THE WALL STREET JOURNAL.

Hong Kong Fund's Bets on Chinese Tech Pay Off

All-Stars Investment Fund says it recorded a 12% return this year through September

By

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Updated Oct. 21, 2016 5:47 a.m. ET

All-Stars Investment Ltd., a nearly $1 billion Hong Kong-based fund that makes bets on Chinese technology and consumer companies, told investors it recorded a 12% return this year through September, earning hefty profits despite China's slowing growth.

In a letter to investors reviewed by The Wall Street Journal, All-Stars chief investment officer and former Morgan Stanley analyst Richard Ji said the fund's profits were buoyed by winning bets on New York-listed Chinese internet company NetEase Inc. and Chinese liquor company Kweichow Moutai , whose shares are up 46% and 40%, respectively, so far this year.

The fund can also invest up to 20% of its portfolio in privately held startups, including a stake it owns in China's $34 billion Uber equivalent, Didi Chuxing Technology Co. Mr. Ji said that a mix of savvy stock picking and investments in startups helped All-Stars beat benchmarks for Chinese markets, where capricious retail investors account for over 80% of the trading volume.

Retail investors' "decisions are often driven by sentiment, such as greed and fear, and thus tend to be irrational," Mr. Ji wrote. "We consider stock investment as one of the few 'sports' that the professionals mingle with and compete against the amateurs, who unfortunately fall victim to their own knowledge shortfall and emotional swing."

Mr. Ji also noted that benchmark indexes tracking Chinese stocks are heavily weighted toward cyclical companies including banks, real estate, and automotive companies, leading to subpar returns for index holders.

“A top-down approach by buying-and-holding the index could hardly thrive in emerging market[s], such as China,” Mr. Ji wrote—a contrast to many mature Western markets, where active stock picking has fallen out of favor.

Shanghai’s benchmark index is down 13% so far this year, while Shenzhen’s benchmark has fallen by 15%.

Mr. Ji made an early bet on Didi at a $2 billion valuation before its merger with a rival taxi-hailing app and later with global leader Uber Technologies Inc.’s China operations. Those mergers and fundraisings at escalating valuations have paid off for investors even after some dilution in their holdings. All-Stars also owns a stake in Tujia.com, China’s answer to Airbnb Inc.

All-Stars, which Mr. Ji founded with former Morgan Stanley colleague Fu Mingxia, has returned an annualized 13% since its inception in April 2014, according to the investor letter. Mr. Fu managed money for ultrahigh-net-worth Chinese investors at the U.S. investment bank.

All-Stars collects funds mainly from wealthy Chinese business people who want to get a piece of the tech sector’s fast growth at a time when other parts of China’s economy are looking less attractive. Its investment style has been described in the industry as “friendly activist,” as the fund tries to influence the tech companies by connecting them with wealthy individual investors who may help them grow.

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