

# Fund Manager Perspective

November 2015

The market experienced a boom in October. The SHSE gained 10.8% while the ChiNext Index gained 19.2%. Individual stocks also performed spectacularly, with quite a few stocks rallying more than 100%. The encouraging market performance can be attributed to the wrapping up of the deleveraging process, friendlier policies being adopted, and the market being supported by extremely accommodative liquidity. However, one worry is that, upon closer inspection, most of the top gainers were concept stocks, among which “evil” stocks still run rampant.

Based on the current market environment, the macroeconomic conditions in China and overseas are still unstable. There is significant pressure of economic downturn, especially for China. In terms of investments, we should pay close attention to whether the slope of economic downturn exceeds forecasts. There is still plenty of room for monetary and fiscal policy tools, and we expect the government to implement another round of pro-growth policy in the fourth quarter to stabilize the economy in the short term. In the long term, economic transformation, innovation, reform, and consumption upgrade are the major directions where investment opportunities lie. During the recent Fifth Plenary Session of the Eighteenth Central Committee of the CPC, it was stressed that the nation should “stand firm on innovative development and innovation must be placed in a core position of the national development plan”.

In November, we believe it is possible that the market will continue to fluctuate. The current target should be on capturing structural opportunities as no general market trend has emerged. In terms of sectors, we should focus on those that will benefit from consumption upgrade, innovation, and reform. Individual stocks with clear business models, significant competitive advantages, remarkable earnings, and reasonable valuation will be our top picks. With stepped up pro-growth measures, the economy should stabilize in the short term and create interim opportunities for certain value stocks. Concept stocks with excessively high valuation and substantial short-term gains should be avoided.

