Asian markets GNP outlook for 2014

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As has been the case since 2009, monetary policy in Asia continues to focus on positive balance sheets and shy away from incumbencies of large, long term debt that has wreaked the world economy.

In Asia, especially Asia ex-Japan, what is most concerning for 2014 is the all-encompassing economic indicator of GNP growth. Asia is seeking monetary policy that emphasizes structural reform and asset managers are seeking companies that have demonstrated a real desire to implement structural reform and hold down debt.

According to Rob Subbaraman, chief economist for Asia outside Japan at Nomura in Singapore, "Asia needs to tighten policy and accelerate structural reforms, or it will become a breeding ground for future financial crises."

And so … one of the unhealthy things that could happen with Asian markets going forward … is a continuation of currently loose monetary policies that lead to economic bubbles and economic bubble bursting.

As we know in the United States, loose monetary policy structure may lead straight to recession.

With that in mind, there is also considerable positivity with

economies of several Asian countries, especially as it relates to GNP.

In South Korea, Subbaraman, believes the GDP will rise to almost 4%, nearly a percent higher than 2013. This belief comes from Korea's excellent export benefits, especially from the United States and European markets.

Even with the reality of past typhoons and the nagging worry of future ones … the Philippines GDP is forecasted to reach a modest increase to 6.5% according to Subbaraman. All indicators point to reconstruction of the island country as a positive indicator for GNP.

As Malaysia continues to practice fiscal reforms, Subbarmann says, will also mean a modest GNP growth to 4.5%.

This makes us believe that there are still quality investments to be made for investors in the Asian Market.

We recently interviewed the leadership team of Asia Pacific Fund (NYSE: APB):

"We believe that a baseline is set for the Chinese equity markets as investors re-evaluate their concerns over China's growth mode"

Mr. Norman Ho is the Investment Director. Mr. Ho is a graduate of the University of Hong Kong, where he received a Bachelor's degree in Social Science in December 1989, majoring in Management Studies. He became a CFA charter holder in October 1996.

Mr. Philip Li is the Fund Manager. Mr. Li graduated from University of Michigan with a Bachelor in Business degree from the Stephen M. Ross School of Business in 2003. He became a CFA charter holder in 2007.

Global Investor Spotlight: Have you inserted new strategies or gone a different direction with the companies that make up the fund?

Mr. Ho and Mr. Li: Since we took over the management of APB in October 2013, we gradually reduced the fund's exposure to ASEAN countries, where we remain wary for the current account deficit and the negative impact from U.S. tapering. Our target for the APB is a high-dividend stocks strategy by investing in businesses with the ability and willingness to pay dividends.

As such, we seek companies that may generate strong cash flow from operations which reflects a higher quality of earnings and a more robust business at an attractive valuation. As a value investor, we aim to investing in companies at an attractive valuation. To this end, we have gradually increased exposure to some of the most attractively valued markets, particularly China and Korea.

Global Investor Spotlight: Since you have managed APB since October 2013 … what fundamentals of the fund that makes you optimistic about 2014?

Mr. Ho and Mr. Li: In China, we welcome the broad scale and specific reform objectives and are optimistic about China's ability to maintain a higher quality of growth. China has taken significant steps in addressing its social issues and such initiatives have been widely praised. Outside of social reforms, China aims to reduce the government's role in setting prices for energy and other resources in order to help reduce pollution and waste.

We believe that a baseline is set for the Chinese equity markets as investors re-evaluate their concerns over China's growth mode. With a current overly bearish view on Chinese equities still putting pressure on Chinese markets; these markets are trading at depressed price-to-book and price-to-earnings valuations. As such, we are very enthusiastic about the potential investment opportunities in China in 2014.

We are also optimistic about an economic recovery in Korea in light of an improving global demand outlook, and continue to see a pickup in orders across developed markets that serve as a tailwind for Korean exporters. Near record high current amount surplus and relatively accommodative monetary policy by the Bank of Korea should underpin the resilience of Korea's economy. We believe Korean companies' earnings growth will likely improve in the coming year.

Finally, APB's high dividend strategy with a current portfolio yield of over 4% also helps countering some of the market volatility with a stable income stream.

Global Investor Spotlight: What is the single-most important thing that a potential investor must know about APB?

Mr. Ho and Mr. Li: APB is managed with long-term, value based investment discipline. We conduct extensive, intensive, fundamental company research to come up with bottom up investment ideas. We are benchmark agnostic when constructing the portfolio and therefore portfolio exposure and performance could deviate from benchmark significantly.

Global Investor Spotlight: Why do you continue to view closed-end funds as valuable asset to individual investors?

Mr. Ho and Mr. Li: Here is what we believe to be the major benefits of closed-end funds …

Buying at Discount – Shares of closed-end funds sometimes sell at a discount to their underlying NAV, which may give investors who buy shares at a discount the opportunity to enhance an overall investment return through appreciation.

Clear Investment Objectives – Most closed-end funds invest in either stocks or bonds in pursuit of a specific objective, such as growth or income. While closed-end fund offerings cover virtually every asset class; including income from U.S. Bonds, U.S. equity funds and, Global Equity Funds.

Growth and Income Opportunities – In addition to portfolio performance, closed-end funds may provide other growth and income potential from dividends and distributions.

We agree with both Mr. Ho and Mr. Li; and would like to include a couple of additional advantages of closed-end funds as a valid investment strategy:

Stable Asset Base – With closed-end funds, there is little pressure from unexpected cash flows (in or out) of the fund, giving asset managers the opportunity to focus on long-term strategies and participate in opportunities that may involve less liquid securities.

Liquidity and Flexibility – Closed-end fund shares may be bought or sold at any time during the trading day, also meaning that the price is updated throughout the trading day. ■