U ACCESS – BEST SELECTION CHINA A

Quarterly Comment | Q1 2023

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

Market Comment

- In March, Shanghai Composite Index grew 0.46% and CSI 300 Index was up 0.18%. Small-and-Mid-Cap Index increased 1.58%%, and ChiNext Index fell -0.43%.
- During the month, top five performers were Media (24.21%), Computer (17.31%), Telecommunication (11.65%), Electronics (6.80%), Construction Decoration (4.01%). The bottom five performers were Steels (-7.12%), Real Estate (-6.89%), Basic Chemicals (-6.84%), Light Manufacture (-6.66%), Construction Materials (-5.95%).
- China's central bank planned to cut the reserve requirement ratio (RRR) for financial institutions by 0.25 percentage points from March 27 to keep liquidity reasonably ample and better serve the real economy. The cut will not apply to financial institutions that have already implemented a 5-percent RRR. After the reduction, the weighted average RRR for financial institutions will reach around 7.6 percent.
- China's manufacturing expanded for three consecutive months in March, offering fresh evidence that the country's economic recovery is steady. The purchasing managers' index (PMI) for China's manufacturing sector came in at 51.9 in March, down from 52.6 in February, data from the National Bureau of Statistics. A reading above 50 indicates expansion. The manufacturing PMI continued expansion in March, although at a slower pace due to a high base last month, suggesting a steady recovery of China's economic growth. The production index and new orders indexes reached 54.6 and 53.6, respectively, well above the boom-and-bust line.
- The China Securities Regulatory Commission has approved the first batch of four infrastructure real-estate investment trusts (REITs) expansion projects. Two of the infrastructure REITs expansion projects will be listed on the Shanghai Stock Exchange, and the other two on the Shenzhen Stock Exchange. The landing of the REITs expansion projects is a key measure to further promote the regular issuance of REITs, as well as the healthy and standardized development of the market.

Sources: UBP, Bloomberg Finance LP.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- During the quarter the strategy underperformed. Stock selection contributed negatively while sector allocation contributed positively to the excess return.
- Our overweight in Communication Services was the main performance contributor over the first quarter.
- We suffered from stock selection in Financials and Information Technology.
- China Merchant Bank, Ping An Insurance and Meituan were the main detractors during the quarter. In the Information Technology, we suffered from our holdings in Iflytek and ZTE.
- On the positive side we generated positive returns with Jiangsu Bojun (Consumer Discretionary) and Petrochina (Energy). Tencent was another good performer over the first quarter of 2023.

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

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Outlook

- The economy is still in the recovery stage, with PPI and CPI at low levels, monetary policy being less constrained, and overall liquidity ample. Therefore, the macro environment for the A-share market remains generally friendly, a concentrated sector allocation may bring about excess and absolute returns.

- In April, annual and first-quarter reports of listed companies will be disclosed, which may largely weigh on high valuation stocks. Sectors and individual stocks with stable and improving fundamentals, as well as those with upward inflection points, are expected to receive more attention. Based on the current tracking of the business sentiment of industries, we focus on the potential opportunities in Machinery and equipment (general equipment, automation equipment); Electronics (semiconductors, consumer electronics, optical and optoelectronic); Computer (IT services, software development, computer equipment); Media (AIGC direction). In addition, industries with stable business sentiment, such as Pharmaceuticals, Food and Beverages are also worth keeping track of. However, cyclical sectors related to finance, real estates and chemical chains should require in-depth exploration.

- We will carefully pay attention to overseas risks. In March, with the occurrence of the Silicon Valley Bank risk event in the US, the influence triggered by the Fed's rate hikes onto the European and American banking industries started to reveal itself. Although the risk has been brought under control, uncertainties still linger in the future. Hence, we will keep monitoring the ongoing risk events and how the overall risk preference reacted in the A-Share market.

- Speaking of volatility, the A-share market remained relatively range-bound, with the implied volatility for the next 30 days significantly lower than that of the next 60 and 90 days, generally hovering between 18-20%. This suggests that investors do not have a clear view of short-term trends for major indices. However, the high implied volatility for April to June suggests that the narrow fluctuating market in March may not persist much longer. As a result, our tail risk management strategy will come into play.

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