FUND COMMENTARY SICAV

EASTSPRING INVESTMENTS - CHINA EQUITY FUND

January 2016

INVESTMENT OBJECTIVE

This Sub-Fund aims to maximize long-term total return by investing primarily in equity and equity-related instruments of corporations, which are incorporated in, or listed in, or operating principally from, or carrying on significant business in, or derive substantial revenue from, or whose subsidiaries, related or associated corporations derive substantial revenue from, the PRC. The investments of the Sub-Fund include, but are not limited to, listed securities in the recognised markets, depository receipts including ADRs and GDRs, debt securities convertible into common shares, preference shares and warrants.

FUND DETAILS

Benchmark
MSCI China Index

Portfolio Manager
Xiao Li

Share class	Inception date	Currency
A	2-Jul-07	USD
A_E	9-Jul-12	EUR
A_H	15-Jun-11	HKD
A_S	7-Feb-11	SGD
B	15-Oct-12	USD
C_E	9-Jul-12	EUR
D	21-Sep-07	USD
J	2-Jul-07	USD
R	14-Dec-12	USD

MARKET REVIEW

- Chinese equities witnessed a rocky start to the year, closing January in the red. A-shares slid 7% twice within the first trading week, triggering a new circuit-breaker mechanism that was quickly dropped. The MSCI China Index fell 12.7% (gross, USD) during the month, with all sectors bleeding, and underperformed the MSCI Emerging Markets and MSCI Asia-Pacific ex-Japan indices.

- The People's Bank of China also guided the renminbi lower in early January, setting the official mid-point rate at 6.5646 per US dollar on January 7, the biggest daily fall since August 2015's devaluation.

- China's 2015 GDP grew 6.9%, the slowest pace in 25 years and slightly below the government's 7% target, official data show. The services sector continued to hold up, expanding 8.3% (versus 7.8% in 2014), even as manufacturing growth slowed to 6.0% (from 7.3% in 2014). Most analysts and economists cast doubt on official statistics and believe GDP is lower. To put things into perspective, China's economic growth is structurally slower, but is not coming to a standstill and still outpaces that of other markets.

- Chinese industrial firms' profits fell 4.7% year-on-year in December 2015, and 2.3% in the full year of 2015, reversing 2014's 3.3% rise, data from the National Bureau of Statistics show. High costs, tight liquidity and weak local and global demand hurt earnings. Mining and energy firms were among the hardest hit from tumbling commodity prices and a supply glut.

- The State Council plans to cut crude steel production by 100-150 million tonnes and trim the size of the coal industry, as it seeks to rein in overcapacity in the industries. The government, however, did not specify a timeline or the amount by which it wants to decrease coal capacity.

FUND PERFORMANCE

- The Fund (Class A, net of fees) returned -12.2% in January, beating its benchmark by 47 basis points.

- Both stock selection and asset weighting contributed to relative outperformance. An underweight in industrials and stock picks in the consumer sectors and utilities boosted relative performance.

- Meanwhile, and overweight in financials and stock selection in materials pulled down performance.

All data as of 31 January 2016 unless otherwise stated.
For availability of the full range of share classes, please check with the distributors in your jurisdiction.

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KEY CONTRIBUTORS

Overweights in **China Mobile, AAC Technologies Holdings** and **Hengan International Group** boosted relative performance during the month.

- **China Mobile**, the mainland's largest telco operator, added 15.4 million 3G and 4G customers in 2015 to c.482 million, representing a 43.4% year-on-year growth, far ahead of China Telecom (+20.7% to 143 million) and China Unicom (+23.3% to 184 million). It also acquired a record number of 4G users in December. We are overweight in the company, which will likely benefit from the government's push to improve China's broadband infrastructure.

- **AAC Technologies Holdings** manufactures micro-components, such as haptics for phones, and counts Apple and Xiaomi among its clients. While competition is stiffening in the haptics business, the company expects Android smartphones to also adopt haptics engines this year, which may help it broaden its client base. We continue to like the stock, which offers among the most attractive valuations within the IT sector.

- **Hengan International Group** is an investment holding company mainly engaged in personal hygiene business. In early January, it proposed to spin off and separately list its food and snacks operations on the main board of the Hong Kong Exchange, as it seeks to focus on its personal hygiene business. Hengan's food and snacks business accounts for less than 5% of total revenues, and the firm had said in October it would explore selling its confectionary business.

KEY DETRACTORS

Overweights in **China Vanke and China Merchants Bank,** an a structural underweight in **Tencent Holdings** were main drags in January.

- After an almost three-week hiatus, **China Vanke's** H–share resumed trading on January 6 and plunged sharply. China's largest property developer is in a tussle with property and insurance group Baoneng, which is attempting a hostile takeover of Vanke. There are concerns over whether Baoneng would be able to fund its purchase of the stake, given its liabilities—it reportedly had RMB320 billion worth of debts in 2015.

- **China Merchants Bank (CMB),** the mainland's sixth-largest lender, is investing an undisclosed sum in Didi Kuadi, China's car-hailing app. This will allow CMB to provide car financing to the app's drivers, while giving the bank a foothold in the online payment space, which is dominated by Alipay and Wepay. We are overweight in CMB, which has among the most attractive valuations among Chinese banks.

- Like its peers, e-commerce giant **Tencent Holdings** is seeking ways to deal with an increasingly stiff online space, such as by collaborating with peer. For instance, its food delivery start-up Ele.me will reportedly receive at least USD1.3 billion in investment from rival Alibaba. We maintain a structural underweight in Tencent to comply with UCITS' 10% cap on investments in a single stock.

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FUND ACTIVITY

- Among other trades during the month, the Fund added to its exposure to China Merchants Bank and Industrial and Commercial Bank of China, capitalising on the banks' share price weakness.
- The Fund also trimmed its position in Tencent Holdings and China Mobile to meet UCITS' 10% single-stock restrictions.

STRATEGY AND OUTLOOK

- China's efforts to implement promised reforms and the possibility of continued monetary easing are factors to watch. Investors will continue to monitor China's balancing act of undertaking reforms while trying to rein in credit expansion and sustain economic growth. Mild easing is likely to continue in China as policymakers aim to mitigate property and debt risks.
- The portfolio manager believes that consistency in the implementation of reforms on state-owned enterprises will support market sentiment and conviction. China's approach towards leverage will continue to interest investors as this structural issue has been weighing down equity markets.
- The MSCI China Index's valuation continues to be attractive as it still trades below its 10-year historical average on a P/E and P/B basis. With our bottom-up investment process, we continue to search for attractively priced companies which are trading way below their intrinsic value.

All data as of 31 January 2016 unless otherwise stated.

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The Fund may use derivative instruments for efficient portfolio management and hedging purposes.

The Fund may, at its discretion, pay dividends out of capital or gross income while charging all or part of its fees and expenses to its capital, resulting in higher distributable income. Thus, the Fund may effectively pay dividends out of capital. Payment of dividends out of capital (effective or not) amounts to a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to that original investment, which may result in an immediate reduction of the net asset value per share/unit. The distributions, including amounts and frequency, are not guaranteed and are subject to the discretion of the Fund. Past dividends declared are not a forecast or projection of future distributions.

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Norway

The fund has been notified and registered with the Norwegian Financial Supervisory Authority (Finanstilsynet) in accordance with UCITS Directive 2009/65/EC.

Sweden

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Switzerland

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