



Strategic China Panda Fund

February 2020 Fund Commentary



Lilian Co
PORTFOLIO MANAGER

The stock market had a short rebound in February as investors digested the impact of the Wuhan coronavirus. The MSCI China Total Return index gained 1% during the month. Market focus turned from fear to an expectation of stimulus packages from the Chinese government, to stem economic freefall. Central banks in other major countries also vowed policy support should the epidemic prevail. Domestically, more property loosening at local government levels was further indication of the government quietly reversing the property tightening policy. Unsurprisingly, property stocks rebounded strongly in February. Defensive sectors like property management, education and healthcare also outperformed the market. On the other hand, retail, technology and travel related sectors were clear underperformers.

The Chinese government is finally loosening its grip on the property sector after two years of tightening, due to the coronavirus posing a serious threat to the economy. During the month, local governments in various cities announced delays on land premium and tax payments, aimed at alleviating the cash flow burden on property companies. Further supportive measures such as mortgage rate cuts and reduced down payment requirements for mortgage loan applications were also announced to stimulate demand. Sales of major property companies dropped 30-40% YoY in February, better than the Investment Adviser's expectations of a 50-60% drop. This also fared much better than many other industries (especially retail) which the Team estimate at an 80-90% drop in sales. Due to their resilient business models, property management companies suffered very little business impact.

Technology stocks were sold down on the back of mounting concerns over supply chain disruption in China and the smartphone sales outlook. Apple warned that it would not meet its revenue growth guidance in the coming quarter. In Macau, casinos were closed for two weeks. Restaurants and shopping malls were closed across the country. With social distancing, the move from offline activities to online has accelerated. Companies exposed to online gaming, iCloud services, online education and e-commerce are clear beneficiaries in this environment.

The fund gained 1.7% during the month, slightly outperforming the benchmark. The overweight in property and property management companies was the major contributor to the outperformance. The Team topped up weightings in technology and sold down weightings in Macau gaming and retail stocks.

The number of new coronavirus cases in China has peaked, from over 5,000 cases per day in February to now less than 50/day. Shops have reopened gradually across the country. Production has also resumed after the extended Chinese New Year break and is ramping up in an orderly manner. Simply put, the spread of coronavirus has been successfully contained in China. Unfortunately, it is Europe and the US that are now suffering and are experiencing what China went through two months ago. As long as countries are committed to fighting the virus, the epidemic will eventually peak as it did in China. Without a doubt, economic activities will be severely impacted in the short term. The Team is however hopeful of a second half recovery with aggressive policy easing and stepped-up anti-epidemic measures across the globe.

INVESTMENT APPROACH

Access to the Chinese growth story through one of the leading Portfolio Managers in the region. Stock selection and net exposure are adjusted to take advantage of an insider's view of the Chinese business cycle. Invested predominantly in China stocks listed in major markets like HK, China (A/B shares) and U.S. (ADRs), offering investors greater liquidity and transparency over other forms of investments in China.

INVESTMENT OBJECTIVE

To achieve long-term capital appreciation in the value of the assets by investing in China-related securities listed in, but not limited to the Greater China region.

A sub-fund of E.I. Sturdza plc.
Registered in Ireland.

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PERFORMANCE DATA As at end of February 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	3Y	5Y	10Y	Fund Inception
USD	1.72	2.07	6.33	39.60	44.68	84.89	234.48
USD I	1.76	2.19	6.84	41.85	49.01	87.72	239.61
MSCI China NR USD	0.97	4.13	3.29	34.15	30.66	73.23	135.21

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
USD	-6.92	28.58	-21.37	62.99	-2.43	-1.49	11.17
USD I	-6.85	29.20	-20.97	64.04	-1.94	-0.67	11.31
MSCI China NR USD	-3.88	23.46	-18.88	54.07	0.90	-7.82	7.79

Past performance is not an indicator of future performance.

AWARDS



See Awards Disclaimer on last page.



IMPORTANT INFORMATION

The views and statements contained herein are those of LBN Advisers Limited in their capacity as Investment Adviser to the Fund as of 16/03/2020 and are based on internal research and modelling.

WARNING

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The Strategic China Panda Fund (USD I Class) received a 4-star Overall Morningstar Rating and a 5-star 5-year Morningstar Rating (USD I Class). Morningstar Ratings™ as of 29/02/2020.

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