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CRUX China Fund

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Fund Performance

The CRUX China Fund returned 9.2%, underperforming the MSCI China All Shares index, which rose 11.2% over the quarter due to poor performance in our materials and healthcare names as well as our underweight position in consumer staples.

In terms of company specific attribution over the 2Q/22, the main detractors to fund performance were copper miner Zijin Mining, as well as not having any exposure to distilled Chinese liquor manufacturer Kweichou Moutai or the large eCommerce companies Alibaba and Meituan.

The main positive contributors to fund performance came from passenger vehicle manufacturer Li Auto, solar photovoltaic materials manufacturer Longi Green Energy, and two-wheeler maker Yadea.

*Source: FE FundInfo 31.12.21-31.03.22 Bid-Bid in GBP, TR, net income re-invested.

Attribution Stock Level Q2 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Li Auto +1.57	Zijin Mining -0.65
Longi Green Energy +1.21	Zai Lab -0.40
Yadea +1.03	Burning Rock Biotech -0.35
JD.com +0.89	Wuxi Apptec -0.28
Kuaishou +0.77	Han's Lasyer Technology -0.24

Source: Bloomberg

Changes to the portfolio

Over the quarter we increased our exposure to consumer discretionary names and slightly reduced our exposure to the healthcare and Industrial sectors.

Highlighted new stock buys:

Baidu: Baidu once dominated the China internet in search and advertising but lost out to Alibaba and Tencent which created their own walled eco-systems. Over the last 5 years Baidu has invested heavily in artificial intelligence (AI), with a focus on autonomous driving/robotaxis and cloud/Transportation-as-a-Service. We think the

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market is ignoring the long-term opportunity for these businesses. There is also potential to see China’s internet pivot away from the closed (walled garden) platforms to open platform structures which would favour search engine technologies such as Baidu’s. We see this trading at 5-6x P/E in 2026.

Market Cap

	Fund
>\$50bn	22.6%
\$15bn-50bn	28.1%
\$2bn-15bn	41.8%
<\$2bn	5.8%

Source: CRUX Asset Management as at 30.06.22

Niu Technologies: A Chinese electric 2-wheeler (2W) manufacturer, Niu’s brand positioning is in the premium segment with a particular focus on attracting younger, fashion-conscious consumers looking for smart feature rich 2Ws. This complements our existing exposure to the electric 2W market in China with Yadea; both are exposed to the same secular drivers such as replacement of internal combustion engines (ICE) 2-wheelers with electric 2W, rising demand from delivery/logistics riders, and demand for affordable individual transportation solutions.

PinDuoDuo: PDD is China’s largest community group buying ecommerce platform. Recent results beat consensus expectations and marked the 4th consecutive quarter of profitability. Its value-for-money proposition has clear appeal with an annual active user base now over 880m. We expect revenues will grow at close to +20% compound annual growth rate for the next 3-5 years. Thanks to industry consolidation subsidy spending should remain in check, resulting in further margin improvement. With a 10% FCF yield (FY24), there is also ample opportunity for a re-rating.

Outlook

We are facing probably the most difficult and confusing macro-economic, geo-political and populist-social environment any of us have ever had to deal with. We are dealing with shades of multiple different historical crises rolled into one: We have the over-exuberance and overvaluation signalled just before the dot.com crash in the early 2000s, we have areas of financial crisis, especially in Europe, similar to (albeit smaller) the 2008 crisis, and lastly, we have something few of us have experienced, the inflationary energy-crisis episodes from the 1970s. Western policy makers have reacted with, and adopted populist measures, tinged with authoritarian hues, which, inflationary in nature, will only prolong the crisis. While Cold War geo-political tensions have arisen with Russia and, to a lesser extent, concerns with China’s role in the world. Lastly, we are at the beginning of an energy transition from fossil fuels and discrete energy generation (diesel/petrol engines) to electric power.

To top this list off, we have central bank governors, whose mental models of the world are built upon the last 20 years of dis-inflation, where supply-side issues were temporary and could be solved quickly by the market. The chance of a significant policy error is high.

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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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