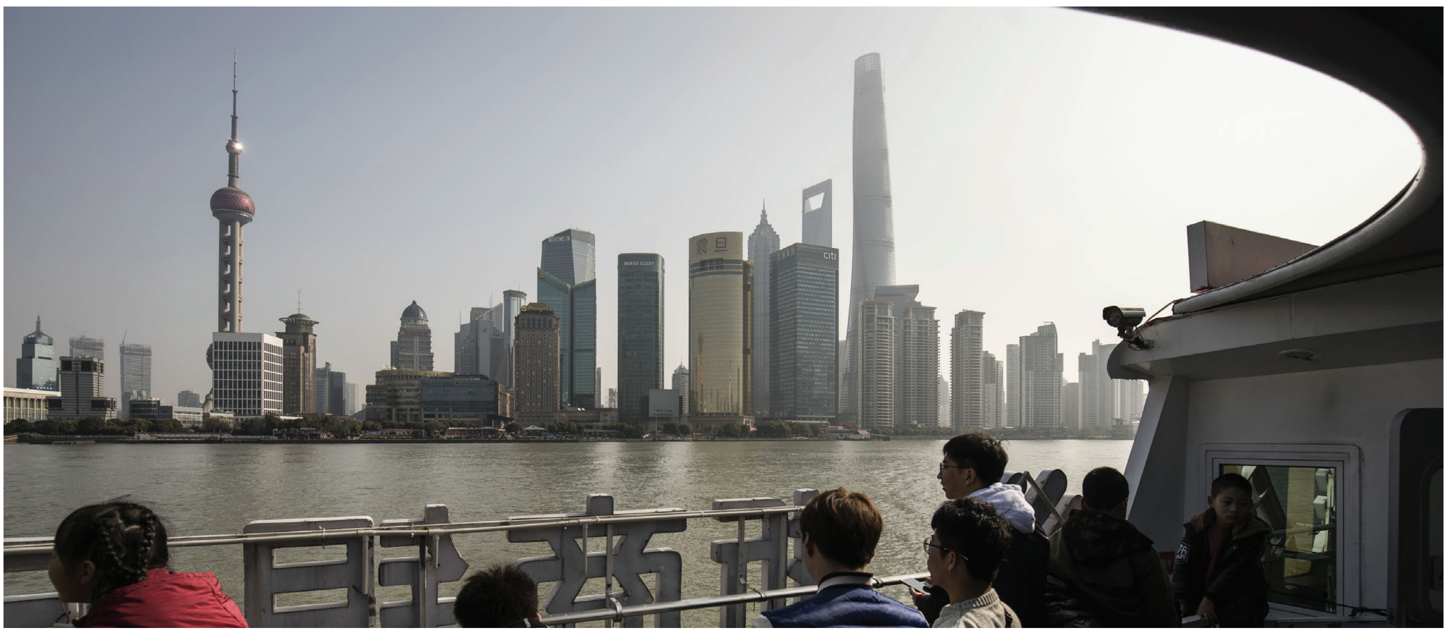
Markets

$103 Billion Quant Firm Says China Stocks ‘Very Compelling’



Photographer: Qilai Shen/Bloomberg

by **Ben Bartenstein**
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- Acadian Asset Management says it’s starting A-Share strategy.
- Russian, Turkish stocks rallied after consolidation of power.

The world’s No. 2 stock market is ripe for a quantitative style of investing, according to a $103 billion money manager that lists a cement maker, pharmaceutical brand and bank as its top picks in China.

“The Chinese market is very compelling,” Asha Mehta, who oversees emerging markets at Acadian, said by phone from Boston. “The cornerstone of China’s strategy has been growth and economic liberalization.”

Acadian is launching a strategy to buy into China’s $7.9 trillion domestic stock market, which has become more accessible to foreigners in recent years thanks to trading links between the two biggest exchanges and Hong Kong. The money manager favors consumer stocks such as Jiangxi Wannianqing Cement Co., Harbin Medisan Pharmaceutical Co. and Bank of Jiangsu Co. that should benefit from rapid industrial growth and attractive equity valuations.

The Shanghai Stock Exchange A-Share Index fell 0.5 percent on Tuesday, the most in almost a week.

Mehta said the Chinese legislature’s approval of a repeal on presidential term limits,

effectively granting President Xi Jinping power for life, shouldn't put the stock market at risk. If anything, recent power grabs have helped spur outsized stock returns, she said. Russian equities rallied 20 percent in the six months after Vladimir Putin swapped back into the Kremlin from his post as prime minister in September 2011. Turkish stocks jumped 21 percent in the half year following President Recep Tayyip Erdogan's April referendum win, which removed further checks on his already considerable power.

Here's what else Mehta had to say on Chinese markets:

1. What's the biggest risk from Xi's political move?

"It's an ongoing political development. I manage our frontier strategy, so I'm accustomed to investing in markets with significant political risk. Typically, political risk doesn't translate into equity market risk. Investors tend to overestimate it. President Xi's developments over the past few years have been very beneficial for investors and we see potentially further positive developments ahead."

2. Which Chinese stocks look most attractive?

"We look at market cap differentiation — large cap, mid cap and small cap. We see outsized alpha opportunities in the small-cap names and find the consumer segment quite attractive."

- Jiangxi Wannianqing: Strong growth outlook, coupled with consistent cash flows and discounted valuations make this attractive entry point
- Harbin Medisan: Supplier to rapidly expanding healthcare sector as well as solid asset and cash flow quality support company's growth strategy
- Bank of Jiangsu: Favorable outlook for sector and attractive valuation

3. How could China change the composition of the MSCI index?

"It's a fascinating development. A-Shares will represent a modest weight in the EM Index this year, but over time, China's weight could increase to up to 43 percent index weight, assuming no more privatizations. We could eventually see an EM ex-China Index."

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