

U ACCESS – BEST SELECTION CHINA A

Quarterly Comment | Q2 2023

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

Market Comment

- In June, Shanghai Composite Index fell -0.08%, and CSI 300 Index rose 0.12%. Small-and-Mid-Cap Index increased -2.73%, and ChiNext Index up 0.98%.
- During the month, top five performers were Household Appliance (11.25%), Telecommunication (10.91%), Automobile (8.89%), Machinery Equipment (7.36%), Electrical Appliance (4.08%). The bottom five performers were Bio Meds (-4.50%), Transportation (-2.92%), Commerce and Retailing(-2.76%), Non-banking Financials (-2.09%), Banks (-2.06%).
- The yuan surpassed the Canadian dollar again to become the world's fifth most traded currency in May in terms of spot foreign exchange transactions. The RMB's global share was up from 2.29 percent in April to 2.54 percent last month, according to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), a global provider of financial messaging services. The RMB remained the fifth most active currency.
- The Beijing Stock Exchange, and Hong Kong Exchanges and Clearing Ltd have signed a memorandum of understanding to support qualified listed companies applying for listings in each other's market. The support for issuers to list in the Beijing and Hong Kong markets underscores BSE's commitment to deepening reforms and further opening its market, allowing more companies to leverage both markets in the acceleration of their development. The exchange will also work together in several areas, such as joint marketing programs, joint research projects, investor education and personnel exchanges.
- The Hong Kong dollar-renminbi Dual Counter Model was launched at a time when the strategic importance of Chinese yuan currency in terms of fund flow, liquidity and popularity is on the ascent. Shares traded under the model will belong to the same class as before, with the same rights and entitlements, and be fully tradable across counters. There will be nine dual counter market makers under the program to provide liquidity. With the launch of the model on June 19, 24 Hong Kong-listed companies, such as Tencent Holdings, Alibaba Group, Hong Kong Exchanges and Clearing and AIA Group, will offer their shares to be traded in both the Hong Kong dollar and renminbi. Total trading volume of the 24 firms reached HK\$25 billion and HK\$177 million at Hong Kong dollar and renminbi counters on June 19.

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 Information Technology.
- Petrochina, Bank of Communication and China International Travel Services were the main contributors during the quarter. In Consumer Discretionary, we suffered from our holdings in Midea Group.

Portfolio Activity

- Major holdings at the end of the quarter are Kweichow, Moutai and in the Financial sector namely China Merchant Bank and Ping An Insurance.
- Our fifth largest position is Petrochina (Energy).
- The portfolio was rebalanced according to our investment philosophy.
- No unusual trades occurred over the quarter.



Outlook

- In June 2023, A-share fluctuated in general. CSI 300 Index, CSI 1000 Index and the ChiNext board gained some lost ground, while the SSE 50 Index, CSI 500 Index and STAR board fell. Household Appliances, Communications, and Automobiles performed better than the rest, while Commerce and Retailing, Telecommunication, and Bio Meds lagged.
- Overall, the A-share market in June was influenced by the release of macro-economic data, the expectation of two more interest rate hikes by the US Federal Reserve, and a continuous depreciation of the Chinese yuan. The market remains volatile around the bottom, and the divergence in sector performances makes it harder to build portfolio.
- Looking ahead to July, we believe that the valuation is at low levels and opportunities are just around the corner. Recently, we noticed a series of stimulus packages being delivered, therefore, it is expected that the earnings of listed companies will no longer keep falling, which may drive the market to get back to an upward track.
- In terms of volatility, the volatility of the A-share market is still at low levels. The implied volatility of the options rose slightly from 15% to a maximum level of 17.5%. After a 5% drawdown, the A-share market rebounded shortly, and the volatility returned to 15% again.
- The current volatility is at the lowest 90% quartile level in history, if there happens to be black swan events or economic stimulus, volatility is likely to be affected. It is undoubtedly that the fluctuations may end soon, and we'll see whether it is going to be a bull or a bear market.

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