GAM Multistock - China Evolution Equity

Marketing material for professional / institutional / accredited investors

Market environment

The MSCI China Index (USD net return) fell 7.7% in the fourth quarter. While China continued to roll out supportive policies aimed at boosting domestic consumption and economic growth, investor sentiment stayed subdued amid the uncertainty of potential tariff increase as Trump is set to return to the White House.

Among sectors, information technology and financials outperformed strongly in the quarter. Real estate, materials, consumer discretionary, healthcare and consumer staples were very weak.

Performance

GAM China Evolution Equity declined 9.0% (USD C-shares) in the quarter. The fund's performance was driven by the following factors.

- Sector allocation had a neutral impact on the performance. The underweight in real estate, materials, healthcare and consumer staples contributed positively, while the overweight in consumer discretionary detracted.
- Stock selection contributed positively in the consumer discretionary sector, but negatively in financials, information technology and communication services.

Since the fund's inception on 2 December 2013, the fund's USD C-shares have registered a return of 79.9%, outperforming the 24.8% return of the MSCI China Index during the same period.

Performance contributors

- Geely Automobile outperformed in the quarter on a positive outlook for next year, driven by strong new product momentum.
- Chinese banks, including Agricultural Bank of China and Industrial & Commercial Bank of China, performed strongly on expectations that banks' profitability would improve thanks to supportive macro policies.

Performance detractors

- Express delivery company ZTO Express underperformed despite reporting steady profit and market share gain.
- Smart phone maker Xiaomi rallied on robust mobile sales as well as rapid electric vehicle ramp-up. However, the position detracted from the fund's relative performance due to the underweight compared to the index.
- Video platform Bilibili fell in the quarter, though the company reported solid revenue growth and margin improvement in its quarterly results.

Positioning

The fund's strategy remains focused on industries that benefit disproportionately from China's evolution towards a consumer and innovation-driven economy. We favour recovery names as well as beaten-down growth stocks in consumer and innovation.

Sector exposure

Consistent with the fund's investment focus and based on the bottom-up opportunities we identify, the fund has large exposures to consumer discretionary, communication services and financials. In the quarter, we reduced exposure to communication services and consumer discretionary, while increasing our exposure to the financial sector.

Listing types and currency exposure

The portfolio has circa 40 stocks diversified across listing types. We currently favour Hong Kong-listed Chinese stocks over A-shares, as A-shares trade at a circa 40% premium over Hong Kong stocks. At the end of the fourth quarter, the fund has allocated 13.3% to Chinese A-shares, 15.0% to US-listed Chinese American Depositary Receipts (ADRs) quoted in US dollars, and the remainder to Hong Kong-listed Chinese shares (H-shares).

Jian Shi Cortesi
Manager of GAM China Evolution Equity

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GAM Investments

Outlook

After a bear market from 2021 to 2023, the MSCI China Index gained 19.4% in 2024. Despite the rebound, as at the end of 2024, the MSCI China Index was still almost 40% below the previous peak seen in 2021. The seeds of the bull market were always planted in the previous bear market. Valuations remain very low compared to its own history as well as other markets. The stock prices of many good Chinese companies went down 70%, 80% or even 90% from peak to trough. In our view, some of these companies were being 'given away' at very low valuations. We believe it is a great time for stock pickers looking to buy good companies at bargain prices.

Faced with a potential sharp increase in tariffs, Chinese policy makers are likely to introduce more measures to support domestic economic growth and the financial market. In 2025, we expect to see the most accommodative policy environment in the last ten years regarding Chinese domestic policies, with clear goals to support the economy, the property market and the stock market. China's sovereign funds had started buying Chinese stocks early in 2024. Chinese companies have been buying back their own shares in record amounts. Domestic investors have started to slowly move their huge amount of bank savings out of the banks and into the stock market. They still hold more than CNY 140 trillion (USD 20 trillion) in the banks, an amount larger than the Chinese GDP.

The valuations, domestic policies and investor positioning together create an asymmetric return setup of Chinese stocks and offer a rare opportunity to investors. The Chinese stock index has very large upside potential and much smaller downside potential in our view.

Currently the most-commonly-perceived risk for China is Trump's policies. The fear of Trump tariffs hurting China is keeping some investors away. However, during the last Trump presidency, despite the trade war and the Covid impact, the MSCI China Index practically doubled from the beginning of 2017 to the beginning of 2021. Chinese exports have also grown significantly since Trump started the trade war in 2018. We believe that Chinese domestic policies matter much more to the Chinese economy and the Chinese stock market than Trump's policies.

Due to this widely perceived risk, some investors may sell very good Chinese companies with strong long-term outlooks due to short-term macro fears. This could provide great opportunities for long-term oriented investors like us. Our strategy in 2025 is to focus on Chinese companies that

- Benefit from the long-term tailwind in consumption, technology and clean energy trends

- Concentrate their business growth on domestic markets, Asian markets or other emerging markets

One example is leading players in the Chinese electric vehicle (EV) supply chain. Through product innovation and scale advantages, they are growing market share in China, Southeast Asia, Latin America, Eastern Europe and Africa. Even with the US and European trade barriers, there will be ample room in the rest of the world for these companies to generate revenue and earnings growth. The same dynamics apply to medical devices, semiconductors, software, selected consumer brands, online entertainment, and games as well as travel. Our portfolio has exposure to consumption beneficiaries and secular growers in technology and clean energy. Travel remains a theme we like.

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Currency Risk: The value of investments in assets that are denominated in currencies other than the base currency will be affected by changes in the relevant exchange rates which may cause a decline.

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