APS Asset Management

Bottom-up investing to win in China

With many China-focused investment platforms content to follow the macro growth story, Singapore-based APS Asset Management has achieved performance that has made it a winner of the Best of the Best Performance Award for China Equity (Shanghai A-share Index) for the fifth year running by applying principles that Warren Buffett would happily endorse – painstaking bottom-up analysis of individual companies to ferret out the undervalued gems. These principles, argues James Liu, Deputy Chairman and Deputy CIO of APS, enable it to target businesses that could perform well under the changing business environments – and deliver added performance through their engagement with the growth drivers of China's economy.

James Liu

"APS is a pure stock picker," Mr. Liu affirms. "We don't spend much time and resources on macro forecasts. We would rather put more efforts and resources at a company level, by talking to companies, their suppliers, clients and competitors."

This investment style demands a big commitment in man-hours, personnel and resources. Mr. Liu notes that APS visits 60-70 companies per year on top of the visits they conduct to the existing portfolio companies they own , and has 11 investment staff focused on China, with a head office in Shanghai and two branch offices in Beijing and Shenzhen. "There's a combination of local analysts, plus the overseas trained investment professionals," he notes. And while the company eschews broad macro forecasting as a guide to successful investing, APS does identify and follow sectoral themes to capture the alpha attainable from China's growth. "Given our bottom-up approach, we spend a lot of time on the mid- to long-term structural changes in China, and make our bets on some of these core themes," Mr. Liu says, singling out rising domestic consumption, environmental protection, and value-added manufacturing in particular.

The approach can also continue to generate alpha when the market climate turns less favourable. In 2010, Mr. Liu points out, Shanghai was one of the world's worst performing stock markets. "The market for China A shares was really challenging," he notes. "And yet, GDP managed to grow by 10.3% in the year. Many investors were seriously confused."

With the unique structural peculiarities of China's stock markets likely to continue to deliver such counter-intuitive results, value investing offers clarity and greater certainty of returns, in Mr. Liu's view. "Our picks have limited downside. It is always our belief that we should try not to lose money for our clients. We would like to buy companies that are traded way below their intrinsic value and even in a difficult market, they can continue to outperform their peers."

APS typically makes a small number of carefully diligenced bets. "The number of holdings has always been fairly concentrated," says Mr. Liu. "Usually we hold 30-35 names. We want to know each of the stocks well." Once in an investment, APS continues to monitor the business carefully, with twice-yearly visits to core holdings and quarterly conference calls with all investee companies. And part of the initial investment thesis is to select companies with competent management who are motivated to perform and can be trusted to build the business themselves.

"We want the interests of the management, and minority and majority shareholders to be aligned," says Mr. Liu, highlighting the old Chinese management style familiar from SOEs where managers were simply employees with no motivation to perform. Instead, APS chooses businesses where "stock options or management incentive schemes are put in place, and the management are people who are capable people who really understand their business."

APS does sometimes also withdraw from a business on sectoral or other grounds. Mr. Liu notes that it sold out of most exporters over the past couple of years: "We think that China has more or less lost its export growth engine, given the dismal picture in the more developed economies." He also cites healthcare: "even though we still like the sector, the valuation is just too stretched." But the more positive sectoral stories offer promise of plentiful alpha to come. Mr. Liu instances the push for industrial upgrading and higher-value manufacturing emerging from the Chinese government's latest five-year plan. "This is not going to last for a year or two: it could last for five to ten years, or even longer." ■

Asia Asset Management

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	5 Years	Lyxor Asset Management
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	5 Years	Amundi Hong Kong Limited
Global Bonds: Hedged	3 Years	Standish Mellon Asset Management
	5 Years	Standish Mellon Asset Management
Global Bonds: Unhedged	3 Years	Amundi Hong Kong Limited
	5 Years	Franklin Templeton Investments
US High Yield Bonds	3 Years	AXA Investment Managers
	5 Years	AXA Investment Managers
Global Equity	3 Years	Manulife Asset Management
	5 Years	Manulife Asset Management
US Large Cap Equity	3 Years	RCM Asia-Pacific Limited
	5 Years	BNP Paribas Investment Partners
US Small Cap Equity	3 Years	Pyramis Global Advisors
	5 Years	Pyramis Global Advisors
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	5 Years	Penjing Asset Management Limited
Global Emerging Markets Equity	3 Years	First State Investments
	5 Years	AGF Investments Inc.
Greater China Region Equity	3 Years	Value Partners Limited
	5 Years	Harvest Global Investments Limited
China Equity	3 Years	China Asset Management Co., Ltd.
	5 Years	APS Asset Management Pte Ltd
SRI/Sustainable Investing	3 Years	Goldman Sachs Asset Management
	5 Years	Impax Asset Management
ASEAN Equity	3 Years	Pheim Asset Management (Asia) Pte Ltd
	5 Years	Pheim Asset Management (Asia) Pte Ltd


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