China Trade, China Investment

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I admit that China does not look too attractive as an investment. Volatility, declining economic growth, an uncertain future and government control of the financial markets make it a very risky place indeed. However, it does have its perks when considered as part of a speculative portfolio and with the market trading at such low levels it becomes attractive as a buy. China has been in a long cycle of economic slowing and fiscal response, a cycle expected to continue into the future.

"With its recent easing moves, China's government continues to show that it is targeting the equity market as an instrument of both stimulus and economic reform. After the correction, valuations for certain secular growth names have become attractive; we are selectively buying while being mindful of extremely high volatility given the interplay between government liquidity support and profit-taking or perceived loss avoidance. We are reducing exposure in

Taiwan and Hong Kong to fund this buying." - JP Morgan China Region Fund Mid Year Portfolio Review

The "easing moves" have led many to speculate on a buying opportunity in China. One reason

Portfolio

(as at 30/06/15)

Fund %		Active %
23.6%	China - 'A' Shares	3.6%
19.9%	Hong Kong	2.3%
19.5%	China - Hong Kong 'H'	-3.4%
15.6%	Taiwan	-5.4%
9.9%	China - Hong Kong 'P Chip'	1.4%
7.9%	China - Hong Kong 'Red Chip'	-1.9%
0.6%	China - Others	0.6%
0.3%	China - 'B' Shares	0.1%
0.3%	China - Singapore Listed	0.3%
2.4%	Net Liquidity	2.4%
100.0%	Total	0.1%

is that many think the market response is overblown and setting up for future gains in light of the ongoing round of fiscal stimulus. Choosing where to make that speculation can be tricky though, as not all Chinese markets are responding the same. To see this all you have to do is look at the mainland Shang Hai index compared to others in the region. In the last few months it has fallen nearly 35%, more than double the Hong Kong Heng Seng (-17%), the Singapore STI (-13%) and the Thai SET (-13%), all part of the greater China economic region. Simply buying China does not capture the economy of China, and could have resulted in double the losses.

> The primary listing are of course China A shares, followed by Hong Kong shares and China H shares. Also represented are the P-Chips, Red Chips and Singapore listed stocks.

Top 10 holdings

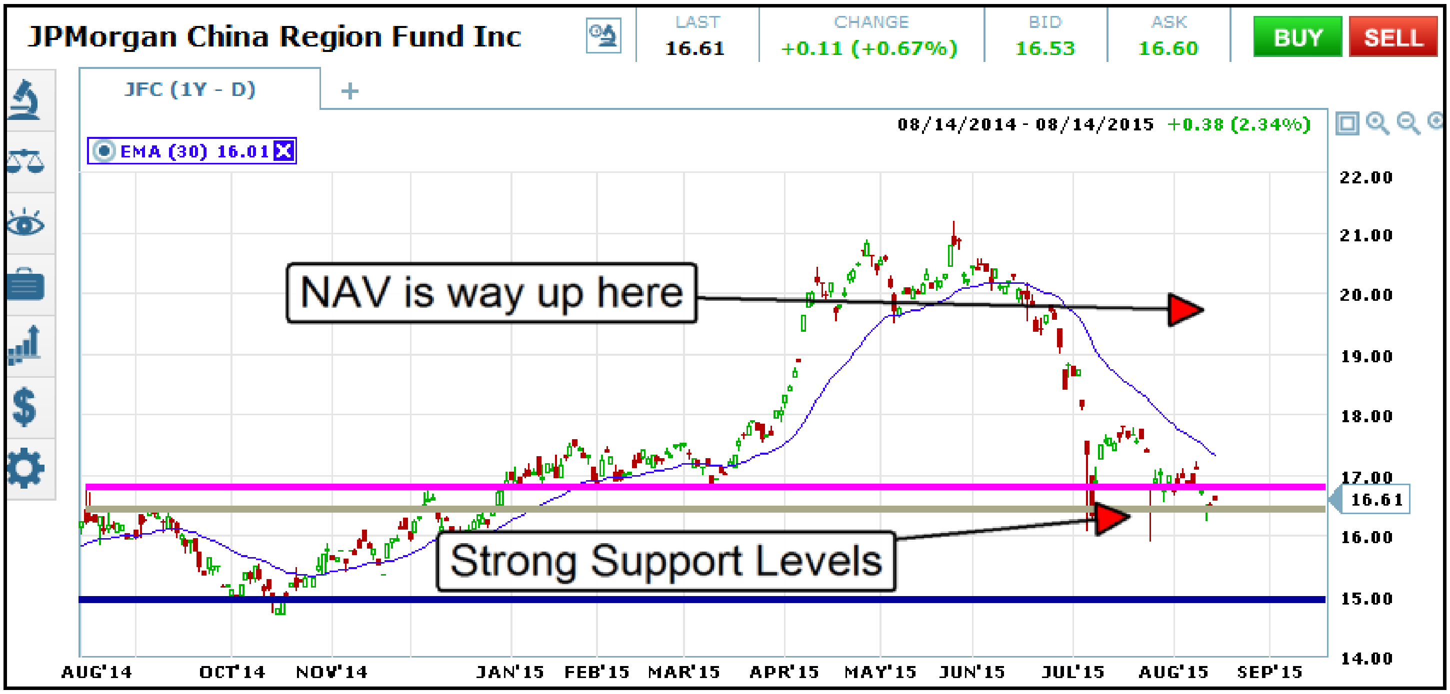
(as at 30/06/15)

Holding	Fund %	Benchmark^ weight
Tencent Holdings	5.1	4.3
Taiwan Semiconductor Manufacturing	4.7	4.7
China Construction Bank*	4.3	3.3
Ping An Insurance*	3.6	2.2
AIA Group	3.5	3.3
China Merchants Bank*	2.3	1.1
China Petroleum & Chemical	1.8	1.0
CK Hutchison Holdings	1.7	1.6
China Pacific Insurance*	1.6	0.7
Fubon Financial Holding	1.6	0.5
Sub-Total	30.2	22.7

* Denotes China A-share holding

China Funds Are The Way To Go

The best method of capturing movement in the Chinese market is through a fund. There are quite a few to choose from but most are tied to a single index, or category of stocks, and as such are more susceptible to the wild swings and isolated areas of volatility that can be present in this arena. One fund, the JP Morgan China Region Fund, is set up to track the entire regions. It is actively managed to avoid exposure to the weakest stocks while maximizing exposure to the best. In order to get this exposure fund managers have chosen to blend the MSCI Golden Dragon Index and the CSI 300, targeting the largest, most stable businesses in both indices and every market



included in the "China region".

The primary listing are of course China A shares, followed by Hong Kong shares and China H shares. Also represented are the P-Chips, Red Chips and Singapore listed stocks. Companies in the mix include major financial institutions, large cap industrials and leading technology companies.

There are two bonuses to owning the China Region fund at current levels. One, the fund pays a dividend. It is not large but still a source of income for long term holders. Current yield is $0.13 annually which comes out to about 0.73%. The second bonus and the one of most interest to value investors and speculators is the discount to NAV. Although NAV has declined somewhat in the last month, from $22.47 in the mid-year report down to $19.89 as of this writing, it is still significantly above share price of $16.50 giving new buyers a 19.75% discount.

Final Thoughts

There is some risk associated with China. For one, the suspension of trading in shares of Chinese stock. As of last report the fund's exposure to such stock was less than 3% and falling so is less of a risk than it would seem. This is of course due to the funds bias toward well established large and mega caps companies, a bias that will serve it well going forward. Other risks include economic slowing and government action but we can be assured there will be action, and it will likely be aimed at supporting the economy.

China may not be a great place for US investors to dump their life savings but it is an attractive place for speculation. Government actions have depressed values across the region providing significant values for investors and speculators. For most traders a fund is the best method to get exposure while limiting potential risks. The JP Morgan China Region fund is a good asset with which to do so because is a blend of the entire Chinese economic region with a heavy weighting on large caps, financials and techs with less exposure to the more volatile small and mid caps traded on the local exchanges. The icing on the cake is a significant discount to NAV that will help provide lift to upside movements.

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