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Artisan Portfolio Manager, Maria Negrete-Gruson: MSCI has too much exposure to China

By Margaryta Kirakosian / 07 Sep, 2018



The inclusion of A-shares will make China a major part of future MSCI indices but this doesn't necessarily mean better opportunities.

Maria Negrete-Gruson, manager of the Artisan Emerging Markets fund, has only 25.4% of exposure to China in comparison to 32.7% in the benchmark.

'I have a problem with the index in that sense and it is not that I don't own enough China but that the index has too much of it,' she told Citywire Selector

Negrete-Gruson said there are attractive opportunities in China, but these don't include Chinese banks or tech giant Tencent.

'We don't own Tencent and one reason is valuations. Another pressure point is the embedded regulatory risk. China has big medical concerns about children's eyesight and, although it is hard to monitor gamers, the government is going to be quite strict about it.'

When talking about the country's banks, Negrete-Gruson said she is wary about the quality of their books, however the level NPLs is not the main concern.

'Chinese banks are not really that cheap if you embed a level of sustainable ROE, which lies much below what they state on paper, and it is for that reason we don't own them.'

Focus on governance improvers

Negrete-Gruson said if you separate governance from social and environmental aspects, it is easy to view all EM companies the same way.

However, she said, it is as important to look at the past issues but also at the current progress. For that reason she still has Samsung as her top holding.

Negrete-Gruson is also overweight Russia, with 7.5% exposure compared with 3.5% in the benchmark.

'A lot of people say Russian companies are the worst, particularly in terms of governance, but you need to look at progress and see what the companies are doing now to improve.'

One name she highlights is Nornickel, one of the biggest Russian nickel producers. 'The town of Norilsk is essentially a toxic place but a lot of the company's capex is allocated to cleansing of the environment.'

'I am not saying we should forgive their issues in the past but this is the company that is committing fully to the environmental change going forward. Nornickel spends its capex not only to produce more, but also to make its facilities environmentally acceptable.'

Maria Negrete-Gruson is portfolio manager for Artisan Emerging Markets Fund. This article represents the views of Margaryta Kirakosian of Citywire and Maria Negrete-Gruson as of the date of publication 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. This material does not constitute investment advice or a solicitation of any specific investment product or service. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation. Prospective investors should consult their financial and tax adviser before making investments in order to determine whether an investment will be suitable for them.

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