GAM Investment Director Jian Shi Cortesi on Why China and Why Now Might be a Smart Time to Weight Up

Jian Shi Cortesi, Investment Director at GAM Investments and a member of the Global Growth Equity team, believes in investing agility, a quality she has made central to her management of two China and Asian equity strategies. From her base in Lugano, Switzerland, she says the distance from the 'noise' in China helps her see the full picture, to spot the major trends and shifts and the smaller nuances with objectivity, thereby allowing her and her team to make their dispassionate analysis and then act with agility. Jian has recently been gradually buying back into favoured stocks and sectors where valuations are back to more compelling levels and weighting up key areas of the economy in anticipation of a more benign policy environment ahead, and in line with the state's five-year plan and 15-year outlook. And after long days in the office or in her home office, Jian manages to switch off by tending to the ever-multiplying hydrangeas in the family garden. Hubbis 'met' with her in late November to hear more of her insights into China, and to learn why she thinks that right now might be a great time to buy back in more proactively.

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The conversation

with Jian centres on China, and she begins by focusing on the high-profile regulatory changes that have taken place in China since November 2020, including the arrival of anti-monopoly and data security provisions in the internet sector, the banning of after-school tutoring, and also the tightening in the property market, as well as the mooted changes to the Macau casino licenses.

"The feedback we have heard from investors is that they are generally confused as to why China should have taken these steps at this time," she reports. "Some think that China may have moved against the private sectors, while others think that maybe China is against private investors. But in our view, neither interpretation is justified."

The New Drive to Common Prosperity

Jian explains that all the manoeuvres are in line with the arrival of 'Common Prosperity'. "The richest 1% in China own more than 30% of the wealth already," she says, "and that is now similar to countries such as the US or Germany. That wealth gap has widened further, especially in the last few years due to low interest rates and the concomitant rising asset prices, whether stocks or real estate. Those at the lower end of the wealth ladder have not benefitted and feel left out. Very simply, the state wants to be seen to be redressing this imbalance."

Jian observes that this is not only a China issue, but a reality seen more broadly across the world. "China has seen the frustration and decided to address it head on," she says. "They also want the wealthier to help the poorer elements of society, as there is still a very large percentage of the population in the lower income bracket. Wealth distribution looks like a pyramid, with those in the lower income bracket occupying the broad bottom of the pyramid structure."

"It is clear that if one then looks at China's 2035 policy outlook, there are definitely industries and sectors that are prioritised, such as anything related to higher-end manufacturing of semiconductors and technology components, clean energy, innovation and digital. All these segments and associated sectors will be our core areas of focus going forward, and indeed already are."

The 'Olive-Shaped' wealth distribution model

Jian explains that China wishes to move to more of an 'olive-shaped' distribution, where the top, the very rich, is a small percentage, and the very poor is also a small percentage, while the majority of the population falls into a bulging middle-income bracket.

"It will take a long time to redress," she says, "but the idea is that resources and opportunities should be accessible to all social classes, including education, healthcare, and housing. That is what we see as the core driver of policy in the past year or more."

Not turning against private enterprise

But she is quick to counter the notion that this is all about attacking private enterprise. "China relies heavily on private firms to grow the economy, and to generate new jobs, and to win the technology battle against the US," she says. Moreover, she adds that China does not appear to be against foreign investors. Indeed, she comments, that the country continues to welcome foreign capital and that liberalisation has been ongoing for many years, admittedly slowly but with a consistent direction of travel.

Jian also comments that in her view, most of the changes are now out in the open and while there will be further news on implementation of the measures, the bad news has already been heard and factored into market pricing.

China – a tough market to analyse

"The reality is China is a tough market for foreign investors," she says. "For example, they might have been buying into education stocks without watching China closely. In fact, the downturn in Chinese tutoring stocks has been ongoing since discussions emerged on reining the sector in earlier this year, when the government already hinted that they would regulate the sector."

She notes that investors were faced with polarised potential outcomes before the final decision on education emerged in late summer.

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GAM Investments

"In our view, if the government's final decision turned out to be accommodative, the education stocks had limited upside given the high valuations. If the government's final decision was to significantly limit tutoring, these stocks could have very big downside," she reports. This reasoning led her to sell down the education stocks earlier in the year.

Forensic analysis required

Jian offers this as an example of the need to follow China very closely. "We believe investors should be invested in China. It represents a vast opportunity, but investors also need to be careful, they need to understand why the government takes certain steps, and they need to know how to react and when," she says.

And she adds that investors need a diversified portfolio approach, so negative news that truly surprises does not impact the overall performance markedly. "If you have a portfolio that is well managed, you would perhaps have had 2% or less in education stocks and far more in clean energy, solar power, electric vehicles, and other sectors that are going from strength to strength," she comments. "That way, you can outperform even in a down phase for the market."

Look ahead, with understanding

As to how to position for the future of China, Jian maintains that the best approach for any investor is the professional, knowledgeable approach.

"We follow China extremely closely, that is our job," she reports. "Many expensive growth names had surged in price and valuation in the past two or three years, often turbo-charged by the pandemic. We analyse prices and valuations rigorously and constantly, and even irrespective of government announcements, some of those names had reached our targets."

But understanding the language the government speaks and anticipating actions is as vital as spreadsheet analysis. She explains that the team had also noticed last November that government comments were starting to flow about reining in the power of the internet providers and the control of data. But she notes that the general market mood then was still very bullish, and rather complacent as prices were rising. As a result, investors did not really spot or take seriously those types of comments.

Spotting the government body language

"We identified the risks, and cut back early on these names," she reports. "From peak to trough, the market has gone down more than 30%, and some of the large cap internet names are down 50% peak to trough, while some smaller stocks are down 60% to 70%."

Value re-emerges, selective buying recommences

However, the falls mean that valuations of many stocks have again become worthy of consideration. "Our general position is that after this correction there is again value in some of the bigger names, and we also think the government policy will be more encouraging for a more positive environment in 2022."

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She says their base case is that the government will start loosening policy, in fact she sees this already in real estate. In short, a combination of much lower valuations and accommodative policy that is shifting from negative to supportive will result in very positive momentum for the market.

Reading the 14th plan in detail

And she says that in the 14th five-year plan, the keywords that jumped out to her and the

team are innovation, green, and income growth. She says it is clear that if one then looks at China's 2035 policy outlook, there are definitely industries and sectors that are prioritised, such as anything related to higher-end manufacturing of semiconductors and technology components, clean energy, innovation and digital. "All these segments and associated sectors will be our core areas of focus going forward, and indeed already are," she says.

Jian reports that clean energy is the most compelling story of all at the moment for China, as in her view it is not just environmental win, it's also a business win. "China has set its stall out to be the leader in clean energy, already accounting for 70% of the solar module production in the world, and about half of the wind turbine production, as well as already 40% of the world electric vehicle sales," she explains. "It is a remarkable story. It is well planned, and it is being well executed."

She notes that a look at the global electric vehicle battery market shows that almost all of those leading companies are in Asia – mostly in Korea, Japan, and China – and with China determined to become the dominant force broadly in clean energy and each of these segments. "This," she states, "means great investment opportunities in the solar supply chain, wind turbine producers, clean energy companies in hydro, in wind, and electric vehicles."

Key priorities

She explains that her number one priority is to keep a very close watch on policy direction, analysing all the signals and every nuance coming out of the government circles on future policy direction and action.

"But amidst all the uncertainties we might see, it is important to realise that China has a number of core certainties," she explains. "The country has a national development plan, the five-year plan overlaid with the 15-year outlook, all of which is guided by a set of policies derived from think tanks to look at China's demographics and plot each stage of the country's development."

Profitability more stable than market sentiment

She draws the conversation to a close by remarking that the volatility of the markets is not reflected in volatility of profitability. "If you look at corporate earnings, they are not volatile, nor have they been for many years," she remarks. "What is volatile is the investor sentiment, vacillating between the very pessimistic and the highly optimistic."

She says a quick look at the Chinese 'A' share market this year proves the point. "The 'A' share market has not come down nearly as much as the offshore shares, because domestic investors are much calmer compared to international investors," she reports. "Chinese stocks trading in Hong Kong and in the US are driven by international investors, and the sentiment tends to be very volatile. In January, international investors were very positive about China, and only six months later, they became extremely pessimistic."

A good time to weight up again

Her final comment is that in her view, now represents a good opportunity to buy into China. "We can see that at least part of that correction is due to the sentiment and with valuations already much lower, and expectation very low, this opens the door to some good opportunities," she concludes. "Policy will be on the loosening side. I think right now is a good time to consider going into China." ■

Getting Personal with Jian Shi Cortesi

Jian comes originally from Dalian, a city in the north of China renowned for its tall people. "I am probably considered one of those taller women," she reports, jovially, "although actually at 172cm I am not so tall really, at least from my base here in Switzerland! However, people still often say 'oh you are tall for a Chinese lady'."

Today, Jian has come a long way from her birthplace, residing in Lugano, working in a prominent role as Investment Director and member of the Global Growth Equity team at GAM, and managing China and Asian equity strategies.

And deservedly so, as she has built a clear career path dominated by her interest in stocks and markets. Prior to joining GAM Investments in May 2010, she worked in research and portfolio management of Asian equities for Stanford Group, a regional wealth management firm in the United States. She also holds a bachelor's degree in International Business from Beijing Foreign Studies University in China and earned an MBA from the University of Tennessee in Memphis in the United States. She is also a CFA charterholder.

"I have a passion for the markets and for analysis," she reports. "I started buying Chinese shares while at university. My parents are both from an engineering background and were conservative and strict about saving money, like many Chinese people at the time. So, when a friend of my father advised him to buy into a new IPO and he declined, I put all the money I had in it - a significant telecoms company called CITIC Guoan Information Industry - and within a few months the stock had doubled. At the time, I knew very little, but I quickly fell in love with investing. So, I went off to the US, did my Master's, and I have never looked back."

While studying for her MBA, her passion for the market only increased. "I spent my spare time reading many books on Benjamin Graham and Warren Buffett and I realised I could develop my own ideas about how I wanted to invest," she explains. "I read voraciously about Buffett in particular, and even bought shares in Berkshire Hathaway, allowing me to attend the annual meeting in Omaha each year. He has really influenced the way I approach stocks and the markets."

Jian and her Swiss husband have one son aged 11. In more relaxed moments, she enjoys country line dancing, which despite originating in the US, she never tried until after she left Memphis.

But most of her spare time during the more clement months is spent tending to her garden, her favourite pastime. "I am rather like an old lady pottering slowly around the garden," she jokes. "But seriously, it relaxes me after working in the markets, where there is usually rather a lot of excitement, sometimes too much. I particularly like hydrangeas, and after much cutting and cultivation and nurturing, we have them pretty much all over the garden."