

CIO Horrocks sees positive side of ditching euro

Asian Investor

By Leigh Powell | 16 May 2012

Mathews Asia CIO Robert Horrocks says Greek default would have minimal impact on Asia. The firm talks about regional expansion and product plans.

Ditching the euro could be positive, while the impact of a Greek default on China's economy would be so negligible Asian investors shouldn't fixate on it, says Mathews Asia CIO Robert Horrocks.

"If the euro is a bad idea and not working, why stick with it?" he queries, describing Greece as a tiny country with a GDP of \$300 billion and imports of \$80 billion, mostly from Europe.

"If Greece defaults, the direct impact on the Chinese economy would be roughly equivalent of the entire Chinese workforce taking a long lunch-break."

Of course, Horrocks is speaking as a fundamental investor. While he concedes that sentiment would have the biggest impact, he adds: "In terms of the profits and growth of companies in our strategies, [a Greek default] would really not be that big a factor."

He argues the European Central Bank would respond to a Greek default by loosening monetary policy, weakening the euro in order to protect it and creating higher inflation in Germany than the rest of the eurozone.

"That means the monetary environment would be improved, cutting the problem out of Europe. The impact on Asia is not going to be huge, and could be marginally positive in the sense this has been resolved."

Even as the European sovereign debt crisis intensified over the last year, growth in Asia strengthened, he notes, adding that tight central bank policy is now behind weak Asia growth.

While he describes Europe as peripheral to Asia, he says as sentiment has soured, he and his colleagues have hit the streets of Mumbai, Delhi and Guangzhou to find firms to buy into.

Horrocks was in Hong Kong yesterday with Matthews Asia founder Paul Matthews along with company CEO William Hackett and China portfolio manager Richard Gao. They were speaking at a roundtable organised as part of a media marketing drive for their bottom-up firm.

The US-based manager has \$17.8 billion in assets across 13 Asia-focused strategies, four of which are Ucits vehicles domiciled in Luxembourg that were cleared for sale to Hong Kong investors at the end of last month. These are also available to professional investors in Singapore.

Matthews Asia has 91 staff globally, with 33 investment professionals based in San Francisco (2,500 Asian company visits in 2011, although no plans to base investment staff in Asia).

Its four Ucits vehicles cleared for sale in Hong Kong are Pacific Tiger Fund (Asia ex-Japan equities) with \$5.7 billion; its Asia dividend strategy (\$2.7 billion); China strategy (\$2.4 billion) and India strategy (\$716 million).

Investors in these are almost entirely from the US, while its Ucits strategies have garnered just \$100 million in total so far. The firm is now eager to export its capabilities to Asia – some 20 years after setting up in the US.

Hackett says the company will consider systematically rolling out its eight remaining strategies (it also has a China small-cap approach not yet available for sale in Asia) into its Luxembourg range, and will be seeking to determine appetite for such funds in Asia.

Product ideas it is considering launching in Asia over the next five years include income-orientated strategies and small-cap strategies as well as China as an asset class, says Hackett.

Horrocks declines to be drawn on the shape of a potential China product in future, but hints it could revolve around differentiated investing approaches in the same geography.

Asked if Matthews Asia had applied for a qualified foreign institutional investor (QFII) licence in China, Hackett confirms it hasn't but that it has initiated conversations with the Securities and Exchange Commission on the potential

structure it would need to sell A-share product in the US.

The thinking is it could feed A-share exposure into its other strategies, rather than use up a quota on launching an A-share fund on its own.

“I would like access to the A-share market eventually,” says Horrocks. “But in Hong Kong, Singapore and Taiwan you already have a diverse enough range of businesses you can invest in to have differentiated strategies for the China market.”

Further, Horrocks suggests that if China is serious about turning Shanghai into an international financial centre by 2020 it will need to make its A-share market far more freely available, and so he expects the pace of market opening to quicken.

As an equity-focused firm, Matthews Asia branched out last November to launch an Asian fixed income fund for US investors only. Horrocks says he would love to make such a strategy available globally, although is not sure what form it would take in Asia.

On other potential product ideas, he describes emerging frontier Asian markets as interesting, as well as areas around distressed debt investing, which he says is still not popular in Asia.

“If, as I suspect, the capital markets continue to develop in Asia and the bulge-bracket banks keep transferring more of their M&A guys into Asia, these highly salaried bankers are not going to be sitting idle,” he notes.

“So potentially you are going to have a more active M&A market, meaning cheap asset valuations could be realised or arbitrated away more quickly than they have in the past. That opens up an avenue for a new type of product.”

Of other Asian markets the firm is looking at Hackett mentions Taiwan. The question it faces is whether to sell its Ucits funds there or go with a local approach. Its thinking is to sell Ucits via a master agent agreement with an onshore distributor or securities investment trust enterprise.