

REACHING FOR THE "HIGH SKY"

FUND MANAGER YANG LIU



After winning awards with an Australian-based China fund, Yang Liu has returned to Hong Kong with the ambition of capitalising on the country's emergence as market for investment. Interview by Robert Sheridan

Such is the enthusiasm and sheer energy of up and coming fund manager Yang Liu, it's not hard to believe that in the last few months she has joined Atlantis Investment Management, embarked on a whirlwind tour to promote investment into her fund - although its launch has in fact been postponed - and still found time to give birth to her first child.

After graduating from university in Beijing, Yang worked for the China International Trust and Investment Corporation (CITIC), a public-sector investment organisation for 14 years, in Beijing and Australia. She says her time at CITIC, particularly as chief investment officer of CMG CH China Investments, a joint venture with Australia's Colonial First State, helped prepare her for the new ethos she has absorbed at Atlantis: "to help my shareholders earn money."

Yang managed an award-winning Australia-listed China fund, the New Era PRC Fund, since its launch in 1993. Over the three years to March 31 this year, according to Bloomberg, the fund achieved a total return of 184.42 per cent, compared with a decline of 40.76 per cent for the MSCI China Free Index.

Yang argues that it is incorrect to perceive China, which continues to attract more direct foreign investment than any other country in Asia, as an emerging market. However, she admits the pace of growth is very uneven across the country, with growth taking place mostly on the eastern seaboard. This region, which has a population of some 480 million, enjoys much greater wealth than the less developed western and central areas.

However, her ambitions to run her own fund for Atlantis have had to be put on ice after the firm decided to postpone the launch of the Atlantis China fund. The fund, to be domiciled in Hong Kong and listed on the Dublin stock exchange, had a target of US\$50 million by the closing of the offer period on July 5.

Under the original plan, the fund - targeted at institutional and professional investors rather than the retail market - was to be run as a closed-ended vehicle for 18 months "to prevent clients having their investments diluted", after which it would become an open-ended fund. Atlantis now says the China fund will be offered to investors again when market conditions improve.

Yang notes that Asia's four leading economies - Taiwan, Korea, Singapore and Hong Kong - have learnt technical expertise from the West, while their lower labour costs and established infrastructure have attracted foreign investment. She believes the same now applies to China.

When it is launched, the Atlantis China Fund will invest in small

and mid cap companies. Yang, who says she likes to buy companies that are owned by their management, will be able to invest up to 10 per cent of the fund in unlisted securities.

She adds: "I always looks for an absolute return, not merely to out-perform an index, which may be continually falling." This makes sense not least because the mainland Chinese market is extremely fragmented, with lots of small companies, and she argues this means the usual benchmarks are not appropriate here.

Yang is confident that small and mid-cap companies will offer the best return on investment over the next two years. Private companies are more reliable than public-sector ones, she says, because they have to raise capital from the stock markets and therefore have to be accountable to investors. This explains why they achieve typically a return on equity three times that of Chinese state-owned enterprises.

Yang says she has a universe of around 250 stocks, 40 of which are key ones. Her management style is to keep a 70 per cent of the portfolio as a core holding whose stocks are held for at least three years. With her team of three people, she analyses a wide range of market information, from company publications to analysts' reports, as well as speaking regularly to her contacts.

The remaining 30 per cent of her portfolio is regularly traded. Yang says she will often buy undervalued stock, which come to the notice of rival fund managers across the world six or 12 months later. "So the share price rises, and I then sell and make a profit," she says. "You have to be quick and reactive to the market."

Yang says that the choice of sectors in which she likes to invest is often driven by shifts in Chinese internal policy. With transport and domestic demand issues currently to the fore, she argues that the most promising stocks are in housing, entertainment, education, travel, high-end electronics, organic foods, utilities and telecommunications.

"Strong brand names are always important too, such as China Vanke," Yang says. China Vanke is a residential property developer with a good brand name that has been established in China for 10 years, with a presence in 10 major cities, including Beijing, Shanghai, Tianjin and Guangzhou. A 'B' share listed company, it also has one million square metres of development land as a reserve. "It is now valued at nine times' earnings, down from 25 times' earnings thanks to the volatility of the stock markets," she says.

In the early 1980s, China's 'paramount leader' Deng Xiaoping initiated a series of reforms to guide the country's development along the lines of a market economy. Initially highly controversial, one of his favourite sayings was: "To get rich is glorious."

Nearly 20 years later, Yang is equally upbeat, arguing that Asia's original four tigers "don't have the same potential and high sky that China has. I can make a lot of money from China in the next five years."

"Foreign companies can own up to 33 per cent of the company for the first three years and subsequently up to 49 per cent"

◀ funds of funds. There is no minimum for guaranteed hedge funds.

Says June Wong, head of business development for HSBC Asset Management in Hong Kong: "Existing hedge fund products are most likely to be launched with adjustments, rather than providers creating new products especially for the Hong Kong market."

She believes there is a challenge in "sales methodology" to educate the public into buying hedge funds while making them aware of the inherent risk.

Joint ventures in China

HSBC sells its fund products via commercial bank channels in Hong Kong,

although it also deals with financial intermediaries such as Towry Law. "The penetration rate of mutual funds has risen from between 7 and 8 per cent in 1999-2000 to 11 per cent in 2002 so far," says Wong, adding that sales of capital guaranteed funds have also risen.

"In the last 18 months alone, we have launched more than half a dozen. With low interest rates and a falling property market, investors are drawn by the guarantees attached to the products. This is a definite area of growth."

HSBC says it is well prepared for legislation from the CSRC that will allow foreign fund companies to set up joint ventures in mainland China. Foreign

companies can own up to 33 per cent of the company for the first three years and subsequently up to 49 per cent.

HSBC has provided Chinese companies with advice on pensions and fund management, and in September 2001 China Southern Fund Management signed a technical co-operation agreement with HSBC to launch the Capital Growth Fund.

HSBC is extremely upbeat about China's development. Says Wong: "We have been investing in China for decades. We are the largest foreign bank in China. Until recently, foreign players could not do business in China, but WTO accession has changed that."