ADVERTISEMENT FEATURE

FULLERTON FUND MANAGEMENT

INVESTING IN CHINA'S NEW ERA

China's structural move towards consumption-driven and higher quality growth is well underway. Financial deleveraging targeted at addressing the imbalances created by the proliferation of wealth management products issued by banks, and off-balance sheet shadow banking loans, continue apace. However, authorities have been mindful not to over-tighten liquidity conditions, so as not to crimp growth.

At the same time, the shift towards the development of China into a global technology and innovation hub, also rank high on the policy agenda, providing other potential growth drivers over the long term.

INTERNATIONALISATION OF CHINA'S CAPITAL MARKETS

The Chinese authorities are also stepping up the pace of financial integration with the global market, and the government has forged ahead with reforms to open China's capital markets and improve market access for foreign investors.

The eventual full inclusion of China A shares and local currency Chinese bonds into the MSCI Emerging Market index, and the Bloomberg Barclays Global Aggregate Index, respectively, will accelerate the internationalisation of China's onshore capital markets. In turn, the allocation of Chinese equities and bonds within dedicated emerging market equity portfolios and global asset allocation investments will only increase. Over time, these should lead to improvements in areas including corporate governance, market access and liquidity, which can only be good news for market participants.

Having spent over a decade investing in China, Fullerton Fund Management ("Fullerton") has participated in – and benefitted from – China's growth. Fullerton's on-the-ground team in Shanghai, China, with their in-depth knowledge of local factors, provides the necessary expertise in identifying potential profitable investment opportunities. The Shanghai team is fully integrated with the broader investment team based in Singapore.

STOCK PICKING IS KEY

Fullerton's Equities team has been managing offshore China equities since 2003, and started their first China A-share strategy in 2006. The team manages US$875 million across both China A-shares and All China equities (as at end March 2018).

Fullerton's early mover status has enabled the investment team to establish a strong 12-year track record in China A Share equities. As at end April 2018, Fullerton's China A Share Equity strategy has generated an annualised net return of 17.3% in USD terms since inception (31 May 2006), outperforming the MSCI China A Onshore Net Index by 6.4%.

The stellar track record has been recognised with a notable industry accolade – Fullerton's China A share strategy won the Fund of the Year award in the China A-Share Equity (10 Years) category of Asia Asset Management's Best of the Best Awards 2016.

Fullerton's Equities team believes that rigorous, bottom-up fundamental research, coupled with a close scrutiny of management quality and governance, are necessary to successfully invest in the often volatile waters of the mainland stock markets. In addition to bottom-up stock picking, which remains the main alpha driver, the team also seeks to invest in sectors that have structural growth potential in China, such as internet companies and technology-based industries.

'NEW ECONOMY' OFFERS OPPORTUNITIES

By now, China's ambitions to be a global leader in technology and innovation are well telegraphed. The central government has made it a top priority for China to be the world's dominant player in artificial intelligence (AI) by 2030, according to a State Council guideline issued in July 2017.

China's 'new economy' companies are also flourishing. Technology and e-commerce giants such as Tencent and Alibaba are recognised today as global leaders and innovators in their field. Opportunities also abound in the A-share market, as lesser-known but well-run companies are fast becoming market leaders in their respective segments.

Given the growing number of listed Chinese tech companies available to investors, Fullerton believes that bottom-up stock picking, based on bottom-up fundamental research and a deep understanding of the companies, will be the differentiating factor in picking select 'winners' within this crowded space.

An example of a 'winner' the team is invested in is a Hangzhou-based provider of innovative video surveillance products and solutions. With AI driving the video surveillance industry's third upgrade cycle, the team believes that the company's revenue growth will outpace that of the industry, given its market leader status in terms of R&D capabilities and market share.

CHINA'S BOND MARKETS – TOO LARGE TO IGNORE

Away from the equity markets, China's efforts to open up the bond market have paid off, and investors are now paying close attention to the US$11 trillion bond market, the third largest in the world. International investors are increasingly drawn to the relatively high yields while the RMB has been largely stable.

Over the longer term, the structural story for the China onshore bond market remains compelling. Ongoing reforms to foster a more attractive environment for investors, and well-coordinated policy execution to deliver economic growth, provide structural support for Chinese onshore bonds.

Fullerton's highly-experienced Fixed Income team has been managing both onshore and offshore RMB Bonds since 2010, and is one of the pioneer managers for offshore RMB bond funds. Fullerton has a strong track record in managing Chinese bonds. Both the RMB Bond Strategy and Onshore Bond Strategy have delivered consistent returns over the years. As at end April 2018, Fullerton's RMB Bond strategy has generated an annualised net return of 4.9% in USD terms since inception (30 November 2010). Fullerton's Onshore Bond strategy has delivered an annualised net return of 2.4% since inception (31 July 2013).

Fullerton's investment expertise in onshore and offshore bonds is equally well regarded, and has been recognised with numerous industry accolades, including Best Singapore Group – Bonds Chinese Yuan category of the Citywire Asia Awards 2018.

TRUSTED STEWARD WITH PROVEN TRACK RECORD

As an early mover, Fullerton has built a solid on-the-ground presence in China since 2007, offering local knowledge and investment expertise.

Over the years, Fullerton has grown alongside China as the country evolved its regulatory space. In 2012, Fullerton was awarded its QFII licence. Significantly, Fullerton was the first Asian fund house to successfully receive Private Fund Management (PFM) approval from the Asset Management Association of China, in 2017.

In their view, the continued opening up of China offers unprecedented investment opportunities for investors seeking to participate in the country's growth, through its fast growing equity and bond markets.