

How Tiffany Hsiao expanded her hunting ground at Artisan Partners

The manager has boosted her arsenal, with double the team size and eyes on accessing private equity exposure.

By Margaryta Kirakosian / 17 February, 2021

Tiffany Hsiao shows no sign of slowing down. It has only been five months since she joined Artisan Partners from Matthews Asia but she continues to generate new ideas at 100-miles-a-minute.

‘Some companies are now using AI for drug discovery and you might cure people at a much faster speed. I love those things and constantly mingle with scientists to see what they’re doing,’ the portfolio manager said, referring to a company meeting she had a day before speaking to Citywire Selector.

Hsiao’s process remains unchanged from Matthews Asia, and focuses on disruptive small- and mid-cap players in China. Now at Artisan Partners, Hsiao has more firepower to access a constantly evolving market.

‘The Chinese small and mid-cap market is bigger than the one in the US,’ she said. ‘But, there are only six funds that we can find that even try to target this area, while you have more than 785 when you look at the US small- and mid-cap universe.’

‘You can’t use a very static product to try and capture very rich and dynamic opportunities, it is like using a toy fishing pole to catch fish in the ocean, it just doesn’t work.’

Hsiao invests in innovators and holds herself to the same standard, which is why she thought it was about time she crafted a very innovative fishing pole. She has adopted a flexible investment structure that allows her team to buy late-stage private companies or early-stage public names.



‘I’m still capturing companies that are early phase in their growth lifecycle that very few investors have even heard about. We’re always challenging ourselves to look for the next big thing and find the Tencent of 15 years ago.’

Hsiao also continues to spend 80 -90% of her time speaking to private companies. ‘My secret sauce is that I use a private equity-like due diligence to research the public equity market. There are only 6,800 stocks listed in China out of 40 million companies. If you only talk to the 6,800 you are missing 99.99% of the market, how are you then going to become an unbiased investor?’

Hsiao always talked to unlisted firms but could previously only invest in listed names. With her new strategy, she will allocate a small fraction to privately-held names.

‘These are companies that we would have owned if they came to the market through

an IPO. Now we have the ability to capture them when they are still private and are on the way up.’

Humans vs machines

To be able to identify winning companies, you need to have strong presence on the ground, especially with Covid-19 disrupting travel plans. Hsiao continues to be based in San Francisco, where she can connect with her local venture capital and private equity network to really understand what it takes for firms to be innovative.

However, her team is now double the size it was previously, with Yuanyuan Ji following her to Artisan and two more analysts completing the team. At the outset, roughly one third of the portfolio is allocated to technology and two remaining thirds to healthcare and consumer names.

A software engineer by background,

Hsiao believes in data and automation but also that both humans and machines have shortcomings and should work together to get better results.

‘We have dedicated experts in those areas to really help us shore up that human element. They are visiting companies, observing their culture, how they are building teams, what are their founders’ strengths and weaknesses. They observe that qualitative and quantitative information that can’t be captured by machines.’

Hsiao is already working with Artisan’s data science team on what she hopes to be a longer-term project to capture data she can’t locate at the moment. She is also able to call on the expertise of the global equity team led by Mark Yockey.

‘When I see something that is really exciting in China - whether it’s healthcare, tech or consumer names - I bring it immediately to his analysts and we discuss it, compare notes and see if it stacks up against global disruptors. It is not just that my direct team is bigger, but my backyard as well.’

Eyes on regulations

While Covid-19 may dominate Western investment thinking, Hsiao said regulation is the biggest hurdle for China-focused investors. ‘You have no control over it. It is a single party regime, if they want to do something, it gets done and there’s really no back and forth.’

‘We see that across a lot of different sectors. It’s not just ecommerce but even education. They apply this to healthcare already for many years, now they’re applying it to education, they cannot overpromise that your kids will get certain grades by taking this particular class for example.’

One area vulnerable to regulations is fintech, she said, as there is a big government push to regulate the sector. However, Hsiao is confident smaller companies will sail through, as they are disrupting inefficient markets, which the government likes.

‘Once you become too big, and you yourself are ready to be disrupted - then you’re in danger. Sometimes you’re regulated because you’re too big to fail

or sometimes you’re regulated because you have grown so much that in terms of your incremental growth you’re getting a little bit too creative with how you’re acquiring it.’

Environmental ambitions

While regulations are one variable companies can’t control, Hsiao believes certain sectors, namely energy, stand to benefit. She said China is very ambitious with its environmental commitments, given its 2060 carbon neutrality targets.

‘China’s electric vehicle sales penetration rate is already higher than in the US and is projected to more than double in the next three years. China already covers 50% of global electric vehicle sales.’

Clean energy aside, she is also alert to changes in consumption habits and takes pride in the fact that team members covering the space are millennials.

‘It’s not just the type of products that they want, but how they want to acquire this product is very different from their parents’ generation. We definitely are seeing a trend of decentralisation of ecommerce.’

Hsiao added that younger generations want to be entertained while they are shopping, be it live broadcasting to interact with, or shopping together with their friends. ‘As soon as you buy something, you expect it to be delivered right here right now. There’s no patience,’ she added.

Hsiao is based at the heart of the Silicon Valley, so how does the tech innovation in China compare to what is happening in the US? She said the private equity and venture capital pool compared to 10 years ago has improved eight-fold.

Another part of the puzzle is human capital, as a lot of talented tech experts are returning to China. ‘When my father first came to Silicon Valley in the 1980s, he had to leave Taiwan because there simply wasn’t any capital. To a typical Taiwanese resident at the time the price of a laptop could have amounted to 10 years of savings.’

She added that the full cycle of creating and selling products is also very quick and can take as little as two to three months.

Hsiao added, however, there is still a gap between China and the US when it comes to fundamental research. China is really trying to catch up there.

‘A lot of the initial inspiration for this great technology and innovations will still come from the US. But who can commercialise first, turn an idea into a product? I see a much faster pace of that path in China.’

Building networks

Hsiao said being physically present in a market isn’t crucial, but what is critical in her view is to continue building your network. ‘This is my 20th year in the industry. People you get inspired by or those who failed you along the way, you always learn something from them.’

‘In Silicon Valley everyone I need to talk to is in my phone. I think it’s very difficult to replicate a strategy where you take a private equity-like approach to public markets, because where are you even going to start?’

‘My father was a pretty active investor in Silicon Valley and when I was a child, the inspiration would come on the weekends, when people came around our house to pitch him an idea.’

Hsiao said it is as important to cultivate the next generation of your network. Her team mainly consists of female investment professionals, a rarity for the male-dominated industry.

‘I really try my best to help girls. I don’t care if you’re a millennial, if you have the right network - I would like to tap into it and will also help you get access to mine.’

Speaking about her personal experience, Hsiao said it is not so much about being a woman but rather becoming a mother that changed her investment outlook.

‘You grow a lot of empathy in order to stay a happy parent. Your patience grows as well and you learn to really think of solutions on the fly, out of the box.’

‘Then you also try to understand other people’s point of view, so you can actually solve their problem. Developing this kind of thinking actually helped me as an investor, I really incorporate my life experiences and skills’.

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 17 Feb 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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2/17/2021 – A21526L