

The Asian Century

In this 'Asian century', a pan-Asian portfolio has real advantages over a more narrow regional approach. The Japanese market offers considerable value, as well as some world-leading companies, while the rest of the Asia-Pacific region provides a startling and diverse array of growth opportunities.

The combination of developed and developing markets entailed by a pan-Asian approach is also highly attractive, and the inclusion of Japan allows access to a broader range of companies, as well as providing effective diversification of risk.

That said, a benchmark that strictly adheres to weighting by market capitalisation would force a fund such as our Martin Currie Pacific Trust to have a heavy dependence on Japan. The Tokyo Stock Exchange is the world's third-largest by market capitalisation, after only the New York Stock Exchange and the Nasdaq. And over the past 20 years, Japan has significantly underperformed the rest of Asia.

When Martin Currie Pacific Trust launched in 1985, Japan represented around 70% of Asia's market capitalisation. In recognition of the stronger growth that the rest of Asia was experiencing, the Trust's board established a fixed benchmark weighting of 40% for Japan.

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This gave the manager the ability to exploit the potential opportunities across the region without being tied too closely to the fortunes of the Tokyo Stock Exchange. Then, in June 2008, the board removed the fixed weighting to Japan and adopted the MSCI AC Asia Pacific index as the benchmark. This gave a free-float weighting of 46% to Japan, simplifying the measurement of performance and aligning the Trust's benchmark with that of its competitors.

Today, Japan's free-float weighting in the AC Asia Pacific index has fallen to less than 40%. Although Japan currently offers striking

value, Asia's higher-growth markets are likely to offer a wider range of opportunities in the years ahead. The case for continuing to invest in Japan is compelling, but we believe that a lower fixed weighting will better reflect the long-term opportunities in the whole of Asia.

For that reason, the Trust's board has retained the MSCI AC Asia Pacific index as the benchmark, but has fixed the Japan element at 25%, plus or minus 15%. This means that I, as the new manager of the Trust, have the flexibility to maintain the Japanese portion of the portfolio at between 10% and 40% of the total. At the same time, we have reduced the overall stock list to 55-75 stocks – lower than typical 90 stocks in which the Trust invested previously. This more focused approach allows us to include only our highest-conviction ideas. And although we will concentrate on achieving capital growth, we will also monitor the growing availability of income across Asia.

This repositioning allows our shareholders to derive the maximum benefit from Asia's stockmarkets – from the highly developed markets of Japan and Australia to the emerging giants of India and China; from the technological powerhouses of Korea and Taiwan to the rising stars of Southeast Asia. It's this diversity that makes pan-Asian equities such an attractive proposition.

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Your attention is drawn to the risk warnings, and in particular those pertaining to the risks of investment with exposure to gearing and single country markets. These can be found on the trust's website at www.martincurriepacific.com under the 'regulatory information' section. Martin Currie Investment Management Ltd is authorised and regulated by the Financial Services Authority and is a member of the Investment Management Association.



Andrew Graham

Director, Asia
Lead manager, Martin Currie Pacific Trust

Andrew joined Martin Currie in 2010 as a senior investment manager in the Asia team with responsibility for both research and portfolio construction, and in July 2011 he was appointed lead manager for Martin Currie Pacific Trust. Andrew came to us from Sofaer Global Research, bringing with him over 20 years' experience of managing Asia-Pacific equities. At Sofaer, where he was a partner, Andrew managed the company's Japan hedge fund and co-managed its Pacific-region hedge fund. Before that, he spent five years as senior vice president at Putnam Investments, where he co-managed its International Capital Opportunities Fund, focusing particularly on the Asia-Pacific region. Andrew also specialised in Japanese equities during earlier roles at Scottish Widows Investment Partnership and Kemper Investment Management.

CONTACT

Visit the trust's website at
www.martincurriepacific.com

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