by Elisa Pellati

China's stock market continues to grow and offers excellent opportunities for long-term investors

China, according to Dawid Krige, manager of Banor Sicav Greater China Long Short Equity, has the best undervalued companies in the world

China's economy continues to grow, driven mainly by domestic consumption, long-term policies and increasing productivity. **Dawid Krige**, manager of Banor Sicav Greater China Long Short Equity, told MondoInvestor that he thinks China's GDP growth could reach 5% and that the stock market offers some excellent opportunities for long-term investors. Krige explains that he follows a value approach to fund management and only invests in companies that are well know, taking a long-term view.

Since Donald Trump's recent visit to China, have you noticed any changes in the country's economic scenario or society? And why?

Today, we find the best companies in the world at very attractive prices in China. We don't see any worrying changes: the trend of domestic consumption in China will evolve over the years and the process is not linked either to President Trump or to any other influences outside the country. The guidelines that emerged from the last Communist Party Conference in October will encourage domestic consumption, while the fight against corruption will bring greater sustainability to the system.

Do you think GDP growth in China will hold stable next year? What do you think might bring a risk of a slowdown?

We believe that GDP growth could reach 5% in China in the coming years. This outcome will be driven mainly by domestic consumption (which today accounts for 2/3 of the growth in China's GDP), by the long-term policies adopted (for instance regarding urbanisation), and by increased productivity.

Can you describe the strategy and investment process of the Banor Sicav Greater China Long Short Equity fund?

At Banor, we're value investors: this means that, first of all, we only invest in companies that are well known to us. In addition, the investment strategy of Banor Sicav Greater China Long Short Equity is of the long/short type.

This means that we buy high-quality companies when the market undervalues both their value and their capacity for growth and we bet on dropping odds on overvalued, poor quality companies, hoping that their price will fall. The Chinese market is ideal for our strategy: alongside excellent companies there are others without a future, often fraudulent, which we have learnt to recognise thanks to in-depth fundamental analysis and in-the-field research.

And that's the main difference between us and other Chinese funds: the days that I and my analysts spend visiting the factories, suppliers and clients of the companies we want to invest in to make sure they are not fraudulent.

Finally, believing in companies with rapidly growing profits and betting on the growth of domestic consumption in China are undoubtedly the two factors that have enabled us to achieve a performance of over 67% year-to-date (at 24 November 2017) with our Banor Greater China fund. The market has rewarded our acumen.

What factors do you think might favour your strategy in the coming months? And what are the greatest risks looming on the horizon?

We can't say what will happen over the coming months, but the quality, the growth potential and the pricing of the companies we invest in are firmly optimistic over a horizon of at least 3-5 years. We believe that China could become a point of reference for all investors, given its political and economic weight. China's stock markets are known to be very volatile and I don't think there will be any change in the future.

However, the volatility risk is not a problem for us in itself because we are long-term investors and we try to exploit volatility (and the attendant price movements) to our advantage. In the medium term, we will be keeping an eye on the country's debt. Instead, the risk that we do perceive over the long term is that of the uncertainty and instability caused by the country's slow (but positive and inevitable) march towards a system based on full recognition of civil and social rights.

What sectors do you think offer the best opportunities? Can you give us a few examples?

Today, China does not have many companies that are global leaders in their sector.

The major exceptions are found in the internet sector and in regard to some consumer goods. Consumer goods, internet services and health are the sectors that will see the fastest growth thanks to the stimulus provided by pay rises, which are around 10% a year. At Banor we concentrate on companies that are leaders in their field.

For example, Banor's Greater China fund has a 40% exposure to leading Chinese companies in discretionary consumption sectors, like the liquor producer Kweichow Moutai, which dates back more than 400 years and is now the largest liquor producer in the world. We also have an exposure of about 40% to Chinese internet leaders such as Alibaba and Tencent, which are among the best in the world in their field. The rest of our investments are more diversified and include companies in the health sector, asset management and tourism.

Alternative liquidity funds

How to you choose which companies to include in the long or short part of your portfolio?

Most of our ideas are the result of fundamental analysis and research, which we do in-house; of meetings with experts and the companies' management; and of on-site visits. We need a lot of patience: the patience to wait for the moment when the market offers good opportunities to purchase stock of specific companies, and the patience to wait, once we've bought given stock at a good price, for its intrinsic value to be recognised by others.

The emerging markets have performed better than those of the developed countries in recent months. What's your opinion? Do you think they will continue to offer good opportunities?

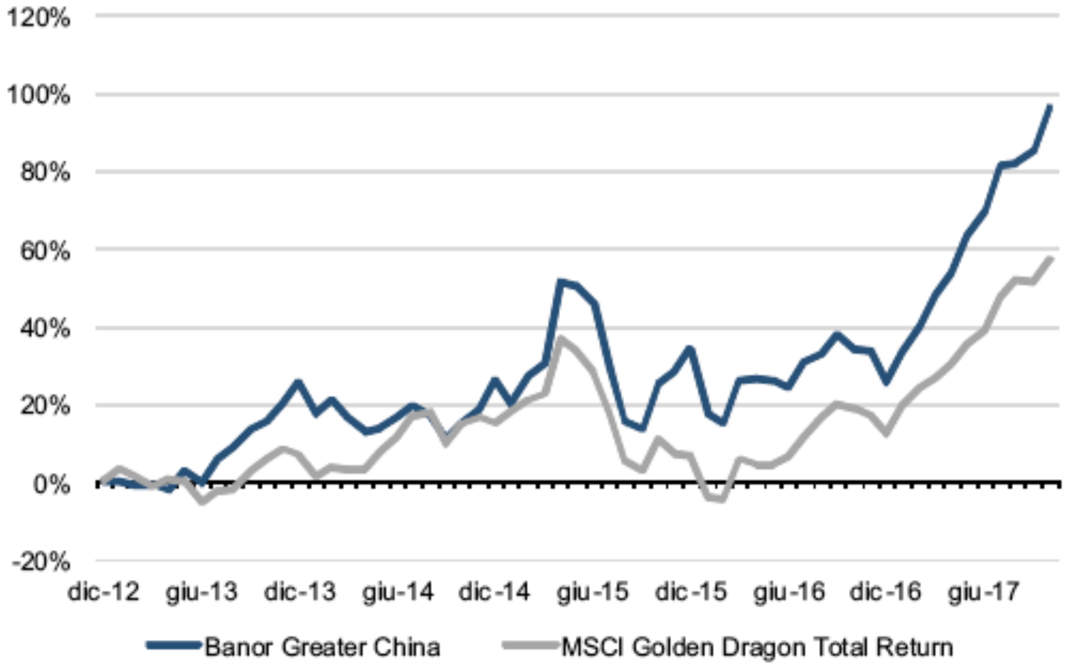
Yes, we certainly do. Unlike the developed markets, which are peaking, many emerging markets still have a long way to go. China's stock market, for example, is about 30% lower than the 2007 peak and promises excellent value for long-term investors.

Banor Capital Limited is an independent asset management company authorised by the Financial Conduct Authority. It was set up in London in 2011 by a group of professionals who have been working together since 2001. As part of the group with sister companies Banor SIM S.p.A. and Banor SICAV, Banor Capital partners institutional and private clients to put together, and manage through Banor SICAV, a range of high value-added products representing a variety of investment strategies, markets and wealth categories.

Banor Group's assets under influence (AUI) amount to over 7 billion euros, 3 billion euros of which are under discretionary management.

Banor SICAV is a Luxembourg UCITS IV with six sub-funds: three alternative long/short funds (North America, Italy and Greater China), a share fund (European Value), a bond fund (Euro Bond Absolute Return) and a flexible fund focusing on market leaders (Rosemary). Since March 2015 Banor Capital has managed the five sub-funds of Aristea SICAV, including Enhanced Cash, an advanced liquidity management fund; the multi-asset fund Global Flexible; the balanced fund Chiron Total Return; New Frontiers Equity Fund, focusing on emerging markets; and the recently launched Asian Alpha, a long-only fund focusing on South East Asian markets.

PERFORMANCE OF BANOR'S SICAV GREATER CHINA LONG SHORT EQUITY FUND



Data for class S in USD, updated to 31 October 2017.

Source: Banor Capital