



**Fund manager,
Old Mutual Asian Select Fund**

Philip Hunter rejoined Old Mutual in September 2008 from US wealth manager Bessemer Trust, where he was a fund manager focusing on Asia. He previously worked within the Old Mutual group for 11 years, holding a variety of fund management and analytical roles and focusing on Asia-Pacific markets and the global financial sector. Prior to this he was an analyst at private client investment group Merchant Securities. Phil is a CFA Charterholder.

Fund details

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Launch date September 1994
Sector Asia Pacific ex Japan

China to support Asian growth through the downturn

By Philip Hunter, manager of the Old Mutual Asian Select Fund

The Chinese economy expanded by 6.8% over the fourth quarter of 2008 against the backdrop of falling export activity and industrial production across Asia in line with weakening demand for goods from the western world. Given the high savings rate, the economy's relatively low exposure to exports and a steady growth in domestic consumption, we expect China's GDP to increase over 2009, continuing to offer a stark contrast to most other major economies globally.

In contrast, export-driven economies such as South Korea and Taiwan posted sharp declines in GDP growth over the same period. We believe that Beijing's ability to substitute public funds for private investment through financing large infrastructure projects around the country should allow the Chinese economy to continue its expansion in 2009, and lead the rest of the region.

The Chinese authorities have lowered the reserve requirement, allowing banks to lend more, and in addition are considering new measures to spur further lending to smaller firms and agricultural enterprises. State banks lent a record US\$350 billion to companies over January and February following calls by the government to support the domestic economy. In contrast to their peers in the US and Europe, Chinese banks are well-capitalised and have enough liquidity to help domestically oriented sectors to cope well relative to other Asian markets.

One of the key destinations for government-sponsored funding is railway transportation, where investment rose by 210% year on year in January-February 2008. We favour China Southern Locomotive, the country's largest manufacturer of high-speed trains aimed predominantly at the domestic market.

Among other examples is China Mobile, the world's largest mobile group by number of subscribers, which continued to expand into rural areas, where incomes from farming remain strong. Hengan, a producer of personal hygiene products, is another defensive stock which should continue to benefit from growing urbanisation in general and cheaper pulp prices in particular.

Over the short to medium term, we are positive on the areas of the market with less sensitivity to economic cycles, such as telecommunications, utilities, healthcare and consumer staples. In contrast, the fund is underweight technology stocks due to weak corporate and consumer spending; financials, where company balance sheets remain under pressure from falling valuations; and industrials,

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due to reduced capital expenditure. From a country perspective, we are particularly cautious on Taiwan, where many companies are heavily dependant on exports to the West.

Our overweight position in China focuses on stocks set to benefit most from the government's economic stimulus measures. Nevertheless, given that China accounts for almost a third of the Asian investment universe by stock market capitalisation, we believe that overall it will remain a strong driver of growth across the region.

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