

February 2021

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 -1.5% in USD terms. China's manufacturing recovery weakened for a third consecutive month in February amid the Lunar New Year holiday. Its official manufacturing purchasing managers' index (PMI) declined to 50.6 in February from 51.3 in the previous month, but remained above the 50 mark for the 12 consecutive month. According to the data released by China's Ministry of Commerce, the total sales of key retail and catering companies during the 2021 Spring Festival reached a record of 821 billion yuan, a 28.7% and 4.9% rise from 2020 and 2019 Spring Festivals respectively.

The recent sell-off in A share market was triggered by the fast-rising US Treasury yield and oil prices, which led to increasing concerns over global re-inflation that may cause changes in monetary policy. The market also witnessed an uptick in profit taking momentum as risk sentiments intensified, resulting in the recent big outflows under the Northbound Stock connect program.

On the fundamental front, the momentum of economic recovery remained solid. The January-February trade data released had far exceeded market expectations. China's exports surged by 60.6% year-on-year, a very strong pace with sequential growth momentum also picking up. Import growth also beat expectations with improvement seen across the board. Several sector data, including the top 100 developers and excavators' sales, showed strong results in the first two months of 2021, indicating signs of continued recovery within the country.

Key Contributors

The top three securities that positively contributed to relative performance were the overweight positions in Zijin Mining Group and Tongkun Group which contributed +47 and +19 basis points ("bps") respectively, as well as the underweight position in BYD Company Limited which added +21bps over the month.

From a sector perspective, the biggest contributor to relative performance was Communication Services. Stock selection within and underweight to the Communication Services sector added most value, contributing +27bps in total.

Key Detractors

The key securities that detracted from relative performance were the overweight positions in Geely Automobile Holdings, Jonjee High-Tech Industrial & Commercial Holding and Eve Energy which detracted -35, -32, and -31bps respectively.

From a sector perspective, the bottom two detractors were the overweights to Consumer Discretionary and Information Technology which detracted -90 and -67bps respectively.

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Fund Activity

In February, the Fund initiated a new position in Jiangsu Changshu Rural, and closed positions in Changchun High & New Technology Industries, Chongqing Zhifei Biological Products and Shenzhen YUTO Packaging Technology..

Strategy and Outlook

Given the present valuation of the A-share market is trading above its historical averages and with expectations that interest rates are slowly trending upwards, we don't expect to see a significant expansion of valuations from current levels and markets could be more volatile until earnings growth help support the market's valuations. From a short-term perspective, we like sectors that will benefit from the rise in interest rates and inflation such as some of the financial stocks and agricultural related companies.

From a longer-term perspective, we are optimistic about the medium to long term secular trends mainly in high end manufacturing which can continue to support China's global expansion while also being a key factor for its domestic expansion. In addition, we are also optimistic about China's domestic consumption and the continuing upgrading of its economic status as consumers continue to increase their overall levels of consumption.

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FUND COMMENTARY SICAV

Eastspring Investments – China A Shares Growth Fund

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