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Zentrum stock picks China for investment returns

Thu, 08/08/2019 - 10:40

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Tags : Asia-Pacific Wealth

Zentrum Capital's Asia Opportunity Fund is an Asian focus multi-strategy fund and has achieved performance of 16.4 per cent so far this year.

Investors within the fund come from the ranks of family offices and high net worth investors. Kevin Yuen, Zentrum Founder and Chief Investment Officer describes this capital as 'sticky money'.

Despite the obvious volatility in the market, these investors like the stable and consistent returns of the fund which have annualised at 10.1 per cent since inception in June 2010.

"Some institutional money could be very short-term oriented and we try to avoid them even at the expense of our AUM growth," says Yuen. "From the investors' perspective, it is very important to find people that you can trust to manage your money and with more than 20 per cent of the fund owned by our management, we have a full alignment of interest with our investors."

- Zentrum offers route to Asian specialist portfolio

For Yuen, the fund offers investors exposure to Asian economic growth, with a special focus on China. "Everything is more or less driven by China in the region," he says. "If you understand China, you understand the biggest piece of the puzzle."

Stock picking skills are essential, he says. "While the major indices in Hong Kong and China have not been performing, specific stocks have generated outsized return this year. The market is dominated by big cap stocks, such as banks that don't perform well over the long term, so you need the stock picking skills in order to excel in the market."

"For investors from outside the region, we can bridge the gap as we were educated in the West and at the same time also have the in-depth understanding of Asia. We use a blend of a fundamental and quantitative approach to investing that is tailor-made to Asia. Traditional methods used in the West may not necessarily work in Asia."

Winning stocks for Zentrum this year include AIA Group, the insurance spin-off from AIG, which was originally founded in Shanghai in 1919, and offers insurance and wealth management services. It is the largest publicly listed pan-Asian life insurance group, and has had an exclusive licence in China since 1992. Zentrum believes that the company will continue to benefit from the US-China trade war as China opens up its insurance sector to global companies.

Other key stocks include liquor giants Kweichow Moutai and Wuliangye. They have outperformed the market significantly this year, having generated returns of 60 per cent and 134 per cent respectively this year. Despite the challenging economic environment in China, these companies have generated excellent results on the back of huge consumer demand for luxury brands, Zentrum says.

Another stock in their portfolio that has performed well this year is China International Travel A share with a +43 per cent year to date performance. It is a state-owned travel related company which has a dominating presence in the duty-free shops in the country and, Zentrum says, is riding the trend of tourism growth within the region.

While the trade war between US and China is ongoing, it does not necessarily mean you cannot make money form the market. Yuen says: "You need to be able to select stocks which will be minimally affected by the trade war.

"Moreover, you need to be able to manage the market volatility. Fundamental is one thing but you also need to have good risk management discipline to excel in this market. We use a quantitative approach to manage our risk," he says.

"Another sector we like is the gas distribution sector in China. The sector will benefit from state policy as China tries switch it energy reliance from oil to gas due to its pollution problem. This macro trend will benefit the sector while at the same time these companies are relatively insulated from the trade war."

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