

U ACCESS – BEST SELECTION CHINA A

Quarterly Comment | Q3 2023

For Qualified Investors in Switzerland or Professional Investors or Eligible Counterparties as defined by the relevant laws.

Market Comment

- In September, Shanghai Composite Index fell 0.30%, and CSI 300 Index was down 6.21%. Small-and-Mid-Cap Index decreased 3.98%, and ChiNext Index dropped 4.69%.
- During the month, top five performers were Coal (9.61%), Bio Meds (4.30%), Petroleum and Petrochemical (3.49%), Banks (2.79%), Machinery Equipment (1.11%). The bottom five performers were Media (-7.63%), Beauty Care (-6.56%), Electrical Appliance (-5.71%), Real Estates (-5.49%), Computer (-4.26%).
- China appoints new Finance Ministry chief. China appointed public finance specialist Lan Foan (蓝佛安) as the Ministry of Finance's Communist Party group chief, replacing Liu Kun, according to a statement released Thursday by the ministry. The appointment, which came shortly after Lan stepped down as party committee chief of Shanxi province, put him on track to also take over the position of finance minister from Liu.
- China-Arab States Expo concludes with trade and investment cooperation worth \$23.4 billion. The sixth China-Arab States Expo - held in Yinchuan, the capital of northwest China's Ningxia Hui autonomous region -concluded on 23 Sep, with planned trade and investment cooperation totaling 170.97 billion yuan (about \$23.4 billion).
- China launches 22 measures to promote private economy development. China's State Administration for Market Regulation launched a slew of 22 measures to promote the development of the private economy on 22 Sep, as part of the nation's broader efforts to stimulate the private sector for greater economic growth. Such measures are expected to boost the confidence of the private sector and meanwhile guide the healthy development of private capital.
- China creates new agency to support private sector. China is creating a new government entity to assist private businesses in a fresh effort to bolster the economy and reinvigorate business confidence. The new private economy development bureau will be set up under the National Development and Reform Commission (NDRC), the country's top economic planning body. The agency will be dedicated to promoting coordination of policies and facilitating implementation of measures to support the private economy.

Sources: UBP, Bloomberg Finance LP.

Performance Review

- During the quarter the strategy outperformed. Stock selection contributed positively while sector allocation was more beneficial.
- Our overweight in Financials was the main performance contributor over the first quarter.
- We suffered from stock selection in Health Care.
- Bank of Communication and Shanxi Xinghuacun Fen Wine Factory were the main contributors during the quarter. In Financials, we suffered from our holdings in China Merchant Bank.

Portfolio Activity

- Major holdings at the end of the quarter are Ping An Insurance, Bank of Communication, Kweichow Moutai and ICBC.
- Our fifth largest position is Wuliangye Yibin (Consumer Staples).
- The portfolio was rebalanced according to our investment philosophy.
- No unusual trades occurred over the quarter.



Outlook

- In September 2023, the A-share market continued its downward trend, but compared to the widespread decline in August, there was differentiation. Regarding major broad-based indices, the SSE 50 Index, the CSI 500 Index, and the CSI 1000 Index had smaller declines, while the ChiNext Index and the STAR Board experienced larger declines. Cyclic industries such as Coal, Petroleum & Petrochemical, and Machinery Equipment, as well as Bio Meds sector, which had underperformed in the past couple of years, and the defensive Banks sector saw higher gains. Conversely, sectors like Media, Electrical Appliance, Real Estates, and Computer saw larger declines.
- Looking ahead to the future market, we maintain our previous viewpoint that the current market deserves an optimistic outlook. Although short-term trends may show fluctuations, there is a high probability that the market bottom has already appeared or is about to appear. The A-share market is entering a phase where the risk-reward ratio for investment is relatively favourable.
- Firstly, in the previous monthly report, we analyzed recent positive factors both internally and externally. Currently, the positive factors are gradually being unleashed. When the market has gone through a prolonged bearish decline, it tends to undervalue positive factors and overestimate negative ones. However, as the market undergoes structural adjustments of investors at the bottom, further declines will eventually come to a halt, leading to a strong rebound.
- Secondly, the coming fourth quarter is often a period where market volatility rapidly intensifies. Investment opportunities are expected to become more evident, and important turning points often occur in the fourth quarter after a significant decline. Research indicates that the importance of seizing opportunities should take precedence over pessimism.
- The fourth quarter of each year tends to experience increased volatility due to certain catalysts. Considering that volatility has been exceptionally low in the past three years, we anticipate that the volatility should go up in the future. We believe taking volatility as a means to make independent directional judgments can be a good choice.

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