

Allianz All China Equity

China & Greater China

Introduction

(Offshore)

This is an 'all China' fund, which allows investors a one stop shop to gain exposure to the China story by investing in both traditionally utilised offshore China shares such as those listed in Hong Kong or the US stock market, as well as the domestic China 'A' share market taking into account both the Shanghai and Shenzhen Stock Exchanges.



[Click here to read the Allianz approach to ESG investing.](#)

Why RSMR Rate this Fund

- Allianz have a strong China team backed by extensive analyst resource
- Record of China 'A' share fund demonstrates expertise in Chinese domestic equities
- Regional presence allows strong company meeting program
- 'All China' approach allows investors access to strong domestic consumption story
- Emphasis on quality should provide protection in difficult market periods, with the fund demonstrating strong downside capture statistics
- Grassroots Research system gives unique on the ground insights into specific products/services

Fund Process

The China domestic market can be volatile, and as a result Allianz have utilised risk management techniques to try and mitigate market volatility by taking a broadly sector neutral approach to portfolio construction. Despite a diversified portfolio there is still high active share as the managers overweight their preferred stocks and underweight those where they have less conviction. Stock exposure is split roughly 50:50 between onshore and offshore exchanges.

The investment process is described as GARP with a primary focus on sustainable levels of growth. In-house financial models predict for the current year and the next two years, and the fund is looking for companies with the potential for earnings upgrades and with a maximum market cap of around \$1bn. Liquidity is monitored, although 'A' shares are often actually more liquid due to the relatively high levels of turnover in the market than similar sized Hong Kong names. Idea generation is bottom up and often driven by company meetings, though most ideas come internally from analysts or portfolio managers, and they try to find growth and quality at a reasonable price. The portfolio doesn't take big sector bets as they do not want short-term market volatility to drive performance and sector rotation in the domestic China market can be rapid. They also use independent risk monitoring systems. Some SOE names are held if they are focused on share price performance rather than just holding or growing market share.

The team look for companies growing earnings faster than current levels of GDP and where there is upside potential versus consensus. There is a focus on corporate governance issues to ensure the people running the company are focused on minority shareholders. There is a preference for investing in companies where there are proper management incentives. A measure of quality is a company's cash conversion, making sure accounts receivable are not growing rapidly. There is also a preference for businesses with lower levels of gearing than the average.

Evaluation

The fund will perform well versus other broader regional mandates when China outperforms. Within the sector it will do well when company fundamentals drive share price performance.

The fund will struggle when liquidity factors and flows drive stock performance rather than company fundamentals and when low quality value stocks do well.

Application

The fund is a satellite holding as it invests in one (albeit large) country. At times the China domestic 'A' share market can be volatile if sentiment rather than fundamentals move share prices, but this means fundamental stock pickers can significantly outperform an inefficient market over the longer term.

Our Opinion

An All China fund provides investors with exposure to the domestic Chinese stock market in a liquid format. As the weighting to China in regional and emerging market indices increases, demand for exposure to 'A' shares is likely to increase both amongst retail investors and institutions. The portfolio holds 55-75 stocks and the split between the China domestic and offshore stocks would be within +/-10% of the benchmark, as will sector deviation which ensures the portfolio is broadly diversified and investors have exposure to both offshore and China domestic shares. The domestic Chinese stock market (A shares) has a greater emphasis on the drivers of the domestic economy and as a result is a purer play on Chinese consumption and services than the offshore listed China stocks. Many holdings are mid caps, benefitting from strong consumption growth and the trend to premiumisation amongst Chinese consumers. The fund also has exposure to companies benefitting from technological change. The fund utilises the Grass Roots Research service provided to fund managers and analysts within Allianz which is a proprietary tool providing customised market research designed to answer specific

questions about key stock and industry drivers. It uses the local expertise of independent journalists and investigators in the field and can be used to cross check the comments by company management teams.

The fund is managed by a team with a strong analyst resource and Allianz have added significant value with their longer running institutional China 'A' share fund. The China domestic market is relatively under researched and therefore inefficient, and so strong fund management teams are able to deliver significant added value. This approach provides investors with a one stop shop to gain exposure to China and a greater emphasis on the domestic economy and consumption story than traditional offshore China mandates.



Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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