

# Where Dallas meets China



Keiron Root talks to a seasoned investor who is tapping into the rapid growth of the Chinese economy from deep in the heart of Texas

Russell Cleveland has been investing in the US stock market for nearly 40 years, and the experience he has built up over that time is proving very useful during the current uncertainty. 'There is some benefit to having been around since 1961, as I have seen a lot of water over the dam in that time,' he says. 'For example, in 1973-74, stocks lost 80 per cent of their value.'

Having seen the effects of the Oil Crisis of that time on Wall Street, he counsels, 'You must remember that you never get rid of the bears unless everyone wants to give their stock away. There is an old adage that if it is in the papers then it is already in the price, but the good news for investors is that the stock price has no relation to the value, and that means that in circumstances such as these, money can be made.'

## Starting the recovery

Cleveland is president and chief executive officer of RENN Capital Group, a Dallas-based boutique fund manager that runs a number of funds focusing on what it describes as 'emerging growth' companies listed in the US and Canada. These include a UK-listed investment trust, Renaissance US Growth, which was launched in 1996.

He observes that 'In the States, the real panic started when they let Lehman Brothers go. As a result of that, people just wanted to get out of the market in October and November. However, now I sense that realism is returning. This means that stock prices are improving, even if the economy isn't.'

To a certain extent, the US stock market has been bolstered by the 'feel-good factor' surrounding a change of president, although Russell Cleveland is sceptical about the impact that Barack Obama will have. 'I don't think Obama will be a great president, but he

will be much better than the last one, and I say that as a Republican,' he notes. 'What is more important is that there are trillions of dollars sitting around in money market funds not earning anything.'

He argues that, with the returns on cash at

under US\$1 billion, but the term "small-cap" in the US generally means companies around \$1 billion, so they are not really that small. We don't have a lot of leverage in this fund, because the really big losses come with leverage.'

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historic lows, money will find its way back to the stock market sooner rather than later, and that small-caps will do better than blue-chips – although, as is often the case with things on the other side of the Pond, Cleveland's definition of a small-cap might come as something of a surprise to UK-based investors.

'I'm mainly in micro-caps at the moment, by which I mean companies capitalised at

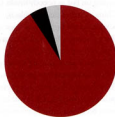
## Growth on the menu

However, Cleveland recognises that US-listed companies that want to generate above-average levels of growth are going to have to look overseas to achieve it. 'If you were to ask me where the growth will be, the answer is China. China will have recessions like everyone else, but it will remain the fastest-growing economy in the world. The long-term growth prospects for companies investing in areas such as infrastructure, education, medical and food and water are considerable, partly because of the sheer scale of the government's ambitions. It is also the strongest economy in the world, underpinned by US\$2 trillion in savings. So I am focused on US-quoted "China companies". 'Look at alternative energy, for example. The Chinese say that they want to be generating 20 per cent of their energy from alternative sources, and that policy will go forward whatever happens to the oil price.'

## Oriental weighting

He reports that 'Over 40 per cent of Renaissance US Growth is in China-oriented companies. Currently, there are 275 companies that are incorporated in the US but which are basically China focused. It is about

**Geographical breakdown**  
(Listing/domicile location)



## Renaissance US Growth Investment Trust

**Investment objectives**

The fund seeks to achieve capital growth and outperform its benchmark, the Russell 2000 Index

Russell Cleveland

**Investment approach**

The fund invests primarily in securities issued by companies listed, quoted or domiciled in the USA and Canada. The focus is generally on 'micro-cap' companies – i.e. those with a market cap of less than US\$1 billion. The fund can also hold up to 25 per cent of its portfolio in unlisted securities. In particular, the portfolio will include companies that fulfil the listing and domicile criteria but which generate a substantial part of their sales and/or earnings outside North America.

**Fund manager:** Russell Cleveland  
(RENN Capital Group)

**Launch date:** May 1996

**Cleveland Fund Manager since:** launch

**Fund size:** £34.9m

**Net assets:** £48.5m

**Total assets:** £52.8m

**Discount:** -28%

**Gearing:** 103%

(100% = no gearing)

**AIC sector:** N. American Smaller Companies

*Fund data (as at 31 December 2008)*

**Top ten holdings**

(As at 30 September 2008)

Holding	%
Bovie Medical	8.7
Cover-All Technologies	8.2
Zhongpin, Inc.	8.0
Fushi Copperweld	6.2
Dynamic Green Energy	4.6
Sinohub, Inc.	4.4
China Greenscape	3.8
China New Cities Development	3.5
HeySpace International	3.2
Duoyuan Digital Printing	2.6

entrepreneurial management. I have been following this theme for over a decade, because people who have a real stake in their businesses have a greater incentive for them to succeed.'

Cleveland suggests that companies focusing on the rapid development of infrastructure projects in China are of key importance. 'For example, a major holding is A-Power Energy Generation Systems, a wind power generation company that recently announced a link with General Electric to make windmills.'

He adds, 'Transportation is another boom area. The government wants another 10,000

**What about the US?**

While his enthusiasm for the Chinese growth story is a central theme of his current strategy – and the 'Chinese' element of the portfolio is approaching 50 per cent – Russell Cleveland is also keen to remind investors that his fund is, nevertheless, a US growth portfolio. 'It is a totally US-focused portfolio,' he insists, although some of the investment themes in its domestic market are not as clear as those in Asia.

'Take infrastructure. There will be a lot of money spent on roads and bridges and so on, but we are having a lot of trouble working out

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miles of upgraded railways. So we have HLS Systems International, which is the leading controls systems company in China, making controls for nuclear power and transport systems, and they are at the top of the food chain for that type of business. Relationships and hierarchy are key to succeeding in China. It is very important to be one of the anointed companies as they get the bulk of the business.'

**The rise of the Chinese consumer**

At the same time, Cleveland is keen to tap into the rapidly increasing spending power of the Chinese consumer. He explains that 'Bottled water is coming on fast as nobody drinks tap water in China. Another stock we like is Zhongpin, which is the biggest processor of pork in China. Supermarkets with modern packaging are also expanding very rapidly.'

He adds, 'China is also changing its cell phone system, so there is demand for two million new phones. Then there is education. They want half of the population to speak English within the next ten years, because it is the international business language, so there are great opportunities for English-speaking businesses in the educational field.'

who is going to benefit from this. But a major theme is medical technology companies, as there will be increasing demand for medical products that work. For example, Bovey Medical Corporation, which makes electrosurgical equipment.'

**Entrepreneurial spirit**

The result is a portfolio balanced between Chinese companies listed on the US Stock Exchange and smaller US companies with the ability to adapt to change. Outlining his overall strategy, Cleveland concludes, 'I see the whole investment process in terms of risk and reward. If I can have a dollar and not lose it and can make another two or three dollars over time then I will make money. In order to achieve this, our main thrust is to focus on entrepreneurship – on the importance of leadership in growing businesses.'

He adds, 'A good description of entrepreneurship is "moving ahead not knowing". There will be places to make money in the future, but the difficulty is working out where they are. 2009 will be the year when realism returns, adapting to things as they are rather than the way we would like them to be. ♦