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Value Partners Group Limited
2022 Interim Results Announcement
Investor Call Transcript

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Conference Call Participants

Ms. June Wong, *Value Partners' Chief Executive Officer*
Ms. Nikita Ng, *Value Partners' Finance Director*
Ms. Ellen Tsang, *Value Partners' Managing Director*

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Operator: Ladies and Gentlemen. Thank you for joining the Value Partners' Half Year 2022 Results conference call. The call will begin with a presentation by management, followed by a Q&A session. I would now like to hand over the call to Ms. Ellen Tsang, Managing Director and Head of Marketing and Communications from Value Partners. Thank you.

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Ellen Tsang: Thank you, operator. Welcome to Value Partners' 2022 interim results conference call.

I am Ellen Tsang from our Marketing and Communications team. Joining me on the call today are Ms. June Wong, Chief Executive Officer of Value Partners, and Ms. Nikita Ng, our Finance Director.

Our presentation today is composed of two sections. Nikita will first provide a more detailed financial review of our 2022 half-year performance. June will conclude with our latest business and strategy updates, and we will then open up the floor for questions.

I would now like to hand it over to Nikita to go over our financial review.

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Nikita Ng: Thank you, Ellen. Good evening everyone and thank you for joining us today.

The first half of 2022 continued to be very challenging for Value Partners, with a combination of macro, financial, and economic challenges that investors have not seen in decades for both stocks and bonds. The market has been increasingly concerned about stagflation or potential recession in the US that resulted in short-lived rate hikes and rising asset quality uncertainties on domestic HK amid passive rate increases and also continued uncertainty on China property exposure and growth recovery as well.

Due to unfavourable market conditions, the Group's asset under management decreased to 7.5 billion US dollars as of end June 2022 from 10 billion US dollars at the end of 2021. Therefore, our gross management fees also decreased correspondingly by 39% to 307 million HK dollars, and together with a significant reduction in performance fees by 90 million HK dollars, our total revenue was squeezed to 332 million HK dollars, a decrease of 53% compared to one year ago.

Total expenses were 264 million HK dollars, slightly increasing by 5% as compared to the same period last year.

With the above, the Group is reporting an operating loss of 45 million Hong Kong dollars and a net loss of 429 million Hong Kong dollars for the first half of 2022, compared with an operating profit of 193 million Hong Kong dollars and a net profit of 210 million Hong Kong dollars during the same period last year. The net loss was mainly dragged by the unrealized investment losses from our house investments, which include our seed capital investments, investments in our own funds and other alternative investments.

On the next slide, as mentioned earlier, the Group's AUM has dropped by 25% to 7.5 billion US dollars at the end of June. About 70% of the AUM decrease was due to fund performance, given the weak market sentiment, and we recorded net redemptions of 659 million US dollars for the first six months.

The earlier said interest rate hikes and market sentiment toward the China market continued to impact the Greater China high-yield bond market quite significantly. The AUM outflow during the period was mostly from one of our flagships – the Greater China High Yield Income Fund, but we saw a much slower redemption for the first half 2022 compared to the second half 2021. Under the current macro and financial environment, fund performance and outflow pressures are not isolated to a single firm, but faced by all asset managers globally for 2022.

Despite the market volatility, we still noted strong demand for our Greater China Equity Strategies with a performance fee structure and a resilient AUM base. There were also continuous inflows into our flagship fund – the High Dividend Stocks Fund, and a Chinese equities mandate from our European client with a long-term optimistic view about the China and Asia markets.

Next, let's take a look at the AUM analysis. The charts show the breakdown of the Group's AUM by Strategy and Geographical region.

By strategy, absolute return long-biased funds, which make up 75%, continued to represent the largest share of the Group's AUM. This is followed by fixed income funds, which account for 14%, where the Greater China High Yield Income Fund was still the largest contributor. Given the increased market demand for mixed-asset product strategy with lower volatility, we shall continue to expand our Asian Multi-Asset franchise for 2022.

In terms of geography, clients in Hong Kong continued to represent the largest segment, contributing 62% of the Group's AUM. With net inflows into our Chinese equities mandate from a European Institutional client, the share of AUM from Europe also increased from 12% to 14% as of end June. The share of AUM contributed by clients in Mainland China remained stable at 9%.

Moving on to the next slide on Expense Analysis, the Group continues to exercise stringent cost discipline. Fixed operating expenses have slightly increased by 6%, mainly on staff costs due to general salary increments and also as part of our strategic growth plan. Other fixed operating expenses remained stable with increased IT and market research costs, offsetting rental cost savings.

We will continue to take a cautionary stance in cost management in order to manage future business headwinds. At the same time, we will also continue spending on strategic growth areas where we believe it will bolster our competitive advantage in the longer term.

Moving on to the next slide, the Group continues to run a very strong balance sheet as of end June 2022, with net assets standing at 4.6 billion Hong Kong dollars with a net cash of 1.6 billion Hong Kong dollars. We also continued to maintain a position of zero debt.

In 2022, we have continued to deploy our house money into our own funds in order to seed and incubate new products to expand our product suite to capture new investor demand and also strengthen the alignment of interest between fund investors and our Group.

We shall continue to manage our balance sheet with a prudent cash liquidity buffer to meet operational needs and our longer-term strategic growth plans and initiatives.

And this is the end of our financial review section. Next, I would like to hand over to June Wong, our CEO, to go over the business and strategy updates section.

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June Wong: Thank you, Nikita. Good evening and thank you for joining us today. It is my pleasure to speak with all of you - investors and analysts - as the Chief Executive Officer of Value Partners.

The first half of 2022 continued to be challenging, with global markets broadly under pressure, including China and Asia. Despite the challenging period, we remain highly positive on the mid-to-long term prospects of the firm. The three key industry macro trends remain favorable to our business.

First, let us take a look at slide 11 of the presentation. Value Partners is focused on the wealth management client segment. A post-Covid survey suggests that the growth potential of the wealth management market in Asia continues to be huge. Despite the pandemic, the wealth management market in Asia is expected to continue to enjoy significant growth in the coming years, reaching 15 to 19 trillion US dollars in 2025. With this exciting growth trend, we saw a distinct demand from global investors, and let me tell you more now.

On the next slide, you can see the second macro trend, which is the strong and also increasing demand from global investors for China as an investment.

In a recent survey, 93%, or the majority of global institutional investors, confirmed the increasing importance of China assets in their portfolios. This was well supported by the rising foreign investment into China's onshore stocks and bonds in recent years. We could see that the foreign onshore portfolio investment amount, including stocks and bonds, has grown from around RMB 700 billion or USD110 billion in 2014 to around RMB 5.7 trillion or USD 850 billion in 2020. This implied an impressive CAGR of more than 30%, showing the strong demand for China asset classes from institutional investors.

Now moving on to the next slide. This is the third growth driver that I want to highlight to you. ESG is no doubt a topic that most people would agree to have become a key structural trend in the industry.

ESG-mandated assets used to constitute only around less than 30% of all professionally managed assets globally in 2014. It is projected to rise to more than half, to 58%, by 2024, reflecting the increasing demand for sustainability-related mandates from investors globally. It is also expected that ESG incorporation may no longer be a differentiator for investors alone but rather a standard requirement in their investment process.

Now, let me move on to slide 15 to talk about how Value Partners is well-positioned to ride on the growth potential derived from these powerful drivers.

First, in our Hong Kong headquarters, we continued to strengthen our management leadership in the first half of 2022. We enhanced our front-, middle- and back-office functions with few hires. A key function to highlight, among others, is our enhanced Client Portfolio Management team in the 2nd quarter this year, which is a strategic function in our business in terms of asset class expansion support. The enhanced function contributed a lot to our latest franchise development.

Our product expansion plan in our home market Hong Kong is seeing good progress. In July, we launched our HK-listed Value Partners EMQQ Emerging Markets Internet & Ecommerce ETF, named VPEMQQ ETF, on the Hong Kong Stock Exchange. This is part of our ETF franchise build-out. On the ESG end, our next product is underway, which will ride on the growth trend of ESG, as I discussed earlier. I will tell you more about our product plan for these products later in my presentation.

On the business front, we are in quite substantive discussions regarding the formation of a strategic alliance with a leading local banking group. This is going to be a very exciting, multi-dimensional strategic collaboration capturing the growth potential in Hong Kong and the Greater Bay Area. One of the areas that we will be focusing on in this space will be ESG and sustainability development. I do hope to report on this front more officially in due course.

In Hong Kong, our relationship-building efforts with existing important channels, including banks and insurance companies, continued, which provided strong support to our flagship and focus funds.

Now, outside our home market, we saw 3 exciting phenomena that showed strong demand from overseas institutional investors. First, we continued to see increasing inbound enquiries from investors from different regions this year. Second, our strong brand recognition continued to support us with decent inflows from a major financial institution in the UK. Third, we actually also saw an increased number of RFPs and finals this year.

I want to highlight that most of our client conversations and wins were about Asian and especially Greater China investment. We can see the appetite for China is being on the rise.

Global asset owners continued to show interest in allocating more to China. Most of them are looking for diversification and higher potential returns. Another trend we saw from global institutional investors is ESG-related initiatives. Not only is ESG a prevailing investment theme in UK and EMEA, but it is also one of the key growth drivers in Asia, such as the increasing number of Shariah funds in Malaysia and Southeast Asia.

All these signals point to strong institutional demand for a specialist, Asian asset manager like us, in the post-Covid period.

Next, let's move to slide 17 for me to give an update on where we are with our franchise development plan and investment in ESG.

The first half of 2022 marked a challenging period for the asset management industry, with a negative impact on short-term performance across major asset classes.

Despite the adverse environment, our flagship High Dividend Asian Equity strategy recorded solid inflows in the first half, and we thank the continuous support from our key distribution partners. In May this year, the product was named the best fund in the Asia ex-Japan Equity category by AsianInvestor's Asset Management Awards 2022. This credential clearly shows our strong performance and brand recognition.

On the multi-asset franchise build-out, our focus strategy, the Asian Income strategy, was successfully onboarded by 2 more leading distribution channels in Hong Kong. We are very excited that HSBC and Bank of China recently joined our other existing distributors for this product, including Hang Seng Bank. We will continue to support our distribution channels with our top-class services and brand-building initiatives.

I briefly highlighted our ETF franchise build-out in my presentation earlier. Value Partners has a great track record in investing in Asia, particularly in Greater China. We broadened our innovation journey through our partnership with EMQQ Global in the United States to create VPEMQQ ETF. This ETF was successfully listed on the HK Stock Exchange last month. It brings together the complementary strengths of Value Partners and EMQQ. We offer our strong on-the-ground Asian research and investor coverage, while EMQQ has been an ETF specialist for emerging and frontier markets for almost a decade. This ETF marks the next phase of growth for Value Partners. We believe our new product will be available to provide excellent diversification benefits for investors seeking exposure to leading internet and e-commerce companies in emerging markets, including China.

Our efforts to diversify our product capabilities continued. Our ESG-related product development is on a solid track this year. Our real estate strategy saw robust growth in terms of 3rd party AUM and also achieved outstanding above-benchmark performance since inception.

Beyond Hong Kong, our other fixed income product, the All China Bond strategies, successfully was onboarded on the Greater Bay Area Wealth Connect Scheme. We are committed to asset class expansion and will continue with our diversification efforts.

The next slide is about our ESG journey. As I mentioned earlier, ESG is a growing trend worldwide. Many institutional investors from overseas are keen to incorporate ESG in their portfolios, as they believe it is a key differentiator in their investment. Value Partners embrace

ESG values similar to our clients. We have a strong conviction that ESG can provide better risk-adjusted returns for our clients and stakeholders as well.

We commenced our ESG journey in 2019. The initiation of our proprietary ESG assessment framework in 2020 is an essential milestone as it set the ESG foundations within our investment process and enabled many of our proprietary ESG research developments in the inefficient emerging Asia markets. In 2021, we successfully achieved 100% portfolio coverage of listed equities and fixed income issuers with our proprietary assessment.

This year, we started to provide monthly proprietary ESG reports in the first half of 2022, which include ESG scores at the fund level, and ESG rating distribution at the firm level, among others. We shared this with our clients and received positive feedback. While Asia ESG research, particularly in China, remains inefficient given language or other barriers, we are well-positioned to dig deeper with our on-the-ground research team.

Beyond our asset management business, our ESG initiatives also come with a broader vision to enhance the local investment landscape in terms of ESG protocol, which will be part of our exciting green initiative in our coming strategic partnership with a leading local banking group, as I have mentioned earlier. We are very excited about this collaboration and look forward to sharing more official news in due course. Stay tuned with us.

On the product side, following the successful launch of our China thematic strategy in Japan in 2021, we plan to roll out another ESG thematic fund in the second half of this year. We are committed to developing our ESG capabilities.

Driven by strong market demand, we believe that ESG will continue to be a long-term competitive advantage for us in the coming years.

Next, I'll provide an update on our China business which continues to be a very key part of our strategy.

Value Partners has 13 years of history operating in Mainland China. Our current core business continued to be well supported by four key pillars. First, institutional clients. Second, private fund management ("PFM") and qualified domestic limited partnership ("QDLP") mandates. Third, retail clients via the Mainland-Hong Kong Mutual Recognition of Funds ("MRF"). Fourth, the opportunities arising from the Greater Bay Area ("GBA") Wealth Management Connect ("WMC") Scheme.

As China steadily lifts pandemic restrictions, we expect business to return to normal in the second half of this year. This will offer a lot of growth opportunities for our business. In addition, we will also capitalize on the strong brand recognition of Value Partners in China. In May this year, we were named one of China's top 20 foreign managers by Z-Ben Advisors, China's leading fund industry consulting firm. We successfully received this top-20 ranking for 3 consecutive years, and we are the only Asia-based fund house on the list.

On the GBA Wealth Connect, we have onboarded three products on the shelves of certain eligible banks listed in the GBA WMC Scheme, and we will continue working with current and potential distribution partners to add eligible products to their shelves.

Meanwhile, we continue to explore new business ventures in China, such as aiming to gain full or majority control of public asset management licenses. We will continue to explore and watch out for new policies or cross-border schemes that could bring new business to our Group.

In conclusion, I would like to reiterate our strong belief and confidence in the future growth trajectory of Value Partners. Taking this opportunity, I would also like to thank all our colleagues, our business partners, and shareholders for their support in the first half of this year. I confirm again that Value Partners is well positioned to capture the new opportunities ahead. We are committed to becoming a leading Go-to Asia specialist asset manager for our clients and partners – both local and overseas. Thank you very much.

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Ellen Tsang: Thank you, June. And that concludes our prepared remarks. We will now open up for questions. Operator, please proceed to the Q&A session. Thank you.

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