Monthly Manager Comments
28.02.2022

Pictet - China Equities - I USD

Risk and reward profile

Don't take unnecessary risks. Read the Key Investor Information Document.

Lower Risk						Higher Risk
1	2	3	4	5	**6**	7

Typically lower rewards — Typically higher rewards

Market review

The MSCI China 10/40 Index finished the month of February down by over 3.4% in USD terms. The stock market was shaken by the double whammy of China domestic regulatory uncertainty on the internet sector and external "risk-off" sentiment due to the Russia-Ukraine war. The NDRC's statement on food delivery platforms triggered investor worry over a potential fresh wave of Chinese tech company regulatory crackdowns. And the Russia-Ukraine linked commodity price surge also placed further inflation pressure on the global economic recovery. The China A-share market was relatively resilient during the month thanks to easing policies, with more cities trimming mortgage rates for first time homebuyers. However, investors remain concerned about the timeliness and efficacy of easing policies on the property market, particularly as the liquidity crunch continues to impact more property developers. From a sector perspective, the best performers for the month were energy and materials while the worst were consumer discretionary and communication services.

Performance analysis

The strategy underperformed the benchmark over the month. Positive selection in the consumer discretionary and healthcare sectors was more than offset by negative selection in both materials and industrials. From a stock perspective, the strategy's positions in Meituan and CATL were the worst performing. Meituan was negatively impacted by the NDRC's statement, which suggested that food delivery platforms cut commission rate in order to help restaurants experiencing difficulties during the pandemic. However, we see no change to the long-term fundamentals and competitiveness of Meituan while view the short-term financial impact as limited and temporary. For CATL, the stock fell amid rising commodity prices, particularly lithium carbonate and nickel. The Russia-Ukraine war further exacerbated commodity supply shortage concerns. While we did acknowledge the margin impact of rising raw material cost on CATL in the near term, we believe CATL can continue to strengthen its competitiveness throughout the rising commodity cycle due to its best in class supply chain management, and that it should be able pass through some of the cost inflation to its customers. Positive contributors to performance for the month included the strategy's position in GDS Holding as well as our underweight position in Alibaba Group.

Portfolio activity - overweightings & underweightings

We initiated positions in China Resources Mixc Lifestyle and Sungrow Power. China Resources Mixc is an integrated state-owned property manager to residences, shopping malls and office buildings. Property services management is a long-term structural growing sector that we like and currently is still very fragmented. CR Mixc has proven itself as one of the best mall operators and is set to consolidate the market to drive its long-term growth. With recent policy changes and the liquidity trend, we expect the property market to move towards more SOE concentration. CR Mixc should benefit from this given its SOE parent company China Resource Land, which has a very strong balance sheet. Sungrow Power is the largest solar inverter maker with ca. 30% global market share in 2021. Sungrow is set to benefit from growing solar installation demand as the world moves towards carbon neutralization and will continue to take more solar inverter industry market share given its competitive edge in R&D, customer relationship and branding. Furthermore, Sungrow has also penetrated into energy storage system (ESS) business. With its superior expertise in power conversion systems and existing relationships with solar farm customers, Sungrow is well-positioned to benefit from soaring ESS demand. During the month, the fund also trimmed its positions in TSMC, Chailease and China Resources gas.

Market outlook

We remain optimistic about China's growth prospects. Whilst we do see pockets of localised Covid outbreaks in the short term, we have confidence that decisive action will be taken through mass testing and mandatory lockdowns to limit the spread. As the year progresses, we expect the vaccination rollout to accelerate therefore stymieing the impact of further Covid outbreaks. Though the Chinese economy has been on a road to recovery for some time, the pace of recovery has been uneven. The construction sector is now fully recovered but certain areas of consumption still lag below where they were in 2019. This should correct as the year progresses, where cyclical improvements take hold. With commodity prices rising, inflation expectations have also increased. The market is therefore monitoring policy and interest rate closely, which could pressure the market in the short term, particularly in companies with higher growth expectations. We believe that a market correction would provide a good opportunity to invest in companies with strong returns, solid cash generation, good long-term growth opportunities and compelling valuations. The longer-term investment thesis for China remains unchanged; the economy will continue to transition towards consumption, with urbanisation, wage growth and a growing pool of accumulated wealth all supporting demand for goods and services.

Portfolio strategy

The portfolio maintains a valuation-sensitive philosophy but without forgoing growth opportunities. The biggest sector overweights for the fund are the consumer sectors as well as healthcare. The consumer discretionary holdings typify how the portfolio is managed, namely with high conviction positions across diversified drivers. These include online retail, sportswear and home appliances. The consumer staples overweight reflects our conviction in China's premium white liquor market, where we expect demand to continue to grow, supported by rising disposable incomes and increasing brand awareness. The industrials weight is driven largely by the portfolio's position in CATL, the world’s largest EV battery manufacturer. We are positioned in strong domestic consumption franchises, where we believe that demand will recover once the economy improves. The portfolio is underweight materials and energy given the lack of companies which fit our philosophy; and in the financial sector, positioning within the banks is limited to retail-focused lenders with a strong brand image. We continue to find overlooked companies with solid fundamentals and compelling valuations and we continue to take advantage of shorter term fears to find strong long-term opportunities.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	26.05.2003
Launch date	27.11.2006
Share class currency	USD
Compartment currency	USD
ISIN	LU0168448610
Reference index	MSCI China 10/40 (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.04%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.70%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

James Kenney

Source: Pictet Asset Management

Further information can be found in the prospectus.

Pictet Asset Management

For further information, please visit our website assetmanagement.pictet

Important Information

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