



Portfolio

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Opportunities in China for those with connections

Bill Lawton, chairman and CIO of Seagate Global Advisors, tells **John Bonaccolta** fixed income and China investing go hand in hand, given the right strategy and a strong local partner



The pier at Redondo Beach, California, not far from downtown Los Angeles, may seem like an unlikely setting to talk about the opportunities and challenges facing investors in China. But it is home to Seagate Global Advisors, a \$100 million hedge fund.

Despite its serene setting with views of the Pacific Ocean above Bloomberg monitors, Seagate has been making a name for itself in global fixed income markets, spanning both the developed and emerging world.

Recent attention, however, has been focused on a new arena: its related China pre-IPO fund.

At first glance it may seem strange for a fixed income specialist to attempt private equity investing in an emerging market such as China. But Bill Lawton, chairman and chief investment officer of Seagate, argues that fixed income and China investing go hand in hand.

“Increasingly, you cannot understand the world economy without understanding China – China is inevitable, and it is now,” says Mr. Lawton.

Since the mid-1970s Mr. Lawton has been focused on Asian fixed income at firms such as Nikko Securities and Trust Company of the West (TCW). In 1993 he went to China as one of the first investment managers from the West to assist the People’s Bank of China in devising a strategy for its reserves, and he has been working with Chinese institutions ever since. He has since brought on

other China experts at Seagate, including James Pan, a former senior trader at China's central bank, and Doug Metcalf, the former head of emerging markets for Nomura Securities in New York.

While Mr. Lawton notes some similarities between China and Japan at a similar stage of growth, such as high infrastructure spending and an appetite for advancement, he also sees important differences, such as sophisticated innovation and entrepreneurship in China.

“And of course there are the scale differences,” he notes.

But while many people recognized that China would someday offer tremendous opportunities, many also tried to invest early, with mixed results.

“To invest in China, you really have to have the right strategy, and the right strategy means having a solid local partner,” says Mr. Lawton. “You have to invest in the relationships on the ground and not merely fly in and fly out.”

In a country where the government still has a hand in much economic activity and where many outsiders over the years have found it difficult to make money, Mr. Lawton seems to have addressed both of these challenges by forming SeaBright Asset Management, a joint venture with Hong Kong-based China Everbright Ltd., part of the Beijing-based China Everbright Group. China Everbright owns 65 percent of SeaBright, with Seagate the remaining 35 percent.

China Everbright, which is not well-known outside China, has broad interests in financial services, with US\$ 40 billion in assets spanning banking, securities trading, brokerage, corporate finance, asset management, insurance, and venture capital. “Seagate brings its fixed income expertise to the partnership, and China Everbright brings its direct investment capability and extensive China network,” explains Mr. Lawton.

In 2004 the venture raised its first fund, the \$50 million SeaBright China Special Opportunities I Limited. In May 2005 it recognized its first return through the IPO of China Techfaith Wireless (CNTF), a company specializing in research and development for wireless handset design, on the NASDAQ market. It realized a return of 292 per cent on this investment.

Although the IPO of Techfaith allowed the fund to sell the majority of its stake, recent stock price performance is a reminder that investing in a developing country like China can also be harrowing. Shares recently traded under \$9, off from highs of over \$19.

Despite this setback, Mr. Lawton remains bullish and states that China requires a long-term view.

SeaBright's Shenzhen-based team of 15 professionals continue to search for opportunities, which in China can be found outside of the usual technology and medical sectors which dominate venture investing in the developed world.

Although smaller well-connected players like SeaBright can still pick their spots, this window of opportunity might be limited in duration as other bigger players rush to take part in the action.

Investment banks such as Morgan Stanley and Goldman Sachs and independent players like Carlyle Group are increasingly establishing big presences in China.

As for Seagate's future, Mr. Lawton remains quite optimistic, already citing the possibility of a second, larger private equity fund focused on China.

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