

Value investing: Making it fresh and effective

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- Board Director and Chairman of Investment Committee
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Value Partners



- Dedicated value investor for almost 30 years
- Buy the 3Rs - right business, run by the right people at the right price
- The approach remains effective but value investing is art, not science. It evolves and must blend into a changing environment.

Background



- **Value Partners listed** in Hong Kong since 2007 (stock code: 806 HK)
- One of Asia's biggest independent asset managers with **US\$14 billion¹** under management
- **Temple of Value Investing**, 7,000 company visits a year
- **240+ performance awards** since inception

Our flagship “Classic Fund”



As of 23 Feb, 2021	Fund Size (USD million)	Since Inception ² Total Return	Annualized Return (Net, %)	Since Inception ² Annualized Volatility
Value Partners Classic Fund (A Units)	1,572	+ 5,792.2%	+ 15.7%	21.6
Index*	-	+728.7%	+ 7.9%	25.3

All data unless specified as at 23 February 2021. Source: Value Partners and Morningstar, in USD, NAV to NAV, with dividends reinvested. Performance data is net of all fees.

* The Fund (A Units) was launched on 1 April 1993. Calendar year return of A Units over past 5 years: 2016: -3.2%; 2017: 44.9%; 2018: -23.1%; 2019: 32.4%; 2020: 37.6%; 2021 (YTD): 14.1%. The Fund (C Units) was launched on 15 October 2009. Investors should note that figures for A Units shown above may differ from those of classes currently available for subscription (C Units), due to differences in launch date of these classes. The Manager does not accept any application for A Units until further notice.

** Index refers to Hang Seng Price Return Index till 31 December 2004, thereafter it is the Hang Seng Total Return Index up to 30 September 2017. With effect from 1 October 2017, it is the MSCI Golden Dragon Net Total Return Index, which takes into account of dividend reinvestment after deduction of withholding tax. All indices are for reference only.

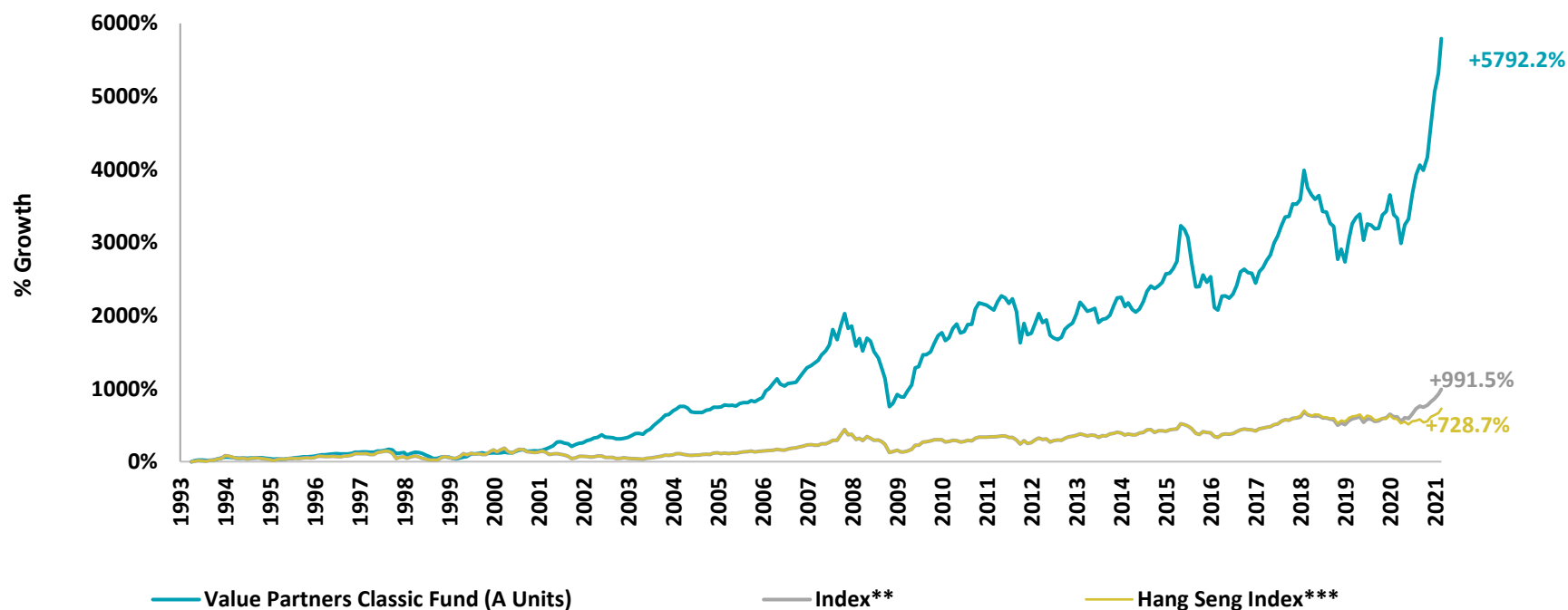
*** Hang Seng Price Return Index was used till 31 December 2004, thereafter it is the Hang Seng Total Return Index. Hang Seng Total Return Index takes into account of dividend reinvestment whereas Hang Seng Price Return Index does not.

*since inception

Value Partners Classic Fund



Performance since inception* (1 April 1993)



All data unless specified as at 23 February 2021. Source: Value Partners and Morningstar, in USD, NAV to NAV, with dividends reinvested. Performance data is net of all fees.

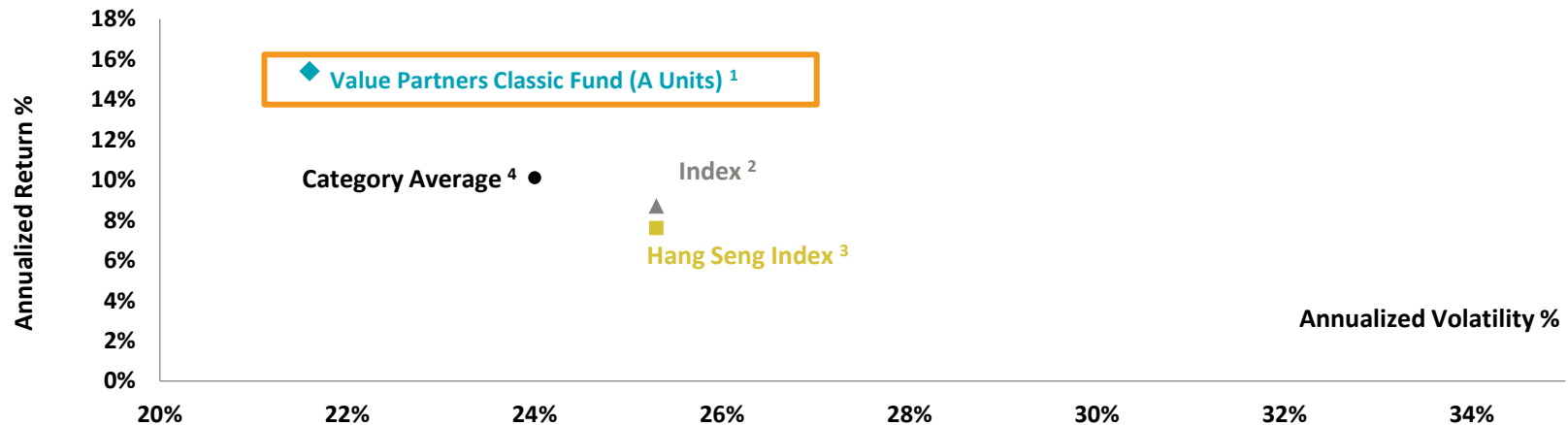
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Outstanding Risk-adjusted Returns

Risk/Reward trade-off (1 April 1993 to 31 January 2021)



	Value Partners Classic Fund (A Units USD) ¹	Index ²	Hang Seng Index ³	Category Average ⁴
Annualized return (Compounded)	+15.4%	+8.7%	+7.6%	+10.1%
Annualized volatility	+21.6%	+25.3%	+25.3%	+24.0%

Source: Value Partners and Morningstar as at 31 January 2021, performance in USD, net of all fees. All indices are for reference only.

1. Inception Date: 1 April 1993. All data unless specified as at 23 February 2021. Source: Value Partners and Morningstar, in USD, NAV to NAV, with dividends reinvested. Performance data is net of all fees.

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2. Index refers to Hang Seng Price Return Index till 31 Dec 2004, thereafter it is the Hang Seng Total Return Index up to 30 Sep 2017. With effect from 1 Oct 2017, it is the MSCI Golden Dragon Net Total Return Index, which takes into account of dividend reinvestment after deduction of withholding tax. All indices are for reference only.

3. Hang Seng Price Return Index was used till 31 December 2004, thereafter it is the Hang Seng Total Return Index. Hang Seng Total Return Index takes into account of dividend reinvestment whereas Hang Seng Price Return Index does not.

4. Category Average includes all funds with performance history started before 1 April 1993 in the category of Greater China Equity (HKSF authorized).

Investors' return

- 3 big components:

- Increase in earnings per share (EPS)
- Dividend yield
- Increase in price-earning ratio (PER)

- Most powerful driver = Change in price-earning ratio
- e.g. A rise in price-earning ratio from 8x to 12x = 50% gain in stock price
- Whereas today, earnings per share growth is typically 5% to 10%. Dividend yield is typically 1% to 2.5%
- Of course, price-earning ratio can also go down – not just up – and really kill performance
- So you could buy a stock with earnings and dividends, and still lose money

What is price earning ratio (PER)?



- Measures share price relative to earnings per share (EPS)
- Sometimes called “PE multiple” because it shows how much investors are willing to pay per dollar of earnings

What is P/E?

$$P/E = \frac{\text{Share Price}}{\text{Earnings Per Share}}$$

Price earning ratio (PER)

A low PER may indicate that the stock is “cheap”
– but sometimes it may also indicate an inferior
business.

What an investor really wants?



1. High growth in earning per share (EPS)
2. High and sustainable dividend
3. Most importantly, price earning multiple goes up (a lot)

Easier said that done, of course!

In this presentation, let’s explore some tools that can help.

Key Question

“Catalyst Investing”:

Anything that can produce a rerating of the

PE of the stock or the market?

Key Question

Also watch for negative catalysts

- Anything that can cause the PE to drop

(“derate”) either for a particular stock or for the

overall market

The search for catalysts

- 1) Finding positive surprises
- 2) Beating expectations
- 3) Benefiting from favorable macro-environment

Note: A PER derating works in the opposite direction

Stock Market

“A mirror of society”

- The behavior of stock prices -reflects the hopes and fears of society

Possible catalysts

❖ Macro-environment

- Identifying a great macro-environment for investing and staying with it. Since 2008, markets flooded with excess liquidity via money printing

Possible catalysts

- ❖ Value-investing based on fundamental analysis
 - Identify superior business (“Durable Advantages”)
 - Bottom-up stock picking to find undervalued stocks
 - The valuation should offer a margin of safety
 - Value investing is not based on a formula but on a blend of qualitative and quantitative analysis
 - Become a part-owner of a superior business

Possible catalysts

- ❖ Will discuss later the concept of “quality value investing” that relies on making good judgements to find superior businesses.
 - Quantitative analysis based on numbers becomes less effective because everyone knows how to do it.
 - But still useful - for example analysis of ROE, cash flow and margins contributes to understanding business characteristics and quality.
 - But superior interpretation and judgement is key That’s the source of PE multiple re-rating.
 - Today’s value investor is a judge, not a number cruncher.

Possible catalysts

- ❖ Growth investing - seek businesses with superior growth
 - Such growth excites the market and can drive up the PE multiple

Possible catalysts

- ❖ Various market-timing techniques (often combines different approaches)
 - Can even be fung shui and astrology or just event-driven investing

Possible catalysts

- ❖ Insider trading, front-running and market manipulation: A criminal activity

Possible catalysts

- ❖ Activist investing - pushing companies to better realize shareholders' value (corporate governance, pro-environment).
- Good investor relations can help a lot!!

(By the way, selling short = essentially hoping for a decrease in the PE multiple)

Possible catalysts

- ❖ Thematics: Identifying themes in favor with governments /markets.
 - Examples:
Tech, healthcare, ESG, clean energy, Food security
- ... or perhaps an asset class such as old-fashioned deep value stocks or gold

Most of the investment approaches have their own strengths and weaknesses - "summers and winters"

Many effective investors employ a blend of different styles

Making value work today



- Our core style today is “quality value”
- Quality value investing – emphasise “right business” and/or “right people”
- Identify superior brands/business (“durable advantages”)
- Finding catalysts that will drive up price-earning ratio
- Worry about “negative catalysts” that will push down price-earnings ratio

Very challenging



- You need a disciplined and proven investment process – value-investing is that process.
- Useful reality check whenever you buy expensive or "Story" stocks.
- The best investors have great strength of character.

Seven key skills

1. Origination ("Contrarian")
2. Research (fundamental analysis)
3. Decision-making ("the killer instinct")
4. Deal structuring
5. Execution (Professional dealers)
6. Deal maintenance
7. Exit (category 1, 2, 3: Buy at category 1, Sell at category 2.5)

Key learning tools

“Teachability” & “Learnability”

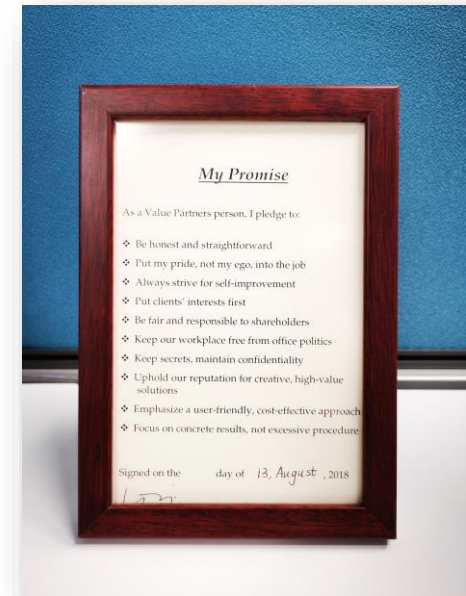
“Make a difference”

“Know what you don’t know”

My promise

As a Value Partners person, I pledge to:

- ❖ Be honest and straightforward
- ❖ Put my pride, not my ego, into the job
- ❖ Always strive for self-improvement
- ❖ Put clients’ interests first
- ❖ Be fair and responsible to shareholders
- ❖ Keep our workplace free from office politics
- ❖ Keep secrets, maintain confidentiality
- ❖ Uphold our reputation for creative, high-value solutions
- ❖ Emphasize a user-friendly, cost-effective approach
- ❖ Focus on concrete results, not excessive procedure



Is value investing in crisis?

- Breakdown in free market capitalism
- Breakdown in price-discovery mechanism
- Populist politics, bubble economics
- Breakdown in globalisation
- Growing role of passive investing and investment manias

- Sometimes it seems winners are selected by politicians/ central bankers/monopolistic structures, not by free markets or fundamental analysis
- Many societies adopt financial engineering (“financialisation”), a double-edged sword
- The Global Financial Crisis of 2008 could happen again
- In the next crisis, price-earnings ratios could crash, while social and geopolitical tensions escalate
- Gaming and gambling
 - activities - rather than real
 - investing - are spreading across financial markets

Value investing must blend in



- From finding cheap stocks, value investing evolves to finding quality businesses and people
- Constructing a “quality value” portfolio that diversifies across stocks, asset classes and markets
- Blending in “thematics” reflecting powerful themes shaping market outcomes, e.g. climate change, ESG
- All based on fundamental analysis and “seeking truth from facts”

- ... and beyond financial analysis, a deep knowledge of history, politics, culture, the sciences and all the subjects that shape the hopes and fears of society

Making value work - globally



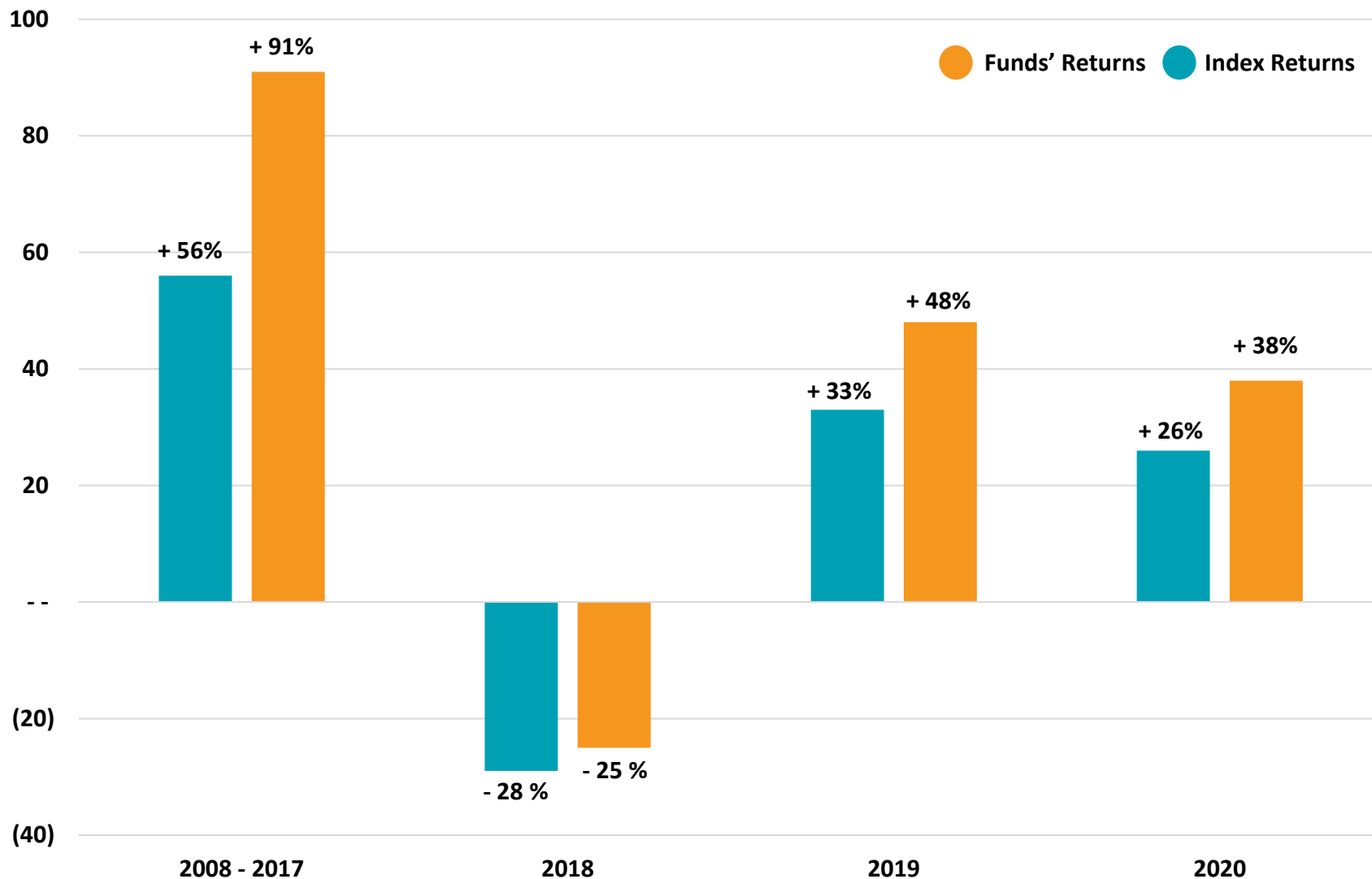
- A value investor needs to look beyond stock picking to evaluate markets and countries from a quality perspective
- Market bubbles in recent years disguise rising problems in many countries
- It’s up to each value investor to construct a portfolio offering quality and diversification
- China should be one of the safe haven asset classes over-weighted in such a portfolio, in my view

China still offers potential for PE multiple re-rating



- Chinese stocks at PER of 15, with 2% dividend yield, at reasonable valuation
- China: stronger social/political stability, financial discipline
- Economy set to contribute 30% of global growth for years, appreciating currency
- Middle class of more than 400 million people projected to double by 2035, great domestic consumer market
- Chinese household savings, concentrated in bank savings and property, starting to shift to stock market investing

China: Active fund managers still outperform



The journey of a value investor



- 1990s style: Buy low, sell high
- Today’s style: Buy right, sit tight, blend in
- Exercise judgement to select superior brands and businesses
 - going into the right markets/countries, consider also economic, social, political factors
- Don’t overpay, stick to the 3Rs of fundamental analysis

Thank You

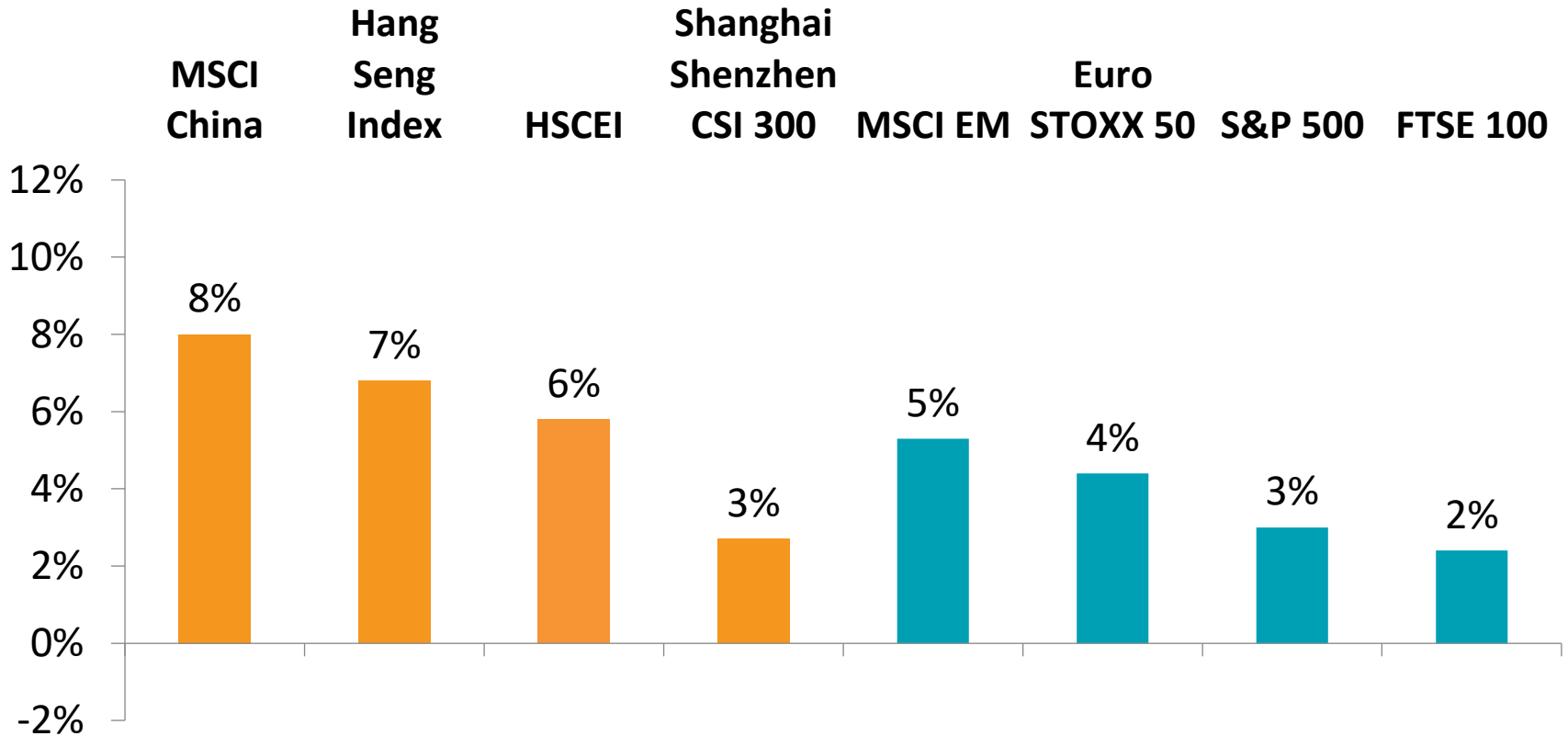


Appendix 1: Greater China market valuations attractive versus global markets

	P/E (X)		EPS growth (%)		Dividend Yield (%)
	2021E	2022E	2021E	2022E	2021E
MSCI markets (local currency)					
Australia	17.8	17.3	25.0	3.1	3.7
CSI 300	14.8	13.8	28.0	15.0	2.0
Hong Kong	13.1	11.6	20.0	13.7	3.7
India	30.0	23.0	31.0	25.8	1.5
Japan	21.0	17.2	30.0	18.6	2.2
Korea	14.1	11.6	32.5	21.5	2.1
Singapore Free	16.3	13.1	22.1	14.3	4.5
AC Asia Pacific ex Japan	17.8	15.3	28.1	14.0	2.5
USA	22.7	19.7	24.1	12.8	2.0
Europe	17.2	15.0	27.0	13.0	3.5
World (developed market)	21.0	18.3	25.1	12.1	2.0
Emerging Markets	16.0	13.7	29.0	19.0	2.5
AC World	20.2	17.5	25.0	12.0	2.4

Appendix 2: Recent performance

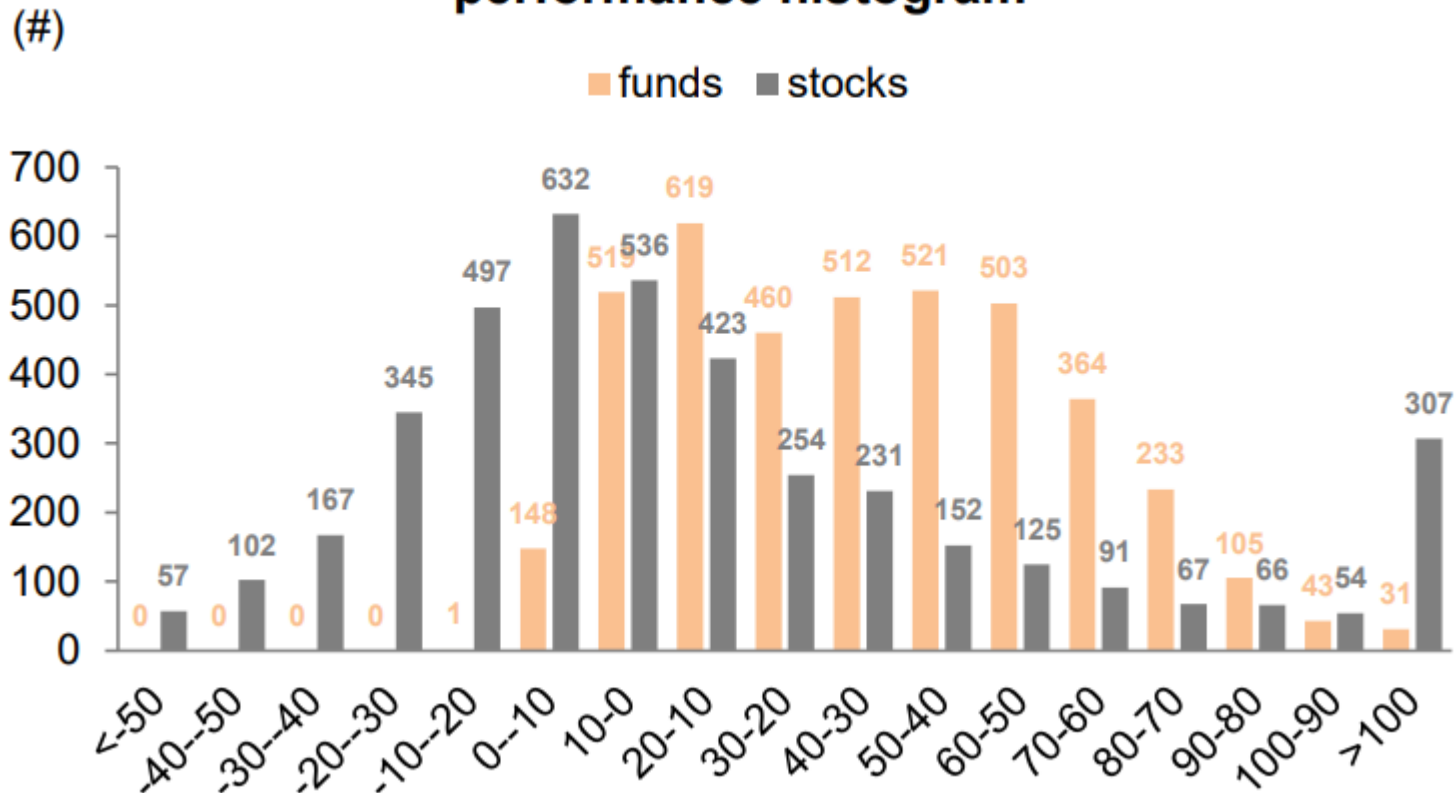
Year-to-date returns of global major index in USD terms



Appendix 3: ... and active funds can outperform

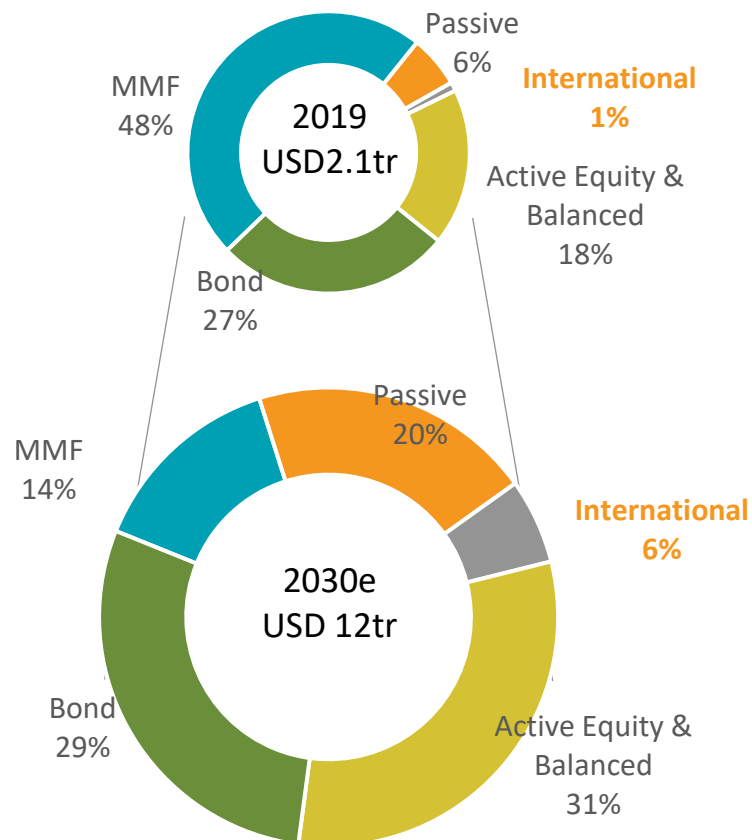
- Equity-focused funds had much higher average returns than stocks

YTD equity-oriented funds and stock performance histogram



Appendix 4: China 2nd largest asset management industry by 2023

China asset management by asset type
2019-2030e



Appendix 5: The top 20 foreign firms in China

The calm before the storm

Top ten remains intact with the most significant change right at the top

2020 Rank	2019 Rank	Firm		2020 Score	YoY change	Score distribution across the three business lines
1	3	JP Morgan	United States	68.24	7.91	
2	1	UBS	Switzerland	66.41	-1.15	
3	2	Invesco	United States	58.27	-5.20	
4	4	Schroders	United Kingdom	48.45	-7.59	
5	5	BlackRock	United States	47.11	-7.55	
6	6	Fidelity	United States	38.18	-10.67	
7	9	Aberdeen Standard	United Kingdom	31.61	-4.54	
8	7	HSBC	United Kingdom	31.24	-6.41	
9	8	Value Partners	Hong Kong	30.19	-6.35	
10	10	Morgan Stanley	United States	27.76	0.21	
11	13	Eastspring	United Kingdom	27.04	0.61	
12	14	Allianz GI	Germany	26.68	5.81	
13	11	DWS	Germany	23.90	-2.69	
14	12	Neuberger Berman	United States	22.49	-3.98	
15	16	Eurizon	Italy	21.80	3.86	
16	15	Winton	United Kingdom	19.78	1.23	
17	-	Nomura	Japan	19.54	3.17	
18	20	Bridgewater	United States	18.61	1.32	
19	18	PineBridge	United States	18.44	0.79	
20	-	AEGON	Netherlands	18.42	2.64	

Appendix 6: Recent awards and recognition



2019 IAMAC Most Popular Investment Business Partners

- Best Offshore Trustee Institution for Insurers
 - Most Popular Offshore Asset Manager for Insurers (offshore open market business) ¹
- Value Partners**



11th Golden Sunshine Award The Most Promising WFOE Private Fund House ²

Value Partners



2019 Golden Changjiang Award The Most Attractive Foreign Private Fund Award ³

Value Partners



Best Private Fund Managers in China

Top 10 WFOE Houses ⁴

Value Partners



2019 Yinghua New-Sharp Foreign Private Fund Award

New-sharp Foreign Private Fund Company Award ⁵

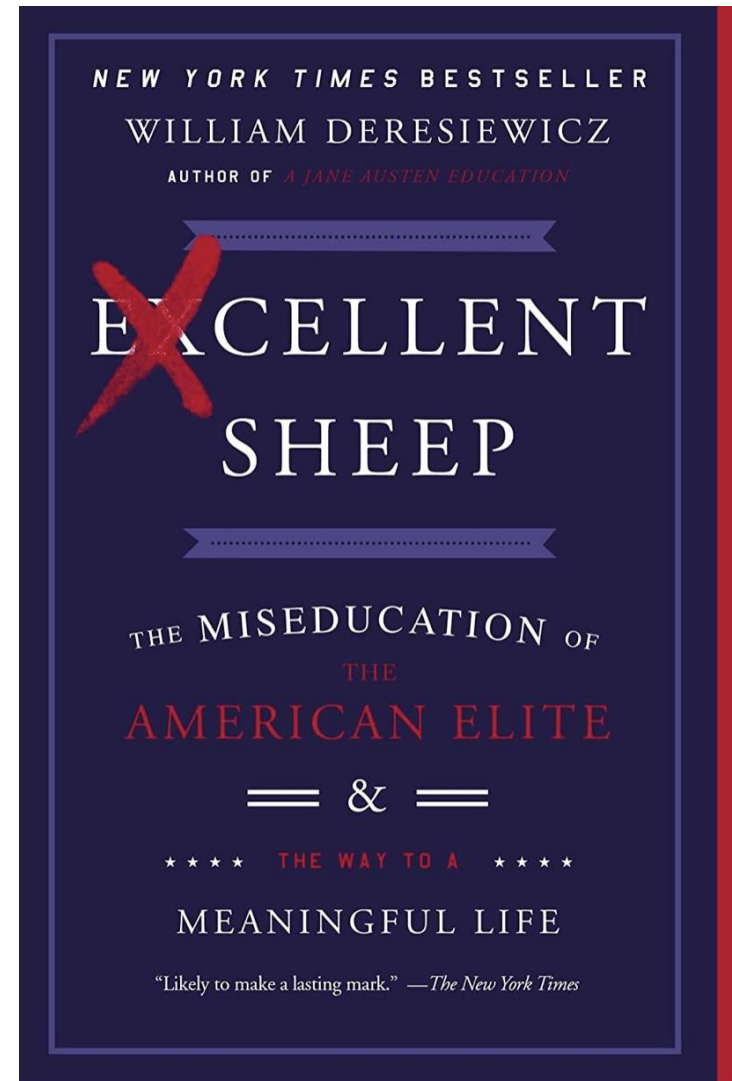
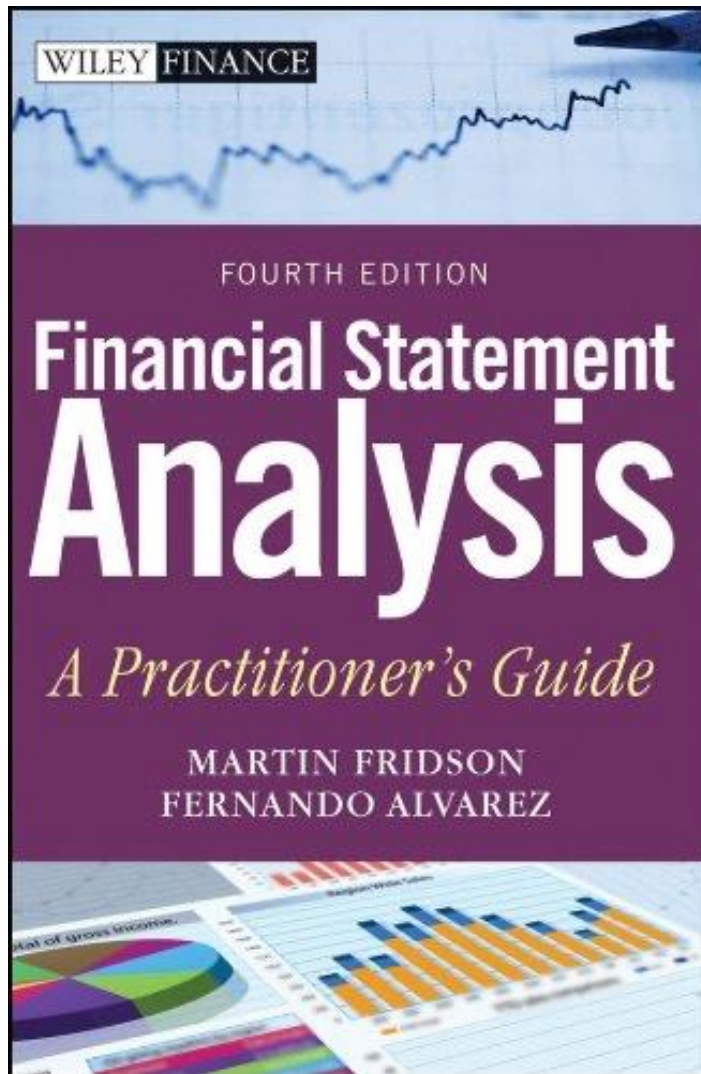
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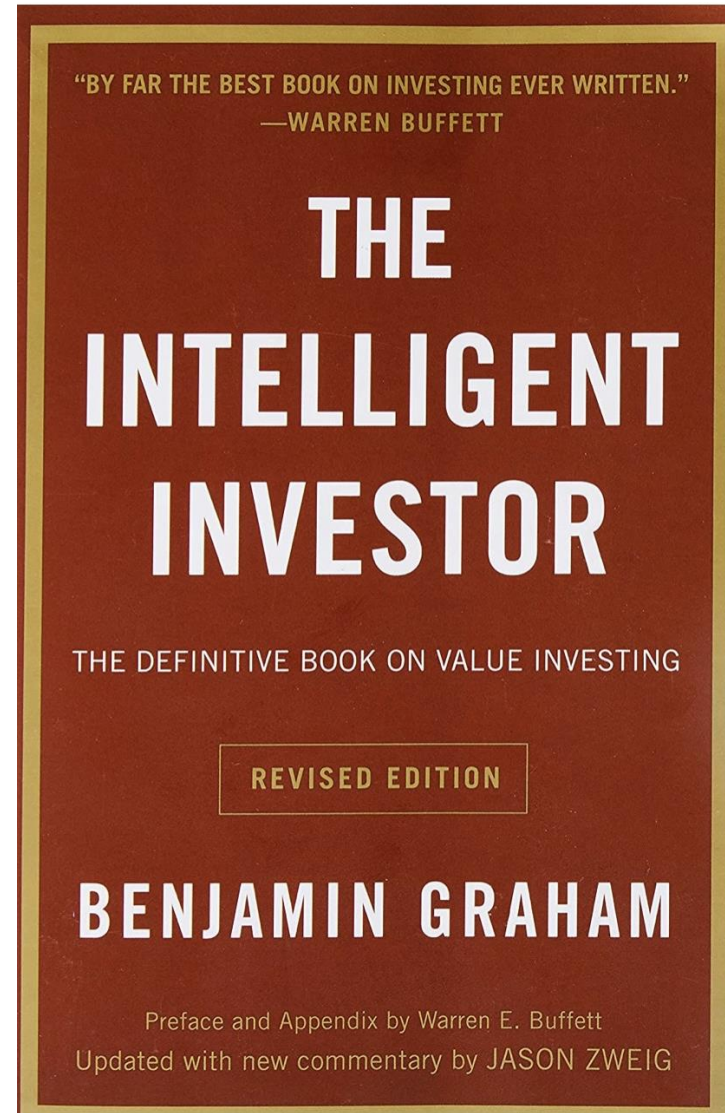
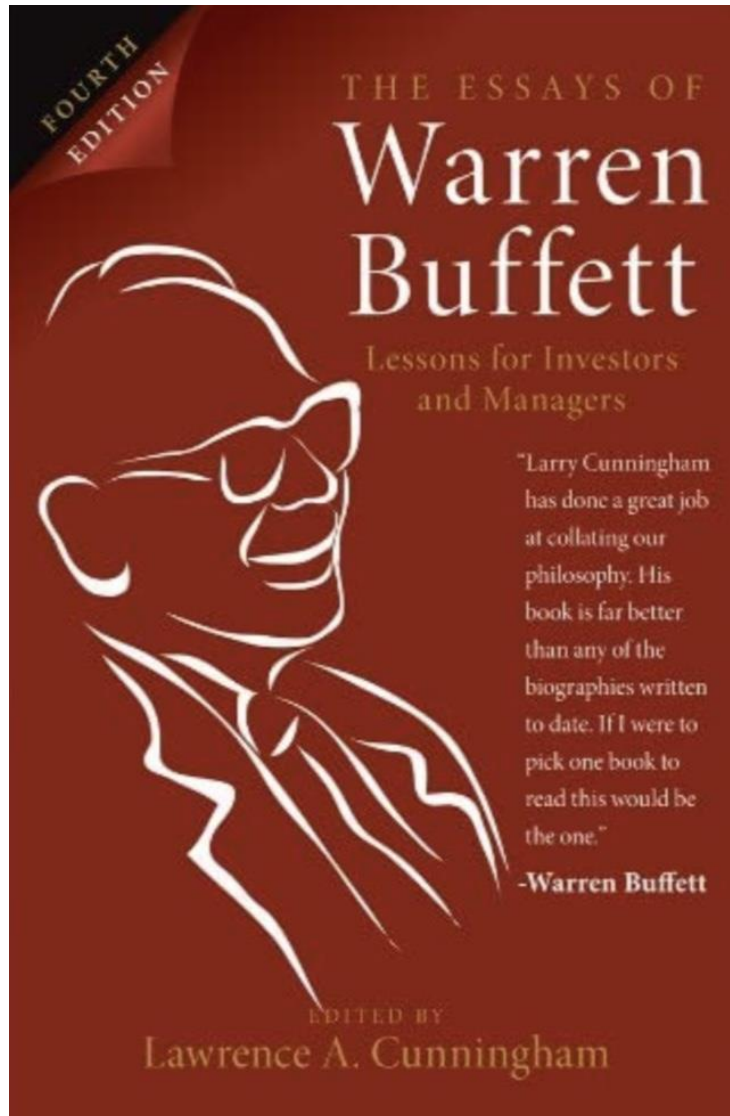
Bank of China Excellent Business Partnership ⁶ Best Business Partner ⁷

Value Partners

Recommended books



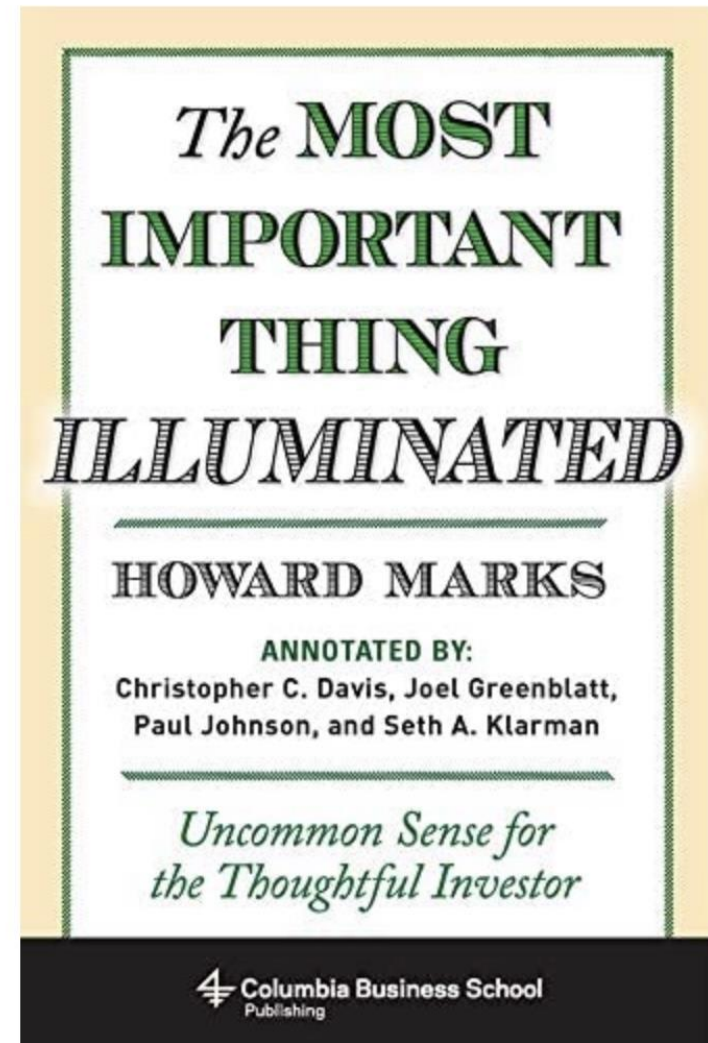
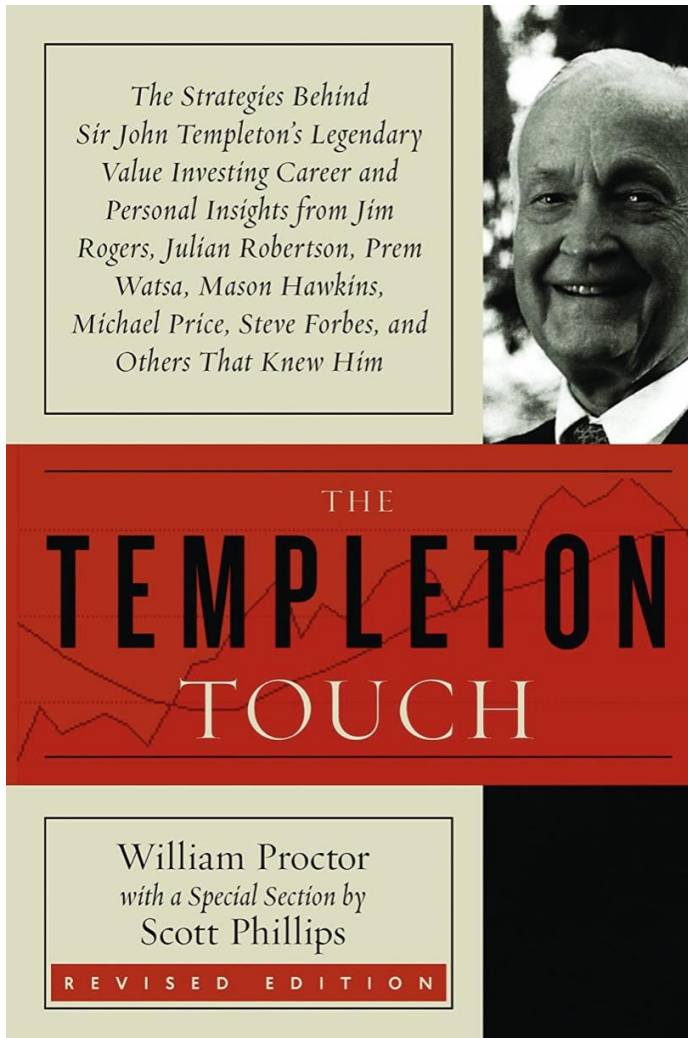
Recommended books



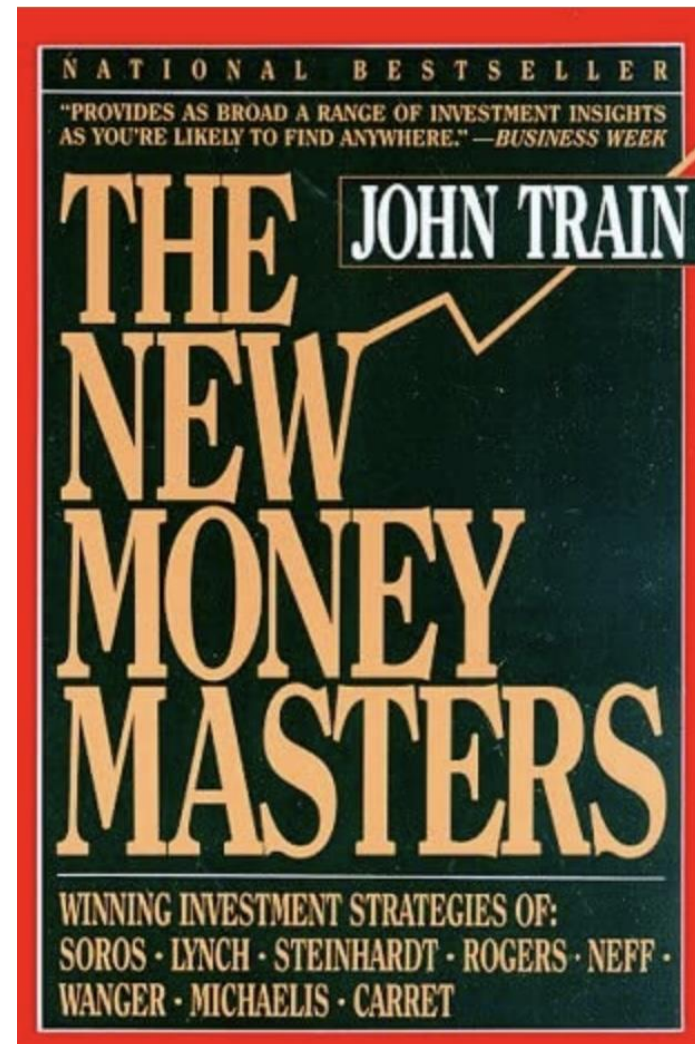
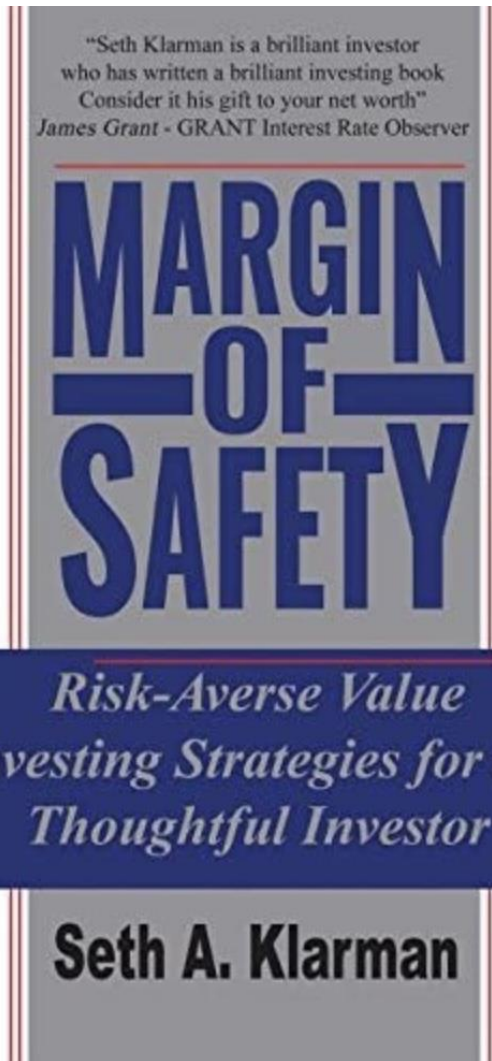
***Berkshire Shareholder Letters
(since 1977)***

<https://www.berkshirehathaway.com/letters/letters.html>

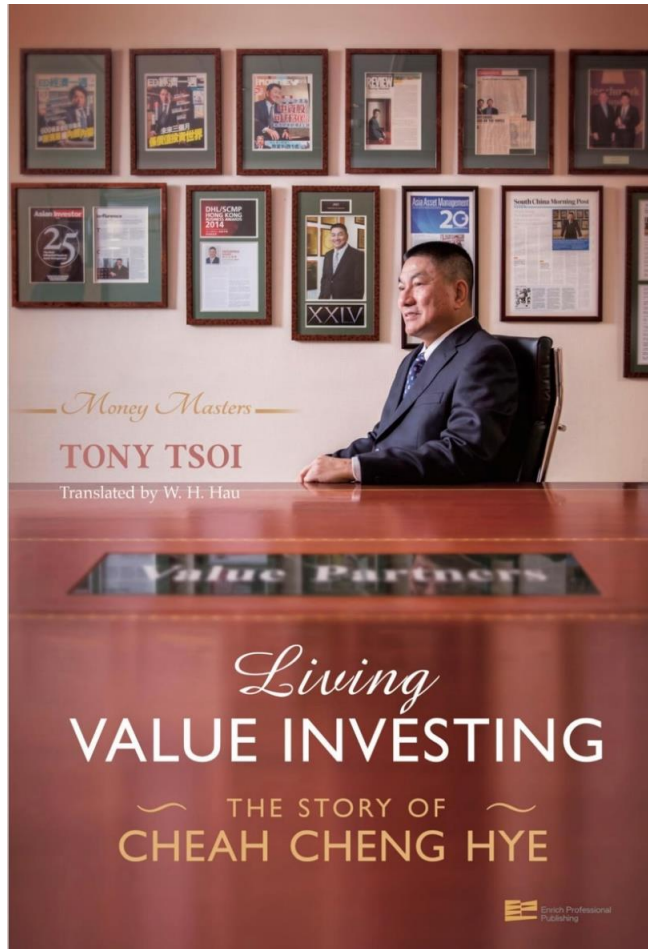
Recommended books



Recommended books



More background information



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