

GemChina



Sustainable Investors - Chinese Equities

Uncertainty creates opportunities

PERFORMANCE

In September, the MSCI China All Shares TR index fell by 1.5%. It underperformed the emerging markets index (+0.4% in €) and the Japanese stock market (TOPIX at +2.6%) but outperformed European markets (Stoxx 600 at -1.5%) and the US market (S&P 500 at -2.1%). As for **GemChina, launched in October 2019, its performance is not yet significant.**

FUND POSITIONING

In September, our exposure to consumer discretionary was lowered (from 33.4% to 31.6%): our position on Guangzhou Auto was reduced (from 1.7% to 1%) in anticipation of a slow recovery in sales; our position in Giant (bicycle manufacturer) was sold due to lack of short-term catalyst. For capital allocation purpose, the CNOOC position was also reduced (from 1.9% to 1.4%). These sales enabled us to purchase **Ping An Healthcare & Technology** (telemedicine services) and to strengthen our position in **Kingsoft Cloud** (from 1% to 1.5%) on correction. These two companies benefit from structural growth and their development has been accelerated thanks to COVID19. In addition, **Contemporary Amperex Technology** (CATL, China's leading manufacturer of electric car batteries) was added to the portfolio. Electric car penetration could reach 15% in China by 2025 (vs. <5% this year). CATL is also well positioned to seize opportunities in Europe thanks to its numerous partnerships (VW, BMW, Renault-Nissan-Mitsubishi, Tesla, etc.). At 10% of the portfolio, **Alibaba** remains our nb1 position. Alibaba's share price increased by 8% during the just finished traditional three-day investor conference in Hangzhou. Management shared impressive operating data: growth rate of the GMV (gross merchandise value) of C2C platform Taobao rebounded to 20% yoy, which is higher than before the pandemic, with a take rate of 4.5% in 2020 vs. 3.3% in 2017. Next year, AliCloud is expected to become profitable and Cainiao will generate positive operating cash flow. Its key business activities are now valued at a PER of 16x on FYE03/22, a discount of 20-30% compared to its global competitors. Note that next month, its FinTech subsidiary **Ant Group (33% owned by Alibaba)** will go public in both Hong Kong and Shanghai. Valuation has been touted at \$250-300bn.

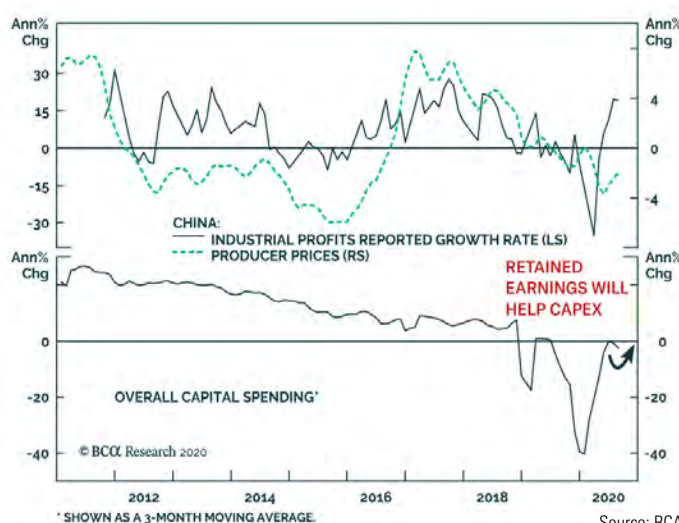
MACRO VIEW

In the run-up to the US elections, geopolitics remains the main in the short term. While new restrictions against Chinese companies have been dropped, the TikTok application is still subject to be forcibly sold to U.S. companies, under threat of a ban on operation; the fate of WeChat on U.S. soil is in the hands of a federal judge, while the sky has darkened over China's first semiconductor foundry SMIC. The company has for the moment avoided the black list (fate of Huawei), but American companies have to apply for licenses if they want to work with SMIC.

In the meantime, the Chinese economy continues to surprise on the upside and has been sequentially improving. **September manufacturing PMI came out at 51.5 compared to 51 in August.** Profit growth in the industrial sector has been positive and accelerating for the past five months (see graph). This creates a solid foundation for a potential recovery in capital spending. Moreover, it should be noted that, unlike a number of countries, China has not initiated drastic plan to support consumption. Industrial activity has surpassed pre-COVID level, unlike consumption. The economic situation is therefore much healthier. We also see this through the currency. The CNY has appreciated against the USD by 5% since May and remains strong. As PBOC has not opened its valves as much as the FED or the ECB did, the carry trade remains favorable.

The management teams of the companies with whom we regularly meet expect a better economic environment in the next twelve months. In addition, as 1Q20 was particularly weak due to the confinement in China, the base effect will be exceptional. We therefore remain confident of a continued recovery in earnings and strong growth in 2021.

Evolution of industrial profit in China



Source: BCA



AUM
\$59M

STOCK EXCHANGE

	Fund	Benchmark
Shanghai	16.2%	23.8%
Shenzhen	11.8%	16.5%
A-shares (Shanghai & Shenzhen)	28.0%	40.3%
Hong Kong	48.6%	37.6%
New York	8.4%	22.1%
B-shares (Shanghai & Shenzhen)	0.0%	0.0%
Taiwan	7.6%	0.0%
Others	5.2%	
Cash	2.2%	

SECTOR ALLOCATION

	Fonds	Benchmark
Energy	1.4%	1.8%
Basic Materials	1.3%	3.7%
Industrials	10.3%	7.1%
Banks	0.0%	8.4%
Other Financials	9.4%	7.6%
Real Estate	0.0%	3.9%
Technology	12.4%	8.3%
Media & Internet	15.4%	13.9%
Telecom	0.0%	1.7%
Consumer Durables	31.6%	26.1%
Consumer Non-durables	4.1%	8.5%
Healthcare Services	11.9%	7.2%
Utilities	0.0%	1.9%
Cash	2.2%	

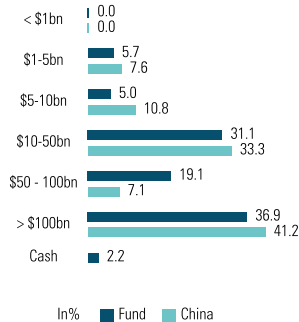


GEMWAY
ASSETS

Data as of 30/09/2020. Sources : Gemway Assets, Bloomberg

ASSET ALLOCATION

CAPITALISATION



THEMATIC

Thematic	Fund	Benchmark
Structural Growth	81.0%	61.3%
Cyclicals	16.8%	38.7%

Median Market Capitalisation (M\$)	58,969
Total number of holdings	44

TOP 10 HOLDINGS

		Fund	Benchmark
Alibaba	HK / New York	10%	13.4%
Tencent	Hong Kong	9.0%	10.1%
Ping An Insurance	Shanghai	5.0%	2.4%
Jiangsu Hengrui	Shanghai	4.8%	0.5%
JD.com	Hong Kong	3.5%	1.7%
Technics	Hong Kong	3.1%	0.0%
Meituan Dianping	Hong Kong	3.1%	3.0%
Airtac	Taiwan	3.1%	0.0%
Wuxi Biologics	Hong Kong	3.1%	0.6%
Weichai Power	Shenzhen	2.7%	0.2%
Total		47.4%	31.8%

MAIN CONVICTIONS (STOCKS)

Stock Active Share (Σ of stock overweights) : 66.1%

Positive Conventions

		Fund	+/-
Jiangsu Hengrui	Shanghai	4.8%	+4.3%
Technics	Hong Kong	3.1%	+3.1%
Airtac	Taiwan	3.1%	+3.1%
Ping An Insurance	Shanghai	5.0%	+2.5%
HK Exchange	Hong Kong	2.5%	+2.5%

Negative Conventions

		Fund	+/-
Kweichow Moutai	Shanghai	0.0%	-2.3%
China Construction Bank	Shanghai/HK	0.0%	-1.8%
China Merchant Bank	Shanghai/HK	0.0%	-1.3%
ICBC	Shanghai/HK	0.0%	-1.1%
China Mobile	Hong Kong	0.0%	-1.1%

VALUATION

PER 2020 (X) :	30.5
PER 2021 (X) :	28.8
Dividend Yield :	1.2%

2020 EPS growth (e) :	13.1%
2021 EPS growth (e) :	43.4%

(Based on Bloomberg consensus)

ESG CONVICTIONS - SRI LABEL

ESG investment is fully integrated into our investment process through a best-in-class approach in order to reduce portfolio risks.

Early 2020, Gemway Assets obtained French ISR Label for its entire range of funds (o/w GemChina).

ESG Investment report (impact report, carbon footprint, etc...) and Transparency Code are available on request or on the website www.gemway.com.



Launch date

31 October 2019

Legal form :

SICAV under French law
Compartment of GemFunds SICAV

Benchmark :

MSCI China All shares
(Net dividends reinvested)

Quote currencies:

EUR and USD

NAV 30/09/2020 :

€129.47 (I)
€128.22 (R)
\$135.74 (I USD)
\$134.30 (R USD)

I-Share ISIN : FR0013433109

R-Share ISIN : FR0013433067

I USD-Share ISIN : FR0013433117

R USD-Share ISIN : FR0013433083

I-Share Bloomberg : GEMCHEI FP

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