Star manager: Yang Liu

RIDING CHINA'S HEALTHCARE BOOM

Dubbed the 'female Warren Buffett' for her astute reading of the Chinese government's healthcare policies, Atlantis Investment's Yang Liu is a force to be reckoned with. She explains to **Chris Sloley** why this is one investment story that will run and run

The first person who will live comfortably to the age of 150 is already alive.

At least according to research from geneticists such as Dr Aubrey Grey, who say advances in technology, medicine, security and diet could prolong life to new limits.

For a species which has seen life expectancy rise from around 30 in medieval Europe to a worldwide average of 67 in 2010, this is quite a leap. Imagine a further 83 years on top of this figure; a whole second life to live perhaps.

However, for some, this is still not enough.

'I have 10 houses, three cars and five maids and I want to live longer and longer, so what we need is healthcare. The sky is the limit when it comes to healthcare investing,' says Yang Liu, the chairman and CIO at Atlantis Investment Management.

The Hong Kong-based investor has a reputation for being a vigorous advocate of opportunities arising from China's healthcare story. The former First State Investments fund manager believes the Chinese are belatedly focusing their considerable efforts in this field.

'It was an underused area, so the Chinese government started to focus on the policy side implementing reforms. This meant healthcare was a long-term, sustainable story tied in with the consumption and growth trend.

'We took advantage of developments in the healthcare sector, it has gone from a market cap of 60 million yuan to around 45 billion yuan.

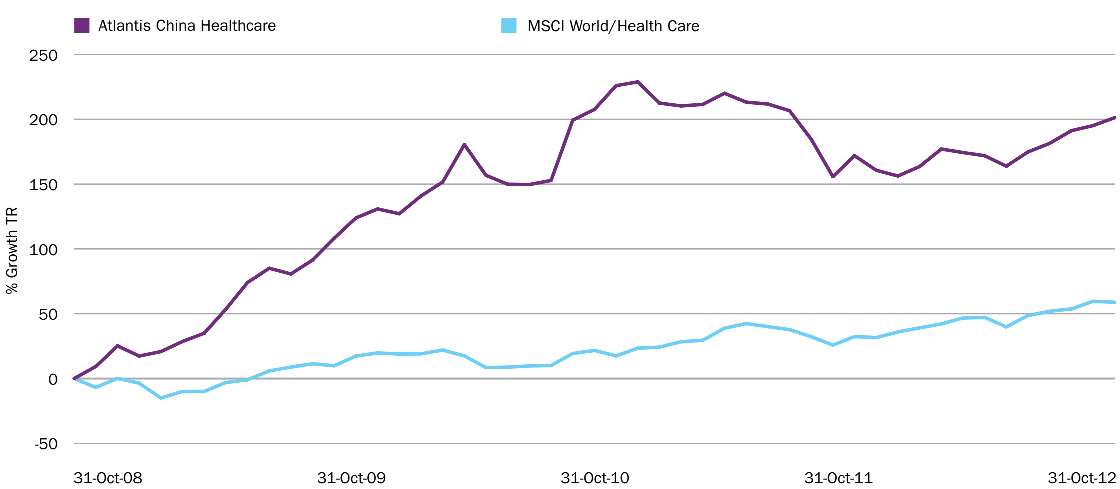
'It was also seen as a global emerging market, so many investors rubbished the idea at first. They were risk averse and now we are home to leading global names. That's a miracle.'

This 'miracle' has propelled performance in Liu's $53 million Atlantis China Healthcare fund, one of three funds she runs on behalf of the investment firm (see graphs next page).

The formerly AA-rated manager has blazed an impressive trail over the past four years – which marks her strongest period of outperformance. Liu returned 201% in US dollar terms in the four years to the end of October 2012, while the MSCI World/Health Care index rose 59%.

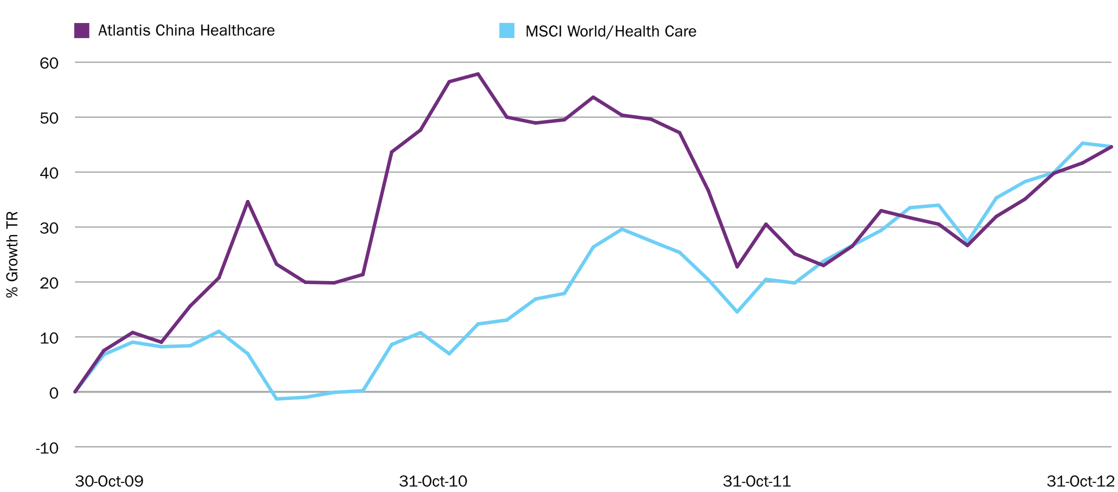
Star manager

LIU'S VISION HELPED HER TO MASSIVELY OUTPERFORM…



SOURCE (BOTH GRAPHS): Lipper

… BUT THE INDEX HAS CAUGHT UP



Her lead has closed significantly over the three-year time horizon which suggests the market has finally caught up with her.

Nevertheless, Liu sees no sign of this growth story slowing even as China enters a period of structural change.

The sheer scale of the government's plans guarantees future investment, says Liu. This is despite the transition in leadership at the top of the Chinese government and also the much-discussed slowing of the country's unparalleled economic growth.

'Eventually, the goal is for the Chinese medical system to cover the whole population of China; both rural and urban. We don't have to worry about a risk in Chinese growth slowing, as the demand for healthcare is still there and, in fact, the growth model actually requires it.'

Liu, who has been dubbed the 'female Warren Buffett' by Bloomberg, is well known for her strong personality and gives my next question short shrift: is investment in China's healthcare sector insulated from the country's slowing growth?

'My job is to go to investors with good companies to invest in. I don't care about slow growth. I want to tell our investors that this is the best time to be investing in this sector. This is where I made my fortune.'

No flash in the pan

Liu says her strategy is not some reactive play to a sudden surge of government interest in this area. She developed a healthcare-centric approach on joining Atlantis in 2002, as she saw this as a major area of reform for the Chinese people.

'From 2004/05, the Chinese government focused intently on reform in healthcare, it was always viewed as being behind exports, industrial production and commodities, in terms of government priorities, but all that has changed.

'When Wall Street collapsed in 2008/09, there was a feeling in China that the government really had to look at a new growth model, a new engine for growth. So 2009 was when healthcare was really pushed to the top of the agenda.'

The government embarked on an 800 million yuan ($135 billion) reform drive for the health sector and this was cemented as a core tenet of the 12th Five Year Plan. According to Liu, this built on an already substantial investment by the government.

'Government spending in healthcare increased by 37% year-on-year between 2006 and 2010.

'In the next five years we expect this to be 25-30%, so slightly down but still among the highest in the world. It is still massive news.'

Liu says she was able to draw on her years of experience in the sector when pinpointing which areas would benefit most from the expansive reform plans. This, she says, sets her apart from new investors entering the Chinese healthcare market.

'There has been a lot of interest lately and I don't mind the competition, as I will continue to find global names that are very good,' she says.

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'We have a deep knowledge of the market and we invest in a lot of Chinese-listed companies. There are Chinese healthcare names listed in the US but they tend to be the ones that are most affected by headlines or negative press,' she says.

Screening out these types of companies Liu says is complemented by her concentrated investment approach.

'I operate with a relatively low turnover – in the past five years it has been very low. In fact, if you look at the top five or even the top 10 stocks in my fund, they have been in place for at least five years. In the last five years, healthcare earnings growth has increased by about 25%.

'We focus broadly on three areas: drugs; medical devices, equipment and appliances; and services or distribution for the drugs. We are looking all the way across the supply chain, as the entire value chain is being reformed under Chinese government policy.'

Liu's broad-ranging strategy leaves 20% available for trading in order to take advantage of IPOs or other cyclical plays. Most recently, she has taken a closer look at life insurance names, as well as allocating 10% to other tangential elements of healthcare.

'I can allocate to healthcare-related names, such as water treatment or air pollution. We even invested in women's cosmetic products, which gives you an idea of what healthcare covers.'

Driving strategies

However, at the core of Liu's investment approach is a focus on pharmaceutical names, which currently make up over one third of the fund's allocation by sector.

Among these are significant positions in China's largest pharmaceuticals distributor Sinopharm as well as gynaecology specialist Hua Han Biopharmaceutical.

One area where Liu has a definite edge over her competitors is in the traditional Chinese medicine (TCM) sector. Liu, who has allocated 14% of her fund to these names such as TCM producer Yunnan Baiyao, says she has benefitted from significant year-on-year profit, which rose 28% in 2012.

However, the sector Liu is most interested in is biotechnology – an area she says where China can take on board existing methods in the Western world and adapt them to meet the needs of Chinese people and the Chinese healthcare system.

'Here we would look to what Switzerland is doing, for example, and also the breakthroughs on new research and bio-pharma,' she says.

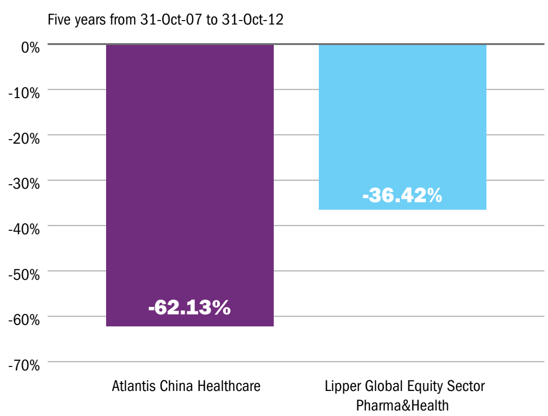
Liu points to stem-cell research and other advances which have come to the fore in recent history.

However, not all areas of the healthcare story capture Liu's imagination in the same way. One case in point is the country's hospital system, which Liu says is a particularly difficult area of investment.

'The hospital sector is huge,' says Liu. 'The local government structure is proving a problem, as it clashes with central government policy, and there are still difficult issues about building ownership, for example.'

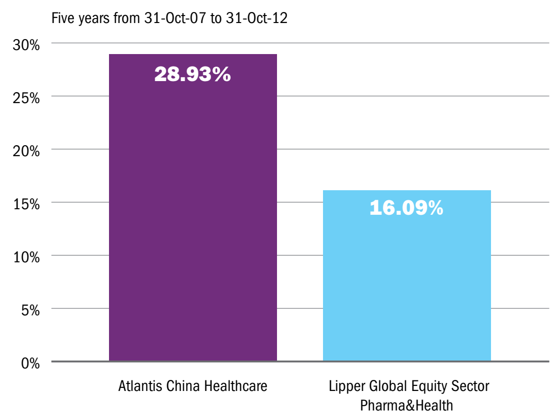
MAXIMUM DRAWDOWN

SOURCE: Citywire



STANDARD DEVIATION

SOURCE: Citywire



This concern is widely shared. A recent report from professional services firm KPMG for example, highlighted reform of hospitals at a grassroots level as a major priority which the government needs to tackle within its healthcare policies.

High profile performer

Liu's performance coupled with her reputation as an opinionated market commentator has attracted plenty of attention. This ranges from regular talking-head appearances on financial news networks around the globe to sitting at the top of Citywire Global's own countdown of most popular fund managers.

This analysis, which was based on the most-read fund manager factsheets in the six months to July 2012, saw Liu beat famed bond investor Michael Hasenstab and veteran fund manager Edouard Carmignac to top spot.

Liu is nonplussed when told of this pre-eminence but suggests this could be a sign of increasing interest in China's investment opportunities. She says there is currently only a fleeting attempt to really understand the dynamics of the Chinese market but this is changing.

'To be honest, I think the difference between the West and the East is narrowing but I don't think that investment companies have taken the time understand China properly yet,' she says. 'But I would say only 10% view it as a long-term bet and 90% of investors do not have long-term confidence and move in and out quite a lot.

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'I also find a lot of investors' knowledge about China is underdeveloped and they are more likely to be risk averse and negative, we have been investing for so long we know where the value is.'

This emphasis on value, market knowledge and experience in the sector are, Liu says, the main drivers of her fund's performance and look set to form the cornerstone of her strategy for years to come. If she has her way, this could stretch far, far into the future.' ●

CITYWIRE VERDICT

It's clear from the risk metrics that Liu has taken on more risk than the global pharmaceuticals index, with higher volatility and sharper drawdowns. However, this isn't surprising given her focus on Chinese companies. These businesses are inherently more volatile than the predominantly Western-listed pharmaceutical giants that dominate the healthcare space.

While some may point to the fact that healthcare has lagged the broad index, the disconnect hasn't been as pronounced as this. However, when you factor in the poor performance of Chinese equities, it's clear to see where Liu's short-term underperformance has come from. The growing bias towards Asian-listed Chinese companies over the last few years has more closely aligned the performance of her fund with the Chinese stock market, and therefore increased the volatility.

Frank Talbot, Senior Investment Analyst