

INVESTMENT PICKS

CHINA AND INDIA WILL MISS GDP FORECASTS, WARNS TULLOCH

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Tulloch has been closely eyeing a slowing of the urbanisation process along China's Eastern seaboard, as more and more money moves towards central and western Chinese provinces where environmental regulations are more lax and wages lower. Another factor that is slowing the rush from rural areas to the Eastern seaboard is the need for work permits in cities such as Beijing and Shanghai.

The permits allow economic migrants to work, but do not entitle them to healthcare and educational benefits.

While Tulloch says the previous generation of economic migrants was happy to take the wages and possibly return to their village communities for Chinese New Year, but the latest generation are resentful of permits and have taken relatively higher wages for granted. 'These permits are causing huge resentment to rural migrants. Suddenly you have a new generation growing up who want progressively more so the government has started a substantial trend in building up towns such as Cheng Du and Wuhan in the central and eastern provinces, and Dalian in the north.'

He cites the relocation of heavy industry to the centre, especially basic materials and textile dying, and says migrants are now less willing to move across to the Eastern cities when they can get work closer to home.

'The Eastern seaboard remains important but is much more mid-level tech industry-based and we are seeing opportunities to invest in other areas.'

'The fact this is happening is not slowing things down, but the surplus of labour in the countryside has now almost been exhausted so China has had the main part of the benefit from that.'

Tulloch has recently reduced his weighting in gold miner Newcrest from 9% of the fund to 6%, on a view that the position is too high for a 'late cycle'

stock, and has also added a 1.5% weighting in Hong Kong-based insurer AIA after the arrival of former Prudential boss Mark Tucker.

'The brand and franchise had drifted a little and lacked leadership. [Tucker] is a very good manager and has incentivised the staff well.'

Tulloch is currently funding a number of attractive investment ideas in telecom stocks, which are benefiting from the explosion in data storage created by smartphone technology.

He has added to Malaysia-listed Axiata (2.75% weighting), which is growing its share of the Indonesian market, and Indian telco firm Idea (1.5%).

He is currently eyeing interesting opportunities in infrastructure in the region, after buying into the IPO of Australian infrastructure group QR National and has some 10% of the £5 billion fund in Singaporean banks DBS and OCBC.

'They are conservative, well managed, well regulated and are beneficiaries of a strong currency.'

citywire SELECTION

VERDICT

First State Asia Pacific Leaders

Angus Tulloch has made his name through a conservative approach to investment in Asia, and stock selection in companies on a sound financial footing. This might mean that he is liable to miss out on some of the region's more speculative price jumps, but he leads his peers when it comes to minimising losses and has been rewarded with top quartile performance over three, five and 10 years.

First State Asia Pacific Leaders manager Angus Tulloch has warned that China and India will both see a significant slowdown in annual GDP growth over the next two to three years.

With most consensus forecasts having already revised China's GDP forecast down from 10% to around 8%, Tulloch warns it could be closer to half of this for each of the next two years.

At the same time, he believes higher input costs and stubborn inflation have combined with too much red tape in India, to stifle growth in infrastructure and power projects and believes its GDP growth could also fall to similar levels.

He told Citywire Selection: 'I am cautious about both countries slowing down over the next couple of years and over the next three years I think they will struggle to get near to 8% growth. It could be a lot less, nearer to 4% or 5%.'

'It is easier in India than China to find entrepreneurial companies, but companies are facing headwinds. Infrastructure and power projects are slowing down because there is too much red tape and people are not prepared to pay the high prices asked for permits.'

Tulloch also believes China's managing of the economy will become tougher. 'So far China's economic management has been very good but a lot of people overestimate any government's ability to control an economy, let alone one as massive as China's. No country can abolish economic cycles.'

'If you look at Germany or the UK, growth never goes in a straight line and there are always setbacks. People should be mindful of this in China.'

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Absolute returns: Veritas China vs Schroder ISF Asian Total Return

INVESTMENT PICKS



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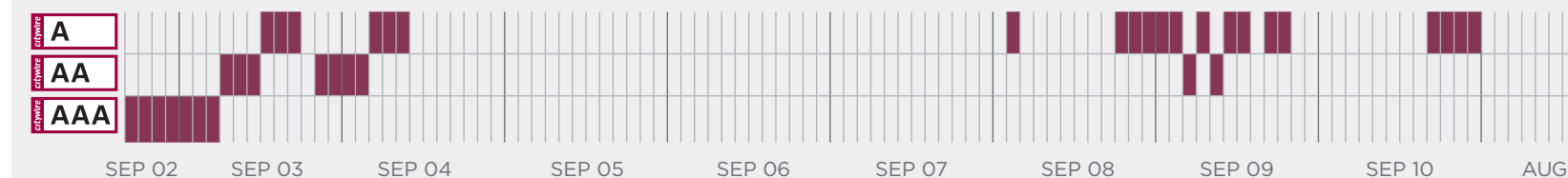
INVESTMENT STYLE IN A NUTSHELL

Angus Tulloch has been with First State for 23 years and the global emerging markets specialist has helped shape the firm's investment philosophy over that time. He and Singapore-based Asia Pacific Leaders co-manager Alistair Thompson oversee a team of around 20 analysts in the Asia Pacific global emerging markets team and hunt for stocks that they believe can offer 'growth at a sensible price'. Key recent arrivals have included India small cap specialist Vinay Agarwal, Chinese analyst Vicky Twu and ex-ING and Deutsche research head Richard Jones. Tulloch has three video conference calls a week with First State's Hong Kong-based Greater China Growth manager Martin Lau, and Global Emerging Markets Leaders manager Jonathan Asante.

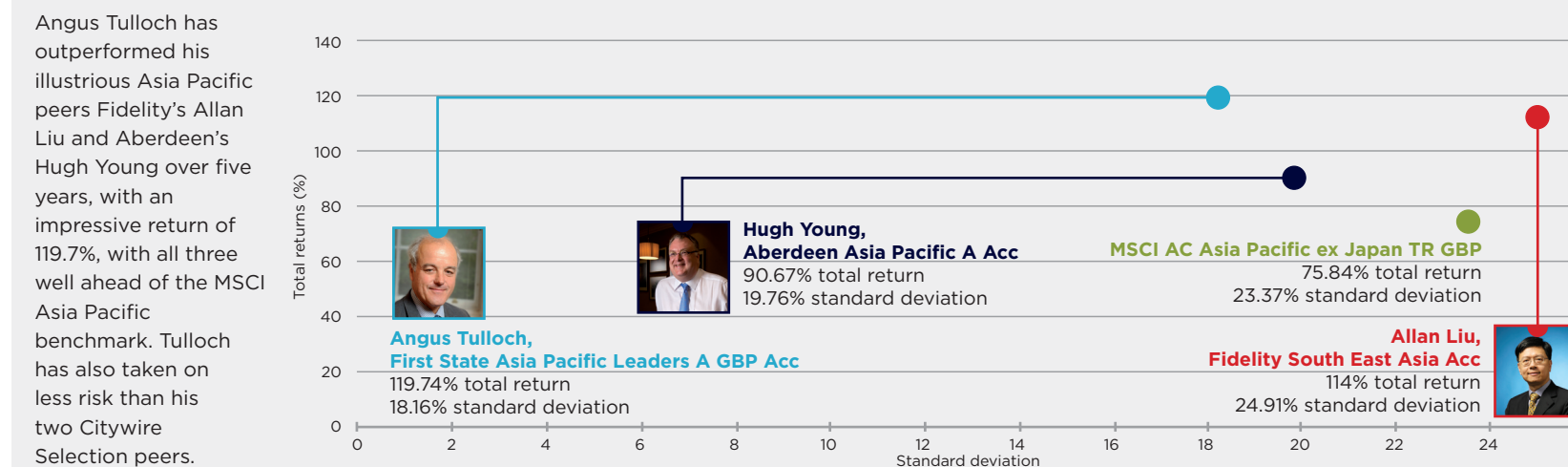
As with all First State funds, Tulloch is extremely interested in the history of management teams, their attitude to risk and their relationship with their suppliers, and picks those with a strong corporate governance culture who align their interests with those of minority shareholders. While any analyst in the team can suggest companies for consideration that display these qualities, the co-managers have the final say on whether it will be included.

The top 10 stocks in the portfolio tend to make up around 40%-50% of the fund, and the turnover of stocks is lower than average with Tulloch generally taking a three to five-year investment view and looking to engage over the long term with the management teams. The fund aims to be fully invested.

CITYWIRE RATINGS HISTORY - ANGUS TULLOCH



RISK RETURN PROFILE COMPARED WITH THE PACK OVER FIVE YEARS



SOURCE: Lipper/Citywire

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