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# Chinese Equities: Unloved & outperforming

June 2018

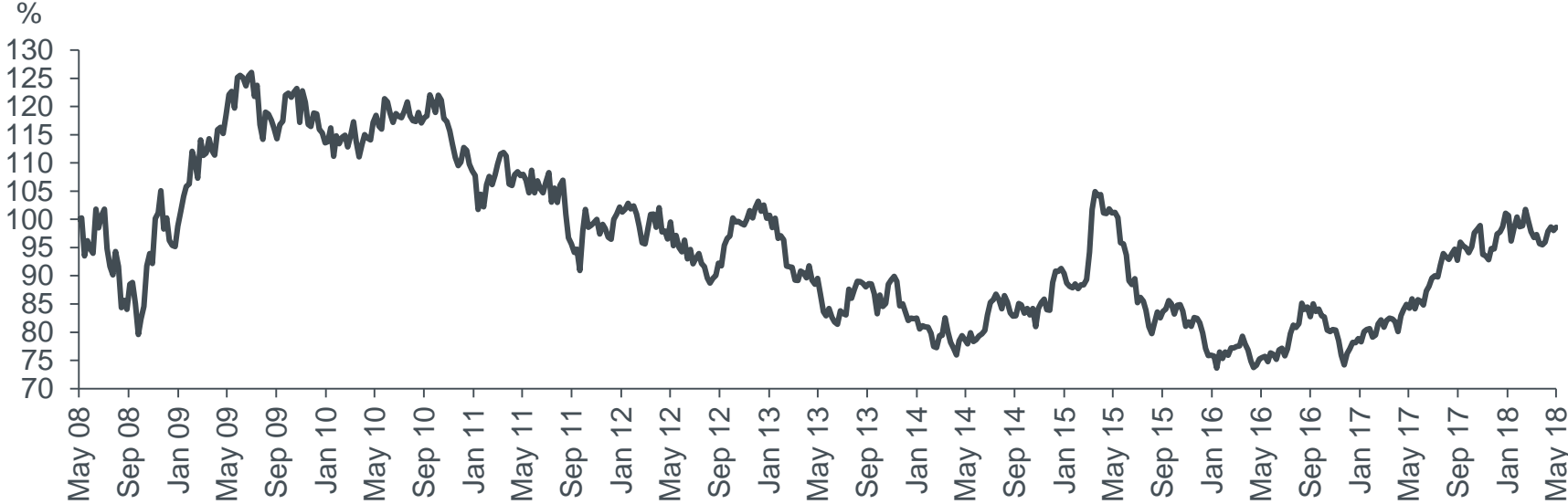
Charlie Awdry, CFA  
Investment Manager



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# Chinese equities outperforming the World

## MSCI China Index versus MSCI All Countries World Index



Source: Bloomberg, Janus Henderson Investors. MSCI China Index vs MSCI AC World Index price returns, weekly data rebased to 100 at 30 May 2008 to 31 May 2018.

Note: Past performance is not a guide to future performance

# .....and MSCI Emerging Markets

## MSCI China Index versus MSCI Emerging markets Index

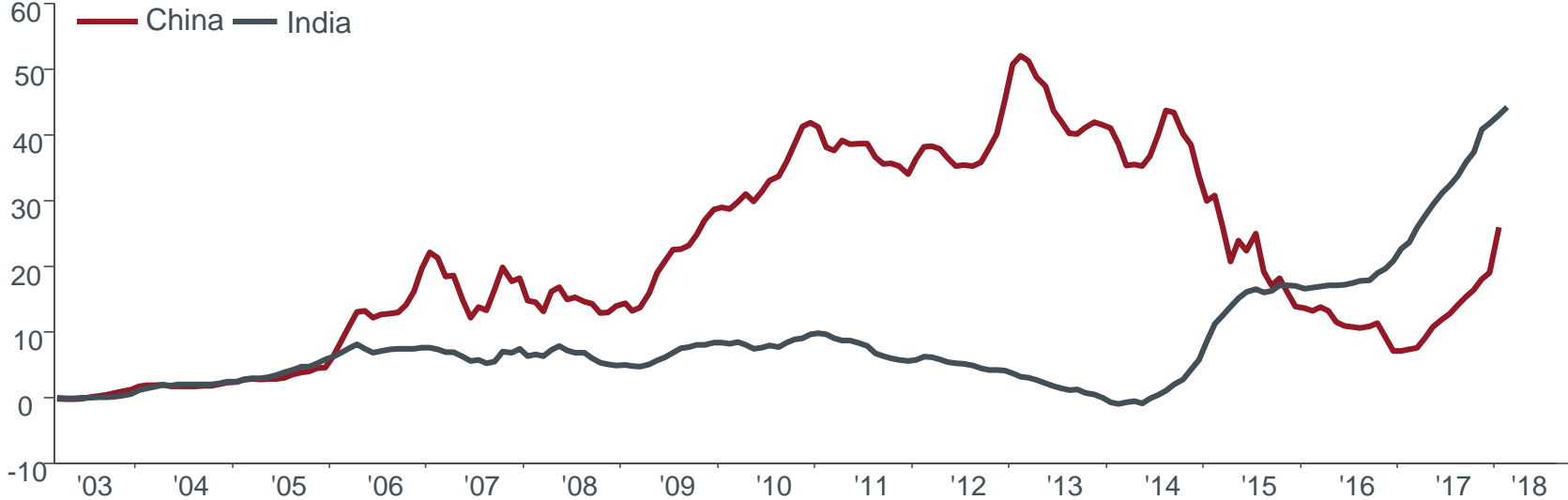


Source: Bloomberg, Janus Henderson Investors. MSCI China Index vs MSCI Emerging Markets Index price returns, weekly data rebased to 100 at 30 May 2008 to 31 May 2018.

Note: Past performance is not a guide to future performance

# Investor positioning in China still well below 2013 levels

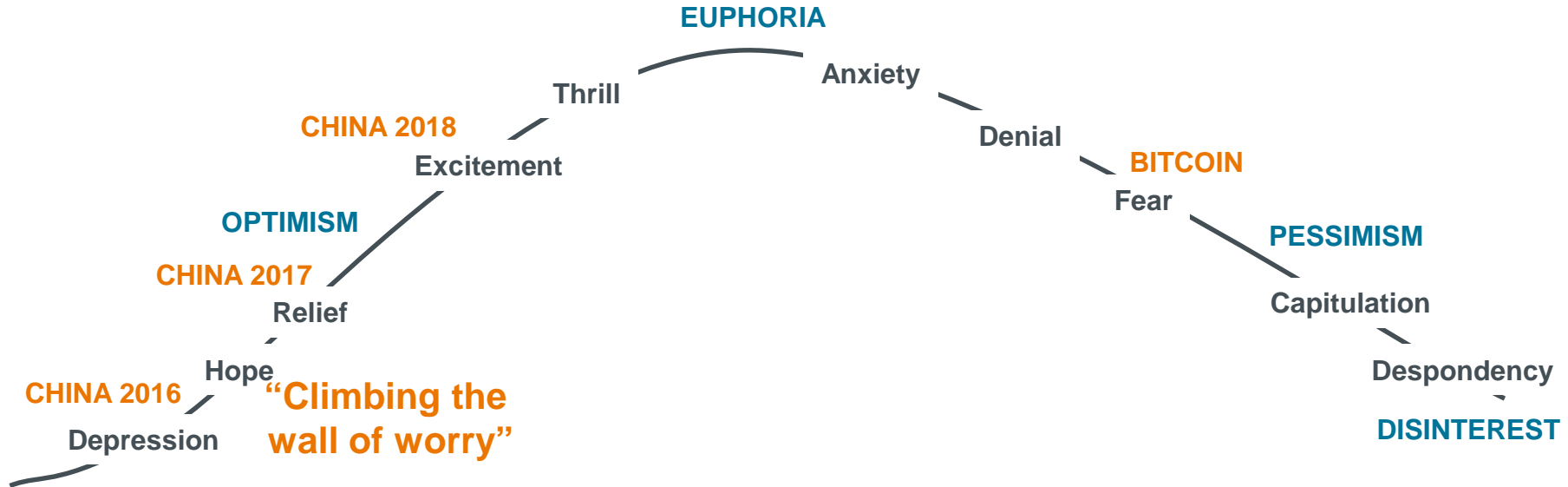
Cumulative flows since 2003 (Monthly US\$ bn)



Source: EPFR Global, Country Equity Flows Database, FactSet as at 31 March 2018

# Too late to invest?

How do you feel about your investments?



Source: 'The Sentiment Cycle' Justin Mamis "The Nature of Risk"

# Hong Kong market implied discount rate

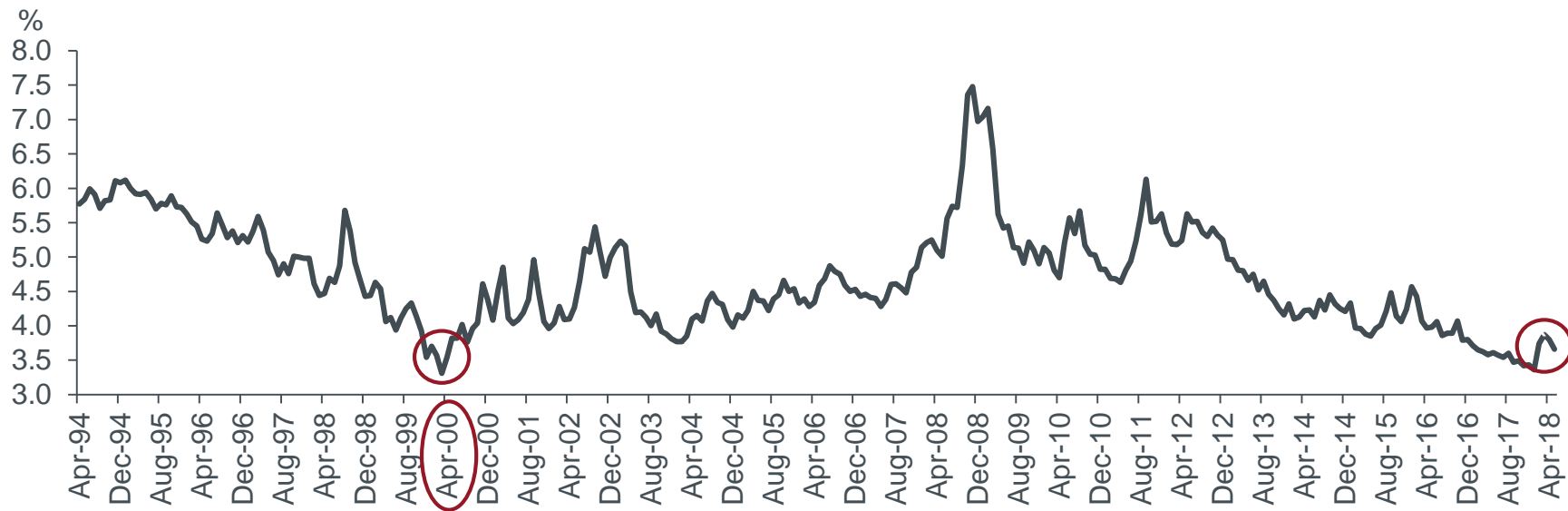
No euphoria here



Source: Credit Suisse, Holt, as at 1 May 2018

# US market implied discount rate

Risk loving behaviour suggests market is euphoric



Source: Credit Suisse, Holt, as at 1 May 2018

# Shanghai & Shenzhen “A” Shares

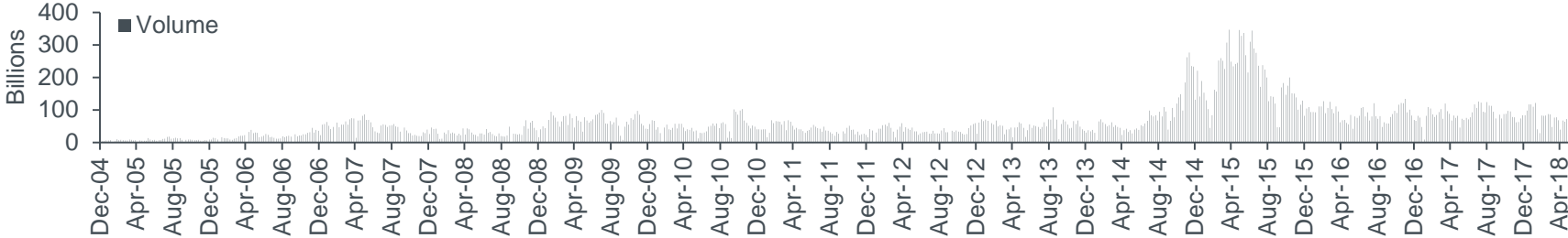
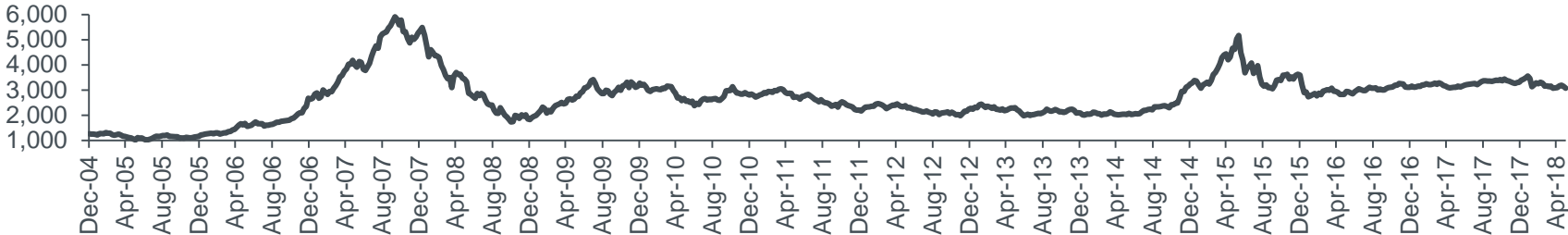


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# Shanghai & Shenzhen A shares dance to their own tune

Almost totally retail investor driven



Source: Bloomberg, as at 01 June 2018

# Shanghai A share market implied discount rate

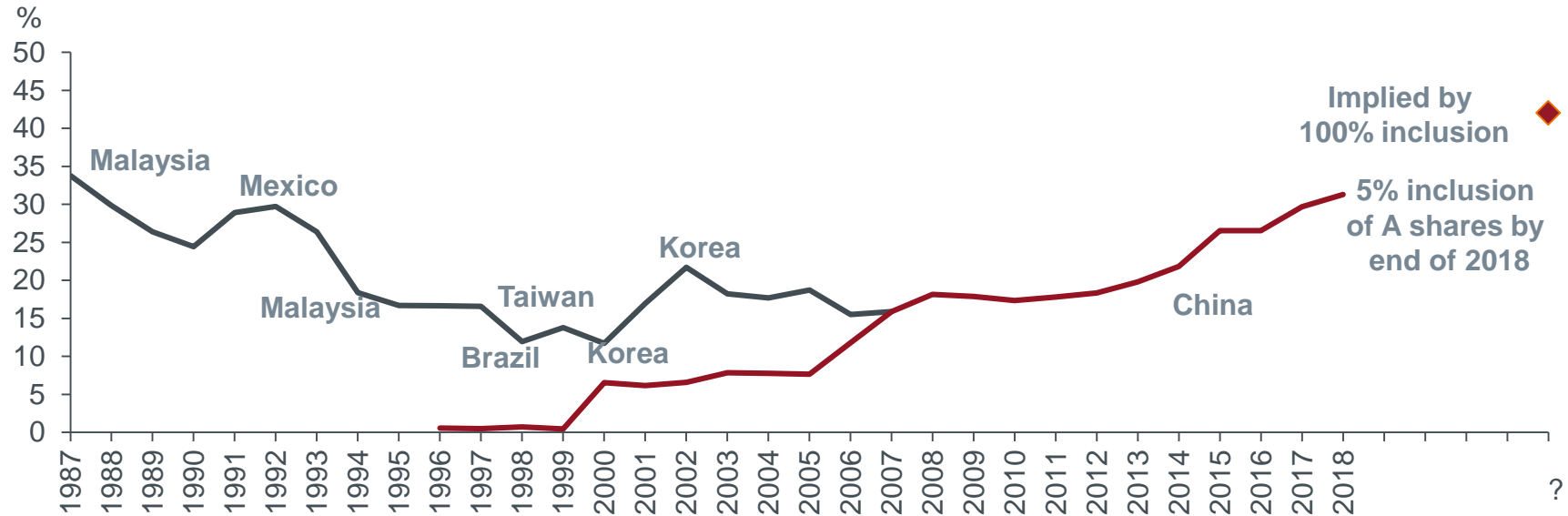
Investors still nervous after 2015 euphoria



Source: Credit Suisse, Holt, as at 1 May 2018

# A separate equity asset class?

## China's increasing weight within MSCI emerging markets








Source: MSC index data, as at 24 May 2018

Note: Index weights taken at calendar year ends

# Domestic A shares: Breadth of consumer offering

We select from the best of 3 markets: HK, China A and US listed China

Sector	Industry	Company	Logo
Consumer Discretionary	Household appliances	Midea	
Consumer Staples	Food products	Inner Mongolian Yili	
Consumer Staples	Beverages	Kweichow Moutai	
Consumer services	Hotels, resorts, cruise	China Int Travel Services	
Consumer services	Travel transport support services	Shanghai Int Airport	

Source: Janus Henderson Investors, as at 31 May 2018

Note: References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security  
For illustrative purposes

# Stock pickers' market

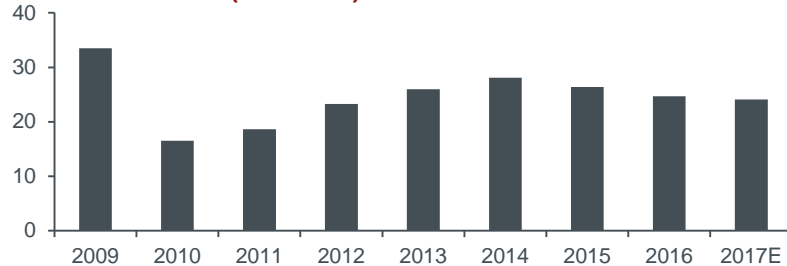
## Hangzhou Hikvision

- #1 video surveillance product
- From hardware to software to artificial intelligence
- Market share gains domestic and overseas
- Sustainable scale advantage in R&D, costs

**HIKVISION**

5yr sales CAGR	EBITDA Margin	CFROI
48%	26%	26%

### Economic return (CFROI %)



Source: Janus Henderson Investors, Credit Suisse HOLT, as at 6 March 2017

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# Which Chinese equity market: H, A, B, ADRs?

More A share portfolio holdings and allocation likely to rise

Domestic / mainland		International / overseas	
<b>A Shares: Shanghai &amp; Shenzhen</b>	<b>20%</b>	<b>Hong Kong:</b>	<b>61%</b>
<ul style="list-style-type: none"><li>• QFII allocation in CNY</li><li>• “Connect” Hong Kong-Shanghai mutual market access in CNH (offshore Yuan)</li></ul>		<ul style="list-style-type: none"><li>• China companies</li><li>• Hong Kong companies</li><li>• Multinational companies</li></ul>	
<b>B Shares: Shanghai &amp; Shenzhen</b>	<b>0%</b>	<b>USA:</b>	<b>16%</b>
<ul style="list-style-type: none"><li>• Denominated in US\$ &amp; HK\$</li></ul>		<ul style="list-style-type: none"><li>• ADRs (American Depositary Receipts)</li></ul>	

Source: Janus Henderson Investors, as at 31 May 2018

Note: Excluding cash

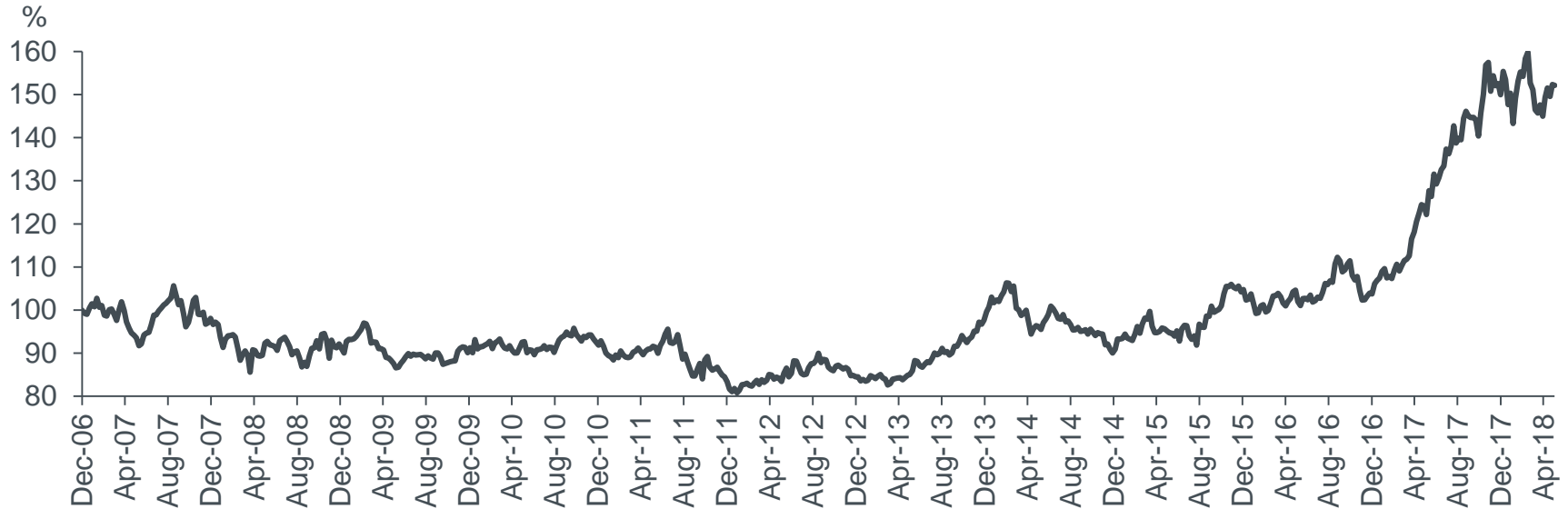
**We need to mention  
“growth versus value”**



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# Internet shares are loved

## MSCI China Growth Index versus MSCI China Value Index

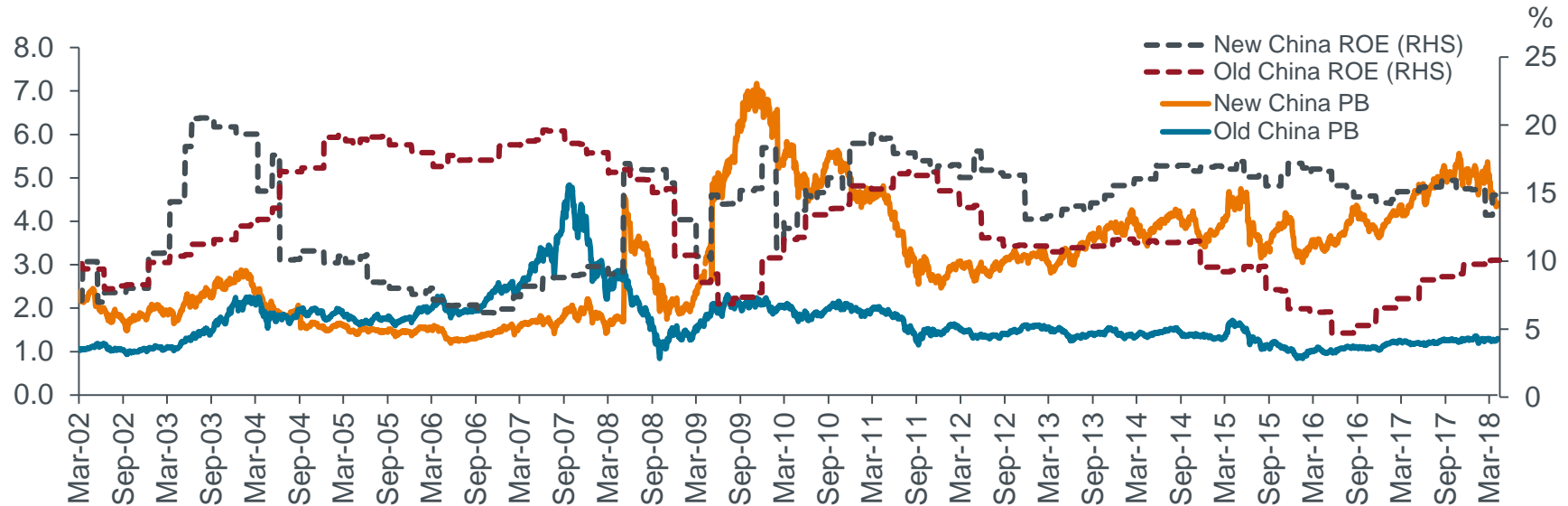


Source: Bloomberg, as at 31 May 2018. Data rebased to 100 as at 31 December 2006.



# Historical ROE and PBV of New China versus Old China

ROEs are rising but old China valuations still depressed

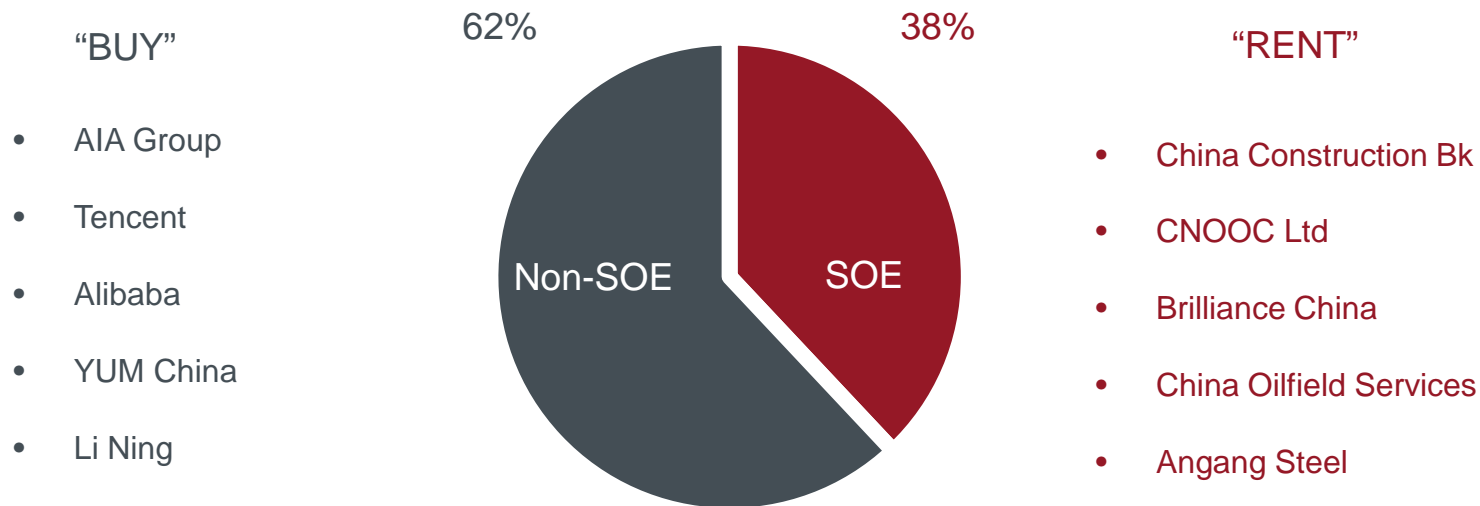


Source: Bloomberg, as at 31 May 2018

Note: New China Sectors = IT, Healthcare, Consumer. Old China Sectors = Energy, Materials, Industrials, Utilities

# Portfolio construction: How to think about the Fund

## Expensive growth and quality versus value SOEs



Source: Janus Henderson Investors, as at 31 May 2018

Note: References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security

Note: Hong Kong Exchanges and clearing is included as an SOE

# Janus Henderson China Opportunities Fund



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# Strong 12 year track record of portfolio manager

## Janus Henderson China Opportunities Fund performance

### 5 year fund performance vs index



Source: Morningstar/Thomson Datastream, as at 31 May 2018  
 Basis: Mid to mid, net of fees, A share class, in sterling  
 The fund performance based on 12:00 (GMT) valuation. Index performance based on close of business valuation (local time) Sector average performance is based on valuation point of underlying funds in universe. Rebased to 100 as at 30 April 2013  
 FM Inception date 6 June 2006.  
 Note: If you are investing in a different currency than shown, this may cause figures to differ from those shown

	6m %	1y %	2y %	3y %	5y %	*FM % Tenure
Fund	7.6	25.5	85.6	58.4	121.6	<b>393.6</b>
Index	7.4	23.1	78.9	42.1	95.1	<b>347.5</b>
Excess Return	+0.4	+2.4	+6.7	+16.3	+26.5	<b>+46.1</b>
Percentile Ranking	59	38	25	15	21	<b>8</b>

- Fund size: £1.38bn
- Established in 1983

Source: Morningstar, as at 31 May 2018  
 Basis: Mid to mid, net income reinvested, net of fees, A share class in GBP  
 Index: MSCI Zhong Hua GR GBP  
 Sector: Morningstar China/Greater China  
 Inception date: 31 March 1983  
 Note: Past performance is not indicative of future results  
 \* FM Inception date 6 June 2006

# Current positioning

## Janus Henderson China Opportunities Fund

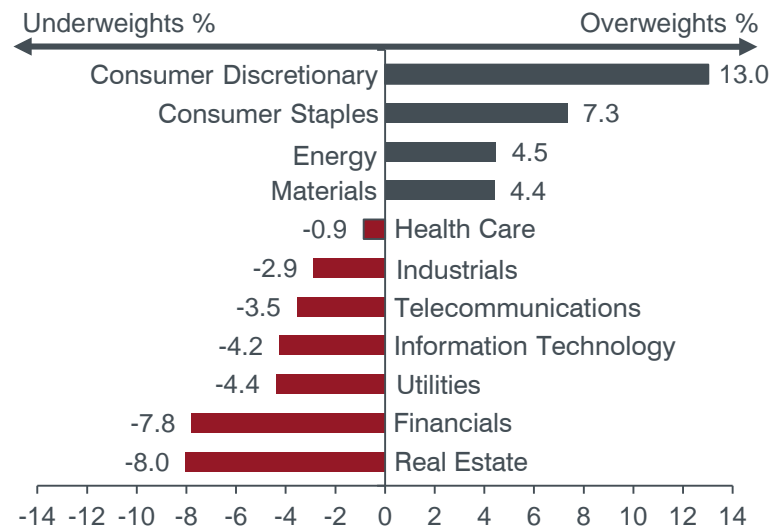
### Top ten equity holdings

Stock	Weight %
Alibaba Group	9.8
Tencent Holdings	7.5
AIA Group Ltd	7.1
China Construction Bank	6.2
Brilliance China Automotive	3.9
Industrial & Commercial Bank of China	3.9
China Petroleum & Chemical	3.8
Kweichow Moutai co	3.4
YY Inc	2.8
Midea Group	2.5

Source: Janus Henderson Investors, as at 31 May 2018

Note: References made to individual companies or stocks should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase in the company

### Sector positions vs MSCI Zhong Hua Index

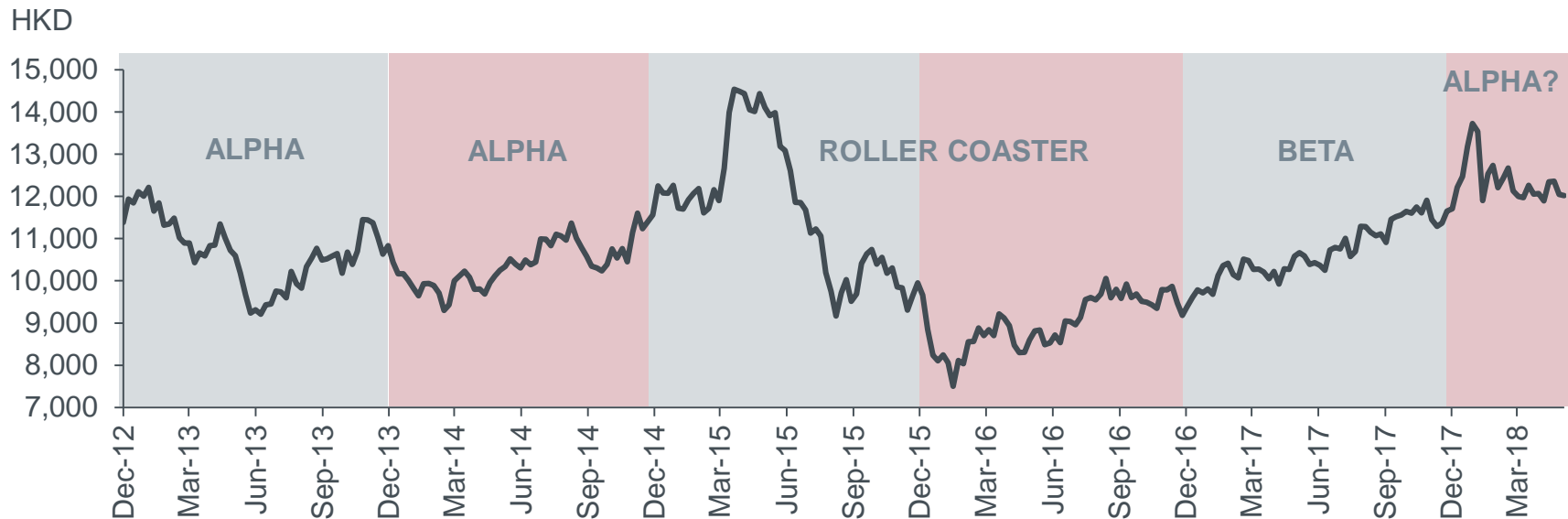


Source: Janus Henderson Investors, as at 31 May 2018

Index: MSCI Zhong Hua Index  
Excludes cash

# Asset allocation versus stock selection

## From beta to alpha in 2018?



Source: Bloomberg, as at 1 June 2018. Hang Seng China Enterprise Index in HKD

# In conclusion

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- Investors are recognising strong Chinese equity performance
- MSCI inclusion of Shanghai & Shenzhen A shares into emerging market indices in 2018. We already have 20% of the fund invested there.
- Early signs of improving capital allocation decisions from SOEs
- 2017: Beta, 2018: Alpha?
- Current portfolio strategy is a growth and value barbell

# Appendix

3 slides on the economy

Investment philosophy

Janus Henderson Asia ex-Japan Equity team



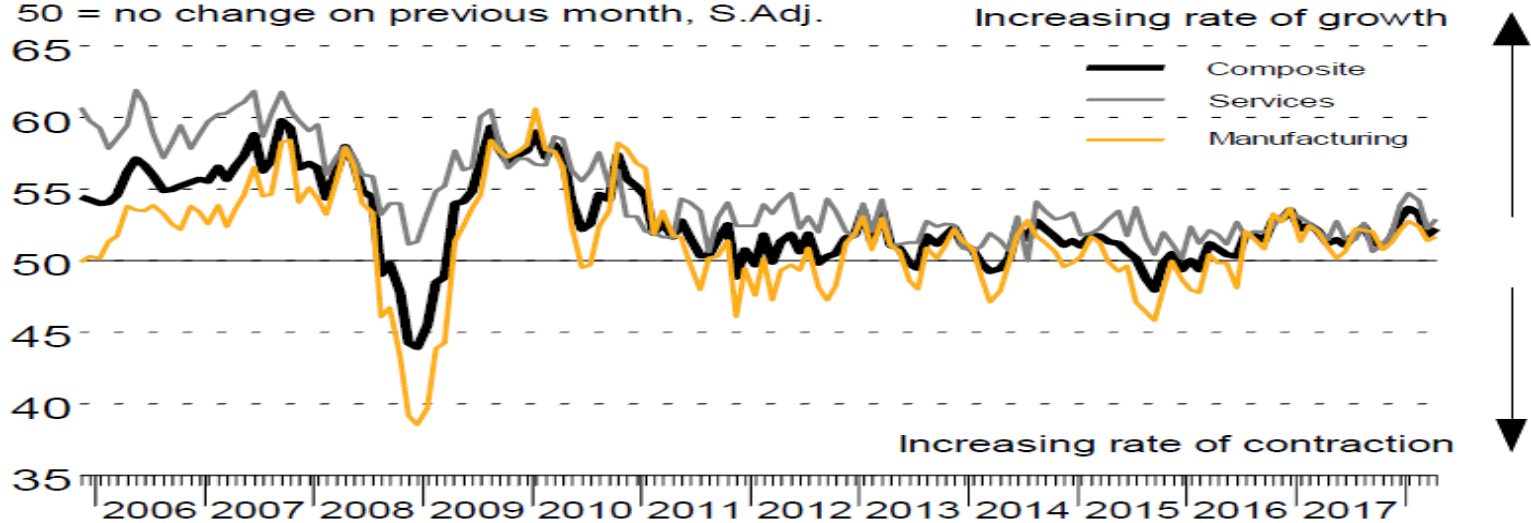
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# Economic mini-cycle probably peaked

## Caixin China Output PMI

50 = no change on previous month, S.Adj.

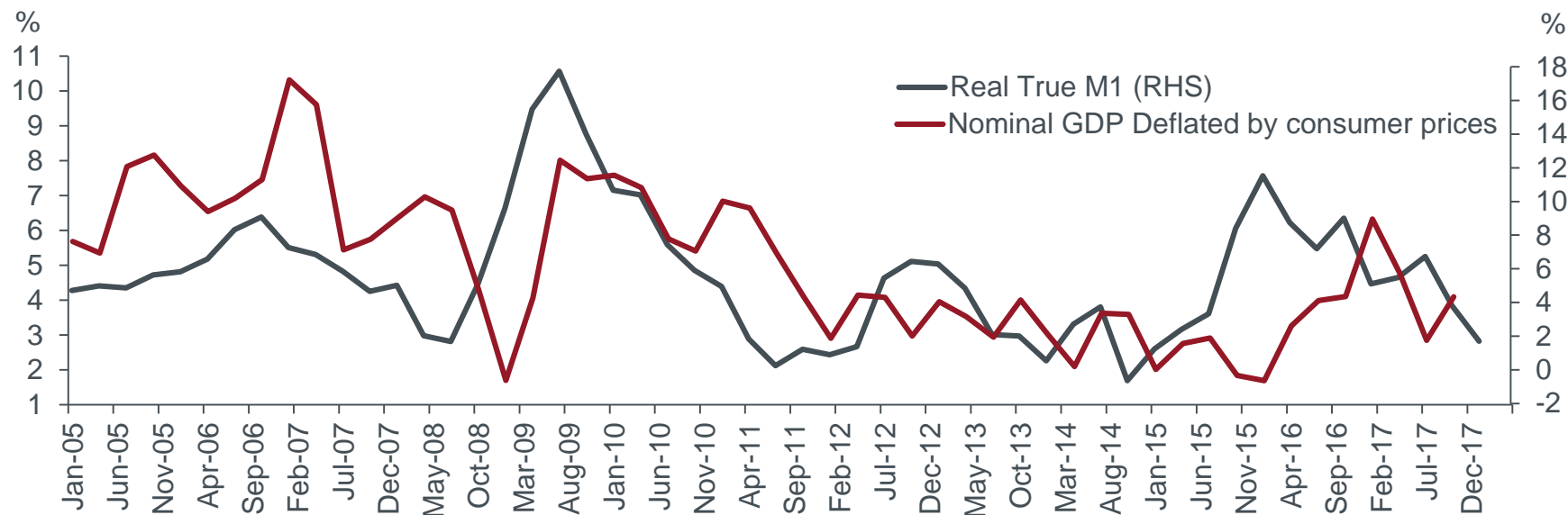


Source: Markit, Caixin, as at 4 May 2018

Note: PMI = Purchasing Managers Index

# China GDP & Real Narrow Money

Weakening narrow money growth points to slower growth ahead

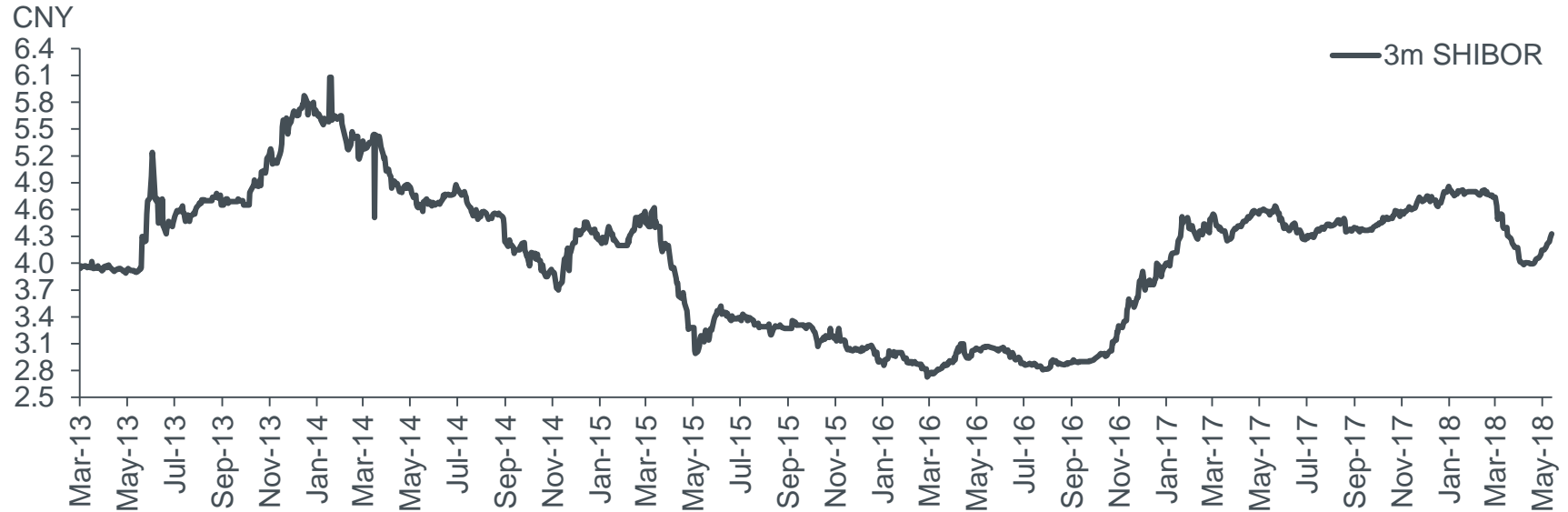


Source: Thomson Reuters DataStream. Data as at 15 February 2018

Note: M1 is conventionally defined as currency in circulation plus demand deposits. The Chinese measure, however, includes only demand deposits of corporations. The solution adopted here was to add a PBoC series for household demand deposits to official M1 to generate a "true" M1 measure

# Is China starting to ease?

Recent fall in interbank rates could indicate a policy shift is under way



Source: Bloomberg. Data as at 31 May 2018

# Investment philosophy

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*“Identifying unexpected earnings growth, both at an industry and stock level, not yet recognised by the broader market”*

# Skilled team with breadth and depth

## Janus Henderson Asia ex Japan Equities team

### Asian Growth



**Andrew Gillan**  
**Head of Asia ex Japan Equities**  
18 years' industry experience



**Mervyn Koh**  
**Fund Manager**  
12 years' industry experience

### Asian Income



**Michael Kerley\***  
**Director of Pan Asian Equities**  
33 years' industry experience



**Sat Duhra**  
**Fund Manager**  
18 years' industry experience

### China



**Charlie Awdry\***  
**Fund Manager**  
17 years' industry experience



**Wee May Ling**  
**Fund Manager**  
21 years' industry experience

## Team analysts



**Soo Ho Jung**  
**Investment Analyst**  
5 years' industry experience



**James Zhang**  
**Investment Analyst**  
4 years' industry experience



**LiAn Pan**  
**Investment Analyst**  
6 years' industry experience



**John Teng**  
**Investment Analyst**  
15 years' industry experience



**Rigan Wong**  
**Investment Analyst**  
12 years' industry experience

Source: Janus Henderson Investors, as at 31 March 2018

Note: \* Based in the London office

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