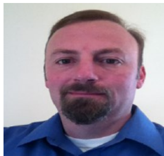
Investing In China, Is Now The Time



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Investing in China continues to be a double edged sword. From one perspective it is the 3rd largest global economy and the fastest growing economy in the developed or developing world. From another, GDP continues to decline in the face of aggressive measures by the government to stimulate and stabilize growth. The 6.9% GDP growth posted in 2015 is at the least an attraction for investors and at best the most obvious source of returns for global investors. The downside being that continuing declines in GDP, as well as bungling of the financial markets, present little reason to believe returns are a safe or promising as they may have once been.

Regardless of your perspective one thing is clear; China is still growing at a rapid pace and Chinese official remain ready to act as needed to support their economy. Aside from regular cash infusions the most recent and notable action taken is the replacement of the head of the Chinese Securities Regulatory Commission Xiao Gang. Xiao, who took charge of the agency several years ago, has taken the brunt of blame for market turmoil over the past year, turmoil which led to a 5 trillion yen decline in market value, the need for record setting government intervention and the circuit-breaker fiasco at the start of this year.

Opportunity Amid Confusion

Believe it or not fund managers see the recent instability in China as an opportunity for investors.

There is little hope for a broad recovery, regulators and officials have lost to much credibility for investors to believe in a return to the double digit growth of years gone by, but a stabilization of the markets alone would be enough for the Chinese economy to regain its footing and return to steady growth. Fund managers at the JP Morgan China Region fund had this to say in their latest monthly update. . .

"Chinese policymakers continued to lose credibility with markets due to opacity, inconsistency and a lack of intra-institutional coordination. While central banks in other major economies have generally been stabilizing forces in recent years, the PBOC has thus far not been.

That said, given the growth bias of our portfolio, we only require stability rather than an improbable recovery in either policy credibility or the broader economy, and market dislocations are generally opportunities to add to our holdings in consumer, media, healthcare and technology."

In the near term it seems as if efforts to control fear and stabilize the markets have begun to work. Over the past month Chinese indices have bottomed although there are still signs the economy is slowing; in January manufacturing hit a 3 year low, exports fell by more than -11% YOY and the government adopted a growth target below the 7% target set last year. The one ray of light is consumer spending which, although well below the highs set in 2014 is still quite robust. January sales came in just over 11% and are expected to remain near this level into the coming year.

What Is The China Region Fund

The JP Morgan China Region Fund is an actively managed closed end fund focused on the greater China region and not just the Chinese mainland, with the focus on long term capital gains. Managers seek to invest in the largest, most stable and growth oriented companies headquartered in China, Hong Kong, Taiwan which do business within and without China. The fund is benchmarked to the MSCI Golden Dragon Index and the CSI 300 Index with a decided bias toward large and mega cap issues which alleviates a lot of the risk associated with the lesser known and less well-established Chinese businesses.

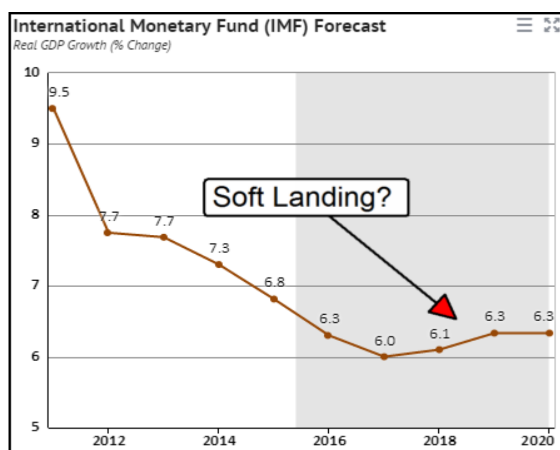
One of the many benefits of this fund is the fact that it is a closed end fund. Closed end funds, and this one is no exception, tend to trade at a discount to their net asset values offering investors the chance to own a basket of stocks at a substantially lower price than if they were bought individually. The JFC tends to trade at a discount near -13%, current discount is just over -15% which means the fund is undervalued relative to the three year average.

In addition to the NAV discount owners of JFC enjoy the benefits of dividends and capital gains earned by the fund. According to the prospectus all distributions and gains are paid to shareholders in the form of dividends at least once per year, the past years earnings equal to 7.5% yield at today's share prices.

Fund mangers tend to focus on the financial and information technology sectors but also have substantial investments in niche sectors giving the best returns. Financials and info tech alone make up more than 60% of fund holdings, the next two largest sectors, Industrials and Consumer Discretionary, make up only about 19% of fund holding with the remaining 21% made up of stocks in the Telecom, Healthcare, Energy, Utilities, Consumer Staples and Materials sectors, and 4.7% cash position. Over the past month allocations in 6 of the 10 sectors have been trimmed with the most notable increases in Consumer Discretionary and the cash position.

China And The Future

Outlook for China remains positive going out to beyond 2050. The problem is that China's economy is changing from a rapidly growing industrial giant to one that is more focused on the consumer and consumption. This, along with a heavily regulated business sector as well as a marked division between state run and private business makes knowing where to invest in China, and when, one of the toughest decisions for today's investors.



Those with intimate of knowledge of the region find it hard enough to wade through the ever changing environment, those without that knowledge may as well through a dart at a list of stocks and invest in whatever gets hit. This is why an actively managed fund like the JFC is a good choice for the individual investor. Fund managers have a finger on the pulse of the region and seek to invest in the fastest growing sectors of the economy.