TRANSCRIPT: EPISODE 135
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[INTRODUCTION]
Chris Salih (CS): Hello and welcome to the Investing on the go podcast. I'm Chris Salih and today we're joined by Rebecca Jiang, manager of the Elite Rated JP Morgan China Growth & Income Trust. Thanks for joining us today Rebecca.

Rebecca Jiang (RJ): Thank you Chris for having me.

[INTERVIEW]
[0:16]

CS: That's no problem. To start with, obviously you're based on Hong Kong as a lot of Chinese equity managers are, perhaps tell us why you're not in China and why are people are still based outside?

RJ: Well, Hong Kong is a special administrative region within China. But I think on a serious note, we have always found real benefit to have investment professionals working together. And we currently have a team that are based out of different locations, including Hong Kong, Shanghai, Taipei, Singapore, London, and even New York. But basically as China opens up more and more to foreign institutional investors, we have been able to expand our footprint within China, particularly expanding our Shanghai presence. We now have five analysts based out of Shanghai now.

Nevertheless, I think Hong Kong remains a key regional hub, me and Howard my co-portfolio manager of the trust, we travel very frequently to China. So even during the current difficult times where travel has been made a lot more difficult by COVID, you know, I personally still took the pain of the 14 days quarantine and traveled back to China end of last year and I'm going to do it shortly in the summer as well. So really all in all it's about teamwork and being based in Hong Kong, allow us to do the job as good as you know, doing it inside China.

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CS: You mentioned there, sort of Hong Kong, I just wanted to talk about, you also have the ability to invest in companies listed in Hong Kong and Taiwan. Does that give you extra flexibility and what does that look like in terms of the trust?

RJ: Yes, we are listing location agnostic, what I mean is that as long as it's a Chinese company or company that generates business or revenue sources from China we are interested in investing. And being able to invest in markets like Hong Kong, Taiwan or even the US, gives us a lot more flexibility because some of the, you know, some of the best in class companies in China, they are not available onshore. So for example, the major Chinese companies like Alibaba, Tencent, they're all listed either in Hong Kong or in the US. Similarly, you know, if you think about the largest, China's largest, logic chip maker, it's listed in Taiwan. So having that flexibility basically gives us a complete access to all the investible universe.

[3:22]

CS: Onto the investible universe, up to 50% of the trust can be invested in A-Shares now. Could you maybe just explain to the listeners what they are and briefly what the risks and rewards are for investors?

RJ: Yes. A-Shares basically stands for China's onshore equity markets, and these are the stock exchange in Shanghai and Shenzhen. Now just a bit of background information, China's onshore equity market was pretty much closed to foreign investors a decade ago, but it's now gradually opening up. And the pace of opening up has accelerated more or less from five years ago. Nowadays, if you're a foreign investor, particularly an institutional investor, you can have access to China's onshore markets via a few different vehicles. Now, the real benefits of having, or investing in A-Shares are you know, it comes from a few areas.

So first and foremost, it is a very wide and deep market. You know, there are over 3,000 listed companies onshore in China, and a lot of them are very liquid. So, it's a, it's a deep and big market, which allows us to, you know, pick and choose and identify interesting bottom-up stock ideas. The second benefit of having, or investing in A-Shares, basically comes from the low correlation between the A-Share universe and offshore equities. So, what this allows us to do is to further enhance the return without taking on additional risks.

Now, I think for investors the risk area that they need to keep an eye on comes from the fact that the Chinese A-Shares market is still a relatively young and immature market. It's very retail dominated.

So naturally it comes with a lot of volatility, but you know from our perspective, volatility could be your friend if you're a long-term investor, because it actually creates interesting buying and selling opportunities. So it's an additional source of alpha for our investors.

[6:06]

CS: I wanted to touch on the sort of quartet of structural themes that are running through the portfolio namely technology, automation, healthcare, and consumption. Could we maybe just take a sort of moment on each one in turn and maybe just talk me through those themes please?

RJ: Yeah. Now let me start with technology first. I think, you know, from a big picture it all comes down to the fact that China wants a more sustainable and higher quality growth from the top down level. And when it comes to the company level, it means that the growth should be incrementally be R&D (research and development) driven. What we have seen over the last decade or so is that a lot of Chinese companies are moving up the value chain. So say 20 years ago, when, when you talk about Made in China, the things that come to people's mind are clothes, textiles and toys et cetera. I think, you know, maybe 10 years ago, we think about Made in China, it's more about electronics, laptops and smartphones et cetera. And I think these days you know we're seeing a lot of other sort of sub sectors within technology, where Chinese companies are becoming more competitive on a global basis. So for example, electric vehicle batteries, solar energies, big data and artificial intelligence, et cetera, et cetera. So I think, you know, technology for us is really a big sector, where we can find a lot of interesting Chinese companies that are increasingly moving up the value chain and gaining market share on a global basis.

Now, I think automation and healthcare, I'll probably lump them together because they're all very much driven by the same growth drivers, which is, you know, a Chinese population which are ageing, so people are spending more on healthcare, but at the same time they need more automation in factories. At the same time, you know, Chinese companies are becoming more and more innovative in their respective fields. Take healthcare as an example, we're seeing, you know, Chinese pharmaceutical companies just within the last couple of years are now developing some of the best in class drugs on a global scale. They're now even being able to out-license a lot of these drug candidates to global pharmaceutical companies. So it's about top down tailwinds as well as individual company stories.

Lastly, consumption again, this is a very straightforward story, from our perspective, along with Chinese GDP growth the Chinese households are getting richer as their income level increases. They would like to have, you know, they would like to buy better products, enjoy better services. So

it's all about the consumption upgrade and moving towards better quality and better quality products and services.

[9:44]

CS: We hear a lot about government intervention on the news. Just recently we've had the Chinese take a hard line on cryptocurrencies, personal data collected by social media companies as examples, even Tesla cars being banned in government car parks due to fears overs cameras. In practice how much interference is their actually in your view. And do you have to really navigate that in terms of your investments?

RJ: I think in practice dealing with government regulations has always been an integral part of, you know, doing investment in China. Let's just make this clear. But when it comes down to the government regulations impact on our investment process, it's actually, for most of the time not conflicting. I.e. if you look at the government's agenda, it's actually very much in line with our focus on ESG - environmental, social, and governance - I think that what government cares about is to make sure that the companies don't take shortcuts or, you know, built a business by taking advantage of others. So, for example, if you are a financial company, don't make money by doing regulatory arbitrage. If you're a manufacturing company don't make profit from mistreating your labourers or by polluting the environment. And if you're a so called platform company or consumer facing companies, don't misuse your market power against the consumers. So I think if we look at most of the things they are not contradicting to our own investment belief. So I would say, you know, it is something that we have to constantly keep in mind and navigate through from time to time. But I don't think China is anything different from lot of the other economies in that perspective.

[11:56]

CS: Another concern of the government at the moment is the sort of rising or even soaring commodity prices. And I believe the threat of inflation is starting to stifle growth. Are you concerned about the threat of inflation and just briefly also, obviously commodities perhaps now versus 20 years ago with the growth of consumers, is that as big a concern, maybe, maybe just talk us through that as well.

RJ: The answer is actually yes and no. I would say on the short-term basis, yes, we are seeing inflation being a notable risk. Longer term, I am less concerned. I think if you look at the short term

clearly the current commodity price inflation has been driven by, you know, from an extremely low base as well as a very strong synchronised global economy, particularly in key economies. This is also coupled with the fact that this is the first year of China's carbon neutral plan. So we have been seeing quite a lot of measures in controlling energy consumption, which leads to an impact on supply. This also feeds into the current commodity inflation. So when we look at the companies that we invest into, clearly we have pretty good confidence that those are companies that have strong pricing power, that can ultimately pass through majority if not all of the cost inflations (to the customer). But, you know, we have to admit that in most of the cases such costs pass throughs needs to take time. So in the short term, we could see some margin pressure coming from these raw material price inflation.

On a long term basis really, I think the argument for a new bull market of commodities it's actually just, it's just not there. We all know that China is the biggest consumer of commodities, and, you know, from my point of view, I think it's pretty clear that China is now moving away from a capital investment intensive growth model to a more capital light, but human capital heavy, type of growth model. So from that perspective, I think we are unlikely to see another big bull market for commodity prices.

[14:37]

CS: And just lastly, you've recently added an income element to the trust. Is that sort of an organic offshoot of what you were already doing or does it actually affect the types of companies you're investing in?

RJ: Yes, the board last year has made the decision to pay a regular quarterly dividend. This provides the trust investors, a constant income stream which also differentiates JP Morgan China Growth & Income from you know, a lot of the other product offerings on the market. That said the dividend will be paid mostly out of capital gains. So it doesn't really impact the way that we invest and we will continue to be focused on secular growth.

CS: That's great Rebecca, thank you very much for joining us today.

RJ: Thank you, thank you for having me.

CS: And if you'd like to learn more about the JP Morgan China Growth & Income Trust please visit fundcalibre.com and while you're there, remember to subscribe to the Investing on the go podcast.