June 2020

InFocus

ASI – 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).

Overview of the quarter

Amid a challenging market environment punctuated by the global outbreak of Covid-19, the MSCI China A Onshore Index has been relatively resilient.

The Fund has also been fairly resilient but has trailed the benchmark so far this year. This has been due two 'high beta' rallies in early Jan and also mid-February following monetary stimulus. We tend to underperform these types of markets.

Our focus on companies with strong balance sheets and cash flows has helped build resilience in the portfolio in down markets. Nevertheless, our exposure to travel-related companies has weighed on performance given the recent collapse in global tourism. This is a segment we have pared back.

Liquidity in the onshore Chinese market has held up fairly well, in part due to participation by domestic retail investors. They have helped bid up smaller companies, particularly infrastructure and tech stocks. Evidently, the flight to defensive stocks (such as larger cap or quality names) has not been as evident in A-shares as it has been in developed markets. Investors have viewed tech hardware stocks as being relatively insulated amid the sell-off; Covid-19 accelerates demand for services like cloud computing. Cement has also performed well. This is in anticipation of infrastructure spending and due to favourable supply/demand dynamics for producers.

How have we responded?

We have pared back some of our travel and tourism holdings due to the recent Covid-19 driven collapse of global tourism. We continue to hold and search for high-quality names with favourable management of ESG risks and opportunities. We are exposed to the following structural growth areas.

Spending switch - Resilient companies are benefiting from change in work and consumption patterns following the outbreak of Covid-19. This growth area includes plays on cloud computing, cyber-security, online grocery deliveries and a thermal camera maker.

Health & wellness - Rising disposable incomes are driving demand for healthcare products and services. The opportunity set is diverse. We see opportunities in hospitals, contract research for the pharma industry, and demand for traditional Chinese medicine.

Higher end food & beverage - With wages on the rise, we see strong prospects in higher-end food & beverage producers, including liquor, milk and soy sauce.

Life insurance on the rise - Chinese insurers are improving their product mix towards life insurance and away from savings products. Life insurance is under-penetrated, which bodes well for future growth in premiums.

The Covid-19 health scare has increased the consumer appeal of many aspects of the above structural growth areas. Given the challenges on the horizon, it pays to be discerning (and active). This means selecting the highest-quality companies that will consolidate their positions at the expense of weaker players.

What are our views now?

For the following reasons, we remain constructive on the outlook for China.

Better shape – China is now an 'old hand' at managing the Covid-19 crisis. We are keeping our fingers crossed, but it now seems to have effectively contained the spread of the virus and seems to be in much better shape than the rest of the world in managing the crisis.

Getting back to work – Slowly but surely China is getting back to work. Migrant workers are trickling in, factory utilisation rates are on the rise and consumers are returning to the shops.

Stimulus – China is yet to unleash large-scale fiscal and monetary stimulus, but it may do so as is needed to address risks such as a global demand crunch. Unlike most developed countries, China still maintains orthodox monetary policy and still has room to cut rates.

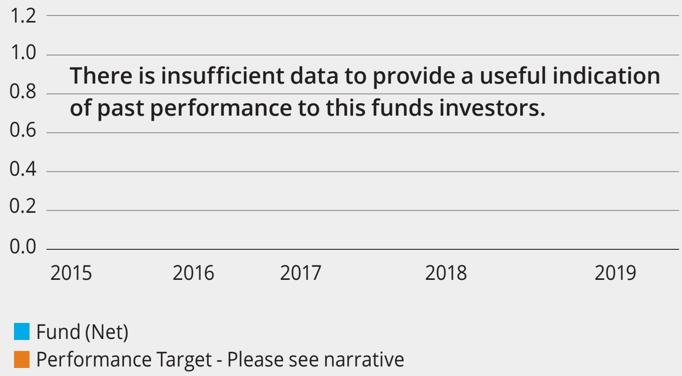
Consumption – Our long-term investment thesis remains unchanged. China has the world's second-largest economy. Rising wealth and living standards mean the country is moving rapidly to higher value goods and services.

Aberdeen Standard Investments

Why ASI for Chinese A-shares?

- We have been investing in Chinese companies since 1992 with an ingrained focus on ESG investment
- On-the-ground investment expertise with a 50+ strong investment team across eight investment desks in Asia Pacific, including Hong Kong and Shanghai
- We are positioned to benefit from the trend in China for the consumption of premium goods and services.

ASI China A Shares Equity Fund, M, Acc, 31 December 2019 % Returns



ASI China A Share Equity Fund, M Acc, 31 December 2019. The fund was launched in 2019. The share/unit class was launched in 2019. Performance Target - MSCI China A Onshore (GBP) +3.00%.

Important Information

The value of shares and the income from them can go down as well as up and you may get back less than the amount invested.

- Investing in China A shares involves special considerations and risks, including without limitation greater price volatility, less developed regulatory and legal framework, exchange rate risk/controls, settlement, tax, quota, liquidity and regulatory risks.
- A concentrated portfolio may be more volatile and less liquid than a more broadly diversified one. The fund's investments are concentrated in a particular country or sector.
- The fund invests in Chinese equities. Investing in China involves a greater risk of loss than investing in more developed markets due to, among other factors, greater government intervention, tax, economic, foreign exchange, liquidity and regulatory risks.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.
- The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

The fund may invest in companies with Variable Interest Entity (VIE) structures in order to gain exposure to industries with foreign ownership restrictions. There is a risk that investments in these structures may be adversely affected by changes in the legal and regulatory framework.

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