FUND COMMENTARY SICAV

Eastspring Investments – China A Shares Growth Fund

February 2022

INVESTMENT OBJECTIVE

The Fund seeks to maximize long-term growth of capital by investing primarily in onshore Chinese equities (A shares) listed on the Shanghai Stock Exchange and/or the Shenzhen Stock Exchange. The Fund combined top-down macro analysis with bottom-up fundamental analysis to construct a concentrated growth portfolio.

FUND DETAILS

Reference Index
MSCI China A Index

Portfolio Manager
Jie Lu

Research Advisor
Michelle Qi

Commentary

In February, MSCI China A returned 2.6% in USD terms. The Chinese market - that has yet to form a consensus – saw an accelerated weakening due to the ongoing Russia-Ukraine conflict. Steady growth expectations were not supported by fundamentals, and risk aversion prevailed. Despite that, China's manufacturing PMI slightly improved from 50.1 in January to 50.2 in February, following the rising demand and expectations for further stimulus measures to be announced in the first week of March.

Data have shown further declines in the domestic real estate sector. The top 100 property sales in February fell by 47% year-on-year, compared to 41% in January. Of which, the top 10, 30 and 50 property sales fell by 42%, 51% and 49% respectively. Policies such as interest rate cuts, easing of mortgage rates and lowering of down payment ratios in some cities have not prevented the accelerated decline in the real estate sector. As a result, this has shaken the market's confidence in stable growth. At the same time, there are sporadic COVID-19 outbreaks within the country, further intensifying concerns over consumption restraints.

The Russia-Ukraine conflict as well as the Fed's interest rate hikes have driven a sharp rise in the energy and industrial metal prices, leading to imported pressure on domestic raw material prices. The resumption of work and production overseas, coupled with the deterioration of the domestic COVID-19 epidemic, could weaken the domestic supply chain. Hence, the recovery of manufacturing industry may face pressures in the short term. Geopolitical risks and imported inflation have also brought huge challenges to domestic macro policies.

Key Contributors

The top three securities that positively contributed to relative performance were the underweight position in Kweichow Moutai and the overweight positions in China Tungsten & Hightech Materials and Zijin Mining Group, which contributed +21, +18 and +16 basis points ("bps") respectively.

From a sector perspective, the biggest contributor to relative performance was Information Technology. Stock selection within and the underweight to the Information Technology sector contributed +21 bps of value in total.

Key Detractors

The top three securities that detracted from relative performance were the overweight positions in Beijing Roborock Technology, Geely Automobile Holdings and East Money Information, which detracted -73, -33 and -29 bps respectively over the month.

From a sector perspective, the biggest detractor from relative performance was Consumer Discretionary. Stock selection within and the overweight to the Consumer Discretionary sector detracted -178 bps of value in total.

All data as of 28 February 2022 unless otherwise stated.

Fund Activity

In February, the Fund initiated new positions in China Mobile, Power Construction Corp of China, Luoyang Xinqianglian Slewing Bearing, Apeloa Pharmaceutical, China Resources Sanjiu Medical & Pharmaceutical and Shanghai M&G Stationery.

Strategy and Outlook

In the short term, sentiment may stay weak, and market may continue to swing. With external and domestic uncertainties both being present, we believe bottom-up identification and selection will be especially important this year. We will closely monitor the industry-level indicators and seek opportunities mainly from those who still have the capability to deliver secular growth against the weakening economy.

From a longer-term perspective, China's new regulations will lead to a more balanced economy in terms of growth drivers and resource allocation, which should lower China's income inequality which is key to aggregate consumption growth. We have been seeking for investment opportunities with sound growth potential amidst ongoing structural shifts, mainly in those 1) high end manufacturing sectors that can ride on the trend of both global expansion and domestic market substitution thanks to China's supply chain advantages; 2) beneficiaries of the ongoing consumer upgrade and structural shift trends in China, especially clean energy, consumer, health care and technology sectors.

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