



Drew Guff is betting on increased consumption in China. PHOTO: ANGUS GRIGG

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about the overall numbers and more about the group of people such an uplift has pushed into the middle class.

"There are 240 million people who will move into the middle class between 2010 and 2020," he says. "It's this group we are chasing when investing."

This focus has pushed Siguler Guff, which has had an office in Shanghai since 2006, to chase private equity deals mainly in the healthcare and technology sectors and forced it to adopt a very different style in China to that of its home market in the US.

"We are a value buyer in the US but a growth player in China," says Guff.

This split approach has delivered investors a 12 per cent annual return, net of fees, for the past 25 years.

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Within this, not being spooked by China has been part of the success as the firm has more than \$US1.5 billion invested on the mainland, half of all the capital it has in emerging markets and around 11 per cent of overall assets.

This consumption uplift in China, which Australian producers of beef, vitamins and dairy products have already experienced, is now tilting towards healthcare. "We are looking for businesses that are growing at two to three times official GDP, which is why we love healthcare," says Guff.

In a paper published by the firm in January, it laid out why it believed healthcare was an area where its model of investing between \$US10 million and \$US15 million in early-stage deals could work in China.

The paper said it was "difficult and expensive" to get exposure to the Chinese healthcare sector, via listed markets, while such a shortage of companies meant higher valuations. "Healthcare companies listed on the

Shanghai Stock Exchange traded at an average P/E [price/earnings] multiple of more than 80 times as of December 2016," the paper said. "This compares to an average P/E multiple of approximately 30 times for healthcare businesses on the New York Stock Exchange."

The paper also noted the International Trade Administration projected total healthcare expenditure in China would reach \$US1.1 trillion by 2020, a compound annual growth rate of 11.4 per cent. Within this, the medical devices market is projected to achieve 14 per cent annual growth.

Assuming the position on Chinese consumption

Angus Grigg
AFR correspondent

Shanghai | For the past decade Wall Street private equity firm Siguler Guff has made its money by ignoring those preaching economic doom in China.

As the China bears and boosters have faced off in an endless cycle of statistics swapping to validate arguments, the \$US13 billion (\$17 billion) fund has found something of a third way.

It sees China's rapid accumulation of debt as a problem, acknowledges it cannot continue, but believes it is largely a government issue, which Beijing can fix, rather than something that will ultimately dent household consumption.

That remains a large assumption, but one that has been correct so far.

"We are betting on China's consumption upgrade," says the fund's co-founder, Drew Guff, during an inter-

view in Shanghai. "People have talked about this [consumption upgrade] plenty over the years, but now it's really starting to show itself."

Guff's view on China is relevant to many Australians as his firm manages money for 18 local super funds including industry giant Hostplus.

And while Guff's approach of profiting from China's emerging middle class is hardly a new one, in recent years this trend appears to have reached something of a tipping point.

Official figures partially bear this out. According to World Bank data China's per capita gross domestic product surged 26 per cent to \$US8027 between 2012 and 2015. That's a huge leap, even if China's goal of moving beyond middle income status – \$US12,475 – is still some way off.

But, for Guff, this growth is less

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It is projections like this that have attracted Australian healthcare leaders such as Cochlear and ResMed to China, but Siguler Guff also identifies a growing incidence of what could be more broadly known as First World problems.

“There is an evident trend of lifestyle-driven disorders such as cardiac diseases, asthma, diabetes, cancer and behavioural issues,” the paper said.

These often chronic problems require lengthy and expensive solutions and Siguler Guff believes China’s local medical innovation industry is developing rapidly to address these problems.

“Private equity investing has to be opportunistic,” says Guff.

“Today public markets are pretty expensive so when people are looking for extra returns you look for niche areas that others can’t access.”

The firm does this by giving money to local private equity funds specialising in the healthcare sector and also by investing alongside them on some deals. It also argues private equity has a big role in China and therefore can deliver better returns, as bank loans are still directed largely towards state-owned enterprises and listing on the sharemarket remains difficult after the 2014 crash. “The ability of private equity to close the funding gap has generated outsized returns for investors in the country since the early 2000s,” the firm’s paper said.