RBC Global Asset Management

RBC China Equity Fund

Commentary as at December 31, 2022

China's stock market was among Asia's worst-performing in 2022, as harsh COVID lockdowns continued for most of the year, limiting economic activity and eventually leading to protests that prompted the government to begin lifting the measures late in the year. With the easing of the restrictions came policies to support the ailing Real Estate sector and other areas of the economy, brightening the economic outlook and leading to a surge in equities. Apart from problems caused by the lockdowns, the economy struggled with an export slowdown and government assertions of control over technology companies.

Sector allocation had a negative impact on the Fund's relative returns due to underweight positions in the Energy and Materials sectors, offset somewhat by the positive impact of an overweight allocation to Industrials. Returns were aided by strong security selection in the Real Estate and Health Care sectors, offset by weaker security selection in consumer discretionary.

Holdings that contributed the most to the Fund's performance were Bank of China Hong Kong, which avoided much of the impact of a falling Chinese currency because most of the bank's assets are tied to the value of the U.S. dollar. CSPC Pharmaceutical was also a key contributor given the company's solid pipeline of cancer drugs and its development of COVID vaccines. Stocks that limited returns included Brii Biosciences, a Chinese biotechnology company that develops therapies for infection diseases, and Alibaba Group, the online Chinese retailer subject to China's regulatory crackdown on technology.

The sub-advisor expects a bumpy economic re-opening through June 2023, with most COVID controls to be removed by the second half of 2023. As a result, the Chinese economy will be weak in the first half of 2023 given an expected spike in COVID cases and related deaths, followed by a consumption-driven rebound in the second half of 2023. The sub-advisor anticipates that Chinese economic growth will rebound to 5% in 2023 from a projected 3% in 2022, with little improvement in the property market. The sub-advisor expects the government to provide funding so that stalled residential projects can start to be completed and delivered to homeowners by the end of 2023. New-home sales and construction will improve only if and when the economic re-opening has been achieved, in the view of the sub-advisor.