

Value Investing in China

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Value investing in A-share market?

Not a main investing theme

- High volatility (2~3 times that of U.S.)
- Aggregate correlation with macro economy weak
- Pervasive insider trading and related party transactions
- What value? Accounting numbers not trustable

Value investing in A-share market?

Future is bright

- In the A-share market, there's still a value premium
- QFII ~ USD 54 billion, RQFII ~ RMB 200 billion; QFII puts more weight on value investing; Overall QFII performance pretty good
- Shanghai-Hong Kong Stock Connect
- Shareholder activism
 - Zexi (泽熙) and HIT Shouchuang (工大首创)
- First bond default (ST Chaori Mar 2014)
- Hybrid ownership structure reform

Valuation of Chinese firms: The role of accounting

- Incentives
 - Private placement with repurchase terms
 - Executive ESOs
- Is bad accounting always bad for shareholders?
 - ST Angang Steel (鞍钢)
 - RPTs could provide resources when needed
- Ultimately it's an empirical issue

Performance of a value strategy with accounting analyses

Year	S&S 300 Index	L/S equity (5% market exposure)
2009	96.71%	32.26%
2010	-12.51%	32.29%
2011	-25.01%	1.16%
2012	7.55%	7.74%
2013	-7.65%	27.09%
Annualized Return	5.09%	19.37%
Sharpe	0.32	1.61
Sortino	0.49	3.68
S&S 300 Beta	1.00	-0.02