

Henderson Horizon Fund – China Fund

Fund Commentary – December 2014

Overview

The MSCI China Index gained just over 1% in December, led by a rally in the financial and industrial sectors. The MSCI China Index rose around 8% for full year 2014, outperforming the MSCI Emerging Markets Index. China domestic A-share sentiment is bullish with the Shanghai Composite Index rising 20% in December and ending the year with a strong 53% rally (stock market indices are shown in local currency return terms). China's macro economy stayed on a slow track with industrial production (IP) reportedly declining to 7.2% in November compared to 7.7% in October. Purchasing managers' indices (PMI) were also a bit weaker than expected.

The softness in growth is fuelling expectations of further monetary policy easing. Low inflation driven by declining oil and commodity prices should also leave more room for the government to act.

Performance and activity

The fund outperformed its reference index in December. The main positive performance contributors were long positions in China CNR Corporation and various Chinese banks/insurance companies. The major detractors were long positions in Tencent, China Mobile, and Baidu.

Bank stocks outperformed following the Chinese regulator's move to relax the way loan-to-deposit ratios were calculated. Insurance companies continued to deliver strong performance in December due to a strong recovery in premium growth and improved sentiment within the domestic equity market. News of the merger between China's two largest train manufacturers, CNR and CSR, drove up CNR's share price to above our valuation target. We subsequently trimmed our position size in this holding, taking profits.

Internet stocks corrected this month, driven by fund flows out of highly valued sectors into under-owned financials and industrials. We continue to favour Tencent and Baidu's solid fundamentals and earnings growth potential; we therefore continue holding these names in the fund.

Outlook

The annual Central Economic Work Conference, held in mid-December, set out the Chinese government's key economic objectives and policy stances for 2015. The government detailed the "economic new normal status", which indicates a lower gross domestic product (GDP) growth target for 2015. Growth stabilisation is a top priority while focus also rests on further plans to speed up reforms in various areas in order to foster new sources of growth.

Although global investors are less bearish towards China compared with a year ago, they generally remain doubtful about Chinese reform and the sustainability of economic growth. Our view is more constructive. President Xi has been in office for two years now and has established himself as the paramount leader. The new government has shown a strong ability to roll out aggressive reform agendas. We believe that investors risk being overly bearish on the structural issues faced by China while ignoring the positive changes that may lead to the improvement of its long-term prospects.

Henderson Horizon Fund – China Fund (continued)

Key investment risks to be considered before investing

- The Fund primarily invests in equity securities and equity instruments of companies listed in China, Hong Kong and Taiwan and may also invest in companies incorporated elsewhere that have significant assets, business, production, trading activity or other interests in China, Hong Kong or Taiwan.
- The Fund may invest a substantial amount of its assets in companies in China (emerging market) which may involve a higher concentration of risk and also may experience higher risks of economic, political, regulatory and social development changes. Investments in emerging market may be less liquid and more volatile than funds that invest in developed and more geographically diversified markets.
- The Fund uses trading strategies that use financial derivative instruments (“FDI”) which may be unsuccessful due to a number of reasons; including volatile market conditions, imperfect correlation between the movements in securities on which derivatives are based, lack of liquidity within markets and counterparty default risk.
- The Fund typically holds long and short positions mainly through the use of FDI combining with direct investments and its total gross market exposure may exceed 100%. Such investment strategy and the use of FDI are inherently volatile and depending on market condition, the Fund could potentially be exposed to additional risk and costs should the market move against it and incur losses consequently.
- Investments in the Fund involve varying degree of investment risks (e.g. market, legal, financial, interest rate, currency, etc). In extreme market conditions, you may lose your entire investment in the Fund.

Note: You should not make investment decisions based solely on marketing materials. You should read the Prospectus and Product Highlights Sheet of the Fund for more details of the investment risks and seek independent professional advice where appropriate.

Note: Reference to any specific company or stock is for information purposes only and should not be construed as a recommendation to buy or sell the same.

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