



China Market Update

As of 9 Jul 2015



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INVESTMENT PRODUCTS: NOT DEPOSITS | NOT INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

Market Focus

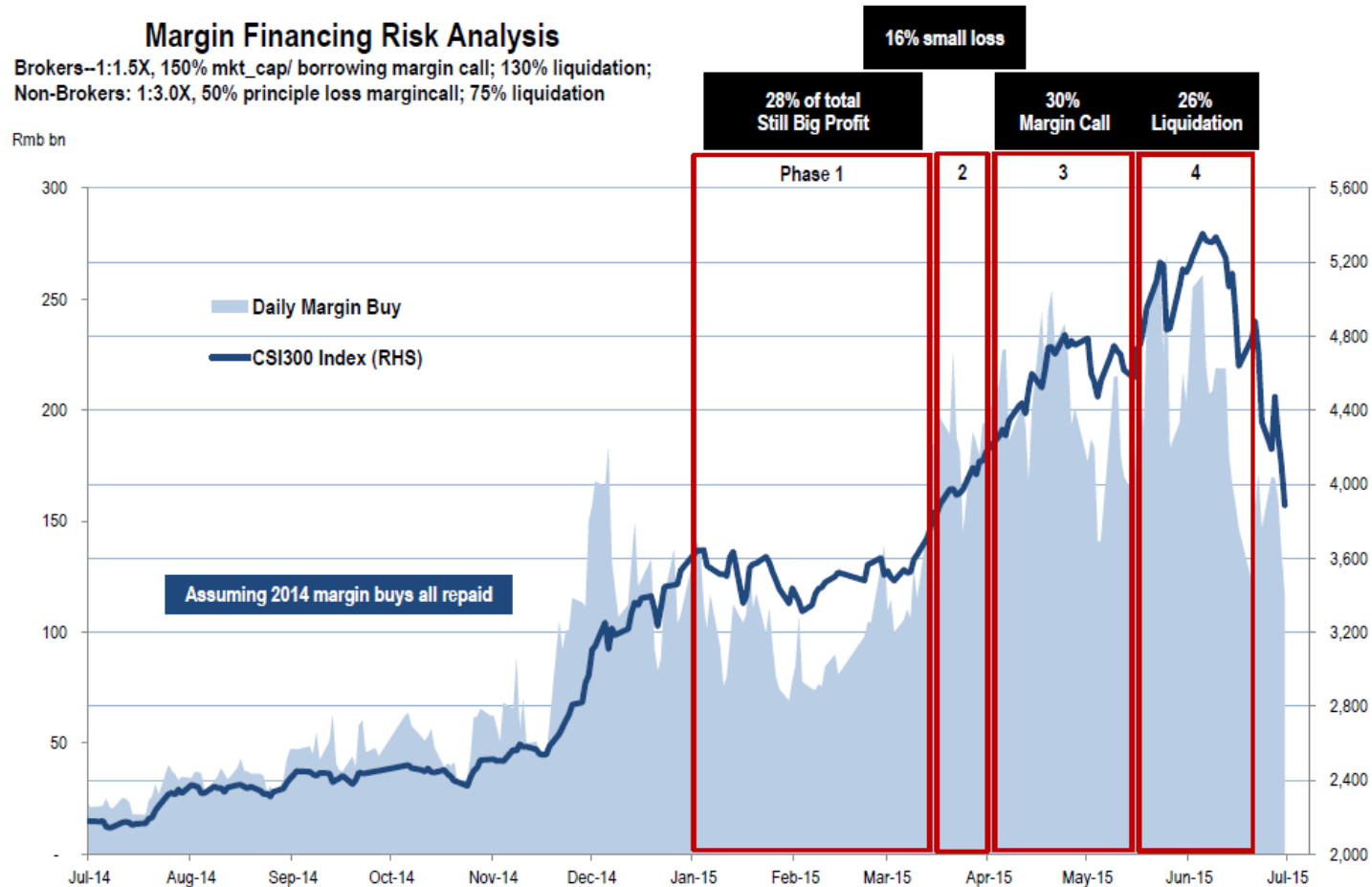
China A – Recent Market Movement, 8 Jul 2015 (Wed) in particular

- **Why the drop?**
 - Margin-triggered selling in A-shares
 - Liquidity needs
 - Lack of policy catalysts
- **Outlook?**
 - Near Term – **Volatility remains high** in both A and H markets. This round of sell off is **nothing related to the fundamentals** such as economy or corporate earnings.
 - Medium to Long Term – Still **positive**.
 - 1. Monetary policy loosening to continue:** room for further interest rate cuts;
 - 2. Reform:** a good performing equity market is important for SOE reform;
 - 3. Valuations (as of 8 Jul 2015)** – MSCI China (offshore Chinese equities) is still trading at around 9.8x price-to-earnings (vs CSI300's 15.8x), providing attractive risk/reward to investors.
 - 4. RMB internationalization:** it is at the top priority of the current administration and HK listed equities will very likely benefit from China's opening up;
- **China AMC tends to be more positive on the H- over the A-shares. In short-term, the fund would raise cash slightly to see if there is any opportunity to buy-on-dip.**

Market Focus

China A – Margin Financing

- Margin Buy balance currently (3 July) sitting at ~RMB 1.9tn which is 5.7% of total market cap
- Estimates 1/4 of margin buys have been forced out of the market when CSI300 dropped to 3,886

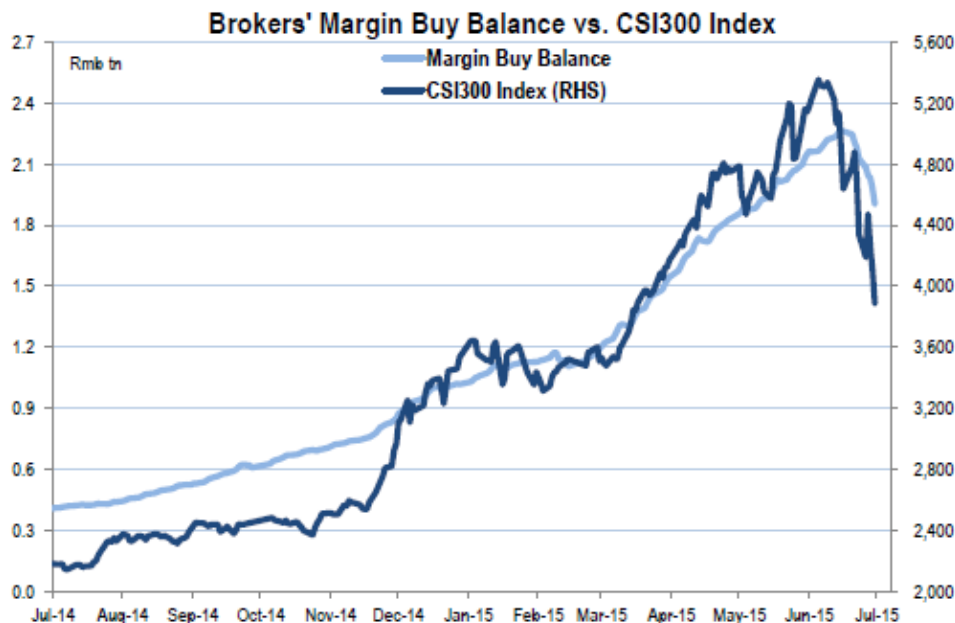


Source: Citi Research: PBOC Support, IPO Halt & Stabilization Fund vs. Deleverage: Selective Buys (6 Jul 2015)

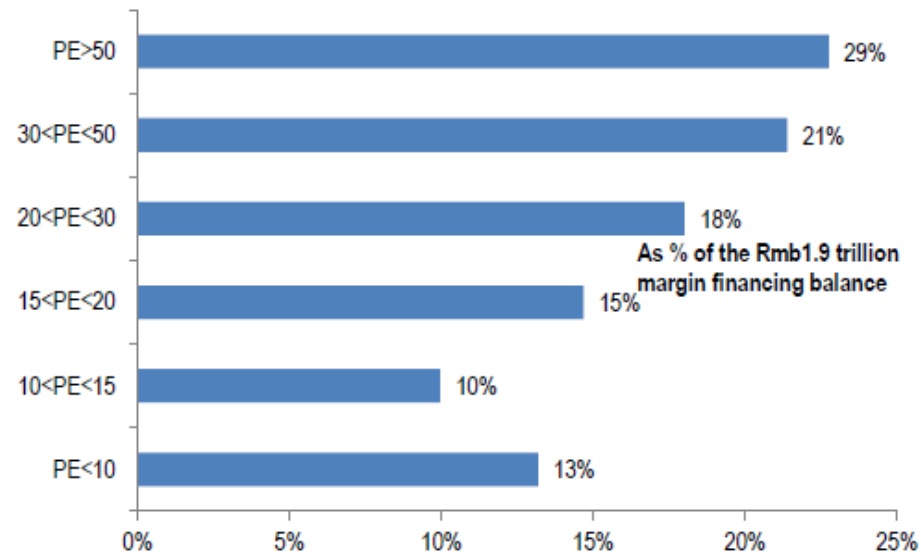
Market Focus

China A – Margin Financing

- Margin Buy balance dropped 16% from peak, vs CSI300's 27%
- High exposure to expensive stocks means high risks



Margin Financing High Exposure to High P/E Stocks



Market Focus

8 Jul 2015 (Wed)

- Abnormal movements in the market seen.
- **“Onshore”** Short selling limited → short selling in **“offshore”** markets (HSCEI, HSI, A50, etc)

CSI300 Index ETF (83188 HK) vs CSI300 Index (over last 3 days)



Source: Bloomberg (9 Jul 2015)

China Market Outlook

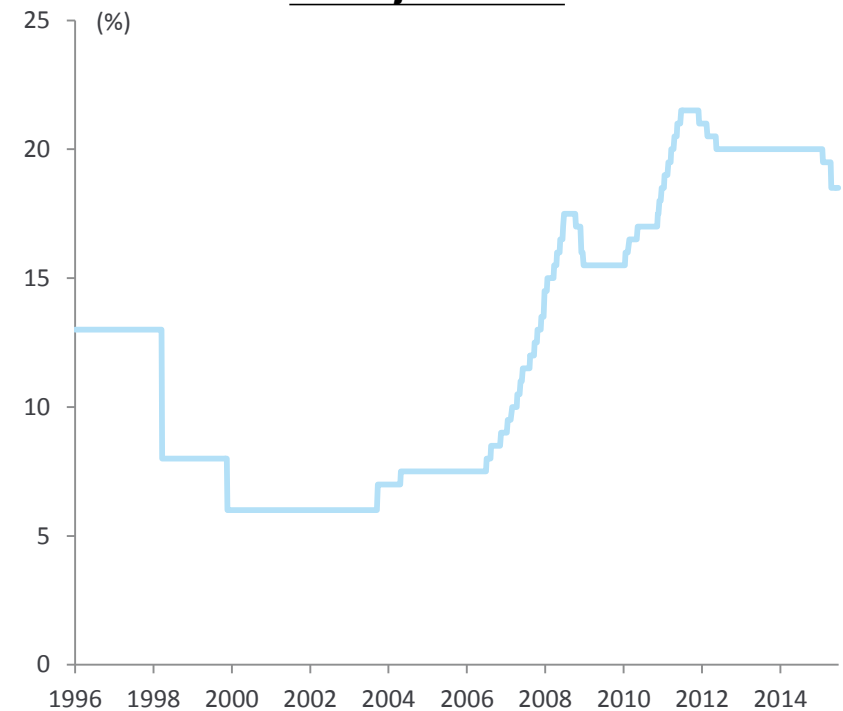
More about Monetary Policy Loosening

- The interest rate cut in November 2014 signaled that we have entered into a **rate-cut cycle**

China Benchmark Interest Rates*



China Required Deposit Reserve Ratio for Major Banks*



Note: Information is provided by ChinaAMC (HK), the sub-manager of the Fund, as of 2 Jul 2015.

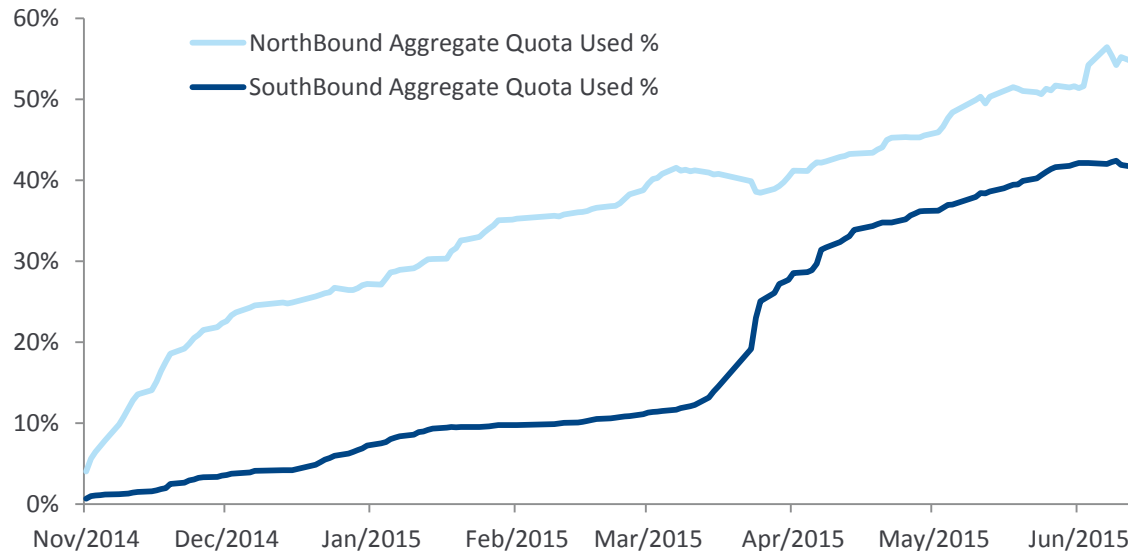
China Market Outlook

Capital Markets Opening-up

- **More about Opening-up**

- Shanghai-Hong Kong Stock Connect is only at infant stage
 - Quota usage
 - Investment universe
- More to come: Shenzhen-Hong Kong Stock Connect, MSCI index inclusion and QDII2?

Shanghai Hong Kong Stock Connect Quota Usage*



Note: Information is provided by ChinaAMC (HK), the sub-manager of the Fund, as of 29 Jun 2015.

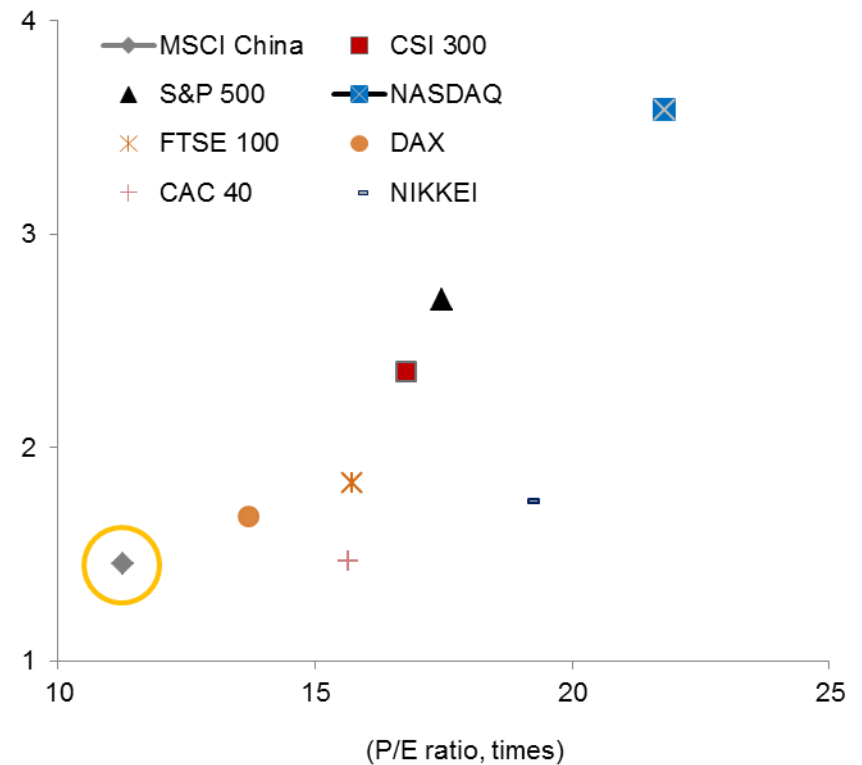
China Market Outlook

H-share is trading at attractive valuations comparing to both its own historical level or DM equities

MSCI China Historical P/E ratio*



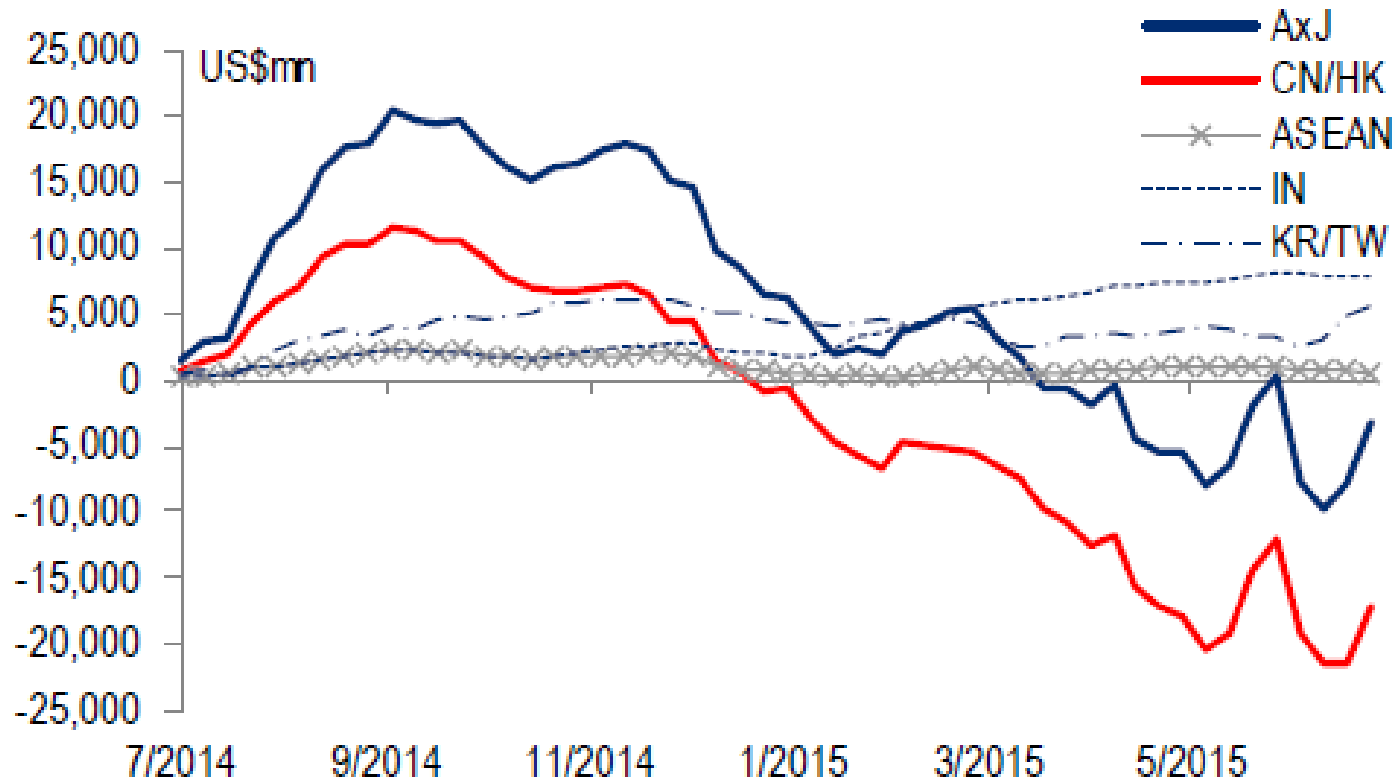
Valuations of Major Equity Markets*



Note: Information is provided by ChinaAMC (HK), the sub-manager of the Fund, as of 30 Jun 2015.

China Market Outlook

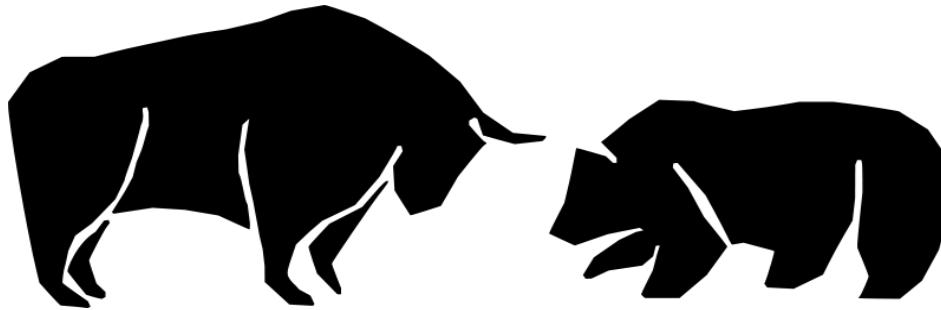
Global flows still underweight China, but will likely improve



China Market Outlook

Prospect of Offshore Chinese Equities

- **Good buy-on-dips opportunities appeared in Hong Kong markets on the back of the correction in A-share markets**



- **Positive Catalysts**

- Expecting the launch of Shenzhen-Hong Kong Stock Connect
- Fresh flood of mainland capital into Hong Kong market (e.g. newly established public funds in China investing into offshore market)
- China's economy to stabilize
- Attractive valuations of Hong Kong-listed equities

- **Risk Factors**

- A-Shares were not successfully included in MSCI EM Index
- HK market sentiment affected by the policy driven A-share market
- Announcement of IPO registration system
- China's economy remains fragile

China Select Fund

Current Asset Allocation (as of 7 Jul 2015)

- China AMC started to realize gains from A-share in Mar/Apr 2015
- In May, the increase in A-share weighting was attributable to sharp increase in A-share market
- **China AMC prefers H- over the A-shares. In short-term, the fund would raise cash slightly to see if there is any opportunity to buy-on-dip**

	H-share	A-share	Others (e.g. USD ADR)	Cash	TOTAL
31-Mar-15	60%	32%	3%	5%	100%
30-Apr-15	66%	31%	3%	1%	100%
31-May-15	62%	35%	3%	0%	100%
30-Jun-15	59%	33%	3%	5%	100%
7-Jul-15	58%	27%	3%	12%	100%

Conclusion

Why invest in China?



- **Loosening monetary policies benefit equity market**
 - Citi analysts expect PBoC to further lower interest rate and RRR in 2015
- **Reforms (SOE Reform - raises corporate profitability) and (Financial Reform – broadens investor base)**
 - SOE Reform – Reform on energy, military & defense, financials, telecoms and power sectors. Opening up stakes for private capital can raise corporate profitability
 - Financial Reform – MSCI Co. is considering to include A-Shares into the MSCI China Index, SH-HK Stock Connect and RMB internationalization
- **Valuation for China equity is at still relatively cheap**
 - P/E ratios of MSCI China, EuroStoxx50 and S&P500 Indices are 9.8/19.1/18.1x¹
 - Global institutional investors are still underweighting China currently

Why pick Citi China Select Fund?



- **Ranked #1 by Morningstar among 26 peer funds²**
- **Sub-manager China AMC is one of the largest fund management groups in China³**
- **Flexible investment spectrum among onshore and offshore equity**
 - China A-Share exposure up to 40%⁴
 - Flexible investment among A, H and other offshore China equities

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Disclaimer

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