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# A Prosperous Year of the Pig!

Amazing narrative, from a long time patient perspective.

Enjoy the read.  I am happy to pass along any questions or thoughts.

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LLOYD GEORGE
MANAGEMENT

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# Investment Outlook

## A Prosperous Year of the Pig!

History is a useful Guide for Investors, especially when the crowd are issuing warnings of doom and collapse. Throughout my 37 years in Asia, we have had periodic panics and stock market collapses, such as 1987, 1998, 2000, and the financial crisis of 2008/9, since which we have enjoyed a 10-year bull market.

Political crises, such as 1983/4 Hong Kong, 1989 Tiananmen Square, 9/11, and the Iraq War 2003, have also deeply impacted markets. One lesson we have learned is that life gradually returns to normal, daily business goes on, and it is well worth being a long-term contrarian investor.

My long-term faith in Asia, and in her hard working people, has never faltered.

Through my work with the Lloyd George Asia Foundation, I have also witnessed the thirst for education and self-improvement in some of the poorest neighborhoods of Calcutta, Manila, Bangkok, and the remote Karen Hilltribes Trust of Northern Thailand, which I recently visited. The first thing these children need is a reliable water supply – then dormitories; but the strong desire for literacy, for knowledge, for learning languages, and skills such as nursing and engineering is present everywhere.

In our investment strategy, we have increasingly focused on finding driven and committed entrepreneurs and founders of new businesses, whose energy and vision benefits all their shareholders. I have had the great good future of meeting Li Ka Shing of Cheung Kong, Robert Kwok of Shangri-La, TK Wen of Selangor Properties, Narayana Murthy of Infosys in Bangalore, among many others. More recently we have visited young entrepreneurs in

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Vietnam, and other new frontier markets. The ethical principles, and high standards of corporate governance, which have governed large companies such as Tencent since its founding, have led to them being 'multi-baggers' for investors over the last 20 years.

China today, as the world's second largest economy, represents 15.2% of global output, but is only 3.2% of the MSCI All World Index of markets. The same figures for INDIA are 3% of the global economy and 1% of MSCI.

More importantly, by 2030, it is likely that China and India in 2040 may become the world's two largest economies as their vast populations rapidly increase their incomes and standards of living. Surely for investors, it is appropriate to look forward rather than backwards. Although, if we look back to 1800, India and China (in that order) were the two richest nations. The wheel of history turns around, slowly but inexorably.

There is a parallel between Japan 1960-1990, and China 1990-2020. The earlier two decades, in each case, were periods of rapid economic growth, but poor stock market performance that were succeeded by the last decade of slower economic growth, and a stronger share market, as the accumulated capital from industry and exports was redirected into property and shares. China is a special case, being a centrally directed economy, and the Shanghai market is a 'policy-driven' market. In 2019 we see the opening up of China's financial sector and inclusion of more A Shares in MSCI indices, which will lead to government support measures for the market.

In India, we definitely see scope for an interest rate cut of at least 50 basis points in February, given that inflation has fallen to almost 2%, and the RBI rate is 6.5%. Much will depend on the evolution of the oil price (we expect US$60 a barrel) and the Rupee holding steady at 70/71 to the Dollar.

This week's Indian budget has been focused, for political reasons, on support for farmers and the rural poor, with talk of a Universal Basic Income. Further stimulus can be expected before the May election, which should favour automobiles, property, and other rate sensitive sectors (private sector banks/mortgage lending). Bank credit growth has accelerated to nearly 15%, though industrial production has slowed. In India, as elsewhere in Asia, the real story is the consumer.

It is also noticeable that domestic Indian institutions have increased capital flows into the Bombay market while foreign portfolio investors are cautious. The ‘Nifty 50’ is on 16x PE (below its historic average) with earnings expected to 18% to 20% in the next year. Though small caps have underperformed in the past 12 months, we anticipate a recovery after the general election. Long term, India remains our favourite destination to allocate patient capital.

There are many unforeseen consequences to the Trade War (also true for Brexit). One is the geography of technology assembly plants. Apple has intensified a search for ways to diversify its supply chain, and that hunt has now honed in on India and Vietnam. To quote one manufacturer: “American workers won’t work around the clock. China is not just cheap, it’s a place where, because it’s an authoritarian government, you can marshal 100,000 people to work all night for you (at US$2 an hour).”

This year has elections in India, Indonesia, the EU, and several other key countries. In addition, the coronation of the New King of Thailand on May 4th closely follows a return to “democracy” there in March 24 elections. On April 1st, the new Emperor of Japan will designate a name for the “Gengo,” or New Era, symbolizing his reign. Japan will host the 2020 Olympics and become more open to immigration and foreign investment and influence. The yen could be one of the stronger currencies of 2019/2020.

R. Lloyd George

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Hong Kong

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