Manulife Dragon Growth Fund

Q&A with Fund Manager

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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 February?

A: China equities[1] posted strong gains. Optimism over domestic technological advancements in AI and humanoid robot fields, along with increased AI capex by large cap technology, media, and telecommunications (TMT) firms continued to drive the tech sector. Additionally, President Xi met with leading technology/ internet entrepreneurs for the first time since 2018, which was seen as a positive sign over a more constructive business environment for the private sector. For China A-shares, IT and communication services outperformed, led by AI and humanoid robot-related supply chains. Real estate also benefitted from improving housing inventory and stabilizing new home prices in tier-1 cities.

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

A: The Fund moved higher and outperformed the benchmark[2]. The portfolio's overweight to information technology and underweight to financials contributed to performance, while overweight in industrials offset part of the gains. Stock selection in industrials and health care contributed to performance, while information technology offset part of the gains.

Contributing to performance was a Chinese biopharmaceutical company. The stock posted strong performance on the back of smooth commercialization and clinical progress in multiple products. It remains a leader with major products for cancer treatment. It was also supported by favorable government policy announcement to support the innovative drug industry, including encouraging medical insurance to cover the expenditure of innovative drugs.

Another contributor was a Chinese consumer electronics company. It has demonstrated stronger-than-expected execution capabilities in the entry into the Electric Vehicle (EV) market with EV model launches being well received. While its core businesses (e.g. smartphones, tech hardware) continued to deliver solid progress, the company has strived to build an IoT (internet of things) ecosystem by diversifying its revenue streams into innovative businesses (e.g. EV).

Detracting from performance was a Hong Kong-listed manufacturer of semiconductor backend equipment. The company's earnings over recent quarters have been weighed by short-term cyclical pressure from mainstream semiconductor demand. That said, its advanced packaging business continued to demonstrate good traction, which should serve as long-term growth driver for the company.

Another detractor was a Chinese developer of photo and video editing software. The stock pulled back on profit-taking towards the second half of February after announcing solid preliminary 2024 results, which demonstrated strong growth in its core businesses, faster development in overseas markets and increasing AI-related revenue contribution.

Q: What is your outlook on the market?

A: As we progress through 2025, Greater China equities have demonstrated strong performance. China sets the GDP growth target at around 5%, CPI growth target at ~2% and budget deficit ratio at around 4% of GDP, which are in-line with our view. On top of the breakthroughs in AI and humanoid robot development, we see positive catalysts which further support the Greater China equity markets.

These include:

- Supportive policies aimed at addressing the capital-raising needs of innovative high-end manufacturing and new-industry companies.
- A series of domestic growth measures announced during the March National People's Congress (NPC) meeting, covering areas in monetary and fiscal policies, domestic economy, property, technology, energy and agriculture, and health care.
- Improving mainland property market, as evidenced by improving new home prices in tier-1 cities, home price recovery, increase in land sales, foreign investments participation, and progressive inventory clearing.
- Potential additional recapitalization in the mainland banking sector.

As we anticipate more innovation in the humanoid robot industry and faster development in autonomous driving, we continue to favour technology, media, and telecommunications (TMT) and platform companies (with AI adoption accelerations), advanced manufacturing companies with go-global strategies, edge AI beneficiaries (e.g. AI smartphones and AI PCs), as well as the robotic supply chain.

1. Source: Manulife Investment Management and Bloomberg as of February 28, 2025. China equities were represented by the MSCI China Index.
2. Source: MSCI AC Zhong Hua NR USD Index.

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