UOB Asset Management

United China A-Shares Innovation Fund

December 2022

Why Invest?

- **Opportunities across multiple sectors**: The Fund seeks cutting-edge companies not just in Technology but also in Consumer, Industrials, Healthcare, and Materials, including those benefitting from China's extensive use of e-commerce and mobile applications.

- **Exposure to leading innovations:** China leads in 5G/6G telecommunications and has a dominant global market share in Electric Vehicles (EV), EV supply chain (including batteries), and renewable energy such as solar and wind, and Artificial Intelligence (AI) development.

- **Pro-growth policy support:** China is set to benefit from enhancements in macro policy support and targeted fiscal measures. The People Bank of China has cut its five-year loan prime rate and announced infrastructure spending of 1 trillion yuan.

- **Cheap valuations:** China's equity market valuation may have bottomed in October 2022 according to its price-earnings ratio (PER) being more than one standard deviation below its mean. (December 2022 PER is at one standard deviation below its mean).

- **A blend of growth and value:** The Fund aims to invest in both growth and value stocks by maintaining a reasonable allocation in the three directions of 1) Energy and Information Technology Innovation, 2) High-End Manufacturing Upgrades, and 3) Consumption Upgrades.

Investment Objectives

The investment objective of the United China A-Shares Innovation Fund is to achieve long-term capital appreciation by investing primarily in A-Shares of companies listed in the People's Republic of China which are beneficiaries of technology, innovation and trends.

Fund Information

Morningstar Rating

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Fund Size

SGD 368.99 mil

Base Currency

SGD

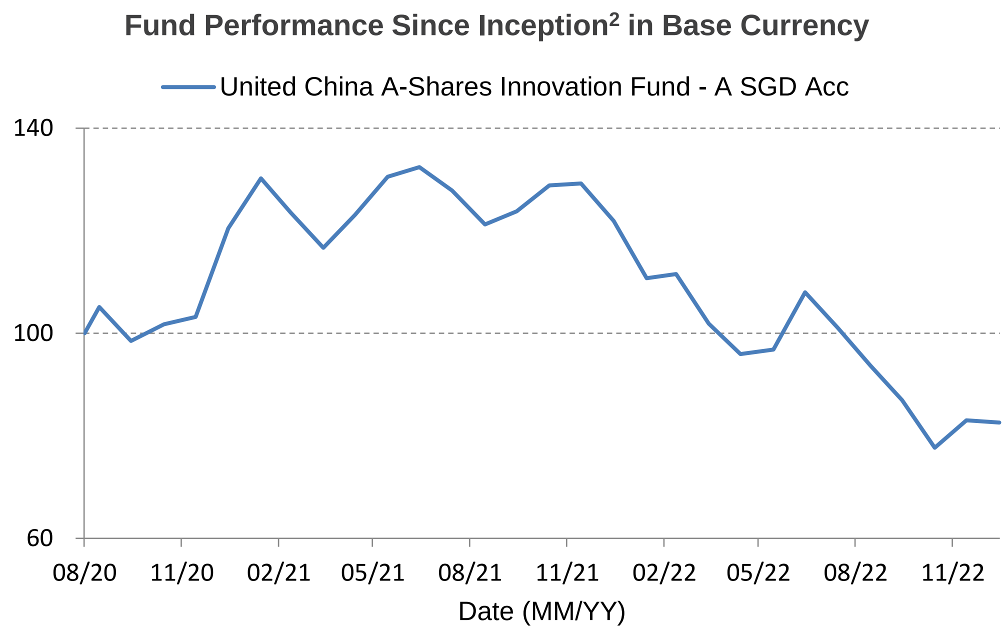
Fund Manager

Colin Ng

One Month Portfolio Review

The United China A-Shares Innovation Fund – A SGD Acc (the "Fund") returned -0.48[1] percent in December 2022.

Historical Performance



Past performance is not necessarily indicative of future performance.

Fund performance is calculated on a NAV to NAV basis.

Source: Morningstar. Performance as at 31 December 2022, SGD basis, with dividends and distributions reinvested, if any.

[1] *Source: Morningstar, Performance from 30 November 2022 to 31 December 2022 in SGD terms, on a Net Asset Value ("NAV") basis, with dividends and distributions reinvested (if any).*
[2] *The The United China A-Shares Innovation Fund – Class A SGD Acc (ISIN code: SGXZ49509284) was incepted on 17 August 2020.*

All statistics quoted in the write-up are sourced from Bloomberg as at 31 December 2022 unless otherwise stated.

Annualised and Cumulative Returns

Performance (Class A SGD Acc)

	Cumulative Performance (%)	Annualised Performance (%)			
	1 month	1 Year	3 Years	5 Years	Since Inception
Fund NAV to NAV	-0.48	-32.25	-	-	-7.74
Fund (Charges applied^)	-5.45	-35.64	-	-	-9.72

Source: Morningstar. Performance as at 31 December 2022, SGD basis, with dividends and distributions reinvested, if any. Performance figures for 1 month till 1 year show the percent change, while performance figures above 1 year show the average annual compounded returns. Past performance is not necessarily indicative of future performance. ^Includes the effect of the current subscription fee that is charged, which an investor might or might not pay.

Market Review

In December 2022, the China Securities Index (CSI) 300 Index rose by 0.37 percent while the CSI Small Cap 500 Index fell by 4.96 percent in Chinese yuan renminbi (CNY) terms.

The trend of equity markets diverged in December 2022. The Shanghai Composite Index fell 1.97 percent, while the Growth Enterprise Market (GEM) index rose slightly by 0.06 percent. In terms of industry, the consumer sector rose in December 2022, led by the food and beverage industry (+10.8 percent month-on-month (m/m)), followed by the beauty care industry (+10.3 percent m/m), social services, and retail trade industry (+6.5 percent and +3.6 percent respectively). Cyclical sectors were generally weaker, with the coal sector down 10.9 percent, the real estate sector down 9.1 percent, and the construction and decoration, and automotive sectors down 7.0 percent and 6.4 percent, respectively.

Although China's economy is still under pressure in the short-term COVID-19 shock, the pace of the economic recovery is expected to accelerate in 2023. On the one hand, the Purchasing Managers' Index in December 2022 showed the overall prosperity level of China's economy was falling due to a surge in COVID-19 cases, but on the other hand, from 8 January 2023, under the new COVID-19 policy, the focus is shifted to "health protection and severe case prevention", and the closed borders will reopen to those with work and study visas or seeking to visit family. The follow-up policies of "stabilizing growth" and "increasing domestic demand" are expected to accelerate the economic recovery in 2023.

Monetary policy continues to be accommodative. The Central Economic Work Conference (CEWC) continued the theme of "precise and powerful monetary policy" and "maintaining reasonable and sufficient liquidity" in previous years, and continued to highlight the support for small and micro enterprises, technology innovation, and green development and infrastructure. After the CEWC, the central bank stated that the strength of monetary policy for 2023 should not be smaller than 2022 and should be further increased if needed, unless economic growth and inflation exceed expectations. The People Bank of China (PBoC) will maintain reasonably ample liquidity in financial markets, preventing big fluctuation in the price of capital.

After the CEWC, the market expectations for policy easing have materialized, while short-term uncertainty still exists due to the impact of COVID-19. It is expected that the market sentiment will gradually recover as the number of COVID-19 infections declines from the peak, the residents' lives will be further normalized, and policies are relaxed.

Outlook and Positioning

Positioning

As of the end of December 2022, the equity holding in the Fund remained at 94.9 percent.

Since September 2022, we took the tactical approach and overweighting the companies with a good competitive advantage, but with average short-term growth prospects. We reduced the allocation towards companies with short-term growth prospects and overly high-profit expectations, and new-energy companies with high growth expectations and high valuations. We completed such an adjustment at the end of November 2022. As a result, the Fund’s exposure in the Materials and Financial Sector was raised significantly while lowering the Fund’s holding in Information Technology Sector. The allocation in December 2022 remained unchanged, except for the fine-tuning in weights of individual stocks with large deviations in the price movements.

Outlook

For the medium to long-term dimension, the innovation vitality of the Chinese economy is stronger, and the competitive advantage of the Chinese economy has improved. At the same time, the short- and medium-term economic recovery is in better shape than the other markets. In comparison, China's stock valuations are more attractive, and long-term capital at home and abroad is likely to increase the allocation to the Chinese market.

China's current pace of COVID-19 control is similar to that of Japan and South Korea in 2021. Both Japan and South Korea began to relax the restriction around October 2021, the number of infected cases peaked at the junction of winter and spring in the following year and then began to decline. We believe the pandemic will eventually pass, and following the 20th National Congress of the Chinese Communist Party in October 2022, new measures to support the property sectors and ease the COVID-19 restriction reflect the priority to revive the economic growth by the government.

Therefore, we believe China's economy will return to normal cycles in the near future. The economic fundamentals in 2023 are expected to exceed expectations. In particular, sectors with low expectations are likely to outperform. We will maintain the current allocation and make dynamic adjustments in line with changes in the valuation level.

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