Portfolio Manager 2Q23 Insights

Key takeaways

- Mackenzie ChinaAMC All China Equity Fund underperformed by 1.6% in 2Q23 returning -13.4% against a -11.8% return for its benchmark.
- The underperformance was due primarily to our positions in the Financials and Consumer Staples sectors, detracting 1.7% and 1.2% from relative return. Positions in the IT and Healthcare sectors contributed positively, 1.1% and 0.3%, to relative return.

Both the onshore and offshore markets experienced turmoil in Q2, dragged by a sluggish economic rebound and weakened currency. China's reopening in 2023 invigorated the economy in Q1; however, the momentum lost steam in Q2 despite a favorable base caused by the Shanghai lockdown. Factory output started to slow due to lackluster industrial and consumer demand, and the property market struggled to stabilize. The overhang of deflation and LGFV (local government financing vehicle) risks weighed on the economy, amid a record-high youth unemployment rate. On the international front, the US market shrugged off concerns about the banking and federal debt crisis. The weakened overseas demand, partly affected by raised interest rates, coupled with de-risking, continued to take a toll on China's exports.

To avoid a downward spiral, regulators cut policy rates, including the 7-day repo rate, the rate of MLF (Midterm Lending Facility), and the LPR (Loan Prime Rate) to boost liquidity and shore up the economy.

Facing headwinds of a weak economic recovery and weak property market, as well as geopolitical tensions, the Chinese equity market corrected sharply in Q2. Energy, Utilities, and Financials outperformed during the down market, driven by potential tailwinds from SOE reform and higher dividend payout. NEV also recorded positive return, as the regulators extended the NEV tax exemption. The Consumer, Materials, and Real Estate sectors lagged, due to the weaker-than-expected recovery.

Current positioning and notable changes

China's economy continues to exhibit structural trends, with rapid development in areas of technological innovation, high-end manufacturing, and renewable energy. Meanwhile, China's technology companies are rushing into the AI industry, investing heavily in large language models (LLM) and AI applications, some of which we expect to be released in the second-half of the year. Regarding high-end manufacturing, although the semiconductor sector still faces US restrictions, domestic substitution has been expanding with breakthroughs being made in various segments. In the renewable energy sector, the cost of solar modules contracted, thanks to the dropping prices of silicon, which makes solar more economical and competitive as a source of energy. The EV market share continued to grow, and domestic manufacturers are expanding their presence and gaining shares. Besides cost-effective models, domestic players have also made breakthroughs in the high-end models. The export of vehicles has become a major driver of total export, demonstrating China's competitiveness in the car manufacturing industry. On the policy front, the Chinese government has shown strong resolution in promoting reforms to underpin high-quality development. Aiming at reducing reliance on the property market, the government would be reluctant to inject large scales of stimulus to boost home sales.

In terms of portfolio management, we sold some stocks in the Consumer Discretionary sector, and added to the Consumer Staples and Information Technology sectors in 2023 Q2.

For Information Technology, we increased position in Aiko Solar (600732 CN), a leading clean energy technology company, which has been principally engaging in the R&D, manufacture and sales of high-efficiency solar cells. With a strong presence in the global market, Aiko Solar's products are widely distributed in Southeast Asia, Europe, and America. In June, Aiko Solar's self-developed ABC (All Back Contact) modules with 24% conversion efficiency received the InterSolar Award 2023, one of the most prestigious awards in the industry, and also won a 1.3GW order from a major European client for Aiko Solar. Recently, 10GW of the company's ABC module projects have gone into operation, and the ABC modules have been shipped in bulk starting from Q2 2023. We believe that Aiko Solar's technological superiority and growing production capacity will propel the company's swift expansion in 2023.

We took profit in Consumer Discretionary names such as Alibaba (9988HK) due to high valuation and lower bottom-line growth.

New or noteworthy stock stories

Aiko Solar, a leading clean energy technology company, has been principally engaging in the R&D, manufacture, and sales of high-efficiency solar cells. With a strong presence in the global market, Aiko Solar's products are widely distributed in Southeast Asia, Europe, and America. In June, Aiko Solar's self-developed ABC (All Back Contact) modules with 24% conversion efficiency received the InterSolar Award 2023, one of the most prestigious awards in the industry, and also won a 1.3GW order from a major European client for Aiko Solar. Recently, 10GW of the company's ABC module projects have gone into operation, and the ABC modules have been shipped in bulk starting from Q2 2023. We believe that Aiko

Solar's technological superiority and growing production capacity will propel the company's expansion in 2023.

Jiugui Liquor's share price edged down in Q2, as the company continued its inventory reduction efforts, aiming to bring inventory down to 30% of annual sales before the Mid-Autumn Festival. Besides the decline dragged by the industry's inventory reducing cycle, Jiugui Liquor acknowledged the challenges of distribution expansion. The company was actively pursuing reforms to address these issues through reinforcement of marketing and consumer acquisition. We expect Jiugui Liquor's efforts in controlling inventory and marketing to result in further price recovery and sales growth as market conditions become more favorable.