China’s GDP will grow at a rate of 5% in the coming years on the back of domestic consumption

For Banor Capital, the Chinese equity market offers excellent value to long-term investors, as it’s still well below its 2007 peak.

by Marco Degrada

No structural danger for the Chinese economy which, in the coming years, should maintain a moderate level of growth.

“We believe that China should become a reference point for all investors, considering its political and economic weight”, underlines Dawid Krige, manager of the Banor Sicav Greater China Equity fund, speaking to MondoInvestor. Krige adds: “China’s stock markets are notoriously very volatile and I don’t think that in future we’ll see changes in that. However, we don’t see the volatility risk as a problem in itself as we’re long-term investors and seek to exploit volatility to our own benefit”.

In recent months the emerging markets have performed better than the developed countries. Will that continue to be the case?

We believe there will be many more opportunities in the emerging countries. Unlike the developed markets, which are reaching their historic highs, many emerging markets still have a long way to go. The Chinese equity market, for example, is 30% lower than its 2007 peak and offers excellent value for long-term investors. Today in China you can find the best companies in the world at interesting prices.

We don’t see any change to worry about. The trend in domestic consumption in China is a process that will evolve over the years and is not linked either to President Trump or to other influences external to the country. We believe that in the coming years the growth of Chinese GDP could reach 5%. This result will be driven mainly by domestic consumption (which at present accounts for 2/3 of the country’s GDP growth), by long-term policies (such as urbanisation policy) and by increased productivity.

In which sectors of the Chinese equity market will the best opportunities be found?

There aren’t many companies in China today that are global leaders in their sectors. The main exceptions are in the internet sector and in certain domestic consumption sectors. Consumer goods, Internet services and healthcare are the sectors that will grow most. They’re being driven by rising wages, which are increasing at 10% per year. At present the Banor Greater China fund has a 40% exposure on Chinese companies that are leaders in discretionary consumption. One example is Kweichow Moutai, a drinks company that has a history of over 400 years and is the world’s biggest liquor company. In addition, we have about 40% exposure on leading Chinese internet companies such as Alibaba and Tencent, which are among the world's best in their category. The remaining exposure is more diversified and includes companies operating in the health, investment management and tourism sectors.

How did your Banor Greater China Equity Fund perform in 2017, and what do you expect in 2018, which is still in its early stages?

2017 was a bonanza year for the Banor Greater China Equity Fund: all major long holdings achieved positive returns. In fact, the fund rose every month to end the year +66% (all returns US$, net of fees) vs. +44% for the MSCI Golden Dragon Total Return Index. This has raised the fund's return since inception to +16% p.a., placing it in the top percentile of its Bloomberg peer group. During the year, we bought three new names and sold out of six, as we're concentrating capital in our best ideas. Portfolio holdings' earnings grew well north of 30% last year, explaining roughly half of the fund's return, with multiple re-rating contributing most of the rest (currencies were stable, and dividend yields modest). Our portfolio of world-class market leaders has been significantly undervalued given their quality and growth potential. That valuation discount narrowed last year: the fund is now trading on 17x this year's pre-tax earnings, a reasonable level considering fundamentals.

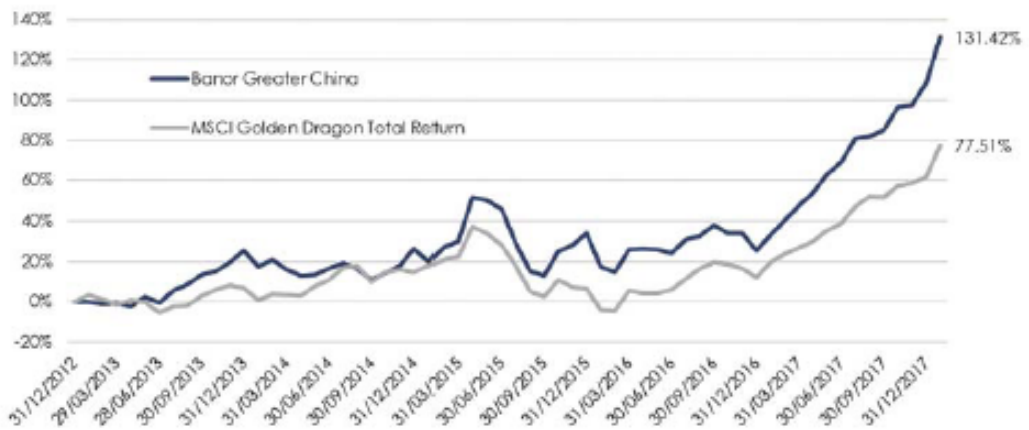
While some holdings' multiples have room to rerate further, earnings growth is likely to be the most important driver of future returns. On this score, we remain highly optimistic about the fund's long term prospects. We own some of the best companies in the world, with growth runways that extend beyond the next decade. Over the past five years, our core holdings' diluted earnings grew 31% p.a. If they can achieve just half this growth over the next decade, our mid-teen return objective is likely to be met.

In detail, what does the investment strategy of your Banor Sicav Greater China Equity fund envisage?

First, we only invest in companies we know very well: in other words, we're value investors. In addition, the Banor Greater China Long Short Equity fund follows a value-based long/short investment strategy. That means we buy high-quality companies when the market underestimates their value and growth capacity and bet low, hoping that they'll fall in price compared with over-valued, low-quality companies. The Chinese market lends itself very well to this strategy. In addition to very high-quality companies there are also businesses that have no future and are often fraudulent. We've learned to recognise them through our in-depth fundamentals analysis and our work on the ground. And that's what distinguishes us most clearly from other Chinese funds: the days my analysts and I spend visiting the factories, suppliers and customers of the companies we want to invest in, to make sure there's no fraud involved. Lastly, our belief in companies showing strong rises in earnings and our focus on the growth in domestic consumption in China are most certainly the two factors that have enabled us to generate performances of over

66% year-to-date and an annualised yield of 18% since 2013 with our Banor Greater China fund. The market has rewarded our acumen

L'ANDAMENTO DEL FONDO BANOR SICAV GREATER CHINA EQUITY



Fonte: Banor capital. Dati al 31 gennaio 2018. grafico 1

How do you identify which companies to invest it?

Most of our ideas are generated through our in-house analyses and fundamentals research, through meetings with sector experts and the management of the companies concerned and through on-site visits.

We need to show that we have a great deal of patience. Patience to wait for the moment the market offers good opportunities to buy specific companies and patience to wait, once we've bought certain securities at an optimum price, for their intrinsic value to be recognised by others.

Banor Capital Limited is an independent investment management firm authorised by the Financial Conduct Authority. The firm was set up in London in 2011 by a team of investment professionals working together since 2001. Part of the Group established with its sister firms, Banor SIM S.p.A. and Banor SICAV, Banor's goal is to be the partner of choice for institutional and private clients by developing and managing, through Banor SICAV, a range of strong value-added products that include diverse investment strategies, markets and asset classes. The Banor group's assets under influence are in excess of €7 billion, of which €3 billion are under discretionary management. Banor SICAV is the group's Luxembourg-based UCITS V umbrella fund, with six sub-funds: three alternative long/short funds (North America, Italy and Greater China), one equity (European Value) and one fixed income (Euro Bond Absolute Return), and one flexible fund focusing on market leaders (Rosemary). Since March 2015 Banor Capital has also managed the five sub-funds of

Aristea SICAV, including Enhanced Cash, an advanced liquidity management fund; the Global Flexible multi-asset fund; the Chiron Total Return balanced fund; the New Frontiers Equity Fund, which focuses on emerging markets; and the recently launched Asian Alpha fund, a long-only fund focusing on the markets of Southeast Asia.