Matthews Asia

Q&A with Sharat Shroff, CFA, Lead Manager of the Matthews Pacific Tiger Fund

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How would you describe your investment approach?

Our investment objective is focused on achieving consistent long-term capital appreciation without taking undue risk. Our disciplined process is anchored in an active, bottom-up approach to stock picking that is completely benchmark agnostic.

Quality of the underlying businesses is our first key focus. We need to understand companies, their growth potential and business models. We look for durability of growth rather than just the rate of growth. Secondly, we consider the transparency of the management team, to gauge whether it is acting in the interests of shareholders.

Once we have established the quality of the underlying business and the quality of management, we will look at valuations—how is risk being priced?

With an investment horizon of at least three to five years, we aim to find companies that can deliver above average growth across cycles.

How is your portfolio constructed?

The three main biases in our portfolio include an emphasis on quality, a focus on domestic growth and, resulting from the latter, significant exposure towards consumption, services and health care segments. Because of our all-cap approach, small and mid-cap stocks have been a fertile area of idea generation over the history of the strategy. With a three-to-five-year holding period, we want to see a decent runway for businesses to keep growing. Also, small and mid-caps often trade on more reasonable valuations.

What major trends do you see in the Asian investment landscape?

Wealth creation across households in Asia is a major trend likely to persist, particularly in China. We have not seen it interrupted since the 1997 Asian financial crisis. While, for example, in the eastern parts of China, the population has benefitted from income growth for a while, this growth is now taking hold even in the western provinces.

The Asian investment landscape is becoming more dynamic as capital markets become more entrenched in the Asian financial ecosystem. Businesses and entrepreneurs in the region are realising the benefits of engaging with the capital markets, which is a positive development.

Meanwhile, there is growing disparity between Asian countries as they are at different stages of their lifecycles. In China, for example, the focus is on the reallocation of capital. India and Indonesia, on the other hand, still need to focus on accumulating capital. This disparity enables us to build a portfolio of long-term assets with low levels of correlation.

What are some of the most distinguishable investment themes in Asia?

Because of wealth growth in Asia, there is likely to be a greater demand for financial advice. Although it is still a somewhat alien concept today, as most Asian entrepreneurs believe in looking after their own investments, the idea of getting advice could become its own industry in the next 10 years.

Health care is an underrepresented sector in Asian indices. The rise of lifestyle diseases, such as diabetes, is becoming a challenge. There is a growing need for better health care facilities and better access to drugs.

What has contributed to your performance during periods of significant volatility?

The fact that we have stayed away from energy companies and commodities has been beneficial. This trend of domestic demand has been consistent and income levels for Asian consumers have continued to rise. Staying clear of short-lived trends has contributed to our success and our emphasis on growth has helped the portfolio navigate the volatility that has been prevalent in recent times.

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The MSCI All Country Asia ex Japan Index is a free float-adjusted market capitalization-weighted index of the stock markets of China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

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