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CRUX China Fund

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Fund Performance

The CRUX China fund outperformed the MSCI China All Shares index this quarter by 50bps, rising 6%. It was however, a very volatile quarter with the fund up almost 24% in absolute terms by the beginning of February, before falling significantly as the US banking crisis gripped global markets. This especially hurt our financial holdings and US listed stocks, although the crisis has had no direct impact on any of our holdings.

In terms of company specific attribution over the Q1 2023 the main positive contributors to fund performance came from search engine, media and robotaxi company Baidu, passenger vehicle manufacturer Li Auto, and local on-demand retail delivery company Dada Nexus.

The main detractors to fund performance came from not holding large index weights Tencent and Alibaba.

*Source: FE FundInfo 31.12.22 - 31.03.23 Bid-Bid in GBP, TR, net income re-invested.

Attribution Stock Level Q1 2023

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Baidu 1.51%	JD.com -0.96%
Li Auto 1.18%	Kuaishou Technology -0.59%
Dada Nexus Ltd 0.61%	Lufax Holding Ltd -0.57%
BYD Ltd 0.58%	Wuxi Biologics -0.50%
ZIJIN Mining Group 0.56%	PDD Holdings -0.45%

Source: Bloomberg as at 31.03.2023

Changes to the portfolio

Over the quarter, we reduced the fund's exposure to the Industrials sector mostly by exiting from solar, due to concern it had been bid up excessively by retail investors. We increased our weighting in reopening beneficiaries as well as selectively within companies exposed to the electric vehicle value chain. We also increased our

Important Information

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weighting in financial sector names, primarily Lufax, a financial technology platform.

Highlighted new stock buys:

Miniso: Miniso is an offline retailer which specialises in value-for-money products across many segments including household goods, cosmetics, toys and food. Miniso offers products at lower prices than their Japanese and Western competitors thanks to its highly efficient supply chain. This should set it up well as China reopens and consumers return to offline shopping. Miniso’s product value proposition should also place it in a strong position as it continues to expand stores internationally. Our work on the company suggests significant room for growth in store count both in China and overseas.

East Buy: Previously known as Koolearn, East Buy has transformed rapidly from an online education provider to a livestreaming platform after regulation changes effectively shut their original business model. Their Dongfang Zhenxuan (DFZX) eCommerce brand (translated as “Oriental Selection”) has become a hit on Douyin (Tik Tok in China) and the number of followers has gone from zero to 40 million in nine months. DFZX sells self-labelled agricultural produce, food and drinks, as well as third-party merchandise in return for a commission.

Hesai Group: We participated in the US listing of Hesai Group. Hesai is a global technological and cost leader in LIDAR (light detection and ranging) solutions. The company has grown to become larger than the next 8 global suppliers combined, exhibiting significant economies of scale. We believe Hesai’s competitive advantages (technology, cost) along with its presence in China (local manufacturing) places it at the inflection point of multi-year penetration of ADAS and autonomous adoption in new car sales in China and global markets.

Outlook

We remain firm optimists about the future. When we look at the world and our lives from a small perspective, troubles can seem insurmountable, problems huge and the future dark. However, from a bigger picture there are clear positive trends that have, and are highly likely to, continue to lead to ever greater human prosperity. One such, is the communications revolution, which started in the early 1980s and continues to this day: voice, text, video, ideas, social, goods, services and travel, between countries, peoples, business and now computers continue to expand exponentially. The make-up of companies in the global indices today reflects the extraordinary changes this on-going revolution has created. It is our contention, that roughly each decade, and especially post a crisis event, new innovations and leaders emerge that become the next global giants. The last decade was firmly that of the smartphone and e-commerce, what we called the Digitalisation of Everything. This one, we think, keeps with the same arc of history, via the growth of communications, but moves it into transport, industry, robots and exploration. We are calling it the Electrification of everything.

Chat GPT3 was the fastest adoption of any software/APP in history. SVB was the fastest bank run in history. The reason we are all feeling uncertain, that there is so much division among countries, peoples, ideas and even what used to be objectively true and false, is that our culture, our local and global institutions, are desperately trying to keep up or not, with technological change. We are in the midst of a crisis, like the 08-11 period,

Market Cap

	Fund
>\$50bn	20.9%
\$15bn-50bn	19.0%
\$2bn-15bn	40.5%
<\$2bn	19.2%

Source: CRUX Asset Management as at 31.03.2023

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looking for a way out. These transitions are never smooth. We believe that exposure to rapidly growing areas that will surprise on their adoption curves, is the best way to reduce risk and maximise return over longer-timeframes. Electric vehicles, first in China then the world, ADAS and autonomous driving, first in China then the world, AI/ Large language Models, Space exploration, renewables, first in China then the world, India manufacturing, industrial and consumer robots. Finding the potentially leading companies in these areas and holding them for significant time has historically led to significant outperformance.

“ After several years of irrationality 2023 will be a year of compromise, rationality and pragmatism. ”

Over the last three months, it is good to see a number of our EV names delivering significant returns, despite the lacklustre China environment. It is our contention that we are near the trough of the Chinese auto cycle and that over the next 3 years we will not only see a significant improvement in flow demand (cyclical/move towards EV from ICE) but also stock demand as older ICE engines are scrapped in favour of EV. Li Auto and BYD remain are favoured winners in the OEM space, with CATL in batteries. Within AI, Baidu is the Chinese AI Chat leader and also the leader in autonomous software, it remains the largest holding in our portfolio, it trades on 13x forward earnings, but we expect it be on a low single digit multiple within a few years.

China has morphed into our largest country overweight, we are not naturally contrarian investors, however, we see the country having potentially the largest upside surprise within the region. Chinese M2 has bottomed and is growing significantly again after a two-year decline, the economy and stock markets has historically followed. At the same time US M2 is falling for the first time in at least 70 years.

As the table below shows, according to the Australian Strategic Policy Institute (ASPI), China has a global lead in 37 out of 44 critical technologies across a range of fields from defence, space, robotics, energy, biotechnology, AI, advanced materials, and key quantum technologies. It is close to having a monopoly in 8 of these. This is not a position from which Western countries are going to be able to successfully begin a deglobalisation process. We expect pragmatism on all sides to prevail.

Important Information

Please note: Due to rounding the figures in the holdings breakdown may not add up to 100%. Unless otherwise indicated all figures are sourced from Financial Express, Datastream, State Street and CRUX Asset Management Ltd. Third party data is believed to be reliable, but its completeness and accuracy is not guaranteed.

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