United Great Dragon Fund

As at 31 August 2022

Performance Update and Portfolio Review

For the month of August, the Fund MYRH class registered a return of -7.20%.

As at end August 2022, our stock holdings remain at 90%. Against market consensus, we increased holdings in long-term high-quality companies that we believe to be oversold by investors and reduced holdings in companies we believe to be overvalued by the market. We increased the long-term growth potential of the portfolio at the expense of short-term pressures.

Market Review

August saw the weakening of the Shanghai Composite, Shenzhen Composite and ChiNext Composite which fell 1.57%, 3.68% and 3.75% respectively. Sectors like coal, petroleum and petrochemical, non-bank financials and media were the strongest performers while automobiles and industrials were the biggest laggards.

In terms of macro outlook, the introduction of fresh economic stabilization policies by the NPC look to provide support to an overall lackluster domestic economy. Production, consumption and investment metrics declined compared to the previous month, reflecting the soft domestic economic backdrop. Given weak credit demand from residents and enterprises, monetary policy will remain supportive through low interest rates and ample liquidity to boost domestic consumption and economic activity.

In terms of investing styles, investors have been tilting towards value. The shift towards value can be explained by investors’ dampened risk appetite ahead of the upcoming earnings season and the strengthening of policies to protect the real estate sector. As a result, markets saw some diversion of funds to undervalued sectors such as banks and insurance. In addition, the Fed's aggressive tightening spree has suppressed equity valuations pushing investors towards value stocks. Seeing that value is no longer inexpensive, markets may soon revert back to growth.

Market Outlook and Strategy

In the short to medium-term, domestic economic prospects look promising relative to Western economies. The Chinese stock market is trading at attractive, low valuations and it is expected that both domestic and international investors will see this as a buying opportunity. For the medium to long-term, China remains in a strong position since innovation amongst Chinese companies remain robust and China’s competitive advantage persists.

Since the beginning of the quarter, domestic COVID cases have made a resurgence, leading to continued lockdowns in China. Additionally, central banks around the world have been hiking key interest rates to combat high inflation levels which remain sticky. Growth industries remain at risk as markets consider the effect of the challenging economic climate on growth industries.

While theme-driven companies promise high short-term returns and command high long-term valuations, their competitive landscapes remain unclear. On the flipside, more stable businesses like domestic demand and investment-related companies, offer long-term high-quality earnings but lower short-term returns and command low valuations.
The world is anticipating the outcome of the upcoming 20th National Congress of the CCP in October as more long term economic policies and goals will be announced. We think that going forward, the economic backdrop will improve as more concrete plans are laid out and the pandemic becomes a thing of the past.

We remain watchful for opportunities to increase holdings in long-term high-quality companies to improve the long-term growth potential of our portfolio while ensuring we are equipped to withstand short-term volatility. We aim to maximize risk-return dynamics in our portfolio.

Fund Classes

Fund Classes		
RMB Hedged Class	MYR Hedged Class	USD Class

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