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# the year of the tiger

April 2010

**Charlie Awdry** explains how he is positioning his fund to benefit from the rise and rise of China.

Exposure to China, as the world's most vibrant and dynamic emerging economy, is likely to remain a high priority for investors. Chinese corporate profits are rising, exports are recovering and the long-term trend for domestic consumer demand points firmly upwards. Just as persuasively, stock valuations are currently undemanding.

In February, the Chinese New Year ushered in the Year of the Tiger. The tiger's yellow and black stripes are said to represent the balanced forces of yin and yang, and the Government is already balancing the economic stimuli of 2008 and 2009 with steps to avoid a credit bubble. This follows the Year of the Ox, aptly symbolising fortitude and patience. After a slowish start, China continued to assert its economic power in 2009, overtaking the US to become the largest car market in the world. By December, it had replaced Germany as the world's largest exporter.

That expansion continues, in manufacturing and in exports. In January 2010, the HSBC purchasing managers' index reached a record high, and export orders grew at close to record levels. Recovery in the US and Europe is contributing to both.

## targeting themes

The Gartmore China Opportunities Fund has exposure to this good news via holdings in Haitian, which makes plastic injection moulding machines, and diesel engine manufacturer Weichai Power. As manufacturing health leads to higher activity levels generally, others will profit – such as toll road companies, owned by the Fund in the shape of Zhejiang Expressway. My experience has taught me that investing in China requires digging a little deeper to find underlying trends and opportunities,

and this has been exhibited in the Fund with consistent success.

The mammoth Chinese stimulus package announced in late 2008 was largely affected by encouraging Chinese banks to increase lending, which they have done with increasing enthusiasm. This has prompted overheating in certain assets, including some property markets. While the government recently acted to restrain this exuberance by raising bank reserve requirements, I believe that the authorities remain committed to a policy of economic expansion. These moves may have come earlier than expected, but the government is not trying to slam on the brakes. It is merely taking some pressure off the accelerator.

## economic drivers of growth

Strong support for the economy's long-term health comes from continuing growth in consumer demand and the increasing sophistication of consumer tastes, helped by three distinct phenomena. One is the general urbanisation of the Chinese population, and another is rising disposable income.

A third contributor is social change, with a younger generation whose tastes are quite different to those of their parents. They are more educated and aspirational, more influenced by growing wealth, and much more connected to the internet and mobile technology. As such, their consumption patterns are different. Chinese companies such as car manufacturer Geely, Li Ning, the sports clothing and footwear supplier, and search engine Baidu, all benefit as the younger generation Chinese seek to emulate their western 'cousins' with their growing appetite for fast moving consumer goods.

The Chinese have always been enthusiastic savers, not least because families have had to fund their own health care and life in old age. The Government now plans to improve social welfare – the hope is that, as state pensions and health care programmes kick in, people will feel less obliged to save and start spending more disposable income.

## fund positioning

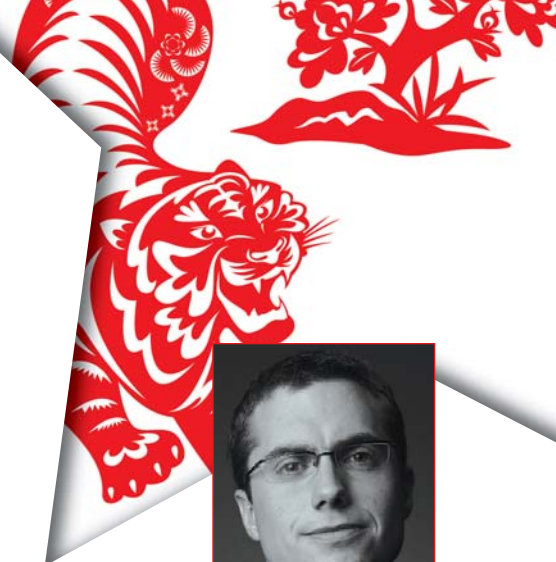
The Gartmore China Opportunities Fund has focused consistently on domestic growth trends for some years now, and is structured in anticipation of the recovery continuing. We are currently overweight in the consumer sectors and technology. As the rest of the world has moved into recovery mode, the Fund has recently gone overweight in export-related stocks. A good example is Li & Fung, a global trade sourcing business that has just won orders from Wal-Mart worth \$2 billion in the first year.

Over the longer term, as the recovery proceeds, it's important that Chinese banks make good quality loans, and we will be watching that closely. But China is fairly inexpensive right now, with Hong Kong listed Chinese companies trading at 11.7 times 2010 earnings. That's relatively good value. ●

*Charlie Awdry is manager of the Gartmore China Opportunities Fund.*

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