

For Unicorn's Advised Portfolio of Unit Trusts & ETFs Clients only

New Investment Call - 17 Jun 2019



Cash Portfolio

| Current Allocation | New Allocation |
|-------------------------|-------------------------|
| 10% China H Share Funds | 15% China H Share Funds |
| - | 10% China A Share Funds |
| 10% China Bond Funds | 10% China Bond Funds |
| 30% Gold ETF | 30% Gold ETF |
| 50% Cash Fund | 35% Cash Fund |

CPFOA Portfolio

| Current Allocation | New Allocation |
|-------------------------------|-------------------------------|
| 10% China H Share Funds | 25% China H Share Funds |
| 90% Short Duration Bond Funds | 75% Short Duration Bond Funds |

SRS Portfolio

| Current Allocation | New Allocation |
|-------------------------|-------------------------|
| 10% China H Share Funds | 15% China H Share Funds |
| - | 10% China A Share Funds |
| 10% China Bond Funds | 10% China Bond Funds |
| 80% Cash Fund | 65% Cash Fund |

Regular Savings Plan (RSP)

For RSP, there is **no change** to our previous recommendation for all portfolios.

For Cash and SRS portfolio: 50% China Equities and 50% China Bonds.

For CPFOA portfolio: 100% China Equities.

Why are we making this recommendation?

1) China has declined significantly from its 5-year peak

China has approximately declined by 27% to 52%¹ (for H-shares and A-shares respectively) from their 5-year peaks (refer to the charts below) and we are making this call to invest 15% of your portfolio from the capital preservation funds due to this opportunity created by the US-China trade disagreements. We believe that global markets are on a downward trend and we recommend capturing the opportunities in different phases when our metrics indicate possible opportunities to buy in.

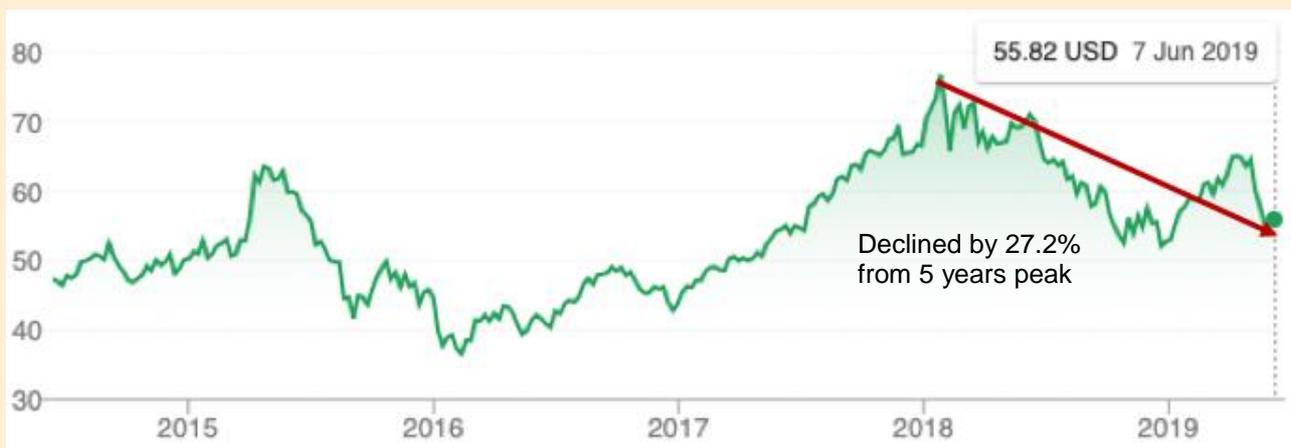


Fig 1: iShare MSCI China ETF representing the H-share market of China¹



Fig 2: Xtrackers Harvest CSI 300 China ETF representing the A-share market of China¹

2) Inclusion of China A-shares into MSCI Emerging Market Index

China A-Shares has been included into the MSCI Emerging Market² index which opens the door for more demand into the China A-Share market. With this initial inclusion, China A-shares only make up **0.8%**² of the index and it has the potential to take up **16.2%**² of the index when China fulfils the criteria for further inclusion as they open up their capital market. Therefore, we recommend gaining exposure to China A-Shares in our China allocation. The chart below illustrates the difference in the number of companies listed across the A-Share market and the H-Share market, indicating the untapped potential in China A-Shares.

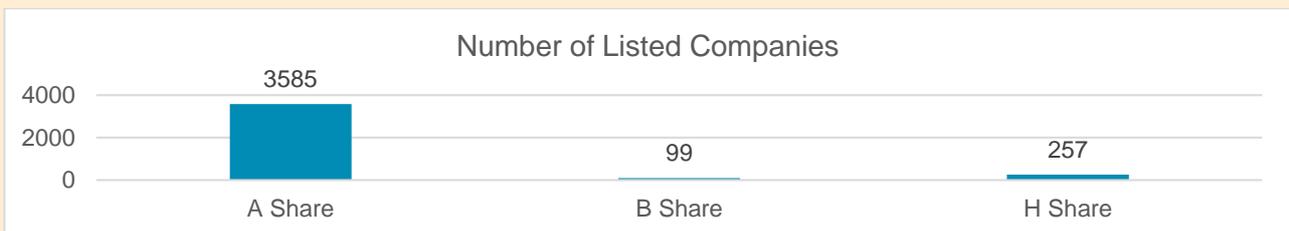


Fig 3: Comparison of the number of listed companies in China across the different share classes¹

3) China is driven by mainly domestic demand

The China market is driven by domestic demand rather than foreign demand, and it is the Chinese government's intent to drive domestic demand³ to counter the effects of the US-China trade war and the global slowdown as more and more Chinese are receptive towards local brands. This move will benefit the China A-share market as most of these companies are driven by mainly domestic demand.

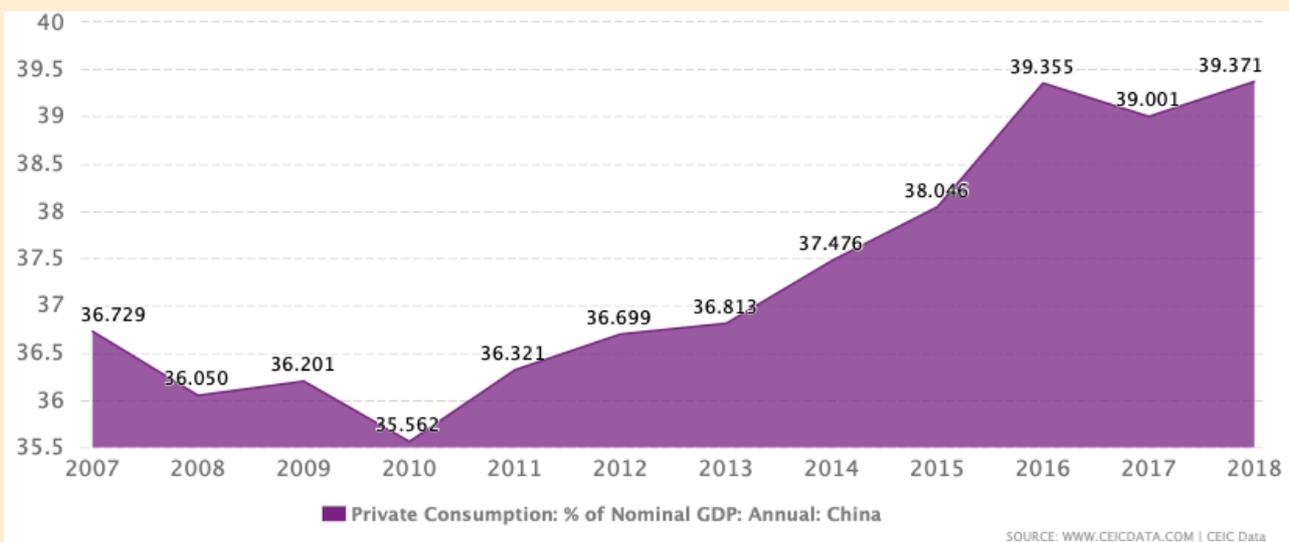


Fig 4: Domestic Consumption of China⁴

What are the risks?

Integrity Risk

The lack of integrity is the biggest risk to consider when investing into China A-shares as the information provided by the listed companies may not be authentic. However, this risk can be mitigated by investing via Unit Trusts instead of ETFs as the Fund Managers conduct due diligence checks on the integrity of the companies⁵. The interest of the Fund Managers is aligned with the investors as they would not want to invest into ambiguous companies that will affect the performance of their funds.

Conclusion

With the US-China trade war ongoing with no clear resolution in the near future, this presents an opportunity for us to be buying into China at a discounted price. Hence, we are recommending an allocation of 15% of the portfolio (from Cash Fund) into 10% China A-share Funds and an additional 5% into China H-share Funds.

| Current Allocation | New Allocation |
|-------------------------|-------------------------|
| 10% China H Share Funds | 15% China H Share Funds |
| - | 10% China A Share Funds |

Sources

- ¹ – Google Finance
 - ² – MSCI
 - ³ – South China Morning Post
 - ⁴ – CEIC
 - ⁵ – Investment Management Association of Singapore
-

Important Notes

The recommended funds reallocation above may result in crystallising your gains or losses from the funds that are being switched out. However, we believe that by switching out of these funds into funds that are carefully selected after our intensive research, this would mean a better long-term risk-reward proposition for your portfolio.

Investment involves risk including the possible loss of principal amount invested. Unicorn's Investing Committee monitors the recommended asset allocation closely and recommends funds after intensive research and observing market trends and macro-economic developments. However, we do not guarantee the performance of the funds and the past performance of the funds is only one of the many factors we look at; hence, it is not necessarily indicative of the future performance of the funds.
