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Consensus Building: The Search for Investment Truth

September 30, 2025

When speaking with investors, we're often asked about our decision-making process as a key step in our research at Banyan Partners. How do we reconcile different viewpoints among our team members? How do we develop conviction in our investments? This is an important question that goes to the heart of our investment approach.

Our consensus-building approach is modeled after the methodology our founder Xin Wu studied and practiced during his time at Chase Capital Partners. Such a team oriented research approach was instrumental in making Chase Capital a highly successful global private equity franchise. This stands in stark contrast to the traditional decision-making process in China, which is typically seniority-based, where the most senior person calls the shots with limited transparency. At Banyan, we've deliberately chosen a different path. We view consensus building as a disciplined search for truth.

Our investment universe primarily consists of over 5,000 listed Chinese companies, but our coverage extends to China-centric stocks around the world. This includes U.S.-listed Chinese companies, stocks listed in Hong Kong, and other companies that are listed in Singapore, Europe, or elsewhere in the world but have significant exposure to the Chinese market.

While we use quantitative tools to help narrow this field, our core work begins with fundamental research. Our analysts study each potential investment thoroughly, examining business models, competitive landscapes, and management quality. We supplement financial statement analysis with conversations with industry participants to develop a more complete picture.

After completing initial research, an analyst presents their findings to the entire investment team. This is where the real work of consensus building begins. Team members ask questions, challenge assumptions, and probe for potential weaknesses in the investment thesis. This isn't confrontational – it's a collaborative effort to test ideas and strengthen our understanding.

What follows is an iterative process of research, discussion, more research, and further discussion. The analyst addresses questions raised, investigates knowledge gaps, and returns with refined analysis. Through this process, not only do we evaluate the investment, but we're also building the collective knowledge of our entire team. As one member leads the research, visiting companies and bringing back insights, the entire research organization grows stronger.

This approach is built on intellectual honesty and open-mindedness. Everyone on the team understands that reaching the truth is the ultimate goal, which creates an environment where challenging ideas is not confrontational but constructive. Many team members actually enjoy the process of having their analysis examined in detail, as they recognize it refines their understanding and strengthens the investment thesis. This is where the real learning happens for everyone involved.

It's crucial to understand that our consensus-building process doesn't require complete certainty before investing. Rather, we strive to approach truth while acknowledging that some questions will inevitably remain unanswered. These discussions help us identify risks that we will monitor closely if we make an investment. As a group, we assess our comfort level with the unanswered questions, balancing these uncertainties against the margin of safety in valuation. The extensive exchange of ideas allows the team to determine when an investment case is "qualitatively" good enough to proceed, with the understanding that outstanding questions will require continual investigation.

Our rigorous vetting process identifies what we consider 'good' companies, which then populate our core watchlist. These are businesses we're prepared to invest in once they offer an ample margin of safety. Our research analysts continue to monitor all companies on the watchlist, ensuring our information remains current and our thesis intact. Portfolio managers, adhering to our disciplined approach, select investments exclusively from this carefully curated list. While our consensus-building process forms the foundation by establishing our view of intrinsic value, the final portfolio decisions—including timing of purchases, position sizing, and risk management—remain the responsibility of our portfolio managers, incorporating considerations such as portfolio-level risk factors and market conditions.

An example of this process in action is our evaluation of a pickled stem mustard producer, one of only two dominant brands in its category in China. This type of pickled vegetable has been a staple of the Chinese diet for centuries, and this consumption habit is not expected to change decades into the future. Naturally questions arose when the analyst first presented this company: In a mature market with no change in sales volume, why should we invest? However, the analyst effectively demonstrated how the company created value through a combination of package size adjustments and price increases consistently over ten years, showcasing its pricing power.

Further concerns were raised during our analysis. The company had launched new condiment products such as pickled radishes to drive growth, leveraging its existing distribution network. While this strategy faced significant hurdles with established brands dominating each new product category, our primary challenge was analytical - predicting consumer preferences is notoriously difficult, which complicated our consensus-building process.

Rather than waiting for conclusive evidence of success, we incorporated these uncertainties into our investment thesis. We now continue to monitor these growth initiatives quarterly, updating our analysis as new information emerges. When the stock price offers a sufficient margin of safety, we establish positions sized appropriately to balance our conviction against these acknowledged uncertainties.

By examining investment ideas from multiple perspectives, we work to reduce the impact of individual biases that affect all investors. Ideas that withstand this scrutiny give us greater confidence when we commit capital. We also find that collective examination helps identify potential risks that might be overlooked by a single analyst.

The real strength of this process is that it continuously builds our collective intelligence. Each investment discussion, whether it results in a position or not, enhances our team's knowledge and refines our understanding of markets. Over time, this compounding intellectual capital becomes one of our most valuable assets.

In a market environment where short-term thinking often prevails, our consensus-building approach anchors us to the fundamental realities that drive long-term business value. By maintaining this disciplined focus on what is true rather than what is popular or comfortable, we believe we position ourselves with the right philosophy, the right approach and the right team to deliver superior returns for our investors over the long term.