AS AT 30.04.2024

Market Review

Chinese equities had a good run in April, with offshore and onshore equities returning 6.6% and 2.1%, respectively. Financials outperformed amid improved risk appetite towards Chinese equities. Materials again outperformed, mostly on non-ferrous metals which saw supply rationalisation and robust global demand (e.g., for Electric Vehicles (EVs) and semiconductors).

On the macroeconomic front, China's first quarter Gross Domestic Product (GDP) rose to 5.3% in year-on-year (YoY) terms despite a less favourable base, up from 5.2% the previous quarter. March activity data remained mixed: Industrial production (IP) grew by 4.5% YoY while retail sales fell by 3.1%, partially due to base effects (China's reopening rebound was in full strength at the end of the first quarter of 2023). Investment growth picked up to 4.7% YoY, as faster growth in infrastructure and manufacturing investment offset a deeper contraction in property.

Manufacturing Purchasing Managers Index (PMIs) surprised slightly to the upside in April, with the Caixin index jumping to 51.4 from 51.1 in March, and the official manufacturing index edging down to 50.4 from 50.8. The official non-manufacturing PMI fell to 51.2 from 53.0 in March due to a slowdown in services sector activity as stronger transport activity (likely boosted by the Qingming holidays) was outweighed by a further slowdown in the property and finance sectors.

Exports in US dollar terms contracted by 7.5% YoY in March after a 7.1% rise in January-February. But like most of the China data early this year, the recent swings in YoY growth are in large part due to New Year-related base effects.

Broad credit growth (growth of outstanding aggregate financing) slowed to 8.7% in March from 9.0% in February. A strong base from March 2023 – soon after China reopened – was partly the cause. Bank lending growth slowed further while government bond issuance also weakened. Consumer price index (CPI) inflation edged up by 0.1% YoY in March, mainly dragged by faster food price deflation. Producer price index (PPI) deflation slipped deeper to -2.8% YoY in March from -2.7% in February, although the month-on-month (MoM) sequential decline narrowed.

Labour market conditions appeared broadly stable, with the national survey unemployment rate ticking down to 5.2% in March from 5.3% in February (in the 31 major cities it remained unchanged at 5.1%).

Over the month, the China State Council released "Nine-Point Guideline", a once-a-decade guideline that aims to manage risks and promote high-quality development in the capital markets.

The April Politburo meeting maintained a supportive tone and announced that the 3rd Plenum of CCP Central Committee will be held in July. At the Politburo meeting, officials were asked to take into account the new demand-supply balance in the market, as well as people's expectations for quality housing, to find ways to use up the existing inventory of housing and optimise policies to increase housing supply so as to speed up the sector's transition to a new development model.

Fund Performance & Portfolio Activity

Fund Performance

The fund BNP Paribas China Equity returned +3.23% in April underperformed the benchmark by 299bps (Classic, Capitalisation share class, net of fees, NAV-to-NAV with dividends reinvested, in USD).

Main Contributors

Stock selection in health care and our overweight in communication services contributed the most to the relative performance.

Great Wall Motor, a leading pickup truck and SUV maker in China, was among the top contributors over the month. We added back this name into the portfolio in Q4 2023 to capture the recovery in automotive market. We like the company for its leadership position within the industry and expect it to benefit from better product mix with higher-end products and margin expansion driven by overseas business, where gross profit margin is higher compared with domestic business. In its latest Q1 results, the company indeed delivered a set of solid earnings driven by strong exports and better sales mix in premium "Tank" brand. Going forward, we expect the company to achieve robust revenue and profit growth through strong execution of its overseas strategy and sales momentum from the new product cycle.

Within consumer discretionary, one of our top picks - Haier Smart Home (Haier) – had a nice rally in April. The company is a leading home appliances producer in China with growing global footprint. Its share price caught some strength amid improving sentiments around Chinese white goods going overseas. Adding to the momentum was Haier's strong set of Q1 earnings, where the firm delivered better-than-expected profits driven by product mix improvement and enhanced operating efficiency. What's more, Haier also raised dividend payout ratio to 45% in 2023 and plans to raise further in future. We continue to like the firm given its attractive free cashflow (FCF) yield and value matrix, which is aligned with market interests now amid style rotation. Fundamentally, we believe Haier's long-term growth remains intact under solid overseas growth, domestic demand recovery, and margin expansion.

Main Detractors

Stock selection in communication services and information technology mainly detracted from the relative performance.

Over the month, New Oriental Education & Technology Group (EDU), the leading private educational service provider in China, pulled back amid disappointing quarterly earnings. However, the earnings miss was mainly due to Eastbuy, the live-streaming e-commerce sub-business of EDU. Despite the drop in revenue contribution from Eastbuy, EDU's core educational business remains strong and on track of further margin expansion. We

Source: BNP Paribas Asset Management as at 30 April 2024. **Past performance is not indicative of current or future performance.** The above views represent our judgement as at the date of this report and may be subject to change without notice. Any economic and market trends/forecasts are not a guide to future performance of the fund. The funds/securities mentioned above are for illustration only and shall not constitute any investment advice. Calendar year performance: 2023: -19.53%, 2022: -28.41%, 2021: -18.86%, 2020: 51.03%, 2019: 35.02%. Classic Capitalisation shareclass, net of fees, NAV-to-NAV with dividends reinvested, in USD.

continue to like the company as we believe the key driver to its core business recovery remains to be the demand for children education, which is unlikely to fade in foreseeable future. As the industry is back to more stable regulatory environment, EDU has also fortified the key pillars of future business direction with further lifted industry leadership.

Within our portfolio, Maxscend Mircoelectronics was among the top detractors in April. The company is a leading provider of radio frequency (RF) front-end chips, RF switches, LNAs, and antenna tuners, in China with a fabless business model. The share price reacted negatively to the company's Q1 results, where net profit missed due to higher cost of a fabrication plant amid vertical integration and accelerating modules sales, which comes with lower margins. Despite the weakness in net profits, Maxscend continues its revenue recovery, outpacing both global and regional peers in smartphone business, and remains on track to grow its high-end module business. We remain positive on Maxscend's revenues recovery driven by new modules ramp up. We believe that the company's long-term growth is not solely relying on the overall market cycle, but also empowered by innovative product design, product line expansion, higher penetration into 5G smartphone models, and market share upside.

Portfolio Activity

Over the month, we exited Galaxy Entertainment and Li Ning, and introduced Xiaomi to the portfolio.

Fund Outlook and Positioning

Market sentiment towards Chinese equities has started to recover, backed by a more encouraging outlook and more supportive economic policies. In the near term, the authorities' policy focus is shifting to the implementation of existing easing measures to tackle the cyclical issue of an uneven and patchy recovery. In terms of a long-term growth strategy, policymakers are emphasising a commitment to the importance of reforms to boost productivity, economic growth and China's path to modernisation. While the structural issues (i.e. local government debt, property sector woes) are still works in progress, China has the tools to manoeuvre and be more proactive in managing the risk. Chinese equities, deeply discounted, may also benefit from a global re-allocation of fund flows after global risk sentiment took a hit from the higher- for-longer US interest rates narrative.

Policy support is likely to be stepped up in the coming months, with front-loaded fiscal support doing much of the heavy lifting, backed by monetary easing. On the fiscal policy side, the main tools include front-loading support via early issuance of special CGBs (central government bonds) and accelerating the issuance of special LGBs (local government bonds). On the monetary policy front, China's central bank also has more leeway for further liquidity stimulus, such as further policy rate and RRR (reserve requirement ratio) cuts, compared to developed markets and the other emerging economies.

To boost future economic growth, officials have called for state-led investment to stimulate private investment and to support the new initiatives such as 'new quality productive forces'. Structural transformation is renewing investment growth in high-value-added manufacturing and upgrades in the industry value chain.

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The new infrastructure sector (e.g., IT, artificial intelligence, data hub, hard tech development, environmental projects, electric vehicles, transport, etc.) are likely to benefit more than traditional infrastructure from future investment growth. We expect to see increasing opportunities to pick up fundamentally solid long-term market winners at more reasonable valuations.
Risk prevention remains near the top of the policy agenda, with a particular focus on stabilising the property sector. Insufficient domestic demand, pressures on private firms and a more complex external environment are hidden risks in key areas. Resolving these structural issues requires decisive, forceful and predictable policies. Looking ahead, the regulatory environment is stabilising in China (compared to 2020-2021), with Beijing reiterating its focus on taking a pro-growth and pro-business policy stance.

We believe China's relationship with the US will remain challenging in 2024 and beyond, with geopolitical risks remaining high as both economies increasingly see each other as competitors. In some areas where both parties have common interests worth compromising on, we are seeing progress. However, risks remain, especially in specific areas such as semiconductors, AI development and other new technology. Over recent years, western multinational companies have been diversifying their supply chain to southeast Asia and India to mitigate Sino-US trade tensions. That said, the diversification and/or relocation of supply chains is a slow process, given China's scale, capacity and efficiency as well as its strong manufacturing ecosystem. This can be seen from the increased market share of China's global exports in the past few years despite tariffs, as well as from the increased intra-regional trade between China and other Asian countries.

For 2024, we believe the risk-reward is turning more positive even though China is not fully out of the woods yet. Re-rating prompts investor focus to shift towards individual company fundamentals. This shift may result in a greater divergence in stock performance. At the portfolio level, while we continue to focus on our bottom-up stock-picking process, identifying the highest-quality growth companies with sound or improving environmental, social and governance (ESG) profiles, we are also taking macroeconomic top-down and cyclical factors into greater account to help us select the better-performing companies in relative terms. We prefer companies that are likely to benefit from policy moves and domestically focused names and avoid those that are subject to higher geopolitical risk.

Modest valuations, light investor positioning, good fundamentals and structural long-term growth opportunities should help Chinese assets withstand near-term volatility. We believe China's equity markets are increasingly led more by structural growth factors than cyclical factors. Our China equities team identifies investment opportunities in the themes that are well positioned to benefit from structural changes: 1) technology & green innovation; 2) consumption; and 3) industry consolidation. These themes are the guiding stars in our long-term portfolio strategy.

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DISCLAIMER

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