C WORLDWIDE ASIA

Investment Letter – August 2023

MARKET PERSPECTIVES

The macroeconomic data from China has been challenging, to say the least. The financial troubles at yet another large property developer, Country Garden, and the missed payments from Zhongrong Trust have added to the concerns. The declining retail sales and property sales data reflect negative consumer sentiment. The decision by Beijing to stop publishing the youth unemployment data further dampened confidence leading markets to believe that the reality is worse than reported and that the expected data around unemployment is worsening after the addition of the fresh graduates.

To counter the series of negative news around China's economic wellbeing the administration has deftly announced a series of measures. Unlike post-GFC when Beijing announced a blockbuster initiative to support the economy, this time it is a bit more nuanced by numerous small but targeted measures. The speculation is that the administration will continue to slowly ease restrictions until it achieves its economic objectives.

The month has been dotted with small but positive measures to uplift the economy and consumer sentiment. After the PBOC announced its rate cuts, Chinese banks proceeded with a cut in benchmark rates, albeit the cut was lower than expected, but more cuts are coming in September as banks adjust their deposit rates. The rate cuts are not limited to new mortgages but also to existing ones. Mortgage curbs are easing as well, Guangzhou and Shenzhen became the first cities to allow first-time homebuyers access to preferential rates irrespective of their credit history – this move can be replicated by other major tier-1 cities along with a bunch of smaller cities. Beijing hopes that the reduction in mortgage payments will improve consumer sentiment. Alongside this, the reserve requirements for financial institutions have been cut from 5% to 4%. Yet another measure has been to raise deductions in infant, elderly care, and children's education spending.

PORTFOLIO PERSPECTIVES

The portfolio underperformed the benchmark in August which was due to weakness seen in China and select Technology and Communication Services companies. Amongst individual companies, the leading positive contributors were Apar Industries, Amber Enterprises, and KEC International while negative contributors were Samsung Electronics, Sea Ltd, and Tencent Holdings.

PORTFOLIO CHANGES

We made a few changes to the portfolio in August. The changes include a new position in **AIA Engineering** and **Titagarh Rail Systems**. We sold our positions in **Sany Heavy** and **Xinyi Solar** to fund the purchases.

AIA Engineering is a global leader in a duopoly of high chrome grinding media. This is a typical industrial consumable and can be categorized as a fast-moving industrial good. Due to the sticky nature of the business, AIA Engineering has wrested control over bargaining power which is reflected in a disciplined margin profile and WC cycle. The company is also expanding its presence in adjacent businesses such as mill lining for which initial progress is encouraging.

Titagarh Rail Systems is India's leading private sector railways wagons and coach manufacturer in an oligopolistic industry. Indian railways is on a massive capex drive to modernize its entire network and fleet. Titagarh is well-positioned to benefit from the large multi-year opportunity with the most expansive portfolio of products such as freight wagons, passenger coaches, and metro coaches. Additionally, the company is increasing its backward integration through wheel sets, propulsion, and traction control systems.

C WORLDWIDE ASSET MANAGEMENT FONDSMAEGLERSELSKAB A/S DANMARK FILIAL I SVERIGE
TEL: +46 8 535 273 00 · E-MAIL: INFO.SE@CWORLDWIDE.COM · WWW.CWORLDWIDE.SE