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Always interesting, and personal. The basis of the Bamboo Fund investing mirrors that of Georgian Capital, but in international markets. Enjoy! Questions welcome.

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LLOYD GEORGE
ADVISORY

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## Investment Outlook

## After Harry Lee

About 20 years ago, I met Lee Kuan Yew and his wife, Kwa Geok Choo, at a small dinner party in London. I was seated next to Mrs Lee (who was clearly the power behind the throne). I exerted myself to make a good impression; and at the end of the dinner, she told her husband "We must get Mr Lloyd George to come to Singapore" – equivalent to a royal command. We applied to open an office for our fund management business and were told to route the application through Lee & Lee, the family law business. Once set up, we received important mandates from GIC (Government of Singapore Investment Corporation), Temasek (now run by Lee's daughter-in-law) and MAS (Monetary Authority of Singapore), the central bank.

Everything was clean and above board, efficiently managed. Singapore is a marvellous place to do business, one of the only places in Asia with little corruption (although it helps to know the right people). It is extraordinary to think that when Lee Kuan Yew took over in 1959, per capita income was US$500 and, despite the vision of Sir Stamford Raffles that it was geographically the pivot of Asia's trade, Singapore was a sleepy run-down port. Today it is a gleaming cityscape with US$56,000 average income and a modern financial centre; long-term planning has built up "centres of excellence" in science, technology, and education as well as in finance and wealth management. Such is the result of Lee's "benevolent dictatorship," which was much admired by Chinese leaders, such as Deng Xiaoping, seeking to modernize China's

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economy whilst retaining central control. Corporate governance is a national sport in Singapore.

The question today is, whether Lee's successors – and particularly his son, Lee Hsien Loong – will feel confident enough to loosen the straitjacket, especially in the social and political arenas. Taiwan and Korea are two reasonably successful examples of "Confucian," previously military-run states, which have adapted to multi-party democratic rule. Lee Kuan Yew came from a generation of 'streetfighters,' who had lived under British rule, under Japanese occupation for 3 years, and then fought for independence in the 1950s. There is a tough, paternalist streak in Chinese family tradition. Lee was a *Hakka* Chinese: *Hakka* means 'guest family' and the *Hakka* are a people known to be frugal, pioneering merchants. The younger generation in Singapore have had it easy: will they prove as tough as their parents and grandparents? Certainly, they have had the best education available, many in top US colleges; and capital is plentiful for new endeavours. But their objectives and values in life may be different. Lee often wondered whether the younger generation had gone soft.

The global impact of a deflationary slowdown, and following the 2014 collapse of oil and mineral prices, is being reflected in slowing profits in the US and elsewhere. This is why we believe Asia will shine in terms of relatively strong growth, especially in the "young" consumer markets of India, Indonesia, Philippines, and ASEAN (Singapore is at the heart of this dynamic region), for which investors will pay a premium.

We have made a series of company visits this week in Japan, where shareholder activism has begun to produce results at strong companies, such as FANUC and Nintendo, Kyocera and Canon. Dividends are being increased, and share buybacks are beginning. The Japanese market will be further re-rated in the next two years. Corporate governance is improving as a market theme; last year's launch of the Nikkei 400 index has proved a great success in increasing payouts to shareholders. The Tokyo

Exchange has long required companies to “strive” to hire an external non-executive director; this new index requires at least two.

In China, we are looking at the healthcare sector, which, given the ageing population, is bound to be a growth area. For corporate governance and property exposure reasons, we generally prefer not to invest in private hospitals in Asia, but rather in medical equipment and services as well as pharmaceuticals. We see growth surpassing every other sector in the next 20 years. Among companies we are looking at today are Fosun Pharma, Sinopharm, Mindray, China Biologic, and companies in the ‘biosimilar” area.

It is very interesting to watch the long-term strategy of China’s leadership to internationalise the Renminbi, and to liberalise their financial system (this week introducing deposit insurance). The launch of the US$100 billion Asian Infrastructure Investment Bank, in which Britain has become a founding member, will rival the Japan-led Asian Development Bank in Manila. China’s currency is not yet a “freely traded” currency, such as the IMF requires for reserve currencies; but it is quickly evolving in that direction, and investor confidence in the financial leadership and opening-up policy of Beijing is reflected in the exceptionally strong performance of the Shanghai A Share Market, notwithstanding our long-term caution about China’s property market and industrial overcapacity. The overwhelming view from China-watchers is that the current growth contraction is being well-handled in favour of long-term stability. The retail investor market is starting to assert itself.

The week following Easter saw exceptional advancement in the Hong Kong market; a new ‘Connect’ system has been opened between the Shanghai and Hong Kong stock exchanges. This allows limited, bilateral flows of unrestricted capital between these markets for the first time in modern history. The Hang Seng Index rose 7.9% in the week and Hong Kong Stock Exchange turnover on 9th April was triple the usual figure. Shares in the Stock Exchange itself were up 27% in the week. The Hong Kong

Monetary Authority injected US$3.5 billion to maintain the currency peg. There is still an arbitrage, presently averaging more than twenty percent, between shares listed in both Hong Kong and Shanghai. Hong Kong blue chips hardly moved because new investors from mainland China do not yet have brand awareness, whereas Chinese brand names such as Tencent rose 20%. The Hong Kong market was subdued in the second half of 2014 because of political uncertainty and it is now catching up with the rest of China. Despite last week's surge, we remain optimistic on prospects for Hong Kong. There is clearly tremendous Chinese enthusiasm to invest in Hong Kong, and the quotas for this are widely expected to be expanded in the coming months. The gradual opening of the Shanghai market is a start; Shenzhen, with its trillion dollar market, is next. There will inevitably be profit-taking but the advent of millions of new investors is not yet priced into the market.

There is some concern among professional investors about the potential lack of liquidity in E.T.F.s, particularly those in Emerging Markets with less turnover. We are, therefore, cautious on entering more illiquid frontier and emerging markets at this time, though there may be buying opportunities later. The financial stress on companies with high US dollar debt ratios (Petrobras is a prime example) will continue.

We are continuing to emphasize capital conservation and good sustainable dividend income, as well as reducing currency risk. Although we believe the US dollar's ascent has been too rapid and may easily reverse this summer, we expect corrections in the Asian markets (we have seen India fall 6% in US dollars in the past month) and anticipate better entry levels.

The essential philosophy in our Bamboo Fund is to select great Asian companies with consistent and growing dividends over the years and hold these positions for up to 5 years so that the fund has a tax efficient 20% maximum annual turnover.

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We have visited all the companies we intend to invest in, and we monitor them closely, but the selection is also based on the experience we have had in the Asian markets since 1982. It is possible that about 10% of the fund may be invested in similar high-grade corporate names in Latin America. In terms of sectors, we avoid oil and gas, mining, and property. We focus on healthcare, consumer, telecom, and utilities.

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