Fledgling China fund cashes in on careful stock picks

Gwyneth Roberts

Yang Liu was hounded by a headhunter for 12 months before she finally took the plunge and joined Atlantis Investment Management as managing director last year. She left a long-standing position as head of China investments with CMG First State, and had also been running a joint venture fund with Citic, the company that first employed her as a graduate.

"I moved from a state-owned enterprise kind of job to an entrepreneurship, which is quite a new platform for me," she said. "I used to work for big names but I felt I needed a change."

Boutique fund house Atlantis, set up in 1995 by former Schroders fund managers, has US$900 million under management, mostly in the Japanese market. Ms Liu's job is to drive the company's China strategy and development.

"One of my ambitions is to manage two classes of assets," she said. "One class is for overseas money invested in China, which I have already achieved. The second is to help Chinese people make money out of the Chinese market. We are still in the development phase of that and it will take a few years."

Her main task has been raising a portfolio for the Atlantis China Fund, which debuted on the Dublin exchange on March 20, a day before war broke out in Iraq. The fund has US$35 million under management and US$20 million more pledged from an investor in the US. Eighty per cent is from institutions, with the remainder from substantial clients, staff and shareholders – including some of her own cash.

Ms Liu saw a dramatic shift in sentiment towards investing in China in the three marketing trips to Europe and Australia before the fund launched. The first was in May last year, with markets in a post September 11 funk that extended into a long bear market. "The first two trips the clients showed no willingness to invest in China. They were still in a dream about the recovery of their own markets. This year, people started to realise that they cannot wait for their markets to recover because maybe they never will – they could stay flat and boring for ages," she said.

The fund could not have launched at worse time, with war fears prompting clients to cut their pledged allocations in half. Then the Sars outbreak hit. "In April, I was one of the only ones buying stocks – it was so negative. People were selling the good ones and the bad ones together. They threw the baby out with the bath water. It was crazy. Stocks in the Chinese market dropped an average of 30 to 40 per cent in 1½ months."

Calm and careful stock-picking has helped Ms Liu's fund achieve a 28 per cent gain since its launch. Now the challenge is to maintain it.

She targets second division companies of which there are about 300 in four share classes – B shares listed in China and H shares, red chips and private companies listed further afield. One example of a stock she likes is Cofco International, a state-owned enterprise that has been listed for about eight years and has a market capitalisation of only US$500-$600 million.

It is China's biggest wine producer, with 30 per cent market share under the Great Wall name, and the biggest chocolate maker.

She first bought the stock at HK$1.20 for her previous fund, and it is now trading at around HK$3.10. Despite the run-up in price, she thinks the counter still has room to appreciate. It was included in the MSCI China Free Index in May, along with three other names that Ms Liu was holding.

Ms Liu believes a lot of brokerages and analysts were caught out by this year's surge in China-related counters and recommended investors take profit after the traditional Lunar New Year rally.

"In June last year I mentioned that H shares deserved a big re-rating upwards. Think about today – H shares are up by 50 per cent already this year. They have been the stars of the whole Asian market."

With improvements in cross-border profitability and consumer-led demand Ms Liu sees a bright future for sectors such as power, toll roads, steel, coal, building materials and even pharmaceuticals.

"There is another wave of consumption-led profitability. It is the middle class, urbanisation and the increase in living standards. This trend will continue for another five to 10 years, we have just entered the boom time this year," she said. "There will be ups and downs in between, but the trend is going up."

MEET THE MANAGER

YANG LIU

PROFILE

- 1988: Graduated from the Central University of Finance and Banking in Beijing
- 1988: Finance executive with Citic Group (Beijing)
- 1993: Founder manager of closed-end fund joint venture between Citic Australia and Hambros Australia
- 2001: In addition, director of China investments for CMG First State in Hong Kong
- 2002: Moved to Atlantis Investment Management as managing director