Keeping it in the family

Why founder-led firms are leading Asia's next growth chapter...

Update
20 June 2025

Analysts:

Jo Groves
jo@keplerpartners.com

Asia is often viewed as one homogenous asset class and, in some ways, it's a fair assumption to make. After all, the region now generates over half of global GDP, boasts a thriving middle class and is home to many world-class companies.

But while the headlines are impressive, the reality is far more nuanced: Asia spans a mosaic of economies, each charting its own course of development. For one thing, the political and economic convergence with western economic development that once underpinned the investment case for Asia has already played out in many countries.

A growing number of nations now sit firmly in the high-income bracket. Taiwan's GDP per capita (in PPP terms) has overtaken France, Sweden and Germany, while Korea edges out the UK, according to the IMF. On the political front, countries such as South Korea, Taiwan and Indonesia have transitioned from authoritarian rule into democracies.

That said, convergence hasn't been universal. Markets such as Indonesia and India remain in the "emerging" category despite their size and potential. Both enjoy young and growing populations that underpin a large domestic consumer base but this is in stark contrast to the ageing demographics of China, South Korea and Taiwan.

Governance models also diverge, from the family-owned firms that dominate India to China's state-led model. And even with impressive economic growth, equity markets haven't always followed suit. China's GDP has grown by 1,500% over the last 25 years, yet the MSCI China Index has returned just 270%.

In short, treating Asia as a monolithic investment asset class no longer holds true. Selectivity matters, alongside the ability to separate short-term noise from long-term value creation.

Harnessing an active edge

What does unite much of the region, however, is the prevalence of, family-owned businesses, which make up around two-thirds of listed Asian companies. These firms can take a long-term view, reinvesting for future growth and prioritising sustainability over hitting quarterly earnings targets.

At **Pacific Assets (PAC)**, the managers view family ownership as a powerful driver of long-term alpha. As a result, around 90% of the portfolio is invested in high-quality family or founder-owned firms. By contrast, only half of the largest 50 companies in the index are family or founder-owned.

The trust has a focused portfolio of around 70 holdings, with the top ten investments accounting for just over 30% of the portfolio (as at 31/05/2025). The portfolio has a high active share of almost 90% that sets it apart from both passive and benchmark-aware peers. And with almost 30,000 listed firms across Asia, there's no shortage of opportunity.

1. Protecting against downside risk

PAC's strategy is built around absolute returns and capital preservation, defining risk as permanent capital loss rather than deviation from the index. This approach has paid off, with PAC posting positive NAV returns in eight of the past nine financial years.

The trust has two key lenses, quality and sustainability, both of which help to drive returns and mitigate risk. The managers seek out companies with quality management teams, franchises and financials, including the ability to contribute to, and benefit from, sustainable development. As noted earlier, these companies are often (but not necessarily) family-owned which aligns with the trust's philosophy of investing for the long-term.

The managers are bottom-up stock pickers, looking for companies that offer pricing power, strong cash-generation and robust balance sheets, with almost 80% of the current portfolio in a net cash position. The portfolio also tilts towards industrials and consumer companies and avoids sectors such as real estate and commodities.

This long-term, cautious approach has helped the trust outperform in tougher conditions. Over the last five years, PAC has delivered a NAV return of 46%, compared to 26% for the MSCI AC Asia ex Japan Index (as at 18/06/2025). Despite this track record, the trust currently trades at a discount of just over 10%, which may offer an appealing entry point for long-term investors.

2. Patience pays off

Managers David Gait and Douglas Ledingham bring a combined four decades of experience at Stewart Investors, supported by a seasoned team with deep regional expertise.

They undertake extensive, on-the-ground due diligence, meeting management and key stakeholders across the entire corporate ecosystem. This not only helps identify capable stewards of capital but also fosters long-term and collaborative relationships.

Patience is a recurring theme. The team cites the proverb "crossing the river by feeling the stones", as a metaphor for successful companies taking a steady approach to expanding into large and untested markets.

A case in point is Tube Investments, a long-standing holding run by the Murugappa family. Tube has pursued a long-term strategy of using its healthy cash flows to diversify steadily into different markets, evolving from a supplier of parts to the auto industry to a manufacturer of three-wheeled electric bikes, commercial vehicles, and industrial motors. This has underpinned a share price increase of more than 1,000% since 2017.

3. Macro noise, micro opportunity

The managers are careful to distinguish between cyclical macro concerns and structural company-level weaknesses. Top holdings are typically held for 10 years or more, allowing them to support portfolio companies through economic cycles.

While macro tailwinds can be helpful, some of the best opportunities arise in markets under pressure, such as China. While PAC has historically been underweight China due to high state ownership, the current weakness in sentiment and valuations is creating opportunities, with a healthy IPO pipeline also expanding the investable universe.

As a result, the managers have selectively increased exposure to high-quality management teams building world-class franchises despite the wider economic backdrop.

Meanwhile, India remains a core overweight thanks to a deep pool of family-owned businesses, attractive demographics and low penetration of goods and services. In addition, Indian companies are capitalising on a burgeoning domestic consumer market as well as becoming increasingly competitive on the global stage.

That said, the team has recently trimmed some positions due to valuation concerns, particularly in Indian technology and pharmaceutical names exposed to US trade risks. This illustrates the value of dynamic, hands-on risk management.

Looking ahead

Investing in Asia comes with its share of headwinds, from fears of a possible US recession to tariff uncertainty. But these are exactly the conditions where active management can add the most value.

With a focus on family ownership, strong governance and sustainable long-term growth, PAC offers a differentiated, buy-and-hold exposure to the Asian growth story. Or, put another way, an option for investors to piggyback on a patient strategy of "crossing the river by feeling the stones".

All data as at 18/06/2025 unless specified otherwise.

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