BANYAN PARTNERS
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Data Driven Insight, Unconventional Foresight

What Trust Means at Banyan Partners

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Trust Begins Before Performance

One of the most common questions investors ask a fund manager is also one of the least useful. "How have you performed?" The question is understandable. Returns are, after all, why capital is invested. Yet performance is an unusually imperfect place to begin evaluating an investment manager.

A year of exceptional returns may reflect outstanding judgment. It may also reflect favourable market conditions, concentrated positioning, multiple expansion, or simply a style that happened to be rewarded during a particular period. Likewise, a period of disappointing performance may signal poor decisions—or it may simply reflect an investment philosophy temporarily out of favour. Performance tells us what happened. It rarely tells us why.

More importantly, by the time investors have observed enough performance to distinguish skill from circumstance, the most consequential decision has already been made. They have already entrusted someone else with their capital. We have always believed that trust deserves a stronger foundation than hindsight.

An investor should not have to wait through several market cycles before understanding whether an investment manager is disciplined, intellectually honest, aligned with clients, and capable of making rational decisions under pressure. Those qualities should already be visible before the first investment is made. Not through promises. Not through reputation. Not through confidence. But through evidence.

That belief has shaped how Banyan Partners (hereafter "Banyan") has chosen to build its investment business. We have never wanted investors to trust us because we have performed well recently. Nor do we expect them to trust us because of our experience, our credentials, or the way we present ourselves. Instead, we hope they arrive at trust by understanding something much more durable: how we make decisions, how we organise research, how we challenge our own conclusions, how we respond when facts change, and how we behave when markets become uncomfortable.

Performance will always remain uncertain. Behaviour should not. Ultimately, investors are not simply allocating capital to a portfolio. They are allocating capital to a decision-making system. The quality of that system matters long before its results become visible.

This is not a theoretical belief. It is a belief we have tested. Our flagship onshore A-share strategy, Banyan China Select, has delivered net annualised returns of approximately 8–10% since inception—after all fees have been deducted. Over the same period, the CSI 300 index was essentially flat. A decade is long enough to include multiple market cycles, periods of extreme optimism and extreme pessimism, and fundamental shifts in China's economic structure. Generating positive real returns through that period—while the broad market delivered nothing—required discipline that survived both euphoria and fear. But these numbers matter less for the returns themselves than for what they reveal about the process that produced them. That process is what we want investors to understand before they commit capital, not after.

We Chose to Build an Institution, Not a Collection of Opinions

Every investment firm begins with an idea. Some are built around a remarkable investor. Others around a successful strategy. We chose to build ours around a process. That decision was made for a simple reason. People are inconsistent. Markets are emotional. Good processes exist to reduce the influence of both.

Investment decisions at Banyan must survive scrutiny, not personality. No company enters our research universe because someone is enthusiastic about a story. No position enters a portfolio because a portfolio manager "has a good feeling." And no investment thesis is considered complete because everyone in the room agrees. Ideas must earn their way forward.

That journey begins with a systematic discovery process designed to remove as much randomness as possible from idea generation. Technology performs the repetitive work of analysing thousands of listed companies, allowing our research team to spend its time where human judgement matters most—understanding businesses rather than collecting data. Passing that initial screen does not mean a company is investable. It simply means the company has earned the right to be researched.

From there, the work becomes progressively more demanding. Analysts examine public disclosures, financial statements, regulatory filings, exchange inquiries, management discussions, and historical capital allocation decisions. Whenever necessary, the research expands beyond the company itself—to suppliers, customers, competitors, former employees, and independent industry specialists—because understanding a business often requires understanding the ecosystem around it. Every conclusion must eventually be documented. Every investment recommendation must eventually be challenged. Every assumption must eventually answer the same question: what evidence would convince us that we are wrong?

That question may be the most important part of our research process. We do have an investment committee, but our decision-making is not a simple up-or-down vote. It is a consensus-building process (see our TAO essay, Consensus Building — The Search for Investment Truth). Every proposal is debated until the strongest arguments on both sides have been surfaced and examined. The goal is not to persuade, nor to compromise, but to arrive at a judgment that reflects the collective wisdom of the team rather than the conviction of any single individual. This takes longer than a vote, but it produces better decisions—and it ensures that when capital is deployed, it is deployed with the full weight of the organisation's thinking behind it. Only after that process is complete does a company become eligible for inclusion in our Core Watch List, from which portfolio managers construct client portfolios.

Today, our systematic research process covers the entire A-share market of more than 5,000 listed companies. From this universe, our onshore and offshore strategies each maintain a separate Core Watch List of slightly more than 100 companies—businesses that have passed our full research process and are eligible for portfolio inclusion. The onshore Core Watch List consists of A-share companies, while the offshore list consists of China-centric companies listed in Hong Kong, the US and elsewhere in the world. Given the overlap between A-share and H-share listings, these two universes together represent approximately 200 unique companies—the highest-conviction ideas generated by a process that screens thousands, researches hundreds, and selects dozens.

Our systematic approach allows us to move faster where speed adds value. The platform can screen thousands of companies and generate standardised financial frameworks in seconds, freeing our team to focus on what truly matters—understanding the business behind the numbers. Our core team brings a strong engineering background to this work, which has shaped how we think about building systems: we automate what can be automated, and we standardise what should be standardised. But speed in discovery is not the same as speed in commitment. When a company passes our initial screens, we do not rush to a decision. We deliberate. Our team applies the same rigorous, fundamental due diligence one would expect in a private equity control investment—evaluating management as if we were acquiring the company, assessing capital allocation as if we were responsible for it, and stress-testing every assumption as if our own capital were permanently at stake. This combination—fast discovery, deliberate commitment—is what distinguishes our process. We do not confuse the ability to find opportunities quickly with the wisdom to judge them carefully. Over long periods of investing, we have found that the greatest risk is rarely failing to discover opportunities. It is lowering standards in order to pursue them.

This process is executed by a team with an average of 25 years of investment experience—investors who have navigated multiple cycles, in multiple geographies, across multiple asset classes—anchored by a founding team with deep engineering discipline. Every Banyan product is co-invested by the firm and its principals. We bear the same risks we ask our investors to bear, in the same proportions. That alignment is not a statement of intent. It is a structural feature of how we operate.

Research Is a Habit, Not an Event

Most investment firms describe research as one of their core strengths. We agree. But we have come to believe that the quality of research depends less on the intelligence of individual analysts than on the habits of the organisation that surrounds them.

Insight rarely appears on demand. It is usually the product of repetition. A single company meeting rarely changes an investment decision. One research report rarely produces conviction. One conversation with management rarely reveals the truth. Understanding is cumulative. It is built over time, through a process that repeatedly challenges assumptions, incorporates new information, and gradually separates evidence from narrative.

Some of the most valuable insights do not come from a scheduled research assignment, but from continuously observing the world around us. What began as an ordinary observation of a printer heavily used in our office led us to explore the broader ecosystem behind the product—from consumables and office supplies to e-commerce infrastructure. We describe this journey in our Insights article, My HP M1136 Story. We have never viewed research as something that begins when an investment idea appears. Research is our normal operating state.

Since Banyan was founded in 2010, our investment team has followed the same weekly rhythm. Every Friday, research reaches an important checkpoint. All investment memoranda, company updates and major research reports are expected to be circulated before the end of the week. The purpose is not administrative. It is intentional. Weekends provide something increasingly rare in modern financial markets: uninterrupted time to think. Rather than reacting immediately to new ideas, every investment professional is expected to spend the weekend challenging assumptions, reading opposing arguments, revisiting historical evidence and asking a simple question: does the evidence genuinely support the conclusion, or are we merely becoming more attached to our original view?

By Monday, the conversation changes. Research is no longer presented. It is examined. Every Monday, the investment team meets to review new ideas, reassess existing holdings and debate conclusions that have been developed over the previous week. The objective is not consensus. Nor is it persuasion. The objective is to improve the quality of decisions. Good investment discussions are rarely comfortable. Analysts are expected to defend their conclusions. Portfolio managers are expected to challenge them. Junior researchers are encouraged to question senior investors. And changing one's mind is regarded as evidence of intellectual honesty rather than weakness.

Over time, this rhythm has become more than a meeting schedule. It has become part of our culture. Disciplined investing is not created by occasional moments of brilliance. It is created by thousands of ordinary conversations conducted with consistency.

This rhythm proved particularly valuable during the first half of 2024—a period when most A-share investors struggled. By the end of June, only approximately 30% of active equity fund managers had achieved positive returns for the year. The average active equity fund returned approximately -3.7%. Market sentiment was subdued, and many experienced investors found the environment unusually difficult. During that same period, Banyan China Select delivered a year-to-date return of approximately 10%, net of fees.

What made this result worth noting was not the number itself, but the process that produced it. The positions that contributed to this performance were not discovered through industry contacts, sell-side recommendations, or macroeconomic calls. They were identified by our systematic screening platform—the same platform that continuously monitors more than 5,000 listed companies. The system flagged these companies based on financial characteristics that our research framework has identified as predictive of long-term value creation. When our analysts began their work, none of these companies had sell-side coverage. There were no research reports to read, no consensus estimates to debate, and no established narrative to accept or reject. Our team had to build the understanding from scratch—through primary research, field visits, supplier conversations, and financial statement analysis.

The market eventually recognised what our process had identified. But by the time sell-side coverage appeared and the broader investment community took notice, our research had already been completed and our positions had already been established. This is not a story about timing. It is a story about structure. The system identified the opportunity. The research team validated it. The investment team reached consensus through rigorous debate. And the portfolio held it.

Technology Should Amplify Judgement, Not Replace It

Research itself has also changed significantly since Banyan was established. When the firm began, China's equity market consisted of approximately two thousand listed companies. Today there are more than five thousand. No research team, regardless of size, can manually process that amount of information with the depth required for long-term investing.

Rather than asking our analysts to spend more time collecting data, we chose to redesign the way research is conducted. Over the years, we have built an internal research platform that continuously monitors every listed company in the A-share market. Within seconds, our system can generate a standardised analytical framework covering the financial characteristics that matter most to fundamental investors—including revenue growth, profitability, free cash flow, returns on capital, balance-sheet quality and valuation.

Over time, this research infrastructure has evolved into a proprietary AI-enabled system that helps transform fragmented market information into institutional understanding. By organising, structuring and contextualising information generated through our research process, it allows our investment team to focus more deeply on analysis, debate and decision-making.

Technology performs the repetitive work. People perform the thinking and understanding. We believe this distinction matters. Artificial intelligence and quantitative tools are exceptionally good at identifying patterns, processing large amounts of information and eliminating repetitive tasks. They are far less capable of judging management quality, evaluating capital allocation discipline, understanding industry structure or recognising when numbers fail to capture economic reality. Those remain human responsibilities. Technology should therefore expand judgement rather than replace it.

Every hour our analysts save through automation is an hour that can be spent speaking with suppliers, visiting factories, challenging management teams or testing an investment thesis from a different perspective. In our experience, durable investment advantages rarely come from processing information faster than everyone else. They come from asking better questions after the information has already been processed.

This principle shapes how we think about research at Banyan. We use technology to expand our capacity for analysis, while preserving human judgement for the decisions that matter most. Investment research is not ultimately a competition to collect more information. It is a discipline of determining which information deserves to change our minds.

But a strong research process is not defined only by how ideas are generated. It is also defined by how capital is managed after those ideas become investments.

Returns alone, however, tell an incomplete story. We believe the quality of an investment process is better revealed by behaviour than by outcome. Our average annual portfolio turnover is significantly below the A-share market average. We do not trade around quarterly earnings. We do not rotate into the theme of the month. We hold businesses we understand, for as long as the thesis remains intact. This low turnover is not a marketing claim—it is a measurable fact of how we manage money.

We also make mistakes. Every serious investor does. What matters is not the mistake itself, but whether the organisation examines it honestly and changes as a result. Our investment process includes a systematic post-investment review for every material position—both winners and losers. These reviews are not exercises in blame. They are exercises in understanding. We ask: what did we get right? What did we get wrong? What would have changed our decision? And what should we do differently next time?

The lessons from these reviews are documented and shared across the investment team. They inform our research framework, our risk guidelines, and our culture. We do not publish these lessons, because they involve confidential information about specific investments. But we make them available in summary form to existing and prospective investors upon request.

What Investors Should Expect From Us

We believe trust should be based on evidence. Investors should be able to examine how we think, how we construct portfolios, how we manage risk, how we are compensated and how we expect to behave when conditions become difficult. We do not believe recent performance should be the primary reason to allocate capital. Nor do we believe investors should rely solely on reputation, personal relationships or confidence in a presentation.

Our responsibility is to make the relevant facts available before an investment decision is made. That includes discussing not only what may go right, but also what may go wrong. It includes explaining where our process is strongest, where it is vulnerable and what type of investor may not be suitable for a particular strategy. It includes maintaining consistency between our pre-investment communication and the experience investors receive after committing capital.

It also includes accepting that trust is not secured by a single meeting, document or result. It is strengthened—or weakened—through repeated behaviour. We cannot make investment outcomes certain. We can make our process, incentives, risk boundaries and conduct substantially easier to evaluate. That is the basis on which we seek to be trusted with capital.

A Final Principle

The strongest investment relationship is not one in which the investor is asked to believe more. It is one in which the investor is able to verify more. A credible manager should not ask investors to suspend scepticism. It should respect that scepticism and provide the evidence necessary to make an informed judgement.

Before capital is committed, investors should understand what the manager is trying to achieve, how it intends to achieve it, what could cause the strategy to disappoint, how incentives are structured, and what behaviour they should expect over time. Trust is not a substitute for due diligence. It is the result of due diligence consistently supported by experience.