

Exploiting Market Inefficiencies

In the fast-changing world of investment, the manager of Martin Currie Asia Pacific fund believes that there are many unexploited opportunities. Using Martin Currie's Dynamic Stock Matrix, Jason McCay assesses the imminent positive change in a company before he takes a position. The portfolio of 40 to 50 stocks is picked carefully against the four main criteria: quality, value, growth and change.

Q: What is your guiding investment philosophy?

A: We believe that the market is characterized by behavioral inefficiencies and always underestimates the upside that can result from business or market changes. Most investors concentrate on forecasting periodic performance with over-reliance on management guidance. We believe that significant investment performance comes when there is a positive or negative change that persists longer than investors expect. We essentially look for companies that are about to or are undergoing positive change.

Q: How does your philosophy translate into an investment strategy?

A: We are interested in companies with consistent and recurring earnings growth. At any time we hold 40 to 50 different stocks spread across different sectors. Currently we are holding 45 stocks, each on their own merits. Our sectoral weightings are arrived at 'bottom-up': that is, we do not build the portfolio from a sectoral perspective.

Q: How do you conduct your research?

A: We travel widely to cover more than 500 companies in Asia every year. We also have direct phone contact with many more companies. Each of

these companies is evaluated on fundamental and technical measures to determine the company's merits on business performance, earnings and sales growth and potential for change. A lot more emphasis is placed on potential for business dynamic, product portfolio, and management changes. The stocks are ranked under each variable, where the strongest company will score plus 5 and the weakest minus 5. Through this process we identify stocks to watch with particular care.

The research team evaluates each company to ascertain longevity of change and its sustainability. The macroeconomic and microeconomic variables are factored for each stock. Our portfolio covers both emerging and developed markets. We have always taken more risk in markets with strong positive macro dynamics in place.

Q: How do you build positions in the portfolio?

A: We manage the portfolio to minimize macro exposure. So we do not take a large number of positions in a particular sector or country. We currently have 45 stocks throughout Asia and usually maintain less than 50 names in the portfolio.

We don't have price or valuation targets for us to buy or sell our stocks.



JASON MCCAY joined Martin Currie in 1998, and is head of the Martin Currie Asia and global emerging markets team and also lead manager of the Martin Currie Asia-Pacific Fund and Martin Currie Absolute Return Funds-Asia.

McCay joined Edinburgh Fund Managers in 1994, after three years with Alliance Trust. He moved to Indonesia in 1996 where he was head of research at Deutsche Morgan Grenfell.

McCay holds a Degree in Economics from Strathclyde University, and is an Associate of the UK Society of Investment Professionals (ASIP).

“We believe that the markets are inefficient in adjusting to either positive or negative change in a company. Prices are adjusted too late at times. Our objective is to produce long-term capital growth by investment in any economic sector in Asia.”

Instead we rely on our continuous evaluation of every stock we hold to make the decision. You may find us buying a stock that is expensive according to analysts, only because we believe that the underlying change justifies a higher allocation than the market is pricing. When the positive earnings revisions come, we reassess our assessment of the idea and sell if the attractiveness of the stock starts to deteriorate.

Q: Would it be correct to say that you employ a momentum style of investing?

A: For price momentum, we look at six months moving average and for earnings momentum we look for momentum of change in operations. We believe the market is inefficient when it comes to pricing. That is, change in stock prices does not always reflect the pace of change. This trend seems to be persistent and we benefit from this discrepancy in the market. We will not be able to time the market at the peak and at the bottom of the stock price cycle but we are still able to capture large portion of the market gain with this approach with low volatility.

Q: Any recent stock picks that can highlight your research process?

A: Hana Tour would be a good example. It is the largest Korean tour operator and sells package holidays to Koreans traveling overseas. When we looked at it, it was the leader in the industry in a country with growing disposable income. International tourism from Korea has been growing faster than 20% a

year in the last five years. The company has been consolidating its market position and exploiting the internet. The company has shown consistent growth in the last four years.

Another recent example is China Mobile. It is one of the largest mobile operators in the world and a leader in China. The company had been doing well until two years ago when a new company with 3G standard came into the market. We noted that China Mobile responded by pursuing a new earnings driver in the rural market. Since then, the company has shown growth both in subscriber base and revenue. So we have been adding to our position. The market saw only the change of regulatory framework in the industry – and failed to notice the underlying momentum in the business. China Mobile is still one of our largest holding in the portfolio.

Q: What kinds of risk do you monitor?

A: We feel we are able to pick good companies within Asia and we are focused on company specific risk. We minimize risk by spreading our portfolio across sectors without taking large positions in any one sector. Most of the risk is covered by our rigorous stock picking. We keep portfolio risk in control by checking on the flexibility of the portfolio both at country and stock level. Our risk team meets monthly to review the risk characteristics and exposures in our portfolio. We set performance and risk targets which are consistent with the performance objectives and then manage risk at the overall portfolio level.

Q: Are there any Asian countries you exclude in your investment portfolio?

A: No. We are looking for relatively stable companies undergoing positive change. We also monitor frontier countries in the region that we may invest in the future. We are looking at the whole region from Australia and New Zealand to Korea, China and across to Pakistan and India. 

Martin Currie Asia Pacific Fund

Symbol	GB0031559635
Fund Type	OEIC
Website	www.martincurrie.com
Address	Martin Currie Investment Management Saltire Court, 20 Castle Terrace Edinburgh EH1 2ES
Tel. No.	0044 131 229 5252
Inception	14/02/1994

PORTFOLIO

Total Net Assets*	GBP 271
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INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	GBP 1,000
Min Subsequent Investment	N/A
Min Regular Investment	GBP 100
UK ISA	YES
CAT standard	No
UK PEP	YES

RETURNS VS. MSCI AC ASIA PACIFIC EX JAPAN INDEX

Additional Past Performance £ (Periods to 31 July 2007)

	GB0031559635	Index
Year-to-date	23.6%	19.3%
3 Years	145.7%	124.8%
5 Years	201.9%	167.7%

RETURNS VS. IMA ASIA PACIFIC EX JAPAN SECTOR

Additional Past Performance £ (Periods to 31 July 2007)

	GB0031559635	Sector
Year-to-date	23.6%	22.4%
3 Years	145.7%	120.8%
5 Years	201.9%	147.5%

FEES AND EXPENSES

Initial charge	5.00%
Annual charge	1.50%
Exit charge	N/A

PORTFOLIO MANAGER

Jason McCay	2002
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*millions

Data through: 31/07/2007

Source: Company Documents

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