Investment Insight
MGF Dragon Growth Fund

Chart 1: Factory activity shrank last month[3]

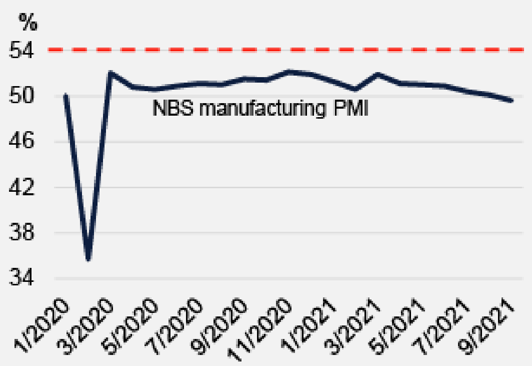


Chart 2: Share type breakdown[2]

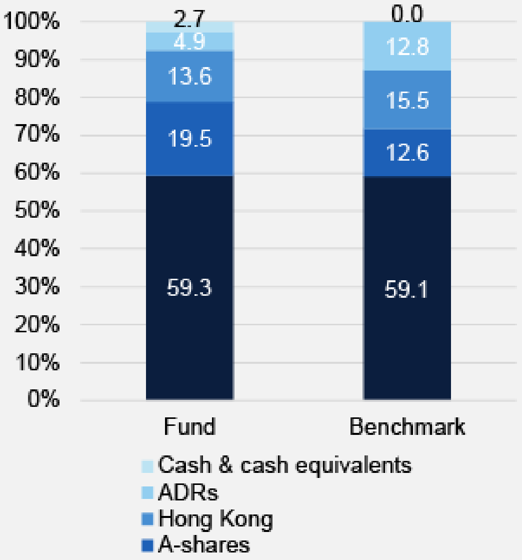
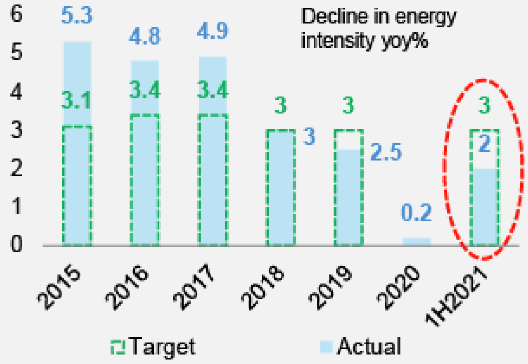


Chart 3: China falls short of its 2021 energy intensity target[4]



Negative headlines dampened market sentiment

•Chinese equities[1] posted losses in September. Markets were negatively influenced by potential defaults of a prominent property developer, concerned that its impact on growth and consequential liquidity squeeze may ultimately spread to other sectors dragged down investor sentiment.

•In mid-September, energy blackouts in key manufacturing hubs further dampened sentiment, and raised questions over a potential economic rebound and government plans to shift towards cleaner fuel sources.

Our views and positioning[2]

•Against a softening economic backdrop (Chart 1), we expect marginal easing in the coming two quarters including another possible Reserve Requirement Ratio (RRR) cut and more infrastructure spending funded by local government special bonds. In September 2021, the Fund remained overweight in A-shares (Chart 2).

On China property developers and property management companies

•Property developers, especially those with higher gearing and weak balance sheets, have been under pressure since the Chinese government's efforts to deleverage the property market.

•With weaker cashflow from coming pre-sales proceeds and stricter deleveraging push, **we believe financial resources and solid balance sheets are critical for Chinese property developers to sail through the current tightening cycle.**

•While there are very limited cases for investors to refer to, **we believe the chance of a systematic risk spill-over or domino effect from isolated property developer defaults to the entire property management services sector remains remote.** Property owners are getting more aware of the value that quality property management services can add to residential or commercial properties and will continue to demand higher quality property management services.

On power cuts

•As of end-September, more than 20 provinces have implemented power cuts, leading to production halts across the energy-intensive and manufacturing sectors in China.

•The 2021-25 Five Year Plan lays out the target for a 13.5% reduction in energy intensity (energy consumption per unit of GDP) . For 2021, the national target has been set as 3% (Chart 3), but energy intensity only dropped 2% in the first half of 2021, thus some provinces / local governments have adopted temporary energy usage restrictions in order to be on track to meet the annual reduction target.

Chart 4: Thematic breakdown[2]

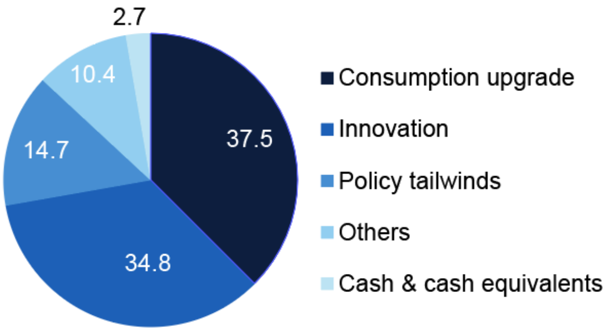


Table 1: Top 10 holdings[2]

Securities	Wtg (%)	
	Fund	Benchmark
Tencent Holdings Ltd.	6.94	10.75
Alibaba Group Holding Ltd.	4.87	8.74
AIA Group Limited	4.84	4.40
Meituan	4.14	4.02
HK Exchanges & Clearing	3.51	2.34
China Merchants Bank	2.89	0.98
Wuxi Biologics	2.46	1.84
I-MAB	2.37	0.07
Xinyi Energy	2.03	-
Postal Savings Bank of China	2.00	0.17

We believe that while the 3% annual reduction in energy intensity shall remain, provincial government-led campaign-style power cuts may start to ease off after Q3. The July Politburo meeting clearly discouraged such campaign-style decarbonization eyeing near term targets and called for a coordinated institutional approach to decarbonization.

•In terms of impact to corporate earnings, **short term disruption for companies that we follow seems to be manageable.** We believe larger manufacturers with diversified production bases, flexible labor forces and production shifts to non-peak hours would be likely to suffer less. **If the current power cut lasts through 2022, leading corporates with more secured production capacity or with overseas facilities will likely gain market share.**

•Strategy-wise, should the current power cut be extended, we believe the following sectors will fare better:

▪**Renewable energy:** key initiative to achieve sustainable growth and avoid production disruption, in particular solar energy.

▪**Materials:** beneficiary of higher prices due to production cuts and consolidation, e.g., battery supply chain.

▪**Consumer staples and consumer services:** companies with good pricing power, such as property management services.

1. MSCI, Manulife Investment Management, as of 30 September 2021. Chinese equities were represented by the MSCI China Index.
2. Manulife Investment Management, as of 30 September 2021. Portfolio holdings and characteristics are subject to change at any time. Information about the asset allocation is historical and is not an indication of the future composition. The benchmark was changed from FTSE Hong Kong Index to MSCI Zhong Hua Index on 1 August 2009. Due to rounding, the total may not be equal to 100%. The securities mentioned are for illustrative purpose only. It should not be taken as an investment recommendation or advice.
3.National Bureau of Statistics of China, as of September 2021.
4.Morgan Stanley Research, as of September 2021.