

'What has been brilliant for us is the gross mismanagement and incompetence of the vast majority of our competitors'

Michael Kerr-Dineen, head of Laing & Cruickshank, speaks his mind on the old English stockbroker's rivals  
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## Keeping a tight rein on quality control standards

Yang Liu insists on having first-hand knowledge of the companies she picks and the results are above-average returns. **Tony Tassell reports**

The father of Yang Liu never imagined his daughter would become one of China's hottest fund managers.

A graduate of the country's top school and an expert in the socialist economies of Hungary and Russia, her father's life has been rooted in the Communist Party. "He told me that he never dreamed I would make many times more money than him," says Ms Liu.

But, like her investors, he is starting to catch on to his daughter's stockpicking skills. The Atlantic China Fund she launched on the day Iraq was invaded, March 19, has been one of the Chinese market's strongest performers this year.

The fund's net asset value is up 63.2 per cent in dollar terms from launch to November 19, compared with a 47.95 per cent gain for the MSCI China Free index. The

size of the fund has swelled from \$18m (£11m) to \$75m.

Ms Liu says it was "terrible, horrible timing" for the launch, with sentiment at a low ebb amid concerns about the threat of an overheating Chinese economy and poor corporate governance.

"Very few people believed I could deliver good returns," she says. "However, if you follow the market for a long time, if you understand the company background and who is managing the businesses, you can always find good companies. Every society is the same."

The Hong Kong-based fund manager started her career with China International Trust and Investment Corporation, the financial services conglomerate. In the first five years, she worked as a project manager before spending nine years as an

Australia-based fund manager in a joint venture between Citic and Colonial First State.

The New Era PRC Fund that Ms Liu managed for the joint venture rose 184 per cent over the three years to March 31 2002 compared with a 40.76 per cent fall in the MSCI China Free index. But last year she was tempted to join Atlantis Investment Management, a specialist Asian boutique.

Ms Liu takes a bottom-up approach to stockpicking, eschewing benchmarks to focus on absolute returns. A core group of about 40 holdings comprises 70 per cent of the fund.

To qualify for this group, companies have to be delivering a return on equity above 20 per cent, producing a dividend yield of more than 4 per cent and have a five-year operating history.

Typically, she also targets stocks with price-earnings ratios of six or seven, or less.

The companies must also be market leaders with quality management. Ms Liu prefers small to mid-sized companies that benefit from the boom in domestic consumption rather than exporters, which are more subject to vicious competition.

"This is where I add value, I don't buy China Mobile, I don't buy Petrochina. International investors can access these big companies and get research from any of the stockbroking houses," she says.

Regular company visits are a key part of Ms Liu's approach, often assessing firms well before initial public offerings. In the past, Ms Liu says she was forced to trade stocks over a three-year cycle.

"You could not buy and hold. It was always buy and sell," she says. "The Chinese investment cycle is three years. The first year earn-



Yang Liu: regular company visits are part of her approach Jim Winslett

ings are established; in the second, market share and margins are improved; and in the third year, the competition really hits. That is when it is time to sell."

However, Ms Liu says that this year there has been a shift brought about by improving consistency and

quality of earnings. This is making it easier to buy and hold.

"We believe the investment case for China is gaining wider recognition as China is rapidly taking centre stage as the global workshop for most industrial product categories."