - A-SHARES	
Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	1.00%
Max Redemption Fee**	2.00%
Total Expense Ratio	165%

PORTFOLIO MANAGERS	
Anthony Cragg	12/31/1993
<i>*millions **1 month after purchase</i>	
<i>Data through: 04/30/07</i>	
<i>Source: Company Documents; Lipper</i>	

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