Important Notes:
1. **Manulife Global Fund – Dragon Growth Fund** ("Manulife Dragon Growth Fund" or the "Fund") invests in a diversified portfolio of public companies listed in Hong Kong and/or having substantial business interest in Hong Kong and/or China, which may involve risks relating to equity market, geographical concentration, Mainland China investment, Mainland China tax, liquidity and volatility risks.
2. The relevant distributing class of the Fund does not guarantee distribution of dividends, the frequency of distribution, and the amount/rate of dividends. Dividends may be paid out of realized capital gains, capital and/or gross income while charging all or part of their fees and expenses to capital (i.e. payment of fees and expenses out of capital) in respect of MDIST (G) share class(es). Dividends paid or effectively paid out of capital amount to a return or withdrawal of part of the amount of an investor's original investment or from any capital gains attributable to that original investment, and may result in an immediate decrease in the Net Asset Value per Share in respect of the relevant class(es).
3. The Fund intends to use financial derivative instruments ("FDIs") for investment, efficient portfolio management and/or hedging purposes. The use of FDIs exposes the Fund to additional risks, including counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk.
4. Investment involves risk. The Fund may expose its investors to capital loss. Investors should not base on this material alone to make investment decisions and should read the offering document for details, including the risk factors, charges and features of the Fund and its share classes.

Manulife Dragon Growth Fund

Q&A with Fund Manager

September 2024

Kai Kong Chay

Managing Director and Senior Portfolio Manager for Greater China equities, Kai Kong oversees the Greater China equity desk and works closely with investment specialists based across Hong Kong, Mainland China and Taiwan.

Kai Kong is a seasoned investment professional with more than 25 years of investment experience covering Greater China markets, including 18 years as a portfolio manager.

Q: How did China equities perform in August?

A: China equities[1] moved higher and remained resilient for the month, despite global market volatility driven by the U.S. economic concerns and the unwinding of yen carry trade after the Bank of Japan's rate hike. On the policy front, the State Council renewed 10 guidelines to improve market access system, with the aim to optimize business environment and to ensure the same national treatment for domestic and foreign investments. Meanwhile, the EU revised the tariffs slightly lower than previously announced to most of Chinese EV companies. On the economic front, Caixin services PMI and retail sales growth for July beat expectation, while Caixin manufacturing PMI and exports growth for July were softer-than-expected.

Q: What were the key contributors to the Fund's performance over the month?

A: The Fund moved higher but underperformed the benchmark[2]. The portfolio's underweight in financials and consumer discretionary detracted from performance, while overweight in information technology offset part of the losses. Stock selection in communication services and consumer discretionary detracted from performance, while health care offset part of the losses.

On the detractor side, the key detractor was a Chinese online music entertainment platform operator, which pulled back despite solid Q2 2024 earnings. The management highlighted it will adopt a more balanced growth approach to shift priority from subscriber growth to ARPPU (average revenue per paying user) growth, which caused certain investor concerns. That said, the management reiterated its long-term growth target with faster margin expansion.

Another detractor was a Chinese education company. The stock moved lower on profit taking despite better-than-expected Q1 FY2025 results with strong ramp-up of its offline learning center capacity as well as product upgrades of its learning devices business.

On the contributor side, the key contributor was a Chinese manufacturer of solar inverters and energy storage systems thanks to better-than-expected 1H 2024 results and management guidance. The company has recently secured a deal to build the world's largest energy storage project in Saudi Arabia. This coupled with other projects secured from LATAM (Latin America) and Europe demonstrated the company's rapid overseas expansion. We continue to believe that the exposure to renewable energy supply chain names in Mainland China is a long-term structural theme that should continue to benefit from government policy direction and support.

Another contributor was a Chinese biopharmaceutical product manufacturer thanks to better-than-expected 1H 2024 results driven by ramp-up in innovative drug sales and positive management guidance.

Q: What is your outlook on the market?

A: Post China's third Plenum, it is evident that Mainland China has stepped up with concrete measures by announcing details of various programs and initiatives, which is encouraging. Mainland China not only focuses on long term structural reform but also on short term economic targets. In shorter term, Mainland China strives (1) to achieve 2024 growth target as well as (2) to support domestic demand.

For policy tailwinds, the State Council announced new carbon emission control measures with the aim to achieve carbon peaking in 2030. They include a "dual-control" system during the 15th 5-year plan period (2026-2030) with primary focus on emission intensity supplemented by the control over total emission amount, as well as an improvement in the statistical and accounting system with a focus on key industries such as power, steel, metals, building materials, petrochemicals. We favor beneficiaries of Mainland China's long-term renewable energy roadmap.

For innovations, regulators guided RMB3 trillion in large equipment renewals from central state-owned enterprises over the next 5 years. Shanghai region launched a RMB100 billion fund to support development of integrated circuit, biomedicine and AI. We view investment in advanced manufacturing, innovation in tech and health care as medium-term structural opportunities.

For consumptions, the State Council issued 20 key steps on boosting service consumption in areas such as catering, culture and tourism, and child/ elderly care. We favor select opportunities within consumer sectors, including e-commerce, food delivery, tourism, online travel agency (OTA) and service consumption names.

1. Source: Manulife Investment Management and Bloomberg as of August 31, 2024. China equities were represented by the MSCI China Index.
2. Source: MSCI AC Zhong Hua NR USD Index.

Manulife Investment Management

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