Investing in Asia

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Some Issues Addressed:

- What are the Rewards and Risks of Asian Investments?
- How are Asian Markets Classified for Investing Purposes?
- Mutual Funds vs. Other Investing Approaches
- What do the better-known Fund Families Offer?
- An Asian Fund Specialist – the Matthews Family

Why Asia?

- That's where the growth has been.
- Figures for GDP growth, per the World Bank, for the average of 2013-2018:

United States	2.28%	United Kingdom	2.08%
France	1.18%	Germany	1.70%
China	7.01%	India	7.16%
Philippines	6.56%	Indonesia	5.12%
Pakistan	5.12%	Malaysia	5.09%
South Korea	2.95%	Japan	1.25%
Australia	2.59%	Singapore	3.35%

IMF 2020-2022 Growth Estimates

	Est. 2020	Proj. 2021	Proj. 2022
United States	-3.4%	5.1%	2.5%
United Kingdom	-10.0%	4.5%	5.0%
France	-9.0%	5.5%	4.1%
Germany	-5.4%	3.5%	3.1%
China	2.3%	8.1%	5.6%
India	-8.0%	11.5%	6.8%
"ASEAN 5"*	3.7%	5.2%	6.0%

*Indonesia, Malaysia, Philippines, Singapore, and Thailand

Some other considerations:

- China has a rapidly growing middle class, anxious to purchase goods and services associated with middle class life: appliances, electronics, even life insurance.
- China is attempting to build trust in its capital markets, especially its bond markets (e.g., S&P Global invited in to rate their bonds).
- As China's economy matures, the lure of lower labor rates and improving logistics are creating greater opportunities for development in other emerging Asian markets.

But Obvious Risks:

- Geopolitical tensions between West and China:
  - Uighur revelations and resulting sanctions
  - Crackdown in Hong Kong
  - Growing militarism, esp. relevant re S. China Sea and Taiwan
  - Tariff restrictions

- North Korea nuclear development (affects US, South Korea, and Japan; no threat to China)

- Still, it’s in both the interest of West and China to maintain strong business relationships and China likely to see that as a priority

- Chinese securities regulation, while strengthening, still lags US standards

- Strong Dollar would hurt returns on some foreign stocks (but, hedging…)

How Are Asian & Pacific Markets Classified for Investing Purposes?

Developed Markets: Japan, Singapore; Australia, New Zealand

Emerging Markets: China (includes Hong Kong), India, Indonesia, South Korea, Malaysia, Pakistan, the Philippines, Taiwan, Thailand

Frontier Markets: Bangladesh, Vietnam, Cambodia, Sri Lanka, others

Asian Markets Sliced and Diced by MSCI Index Classifications:

MSCI All Country Asia: includes the developed markets of Japan and Singapore and the nine emerging markets of China, India, Indonesia, Malaysia, the Philippines, Thailand, Pakistan, South Korea, and Taiwan

MSCI Emerging Asia: includes the nine emerging Asian markets

MSCI Emerging Markets: would include the nine emerging Asian markets plus other emerging markets across the globe, including Brazil, Russia, South Africa, Mexico and Turkey

MSCI Asia ex-Japan: includes Singapore and the nine Asian emerging markets

MSCI Asia-Pacific: includes Australia, New Zealand, Japan, Singapore and the nine emerging markets

MSCI Asia-Pacific ex-Japan: as above, minus Japan

Moral of that story #1:

If investing in an ETF, an index, or a fund, need to decide whether you want to include Japan, Singapore, and/or Australia and New Zealand, (and potentially other emerging markets)

Moral of that story #2:

Make sure in comparing various ETF's, funds, etc. you compare apples to apples.

Fact regardless of morals: Chinese stocks (and Taiwan Semiconductor) are likely to be prominent in the portfolio

What about investing just in China, or just in Japan or India?

- Certainly can do, as there are ETF's and funds that invest only in one country, including China, Japan, India, and Korea.
- Increases risk: e.g., Fukushima nuclear diaster in Japan, South Korea/North Korea incident, etc.

Sweet Spot?

- Based on growth projections, likely sweet spot is in Asian Emerging Markets.
- But, depending on objectives, could add ballast by including Japan and Singapore, or Australia and New Zealand, or emerging markets on other continents.

Actively-Managed Mutuals as an Option for Asia Investing

- Diversification, ability to adjust to market changes are positives
- Emerging Markets are relatively inefficient; that is, they are more thinly covered by analysts, and information on individual stocks are not as quickly and widely distributed as on, say, megacap domestics.
- This creates an opportunity for active managers to add value.
- According to Morningstar, the long-term success rates for active funds were higher for foreign stock funds than most other categories
- Index funds and ETFs may have an advantage though in taxable accounts, as the more active trading by managed funds typically generate greater capital gains, and those are taxed.

The Usual Suspects:

T Rowe Price, Vanguard, & Fidelity

- T Rowe Price –
- Emerging Markets fund (PRMSX) 4 star but closed.
- New Asia Fund (PRASX): 4 star Silver fund
- Invests in Emerging Asian markets plus selected frontier markets (Japan excluded; Singapore included)
- Avg. return 1 yr. 63.66%; 3 yr. 13.15%; 5 yr. 15.98%
- Large blend; Exp. Ratio 0.92%; Experienced Manager
- Return considered above avg. w/good consistency
- Risk considered average (Std. Dev.18.05); 3-yr. Sharpe ratio 0.70; Captures both positive at 109/76; avg P/E 21.55

Vanguard --

Two passive Index funds only – Vanguard Pacific Stock Index fund (VPACX) and Vanguard Emerging Markets All Cap China A (VEMAX)

- VPACX tracks the investment performance of the FTSE Developed Asia Pacific All Cap index – includes corporations in Japan, Australia, South Korea, Hong Kong, Singapore and New Zealand.
- VEMAX tracks the FTSE Emerging Markets All Cap China A Index includes Asian emerging markets as well as others -- Russia, Brazil, South Africa, etc.

Vanguard’s two index funds --

- VPACX --

Nothing special. Has underperformed category average over ten years, diversification limited to six markets (heaviest in Japan), only average in Morningstar’s risk/return evaluations. Morningstar is ceasing qualitative coverage.

- VEMAX –

Again, appears to be no more than an average fund. Has only modestly outperformed its average. Concentrating in Chinese stocks has helped a bit (43% of total), as has a low expense ratio (0.14%), but others better.

Fidelity – three funds but some cautions

Fidelity Pacific Basin (FPBFX) -- developed and emerging Pacific markets

Fidelity Emerging Asia (FSEAX) -- eclectic blend, despite name includes some Japan

Fidelity Emerging Markets (FEMKX) -- includes non-Asian emerging markets but China, Taiwan, and South Korea dominate

Fidelity's three funds…

- …have some interesting management issues. John Dance had managed FPBFX and FSEAX in pieces until 2019, when he moved over to the larger FEMKX. So FPBFX and FSEAX have new managers, and it's a bit early to judge their results.

- FPBFX -- invests in both developed and emerging Pacific area countries, including Australia and NZ. Heaviest concentration in Japan (31%). Of the two, FSEAX has shown better results.

FSEAX and FEMKX --

- FSEAX –

Somewhat eclectic blend, not really true to its "emerging Asia" caption. Includes Japan, and some non-Asian developing countries, although China and India dominate. 5 Star Bronze rating, 1.13% exp. Ratio. Risk deemed above average but returns high. Sharpe ratio 1.21, up/down caps at 141/62. P/E relatively high at 27.46. 1 yr. return 96.49%, 3-yr. 24.20%.

- FEMKX –

What John Dance is doing now. Includes non-Asia emerging markets Brazil, Russia, etc. but still concentrated in China, Taiwan, and South Korea. Also 5 Star Bronze. Risk considered below average with return high. Sharpe ratio 0.71, caps at 112/84. P/E 22.64. 1 yr. 67.01%, 3 yrs. 13.68%.

An Asian Specialist: the Matthews Funds

- Based in San Francisco, and around since the early 1990's, Matthews offers 18 different Asian funds. Of these, 11 are analyst-rated at Morningstar, and all these 11 have received favorable Bronze/Silver/Gold ratings. Matthews' offerings:

Emerging Markets Equity Fund	Asia Total Return Fund
Asia Credit Opportunities Fund	Asian Growth and Income Fund
Asia Dividend Fund	China Dividend Fund
Asia Value Fund	Asia Growth Fund
Pacific Tiger Fund	Asia ESG Fund
Emerging Asia Fund	Asia Innovators Fund*
China Fund	India Fund
Japan Fund	Korea Fund
Asia Small Companies Fund	China Small Companies Fund*

* Recognized by Kiplinger as in top ten Regional and Single Country Funds for 1 year, 3 years, 5 years and (Asia Innovators only) 10 yrs.

Matthews Asia Innovators Fund (MATFX)

- Invests in Emerging Asian countries (China 60%, India 9%)
- Morningstar 5 Star Bronze
- Expense ratio 1.19%
- Long-tenured Manager
- Performance:

  1 year: 107.58%

  3 years 24.13% avg.

  5 years 24.44% avg.

- $2.1 Billion in Assets
- Risk – High; Return – Above Avg.
- Sharpe ratio 0.96
- Standard Dev. 23.21
- Alpha 15.96
- Capture ratios 134 up

  71 down
- P/E 32.33
- 5 largest holdings -- Bilibili, Sea Ltd., Taiwan Semiconductor, Samsung, TAL Education

Matthews Asia Growth Fund (MPACX)

- Invests in Developed and Emerging Pacific Area stocks -- China 49%, Japan 30%, India 5%
- Morningstar 4 Star Silver
- Expense ratio 1.09%
- Experienced Manager (since '07)
- Performance:

  1 year: 81.24%

  3 years: 13.60% avg.

  5 years 17.69% avg.

- $2.3 Billion in Assets
- Risk and Return – Above avg.
- Sharpe ratio 0.62
- Standard Dev. 20.98
- Alpha 6.60
- Capture ratios 107 up

  80 down
- P/E 30.16
- 5 largest holdings – Bilibili, WuXi Biologics, Innovant Biologics, Bank Rakyat, HDFC Bank

Matthews Asia Dividend Fund (MAPIX)

- Eclectic investments in Developed and Emerging Pacific

Japan 32% China 30%

South Korea10%

- Morningstar 3 Star Gold
- Expense ratio 1.02%
- Yield 1.17% TTM
- Performance:

1 year: 67.15%

3 years: 8.44% avg.

5 years: 12.16% avg.

- $5.5 Billion in Assets
- Risk – Avg.; Return – Above avg.
- Sharpe ratio 0.46
- Standard Dev. 16.32
- Alpha 2.25
- Capture ratios 88 up

78 down

- P/E 20.27
- 5 largest holdings: Minth Group, LG Chem Ltd., Breville Group, Chonqqing Brewery, Katitas Corp.

Comparison of Six Funds

	PRASK	FSEAX	FEMKX	MATFX	MPACX	MAPIX
M'star Rating	4 Sil	5 Brz	5 Brz	5 Brz	4 Sil	3 Go
Expense Ratio	0.92	1.13	0.92	1.19	1.09	1.02
Performance 1-yr	63.66%	96.49%	67.01%	107.58%	81.24%	67.15%
3 year avg.	13.15%	24.20%	13.68%	24.13%	13.60%	8.44%
5 year avg.	15.98%			24.44%	17.69%	12.16%
3 yr Sharpe Ratio	0.70	1.21	0.74	0.96	0.62	0.46
Std. Dev.	18.05	20.09	18.41	23.21	20.98	16.32
Capture Ratios	109/76	141/62	117/83	134/71	107/80	88/78
P/E	21.55	27.46	22.64	32.33	30.16	20.27

To Perform the Needed Additional Research:

- Morningstar Premium

  Available at Fairfax, Loudoun, and Arlington Libraries

  At Fairfax, find “OnLine Resources A-Z,” select “M” for

  Morningstar, select Morningstar, enter library card no.
- Fidelity.com site
- Prospectus for Funds

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