

UBAM – BEST SELECTION CHINA A

Quarterly Comment | Q4 2022

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

Market Comment

- In December, Shanghai Composite Index fell -0.16% and CSI 300 Index was up 3.31%. Small-and-Mid-Cap Index increased 1.33%, and ChiNext Index went up 2.20%.
- Former Hong Kong Stock Exchange chief Charles Li won approval to set up a financial assets exchange in Macao for the micro enterprises financing platform he co-founded, Li said on 5 Dec. Micro Connect (Macao) Financial Assets Exchange Co. Ltd. is expected to start operation by the end of the first quarter. The enterprise will offer global investors access to China's real economy with a new asset class – Daily Revenue Contract Certificates, or DRCCs, he said. Li is the former chief executive of Hong Kong Exchanges and Clearing Ltd.
- China's local governments set out plans to meet 2030 peak carbon goal. Over a dozen provincial-level regions in China released detailed action plans on achieving peak carbon emissions by 2030, with the southwestern province of Guizhou and North China's Inner Mongolia autonomous region among the most recent to make announcements. Guizhou will aim to make no fossil fuels account for about 20% of its total energy consumption by 2025 and 25% by 2030, according to its plan issued in November. The province also set a target of lowering its carbon dioxide emissions per unit of GDP — also known as “CO2 emissions intensity” — by more than 65% by 2030 as compared with 2005.
- China plans to broaden scope of REITs for bolstering property sector. China plans to broaden the scope of real estate investment trusts, which raise funds to invest in property assets, as part of the government's sweeping array of measures supporting the long-troubled sector. The government will accelerate the development of affordable rental housing projects in the real estate investment trust (REIT) market and will consider expanding an REIT pilot program to include market-oriented long-term rental and commercial real estate sectors.

Sources: UBP, Bloomberg Finance LP.

Performance Review

- During the quarter the strategy underperformed. Stock selection contributed negatively while sector allocation contributed positively to the excess return.
- Our overweight in real estate and cash were the main performance contributor over the fourth quarter.
- We suffered from stock selection in Financials and Industrials.
- Ping An Insurance, Bank of Chengdu and Bank of Hangzhou were the main detractors in the Financial sector. In the Industrials, we suffered from our holdings in Ly Xinqian and Sungrow Power.
- On the positive side we generated positive returns with Vats Liquor (Consumer Staples) and Taiji Computer (Information Technology). Kuaishou Tech was another good performer over the fourth quarter of 2022.

Portfolio Activity

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

Outlook

- Major indices representing small- and mid-caps and blue chips all fell around 20% throughout 2022. CSI 300 Index, which stands most representative for the China's economy has fallen nearly 40% from its peak from February 2021 to October 2022. The finetuning of China Reopen Strategy, may usher in a real rally point for the market.
- The market indices remained flat with zigzags after we experience three years of fighting against the pandemic. The equity market may have gone through a lost period of 3 years, gaining only alpha returns. Luckily, the turning point is almost around the corner.
- Speaking of the stimulus part, we expect the government to provide increasingly strong support because the economic data such as the PMI is yet below 50%. On the other hand, the picking-up of orders and the flow of population suggested a gradual recovery of the economy. Many overseas funds have chosen to buy back names like Moutai since 4Q2022. Therefore, we regard this moment as a perfect timing to return to Chinese assets to buy the bottom.
- The long-term volatility has overtaken the short-term one, suggesting a much more active market after the lunar new year. If we take the Two Sessions to be held this coming March into consideration, which may focus heavily on the economy, we could expect positive expectations to be reflected in the market performance during 1Q2023. While China's GDP growth in 2023 is expected to rebound to around 5%, we choose to move on with hopes.

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