Strategic China Panda Fund

June 2021 Fund Commentary

The Chinese market remained in a narrow trading range throughout June. The MSCI China Total Return Index was flat for the month, ending the first half of the year with a return of +1.8%. The CSI300 Index, representing the onshore A share market, was down 2.0% in June, but ended the first six months with a slight gain of 0.2%.

The market was quiet in the lead up to the founding of the Communist Party of China Centennial on 1st July. Risk appetite increased slightly as concerns surrounding the US tapering dissipated following reassurance from the Fed, as reflected by a fall in the US 10 year bond yield rate. Internet stocks rebounded strongly as the regulatory clamp down appears to be coming to an end. A rally of the Nasdaq index also aided sentiment.

In an attempt to boost the otherwise falling birth rate in China, the birth policy has been relaxed further to now allow three children per couple. We are of the view that the new policy is unlikely to stimulate birth rate. The government relaxed the one child policy to allow two children per couple a few years ago, however the birth rate in China has continued to fall. The high cost of raising a child and the rising level of education has discouraged people from having more children. This phenomenon is not unique to China, with many developed countries following the same trend.

Biotech stocks, particularly CDMO (Contract Development and Manufacturing Organisation) players, had a strong run in June. Wuxi Biologics, the CDMO market leader in China, increased profit growth guidance from 50% to 65% which excited the market. We are bullish over the prospect of CDMO players. The COVID-19 pandemic has turned out to be blessing in disguise for them, as they are winning more COVID-19 related projects from foreign drug companies. A few bio-tech companies such as Remegen, Innovent and Akeso received approval for new drugs ahead of the June deadline for eligibility to bid for inclusion in the NDRL (National Drug Reimbursement List) in the second half of the year. We will focus on innovative drug companies which develop first-in-class and best-in-class drugs.

Sportswear stocks went from strength to strength as local Sportswear brands continued to record strong sales momentum on the back of patriotic buying from consumers who have boycotted foreign brands following the Xinjiang cotton incident. Li Ning issued a profit alert with over 60% sales growth and an improved margin in the first half of the year. The Fund is overweight this sector.

Property Management stocks were back in the limelight this month as investors began strategic positioning ahead of interim result reporting. Many stocks in this sector are expected to issue positive profit alerts soon, with 60-80% profit growth. The Fund is also overweight this sector for the strong secular growth, high earnings visibility and strong cash flow.

On the other hand, Property Developers were under strong selling pressure as investors were dumping developer stocks and bonds. China Evergrande, the largest developer in China, was also under attack despite an announcement from the company that it had reduced net gearing and total debt quicker than expected. Aside from stock valuation, high yield developer bonds are in general trading at over 20% yield. We believe this is way over done.

Lilian Co

Portfolio Manager

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 Funds plc.

Registered in Ireland.

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* B USD Class. For detailed performance information based on complete 12-month periods since inception, please refer to page 2. Past performance is not an indicator of future performance.

The Fund gained 6.4%* in June, significantly outperforming the benchmark, which was flat. The relative overweight in Sportswear, Shipping and Healthcare names added 3.4%, 1.0% and 0.7% respectively to the return of the Fund. This more than offset the drag from Property Developer exposure, which was down 0.8% in the month. Positions in Property Management and Education stocks were topped up.

Performance Data As at end of June 2021

Annualised Returns % [1]

	1M	3M	1Y	3Y	5Y	10Y	Annualised Inception
B USD Class	6.41	12.34	41.73	14.16	20.74	9.14	13.72
Benchmark	0.10	2.27	27.39	10.36	16.59	7.71	9.63

Calendar Year Returns % [2]

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception
B USD Class	14.38	23.43	29.20	-20.97	64.04	-1.94	414.68
Benchmark	1.83	29.49	23.46	-18.88	54.07	0.90	222.68

Benchmark: MSCI China NR USD.

Source: Morningstar.

[1] Annualised Returns as of the date of the reporting over the defined period. Data less than 1 year is not annualised.

[2] Calendar Year Returns: Annual Performance for the stated calendar year.

Past performance is not an indicator of future performance.

Ratings & Awards

MORNINGSTAR ★★★★

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Morningstar Sustainability Rating

Out of 1,984 Greater China Equity funds as of 31/05/2021. Based on 93.70% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

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The Strategic China Panda Fund received a 5 Globe Morningstar Sustainability Award. Out of 1,984 Greater China Equity funds as of 31/05/2021. Based on 93.70% of AUM. Data is based on long positions only. Historical Sustainability Score as of 30/04/2021. Sustainability Rating as of 31/05/2021. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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