DANIEL'S TOUR OF CHINA

September 2018

HAWKSMOOR
FUND MANAGERS

CONCLUSION

On returning to the UK, Daniel was optimistic that on a medium to long-term view, China would be a positive source of returns for the Hawksmoor Funds, at a time when developed markets are losing their lustre for a number of reasons. That said, there are near term risks as the government is deliberately seeking to slow down the property market and clamp down on the shadow banking sector, while at the same time facing a hit to gross domestic product (GDP) from the trade war with the US and concerns are building that its heavy influence in capital markets is crowding out the private companies. All of this is likely to create negative headlines and "told you so" research notes.

It is impossible to analyse the Chinese economy the same way as other developed economies where capitalist market forces dominate the effect of authorities' influence. GDP growth is the obvious barometer of China's health and it is definitely going to slow down and trend towards that of more mature markets so we should expect the current 6.7% to fall towards 6.5-6.2% this year. Then it should trend towards 5% in 3-5 years and ultimately 3% in 10 years in line with growth rates in the US and Europe. It cannot grow at 8% every year now that it is such a huge economy and 5% off a much larger base is obviously better than 8% off a smaller economy. Policy error is therefore the biggest risk if the authorities overdo the regulation and reduce demand for property too much and slow the economy too much, and then resort to monetary stimulus to boost it.

No one seemed overly worried about the concerns we often read about such as the US trade war, debt levels, property prices, corporate governance, shadow banking, financial crisis etc, but no one was outright bullish either.

The case for investing in Asian bonds (Muzinich Asia Credit Opportunities) was reinforced given the companies seeking dollar funding are equivalent in size to our own largest companies with huge revenues, profits and cash in the bank, even if we haven't heard of them. Their reasons for issuing in dollars are rational as they are matching overseas assets, earnings or ambitions, or simply for diversification purposes.

Hawksmoor Fund Managers have preferred to gain exposure to China via actively managed Asian and Emerging Markets Funds, for both equity and bond allocations, rather than utilising a dedicated China fund. On returning to the UK, Daniel felt on balance that the Funds' exposure was sufficient considering the near term risks if sentiment remained negative. Following the sell-off in October, the team is reviewing this position.

If you have enjoyed this series and would like to know more about investment opportunities via the Hawksmoor Vanbrugh, Distribution and Global Opportunities Funds, please get in touch with David Chapman using the details below:

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AGENDA

24th September - Hong Kong

- Head of Moody's China
- Moody's Asia Property
- Kaisa Group Holdings (Property Developer)
- BNP Paribas top ranked China strategist
- Agile Group (Property Developer)
- Gleneagles Hospital (Private Hospital)
- Head of Moody's South East Asia
- Deutsche Chief Economist
- Deutsche Asia Chief Economist

25th September - Shenzen

- Shenzhen Investment Holdings (State Owned Property Developer)
- Shenzen Investment Holdings' new science park
- Huawei headquarters and innovation centre (technology company)
- SF Holdings distribution centre (logistics company)

26th September - Shanghai

- Fosun International (conglomerate)
- Greenland Holding Group (State Owned Property company)
- Shui On Properties (Property Developer)
- Xintiandi – new mixed use retail/ dining centre developed by Shui On
- Yingde Gas (industrial gas producer, owned by private equity)

27th September - Beijing

- Metallurgical Group (State Owned Steel producer)
- Aluminium Corporation of China (State Owned Aluminium producer)
- Orient Advisers (State Owned Asset Management Co.)

28th September - Beijing

- Bank of China (State Owned Bank)
- Lenovo campus and technology centre