

# Big themes arise from small plays

The manager of Renaissance US Growth Trust takes a thematic approach – a strategy that has seen good results from his faith in small American companies and the China growth story.

In his first State of the Union address, Barack Obama promised to make jobs his priority in 2010: “starting where most new jobs do, in small businesses.”

Obama promised support for small companies including \$30 billion (£18.5 billion) of loans, tax credits for firms that recruit workers and increase wages, and the elimination of capital gains tax on small business investment.

Russell Cleveland, the manager of the Renaissance US Growth Trust, which specialises in investing in American-listed entrepreneurial companies, says he is “not too optimistic about the government doing anything”. But he is pleased that the value of small companies is being noticed.

“I do not think that [the government] understood that 90% of jobs [in America] are created by small companies. It is good to have some recognition from the administration.”

Cleveland says that America’s huge entrepreneurial class is why he is optimistic on the country’s economic outlook. His investments in these companies have returned 32% over the past year and 116% over 10 years, compared with returns of 25% and 42% from the Russell 2000 index of American small-caps.

“Entrepreneurial companies are where the significant gains have been,” says Cleveland. He dismisses any suggestion that his is a high-risk strategy. “Smaller is not necessarily more speculative. The leverage across the Russell 2000 is less than the leverage across the S&P 500.”

“And well-known companies have failed miserably. Big does not always equal safe, as the owners of General Motors found out.”

The Renaissance US Growth Trust is invested in a mixture of American-listed small-cap companies and private holdings. Cleveland says private companies account for about 10% of his portfolio: “although they could be worth more, as we are carrying them on cost.” One of the trust’s most successful unquoted holdings is a software company, AnchorFree, in which it has a \$2.5m investment.

“AnchorFree has developed a secure, free software download called Hotspot Shield. Originally developed as a protection for WiFi, it allows users to become a virtual private network, meaning others cannot see you.”

The company gains revenue from advertising. “In December 2009, more than one billion page views came through its server,” says Cleveland. While he says most of AnchorFree’s 7.5m users are in America, the software is available worldwide. “Usage in China has recently doubled.”

Cleveland is a huge supporter of China. About half his portfolio is invested in the country, via China-based companies with American stockmarket listings. His diverse holdings include SinoHub, a specialist logistics company run by an

American expatriate living in China and China Greenscape, a landscape company benefiting from government-mandated greenery targets for urban development, which Cleveland expects to launch a stockmarket listing in the next six months.

He says ChinaCast Education Corporation, which owns higher education campuses and satellite facilities for teaching English, will benefit from ambitious language targets. “China is aiming to get half the country speaking English in the next five to 10 years.”

One of the trust’s biggest gains was made by Hollysys Automation Technology, where its holding rose by 192% between March and September 2009. Hollysys specialises in automation and control technology for several industries, including high-speed rail, and is benefiting from China’s infrastructure investment. “China is building 10,000 miles of high-speed rail, for new trains that can travel at 225 miles per hour,” says Cleveland.

The trust’s largest holding in China, Zhongpin, is a food processor, which began by packaging pork products for supermarkets. “Sixty-five percent of the world’s pork is consumed in China, but buyers are moving from the traditional meat markets to supermarkets.”

Cleveland’s shares in Zhongpin, bought at \$2.90, are worth \$7.60, and the company is expanding into packaging for fruit and vegetables.

Back in America, he says the economic downturn and lack of investment for new businesses created opportunities for his trust. “The reason we are invested in AnchorFree is that they could not get venture capital funding.” He likes companies where management has capital investment, “not just share options”. He says that in a study of 843 companies where at least 10% of the shares were owned by the chief executive officer, returns were up 305% over five years and 143% over 10 years.

Cleveland will take directorships in companies he invests in. He is a corporate director of Cover-All Technologies, a provider of specialist software systems to the insurance industry, which posted record earnings in 2008-09.

Simon Elliot, the director of research at Wins Investment Trusts, likes Cleveland’s thematic approach. “He is focused on Chinese entrepreneurs, but three to four years ago was looking at energy stocks, which was well timed.

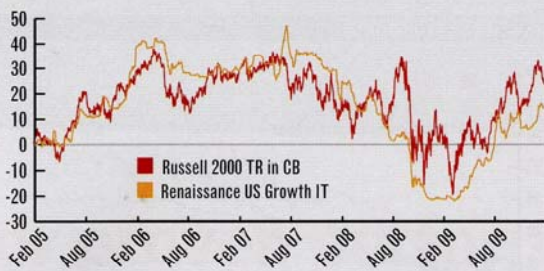
“It is an unusual, very specialised vehicle. With some holdings it can take some time for the performance to come through.” But Elliot says the trust has a unique position in the marketplace. “For investors prepared to take a longer-term view, and who are comfortable with a specialist approach, there is a highly experienced team doing something unusual. No-one else out there is doing this.”

## TOP 10 HOLDINGS

1. Zhongpin	10.8%
2. Bovie Medical	8.4%
3. Cover-All Technologies	8.3%
4. SinoHub	6.1%
5. Fushi Copperweld	5.3%
6. SkyStar Bio Pharmaceutical	5.2%
7. Hollysys Automation Tech.	4.8%
8. China Greenscape	3.7%
9. Dynamic Green Energy	3.6%
10. CNC Development	3.4%

Shows top 10 holdings in the Renaissance US Growth investment trust as at September 30, 2009. Source: RENN Capital Group

## RENAISSANCE US GROWTH



Graph shows percentage performance of Renaissance US Growth and the Russell 2000 index over five years to January 29, 2010. Source: Financial Express

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