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Alan Schwartz confident China and Asia ’the places to invest over the next 20 years’

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By GLENDA KORPORAAL, ASSOCIATE EDITOR (BUSINESS)
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‘Time will prove us right and China will prove itself to be a very investable place,’ says Alan Schwartz. Picture: AFP

While Magellan founder Hamish Douglass is continuing his mea culpa for investing so heavily in Jack Ma’s Alibaba, other investors are fiercely debating the outlook for Chinese shares.

Shareholders in Douglass’ Magellan Financial Group will have the opportunity to hear more from Douglass at the company’s annual meeting on Thursday.

Douglass is telling people he misjudged Alibaba’s high-flying founder Jack Ma, whose comments at a conference in Shanghai last October inflamed Chinese regulators who demanded he pull his proposed float of his electronic payment platform Ant Group at the last minute.

Ma’s e-commerce giant Alibaba was hit with record fines of $US2.8bn ($3.7bn) in April this year for abusing its dominant market position, sending its share price tumbling and embarrassing many of his high-profile supporters in the West.

But, in a contrasting move, the more low-key Melbourne entrepreneur and venture capitalist, Alan Schwartz, has made it clear he is still a strong supporter of investing in China – a market which he goes so far as to say is superior to investing in the US.

The Schwartz family office, Trawalla Capital, is backing a Hong Kong-based Asian investment house, Stonehorn Partners, which has investments in Asia including China.

Stonehorn, run by former Macquarie bankers Sam Le Cornu, John Lam and Duke Lo, launched its first fund, a pan Asia long-only equities fund, in June last year.

At a briefing last week, Schwartz, who is married to Reserve Bank director and philanthropist Carol Schwartz, said he backed Stonehorn because he believed that “China and Asia would be the places to invest over the next 20 years”.

“We are happy to hang in there,” he said, referring to the string of action taken in China against Alibaba and other tech companies such as Tencent and ride sharing company Didi which have spooked foreign investors.

“Time will prove us right and China will prove itself to be a very investable place,” Schwartz said.

“Its regulatory regime is getting better all the time. They are producing incredible wealth for their people.

“In terms of creating an environment to create wealth and common prosperity, I would back China over America any day.”

China’s actions against Alibaba and other tech companies such as Tencent and ride sharing company Didi have spooked foreign investors. Picture: AFP

His comments followed a detailed presentation by Le Cornu, who moved to Hong Kong 15 years ago to help set up Macquarie's Asian equities arm, putting the slew of actions from the top in China against high profile businesses into context.

Le Cornu admitted that "it looks like a bombardment of regulation coming from China. For a Westerner looking at it from outside, it seems as if it is unstructured and draconian in nature."

All the moves – from those against Alibaba, Tencent and Didi and others against listed private educational tutoring companies, he said, were part of a broad move by authorities to bring a much more rigorous regulatory structure to business.

There were four different themes to the changes, Le Cornu argued.

These were the introduction of a more rigorous antitrust regime design to provide more competition to powerful internet companies; moves to ensure greater job security and protection of China's 200 million "gig" workers; moves to impose stricter controls on data security (and limit the potential access of private data by foreigners); and moves design to bring about more social equity — including taking the pressure off harried Chinese parents to have to pay out for expensive tutoring for their children.

While the actions seemed to come out of the blue for Western observers, he said they had been well telegraphed by Chinese policy makers as they laid out stricter, more formalised regulatory regimes.

The moves were about China developing regulatory regimes, similar to those in the west, in areas like antitrust. In other cases, they were designed to have more structured policies towards big tech giants, in a similar way as Western governments have been looking to crack down on social media giants like Facebook.

But because of China's helter skelter economic growth, the regulatory regimes and the formation of national regulators themselves, were being imposed after the emergence of the companies.

Alibaba, for example, listed in the US in 2014. But China's national competition and antitrust regulator, the State Administration for Market Regulation (SAMR), which levied the big fine on Alibaba, was only set up in 2018.

The suspension of the proposed float of Didi, he argued, was due to concerns by Chinese regulators about private data from the company's hundreds of millions of customers potentially being made available to foreign investors.

The move against the private tutoring giants was in line with Beijing's policy to encourage Chinese to have more children.

Chinese parents, Le Cornu said, were unwilling to have more children because of the high cost of bringing them up, including expensive after school tutoring.

This has hit the shares of the US listed TAL Education Group, and others listed in Hong Kong including New Oriental Education & Technology, Koolearn Technology, Scholar Education Group and China Beststudy Education.

In short, he argued, the rash of moves announced over the past year – starting from the pulling of the Ant float — were all part of well thought out, evolving regulatory regimes which would ultimately lead to a better regulated economy in China and moves to reduce inequality. They were not evidence of systemic risks.

He pointed out that Warren Buffett's co investor, Charlie Munger, has used the opportunity to double down on his investments in Alibaba.

The problem is, of course, in the meantime, as China finds its way to more comprehensive regulatory regimes, unwary Western investors have become roadkill.

Le Cornu argued that if Beijing had done a better job of explaining its moves, foreign investors might be a lot less spooked. But the interests of foreign or Western investors is well down the list of concerns of Chinese president Xi Jinping.

The timeframe of long planning for Chinese leaders – with their decades of five-year plans – is polar opposite to the short term view of Western equity investors.

That said, Le Cornu did express some concern about the potential fall out from rising Chinese nationalism including what it might mean for foreigners like himself doing business in Hong Kong.

In short, Schwartz and Le Cornu are arguing that there are still rich investment opportunities in China if you know what you are doing and pay attention to fundamental regulatory and policy changes.

In the long term, they may well be right. But for many Western investors the risk of buying Chinese shares has skyrocketed over the past year.

China is working its way towards a more sophisticated regulated economy which could well produce a more stable regime.

But whether Western investors can hang in there for the long term and make money in a potentially huge but still opaque market, or whether more will become roadkill along the way of the evolving China story, is by no means clear.

For those with short-term investment horizons, China shares are not the place to be.

GLENDA KORPORAAL, ASSOCIATE EDITOR (BUSINESS)
Glenda Korporaal has been covering business and finance in Australia and around the world for more than thirty years. She has worked in Sydney, Canberra, Washington, New York, London, Hong Kong and Singapore and has interviewed many of Australia's top business executives. Her career has included stints as deputy editor of the Australian Financial Review and business editor for The Bulletin magazine.