

The attractions of Asia

by Tom McIntosh, Product Specialist – Pensions, Dalton Strategic Partnership LLP

Since the troubled days of 1998, when the Asian crisis led to sharp market falls and recession in many countries of the region, this part of the global economy has seen a massive resurgence. China and India are the countries which have most obviously benefited from a strong world economy but the rest of the region has also generally prospered.

Dalton Strategic Partnership LLP (DSP) has strong roots in this part of the world, as its founder, Andrew Dalton, was for many years Head of Mercury Asset Management's (later Merrill Lynch) Far Eastern Investment team. The firm's global perspective and its belief that the region will be one of the key economic growth stories for many years to come have resulted in a significant commitment to the area. DSP's team of 18 investment professionals, based in Japan, Hong Kong and Mumbai as well as London, are well placed to identify and invest in the best local companies. As a conviction investor, DSP has more than half of the \$3.3billion it manages invested in the region.

The opportunities to invest in Asia continue to expand rapidly. The number of new listings has grown at a fast pace over the last few years. 493 companies listed in the region in 2004, 377 in 2005 and 375 in 2006 – a total of 1,245 new investment opportunities in three years. 35% of these listings were in China and Hong Kong. As the requirement for capital to develop new businesses and grow existing ones rises, Asian companies are also increasingly sensitive to the return expectations of shareholders. This is reflected, amongst other ways, in the very high rate of dividend growth experienced in recent years. In Asia (ex Japan) dividend yields are rising by 13% year on year, with the fastest rates of growth coming from China, Indonesia, Thailand and Korea. The cumulative annual dividend growth

rate between 1999 and 2007 is running at a healthy 24.3%.

The strong rates of economic growth experienced over the past years are now beginning to spread through the local populations with an increasingly prosperous “middle class” emerging in many countries. For a long period, although financial wealth in the area was expanding to reach a figure of around US\$35trillion in 2006, this figure did not grow as fast relative to GDP as it did in the US and Europe. This was due partly to the overhang of the 1998 crisis, and partly due to the “lost decade” in Japan when deflation hit property values and share prices stagnated. Japan's performance had a contagious effect on the whole region. The outlook for the coming years looks much brighter from the perspective of general wealth creation.

The steady disappearance of oversupply in property markets along with strong growth in commodity prices has led to rising property prices in every Asian economy and a gradual but steady rise in inflation. This has given a boost to construction activity and other domestically orientated investment. Physical investment in general is running at a high level, much of it devoted to improving infrastructure which in itself leads to future improvements in efficiency and wealth creation.

Higher per capita incomes and greater consumer confidence will lead to higher levels of domestic consumer expenditure, benefiting a whole range of service industries. The region is also a major player in the development and provision of environmentally friendly technologies such as water treatment and solar and wind power. China, with 14 of the world's 20 most polluted cities, has realized it can no longer ignore environmental concerns and is investing heavily in advance of the Olympics in 2008. This story is being replicated across the rest of Asia and is an

important long-term investment theme globally.

Relative to the rest of the world Asia looks set to grow at a significantly higher rate in the coming years and DSP's experience and ability to combine extensive local knowledge with a global perspective will prove invaluable in identifying the best investment opportunities.



Tom McIntosh
Product Specialist – Pensions