



UBAM – best selection asia

Quarterly Comment | Q1 2021

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Market Comment

- Asia equity market started the quarter with the typical January effect backed by growth companies especially when Jack Ma reappeared after Ant IPO cancellation. \$1.9tn stimulus package from the U.S. was initially considered a good signal to the market. But soon it created the inflation, overheating debate and it started to push up US 10-year treasury rate up to the point that Asia equity felt burdensome. This was the main cause of Asia's underperformance against global equities last quarter. It was stabilized in March as market gradually understands that 2H21 inflation will be eased due to high base of last year.
- Covid-19 and vaccination affected different markets differently. China was first-in & first-out but the first-out benefit is fading as others growth started to pick up. Developed areas such as Korea, Taiwan and Hong Kong were largely unimpacted and their own investment thesis is working well, e.g. chip supply shortage. India infection case shoots up recently, weighing another burden for cyclical recovery path.
- China was at the center stage but not in a good way. Geopolitical tension keeps rising regardless who the president is in the US, GDP growth was faster but now the gap is narrowing as US and other regions are catching up fast, and lastly PBOC continues its hawkish stance, focuses on the deleveraging. Despite these headwinds, several pockets of the economy look still promising thanks to the dual circulation policies. China has underperformed the region last quarter.
- Hong Kong has outperformed the region after long period of underperformance. Higher interest rate provides better operating environment for finance driven city and recovery hope from Covid is still alive. Techtronic has high revenue exposure to the US, it benefits from the home improvement demand since Covid breakout. But Man Wah, who also has a high US exposure suffered due to inflation driven cost burden concern.
- Korea has outperformed but it could have performed better if there was no value/growth argument. Its biggest and growth sector IT has underperformed the market, the fund has Samsung Electronics. On the other hand, Communications Services sector performed the best where Naver is in. Coupang, Naver's online shopping mall competitor, was listed in the US at higher valuation and it helped re-rating of the sector.

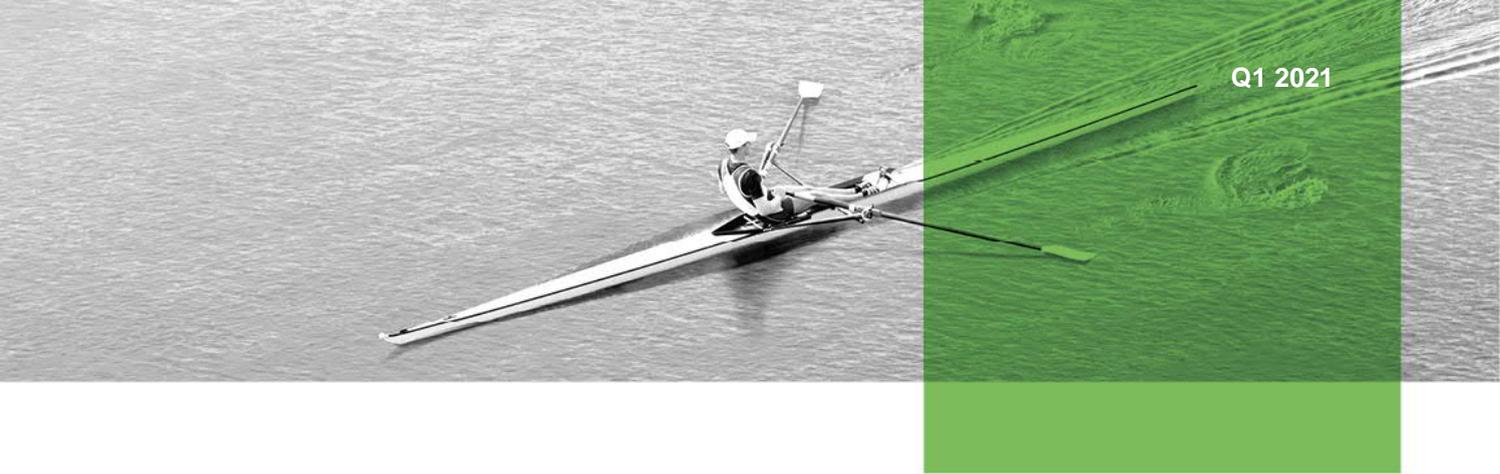
Sources: UBP, Bloomberg Finance LP.

Performance Review

- The portfolio outperformed the MSCI Asia ex Japan (NR). Both stock selection and asset allocation contributed positively to performance.
- Taiwan was the best performing country in the region. IT dragged down in other countries because as it is considered as a 'growth' sector but chip shortage came in front here in Taiwan. TSMC supply chain can now increase ASP as utilization rate all hit 100%. Backend chain ASE benefits from this. Mediatek continues to gain market share from global peers. It was also our best performing stock throughout the first quarter.
- Malaysian market was weak, but V.S. Industry stood out. We like the company from the angle of factory relocation out of China and it recently added a Covid-19 disinfectant sprayer as a new client.
- Another important contributor is UPL, the largest agro-chem company in India, recovered after whistle blower event last year. Company responded proactively against the accusation, earnings supported, so did materials sector. Consumer discretionary was in line with the market, but Maruti Suzuki returned part of its gain earlier. Auto makers are taking a pause since January..

Portfolio Activity

- We switched Alibaba to PDD due to elevated regulatory concern post Ant IPO cancellation.
- As Samsung Electronics preferred shares discount versus common has narrowed, we switched back to common shares.
- We took profit of Cosco Shipping and Meituan.
- We also added more alpha names to position the portfolio for the year to come. For example, BYD a hidden EV company with rechargeable battery internalized, and Daqo, the lowest cost polysilicon producer for solar panel. Other names include East Money, an internet based securities company, Q Tech is a fast growing second tier camera lens maker, CATL is the biggest Chinese battery maker.
- Later in March PDD was reduced to reduce China growth exposure, and took profit of Prestige. Hon Hai addition is for their new EV business. Unlike other automakers, Hon Hai can do business without incurring loss and they are the best candidate for Apple car. Agricultural Bank and CK Hutchison are for cyclical and value exposure.



Outlook

- Growth expectations were revised higher after US President Biden's fiscal package was passed through Congress, whilst high frequency data released during the quarter was also impressive. For example the March jobs report in the US saw an almost 1mn increase in payrolls, whilst global PMIs rose to a cycle high and led investors to price in more hawkish policy from the Fed in particular over the coming years. Despite this, central banks continued with their dovish tone, emphasising their commitment to maintain accommodation until economies have fully recovered from the pandemic. As we look ahead to Q2, the focus will be on whether vaccine distribution will allow economies to begin reopening, or if any vaccine rollout delays or virus mutations will slow reopening plans. Central banks will also be closely tracked to see if they begin to react to the consistent strength in the data and start guiding towards a less accommodative policy stance down the line.
- We remain constructive on Chinese equities, which underprice the cyclical recovery ahead, even though the Chinese equity market has recently been under pressure. Still, we believe that authorities have little reason to tighten aggressively. Regulatory concerns also weigh on investors' sentiment, but the potential negative impact of anti-trust measures (which are positive in the long-term) look increasingly priced in among China Big Tech stocks. Domestic consumption, technological innovation and further financial reform should create opportunities for investors looking to benefit from China's long-term growth prospects.
- India GDP forecast is being upgraded but higher oil price and FX rate concern made India only marketperform. Serious Covid-19 second wave since QTD is not helping much as well. UPL, largest agro-chem company in India, recovered after whistle blower event last year. Company responded proactively against the accusation, earnings supported, so did materials sector. Consumer discretionary was in line with the market, but Maruti Suzuki returned part of its gain earlier. Auto makers are taking a pause since January

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