

**XINGTAI CHINA FUND***June 2021 Newsletter | Cayman***Mid year check in: consistent outperformance**

Dear Investors,

**Xingtai China returned +4.6% in June 2021 and +23.9% year-to-date gross of fees. On a net of fees basis, Xingtai China returned +4.2% in June 2021 and +21.2% year-to-date.** Over the same period, MSCI China returned +0.1% and +1.8% respectively.

Trailing Performance	Gross <sup>3</sup>	Net <sup>4</sup>	MSCI China <sup>5</sup>
<b>June 2021</b>	<b>+4.6%</b>	<b>+4.2%</b>	+0.1%
<b>YTD 2021</b>	<b>+23.9%</b>	<b>+21.2%</b>	+1.8%
<b>1 Year</b>	<b>+44.1%</b>	<b>+38.9%</b>	+26.5%
<b>3 Year Ann</b>	<b>+31.0%</b>	<b>+27.3%</b>	+8.2%
<b>5 Year Ann<sup>1</sup></b>	<b>+38.7%</b>	<b>+35.1%</b>	+14.7%

**Differentiated outperformance**

We entered 2021 under the assumption that the market environment would be similar to 2018, relatively directionless but with substantial volatility. As of mid year, our thesis has proven correct, which has driven strong investment gains, and outperformance of about 20% versus most relevant benchmarks. We believe the current market environment will continue for some time, with further corrections to stretched valuations in many sub-sectors, greater seriousness in addressing regulatory and anti-trust issues, and consensus-driven investment opportunities underperforming. However, our portfolio is relatively immunized from these pressures, with what we believe to be far greater value, less exposure to riskier sectors, and a greater focus on fundamentals. Overall, we believe this will allow our strategy of active stock selection, focused on finding growth with a value overlay, to outperform.

The outperformance we have generated, along with the differentiated thinking and approach behind our strategy of finding growth with a value overlay, continues to attract more curiosity and greater recognition, most recently in a Wall Street Journal profile published this month (see <https://www.wsj.com/articles/market-beating-china-fund-manager-favors-scooters-and-spicy-sauce-over-tech-11623922201>)

**Strong attribution across the board**

What drove performance in recent months continued to work for us in June. Sporting goods companies and the long-standing broad exposure we have to property management services remain a highlight. In terms of individual contributions, 3 stocks contributed at least 1% each to our performance this month, while 4 more stocks contributed 0.50% or more. Our three best performing holdings were China's largest down jacket manufacturer, and two sporting goods brands focused on lower tier cities, which are both up over 200% year-to-date. On the other hand, the largest individual detractor was a leading durable juvenile goods manufacturer.

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### **Mid year check in: consistent outperformance**



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#### **Local pride boosted sales of home-grown brands during “6.18”**

During this year’s “6.18”, an online shopping festival created by JD.com around a decade ago, Nike surprisingly fell outside top 10 within the sportswear and apparel category. On the other side, local brands, such as FILA, Li Ning and Anta, took the top spots. As we mentioned in our previous newsletters, domestic consumers are now bigger fans of Chinese brands as a result of local pride but also a reflection of how these local players are better able to understand the demands and preferences of Chinese consumers. We believe this trend will continue over the medium term.

#### **Domestic travel on the rise**

According to China’s Ministry of Culture and Tourism, more than 89mn people travelled domestically during the three-day Dragon Boat Festival holiday in May, up 94% yoy. The total number of travelers recovered back to around 99% of the pre-COVID level during the same period. Hainan Province, as one of the most popular domestic travel destinations, has been attracting more and more domestic travelers and spenders, since Beijing set up favorable duty free shopping and free port trading policy for the island in mid-2020. Through riding this tailwind, many international brands are on track to break annual sales records in the region. According to the Hainan Provincial Department of Commerce, more than twenty brands, including Estee Lauder, Cartier, Bulgari and Tiffany, have posted record travel retail same-store sales in Hainan over the past 12 months. Total duty free shopping sales in Hainan reached Rmb45.5 bn from June 2020 to May 2021, up 236% yoy.

#### **China retail sales normalized in May**

China’s retail sales grew by 12.4% yoy in May 2021, decelerating from the 17.7% growth recorded in April. The growth number also missed consensus of 14.0% yoy growth. Online retail sales of goods grew 7.7% yoy in May 2021, slightly higher than the 6.8% growth recorded in April 2021. The moderation of consumption growth was not a surprise to us, given China’s economy was largely back to normal almost a year ago in 2Q 2020. Also, the country observed relatively resilient consumption growth during May and June last year, thanks to a variety of supportive policies for consumption by both central and local governments.

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#### COVID-19 cases resurfaced in Guangdong putting pressure on exports

An outbreak of COVID-19 cases in China's Guangdong Province since late-May has brought some key export-oriented ports within the province to a standstill, which could hit China's exports in the near term. Yantian Port, which is one of the largest ports in China accounting for 10.5% of China's foreign trade container throughput in 2020, was one of the most impacted. Other ports in the region that were also affected by the recent outbreak included Shekou Port and Chiwan Port in Shenzhen, and Nansha Port in Guangzhou, accounting for about 13% of China's foreign trade container throughput in 2020. Given this, China's headline export growth could be dented by a couple of percentage points in the coming months. Moreover, outbreaks have spread further, most recently to regions of Yunnan bordering south-east Asian countries. But like previous success when the pandemic first broke out, we believe China has the capacity to contain the current wave of COVID-19 cases in a relatively short period of time, and that the damage will be limited, especially in our portfolio which is far more centered on domestic demand than exports or trade.

In closing, please see our summary of key performance metrics attached, and as always, we appreciate your continued support and welcome all opportunities to address your questions.

With best regards

**Michelle Leung, CEO**  
Xingtai Capital

**Bingchao Cao, CIO**  
Xingtai Capital

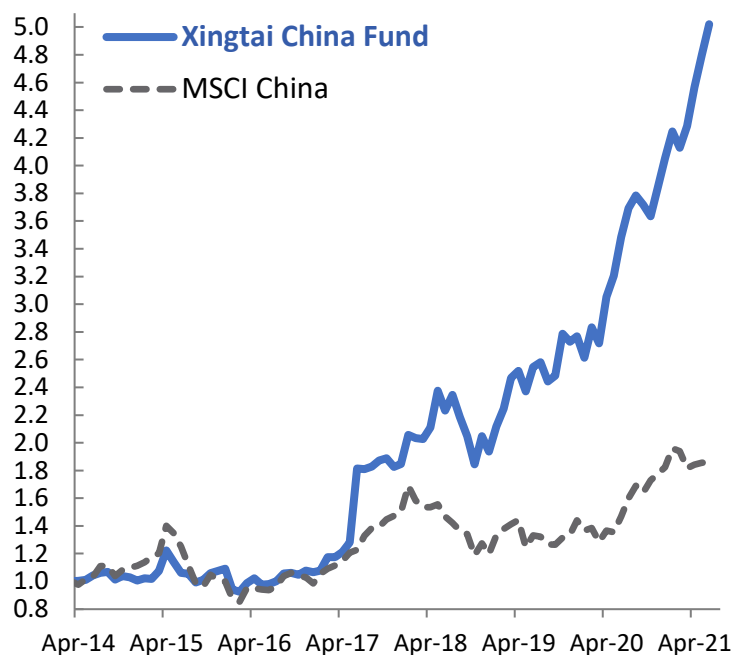
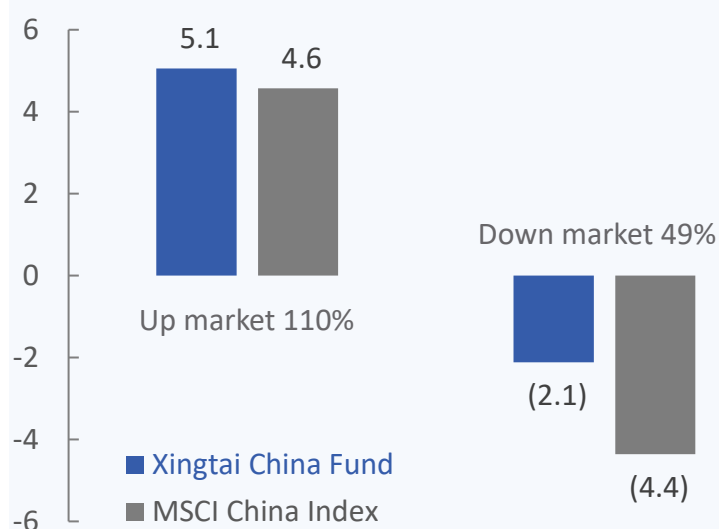
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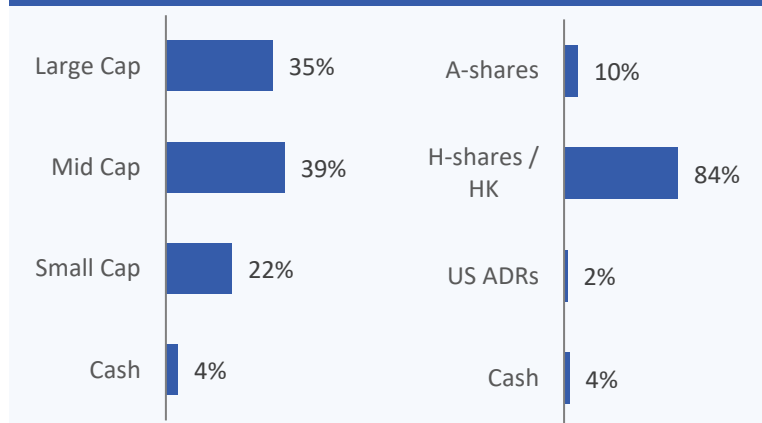


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Annual Performance	Gross <sup>3</sup>	Net <sup>4</sup>	MSCI China <sup>5</sup>
<b>2020</b>	<b>+46.4%</b>	<b>+40.9%</b>	+26.7%
<b>2019</b>	<b>+43.0%</b>	<b>+37.9%</b>	+20.4%
<b>2018</b>	<b>+4.9%</b>	<b>+3.1%</b>	-20.3%
<b>2017<sup>1</sup></b>	<b>+73.1%</b>	<b>+71.3%</b>	+52.3%

Upside Capture and Downside Protection<sup>2</sup>

## Portfolio Breakdown



## Portfolio Characteristics

P/E (x)	18.2
P/E ex cash (x)	16.5
EV/EBITDA (x)	9.4
3-year EPS Growth (%)	35.9
Div Yield (%)	3.0
Market Cap (USD bn)	6.5

## Sector Exposure

Property Management Services	31.8%
Apparel	17.4%
Consumer Durables	9.8%
Sporting Goods	9.7%
Food & Beverage	6.2%
<b>Top 5 Sectors</b>	<b>74.9%</b>

## Fund Details

Strategy	Long-only equity
Domicile	Cayman
Administrator	SS&C
Auditor	PWC
Counsel	Clifford Chance
Valuation	Monthly
Contact	investors@xingtaicap.com

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## Footnotes



Share Class	Class I
Status	Open
Minimum initial investment	\$1m
Subscription	Monthly
Redemption notice	60 days
Management Fee	1.25%
Performance Fee	15%
Hurdle Rate	5%
High Water Mark	Yes

## Footnotes to Monthly Newsletter

Fund inception 1 April 2014.

1. 2017 return includes a one-off gain from the sale of a suspended position.
2. Average monthly percentage returns vs Up/Down MSCI China returns since inception.
3. Returns are gross. Returns from January 2019 onwards are net of expenses, gross of management and performance fees.
4. Returns are net, details as follows.

Apr-14 to Sep-16: Net returns calculated by Maples Fund Services (HK) Limited based on 1% management fee and 10% performance fee.

Oct-16 to Jan-17: Gross returns based on Xingtai internal estimates due to redemption of all external capital; net returns were not reflective of the strategy.

Feb-17 to Aug-17: Gross returns calculated by SS&C Fund Services (Asia) Limited based on remaining internal capital; net returns unavailable.

Sep-17 to Dec-18: Net returns calculated by SS&C Fund Services (Asia) Limited on share class I with 1.25% management fee and 15% performance fee

Jan-19 onwards: Net returns calculated by SS&C Fund Services (Asia) Limited on share class II with 1% management fee and 10% performance fee.

5. MSCI China Price index from inception to 31 December 2020. MSCI China Total Return from 1 January 2021 onwards.

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A total loss of investment could occur under certain circumstances.

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