CITYWIRE SELECTOR

Artisan Partners launches post-venture China strategy for Tiffany Hsiao

The portfolio manager's new strategy will be able to invest up to 15% in private markets.

By **MARGARYTA KIRAKOSIAN** / 18 JUNE, 2021

Artisan Partners has launched a Chinese equity strategy for recent recruit Tiffany Hsiao and her team, Citywire Selector has learned.

The Artisan China Post-Venture Strategy invests in 20 to 40 high-growth companies in the small- and mid-cap space.

Speaking to Citywire Selector, Hsiao said the idea of post-venture opportunities has always been part of her investment process, as she specializes in finding next generation disruptors and innovators at the stage where they are young and under researched.

'We build the relationship with the management over time to see how we can help them grow and don't really make investments until they are entering the post-venture space,' she said.

'We don't allocate to the firms that have an idea on a napkin, we want to help them execute along the way and reach scale.'

The strategy will be able to allocate up to 15% of the portfolio to private assets. Hsiao said the firm is not planning to launch a UCITS version in the immediate future.

'I've always looked at small businesses that are still private. This is our edge and we decided to incorporate that aspect into our product, so our shareholders can really benefit from the step-up in valuation between private and public markets.'

Sectors in focus

The primary benchmark of the strategy is the MSCI China SMID Cap index, however Hsiao's portfolio differs in terms of the sector allocations. For example, she is underweight real estate, which is a big share of the index, as she said the sector is very heavily regulated.

'The government just simply doesn't want real estate companies to continue to borrow and leverage up. Prior to last year, it was really cleaning up the small and medium-size real estate developers. But then they started targeting even the top developers in China,' she added.

Meanwhile, Hsiao is overweight in the IT sector, which is the biggest exposure of the strategy for the moment at 37.9%. 'We see a lot of these companies using technology to solve problems for the government, be it improved productivity of semiconductor self-sufficiency.'

One area Hsiao and her team are focusing on is healthcare, as every year healthcare spending in China exceeds $200bn.

'China's latest census came out last month and the country is facing population decline in the next decade. The ageing of the population will result in much higher healthcare costs and if there's no innovation – it is going to be a very burdensome outcome for public health.'

Hsiao said her team look at companies fulfilling large unmet needs, whether it's different types of cancer treatments, biological or chemical drugs, surgical robots or the next generation diagnostic kits.

'When we look at the clinical data, China has a very robust and systematic process in terms of getting therapies to the market.'

She added that a lot of global clinical trials are run in the country right now, which is something that the rest of the world might benefit from going forward.

Smart mobility and retail investing

Hsiao said electric vehicles remain one of the brightest growth spots in China.

The team's research showed that the peak of the semiconductor shortage has now passed and the supply situation should be much smoother in the second half of this year.

'Smart mobility continues to look very promising, the valuations are very reasonable and we're happy to increase our exposures there,' Hsiao said.

She admitted that the sector is not without its controversies and if you look at it as an outsider - it might come across as crowded. However, a more detailed view shows the underlying DNA of these companies, which is very clear who's going to be the long-term winner.

'A lot of the domestic competitors in the space are piecing together their cars using parts provided by different vendors. This is just not a viable long-term strategy, because you have no quality control.

'The type of companies that we have are very integrated, they have their own software, industrial design and direct-to-consumer sales channels. Every single key aspect of being successful is controlled internally, which makes a big difference.'

All-China approach

Although the new strategy is an all-China portfolio, 52% of it is invested in Hong Kong-listed shares, as Hsiao said there is better risk-reward in the space.

'A-shares is a very large universe and we continue to do a lot of work there, but the problem is that the regulatory policies keep on changing.'

Hsiao said that two years ago the Chinese government introduced a programme in Shanghai to encourage smaller, innovative companies to access public markets. However, in 2020 the progress has stalled.

'You need certainty and consistency in the capital expansion process. That's why we've advised a lot of the more innovative, disruptive companies on the path to IPO to list in Hong Kong.'

Retail investors upswing

When asked about the outlook for Chinese equities at large, Hsiao said the participation of retail investors has increased significantly. This is due to people having a lot of spare time on their hands due to Covid and extra cash from the expansive monetary policy of the government.

'While I think it's great that people are interested in investing for the future, there may be some short-term volatility caused by this new force in the market, as they are the incremental buyers and setting the price.'

She added that this development is something that her team is mindful of, although their strategy should be relatively immune to it.

'Hopefully we will be unfazed by headline news and continue to find next generation disruptors at very attractive valuations, because they're still relative unnoticed even by this new army of investors,' Hsiao said.

Tiffany Hsiao is the portfolio manager of the Artisan China Post-Venture Strategy. This article represents the views of Margaryta Kirakosian of Citywire Selector and Tiffany Hsiao as of 18 Jun 2021, and those views and opinions presented are their own. Artisan Partners is not responsible for and cannot guarantee the accuracy or completeness of any statement in the discussion. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

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