

**Meet the Manager: Himanshu Shah. Shah Capital**

by [HedgeNews Editors](#) , February 22, 2010

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**Meet  
The Manager**

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You think all the rage over investing in China is over? Don't tell that to Himanshu Shah, President and Chief Investment Officer of the **Shah Capital Opportunity Fund**. His strategy has had great success investing in the country and he talked with HedgeFund.net about what the keys have been to his outperformance.

**HedgeFund.net:** We've talked before, but just to refresh our readers, can you please briefly tell me a little bit about the Shah Capital Opportunity Fund?

**Himanshu Shah:** The fund is a long-biased, multi-cap, long-short equity fund. We go long on companies that are market leaders, niche players and strong turnaround candidates. We short companies we think the market is pricing too optimistically. An example of that is Priceline.

Investors in our fund get deep, fundamental research, coupled with a good global macro analysis.

**HFN:** How many positions does your fund typically have at any given time?

**HS:** We usually have 35 to 55 positions. Of those, there are usually 30 to 40 long positions and between five and 15 short positions.

**HFN:** What is it about your fund that stands out from other funds?

**HS:** It might sound a little simplistic, but we perform good old-fashioned deep research and invest with conviction and discipline.

There is a lot of research on the Street, but the key is how to interpret that information. That requires the expertise that I have. I have been investing in the U.S. market for 19 years. Also, have been investing in Asia since 1994 and was born in India, so also know how businesses operate there. Our research team has combined experience of more than 42 years.

**HFN: You have been investing in China since 2004. Tell me why you think the prospects are so great for that part of the world.**

**HS:** If you look at the macro picture, I think it is better to be invested in China than it is anywhere else today. We think the economy is going to grow between 7% and 7.5%, compared with the U.S. 2% to 2.5% growth over the next two to three years.

We also like the budget as well as current account surplus in China; meaning, there is not a deficit. This is not true for the U.S. We are running a trade deficit of more than \$400 billion annually and if you look at government debt, U.S. debt is almost 75% of GDP (including state and local) and growing rapidly (not including unfunded pension and health care obligations), compared to only 20% in China. The tax rate is lower in China and it is not going higher; unlike the U.S.

For all of those macro reasons, we believe it is better to be in Chinese assets than it is to be in U.S. assets. We also think there are a number of companies in China trading at very reasonable valuations with high growth potential.

**HFN: Are there particular sectors that you focus on?**

**HS:** We are opportunistic in our investments. We look at all-sized companies, and do not have a sector bias. Having said that, we have been overweight industrials and technology stocks lately.

**HFN: Your fund is based in the U.S., so how do you compete with Asian funds that have people on the ground in China?**

**HS:** You have to look at the numbers. The China index was up 65% in 2009 and our net exposure to China last year was around 70%. That showed we were right with our strategy and we were up almost 100%.

Our performance proves we know what we are doing. It comes down to our deep understanding of the markets as well as the relationships we have built in that region in the last 10 years. That definitely sets us apart from competition.

**HFN: With so much exposure to the Chinese market, what steps have you taken to protect your fund?**

**HS:** We hedge the market exposure through the use of both short positions (alpha generating) and cash, but don't think we really need to hedge our exposure to China too much. We see tremendous growth potential in our long-China strategy. Even though the Chinese economy has trebled in the last 10 years, the market has gone nowhere. There are lot of good companies that are trading at very attractive valuations. We also think the Yuan will appreciate by at least 15% in the next three to five years. Therefore, we don't need to do anything to hedge our currency exposure either.