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Opalesque Exclusive: Some China funds are doing well as A-share market is recovering

By Benedicte Gravrand, Opalesque London:

Even as most emerging markets are expected to go through much slower growth this year, some analysts believe China might keep up at good pace at a - slower but still high - growth rate of 6.5% this year, partly due to its huge reserves and its fiscal stimulus plans. Premier Wen Jiabao confirmed this month that he would broaden efforts to keep the economic growth rate at 8%. If the rate falls below 6.5%, that may signal a recession in Chinese terms, according to State Street.

However China exports plunged 25.7% from a year earlier in February according to the Chinese customs agency. And foreign investment in China - which rose by 23.6% in 2008 to $92.4bn - fell in January and February to $13.3bn (GBP9.5bn), a drop of 26.2% from the same period a year ago, reported the BBC on Monday.

Still, there are some strong believers in China's strength. Chinese stocks are likely to emerge as strong performers in 2009 said Mohamed El-Erian, CEO of the largest bond fund house PIMCO, to Reuters recently.

UBS recently claimed that Chinese mainland stocks offered one of the most attractive opportunities for investors in Asia.

Further, San Francisco-based law firm Pillsbury Winthrop Shaw Pittman argued in a recent report that although the financial crisis had generally affected all countries, China had been relatively insulated from much of the housing, credit and financial crises. China, which recently surpassed Germany to become the world's third largest economy, remains one of the few countries that may still offer attractive opportunities for private equity and venture capital investments.

China is an attractive top down market

China's fiscal strength has rightly attracted favour from investors in recent months, said Frances Dydasco, portfolio manager of the Asia ex-Japan strategy at T Rowe Price, an international investment management company. From a top down perspective China appears very attractive compared to almost anywhere else globally. Whilst growth has slowed sharply, it should remain very robust in a global context.

However, China needs to wean itself off a dependence on exports and over-investment and focus more on boosting consumption, argued Dydasco. This process requires more government spending to improve social safety - low cost housing, healthcare, pensions etc and this is not something that can be achieved overnight.

In the meantime, some Chinese companies, particularly state owned enterprises, may disappoint the market on earnings as they are 'encouraged' to share the pain of this transition. As a result T Rowe Price favours private sector companies whether they are in the consumer sectors, media/internet or industrials.

Some China funds may be recovering

Hedge funds which were riding the China bull train fell to earth with a bang last year as stocks declined sharply.

The Eurekahedge Greater China Hedge Fund Index returned almost +54% in 2007, -24% in 2008 and +0.53% (est.) YTD. And the Eurekahedge Asian Hedge Fund Index returned +18% in 2007, -21% in 2008, and -2.17% (est.) YTD.

On the downside, research firm HFN reported in January than there would be more China fund liquidations in 2009, as high watermark provisions might put an end to those funds that cannot get by on management fees alone (usually 1% to 2% of AuM). The consulting group GFIA estimated that at least 80% of established managers in Asia had fallen below their high watermark in 2008.

Opalesque was forwarded details about a couple of China hedge funds that are showing signs of recovery; these funds are quite dependent on the equity markets, and the China A-share market seems to correlate in their recovery.

A shares are traded on the Shanghai and Shenzhen stock exchanges in Renminbi, China's currency, whereas B shares are traded in foreign currencies. H shares are mainland China shares traded on the Hong Kong Stock Exchange.

The $38m **APS China Alpha** fund returned +2.71% (gross) in Feb-09, +8.36% YTD and -20.26% since its July-08 inception.

China A-shares managed to finish February in the positive territory after a volatile month, according to APS's report. The Shanghai A-share index gained 4.63% in the month, and Shenzhen advanced by 10.32%.

The investment objective of the fund is to achieve its returns through investment in Chinese A Shares, and (where feasible) shares of companies established or operating in the PRC which are listed on the stock markets of Taiwan, Hong Kong and Singapore. The fund may build up short positions from time to time in order to hedge part of its exposure to the mainland Chinese stock markets. It is managed by Singapore-based APS Asset Management Pte Ltd.

APS was awarded Best China Equity (3-year) Manager by Asia Asset Management at its awards gala last Friday. According to APS, the sentiments on China expressed were positive and many are bullish on the China A-share market for 2009.

The **BM Greater China Asia Fund II Ltd** gained 6.3% in January 2009 despite continued declines for all Asian markets except China A Shares. Early estimates show that the fund is up an estimated 4.2% through February 23, 2009. Since inception in March 2004, the strategy has gained 71.9%.

According to the monthly report, the China A-share market had a strong start for the year while Hong Kong and Taiwan followed the rest of the market sell-offs. For the month of January, China A-shares was up 9%, while Hong Kong and Taiwan was down 8% each.

The fund's objective is to achieve long-term capital gains with absolute risk adjusted returns through access to mainly Asian equity and derivatives markets, by investing in a diversified portfolio of equities and derivatives. It is managed by Hong Kong-based Bridge Partners Investment Management Limited.

Related Article: **China best BRIC to emerge from slump: Schroders**
From Reuters.com: China is best placed among major emerging markets to rebound from the global slump, but the so-called BRICs in general have a better medium-term outlook than developed markets, UK fund manager Schroders believes.

Speaking to Reuters in London last week, fund manager Waj Hashimi said his Brazil, Russia, India and China (BRICs) fund was cautious about the short term, but saw little in the future to detract from what has been a major investment play. "BRICs look medium term better than developed," he said. "Longer-term, we know it is a strong theme."...Full article:

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