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November 2020

InFocus

Aberdeen Standard SICAV I China A Share Equity Fund

Don't take any unnecessary risks.

Lower risk — Typically lower rewards / Higher risk — Typically higher rewards

1	2	3	4	5	6	7

risk indicator

Read the Key Investor Information Document.

THIS IS A MANDATORY ANNOUNCEMENT

Investment objective

The Fund aims to achieve a combination of growth and income by investing in Chinese A-shares to outperform the MSCI China A Onshore Index (USD) benchmark before charges.

Key features

- Our A-share Fund has returned 35.4% net of I class fees recently, outperforming the benchmark by 2.82%
- Concentrated, high-conviction portfolio of 30-40 stocks
- Positioned to benefit from the premiumisation of China's consumption
- Experienced, on-the-ground team uniquely focused on ESG

Market overview

China's stock market has soared 27% in the year to mid-October, making it the best-performing major market worldwide. This rally drove the total market capitalisation of A-share stocks through the US$10 trillion barrier. It's a remarkable landmark given global volatility in the wake of the Covid-19 pandemic.

Encouragingly, it's not only domestic investors but also foreign investors supporting the market. Since the Stock Connect trading loop directly linking the exchanges of Hong Kong and Shanghai was launched in 2014 (a Shenzhen extension was added in 2016), the A-share market has attracted a net $170 billion from overseas. Nonetheless, foreign participation remains less than 5% of the free float – underlining the growth potential of this market.

Economically China looks likely to suffer less damage from the pandemic than most markets due to its effective countermeasures. While the outlook for international travel and tourism remain challenged, domestic tourism has rebounded – as shown in China's Golden Week holiday in October. Domestic consumption is also recovering well at the premium end.

This earlier economic restart affords investors greater clarity on the outlook for Chinese company earnings than for stocks elsewhere. It is likely a factor behind the rally in A-shares.

Although we may see A-share volatility around the US presidential election – given the two countries' strategic rivalry – China is set on a course to become economically self-reliant. It is focused on stimulating domestic demand, while opening its economy to greater international participation. This increasing economic self-determination dilutes the significance of who sits in the White House. Still, we believe there is a consensus in China that it is better off being part of the global economy than decoupling from the West or the US.

Increasing foreign participation in China's capital markets, underpinned by structural growth opportunities connected to a growing middle class, supports our positive view on this market.

How we have responded

We overweight consumer discretionary and consumer staples stocks on the understanding that domestic consumption will drive China's long-term growth. While we underweight IT stocks, we favour software over hardware. Like many Chinese software firms, cyber-security specialist Venustech employs home-grown technologies. The sector's sensitivity makes it difficult to rely on foreign technology, and hardware is more susceptible to supply-chain risks amid US-China tensions. Similarly, although we underweight industrials, we are more upbeat on transportation, especially airports. We are confident that domestic tourism demand will continue to increase, particularly now amid China's post-pandemic recovery.

We have also initiated new stocks in our portfolio. We added **Shenzhen Mindray Bio-Medical Electronics**, one of China's leading medical equipment makers. This is a premium brand, with an

[1] As at 31 October, 2020, net of I class fees.

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established distribution network and a solid commitment to research and development. We anticipate growing demand for its products. We also invested in **Glodon**, a leading software provider for construction budgeting. It is expanding into the markets for cloud-based solutions and construction management. Further we added **Yunnan Energy New Material**, the world's largest maker of lithium-ion battery separators. It is well placed to benefit from China's adoption of new energy. We also initiated a position in **Chacha Food**, China's largest producer of nuts. Its rapid growth is being driven by Chinese consumers becoming more health conscious. We think it has a strong customer mindshare.

Performance (to end October 2020)

Comulative and annualised performance

				Annualised		
	1 month	6 months	Year to date	1 year	3 years (p.a)	5 years (p.a)
Fund (net) (%)	5.33	33.94	29.67	35.40	16.84	17.99
Performance target (%)	3.52	27.69	23.56	32.58	4.09	2.79
Difference (%)	1.81	6.25	6.11	2.82	12.75	15.20

Discrete annual returns – year to 31/10

	2020	2019	2018	2017	2016
Fund (net) (%)	35.40	34.77	-12.58	47.19	-2.61
Performance target (%)	32.58	26.24	-32.61	17.03	-13.04
Difference (%)	2.82	8.53	20.03	30.16	10.43

Performance Data: Share Class I Acc USD
Benchmark history: Performance target/Performance comparator – MSCI China A (USD)
Source: Lipper. Basis: Total Return, NAV to NAV, net of annual charges, gross Income reinvested, (USD).
"Fund (Net)" refers to the actual unit price performance of the shareclass shown; "Fund(Gross)" adds back charges such as the annual management charge to present performance on the same basis as the performance target / performance comparator / portfolio constraining benchmark. All return data includes investment management fees, operational charges and expenses, and assumes the reinvestment of all distributions. The returns provided do not reflect the initial sales charge and, if included, the performance shown would be lower.
Past performance is not a guide to future returns and future returns are not guaranteed.

Our A-share Fund has returned 35.4% net of I class fees recently, outperforming the benchmark by 2.82%. We put this outperformance down to our differentiated positioning and preference for quality companies. Leading contributors to our portfolio outperformance include **China Tourism Group**, **Fuyao Glass Industry** and **Yunnan Energy New Material**.

At the stock level, we have seen some of our holdings benefit from policy changes. For example, carbon-neutral targeting is gathering momentum under the present government, with Shanghai aiming to put 10,000 hydrogen-fuel cars on the road in the next few years. Beneficiaries include Yunnan Energy and auto holding Fuyao Glass, which is a leading supplier of smart windows with energy-saving properties.

Improving consumer sentiment has also benefitted China Tourism Group as Covid-19 infection rates appear to be under control. It became the largest duty-free retailer during the first half of 2020, bucking the sharp contraction that hit global peers. Half of its revenues are driven by favourable policies in Hainan, which is home to duty-free retail in the country.

What are our views now?

Although geopolitical tensions continue to simmer around the US presidential election, we remain focused on company fundamentals. We are big believers in China's premiumisation story, whereby rising wages will continue to spur growth in high-end consumption. As discussed above, China is increasingly reliant on domestic factors to drive its economy, namely the burgeoning Chinese consumer. It's why we focus on investment opportunities related to rising consumption in areas such as healthcare products and services, wealth management services, insurance and luxury goods and services. Structural growth drivers such as the adoption of cloud applications, 5G and artificial intelligence also remain intact.

Although A-share valuations are not as cheap as during the lows in March, they remain reasonable. The S&P500 Index in the US was trading at a 70% premium to the MSCI China A Onshore Index trading as at the end of September, by Bloomberg data. Investors should note that China's A-share market is one of the few worldwide with consensus year-on-year forecast earnings growth for 2020.

Why ASI for China A Shares

We position our A-share Fund to take advantage of structural growth in China's economy. We look to identify quality companies with a strong balance sheet and consistent, diversified earnings, good standards of governance and an experienced management team with a strong track record. Quality companies will be better able to sustain their earnings growth in the face of macroeconomic or geopolitical headwinds. We tend to favour industry leaders with a sustainable competitive advantage. Ultimately, good stock selection lies behind our Fund's outperformance. At the same time, trading in A-shares remains dominated by retail investors, who tend to be more influenced by news headlines than fundamentals. This creates fertile ground for active stock-picker like us to capitalise on mis-priced securities. Many Chinese companies are also beginning to understand the importance of, and value that can be created by, environment, social and governance issues. We engage company managements directly to ensure we understand all the risks and opportunities of investing.
In summary, we aim to identify outstanding companies and hold them for the long term. Experience tells us this is how the largest gains are achieved.

"Our A-share Fund has returned 35.4% net of I class fees recently, outperforming the benchmark by 2.82%."

Important Information

For professional investors (in Switzerland for Qualified Investors) only – not for use by retail investors.

The Fund aims to achieve a combination of growth and income by investing in companies listed on Chinese stock exchanges.
The Fund is actively managed and aims to outperform the MSCI China A Index (USD) benchmark (before charges).

Risk factors you should consider before investing:

- The value of investments and the income from them can fall and investors may get back less than the amount invested.
- 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.
- A concentrated portfolio may be more volatile and less liquid than a more broadly diversified one. The funds investments are concentrated in a particular country or sector.
- 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 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 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.
- Investing in China A shares involves special considerations and risks, including greater price volatility, a less developed regulatory and legal framework, exchange rate risk/controls, settlement, tax, quota, 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.

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