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Long-term culture key to Company's advantage

By Pauline Skypala

Seven of the companies in the top 10 holdings of Aberdeen's Asia Pacific Equity Fund have been in the portfolio for more than 10 years. Some have been there for more than 15 years, says Hugh Young, who heads up Aberdeen Asset Management's Asia operation and is also group head of equities.

He reckons portfolio turnover is about 15 per cent a year, "and the bulk of that will be topping and tailing the holding".

This does not mean Singapore-based Mr Young and his team are sitting around twiddling their thumbs all day. "We spend our lives seeing the companies and just keeping in touch with them, visiting their plants, attending their AGMs."

Going to AGMs is a relatively unusual pastime among fund managers. Mr Young had attended two in the week prior to our meeting. "It's something we feel is quite important – showing you are a shareholder."

Portfolio managers will also be occupied with issues such as takeovers, "where either we just say, 'thank you very much', or we resist, co-operate with other managers". Looking for new companies is another activity, although Mr Young warns against too much focus on this. "The danger in our business is you spend so much time looking for new companies you don't spend enough time with what you actually own."

This approach to fund management could be labelled old-fashioned: holding stocks for the long term based on conviction (Aberdeen owns 20 per cent of some companies) has become relatively rare in the modern benchmark-driven fund industry, where annual portfolio turnover rates of 100 per cent or more are common.

Putting in the time and effort to visit companies is also seen by some as unnecessary in these days of copious data and fast computers able to analyse the numbers and newsflow. Why invest in travel and shoe leather rather than PhDs and algorithms?

Aberdeen believes its equity process, developed in Asia in the early 1990s and adopted on a group-wide basis in 2002, gives it a performance edge.

"Our last really poor year was 2007," says Mr Young. Poor years are inevitable from time to time, he adds. "That's the only thing we can guarantee: poor years relative to benchmarks, and poor years where we lose people money, because markets don't always go up.

"But by not worrying about trying to have a good year every year, by worrying about whether we invest in the right companies, so far we've done all right, which is why we run as much money as we do, I guess [$100bn in Asia, of which $80bn is in equities]."

The Aberdeen culture is an important element in enabling fund managers to take the long view, says Mr Young. The group does not put pressure on managers when they have a bad quarter or a bad year – perhaps because the investment process means they have avoided a fashionable sector (like dotcom stocks in 1999-2000).

Investors are generally on board with this and if they complain about periods of underperformance, Aberdeen has the record and reputation to rise above it. “We have the good fortune of being able to say: if you don’t like what we do, why did you invest with us in the first place?” he says.

Aberdeen does not pick markets to invest in, focusing on companies instead. But asked to name a favourite country, Mr Young points to India, which he says has some great companies, although he adds that “the government in India seems to have done everything in its power to shoot itself in the head”. He is referring to corruption issues, foreign investment arrangements, double tax treaties and the like.

China, on the other hand, “has quite an effective government, from an economic point of view” but it is far harder to find great companies. That is partly due to state ownership, with a lot of the big companies, including banks and energy groups, “effectively arms of one or other Chinese ministry”. They will do the right things for the good of the country, but not necessarily for the minority shareholders, says Mr Young. Then there is another set of companies that hit the headlines for “disappointing reasons”, like going bust or proving fraudulent.

Corporate governance issues are one of the guiding principles for share selection. One of Aberdeen’s basic rules is to avoid companies with discriminatory shareholder structures.

It also looks beyond whether companies have ticked certain corporate governance boxes. “It is important that boxes are ticked, but we like to look into the intent behind things. You might have the statutory number of independent directors, but are they really independent?”

Some companies that do not tick the boxes may be acceptable too. Mr Young points to the example of Jardines, which is “quite tightly family controlled, and they don’t have many truly independent directors, but they do the right things”.

Aberdeen must also be doing something right. It has seen ongoing inflows into Asia-Pacific and emerging market equity products. Even last year, when outflows were the norm “we had net inflows into our products”, says Mr Young. This year, it has been turning away money. “You’ve got to be careful to ensure you manage the money you’ve got as well as possible,” he says. He is happy to see a few billions come in this year, but a flood would make him “very uncomfortable”.

“I guess we’re becoming a bit more choosy to make sure we’ve got the right clients, and, crudely, the right pay for [managing money]”.