Eight Questions for June Lui

Charting a New Path in China

June Lui, CFA

Portfolio Manager & Analyst

June is Lead Portfolio Manager of Polen Capital's China Growth strategy. June is based in Hong Kong and joined Polen Capital from LGM Investments, which was acquired by Polen Capital in early 2023. June had originally joined F&C Asset Management in 2006, where she was co-Portfolio Manager for the Asia Pacific ex Japan strategies and served as the Greater China specialist for the emerging markets team based in London. In 2015, June transferred to LGM Investments as Portfolio Manager for the Greater China strategies. Both LGM Investments and F&C were part of BMO Financial Group. Prior to F&C, June had also held a managerial position at the Hang Seng Investment Management and worked for the Industrial & Commercial Bank of China. June received a B.B.A. from the Chinese University of Hong Kong and an M.B.A. from the University of Hong Kong. June is a CFA® charterholder and an EFFAS Certified ESG Analyst.

1. What attracted you to the investment business?
I thoroughly enjoy learning new things. The market environment is always evolving, and I've always felt that the challenge of digging below the surface to uncover the true workings of a company is fascinating.

2. What do you think global investors most often misunderstand about China?
There has been a lot of attention on the risks in China. Looking beyond the media headlines, I think some global investors underappreciate the scale and the structural changes in the economy, and the opportunity that this presents for Chinese companies.

The IMF expects China's GDP to grow 5% in 2024 and at 3%-4% over the next 10 years. While this may be a slower pace than we've seen before, the scale is still significant. It equates to creating the size of Switzerland in GDP this year or Canada roughly every three years.[1]

> **Today, China's economic growth is increasingly driven by innovation and investment in technology, data, and science, which we believe will create more long-term value than the old economy did.**

3. What do you think is the biggest advantage of having local, on-the-ground expertise when managing a China-focused strategy?
Being based in Hong Kong, we have the advantage of being close to the Chinese market. We have proximity to all the local data and media, but also access to all the Western media to understand international perspectives and sentiment. As a team, we have the right language skills, which enable effective dialogue with the companies we study.

We have been on the ground in mainland China, visiting factories and seeing a range of businesses across the country for many years, so we believe we bring a unique, informed perspective. Moreover, we are different from many local investors who have short investment horizons. We take a long-term view and have strategic, future-focused conversations with company leadership.

4. Where do you perceive the most compelling opportunities for growth right now?
Our team sees several exciting areas for investment, which we think should have limited exposure to lingering risks such as geopolitics and trade restrictions.

[1]World Economic Forum. International Monetary Fund (IMF) forecast as of June 27, 2024. Where is China's economy headed? | World Economic Forum (weforum.org)

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China's domestic economy benefits from secular trends of urbanization, income growth, and technological advancement. We're finding opportunities in select companies that operate in areas such as healthcare services, aspirational consumption, energy transition, industrial automation, supply chain efficiency, pension reform, and insurance protection, to name a few.

One example is a company called Shenzen Inovance Technology.[2] The firm is a leader in China's industrial automation market, which is experiencing robust, multiyear growth driven by a shrinking labor force and policy ambitions to lead high-end manufacturing globally. While the sector used to be dominated by multinational companies, Inovance has emerged as a dominant local player and has a differentiated offering relative to Western competitors. Based on our research, we believe it has a long runway for growth, especially as the market for electric vehicles expands.

5. What specific company qualities do you seek?

Very simply, we seek the most competitively advantaged businesses, which are capable of growing earnings and cash flows at an attractive rate. We look for companies with wide and sustainable competitive moats, long-term structural growth, management teams who demonstrate they are trustworthy stewards of capital, and business models that can self-finance growth. This usually means attractive financials such as a high return on invested capital, real organic revenue growth, solid free cash, and superior balance sheets. The Chinese equities universe is massive. There are almost 10,000 companies listed onshore and offshore.[3] Our investment approach is to be very selective and identify what we believe are the highest-quality 30-40 businesses for investment in our portfolio.

6. What are the biggest risks you are monitoring for your portfolio?

Geopolitics and trade tensions are real risks. While we think they are becoming increasingly predictable, we also aim to minimize our exposure to them.

Regulation and government intervention have also been areas of concern for international investors and are also factors we pay attention to. We believe by undertaking deep research on companies and the industries they operate in, as well as keeping a close eye on government policy tone and wordings, reading between the lines, and seeing the big picture of policy priority, we have been able to develop a good understanding of this risk. Finally, while we have minimal exposure to the property market, we still need to consider that impact on gross domestic product and the household balance sheet. Maintaining an awareness of all these risks is central to our process.

7. Looking at the China index, it's back to its 2009 level, whereas the S&P 500 has increased 5x. What can you tell us about the valuation of Chinese equities?

Looking at valuations, Chinese equities are not expensive, either in comparison to historical levels or in relation to the U.S. market. The MSCI China Index P/E ratio is now 12x, while the S&P 500 is 26x.[4] Moreover, we've observed that widespread selling of China equity in the last two years has all but removed the valuation premium an investor would typically expect to pay for a high-quality company. As far as what's required for this dynamic to change, we don't know if there's a singular catalyst. It could be policy action by the Chinese government. It could be a slowdown in the U.S., or it could be simply a gradual realization by investors that despite the headlines, plenty of companies in China are delivering decent earnings growth and enhancing shareholder return through dividends and buybacks, yet they are trading at historically low valuations.

8. Apart from researching and analyzing companies, what is your favorite thing to do?

I'm always looking to try something new! That might be a restaurant, hiking route, board game, holiday destination, or cooking a recipe I've never tried before.

[2]Shenzen Inovance Technology was a holding in Polen's China Growth strategy as of June 30, 2024. It is the newest position illustrative of the secular growth trend mentioned.
[3]Bloomberg Equity Screen, as of July 31, 2024
[4]*Ibid.*

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The MSCI China Index is a market capitalization weighted equity index that measures the performance of the large and mid-cap segments of the Chinese market. The index is maintained by Morgan Stanley Capital International. The S&P 500® Index is a market capitalization weighted index that measures 500 common equities that are generally representative of the U.S. stock market. The index is maintained by S&P Dow Jones Indices. The volatility and other material characteristics of the indices referenced may be materially different from the performance achieved by an individual investor. In addition, an investor's holdings may be materially different from those within the index. Indices are unmanaged and one cannot invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes.

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