

Q2 2020

CHINA A QUARTERLY REPORT & LOOK AHEAD

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China Separate Account (SMA)

	Q1 2020	YTD 2020	Since Inception ¹
China A SMA	-14.7%	-14.7%	-7.9%
MSCI Emerging Markets	-23.6%	-23.6%	-16.1%
S&P 500	-19.6%	-19.6%	-11.3%

¹ Inception date for the Phillips & Co. China A SMA is August 1, 2019.

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Data Sources: Bloomberg, Phillips & Co. as of March 31, 2020

China Separate Account (SMA) Performance Attribution

Top 3 Contributors



Contemporary Amperex Technologies (CATL)

- ❖ On its 4Q19 earnings conference call, Tesla's management said the firm had partnered with CATL and plans to disclose more information about the partnership in April. Meanwhile, CATL announced a plan to sign an agreement with Tesla's subsidiary in Shanghai to supply lithium-ion batteries to them from July 2019 to June 2022



SF (Express) Holdings

- ❖ SF Express gained an advantage over its competitors when it became one of the first delivery companies in China to resume operations despite the coronavirus outbreak.
- ❖ Since the launch of its rescue transportation mission in January, the company carried out more than 190 assistance flights and delivered more than 4,000 tons of epidemic prevention supplies. At present, it is one of only nine companies conducting deliveries in China's Hubei Province



Shanghai Pharmaceutical

- ❖ Considering the impact of COVID-19 on sales to hospitals, CICC Research lowered their 2020 EPS forecast by 7% to Rmb1.58 and introduced 2021 their EPS forecast of Rmb1.77, implying 10.2% and 12.1% YoY growth.
- ❖ The A-shares are trading at 11.9x 2020e and 10.6x 2021e P/E. For A-shares, CICC is maintaining its OUTPERFORM rating and Target Price of Rmb24.50 (15.5x 2020e and 13.8x 2021e P/E, 30% upside)

Top 3 Detractors



China Vanke

- ❖ The real estate developer has lost out on US\$7.3 billion in sales since January, with zero sales in the epicenter of Coronavirus in Hubei province
- ❖ The firm's 2019 results missed expectations, mainly due to lower-than-expected completed GFA, weighing on revenue from settled property projects, and a sharper-than-expected drop in booked gross margin (GM)

Jason Furniture

- ❖ Jason Furniture announced a plan to spend Rmb450mn in self-owned funds on constructing an upholstered furniture facility in Vietnam with annual capacity of 450,000 units
- ❖ The firm expects the project's annual revenue to equal Rmb1.9bn after reaching designed capacity, with an after-tax internal rate of return at 31.30% and pay-back period of 5.95 years

Gree Appliances



- ❖ Gree's retail market share rose to 36% and 34% in November and December after it launched aggressive price cuts on selected products since the Double 11 shopping festival. Its online retail sales were +119% and +115% YoY in November & December, beating the sector average significantly
- ❖ Despite strong retail sales, CICC doesn't expect much ex-factory shipment growth from Gree as its downstream distributors were reluctant to restock. Also, new energy efficiency standards for ACs will take effect in July, putting pressure on existing inventories of distributors.

China Separate Account (SMA) Current Portfolio

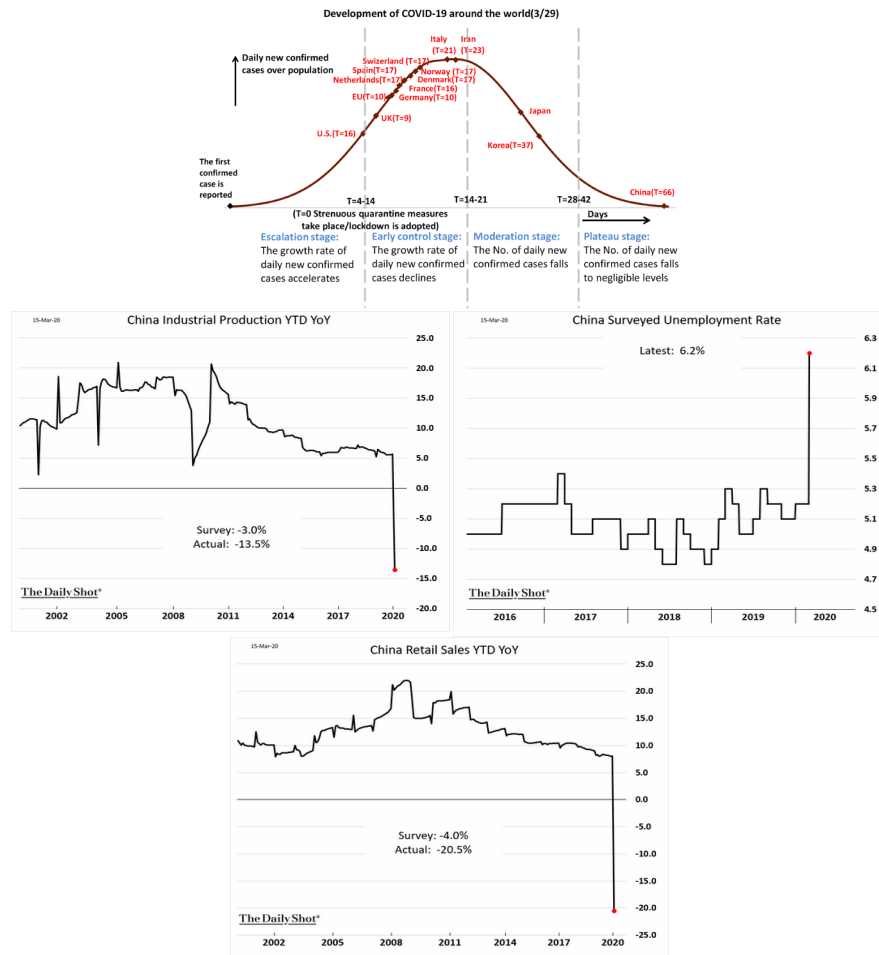
Company Name	Sector	Business Description
Zhejiang Huafeng Spandex	Materials	Manufactures and markets spandex products
Contemporary Amperex Technology	Industrials	Manufactures battery products
Sany Heavy Industry	Industrials	Manufactures and markets construction & engineering machinery
SF Express	Industrials	Express courier services and logistics provider
Gree Electric Appliances	Consumer Discretionary	Manufactures and market air conditioners
Jason Furniture	Consumer Discretionary	Manufacture furniture – mainly sofas, mattresses, & soft beds
ANTA Sports	Consumer Discretionary	Designs, develops, and manufactures sportswear
New Oriental Education	Consumer Discretionary	Develops foreign language training and test preparation services
Bright Dairy & Food	Consumer Staples	Processes and sells milk and other dairy products
Proya Cosmetics	Consumer Staples	Manufactures and markets cosmetics products
B-Soft Co.	Health Care	Provider of integrated IT services to the Health Care sector
Shanghai Pharmaceuticals	Health Care	Develops and manufactures pharmaceuticals
CSPC Pharmaceutical	Health Care	Develops and manufactures pharmaceuticals
GoerTek	Information Technology	Designs and manufactures wireless communication products
Iflytek	Information Technology	Designs and develops speech intelligence and AI technology
Wuhan Raycus Fiber Laser	Information Technology	Manufactures and distributes optical laser technology
China Mobile	Communication Services	Wireless telecommunication services
China Yangtze Power	Utilities	Operates electric, hydro, and other power generation businesses
China Vanke	Real Estate	Real Estate development

Data Source: Phillips & Co.

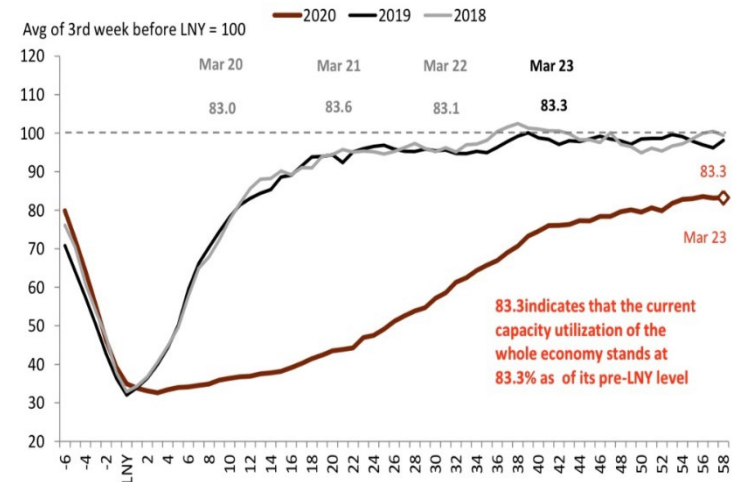
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China's Path Out of COVID-19

Where are we in the evolution of COVID-19:
The US and Europe may be 2-3 months behind China



CICC Daily Production Activity Tracker (PAT)



- ❖ China is between 60 and 90 days ahead of the United States and has already experienced the process of shutting down in order to open back up
- ❖ The latest economic reports show a dramatic freefall during the quarantine phase of the virus
- ❖ A dramatic recovery is underway, with capacity utilization over 83%

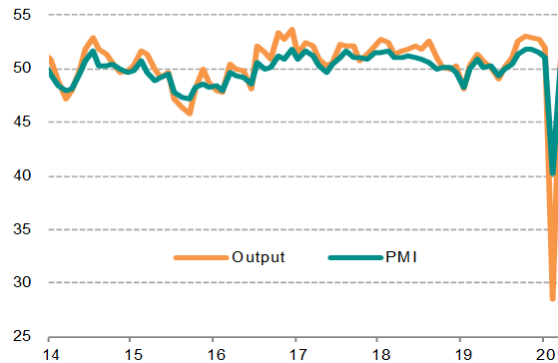
Data Sources: CICC Research, Daily Shot/WSJ

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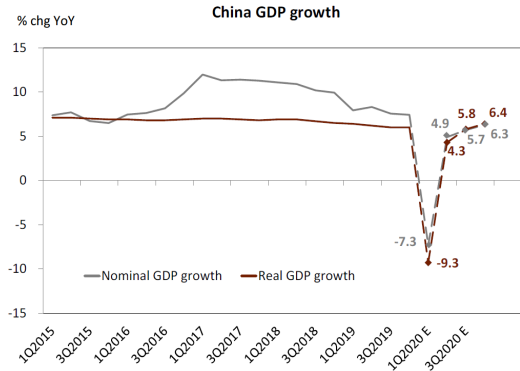
China: The Recovery Phase

Caixin PMI signals output has stabilised as industrial firms start to resume work

Caixin China manufacturing PMI



Path of China growth: a "sudden stop" in 1Q, followed by gradual recovery in 2-4Q 2020



The growth differential between China & the world may widen visibly in 2Q2020, and stay elevated in the remainder of the year



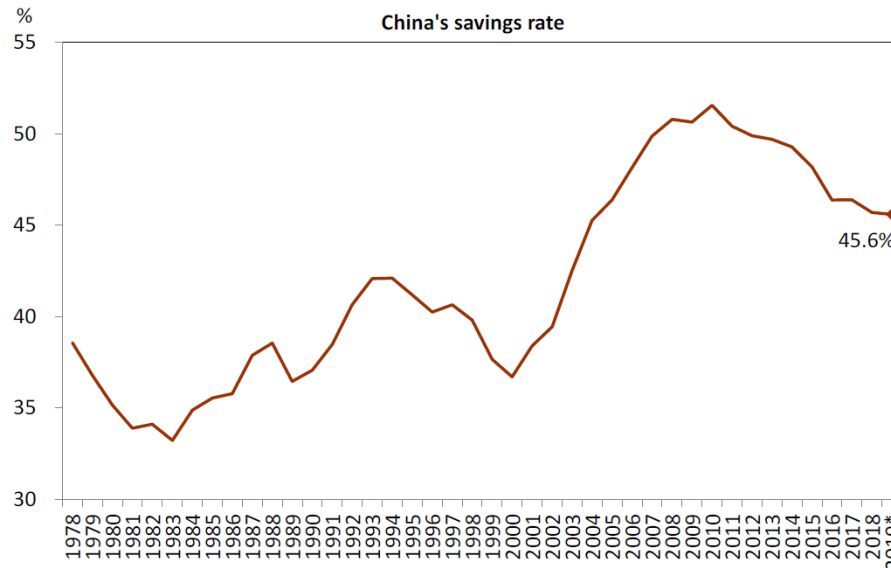
❖ Manufacturing activity stabilized back to near expansionary levels within a matter of months

❖ GDP expectations suggest a V-shaped recovery after collapsing 9.3% at the trough.

❖ The GDP differential between China and the United States is significant on recovery, with over 12% at peak and 9% at year-end.

China – Fuel in the Bank

China's saving rate is notably higher than most OECD countries, a relative "strength" in times like now



* estimated by the nominal GDP growth and nominal retail sales growth in 2019.

- ❖ China has a remarkably high personal savings rate. In fact, it is one of the highest measured anywhere in the world
- ❖ The Chinese save for family support, upgrading health care, and supplementing pensions
- ❖ This also allows them to withstand shocks to their macro economy and personal economy

CICC Research China Macro Commentary

CICC sees a “global lockdown” partially resembling that of China in January and February for most of 2Q2020. Based on China’s trajectory but augmenting the “path” with a more realistic assumptions of epidemic control execution, COVID-19 may reach “plateau stage” overseas in 2-3 months.

CICC has revised down their 2020 China real GDP growth forecast to 2.6% YoY from 6.1% YoY, as they expect around 7-8ppt negative impact on annual GDP growth from the pandemic domestically and overseas.

- ❖ Sector wise, CICC expects export growth to be the main drag on growth in 2-4Q2020. Overall consumption may still grow below trend in 2Q2020. Private investment may be muted before nominal growth improves more visibly in 3Q2020; property investment growth may recover after mid-2020.

CICC is maintaining their 2020 CPI forecast of 3.3% but cut their 2020 PPI forecast to -3.7% from 1.2%. Industrial products may experience severe deflation, but prices of staples & healthcare products will be better supported.

The growth trajectory, but the rate of decline and pace of recovery, hinges on:

- 1) the development of the pandemic,
- 2) the timing and scale of policy relief, and
- 3) level of financial market contagion.

THANK YOU

TPHILLIPS@PHILLIPSANDCO.COM