LOCKDOWN & MARKETS/5 Banor's Greater China Equity fund has yielded 224% since its launch, against the 91% of the index. Here is how Krige, its star manager, intends to continue riding the rally

The dragon tamer

By Paola Valentini

Dawid Krige, manager of Banor Capital's Greater China Equity and one of the most brilliant money managers on the Chinese stock market, has produced a 224% net yield (Class S in dollars) since January 2013 when he took over the fund, compared to the 91% of the market index (MSCI Golden Dragon Index), with an annual average performance of 16.3%, nearly double the index (8.7%). It is not easy to find a money manager who has successfully beaten the benchmark for years. In the first nine months of this year, the fund (which manages 325 million dollars) achieved +33%, nearly three times more than the index (12.3%). His strategy? A concentrated portfolio based on the direct analysis of the stocks being invested in. Krige divides his time between London and Shanghai, where MFMilano Finanza reached out to him to discover which themes will guide the Asian stock market following the upturns of this year (the Shenzhen Stock Exchange jumped by 17% and Shanghai by 9%), thanks to the greater recovery following the coronavirus epidemic that began in that very region.

Greater China is part of the category of alternative funds with both short and long positions, meaning it is not found in the classifications related to Chinese stocks. In fact, Krige works for Cederberg, a hedge fund that provides consultancy services to Banor for its fund management. Which is not really a hedge fund. In fact, it has daily liquidity and a minimum access threshold of 1,000 euro. Banor is an independent asset management company (within which there is Banor Capital, a British company, and Banor SIM, based in Italy). It was founded by two Italian financial professionals who had worked as a team for over 20 years (the founder and majority shareholder is Massimiliano Cagliero from Turin—Milan's Bocconi University class of 1969 and former Goldman Sachs employee—who bought out Banor SIM in 1999 with a group of private investors).

A. What is the Fund's investment objective?

Q. The fund aims to achieve double-digit returns over rolling 10-year periods by investing in world-class companies from Greater China. We aim at giving investors exposure to the area with the fastest rate of growth in the world and some of the best companies in the world. We do this by focusing on fundamentals and on-the-ground research through our Shanghai-based analysts.

A. Which are the stock exchanges the Fund is invested in?

Q. We invest in companies from Greater China irrespective of where they are listed. The majority of the fund's holdings are Chinese companies listed in Hong Kong (37%) and in the United States (37%). It also has exposure to companies listed onshore, the so-called "A-shares" (18%). We are talking of a universe of around 6,000 names which we filter down to 150 investable stocks.

A. How do you manage the Fund?

Q. We manage the fund for the very long run by focusing on a small sub-set of high-quality companies and owning them for the very long run. The question we ask ourselves before we invest is: how confident are we that this company will not only be around ten years from now, but that it will be much more profitable than what it is today? We focus on domestic consumption, sectors like internet, health care, niche financials. China is still misunderstood by many investors and the discount in valuation between Chinese consumer champions and their Western peers tends to be very wide and tightening.

A. How did you manage to outperform the benchmark?

Q. As I said, we have a focus on companies that are driven by domestic consumption growth, which is a structural trend that we believe will continue for many years to come. The fund has direct exposure to the Chinese consumer via investments in restaurant, condiments, education and beverage companies. It also has significant exposure to internet companies such as the ecommerce companies Alibaba and Meituan, and the online games companies Tencent and NetEase. These companies have performed very well, yet we expect their long-term future remains bright. We place great pride in our on the ground due diligence. This has helped us avoiding many frauds that have affected so many of our fellow investors. Once we have established that a certain company is a true and honestly run business, we move on by assessing the company culture. We have found this to be one of the best elements by which we can judge a business' chances of success. A strong culture of respect, hard work, moral integrity helps the managers retaining the best people within the company and in so doing it allows for a better governance throughout the business.

A. Which stocks do you think will be most likely to increase their value?

Q. We believe that the consumer, healthcare and internet sectors offer great opportunities for long-term investors. Within these sectors, we have a bias for market leaders, as oftentimes the strong has a tendency to get stronger. This is especially relevant in a post-Covid world. Consumers love these one-stop-shop internet giants. Even the Chinese government is proving to be very supportive as it realises how helpful these companies can be in knowing and somehow controlling its population better. Covid in China has – so far – been beaten thanks also to a strict track-and-trace system made possible by the technology provided by consumer services platforms.

A. How is the situation in the country following COVID-19?

Q. Business as usual! Retail sales actually increased by +5% yoy in the recent Golden Week holiday period. Chinese people tend to be very resilient and disciplined. Localised lock down measures worked very well and allowed the rest of the country to resume an almost normal activity very quickly.

A. What was the lesson you learnt from COVID?

Q. The cream always rises to the top i.e. crises tend to make strong companies stronger! The Chinese government now relies even more on the internet giants we have in our portfolio as they are providing the tools and data to monitor and contain the virus.

A. Do you think investing in Chinese equities is a good opportunity?

Q. Chinese equities offer rare opportunities in a world where most asset classes are fairly priced or expensive. Allocations to the region by global investors tend to be less than 5%, yet over time its weighting in global indices could grow to 30% or even more. Also, the idea of country risk will be reviewed. However, the asset class is only suitable for long-term investors, as it can be highly volatile: in the past 25 years, Chinese equities have suffered declines greater than 50% on three occasions.