QUARTERLY REPORT

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Carmignac China New Economy : Letter from the Fund Manager

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Lengt
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+10.1%

Relative performance of Carmignac China New Economy

I EUR Acc versus its reference indicator[1].

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 Economy[1] was up 20.19% in the second quarter of 2022, compared with a 10.06% increase in its reference indicator[2]. 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-May[3].

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 2021[6] .

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

Lower risk Higher risk

1	2	3	4	5	6*	7

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.