

# Navra Asia Pacific Growth Fund Series 2

**After the Navra Asia Pacific Growth Fund launched in February this year raised more than twice what NavraInvest expected, the fund manager comes back to the market with the second tranche, writes MICHELLE BALTAZAR.**

Call it a meeting of like minds. When Steve Navra, a seasoned fund manager who set up his own firm, NavraInvest, met Shane Edwards, global head of equities and custom index structuring, The Royal Bank of Scotland (RBS) Asia, Navra said it took all of 15 minutes for him to realise they shared the same views about investing.

The unlikely pair decided to put their complimentary skills at work to create a new product they hope would resonate well with investors who lost money during the financial crisis. The new fund, called Navra Asia Pacific Growth Fund, was launched in February with the goal of raising \$30 million.

It raised \$70 million in less than three months.

This demand spurred Navra to launch a second tranche, called Navra Asia Pacific Growth Fund Series 2. The fund invests in 100 stocks in the Asian region (including Australia) from a pool of 150 blue chip stocks. For example, at the time the product disclosure statement (PDS) for the fund was released, the portfolio included car giant Mitsubishi, beverages company Asahi and Macquarie Group, to name a few.

In short, the fund didn't depart from Navra's roots as a blue chip portfolio manager since 2003. The difference is that while the fund is based locally, the underlying manager is RBS' award-winning team based in Asia and headed by Edwards.

So far, it sounds like your typical blue-chip Asian equities fund where the product provider, Navra, simply plucks one of the best investment teams in the category as the underlying manager, RBS Asia.

But for investors who did invest in the first tranche, the beauty is in the detail.

## Hitting the right notes

Navra Asia Pacific Growth is a structured product that allows investors to apply for a loan of 100 per cent of the investment amount at the cost of the prepaid interest payment of 8.5 per cent fixed rate over 10 years. Prospective investors are only required to prepay upfront 10.5 per cent of the initial investment amount.

In exchange, the fund aims to deliver 15 per cent per annum, with a minimum investment return of 50 per cent and a 200 per cent participation rate (the unit price doubles) on maturity.

Depending on how the underlying fund performs, investors might also get an annual distribution (or contingent coupon) of up to 10 per cent of what they invested, which then covers part or all of the annual interest payment.

While the fund has all the good bits of a structured product, it doesn't have many of the limitations.

For example, there are no break fees should the investor decide to leave the fund before the 10 years are up. This "annual walk-away" option separates the fund from many of the existing products out today.

This walk-away feature is just one of many other features that appealed to investors burnt by the GFC. While the markets have recovered since 2008 and are nowhere near as volatile as they were back then, investor nerves are still frayed and they want to keep their cash balance as high as possible for liquidity reasons. Many are turning to cash products or those that are capital-protected and low-risk.

Addressing these concerns, the underlying investment strategy of the fund is actively managed so that the investor's market exposure is adjusted depending on market volatility. As an example, Navra recalls the time in late 2008 when the markets were so volatile they moved at least 50 per cent of their holdings into cash. The decision saved an average of \$23,000 per investor or more than \$11 million in total at one point.

While the savings were made in Navra's funds at the time, the same philosophy of capital preservation flows through the Asia Pacific Growth fund.

In addition, because the fund is long/short, it can take advantage of rising and falling markets more than a long-only fund could.

The RBS' underlying strategy, called Enhanced Asian Aces Dynamic Strategy, is also recognised for its transparent and rule-based trading approach and its low annual volatility of around 7.8 per cent (the fund's target is to stay below 10 per cent).

The fund has a low correlation of 10 per cent compared to the MSCI World Equity Index, which means it's a great diversifier to the market, too.

## Catch up

Sure, the underlying investment strategy delivers, but why not invest in a similar equities strategy without the complexities of a geared structured product? It was not too long ago when many investors were burnt by margin calls from their geared portfolios.

"Most people had leverage of one, one-and-a-half to three times. So when the market dropped 30 per cent, they haven't just dropped 30 per cent, they have dropped up to 150 per cent. So if they're just going to ride the market up, then the best they can get at this stage – at best – is that they would have made less than a third of what they lost," said Navra.

The solution offered by his new fund is to make up for those losses by gearing on the way back up. "Of course that can be dangerous as we now know, but we've ensured that our clients are protected on the downside."

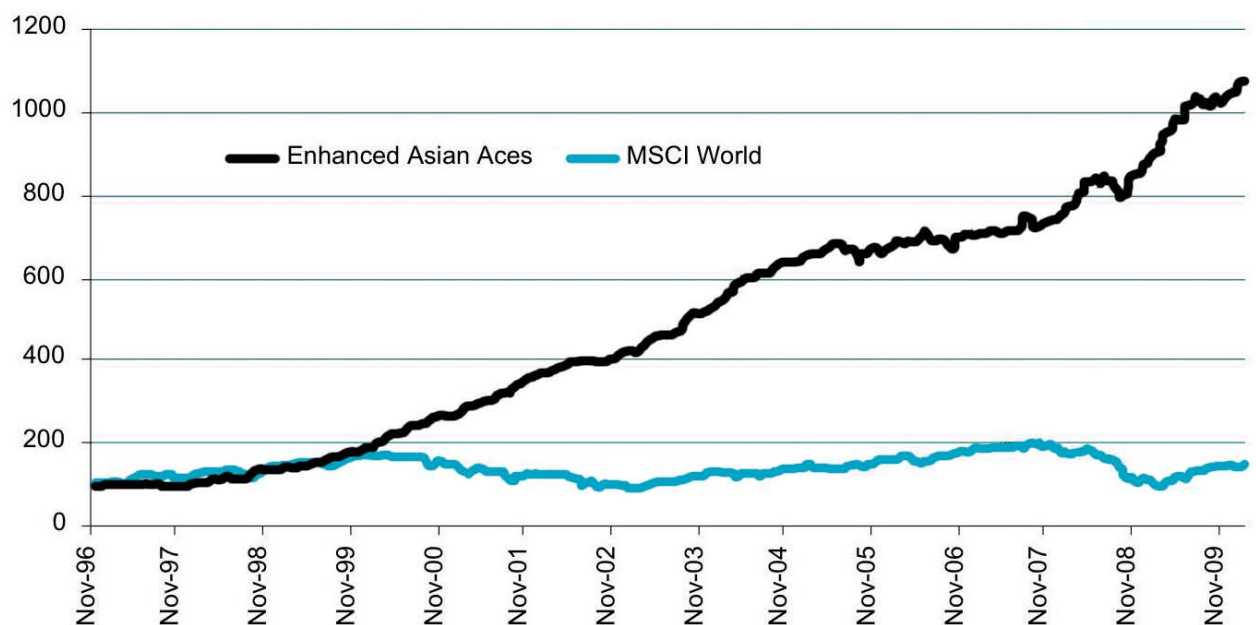
That downside protection comes in the form of a non-recourse loan backed by RBS and the only capital loss the investor is risking is the interest payments of 8.5 per cent. Given that this pre-paid interest payment is tax-deductible, most, if not all investors will be risking effectively 5 per cent, or \$5,000, equivalent capital to gain an effective \$100,000 market exposure to Asian equities.

"It's that degree of recovery. If people are just going to take a vanilla no-risk product on the way back up, two things happen: one, it's going to take them a decade or even longer to recover, and two, they're still exposed to the same market correction they just experienced," said Navra.

Instead, investors could look at the alternative, such as the Navra Asia Pacific Growth Fund, and make the product's numerous features work for them. As a tax-effective product that offers full market exposure in exchange for minimal downside, there are a lot of good reasons why the first tranche of the fund was way over-subscribed.

Series 2 requires a minimum investment of \$25,000 and the offer closes in June. ●

Figure 1. Backtested performance\*



\* Assumes reinvestment of coupons that would otherwise drop out of the index and would be paid to investors. Performance is calculated after a 1.5% p.a. management fee is applied. This does not take into account the performance fee. Simulated performance is not a reliable indicator of future performance and returns are not guaranteed.