TT INTERNATIONAL

Q1 2022

TT CHINA FOCUS FUND

Fund Information

Portfolio Managers
Marco Li

Target Return
5% outperformance per annum on a three-year rolling basis

Expected Capacity
USD 2bn

Benchmark
MSCI China

Typical Tracking Error
3-6%

Fund Inception
October-2017

Assets under management
Fund: USD 4,370,945
Strategy: USD 125,807,706

Fund Performance

	Fund Gross	MSCI China
March	-9.8	-8.0
Q1	-20.8	-14.2
1 Year	-43.3	-32.5
3 Year (ann)	-4.5	-2.9
Incep. (ann)	-1.4	-2.2

Returns are gross of fees in USD

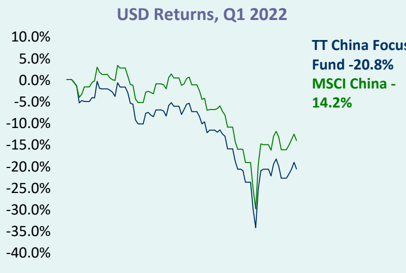
Fund Value (USD mil) 4

Inception 10/10/17

Q1 2022 Attribution

Sector Allocation	0.5
Security Selection	-7.9
Currency Effect	-0.2
Management Effect	**-7.7**

Markets



Source: MSCI/ TT International. Fund return is Gross of Fees. Index return is the Total Return with Gross Dividends reinvested.

Chinese equities experienced a perfect storm in Q1 due to the prospect of widening lockdowns to contain COVID, concerns over potential further regulation in the Tech sector, and fears about whether China's response to Russia's invasion of Ukraine would lead to it being partially implicated. The fund saw a negative absolute return, underperforming its benchmark.

Performance

The fund finished behind its benchmark, with outperformance in Materials, Health Care and Utilities overshadowed by underperformance in Financials, Industrials and I.T.

Market Background

Chinese equities experienced a perfect storm in Q1 due to the prospect of widening lockdowns to contain COVID, concerns over potential further regulation in the Tech sector, and fears about whether China's response to Russia's invasion would lead to it being partially implicated. This led to almost unprecedented panic selling and mass liquidation that some commentators compared to the Great Financial Crisis.

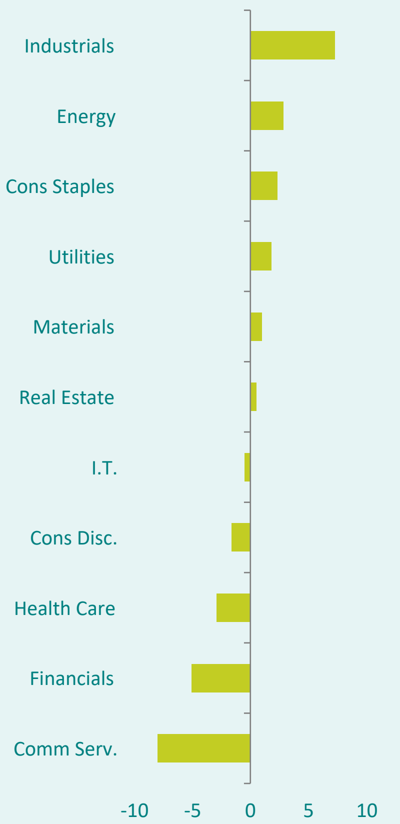
Outlook

It has been a tumultuous first quarter for global equities, with Russia committing the biggest act of aggression on European soil since the Second World War. As Lenin famously remarked: “There are decades where nothing happens; and there are weeks where decades happen.” Russia’s invasion of Ukraine has turbocharged the spike in commodity prices across the board and already appears to have catalysed a momentous shift in global energy policy. The inflation genie may finally be out of the bottle, with central banks scrambling to shift their monetary policy stance in an attempt to regain control. Meanwhile, Chinese equities experienced a violent sell-off due to the prospect of widening lockdowns to contain COVID, as well as the overhang of potential further regulation in the Tech sector. They then rallied sharply after Beijing encouraged regulators to issue market-friendly policies to “invigorate the economy”. The extent of the relief rally suggests that markets are interpreting the Chinese State Council’s comments as similar to Mario Draghi’s watershed “whatever it takes” speech that saved the euro.

The key issues that have been casting a shadow over the Chinese market have been COVID, the property cycle and the regulatory backdrop. Unfortunately China’s zero-COVID policy is being severely tested by a rapidly expanding outbreak. The country is making progress with MRNA vaccine development and rollout, but this will take time. Meanwhile, although we have seen signs of easing in the property market, sales have not yet picked up. We expect further easing to stabilise the market, but the government may need to row back from its focus on price control, which is part of the “property is for living not speculation” drive. Where we have far higher conviction is in the regulatory backdrop, which we believe will now become sequentially more favourable. It is very encouraging to see efforts by Beijing to co-operate with the US and allow auditing of US-listed Chinese ADRs. We are also hearing from various sources, including our investee companies, that ADRs will be split into two camps according to whether the companies have access to state secrets. Those that don’t will be able to co-operate much more freely with the US. Clearly the ADR issue has been a substantial source of pain for the fund, which is frustrating as the fundamentals of many of our ADR holdings have improved materially. To take one example of many, Miniso recently released strong results and also announced a $200m buyback programme. As the regulatory backdrop slowly improves, we believe this will be a significant catalyst for the portfolio. It is also important to note that the companies in China which have outperformed this year have tended to be banks and stodgy SOEs. These are precisely the types of companies that the fund typically avoids in favour of more dynamic private businesses. We are confident however that once Beijing’s market and growth friendly policies are implemented and risk appetite improves, many of our private sector holdings will lead the rally. Similarly, whilst our renewable energy names have struggled against a risk-off backdrop, we believe their structural growth opportunity has actually been enhanced by recent events. Again we see significant pent-up performance in these names.

Another source of outperformance should be the portfolio’s increasing exposure to Energy, given the surge in commodity prices following Russia’s invasion of Ukraine. We believe that the supply impact of the green energy transition is exacerbating the fundamental tightness in the oil market, meaning that prices should remain elevated. Many oil companies are actively encouraged by investors to return capital or invest in renewable energy rather than drilling for more oil. Consequently, non-OPEC oil supply appears to be peaking, while OPEC is delivering below its quota. We are therefore seeing spare capacity fall and inventories drawing down at a time of the year time when they are usually increasing.

Sectors relative to Index %



Portfolio Positioning

Over the quarter we looked to increase the portfolio's exposure to Energy, given the spike in commodity prices. The portfolio has oil exposure through Sinopec and Jereh Group, the former of which has an absolute dividend yield of 12-13%. Meanwhile in the Materials sector we bought Yunnan Aluminium. As part of its drive to lower emissions, China has limited its capacity in the aluminium industry. At the same time, many smelters in Europe are struggling to operate due to high energy prices. Consequently, pricing power should remain high, particularly as aluminium is a key component in Electric Vehicles, where demand continues to grow rapidly.

Elsewhere we added substantially to Alibaba and bought JD.com. Chinese Internet companies have been hit by a perfect storm of regulatory tightening and a slowing economy. However, recent comments from Beijing suggest that the government intends to stabilise growth and ease its regulatory stance. At the same time, many of these companies have announced measures to rationalise costs. In our view the stars are now aligning for significant outperformance from Chinese Internet companies as a stronger economy should lead to higher topline growth, the effect of which will likely be magnified in the bottom line due to cost cutting measures, while less intervention from Beijing should catalyse a re-rating from very depressed levels. Indeed, on our numbers Alibaba is trading on close to 5x core earnings.

Stock Focus

NARI Technology (Industrials)

NARI provides solutions for power and automation technologies. Its business covers a range of fields including: power system automation; smart grid; renewable energy; railway automation; industrial control; energy conservation and environment protection; and power plant auxiliary equipment technology. Nari maintains a dominant position in China's power equipment market, with a 70% market share in power dispatch systems, a 40% market share in substation equipment, and a 40-50% market share in relay protection and flexible transmission. As China increasingly shifts to renewable energy sources and accelerates electrification, we see a structural growth opportunity in the power equipment sector, driven by demand for a more efficient, digitalised power transmission network. To build out this network, China will need to boost its power grid with 18,000 km of ultra-high voltage transmission lines. As a result of these trends, we see a visible capex pipeline for NARI, which should be enhanced as Beijing moves to stabilise growth with higher fixed asset investment. The shares slightly underperformed over the quarter amid a general risk-off environment. However, we believe they will be rebound strongly as economic growth stabilises and infrastructure investment increases.

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Performance Attribution Q1 2022

On this page we identify where your portfolio added or subtracted value, relative to the benchmark.

Sector Selection (%)

Sector	Sector Allocation	Security Selection	Currency Effect	Management Effect
Total Portfolio	**0.5**	**-7.9**	**-0.2**	**-7.7**
Equities	**-0.5**	**-7.9**	**-0.2**	**-8.6**
Materials	0.4	1.0	0.0	1.4
Health Care	0.2	0.2	0.0	0.4
Utilities	0.0	0.2	0.0	0.2
Energy	0.3	-0.6	0.0	-0.4
Consumer Staples	-0.1	-0.3	0.0	-0.4
Consumer Discretionary	0.4	-0.9	0.0	-0.5
Real Estate	-0.1	-0.9	0.0	-1.1
Communication Services	0.1	-1.3	0.0	-1.1
Information Technology	-0.6	-0.6	-0.1	-1.2
Industrials	0.1	-2.2	0.0	-2.2
Financials	-1.2	-2.8	0.0	-4.0
Non Equity	**1.0**	**0.0**	**0.0**	**1.0**
Cash	1.0	0.0	0.0	1.0

Highlights

- The fund finished behind its benchmark, with outperformance in Materials, Health Care and Utilities overshadowed by underperformance in Financials, Industrials and I.T.
- The war in Ukraine has turbocharged commodity price spikes across the board. The fund's holdings in China Nonferrous Mining, Zijin Mining and Sinopec performed well against this backdrop.
- Power Assets performed well in the risk-off environment as it is a net cash Utility.
- 360 Digitech struggled due to concerns about potential regulation and ADR risk.
- Energy storage system provider Pylon sold off due to fears over rising raw material costs pressuring margins.
- As a small-cap ADR without a dual listing, Kingsoft Cloud struggled over the quarter.

Stock Selection (%)

	Stock	Country	Sector	Management Effect (%)	TT Held
Top Contributors	China Nonferrous Mining Corp	China	Materials	0.97	√
	Zijin Mining	China	Materials	0.54	√
	Sunny Optical	China	Information Technology	0.36	×
	Power Assets Holdings	Hong Kong	Utilities	0.32	√
	Wuxi Biologics	China	Health Care	0.31	×
Top Detractors	Iclick Interactive Asia	China	Communication Services	-1.14	√
	360 Digitech	China	Financials	-0.97	√
	Kingsoft Cloud	China	Information Technology	-0.78	√
	China Construction Bank	China	Financials	-0.70	×
	Meituan Dianping	China	Consumer Discretionary	-0.66	√

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Sector Allocation (%)

	TT China Focus		MSCI China
	31 Dec	31 Mar	31 Mar
Communication Services	10.7	9.7	17.6
Consumer Discretionary	24.3	26.5	28.1
Consumer Staples	7.5	7.9	5.6
Energy		5.2	2.4
Financials	7.9	12.0	17.1
Health Care	2.3	3.3	6.2
Industrials	11.2	13.0	5.8
Information Technology	12.4	5.7	6.2
Materials	10.8	4.9	3.9
Real Estate	3.9	4.9	4.4
Utilities	3.4	4.5	2.7
Cash	2.9	2.3	
Futures	2.7		
Total	**100.0**	**100.0**	**100.0**

Top 10 Stocks

December 31, 2021			March 31, 2022		
Security	**Country**	**Weight %**	**Security**	**Country**	**Weight %**
Tencent	China	9.3	Alibaba Group	China	9.7
Meituan Dianping	China	8.4	Tencent	China	9.2
Alibaba Group	China	6.4	Meituan Dianping	China	7.5
360 Digitech	China	4.2	China Merchants Bank	China	5.0
Yunnan Energy	China	3.5	360 Digitech	China	3.8
China Three Gorges New Energy	China	3.4	Sinopec	China	3.5
CATL	China	2.9	JD.com Inc	China	3.0
Wuliangye Yibin	China	2.8	Wuliangye Yibin	China	3.0
BYD	China	2.7	Nio	China	2.6
Hong Kong Exchanges and Clearing	Hong Kong	2.7	TSMC	Taiwan	2.5
Top 10 Positions		46.3	Top 10 Positions		49.9
Top 20 Positions		66.4	Top 20 Positions		70.5
No. of stocks		42	No. of stocks		43