Why you should remain invested in **China**

China Market Rallies

China's Markets Rally on Optimism Economy Is Shaking Off Covid-19 Pandemic – **The Wall Street Journal**.

The Chinese bourses have rallied strongly in recent weeks. The strong performances we believe is the beginning of a re-rating of the Chinese equity market on the back of:

Positive GDP growth
China's 2nd quarter GDP came in higher than expected at 3.2% and the projected full year 2020 GDP will likely be above 2%.

Positive impact from the fiscal and monetary support measures
In addition, Chinese policymakers have increased their fiscal stimulus to 3.6% of GDP recently from 0.9% of GDP announced when the lockdown was implemented in China to combat Covid-19. Note that China still have plenty of room for more policy support given that they have space to cut interest rate and the RRR as well as to increase fiscal spending.

Ample liquidity in the system
The Chinese equity market has seen an influx of capital arising from a number of developments.

Market Outlook

We believe there is room for the Chinese indices to track higher due to:

- **Capital account liberalisation.** This is reflected in the latest measures announced by the Chinese policymakers allowing banking assets to move freely within the Greater Bay Area (GBA). ***This is an indirect de facto liberalisation of China's capital account.*** This development ties in with the earlier announcement that China is doing away with the QFII programme, i.e. allowing foreign investors to participate into the China's capital markets directly. This is an important step in further integrating China's economy and capital market into the global marketplace.
- **New growth epicentres to drive higher value-added industries**. GBA is one of the 3 new regional growth epicentres developed to take the Chinese economy to the next stage. Each growth area will have their own promoted industries.

Big four cities in the Greater Bay Area

	Population (m)	GDP (US$b)	Total bank assets (US$tr)	Total cash and deposits (US$b)	Stock market capitalisation (US$tr)
Hong Kong	7.5	361	3.08	1,792	4.5
Shenzhen	13	384	1.19	848	3.52
Macau	0.65	54	NA	82	NA
Guangzhou	15	337	1.07	896	NA

GDP as at the end of 2019
Other data as the end of April 2020

Source: SCMP, Principal compilation, 29th June 2020

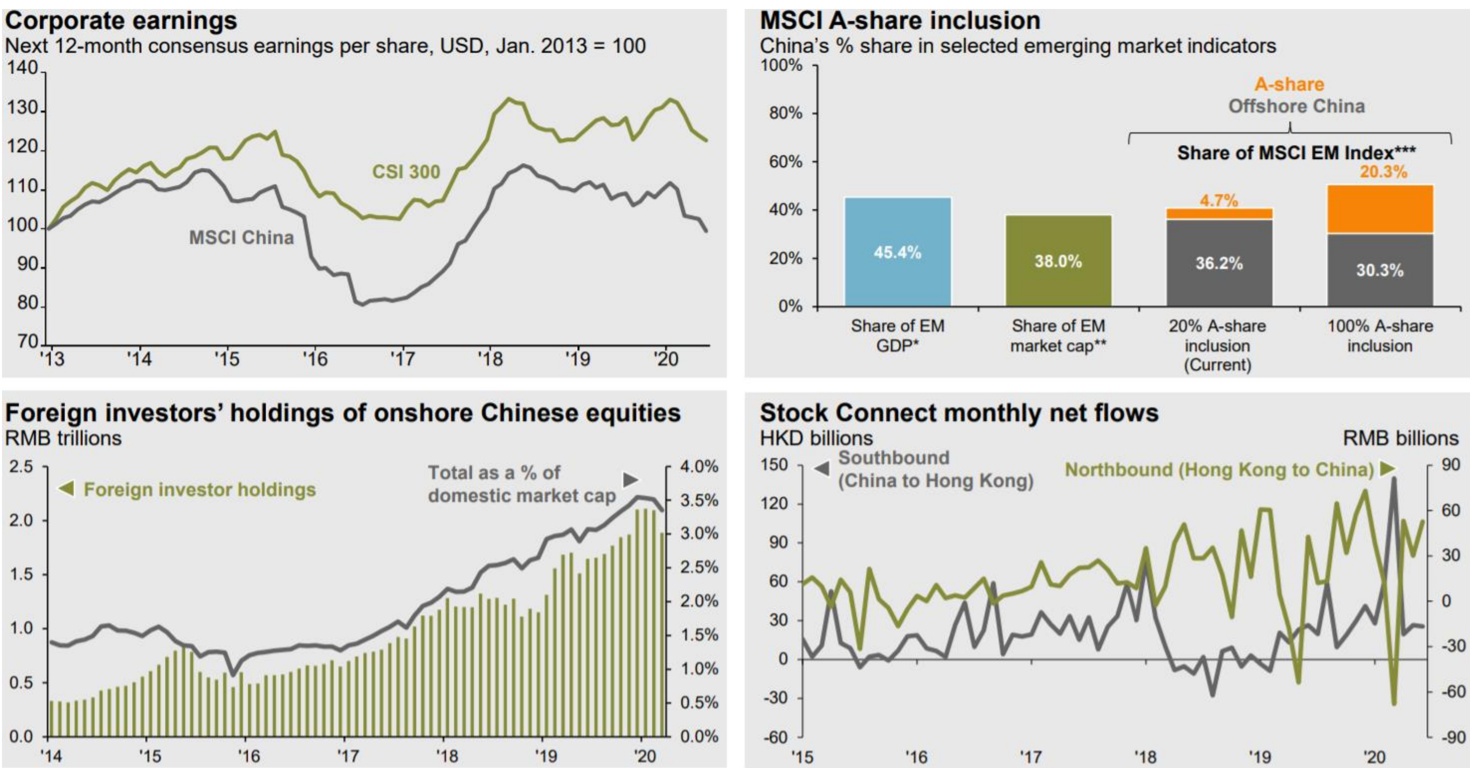
➢ **Domestic demand led growth.**
China since 2010 is increasing emphasis on economic growth led by domestic consumption, indigenous technology development and urbanisation. This is a shift from the export-led economic model adopted in the 1990s.

The Covid-19 pandemic and friction with the US further accelerated efforts to build a "complete domestic consumption system, …" as stated by President XI Jinping in the recently concluded National People's Congress. There is every chance for the new economic model to succeed given the following preconditions and policy support:

- **Domestic consumption** now comprises about 56% of the economy compared with 40% in 2000. Contribution from the manufacturing sector has moderated to 40% from 50% over the same comparable period.
- **Announcement of USD1.4 trillion investment push to develop next-generation technologies and capabilities** including biotechnology, artificial intelligence, internet of things and smart cities, etc. The aim is to reduce dependency on US' technology.
- **Focus on infrastructure development** for central and western provinces that include energy projects and Sichuan-Tibet railway.
- **Supply side reform.** Chinese policymakers finally move to liberalise hukou laws, that restrict the rights of migrant labour in urban areas. The move is expected to empower around 280 million workers allowing them to secure higher wages and the strengthen their affordability to buy property in smaller cities.

➢ **Capital inflows into China's capital market will continue to rise.** This is underpinned by China's increasing weight in:
a) the MSCI Emerging Market Index; and
b) global bond indices given that China has the world's second largest bond market at USD14 trillion.

Foreign investors hiked their holdings of Chinese equities and fixed income to record high



Source: Bloomberg, JP Morgan, Principal compilation, 30 June 2020

What Should Investors Do?

Investors who have taken a strategic view on China and invested earlier would have profited handsomely. We know that the markets do not go up in a straight line as there are uncertainties engendered by the Covid-19 pandemic and the US-China friction but it pays to stay invested as the re-rating on China is ongoing in the short to medium term.

a) For investors that intend to invest for the future, we believe a strategic exposure to China as part of a diversified portfolio is sensible. By investing into China's equities, investors are positioning themselves for China's long-term growth particularly in its new growth epicentres.

b) China's valuation is still attractive when compared to peers as well as developed markets

c) We recommend investors to consider following funds for an exposure to China –

- Principal Greater China Fund,
- Principal China Direct Opportunities Fund
- Principal Greater Bay Fund.

Principal Greater China Equity Fund

Fund Performance as of 30th June 2020

Cumulative Performance (%)	YTD	1 Month	3 Months	6 Months	1-Year	3-Year	5-Year	Since Inception
Fund	10.01	9.50	21.58	10.01	21.79	31.87	69.88	146.56
Benchmark	4.02	7.10	13.66	4.02	11.35	14.46	33.91	84.18

Calendar Year Returns (%)	2019	2018	2017	2016	2015	2014
Fund	22.62	-10.15	29.60	10.60	18.75	14.87
Benchmark	19.42	-15.06	26.64	7.11	10.65	11.78

Most Recent Fund Distributions						2019 Nov
Gross (Sen/Unit)						2.45
Annualised Yield (%)						2.40

Top 10 Holdings *

	Country	% of net assets
Alibaba Group Holding	China	9.10
Tencent Holdings	China	7.80
Taiwan Semiconductor Manufacturing	Taiwan	6.70
China Life Insurance Co Ltd	China	2.30
Meituan Dianping	China	2.20
Hong Kong Exchanges & Clearing Ltd	HK, China	2.00
Prada	Italy	2.00
iQIYI Inc	China	1.80
Newcrest Mining Ltd	Australia	1.80
Sands China Ltd	China	1.80

The holdings listed do no constitute a recommendation to purchase or sell a particular security. Cash and/or derivative positions that are not part of the core investment strategy will not be reflected in the top holdings list.

No.1 in Lipper's Quartile and Peer Ranking –
as of 31st December 2019

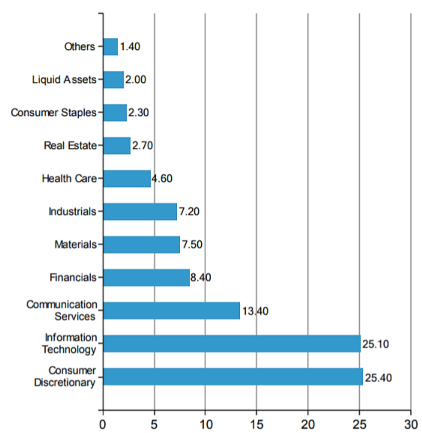
- ✓ 3 years
- ✓ 5 years
- ✓ 10 years

MORNINGSTAR ★★★★★

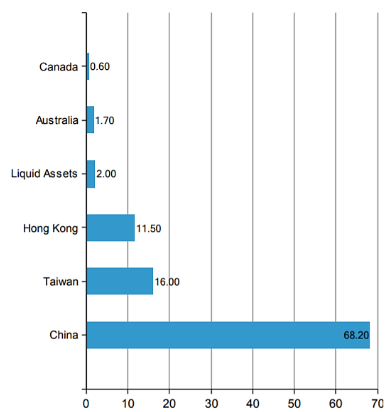
Morningstar Category
31st March 2020

Equity - Greater China

Sector Allocation (%) *



Regional Allocation (%) *



- The pace of normalisation following the Covid-19 shock, policy responses and political tension between China and the US will remain the key drivers of China's economic dynamics and market movements.
- We remain focused on those stocks exposed to the more secular growth themes in the country.
- In the medium term, we continue to favor domestic Chinese consumer-facing businesses and Hong Kong consumer goods companies, with strong brand value and pricing power, and which will benefit from upgrades.
- We are also getting more positive on online businesses as the adoption of digital life during the pandemic has accelerated the online migration process in China. This bodes well for the sector's business outlook.

Principal China Direct Opportunities Fund

Fund Performance as of 30th June 2020

Cumulative Performance (%)	YTD	1 Month	3 Months	6 Months	1-Year	3-Year	5-Year	Since Inception
Fund	28.80	12.17	23.29	27.32	30.32	N/A	N/A	6.71
Benchmark	29.22	12.52	22.44	25.69	36.02	N/A	N/A	5.61

Calendar Year Returns (%)	2019	2018	2017	2016	2015	2014
Fund	19.52	N/A	N/A	N/A	N/A	N/A
Benchmark	23.30	N/A	N/A	N/A	N/A	N/A

Top 10 Holdings

	Country	% of net assets
Guangdong Tapai Group Co Ltd	China	1.59
Venustech Group Inc	China	1.45
Shenzhen Tagen Group Co Ltd	China	1.39
China Railway Tielong Containe	China	1.38
Jinyu Bio-Technology	China	1.33
Hunan Valin Steel Co Ltd	China	1.16
Wuliangye Yibin Co Ltd	China	1.08
Jointo Energy Investment Co Lt	China	1.04
Cinda Real Estate Co Ltd	China	1.03
Yifan Pharmaceutical Co Ltd	China	0.97

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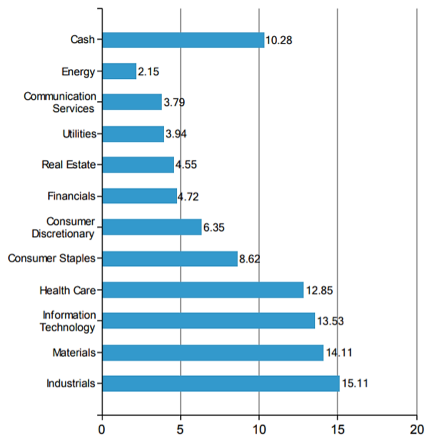
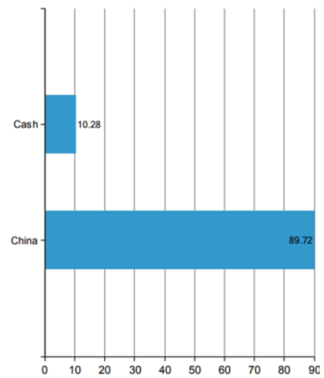
Sector Allocation (%)



Regional Allocation (%)



- The earning performance of companies will bottom out and recover gradually, improving the recovery of mid- and long-term risk preferences.
- With continuously rising social financing and credit growth, this will support economic recovery thus bodes well on China equities.
- The fund has been analyzing stocks from fundamental, emotional and technical aspects and score them comprehensively.
- Sectors that we continue to like in the near term are information technology, industrials and materials.
- We tend to diverse our investment and hold relatively large numbers of stocks to reduce portfolio unsystematic risk. The top 10 stocks only make up around 13% of the equity portfolio.

Principal Greater Bay Fund

Fund Performance as of 30th June 2020

Fund Name	IPO Date	Fund Size (RM)	Growth % YTD	1m	3m	6m
Principal Greater Bay AUD Hedged	Oct-19	2.57	14.06	11.43	26.24	20.10
Principal Greater Bay MYR Hedged	Oct-19	39.31	9.07	7.00	16.68	9.29
Principal Greater Bay SGD Hedged	Oct-19	1.54	10.41	8.02	17.14	12.04
Principal Greater Bay USD	Oct-19	2.32	13.34	7.62	14.82	12.61

Top 10 Holdings as of 30th June 2020

Stock	Sector	Weight (%)
Tencent Holdings	Information Technology	9.04
AIA Group	Financials	6.20
China Merchants Bank	Financials	4.03
Ping An Insurance	Financials	3.55
Ping An Insurance(HK)	Financials	3.33
Hong Kong Exchanges and Clearing	Financials	2.94
Midea Group	Consumer Discretionary	2.13
Shenzhen Mindray Bio-Medical Electronics	Health Care	2.03
Foshan Haitian Flavouring and Food Company	Consumer Staples	2.00
Luxshare Precision Industry	Information Technology	1.83
Total		**37.09**

Portfolio positioning as at 30th June 2020 (%)

Sector	Portfolio Weight	Benchmark Weight	Relative Weight
Consumer Staples	5.73%	3.07%	2.65%
Industrials	12.29%	9.84%	2.45%
Real Estate	7.39%	6.14%	1.26%
Utilities	1.52%	0.57%	0.94%
Financials	21.50%	20.95%	0.55%
Consumer Discretionary	14.56%	14.04%	0.52%
Health Care	10.58%	10.67%	-0.09%
Materials	0.76%	1.99%	-1.23%
Information Technology	25.68%	32.74%	-7.05%

Source: CCBPAM

- We have been utilizing our multi-factor model to value the stocks and construct our A shares portfolio to achieve alpha.
- The earning performance of companies will bottom out and recover gradually, improving the recovery of mid- and long-term risk preferences.
- With continuously rising social financing and credit growth, this will support economic recovery thus bodes well on China equities.
- The fund has been analyzing stocks from fundamental, emotional and technical aspects and score them comprehensively.
- Sectors that we continue to like in the near term are information technology, industrials and materials.