TT INTERNATIONAL

Q2 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 4,475,838
Strategy: USD 148,022,655

Fund Performance

	Fund Gross	MSCI China
June	8.7	6.6
Q2	2.7	3.5
YTD	-18.6	-11.2
1 Year	-42.4	-31.7
3 Year (ann)	-2.9	-0.4
Incep. (ann)	-0.8	-1.4

Returns are gross of fees in USD

Fund Value (USD mil) 4

Inception 10/10/17

Q2 2022 Attribution

Sector Allocation	0.7
Security Selection	-2.2
Currency Effect	0.7
Management Effect	**-0.8**

Markets

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

Chinese equities found a bottom in Q2 after recovering from Covid lockdowns in key Tier 1 cities, Shanghai and Beijing. The fund produced positive absolute returns but finished behind its benchmark

Performance

The fund finished behind its benchmark over the quarter. Underperformance was largely a result of stock selection in the Materials and IT sectors.

Market Background

Chinese equities experienced immense volatility in Q2 but ended with an almost V-shaped recovery. The early parts of the quarter experienced a severe downturn as supply and demand experienced bottlenecks due to the lockdowns in Shanghai, a key manufacturing artery of China.

While the measures taken to stem the spread of Covid were extreme and led to extreme price volatility, the market has since recovered as logistics (passenger and goods movements) and manufacturing have now normalised. Further upside catalysts are likely to come in the shape of political transition stability, the Chinese government learning to live with Covid and the implementation of fiscal stimulus.

Outlook

On the domestic front, there are multiple factors that could result in further market upside. The first is that China is bouncing back from Covid with the focus now shifting back towards a more balanced preventative approach rather than outright control at all costs. China's Covid management is progressing (albeit at a slow pace): starting from July 11, Beijing's public venues will require proof of vaccination for entry - the first vaccination mandate China has rolled out. Separately, China has relaxed its 21-day quarantine requirement to 7+3 (hotel and home) quarantine whilst policy setters have also pledged to gradually resume international flights.

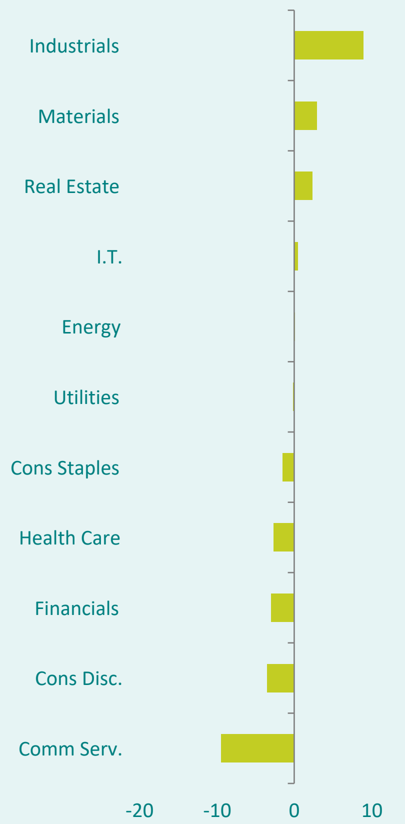
Secondly, investors are watching for clues regarding the upcoming political transition of the NPC and President Xi's reappointment in the fall of 2022 with stability largely being the hope and expectation.

Thirdly, policy setters have indicated their reluctance to fully abandon the 5-5.5% GDP growth goals – this implies 2H22 will continue to have accommodative macro policies. Indeed, policy setters have moved quickly to ensure a smooth reopening of the economy by providing local stimulus in the form of consumption vouchers and incentives for purchases of big-ticket items such as EVs.

And finally, we expect further upside by year-end in the Chinese equity markets driven by margin recovery and operating leverage as corporates recover from Covid.

Outside of China, global economic data has continued to surprise on the downside, with most measures of consumer confidence at all-time lows, reflecting the acute cost of living crisis as households adjust to elevated food and energy prices. Meanwhile, purchasing managers are beginning to ratchet down their new order intentions as they begin to reflect the record levels of inventories in the system and their observations of weakening end demand. Hand in hand with this weak economic data is perhaps the first signs of demand destruction from extremely elevated commodity prices with 'Dr Copper' signalling the balance of supply/demand tipping towards the former. Herein lies perhaps the main source of comfort from the weak data: inflation pressure might well have peaked as bad news on the economy becomes good news on the outlook for rates.

Sectors relative to Index %



Portfolio Positioning

We are avoiding sectors and companies which have direct export exposure to the RoW as there is continued pressure on end demand. Developed market big box retailers overstocked and double ordered in the early parts of 2022 due to supply bottlenecks emanating from Shanghai that left retailers with stock shortages. With inflationary pressures greatly reducing demand in the US and Eurozone as well as logistics issues now resolved, inventory levels are building at an unprecedented pace.

Over the quarter we have built exposure to domestic China reopening plays Melco, Trip.com and Cathay Pacific as a less stringent approach to Covid presents an attractive risk-reward outlook for companies on a forward 12-month outlook. We have also increased our exposure to the Industrials sector, which stands to benefit from commodity input price deflation, and continued strong demand as the world continues its transition to EV and green energy. We have added names such as Hongfa, which is a global leader in power relays, ArchTech, a manufacturer of solar tracking equipment used to enhance yields for solar farm, and Zhejiang Hangke, a maker of battery testing equipment.

Stock Focus

Yijiahe (Industrials)

Established in 1999, Yijiahe is a robotics company which focuses on AI, data analysis and provides diversified intelligence service and network monitoring as well as repair solutions to the electric power grid, fire protection, and rail transit industries. The company is a local market leader in Jiangsu but has partnered with NARI Technologies, an SOE company, to expand outside of their current geographical stronghold. The company is innovative and is applying its years of R&D investment to new industries such as EV charging solutions and the medical industry. The company has guided to 25-30% top-line growth and similar bottom-line growth for the next three years which implies a doubling of its current earnings and provides an attractive risk-reward profile. The stock has performed well over the quarter contributing positive performance, and we see increased grid capex and penetration into further industry verticals as key catalysts for 2H22.

Performance Attribution Q2 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	**0.7**	**-2.2**	**0.7**	**-0.8**
Equities	**1.0**	**-2.2**	**0.7**	**-0.5**
Industrials	-0.1	1.4	0.2	1.4
Consumer Discretionary	0.0	0.5	0.0	0.5
Consumer Staples	0.0	0.1	0.2	0.3
Utilities	0.1	-0.1	0.0	0.1
Financials	0.3	-0.4	0.1	0.0
Communication Services	0.5	-0.6	-0.1	-0.1
Energy	0.2	-0.4	0.0	-0.1
Real Estate	-0.1	-0.2	0.0	-0.3
Health Care	0.1	-0.6	0.1	-0.4
Materials	-0.1	-0.8	0.1	-0.9
Information Technology	0.0	-0.9	0.0	-0.9
Non Equity	**-0.2**	**0.0**	**0.0**	**-0.3**
Cash	-0.1	0.0	0.1	-0.1
Foreign Exchange	0.0	0.0	-0.1	-0.1
Futures	-0.1	0.0	0.0	-0.1

Highlights

- The fund finished behind its benchmark for the quarter, but had a positive June performance into quarter-end as the economy showed signs of normalisation.
- Outperformance in Industrials, Consumer Discretionary were offset by weakness in Materials and Information Technology. Industrials and Consumer Discretionary outperformed as raw material price pressure and internet regulation abated.
- The commodity complex narrative has shifted from a supply shock to demand weakness - the fund’s holdings in Zijin Mining and Yunnan Aluminium performed poorly against this backdrop. We believe a potential buying opportunity will exist in 3Q22 as China steps up its implementation of FAI.
- We continue to be constructive on a strong recovery in the Industrial's sector, which will benefit from lower commodity input prices and continued strong demand due to long-term energy transition undertakings.

Stock Selection (%)

	Stock	Country	Sector	Management Effect (%)	TT Held
Top Contributors	Meituan Dianping	China	Consumer Discretionary	0.86	√
	Pinduoduo	China	Consumer Discretionary	0.57	√
	Pylon Technologies	China	Industrials	0.56	√
	Wuliangye Yibin	China	Consumer Staples	0.48	√
	360 Digitech	China	Financials	0.46	√
Top Detractors	TSMC	Taiwan	Information Technology	-0.90	√
	Asymchem	China	Health Care	-0.82	√
	Yunnan Aluminium	China	Materials	-0.58	√
	Prudential	Hong Kong	Financials	-0.50	√
	China Merchants Bank	China	Financials	-0.47	√

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Sector Allocation (%)

	TT China Focus		MSCI China
	31 Mar	30 Jun	30 Jun
Communication Services	9.7	8.6	18.1
Consumer Discretionary	26.5	27.3	30.8
Consumer Staples	7.9	4.4	5.9
Energy	5.2	2.4	2.3
Financials	12.0	12.5	15.5
Health Care	3.3	3.2	5.9
Industrials	13.0	14.5	5.6
Information Technology	5.7	6.4	5.9
Materials	4.9	6.5	3.6
Real Estate	4.9	6.3	3.9
Utilities	4.5	2.5	2.6
Cash	2.3	5.4	
Total	**100.0**	**100.0**	**100.0**

Top 10 Stocks

March 31, 2022			June 30, 2022		
Security	**Country**	**Weight %**	**Security**	**Country**	**Weight %**
Alibaba Group	China	9.7	Alibaba Group	China	9.4
Tencent	China	9.2	Tencent	China	8.4
Meituan Dianping	China	7.5	Meituan Dianping	China	4.8
China Merchants Bank	China	5.0	JD.com Inc	China	4.7
360 Digitech	China	3.8	360 Digitech	China	4.2
Sinopec	China	3.5	Country Garden Services	China	3.2
JD.com Inc	China	3.0	Wuliangye Yibin	China	3.2
Wuliangye Yibin	China	3.0	China Merchants Bank	China	3.1
Nio	China	2.6	CNBM	China	3.0
TSMC	Taiwan	2.5	TSMC	Taiwan	3.0
Top 10 Positions		49.9	Top 10 Positions		47.0
Top 20 Positions		70.5	Top 20 Positions		68.0
No. of stocks		43	No. of stocks		44