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## MARKET INSIGHT

# CHINA SOE REFORM MEETING UPDATE

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### The next five-year plan

After the Politburo Committee on 12 October 2015, the date of the fifth Plenum was set for 26-29 October in Beijing to discuss the development plan for the next five years (amendment from our earlier indication of 15-18 October, citing from the local press). The party is expected to approve a draft of the national economic and social development program from 2016 to 2020 during the meeting. The meeting is extremely important for China with a view of taking China's State-Owned Enterprises (SOE) to the next stage of its development: profit-driven global players. The full plan will then be sent to the National People's Congress for rubber-stamp approval in March 2016, before each region and industry comes up with its own, more detailed plan.

### It's not blank talk – reform in action

Many speculate whether the Chinese government will actually implement reform amongst the SOE. In the past months, the market has seen several types of SOE reform, including company and industry restructuring as well as mergers and acquisitions. Looking ahead, we expect to hear more news on the topic before and after the meeting dates. The event should help investor sentiment which will be a strong driving force for the market and our Fund's performance.

Here are some examples of SOE Reform news:

- **Company restructuring:** There will be more information about the progress of China Everbright's (165 HK) disposal of its stake of China Everbright Bank to China Everbright Group.
- **Mergers and acquisitions:** News of a merger between two large shipping conglomerates, China shipping Group and COSCO Group with a view to ultimately reduce the capacity in the shipping sector.
- **Industry reform:** An example will be the telecom sector where the formation of "Tower Company" should help the operations of the weaker players China Unicom (762 HK) and China Telecom (728 HK). Last week there were more talks about the details of said "Tower Company" which resulted in strong buying interest in our telecom holdings (about 12% of the Fund). For the past four days (from 9 to 14 October), China Unicom and China Telecom were up 13.4% and 8.5% respectively, compared to a 2.0% drop in China Mobile (941 HK) and a meager 0.5% increase for H-Share index.

**Chart 1. Top 10 Holdings as at end of September 2015**

Holding	%	Nature of Business
China Taiping Insurance Holdings Co Ltd	6.75	One of the largest life insurance companies in China
New China Life Insurance Co Ltd - H Share	6.23	One of the largest life insurance companies in China
Sinotrans Ltd - H Share	6.18	An SOE reform candidate in logistic sector
China Unicom (HK) Ltd	5.78	A red chip benefits from reform of telecom industry
China Everbright Ltd	5.35	A China Fund Manager and an SOE reform candidate
China Telecom Corp Ltd - H Share	5.25	A telecom leader benefits from reform of telecom industry
SIIC Environment Holdings Ltd	4.70	An SOE waste water treatment company
China Aircraft Leasing Group	4.62	A fast growing aircraft leasing company in China
China Travel International Investment	4.51	An investment holding company, offering tourism and travel agency services
Shenzhen International Holding	4.46	An RMB internationalization play

**Re-iterating our positive view on SOE reform**

We believe that China's October policy meeting will bring excitement to the market as it will finalise the details of reform plans for the 13th Five Year Plan (2016-2020); streamlining corporate structures, increasing efficiency as well as introducing a profit-driven culture. This will resolve the overcapacity problem for some industries and improve the return on equity of Chinese corporates, and hence lower the equity risk premium of investing in the Chinese market. These positive policy developments should benefit our Fund's SOE holdings through further re-ratings, which could happen at any time. Our Fund is currently in a more favorable situation, given our earlier positioning – at the end of September our allocations were 38% H-shares and 40% Red Chip.

**Note: Past performance is not necessarily a guide to the future. Returns may increase or decrease as a result of currency fluctuations. Performance is net of fees. Please refer to the Prospectus for further information on this Fund and prior to any subscription.**

Sources: New Capital Fund Management, Bloomberg. Unless otherwise stated all data as of 25 August 2015.

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- b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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2. where no consideration is or will be given for the transfer; or
3. where the transfer is by operation of law.

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