Fund Manager Perspective

December 2015

In the first half of November, the market continued its rebound from previous overselling; strong performances were still concentrated among small cap growth stocks. In the latter half of the month, the market was fiercely volatile while turnover did not continue to increase, indicating that there is a need for market correction. During the final trading days of the month, the market experienced a significant correction. Overall, the Shanghai Composite Index edged up 1.86%, the SSE Component Index climbed 4.26%, the SME Index increased by 4.71% and the ChiNext Index rose 7.84%.

The underlying logic for this rebound is increasing risk appetite due to "asset shortage"; in contrast, improving fundamentals was not a key factor. The substantial correction the market experienced in the last few trading days stemmed from a natural correction of investors' risk appetite, which in essence makes it a self-correction for the earlier rebound. Therefore, investors do not need to be overly concerned or pessimistic about the market going forward. From a macroeconomic standpoint, the traditional model of economic growth has become unsustainable and the general consensus is that economic growth will enter a more reasonable range. We believe that the market has basically reflected the expectation for the slowing down of economic growth, with traditional blue-chip stocks sitting at a relative lower valuation. Going forward, we believe that fundamentals will improve, driven by reform and innovation. In terms of monetary and fiscal policies, while we do not rule out the possibility of accommodating short term policies, we continue to expect active and steady policies which will offer strong support for the prices of risk assets.

Overall in December, we believe the market will stay volatile. With no clear trend, investors should focus on laying the groundwork for 2016. We believe core asset allocation should follow the three main rationales of consumption upgrade, innovation, and reform. Investors should seize "steady growth" and other policy-driven interim investment opportunities. Investors should be prudent in their stock picking, identifying stocks carefully and selecting only the best.

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