



Carmignac China New Economy : Letter from the Fund Manager



Author(s)
Haiyan Li-Labbé

Published
July 26, 2022

Length
7

+10.1%

Relative performance of Carmignac China New Economy
I EUR Acc versus its reference indicator¹.

15.6%

Of the current portfolio is invested
energy transition and renewable industries.

+12.3%

Annualized performance of the Fund
since its launch (31/12/2019).

Carmignac China New Economy¹ was up 20.19% in the second quarter of 2022, compared with a 10.06% increase in its reference indicator². This brings the Fund's year-to-date return to -2.21%, versus -3.48% for its reference indicator.

Q2 2022 performance and highlights

The positive surprise in Q2 came from China. Its stock market rebounded sharply and outperformed all major emerging and developed-world markets, despite the severe lockdowns introduced in some large Chinese cities. Xi Jinping's zero-Covid strategy led to a chaotic implementation of lockdowns in Shanghai, Beijing, and many other regions. The country's GDP contracted significantly in April and May but bounced back in June after Beijing loosened its Covid restrictions. China undoubtedly handled the pandemic relatively well during the first strain and the Delta variant, but now the highly contagious Omicron variant appears to be making the zero-Covid strategy much less effective with a stronger impact on the economy. It's unlikely Xi Jinping will make any material changes to the strategy before the National Congress in the fourth quarter which should see him elected to a third term. However, Beijing has had some success in controlling the pandemic – it was able to contain the spread of the virus and reboot China's economy through an array of stimulus measures that encompass infrastructure building, financial assistance for consumers, support for the automotive industry, and various tax cuts.

As we mentioned in our previous quarterly report, Chinese equity valuations had become very attractive following the steep decline in 2021, which was triggered by Beijing's regulatory crackdown on the new economy, and Russia's invasion of Ukraine. We stressed that we've been shoring up our positions in companies with a market capitalisation equal to less than their cash on hand. That proved to be a winning strategy, as reflected in our investments in **New Oriental** (an education company), **Beike** (a property giant), and **Chindata** (a data centre operator) – all of whose stock prices have doubled since mid-May³.

Moreover, during the first quarter, we had significantly increased our exposure to industrials impacted by Shanghai's lockdown. These stocks rebounded sharply during the second quarter, benefiting to our portfolio and helping us to outperform our reference indicator.

Our Q2 performance was also supported by our investments in the reopening of the economy theme, which we built up throughout the period. Here we can point to solid returns from our holdings in the travel industry (**Tongcheng Travel**), hotels (**Huazhu Group**), the automotive industry (**Shanghai Baolong Automotive** and **Wencan Group**), and clean technology (**Daqo New Energy**). Our consumer goods and online retail investments – namely, **Helens International** and **JD.com** – also did well and were among the biggest contributors to our return over the quarter.



Adjustments and current positioning

We sold some of our investments in Q2 after they performed well and reached their price target, and increased our stakes in companies we believe are undervalued and trading at prices that don't reflect their growth potential.

We closed out our position in **Xpeng** and replaced it with **Nio**, an electric-vehicle maker whose stock has substantially underperformed those of its peers. We also sold our stakes in JOYY (an online gaming operator), GDS Holdings (a data centre operator), and Chongqing Zhifei (a vaccine producer), taking profits in the process.

On the other hand, we significantly increased our portfolio's exposure to sectors and companies associated with the reopening of the economy, primarily by adding firms that stand to benefit the most from the Chinese government's stimulus plan. We also upped our stakes in **Tongcheng Travel**, which operates a travel booking website, and **Huazhu Group**, which runs a hotel chain.

We added a new Chinese company to our portfolio in Q2, the online travel booking platform **TRIP.COM** and **Full Truck Alliance**. The latter runs a digital marketplace that matches up truck drivers and shippers, allowing businesses to schedule optimal shipping routes and prevent trucks from making return trips empty. Because shipping supply and demand is highly fragmented in China, there's a need for this kind of marketplace, and Full Truck has a dominant 65% market share. Our analysis indicates that the company's business model requires little capital expenditure, offers a high return on equity, and holds promising growth prospects. Its stock had become priced very attractively, given that its cash on hand is equal to over a third of its market cap.³ Known as China's "Uber of Trucks", the company aims to transform China's road transportation industry by pioneering a digital, standardized, and smart logistics infrastructure across the value chain. The nature of its services is environmentally friendly as the business helps significantly save transportation cost versus traditional business models. The Company makes a positive impact on the environment by eliminating empty miles and wasted fuel. According to the company's estimates, in 2020 they helped reduce carbon emissions by 330,000 metric tons as a result of a smarter logistics infrastructure. On the Social front, by improving supply/demand efficiency among shippers and trucks, and reducing idle time and wasted mileage, the business helps drivers to improve their productivity and their ability to manage their driving uptime, routing and safety.

Outlook for the rest of the year

China is still experiencing an economic slowdown as a result of the government's zero-Covid strategy. But with pandemic restrictions being lifted and the country's large cities coming out of lockdown, we believe its stock markets will do well in the coming months. The stimulus measures announced by Beijing – which include spending on infrastructure, support for consumers and the automotive industry, and various tax cuts – should boost economic output significantly. And with the government noting its intention to focus more on stabilising the economy than introducing new restrictions, the regulatory crackdown seems to be behind us.

Going forward, the main risk to watch is the forced delisting of Chinese companies trading on US exchanges through American Depositary Receipts. Recent statements from Chinese and US officials indicate the discussions are making little progress, meaning it's unlikely the two countries will come to an agreement anytime soon.

Beijing's signs of policy-easing in a number of areas – monetary and fiscal policy, regulations, and pandemic restrictions – mark a welcome contrast to the monetary tightening being implemented in other major economic blocs in response to high inflation. This should give a considerable boost to Chinese equities, especially after their recent 18-month slide.

We believe Chinese stocks are still valued attractively, even after their rebound over the past few weeks. They're trading at prices which don't fully reflect companies' fundamentals and growth prospects. That's especially true for businesses that stand to benefit from the reopening of the economy (travel and hotel operators) and from Beijing's targeted stimulus measures (companies in the consumer goods, real estate, and healthcare industries) – businesses to which we have increased our exposure.

We are therefore sticking to our convictions in China's New Economy (digitalisation, healthcare, consumption upgrade, tech innovation, and clean energy), which will continue to be a major source of alpha for our Fund.



Socially responsible investment is central to our approach



Carmignac China New Economy combines our core positioning as Chinese market specialist since 1989 and our responsible & sustainable investment credentials within this universe.

Its objective is to capture the growth potential of Chinese markets by investing in sustainable growth companies of the Chinese New Economy with high selectivity and a strong focus on responsible investment and ESG criteria

The strategy is classified as an Article 8 fund under the Sustainable Finance Disclosure Regulation ("SFDR"⁵), (SFDR), and was awarded France's SRI label in 2021⁶.

Our portfolio is currently structured around four major socially responsible investment (SRI) themes that are central to our process :



Key points of the
Strategy

1. **A differentiated and selective approach focusing Chinese New Economy sectors, the most attractive segments of the Chinese market, to benefit from 4 structural themes that we have identified**

2. **A concentrated and non-benchmarked bottom up process**

High active share (>85%)

A growth & quality bias, focusing on sector leaders with strong earnings visibility and robust balance sheets

3. **A socially responsible investment (SRI) approach**

As an Article 8 Fund under EU SFDR classification, we favour companies that deliver solutions to environmental and social challenges of the Chinese economy and society

Consistently taking into account ESG criteria (Environmental, Social and Governance).

Aiming to minimize its environmental impact by reducing its carbon footprint by 5% per year.

¹ Carmignac China New Economy – ISIN FR0013467024 for the I EUR Acc share class. Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor). Performance in euros as of 30/06/2022.

² Reference indicator: MSCI China (USD) calculated net dividends reinvested and converted into EUR (NDEUCHF)

³ Performance of the stock New Oriental in USD from 16/05/2022 to 30/06/2022, source : Bloomberg 30/06/2022

⁴ Source: Company data, Bloomberg as of 31/03/2022

⁵ The EU Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 “lays down harmonised rules on the provision of sustainability-related information with respect to financial products”. For further information, see <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>.

⁶ Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 : règlement sur la publication d’informations en matière de durabilité dans le secteur des services financiers. Pour plus d’informations, veuillez consulter [EUR-lex](<https://eur-lex.europa.eu/eli/reg/2019/2088/oj> « EUR-lex »)

Carmignac China New Economy

Seize the growth potential of China's New Economy

Discover the fund page

Carmignac China New Economy F EUR Acc

ISIN: FR0014002E46

Recommended
minimum
investment horizon



Main risks of the Fund

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

CURRENCY: Currency risk is linked to exposure to a currency other than the Fund's valuation currency, either through direct investment or the use of forward financial instruments.

LIQUIDITY: Temporary market distortions may have an impact on the pricing conditions under which the Fund might be caused to liquidate, initiate or modify its positions.

The Fund presents a risk of loss of capital.



Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

This material may not be reproduced, in whole or in part, without prior authorisation from the Management Company. This material does not constitute a subscription offer, nor does it constitute investment advice. This material is not intended to provide, and should not be relied on for, accounting, legal or tax advice. This material has been provided to you for informational purposes only and may not be relied upon by you in evaluating the merits of investing in any securities or interests referred to herein or for any other purposes. The information contained in this material may be partial information and may be modified without prior notice. They are expressed as of the date of writing and are derived from proprietary and non-proprietary sources deemed by Carmignac to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Carmignac, its officers, employees or agents.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor). The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged.

Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. The reference to a ranking or prize, is no guarantee of the future results of the UCIS or the manager.

Morningstar Rating™ : © Morningstar, Inc. All Rights Reserved. The information contained herein: is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Access to the Funds may be subject to restrictions regarding certain persons or countries. This material is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the material or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not access this material. Taxation depends on the situation of the individual. The Funds are not registered for retail distribution in Asia, in Japan, in North America, nor are they registered in South America. Carmignac Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Funds have not been registered under the US Securities Act of 1933. The Funds may not be offered or sold, directly or indirectly, for the benefit or on behalf of a «U.S. person», according to the definition of the US Regulation S and FATCA. The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital.

The Funds' prospectus, KIDs, NAVs and annual reports are available at www.carmignac.com, or upon request to the Management Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law.

In France, Luxembourg, Sweden: The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital. The Funds' prospectus, KIDs, NAV and annual reports are available at www.carmignac.com, or upon request to the Management.

In the United Kingdom: the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.co.uk, or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This document was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd. FP Carmignac ICVC (the "Company") is an Investment Company with variable capital incorporated in England and Wales under registered number 839620 and is authorised by the FCA with effect from 4 April 2019 and launched on 15 May 2019. FundRock Partners Limited is the Authorised Corporate Director (the "ACD") of the Company and is authorised and regulated by the FCA. Registered Office: Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY, UK; Registered in England and Wales with number 4162989. Carmignac Gestion Luxembourg SA has been appointed as the Investment Manager and distributor in respect of the Company. Carmignac UK Ltd (Registered in England and Wales with number 14162894) has been appointed as a sub-Investment Manager of the Company and is authorised and regulated by the Financial Conduct Authority with FRN:984288.

In Switzerland: the prospectus, KIDs and annual report are available at www.carmignac.ch, or through our representative in Switzerland, CACEIS (Switzerland), S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.

The Management Company can cease promotion in your country anytime. Investors have access to a summary of their rights in English on the following links: [UK](#) ; [Switzerland](#) ; [France](#) ; [Luxembourg](#) ; [Sweden](#).