

LWM FUND SPOTLIGHT

ABRDN CHINA A SHARE EQUITY FUND

INVESTMENT OBJECTIVE

To generate growth over the long term (5 years or more) by investing in China A equities (company shares). Performance Target: To achieve the return of the MSCI China A Onshore Index, plus 3% per annum over rolling three year periods (before charges). The Performance Target is the level of performance that the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the Performance Target. The ACD believes this is an appropriate target for the fund based on the investment policy of the fund and the constituents of the index.

INCEPTION DATE

20th September 2019

FUND FACTSHEET

<https://www.trustnet.com/factsheets/O/QH2P/abrdn-china-a-share-equity-i-acc>

MANAGEMENT

Manager Name	Start Date
Elizabeth Kwik	20 th August 2019
Jim Jiang	20 th August 2019
Nicholas Yeo	20 th August 2019
Pruksa Iamthongthong	20 th August 2019

RATIO DATA (3-years)

Alpha	Beta	Max Drawdown	Max Gain	Max Loss	Negative Periods	Positive Periods	Tracking Error
0.46	0.80	-43.87	19.50	-18.46	84	70	11.80

OTHER DATA

Benchmark	MSCI China A Onshore
Fund Size	£10.4 million (SICAV China A Strategy \$3,162 m)
Fees	1.17% (I Share Class)

BULL POINTS (PRO)

- Investing in areas of greatest opportunities – aspiration, digital, green, health and wealth.
- Conviction driven (41.6% in the top-10 holdings).
- Concentrated portfolio of between 30 and 50 holdings.
- Focus on larger cap companies.

BEAR POINTS (CONS)

- Recent performance has been poor.
- China is out of favour and unloved.
- More expensive stocks compared to the index.

Abrdn China A Share Equity Fund – September 2023

FUND PERFORMANCE

Performance Chart in (GBX)



Cumulative Performance (GBX)

	3 Months	6 Months	1 Year	3 Years	5 Years
Fund	-5.95%	-22.43%	-21.18%	-23.72%	
Sector	-2.78%	-16.13%	-15.58%	-29.49%	-4.70%
Relative to Sector	-3.26%	-7.51%	-6.64%	8.18%	
Rank in Sector	14 / 15	15 / 15	14 / 15	4 / 12	
Fund Quartile	4	4	4	2	N/A

Performance by Calendar Year in (GBX)

	YTD	2022	2021	2020	2019
Fund	-21.95%	-13.67%	-4.80%	50.22%	
Sector	-14.89%	-14.01%	-13.04%	31.50%	22.37%
Relative to Sector	-8.29%	0.39%	9.48%	14.23%	
Rank in Sector	15 / 15	6 / 14	3 / 12	2 / 11	
Fund Quartile	4	2	1	1	N/A

Discrete Annual Performance to Last Quarter End (GBX)

	0-12m	12m-24m	24m-36m	36m-48m	48m-60m
Fund	-25.48%	-11.40%	36.34%		
Sector	-23.65%	-18.15%	20.71%	16.53%	-1.22%
Relative to Sector	-2.39%	8.26%	12.95%		
Rank in Sector	9 / 15	2 / 12	1 / 11		
Fund Quartile	3	1	1	N/A	N/A

Fund Price Movement (GBX)

12 Month High	132.56 (Pence)	12 Month Low	93.83 (Pence)
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Annualised Ratios Over 36 Months

	Alpha	Beta	Sharpe	r ²	Volatility
Fund	-8.02	0.62	-0.03	0.13	22.80
Fund Quartile	1	4	1	4	1

Please note that past performance is not a reliable indicator of future returns, and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Abrdn China A Share Equity Fund – September 2023

Top 10 Holdings as at July 31, 2023

Rank	Change	Name	%	Sector Ranking*
1	►	KWEICHOW MOUTAI GROUP CO., LTD	8.40	n/a
2	►	CHINA MERCHANTS BANK CO., LTD.	5.10	n/a
3	►	CONTEMPORARY AMPEREX TECHNOLOGY CO	4.80	n/a
4	►	PING AN INSURANCE (GROUP) COMPANY OF CHINA, LTD.	4.10	n/a
5	▲	CHINA INTL TRAVEL SERVICE CORP LTD	3.70	n/a
6	►	AIER EYE HOSPITAL GROUP CO LTD	3.70	n/a
7	▼	SHENZHEN MINDRAY BIO MEDICAL ELE CO	3.30	n/a
8	■	BANK OF NINGBO CO LTD	3.20	n/a
9	▼	MEDIA CORP PLC	3.20	n/a
10	■	CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED	3.10	n/a
Total			42.60	

* This is the holding ranking within the fund sector composite portfolio (calculated from all available concurrent full portfolios of funds within the sector).

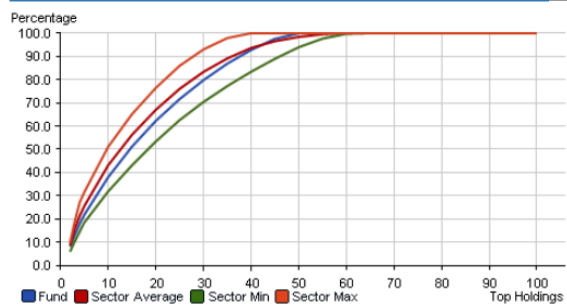
[Click here for full portfolio holdings as at 31/07/2023](#)

▼ Faller ▲ Riser ► No Change ■ New Entry

Current Concentration Analysis as at August 31, 2023

Total Holdings in portfolio	50
Portfolio Representation by	%
Top 5 Holdings	25.93
Top 10 Holdings	40.92
Top 20 Holdings	64.35
Top 30 Holdings	81.78
Top 50 Holdings	100.00
Top 100 Holdings	100.00

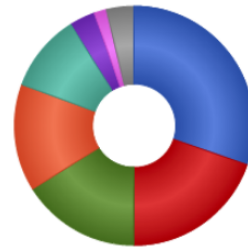
Relative Concentration Analysis as at August 31, 2023



Sector Weightings as at August 31, 2023

Rank	Change	Name	%
1	►	CONSUMER PRODUCTS	30.30
2	►	INDUSTRIALS	19.76
3	►	FINANCIALS	16.06
4	►	TELECOM, MEDIA & TECHNOLOGY	14.50
5	►	HEALTH CARE	10.51
6	▼	BASIC MATERIALS	3.49
7	►	REAL ESTATE	1.67
8	▲	OTHERS	3.72

▼ Faller ▲ Riser ► No Change ■ New Entry



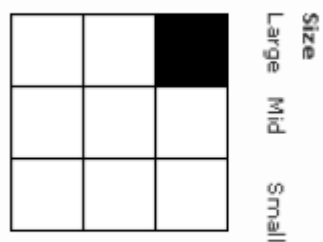
Holdings by Mkt Cap (USD)	Portfolio (%)	Benchmark (%)
Small (<2.5bn)	0.5	4.9
Mid (2.5bn – 10.0bn)	27.9	35.6
Large (>10.0bn)	71.6	59.5

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Characteristics	Portfolio	Benchmark
Market capitalisation	US\$61.5bn	US\$38.1bn
Dividend yield ¹	1.6%	2.0%
Price/Earnings 2022 ¹	20.0x	15.0x
Price/Earnings 2023 ²	17.0x	13.7x
Price/Book ¹	2.9x	1.8x
Historic 3Y EPS growth	20.0%	14.7%
Return on equity ¹	19.0%	15.4%
Net debt/equity ¹	-22.3% ³	7.8% ⁴
Predicted beta	0.99	--
Predicted volatility	15.5%	14.5%
Active share	76.9%	--
Tracking error ⁵	5.8%	--

Morningstar Style Box[®]

Equity Style

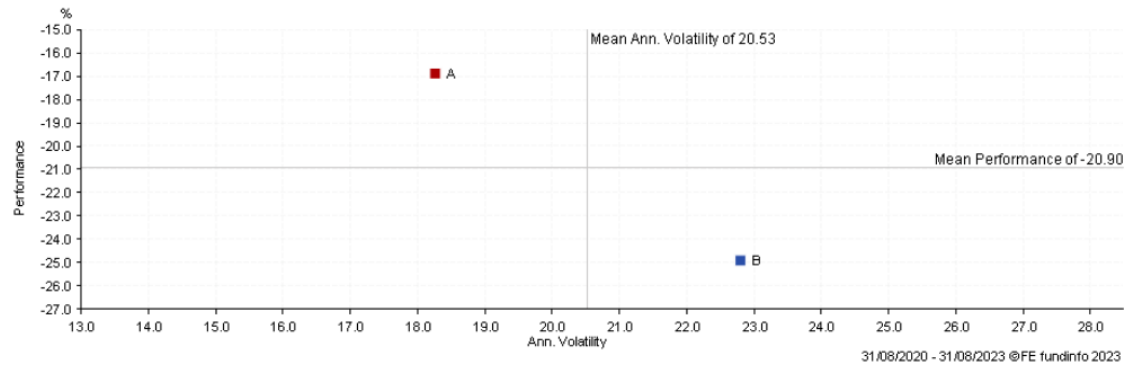


Value Blend Growth
Style

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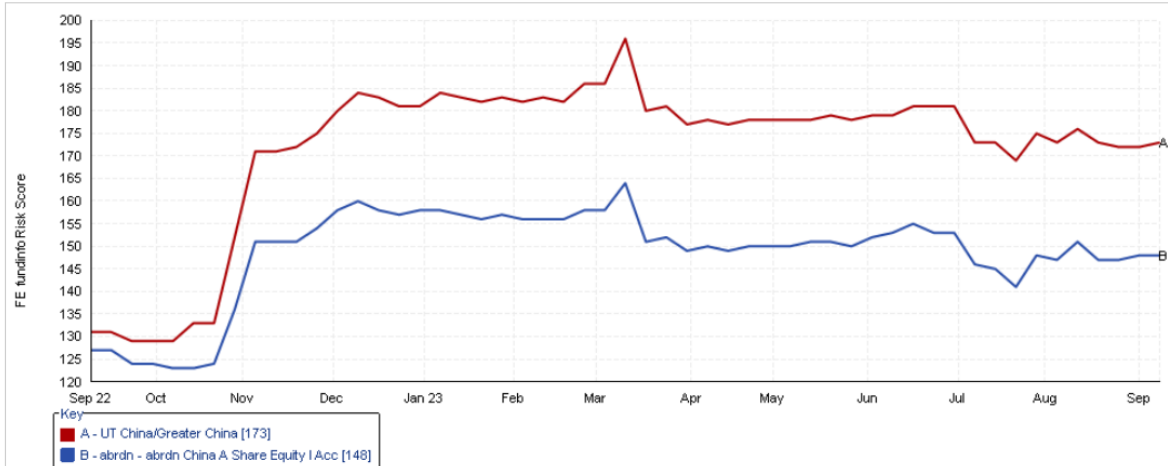
Volatility

Pricing Spread: Bid-Bid • Currency: Pounds Sterling



Key	Name	Performance	Annualised Volatility
A	MSCI China A Onshore TR in GB	-16.89	18.26
B	abrdn - China A Share Equity I Acc in GB	-24.90	22.80


FE fundinfo Risk Score Chart Over 1 Year



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LWM FUND ANALYSIS


Below are some headlines about China which places in context the challenges facing those investing here. There was a great deal of optimism as China came out of COVID restrictions at the start of the year, but that optimism has quickly faded as they struggle to restart the economy.

 South China Morning Post

'Recovery is going from bad to worse': 6 takeaways from China's economic data

China's economic growth missed expectations in the second quarter of 2023, while monthly data also released on Monday indicated faltering...




 Bloomberg News

China Economic Data, Spending Misses Forecasts as Recovery Worries Mount - Bloomberg

China's economic recovery is losing momentum after an initial burst in consumer and business activity early in the year, prompting calls for...




 Yahoo Finance

'This is their last decade': This famed geopolitical analyst says China will collapse in the next 10 years — here are 3 key numbers that could support his shocking forecast

Is China heading for a total collapse: political, economic and demographic? Conventional wisdom says no way. It boasts a massive military...



 Business Insider

China's economy is in a downward spiral that's typical of authoritarian regimes

Its sluggish post-COVID rebound may be a long-term trend, said the Peterson Institute's president. Like other authoritarian regimes, China's...



 Business Insider

China, Xi Jinping Are Hiding Economic Chaos. That's a Red Flag for US, World.

Chinese President Xi Jinping and the Chinese government have a brilliant plan to deal with the country's economic turmoil: hide how bad it...



 Financial Times

US tells China to be more transparent with economic data amid slowdown

US national security adviser Jake Sullivan has called on China to be more transparent about the state of its economy as Beijing grapples...



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CNBC

China reports big data miss in July, stops releasing youth unemployment numbers

Retail sales rose by 2.5% in July from a year ago, below expectations for a 4.5% increase, according to analysts polled by Reuters.



WSJ The Wall Street Journal

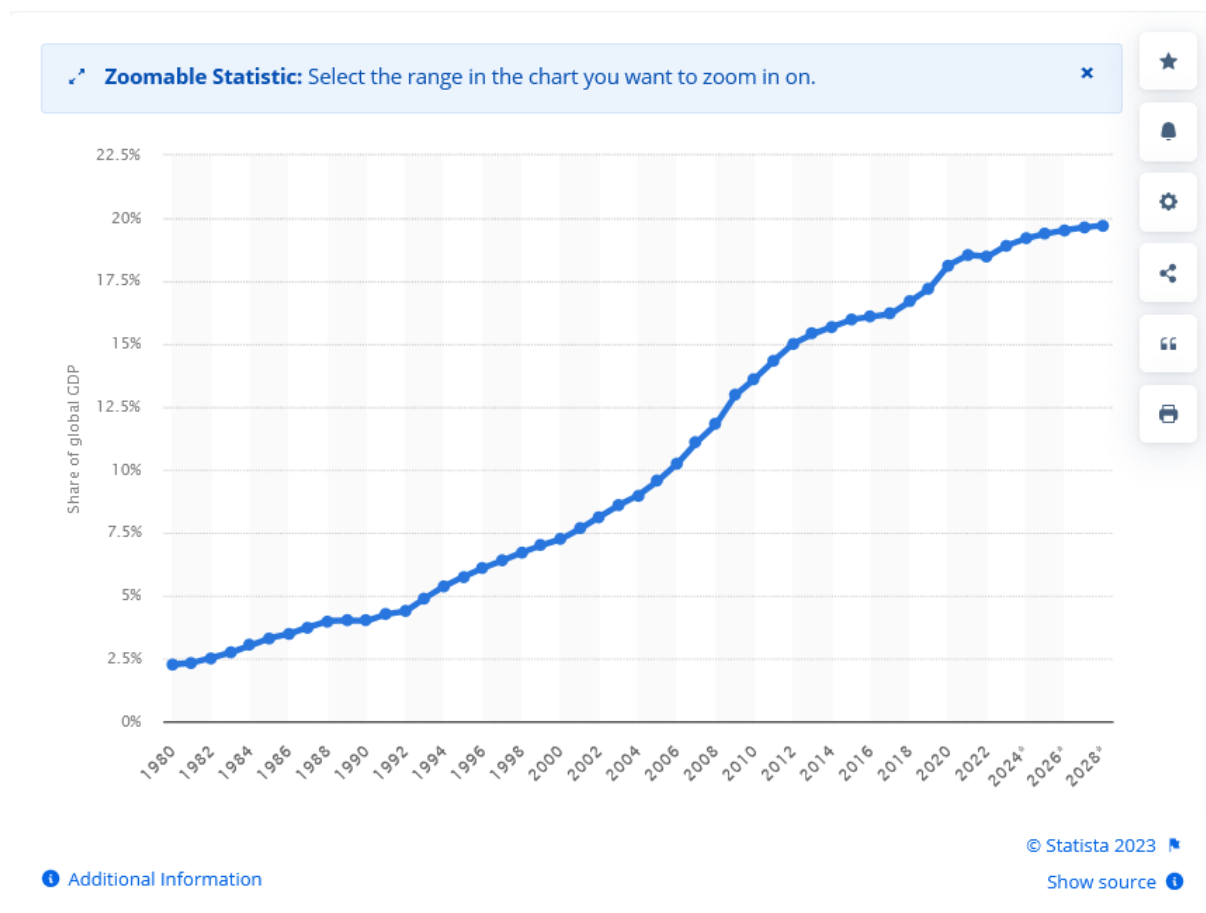
China Slashes Rates, Suspends Youth Jobless Data as Economy Signals Sharper Downturn

Retail sales, factory output miss expectations as overall urban unemployment rises.

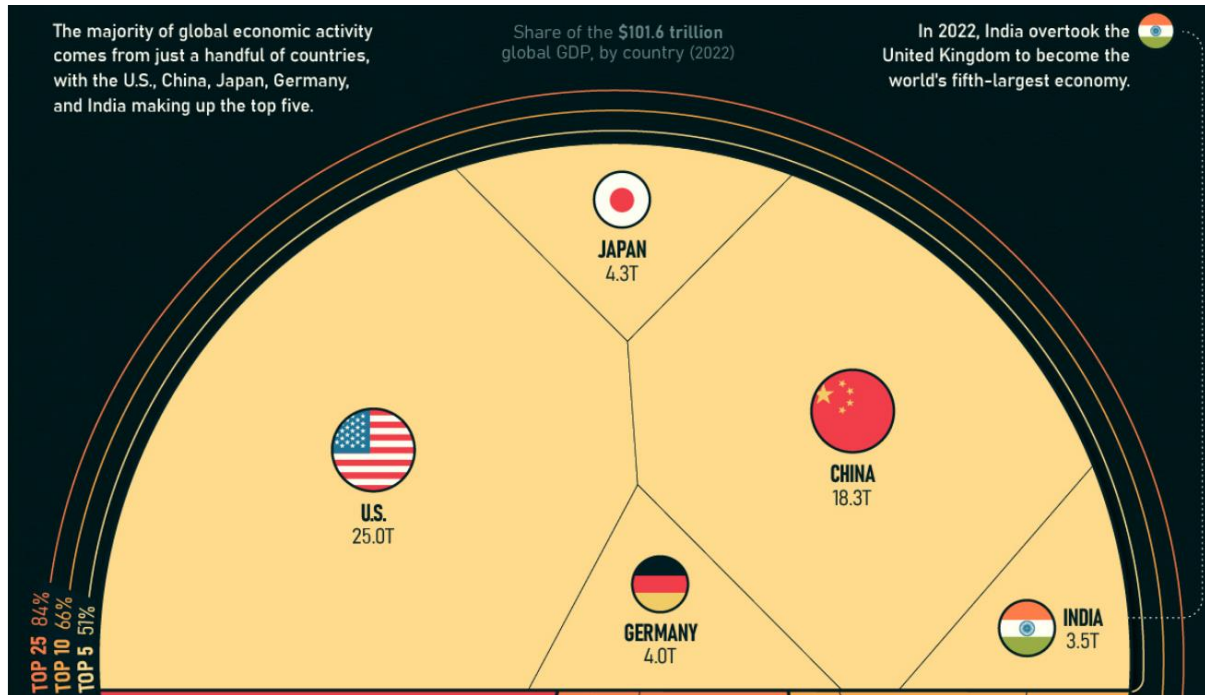


Despite the headlines, it is important to place this in context. Unlike many Western economies which are now facing a downturn, China only came out of COVID restrictions this year. Most economies came out at least 12-months prior to China. So China was already playing catch-up with the world.

The more important part is where people see China in the future. The chart shows China's share of Global GDP from 1980 and then forecasts to 2028. The second illustrates the size of China's economy.



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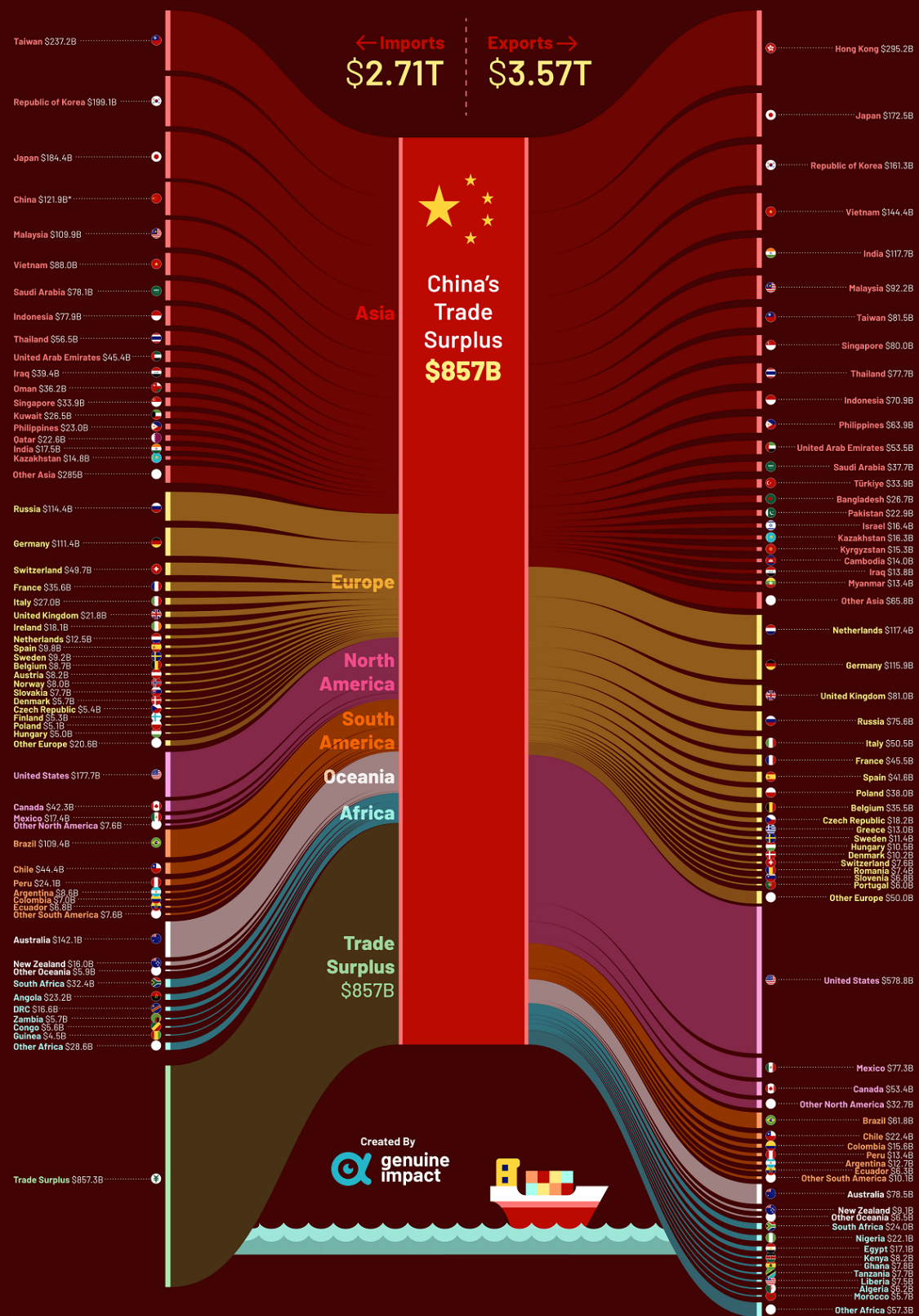


In the short term the headlines do not paint a pretty picture. This is overlaid with concerns over government interference, fear that China will invade Taiwan, and sanctions.

The reality, as the chart shows below, is that if China invades Taiwan it will not only destroy China but also the world economy, and it is highly unlikely that China would wish to do this.

China's Imports & Exports

All of China's trading partners in 2022



*For imports, the country of origin is recorded for most products, however if two or more countries were involved in the manufacture of products, the place where the last substantial working or processing was carried out is recorded as the country of origin.

Source: General Administration of Customs of the People's Republic of China

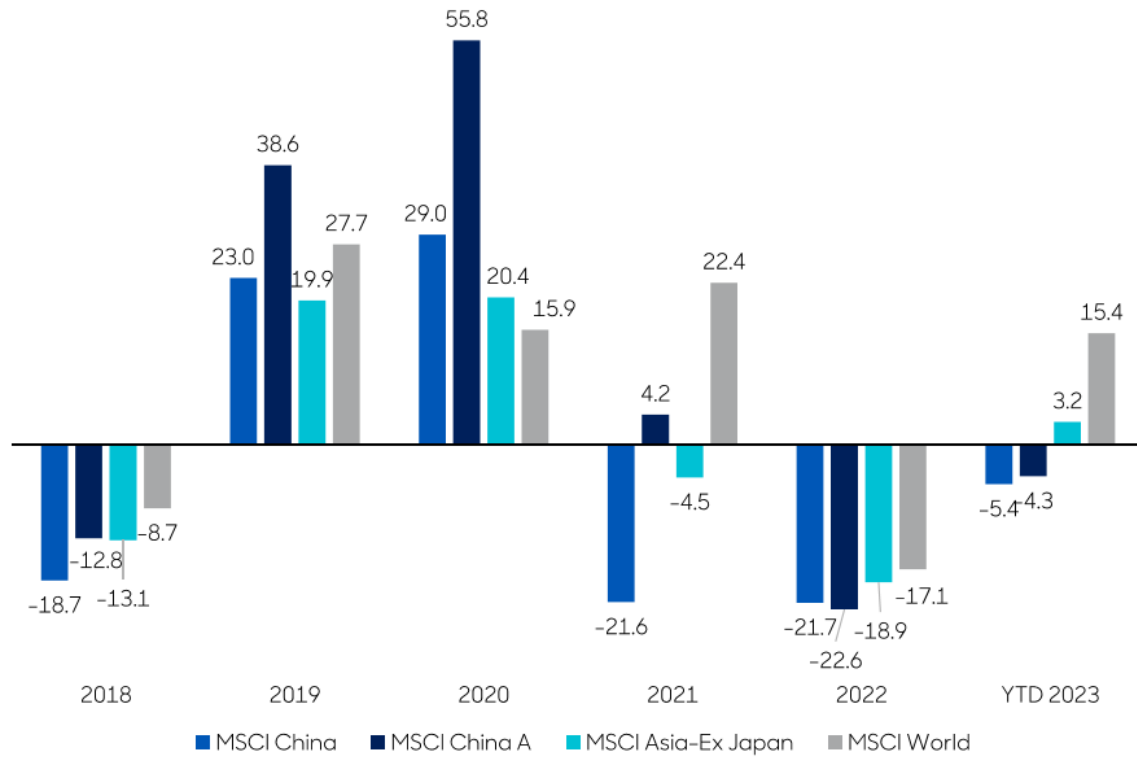
More charts: genuineimpact.substack.com

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China is not immune to volatility as the chart below shows.

The last two years have been painful, but this is nothing new

Annual performance indices (%)

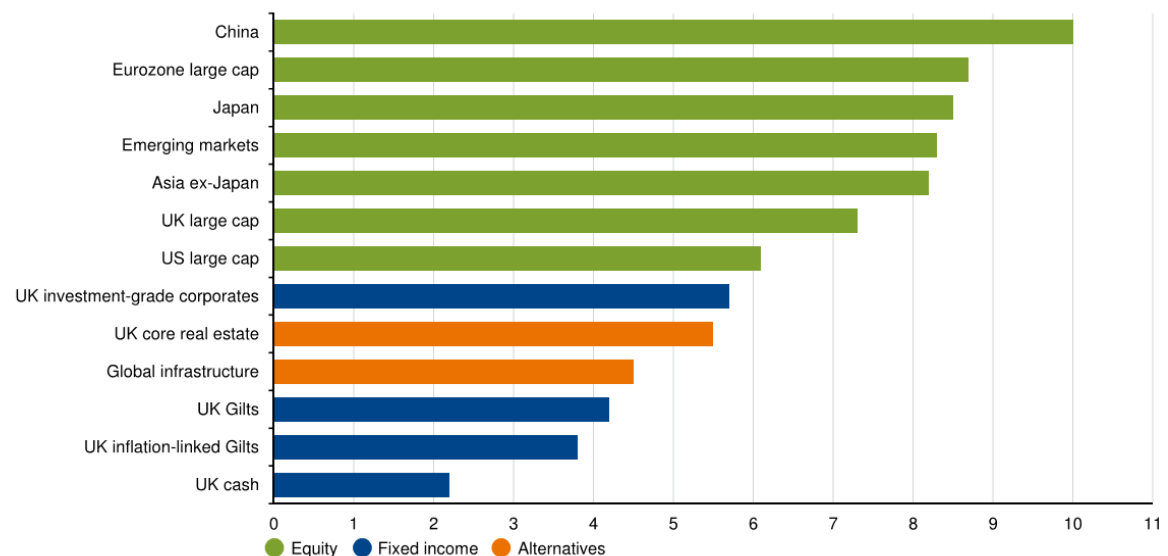


Past performance does not predict future returns

It is an investment that should be seen as a long-term opportunity, as the long-term capital market assumptions for expected returns show below.

2023 Long-Term Capital Market Assumptions expected returns in coming 10-15 years

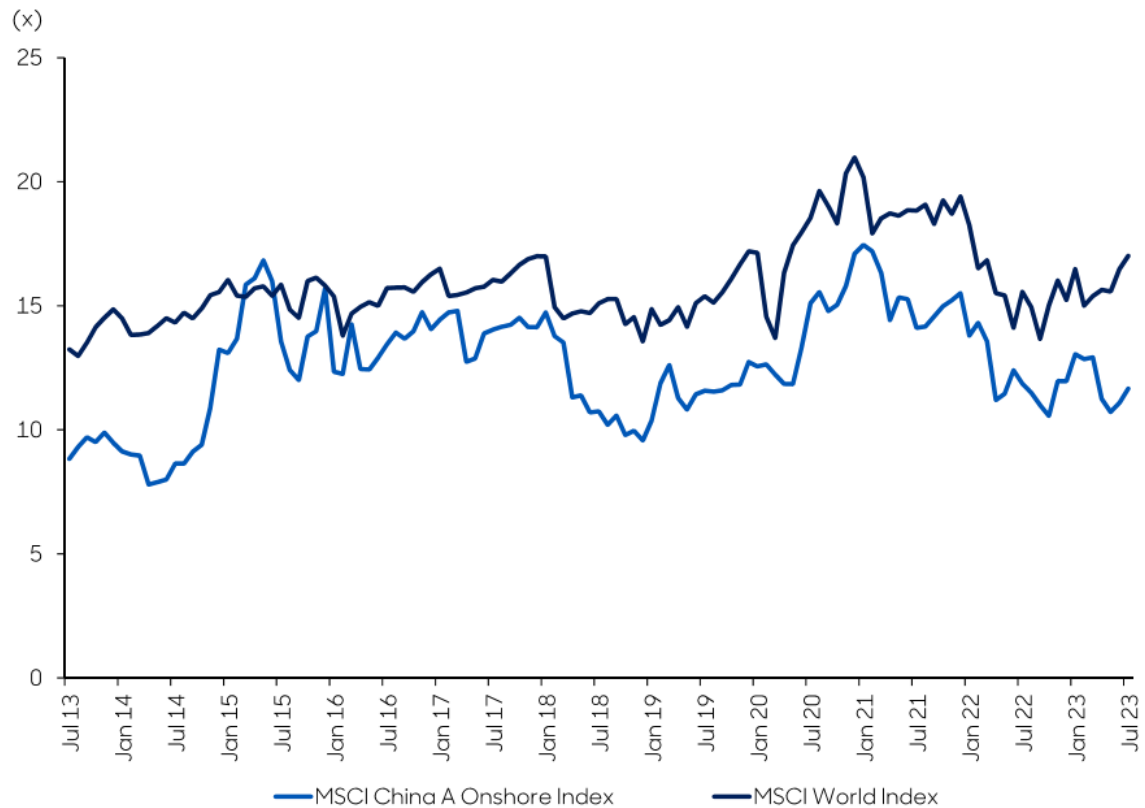
%, annualised return in GBP



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The negativity around China has meant that China A shares are relatively cheap versus global peers.

Forward price to earnings



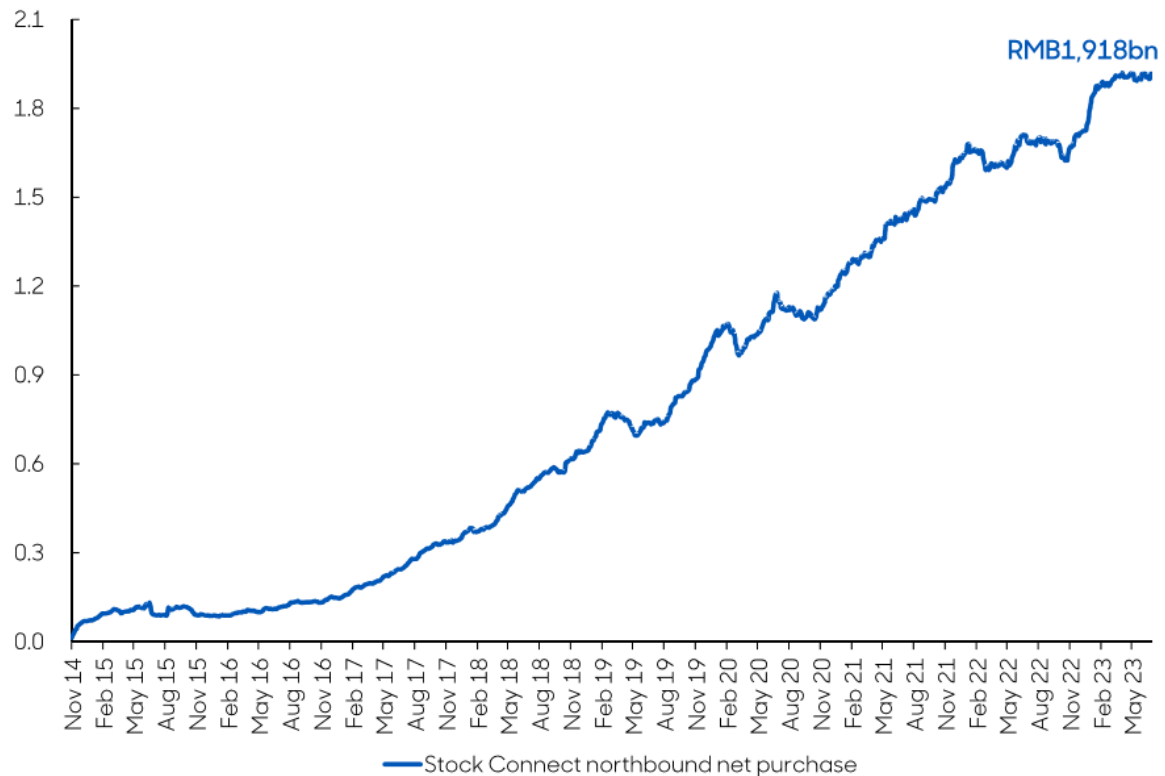
Past performance does not predict future returns

Only around 3 to 5% of China A Shares are owned by Foreign Investors, and the chart below shows that money continues to flow into shares which goes against the flow of other markets.

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Net northbound net purchases

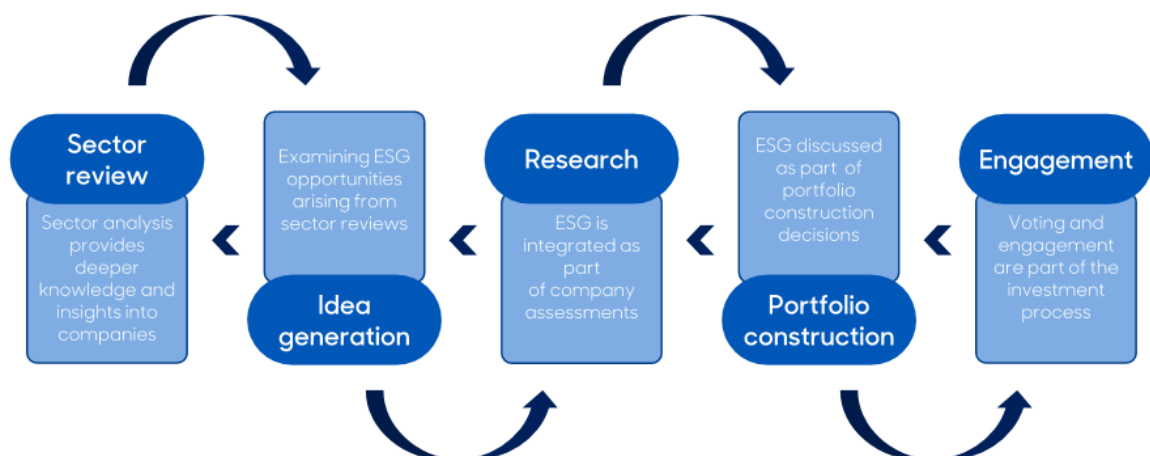
RMB trn



Past performance does not predict future returns

The team at Abrdn have run an offshore version of this strategy since 2015 and are managing around \$3 billion of assets. This focuses primarily on large cap companies, although it has some exposure to small cap.

The chart below shows the process of how the team build the portfolio.

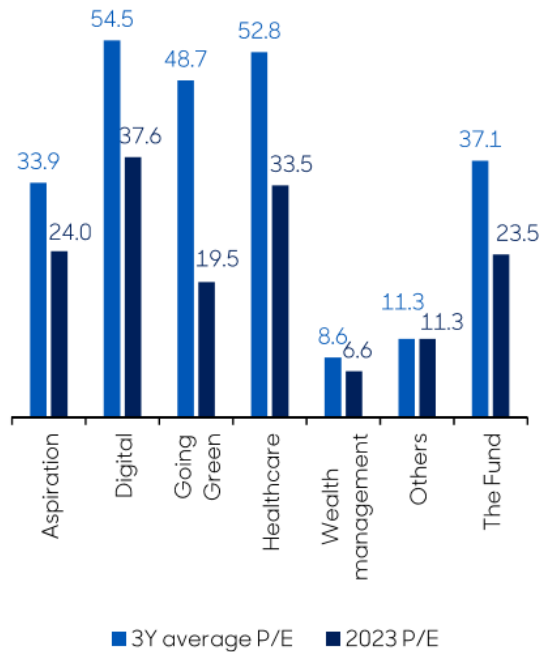


The team are therefore searching for the highest quality companies. The charts below show how these companies are cheap compared to their average.

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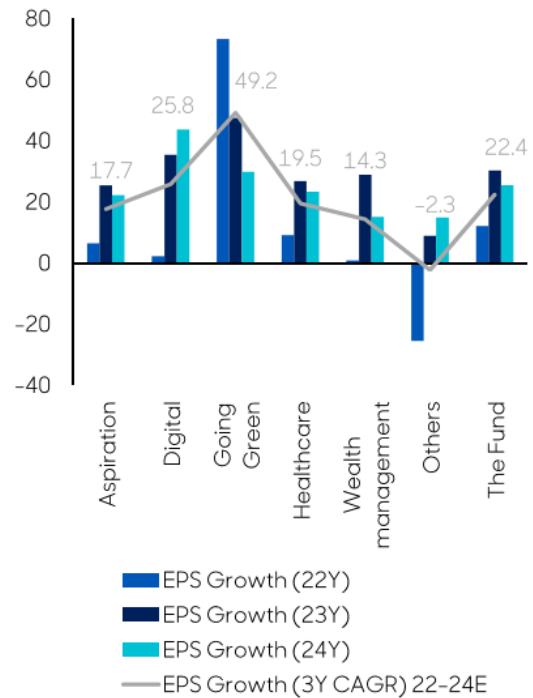
Across our themes companies are below historical valuations

Theme valuations



Fundamentally still sound; they have weathered the storm

Theme EPS growth



An important element of the strategy is to invest in the major structural shifts within China as best shown below:

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Aspiration	Digital	Green	Health	Wealth
<p>Rising affluence is leading to fast growth in premium consumption in areas including travel, food and beverage, and consumer electronics</p>	<p>Increasing connectivity amid the widespread adoption of technology means a bright future for plays on cybersecurity, cloud, software-as-a-service and smart homes</p>	<p>Policy makers globally are committing to a greener and lower carbon world and China is in the driver's seat. Investments in renewable energy, batteries, electric vehicles, and related infrastructure all have a bright future. 'Grid parity' will be game-changing</p>	<p>Fast increasing disposable incomes are driving demand for healthcare products and services. The opportunity set is diverse. Our holdings include a leading hospital, a medical equipment maker, a contract research provider, drug and supplement producers</p>	<p>Growing prosperity means structural growth for consumer finance, investment services and insurance</p>
Weight: 36.2%	Weight: 15.3%	Weight: 13.0%	Weight: 12.0%	Weight: 16.8%

The positioning is best shown below:



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Bringing this to life:

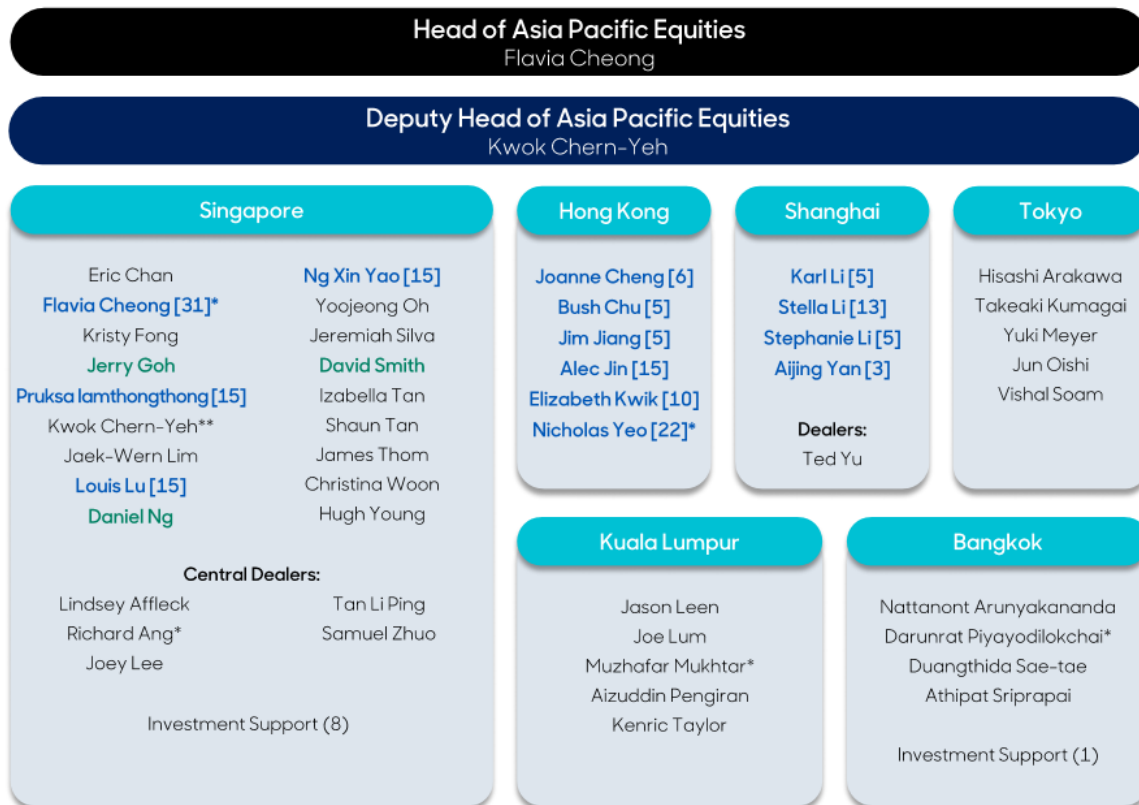
Name	Brief Description	Fund (%)	Benchmark (%)	No of years held
Kweichow Moutai	The biggest maker of baijiu, a Chinese distilled liquor.	8.2	4.0	7
Shenzhen Mindray Bio-medical Electronics	China's largest maker of medical devices, mainly for patient monitoring and life support, in-vitro diagnostics, and medical imaging systems.	3.6	0.5	8
Midea Group	A leading white goods manufacturer in China.	3.1	1.2	8

Main changes have been to add Hefei Meiya Optoelectronic, BYD and Zhejiang Weixing New Building Materials. They have sold out of Anhui Conch Cement and Naura Technology Group.

In summary, for any investor it is important to reflect on China and whether there is a belief that things will change. Many will argue that China is in the same place as Japan in the early 90s and therefore the next two decades could be lost for investors. There are some differences in terms of the demographic changes and innovation, but it is something that should be considered.

If the view is that China is a place to invest, the question is which fund? Abrdn have experience going back a decade with China specific strategies but have a wider Asia team to support them.

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The fund performed well at the beginning but has struggled recently. The focus on quality and emerging themes should in theory position this strategy well for when there is an improvement in sentiment towards China. The strategy is also focused more on large cap, which includes more established companies.

To conclude, firstly for investors the question is whether to invest. Secondly, we would consider this as a strategy to look at if the first point is yes and ultimately any investment must be seen as long-term.

The source of information in this note has been provided by Abrdn and is correct as of September 2023. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this, and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.

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