Asia-Pacific Region – Long Term Investment Opportunity

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With both the Dow and S&P 500 trading near all-time highs, investors looking for diversified growth assets are considering emerging Asia Pacific as a viable alternative. The region continues to be one of world's growth engines. Emerging Asia looks like an interesting investment destination for investor seeking for long term capital gain. In the first quarter of 2013, leading indicators of economic activity strengthened and capital inflows into emerging markets in Asia rebounded. Growth for the Asia-Pacific region as a whole is projected to be at 5.5% by the IMF in 2013. The economics in these regions are supported by strong fundamentals, with debt levels that are lower than that we see in developed world. Asia Pacific region contributes 27% of global gross GDP and this number is expected to double by 2050.

Economic growth upturn

After a tough 2012 Asian economics are anticipating a better year ahead. The International Monetary Fund anticipates, the region will lead the global growth, expanding 2% faster than world average in 2013, though the downside risk remain in the Eurozone crisis and U.S. budgetary negotiations. Asian market performed relatively stronger then European market but lagged the relative performance of the US market as Dow Jones and S&P trading near all-time high.

Intra-Regional Trade Dynamics

Led by China and India, the steady expansions of the larger regional economies was reinforced by intra-regional trade investment flows, partially offsetting the negative impact from decelerating growth and financial deleveraging forces present in high-income nations in Europe and the America. Intra-Asian trade is almost triple the volume between Asia Pacific and the Americas in last decade. China remains the main engine of regional growth. Accelerating domestic demand has emerges as a key factor of economic expansion within the region.

Inflationary & Currency Pressure

Interest rates are expected to stay low, which should help

Asian Companies to leverage and expand business. However pace of expansion could be moderated by murky economic outlook in Europe and America. The inflation context remains stable in most countries with exception of India. The regional currency outlook remains promising, driven by solid economic growth prospects and ongoing demand for portfolio investments alternatives in fast-growing developing Asian economies.

Core Countries in Leadership Transition

The growing influence of Asian economies is not free of potential risks on the governance count. Geo-political tensions among systemically relevant economics remain high, particularly between China and India as well as within the Korean peninsula. On the positive note, China has completed its leadership transition with the existing political regime. Indian election is due next year.

Regional Outlook: China

China is the second largest economy of the world. IMF projects 8.0% growth for China this year. China's business sentiment indicator shows improvement in overall business conditions in first half of 2013. Recent data do suggest that economic activity may be regaining momentum, supported by recovering domestic demand. However external headwinds remain considerable, Debt-saddled Europe, China's biggest trading partner, has fallen back into recession.

In China, macro policy should remain fairly supportive though aggressive stimulus appears unlikely. Thus far, policymakers have taken a relatively conservative approach despite benign inflation figures. Although Beijing approved more infrastructure projects, there has been no large-scale fiscal spending. Likewise, the central bank has refrained from steep interest rate cuts, focusing instead on providing short-term liquidity (via open-market operations) that can be withdrawn easily.

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Regional Outlook: India

Projected growth for India is 5.7% in 2013 according to IMF World Economic Outlook (WEO) in 2013. Consumer spending has grown vastly over the last years and expected to thrive on India's GDP growth. In regards to Indian government, the past couple of years have been frustrating for investors. Though the corporates themselves for the most part remain in pretty good health, growth has slowed to a 10-year low, the fiscal situation remains tight and national elections are due next year.

To help catalyze a revival of the investment cycle and market reforms, several important decisions have been implemented, including foreign direct investment (FDI) into multi brand retail, insurance and pensions and the aviation industry. From the monetary perspective, the Reserve Bank of India (RBI) has started the easing rates cycle amidst signs of growth slowing down. Therefore an easing rate cycle and a clear focus on investment and infrastructure; with the policies back them up will provide solid support for the revival of the investment cycle.

Regional Outlook: The Association of Southeast Asian Nations (ASEAN)

ASEAN economies have been at economic 'sweet spot' for some time now with the right balance of demographic and economic forces driving a number of structural developments. Strong investment and resilient and consumption has been a key driver of de facto decoupling of the ASEAN economic stress from the rest of the world. However they are now reaching some stress points to the otherwise flawless story as the dependence on account FDI flows and current account erosion are becoming increasingly apparent across much of the region. ASEAN is growing close to 5.5 % cumulatively. Domestic demand and private investment in driving growth in ASEAN.

Asia Pacific Fund

For investors looking to invest in Asia, the Asia Pacific Fund (NYSE: APB) is a diversified, closed-end management investment company. APB, which looks to achieve long term capital appreciation through investment primarily in Asia Pacific countries; it is trading at a 9.880% discount to NAV. The fund is positioned to benefit from the increasing middle class consumers in emerging markets such as China, India, Malaysia and Thailand. The Fund retained its focus on HK/China, Indonesia, and Thailand. Consumer demand is expected to pick up in markets like China, South Korea, India and Singapore, and stock choices in these area help bring a more stable base to an emerging markets portfolio.

"We are still very much focused for the long-term in the Southeast Asian Markets. Large economies like Indonesia and Thailand still provide a very good growth profile in terms of their demographics as well as their economic development" states, Hyung

Jin Lee, Portfolio Manager of APB and Head of Asian Equities at Baring Asset Management.
"As these economies continue to grow and mature, you're going to see a large growth tailwind for a lot of sectors including consumer and healthcare. We continue to focus on that as well," said Hyung.

In a company specific news, Samsung Electronics (Which makes about 7.7% of fund's holding) posting stunning fourth quarter result as they shipped 644 million devices in fourth-quarter. The outlook for the company remains positive and due for a solid next quarter as it's expected to launch new address the low- and mid-range market with a cheaper variant of the Galaxy S4 in the coming months. In other fund sectors, Industrial and Commercial Bank of China (which makes up 3.5% of fund) which is world's largest landing bank post good earnings for past year. This trend likely to continue as bank is expanding its operations globally.

One of the things that make APB look interesting is its focus on China and Hong Kong. APB had about 25% of its assets invested in China at the end of last year, the biggest weighting fund in any single country in the Asia-Pacific region. New central government in China will take steps to make its economy more dependent on domestic consumption. That should mitigate the negative economic impact from the weakness in the US and the Eurozone. There is significant upside in the fund given the emerging economies in Asia Pacific to lead global recovery. "China is a large part of the global economy which continues to recover and grow at a gradual level," says Hyung.

Hyung comments further, "Overall markets have been focused for the past few years with a risk-on, risk-off type of atmosphere with the financial troubles in Europe, the quantitative easing program throughout the U.S., Europe and now Japan. As things are settling down a bit, stock picking has become much more important for the equity markets in Asia."

Aberdeen Asia-Pacific Income Fund

For investors looking to gain exposure from income perspective, Aberdeen Asia-Pacific Income Fund (NYSE: FAX) , which currently trades at a 2% discount to NAV. FAX seek to achieve its investment objective through investment in Australian and Asian debt securities. The fund has a market cap of $2 billion and has returned more than 12% annually in the past five years. About 84% of the fund's assets are investment-grade government and corporate bonds, leaving the remaining 16% to bonds that are higher-yielding but a bit riskier.

FAX portfolio has 40% exposure to Australia, which gives the fund added stability relative to emerging Asia counterparts. Majority of its holdings are in sovereign debt of Australia and other Asia-Pacific countries, it currently pays a dividend yield of 5.5%., it's trading at discount to its net asset value(NAV), despite the fact that it has routinely fetched a modest premium to NAV throughout the past nine months. It has beta value of 0.66 making it less risky compared to other high beta funds. Though the FAX has in portfolio government and corporate debt instruments its exposure to currency of Asia Pacific countries and their volatility with USD.

There is much growth potential in the region and the middle class growth explosion is accelerating at an astounding rate. Donald Amstad, Director of Business Development at Aberdeen Asset Management states, "There is a rise in the Asian middle classes. A rise means more people move from rural to urban which is important because urbanization drives income growth."

Donald mentions other countries such as Greece, where the opposite is taking place and there is an actual de-urbanization. People in Greece are leaving the cities and moving to rural areas because there are no jobs. "In China, the government plans to move close to 200 million people

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from rural areas into the cities in the next 5-10 years," says Donald.

Though the dividends are not always predictable, but looking at the dividend history of FAX estimated yield 5.3% on an annualized basis is reasonable expectations of annual dividend yield going forward. Strong economic fundamentals and in Asia have led to upgrades region's credit rating. Overall there is bullish sign on

FAX for an investor looking for stable investment and less riskier Fund.

India Fund

For investors looking to gain regional exposure that is more country specific, The India Fund Inc. (NYSE: IFN) is a good option, which currently trades at 13.65% discount to NAV. The fund focuses on investing primarily in Indian equities. Looking at the portfolio, top sectors include technology, financials and consumer goods. IFN mostly invests in hand-picked securities and thus avoids high risk-return stocks in favor of Indian "blue chip" stocks. They have their own rigorous due diligence process to invest in particular company.

To start this year, Indian Equity market has performed better with regard to their Asian peers. Housing and Development Finance Corporation (which makes up 10% of the fund's holding) have posted stunning result with demand for home loan from urban and rural India growing rapidly. In technology space Tata Consultancy Services (which makes up 8.6% of funds holding) posted solid earnings the positive result was due to improving margins and economic outlook in United States.

"I think India has tremendous potential," says Hugh Young, head of Aberdeen Asian Equities, "part of that due to the sheer size of the population, part of that as well is the dynamism of the population."

Consumer spending has grown vastly over the last years and expected to thrive on India's GDP growth. IFN continuing to find the strongest quality companies in the market investing in those at reasonable valuations.

"There is no shortage of good companies in India. Our key concerns about India are twofold," states Hugh, "one is that India is a relatively expensive stock market compared to other stock markets in the Asia Pacific region. It is a lot cheaper today than it was a year or two ago, because it has been a poor-performing market. And we have had earning come through, so India is trading at about 17 times earnings. Our greater concern has to do with the leadership of the country and how it impacts on the economy. The current government has been very disappointing."

Hugh continues, "The key investing in India, it doing ones homework, and we concentrate on the company level. The good news about India is that it has some really strong companies, companies that are global leaders."

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The Way Forward in 2013

The bottoming out of Asian economic growth, in particular, India and China should set a stage for marginal positive economic momentum. The developed central banks continue to pursue put options for investors to take risk. Combinations of modest earning growth and some multiple expansions can set a scene for positive return for investors investing in this region