



The Asia Pacific Fund, an attractive entry for risk on value investors.

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By **Thomas Hughes**
Senior Editor of Global
Investor Spotlight



Asia Pacific Fund; Discounts And Dividends

In my ramblings through the investment world I have come across another interesting opportunity for dividend and value investors alike. It is a closed end fund focused on the Asia Pacific region, called the Asia Pacific Fund, ticker symbol APB. What makes it interesting is a yield

greater than 5% and deep discounts to NAV. Similar to other funds I have covered, such as the JP Morgan China Region Fund, it is focused on the greater China economic arena but unlike the China Region Fund not limited to it. There is a healthy representation of South Korea in the portfolio, about 16% of value, with some recent moves into India and a few investments elsewhere in the region, Japan is not included.

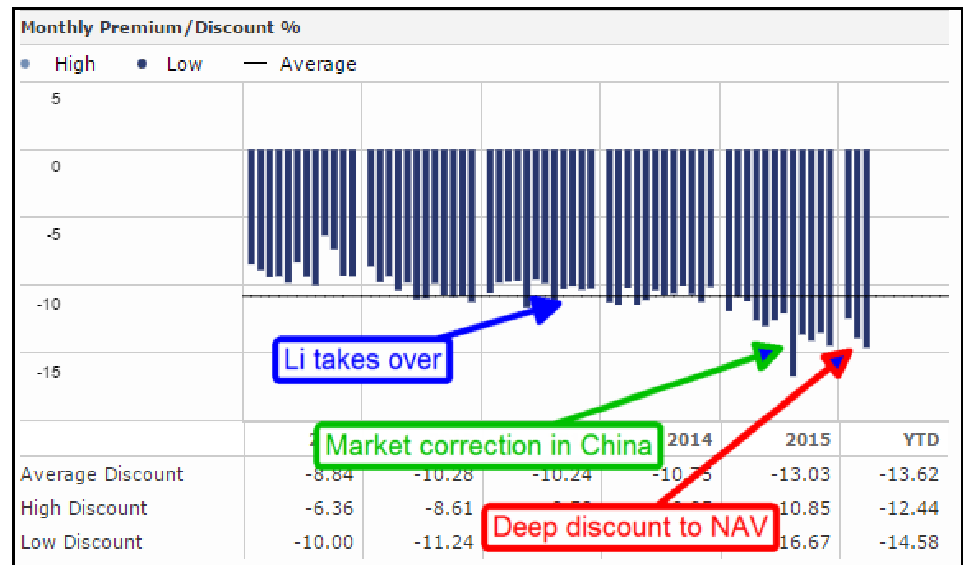
The fund has been around for a while, much longer than the roughly 2.5 years manager Value Partners has been in charge. Originally launched in 1987 it was taken over by Value

Partners in 2013 and managed by Phillip Li from the start. Since then performance has been above the benchmark with net asset value holding relatively stable considering recent volatility seen in Asian stock markets. Benchmarks include the MSCI AC Far East Ex Japan index and the MSCI ACWI Ex USA index.

The primary objective is long term capital appreciation with an emphasis on deep value and yield. To serve as example, the average P/E of portfolio companies is about 6.5X forward earnings with portfolio yield near 4.5%. Like most CEF's it trades at a discount to its net asset

value, currently near -15%, a deeper than average discount relative to historic norms. The 6 month average discount is a about -14%, with a Zee statistic of -1.09, evidence of a recently deepening discount. The 3 year average discount is closer to -11.45 with a notable downtick over the past few months, caused by and revealing the impact of China induced volatility on the rest of the region and funds based on them.

Diversification within the portfolio is broad if balanced heavily in favor of a few notable sectors, sectors positioned to benefit from current soci-economic conditions. The 4 largest sectors; Real Estate, Consumer Discretionary, Industrials and Banks make up 59% of portfolio value with the rest spread between 8 other sectors. Insurance maintains a high profile at 8% while other



positions have been shrinking in favor of a larger cash position. Energy, which made up about 3% of portfolio at the start of the year, has been trimmed to only 2% as of last report while the Utilities saw an

increase from 5% to 6%.

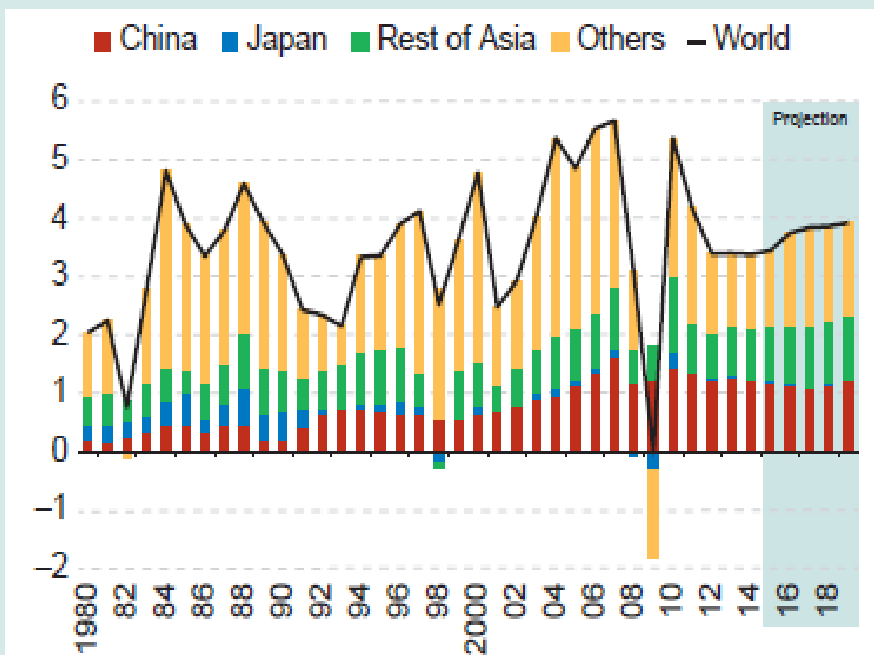
There is a hefty dividend but what the fund really offers for investors is value, the dividend is just icing on the cupcake. This year it was paid in one lump sum, the first distribution since Value Partners took control, and likely not the last. It came out to \$0.51 per share, about 5.25% at today's prices and a nice surprise for investors. Looking forward we can expect the fund to earn dividends on its own, dividends that could be returned to shareholders.

Things To Consider

There is no guarantee that China induced volatility will disappear, however, the outlook for growth in the region remains strong. Official targets for 2016 Chinese GDP are 6.5% to 7%, slightly slower than in years past but much stronger than other developed or developing countries in the world. The region is posting +4% growth on average, outperforming the rest of the world and expected to remain steady/strengthen into the next few years. Institutions like the World Bank and IMF estimate that China's economy, and that of many parts of the region, will continue to expand for the next 30 years at least. It is clear that

Figure 1.2

Asia: Contribution to World Real GDP Growth
(Purchasing power parity based; percent)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

◀ growth is slowing and that slowing growth is causing fear but those fears are misplaced so long as it continues to drive profits.

The real concern in China, aside from government interventions, should be the shift from industrial to consumer based economics, a shift that is rapidly progressing and one that will dominate the investment landscape for decades to come. Growth in industrial production has fallen below 10% from near 20% on an annualized basis and while consumer spending remains above 10% it too is down from peaks seen before the global credit bubble burst. The take away is that there is still strong growth, its just weak relative to even stronger growth in

the past.

Also in need of consideration is risk inherent in the region, not just China, including but not limited to political and financial. North Korea will be a persistent threat to stability in the region, add in the chances for governmental intervention in China's economy and lingering economic stagnation in Japan you get a recipe for volatility. Nevertheless, the dividend and discount to NAV make it an attractive addition to value and dividend based portfolios in small proportions.

There are some other negatives to consider, the first being fees. As a CEF these tend to be a bit higher than with a passively managed fund, 1% for the first \$100 million invested,

but are not too bad considering the performance over the past 12 months. Another is the dividend. 5.25% is pretty nice in any market, not even considering we're talking about China, but it's only been paid once with no indication it will be repeated.

Investors with a long term time horizon could benefit in three ways; the NAV discount, capital appreciation in a growing economy and distributions. So long as we can expect relative stability within the region this fund should be able to deliver on its goals. Share prices will come back in line with historic averages, portfolio value will stabilize/grow and distributions can become a regular event.