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Thumbs up for import-oriented companies in China

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Shelter from customs duties for companies that depend on the domestic market.

Where to find shelter from the trade war winds? For people investing in China, as anywhere else, the general outlook is much more difficult that it was last year. The Banor Sicav Greater China Equity UCITS alternative fund, which achieved +65.7% in 2017, certainly can't promise a repeat performance. The fund is managed by a British advisor, Dawid Krige. He cultivates a strategic approach inspired by value investment: it's no coincided that a portrait of Warren Buffett hangs in his office. Krige has another conviction that the recent harder line adopted by Donald Trump on tariffs (and the mirror-image Chinese reprisals) has served to strengthen. In China, the prospects for carefully selected companies that depend on the domestic market appear more promising than those focusing on exports. The latter are exposed to the increasingly real risk of commercial tensions and depend on the more modest growth of others.

"We follow a value-oriented investment style resting on fundamentals analysis, with a medium to long-term vision", explains Krige. "We buy high quality companies when we see that the market is underestimating their value and growth potential. We also sometimes "bet down" on over-valued, low quality companies. The Chinese market lends itself well to our strategy: in addition to high quality companies, there are also companies that have no future and are often fraudulent. We seek to identify them through our fundamentals analysis and our work on the ground".

The portfolio Krige outlines is somewhat concentrated: the wager rests on 20-25 securities. Its make-up is weighted towards the consumer sector (which accounts for about 40%) and the internet sector (about the same, including the ever-present Tencent and Alibaba), with the remainder divided between healthcare, financial services and industrial securities. The fund has two main selection criteria. First, the company must be surrounded by a "moat", i.e. it mustn't be easy for competitors to enter its territory. For example, having a moat means having a distinctive and reputable brand, like

Kweichow Moutai, which Krige defines as the Chinese "Campari". It must also have a sound management that is worthy of trust over the medium-long term. The rest comes from valuations, with the focus on waiting for the market to offer a good price. The strategy followed doesn't envisage overly frequent portfolio movements. There's no continuous buying and selling, but relative loyalty to the horse the fund has placed its bet on after a careful analysis of its form. The context is that of an economy that is substantially developing domestic demand, in parallel with the growth of a middle class with considerable propensity to consume (especially high-level products).

In Krige's opinion, there seem to be more selective opportunities in the Greater China market than in the other emerging markets in Asia and in the advanced countries, not just because of the fundamentals but also in terms of financial evaluation. Certainly in choosing stocks, the risks are probably higher than elsewhere. You can trust managers and investor relations specialists only so far. "You need to be carrying out constant checks on the ground, speaking to companies' customers, employees and former employees…", says Krige. The current shake-ups on the international markets, in his view, shouldn't undermine, in the long term, confidence in the driver effect of the overall expansion of China's domestic market, which promises to continue for a long time to come.