AS AT 31.01.2024

Market Review

Offshore and onshore Chinese equities fell by 10.6% and 10.1%, respectively, over the month. Sentiment has yet to stabilise, while the unwinding of structured onshore products also added to volatility. Near month-end, news flows on potential US restrictions on China's biotech firms led to a panic sell-off within the healthcare sector.

Beijing seems to have stepped up its easing measures over the month: the People's Bank of China (PBoC) announced a 50bp cut to banks' reserve requirement ratio (RRR), which is expected to inject long-term liquidity of about RMB 1 trillion (~USD 140 billion) into the banking system; property developers are also allowed to use of their property-backed loans for repaying other loans or bonds, not just for property investment.

On the macroeconomic front, fourth quarter 2023 Gross Domestic Product (GDP) met expectations, but December activity data remained mixed: GDP growth picked up to 5.2% year-on-year (YoY) in Q4, sending full-year GDP growth to 5.2%, which was above the 5.0% target. The activity figures in December showed rises in industrial production (IP) and fixed asset investment (FAI) growth in YoY terms, while retail sales softened due to strong base effects from late 2022 caused by exit wave of pent-up demand after the zero-Covid policy ended.

The official purchasing managers' indices (PMI) rose very slightly in January to 49.2 (manufacturing) and 50.7 (non-manufacturing), despite the sharp decline in construction. The services PMI returned to expansion at 50.1 on robust service consumption during the holidays.

Export growth in US dollar terms improved to 2.3% YoY in December, among which exports of motor vehicles remained robust. Imports, however, remained weak at 0.2% YoY albeit improving from November's 0.6% contraction.

IP growth accelerated to 6.8% YoY in December as pick-ups in mobile phone and automotive production growth outweighed a slowdown in property-related output. Fixed asset investment (FAI) growth improved to 4.0% YoY on additional central government bond issuance. On the other hand, retail sales growth slowed to 7.4% YoY in December from 10.1% in November, reflecting distortion from strong post-Covid pent-up consumption in late 2022.

Broad credit growth (outstanding aggregate financing growth) edged up further in December to 9.5% YoY from 9.4%. The pick-up was mainly driven by a further acceleration in government bond issuance, while bank lending growth remained subdued.

Consumer price index (CPI) and producer price index (PPI) both showed a smaller fall in December, edging up to -0.3% YoY and -2.7%, respectively. The improvement was mainly due to food price rebounds (led by pork)

Source: BNP Paribas Asset Management as at 31 January 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.

and a lower base oil price, while the core rate remained stable at 0.6% YoY.

Fund Performance & Portfolio Activity

Fund Performance

The fund BNP Paribas China Equity detracted by -10.56% in January outperforming the benchmark by 23bps (Classic, Capitalisation share class, net of fees, NAV-to-NAV with dividends reinvested, in USD). From a sectorial perspective, our stock selection added to excess returns while sector allocation detracted from performance.

Main Contributors

Our stock selection in consumer discretionary, information technology, and communication services contributed the most to the relative performance.

Within communication services, NetEase, one of the top online game producers in China, recorded some recovery from the selloff in December following the surprise draft regulation regarding online gaming. In January, China's National Press and Publication Administration (NPPA) appeared to have removed the Draft for Opinion from its website and we see less likelihood that final guidelines will be released in the near term. NetEase has been one of the few companies that managed to deliver growth amid a challenging domestic macro backdrop, also with a reasonable valuation after the 2022 regulation shock. Despite the near-term market noises, we continue to like the company in the longer term, for its strong game launch record and increasing revenue exposure from international markets.

Energy, utilities, and financials strongly outperformed amidst market selloff, as investors continued to favour stocks with decent dividend yield and low volatility amidst uncertainties around macro cyclicality. China Yangtze Power, the largest hydropower generation company in China, was the biggest contributor to portfolio's relative performance. In January, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) mentioned potential inclusion of market cap management as a key performance indicator (KPI) for central SOE managers, highlighting the use of measures such as payout lift or share repurchase to boost shareholder returns. Stocks that benefit from SOE dividend yield play such as Yangtze Power therefore outperformed the overall market. To navigate near-term market volatility, we have started to look for some defensive stocks with attractive dividend yield and will continue to benefit from SOE reform, adding greater macro top-down considerations to our portfolio construction process on top of the alpha-driven stock picking process. Meanwhile, we remain constructive on our long-term investment themes, and we believe that once the macroeconomic environment stabilises, structural growth drivers like industry upgrades are expected to recover and be sustained.

Main Detractors

Stock picks in industrials, underweight in financials and overweight in information technology held back some return.

Source: BNP Paribas Asset Management as at 31 January 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.

The information technology sector was hit by the across-the-board sell-off of software, smartphone supply chain and semiconductors. Within our holdings, Venustech, Maxscend Microelectronics, and Kingdee International Software were top detractors in January. Venustech, a leading cybersecurity service company, released an update on its expected FY2023 results, claiming that they will miss revenue and profit targets due to drag from government business which saw delayed budget or changes in budget allocation. As macro environment still challenging, the management remains conservative on 2024 outlook. On a positive print, demand from large-scale SOE clients and security demand from digital infrastructure projects (as government has shifted some spending from traditional projects to digital infrastructure) are likely to be the key contributors this year. Moving into 2024, to navigate near-term market volatility, we have slightly increased the number of holdings for diversification purposes, and to mitigate concentration risk in sectors sensitive to geopolitical risks (i.e., IT & industrials). However, we remain positive on the long-term development of software industry and the information technology sector, especially software names, cloud business and companies which are supporting the digitalization development in China. We believe digitalization and cloud development are in line with China's long-term growth target.

Portfolio Activity

Over the month, we introduced PICC Property and Casualty and Fuyao Glass Industry to our portfolio, and exited from Meituan, JD.com, and Beijing Capital International Airport.

Fund Outlook and Positioning

Market sentiment towards Chinese equities remains cautious despite a somewhat more encouraging outlook and more supportive economic policies. China's weak macroeconomic momentum is partly cyclical (patchy and uneven recovery after long Covid), partly structural (local government debt, property). With the government's actions of late, policymakers are putting a floor under the cyclical issues. While the structural issues are still works in progress, China has the tools to manoeuvre and be more proactive in managing the risk (e.g. central government leveraging up, innovation and upgrade of its industrial sectors).

Structural transformation is renewing investment growth in high-value manufacturing and high-tech industries. The most exciting aspect of investing in China in the mid to long term is the upgrade in the industry value chain. Once the macroeconomic environment stabilises, structural growth drivers like industry upgrades are expected to recover and be sustained. 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.

To help stabilise China's GDP growth and ultimately restore market confidence, fiscal stimulus may play a more significant role. In our view, potential positive catalysts for China include: 1) central government leverages up and takes on a larger share of the fiscal burden; 2) relaxation of household registration system and further accelerate urbanization; 3) reviving the 'animal spirit' and restoring private sector confidence with more concrete plans to further protect private owned enterprises' (POEs) assets & rights. China's headline

Source: BNP Paribas Asset Management as at 31 January 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.

BNP PARIBAS ASSET MANAGEMENT

The sustainable investor for a changing world

inflation remains low. Compared to the developed markets and the other emerging economies, the central bank has more leeway for further liquidity stimulus.

Resolving structural issues require decisive, forceful, and predictable policies. Looking ahead, the regulatory environment is stabilizing in China (comparing to 2020-2021) as the government reiterated its focus on taking a pro-growth and pro-business policy stance. Over the long run, debt reduction, reducing carbon emissions and implementing further reforms remain key priorities on the policy agenda.

We believe China's relationship with the US will remain challenging going into 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 technology areas such as semiconductors. Over recent years, 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-region 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. The divergence in stock performance looks set to continue to widen, and the recovery in China will likely remain patchy and uneven. Modest valuations, light investor positioning, good fundamentals and structural long-term growth opportunities should help Chinese assets withstand near-term volatility. Our China equities team prefers to focus on names likely to benefit from policy moves and domestically focused names and avoid those that are subject to higher geopolitical risk. We believe China's equity markets are increasingly led more by structural growth factors than cyclical factors. We identify long-term investment opportunities in the themes that are well positioned to benefit from structural changes: 1) technology & green innovation; 2) consumption upgrading; and 3) industry consolidation. These themes are the guiding stars in our long-term portfolio strategy.

At the stock level, we remain opportunistic, and we rebalanced our portfolio with a focus of next generation champions benefiting from the technology & innovation breakout, and a mix of steady growth & turnaround tactical opportunities from the valuation angle to balance the portfolio risk. More targeted easing measures to support property and more investment on infrastructure and manufacturing are critical to achieve the growth target. On consumption side, the trend of changing consumption priority is likely to continue with travel, leisure and services related consumption outperforming consumption durable goods.

We continue to focus on our bottom-up stock selection approach, identifying the highest-quality growth companies delivering sustainable earnings growth in the long run and with sound or improving environmental, social and governance (ESG) profiles. The divergence in stock performance looks set to continue to widen. We continue to be selective, and we are closely monitoring the Chinese macroeconomic outlook and the latest developments.

Source: BNP Paribas Asset Management as at 31 January 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.

DISCLAIMER

This material is issued and has been prepared by BNP PARIBAS ASSET MANAGEMENT Singapore Limited ("the Company"), with its registered office at 20 Collyer Quay, #01-01, 20 Collyer Quay, Singapore 049319, Company Registration No. 199308471D. Its contents have not been reviewed by the Monetary Authority of Singapore. It is produced for information purposes only and does not constitute: 1. an offer to buy nor a solicitation to sell, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or 2. investment advice. The information contained in this material is provided without prior knowledge of your circumstances, including your financial position, risk profile and investment objectives. Investors are recommended to seek the advice of their usual financial adviser(s) in order to assess the suitability of the product or strategy mentioned herein as an investment. In the event that an investor chooses not to seek advice from a financial adviser, he/she should consider whether the financial instrument is suitable for him/her. This material makes reference to certain financial instruments authorised and regulated in their jurisdiction(s) of incorporation. No action has been taken which would permit the public offering of the financial instrument(s) in any other jurisdiction, except as indicated in the most recent prospectus, offering document or any other information material, as applicable of the relevant financial instrument(s) where such action would be required, in particular, in the United States, to US persons (as such term is defined in Regulation S of the United States Securities Act of 1933). Prior to any subscription in a country in which such financial instrument(s) is/are registered, investors should verify any legal constraints or restrictions there may be in connection with the subscription, purchase, possession or sale of the financial instrument(s). Investors considering subscribing to the financial instrument(s) should read carefully the most recent prospectus, offering documents or other information material for further details including the risk factors and consult the financial instrument(s') most recent financial reports, available at the Company or its authorised distributors. Opinions included in this material constitute the judgement of the Company at the time specified and may be subject to change without notice. The Company is not obliged to update or alter the information or opinions contained within this material. While all efforts are taken to ensure the accuracy of the information and data included in this material, no warranty is given and no liability shall be accepted in the event of any error, inaccuracy or discrepancy of such information and data. Investors should consult their own legal and tax advisors in respect of legal, accounting, domicile and tax advice prior to investing in the financial instrument(s) in order to make an independent determination of the suitability and consequences of an investment therein, if permitted. Please note that different types of investments, if contained within this material, involve varying degrees of risk and there can be no assurance that any specific investment may either be suitable, appropriate or profitable for an investor's investment portfolio. Investments involve risks. Investments in emerging markets involve above-average risk. Given the economic and market risks, there can be no assurance that the financial instrument(s) will achieve its/their investment objectives. Returns may be affected by investment strategies or objectives, markets and economic conditions. The different strategies applied to financial instruments may have a significant effect on the results presented in this material. Past performance and any economic and market trends/forecasts are not a guide to future performance and the value of the investments in financial instrument(s) may go down as well as up. Investors may not get back the amount they originally invested. The performance data, as applicable, reflected in this material, do not take into account the commissions, costs incurred on the issue and redemption and taxes.

Source: BNP Paribas Asset Management as at 31 January 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.