



Yang Liu: 'If you really follow the market for a long time, if you understand the company . . . you can always find good companies. Every society is the same'

Jim Winslet

# Putting faith in her Chinese roots

HK fund manager picks companies with domestic appeal, writes Tony Tassell

The father of Yang Liu never envisaged 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, father has led a life rooted in the Communist Party. "He told me that he never dreamed I would make many times more money than him. He never dreamt I would buy a big house for him in Beijing like I have," says Ms Liu.

But he is starting to catch

on, just as investors have to Ms Liu's stockpicking skills. The Atlantic China Fund she launched on the day Iraq was invaded on March 19 has been one of the Chinese market's strongest performers this year.

The funds' net asset value is up 63.2 per cent in US 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 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. "But if

you really 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 she spent nine years as an Australian-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 by 184 per cent in US dollar terms over the three years to March 31 2002 compared with a 40.76 per cent fall in MSCI China Free index. But, she was tempted to join Atlantis Investment Management, a specialist Asian boutique, last year.

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

To qualify for this group, companies have to be delivering 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 to seven times 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 export earnings more subject to stiff 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 earnings are established, 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 this year there has been a market shift brought about by improving consistency and quality of earnings. This is

making it easier to buy and hold. "There is an increasingly belief in the fundamentals of Chinese companies," she says.

"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."

## Atlantis China Fund

Top ten holdings	% of net assets	Asset allocation by share class As at Sep 30 2003, %
Chaoda Modern Agriculture	5.3	Cash 5.7
Baoye	4.9	H shares
Beijing Capital Land	4.0	China B shares
Angang New Steel	3.9	P-chips
China Shipping	3.7	37.2
China Overseas Land & Investment	3.6	15.1
COFCO International	3.6	17.9
China International Marine Containers	3.3	24.1
Brilliance China Automotive	3.3	Redchips
Weifu High Technology	3.3	

Source: company