

Lipper FundMarket Insight Reports



**China Fund Market Summary
Month End Analysis
September 30, 2005**

2005



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BLUE CHIPS DRAG DOWN EQUITY FUNDS

- Equity funds were hurt by a blue chip selloff.
- Bond funds were helped by CPI numbers but hurt by convertibles.
- Money market fund yields stayed flat.
- Share reform will continue to drive the stock market.
- Inflation concerns were lessened in the short term.

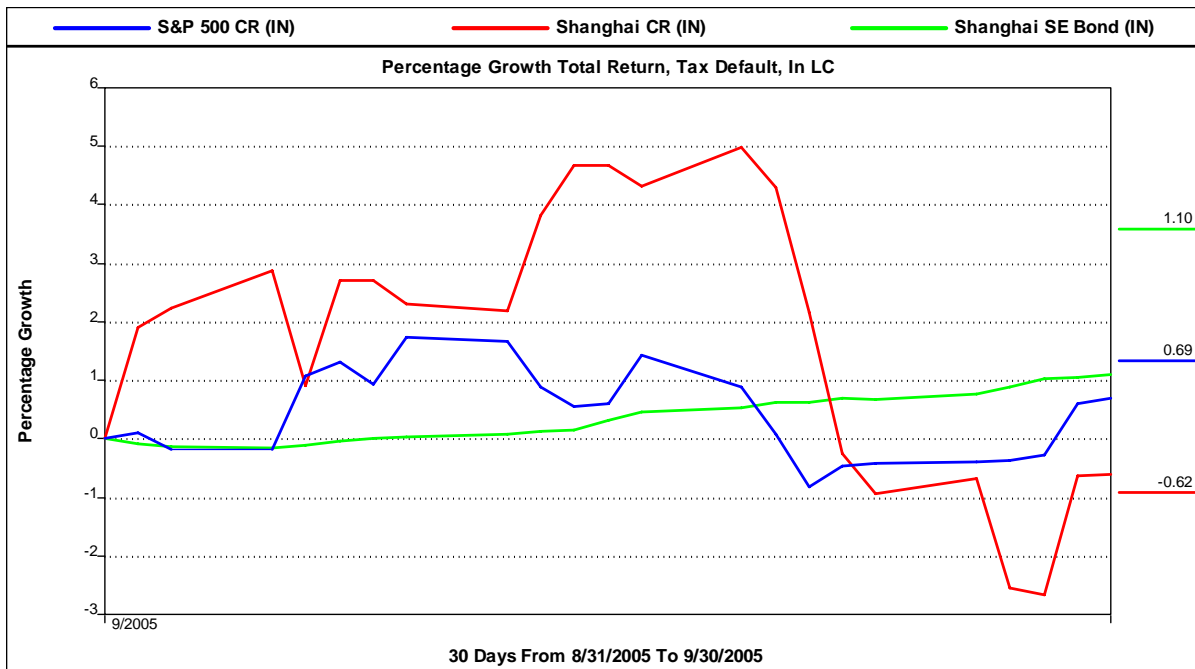
Market Performance

The Shanghai Stock Exchange Composite index stayed flat at 1,155.61, down 0.62% for September and down 8.76% year to date. The Shanghai Stock Exchange Treasury Bond index regained momentum and ended at 108.70, gaining 1.10% for September and 13.69% year to date. It was the tenth consecutive month of gains for the bond index.

The S&P 500 index parked at 1,228.81, up 0.69% in September and 1.39% year to date.

China stock markets experienced a dramatic course change in September. While share reform continued to be the focus of the stock markets, the SSE index climbed 4.97% between August 31 and September 19, but plummeted 7.85% between September 19 and September 28. The ascent of the index during the first part of September was a continuation of the market rally in August, while a few factors contributed to the sudden drop of the index in the latter part of the month.

Market Indices' Performance, September 2005



Source: Lipper

First, the index gained 20.60% during the run-up between July 18 and September 19, and the market was due for a profit taking. Second, October 3–7 is the Chinese National Day holiday and investors wanted to secure gains before the long break, especially since it was also a quarter-end. Third, the market was concerned about uncertainty on the timing and bonus schemes for share reforms of the remaining state-owned blue chip companies. The market bounced back on September 29 after the government reassured investors that share reform of the state-owned companies wouldn't be slowed and a consent on bonus plans was to be reached between holders of tradable and nontradable shares.

The expectations and process of share reform will continue to have significant impact on the market. After the share reforms for the 46 pilot companies came to an end, the Chinese government released a new regulation on September 4 to kickstart the share reforms for the rest of the companies. Between September 4 and September 28, 99 companies participated in the share reform, 40 of which were government-owned and 8 of which were central government-owned. It is expected around 300 companies may finish share reforms by the end of the year, and it may take another year to complete the whole share reform process.

As money flowed out of the stock market, the bond market got a boost. The benchmark bond index gained 1.10% in September after the brief pause in August. The benchmark ten-year Treasury note was yielding 3.166% on September 30 versus 3.347% on August 31—a drop of 18.1 basis points—reversing the trend in August. Another factor driving up bond prices in September was an unexpected drop of the annual CPI growth rate from 1.8% in July to 1.3% in August. Lowered inflation expectations lessened concerns about a rising yield, which in turn pushed bond prices higher. On the other hand, the short-term rate stayed flat in September at 1.8%.

Ten-Year Treasury Note Yield (4.44%, Feb. 28, 2015, RIC: CN010501=SS)



Source: Reuters

Open-End Fund Performance

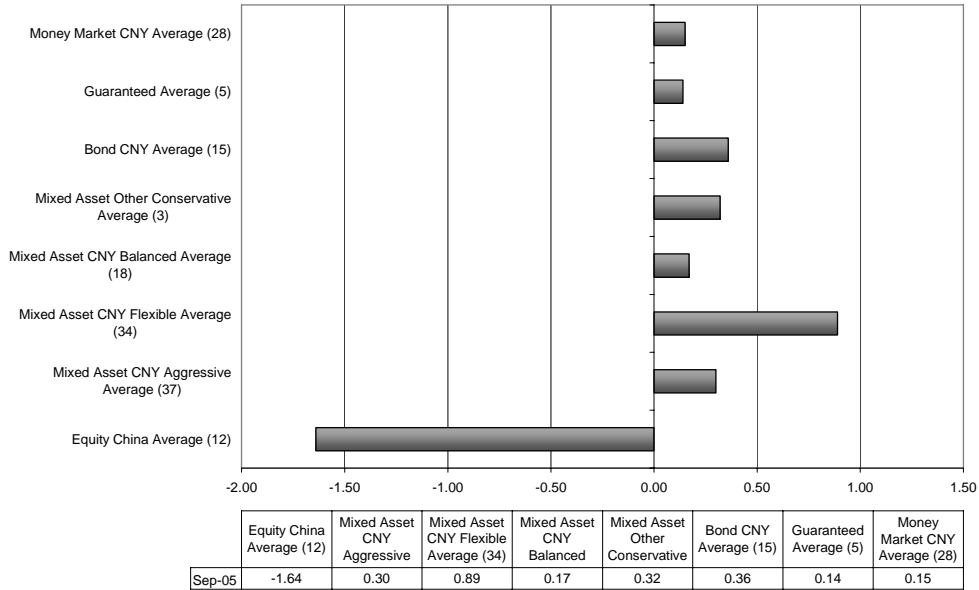
The Equity classification stood out among all Lipper open-end fund classifications with a 1.64% loss in September, underperforming the SSEC index (-0.62%). Among the mixed-asset classifications, Mixed-Asset Flexible posted the highest return—0.89%. The Bond classification returned 0.36%, underperforming the corresponding bond index (+1.10%).

The underperformance of equity funds against the stock index was again caused by disappointing performance of large-cap stocks. Among the FTSE/Xinhua indices, the large-cap A200 index lost 1.85%, while the blue chip A50 lost 2.76%. In contrast, the mid-cap A400 and the Small-Cap gained 3.19% and 1.46%, respectively, in September. The performance of large- and smaller-caps has converged significantly in the past two months as seen in the FTSE/Xinhua index performance chart.

One of the main reasons triggering the September selloff of blue chips was investors' concern over the uncertainty on reform of state-owned companies. After the pilot programs blue chips have been slow in joining the reform, and the ones announcing reform plans had less attractive bonus schemes compared to the blue chips in the pilot programs. Since the hypothetical market rally in the past few months was mainly based on bonuses from the share reform, the change in market expectations on blue chip reforms immediately triggered panic and profit taking on blue chip stocks. On the other hand, the reform process and bonuses for mid- and small-cap stocks met or exceeded market expectations, so investors continued to load up on mid- and small-caps for future gains on reform bonuses. Mid-cap stocks were especially in favor in September.

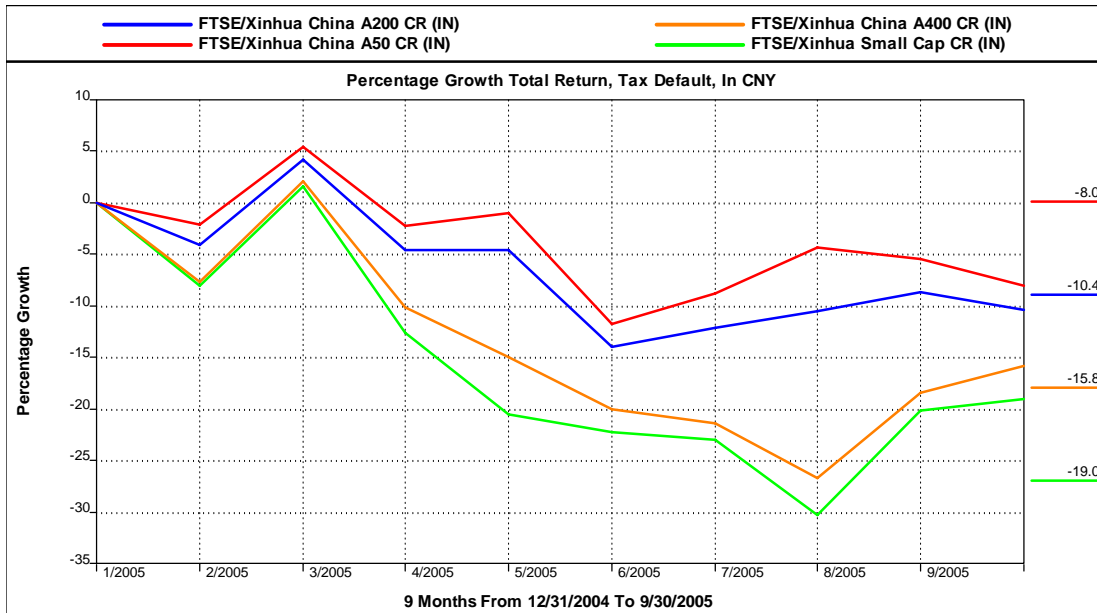
The underperformance of bond funds against the bond index was mainly due to the drag on the performance by convertible bonds. When the stock market goes down, convertible bonds usually follow until reaching the bond side limit. We can see from the top-bottom table that the **Industrial Convertible Hybrid Fund**, which was one of the top performers in August, ended at the bottom among bond funds in September.

**Open-End Fund Classification Performance
For September 2005 in CNY**



Source: Lipper

FTSE/Xinhua Index Performance



Source: Lipper

Top and Bottom Three Open-End Funds by Asset Type for September 2005 in CNY

Fund Type	Fund Name	1M TR	Rank	1Y TR	1Y Std
Equity	Fortis Haitong Equity Fund	1.38	1		
	Rongtong SZ 100 Index Fund	-0.26	2	-14.86	16.27
	Greatwall Jiu Tai Fund	-0.81	3	-12.58	17.45
	Rongtong Cninfo 100 Index Fund	-2.85	10		
	China 50 Exchange Traded Open-End Index Fund	-2.88	11		
	Harvest Shanghai-Shenzhen 300 Index Fund	-2.90	12		
Bond	Fullgoal Tianli Growth Bond Fund	2.42	1	6.42	5.76
	China Merchants Bond Fund	1.27	2	6.97	3.77
	Changsheng Bond Fund	0.97	3	5.75	4.81
	China Southern Bao Yuan Bond Fund	-0.35	11	3.78	4.98
	Fortune SGAM Baokang Bond Fund	-0.53	12	-0.08	4.64
	Industrial Convertible Hybrid Fund	-0.92	13	1.50	7.99
Mixed Asset	Xiangcai Hefeng Growth Fund	4.42	1	8.63	14.45
	Rongtong Blue Chip Growth Fund	3.97	2	0.41	16.39
	China GF Small Cap Growth Fund	3.51	3		
	Ju Tian Fundamental Industry Fund	-1.42	89	-8.99	14.63
	INVESCO Greatwall Domestic Demand Growth Fund	-1.43	90	1.98	12.62
	Harvest Service Sector Fund	-2.40	91	-3.11	13.12
Money Market	Hua An Cash Reserves Fund	0.17	1	2.70	0.15
	China GF Money Market Fund	0.17	2		
	Fortis Haitong Money Market Fund	0.17	3		
	China Merchants Cash Enhancement Fund	0.15	22	2.61	0.16
	BOC International Money Market Fund	0.14	23		
	China International Money Market Fund - A	0.08	24		
Guaranteed	Guotai Golden Elephant Principal Guaranteed Fund	0.29	1		
	Yinhua Principal Protection Value Growth Fund	0.29	2	2.35	1.74
	Tiantong Principal Guaranteed Fund	0.27	3	6.06	1.56
	Harvest Pu'an Capital Preservation Fund	0.00	4		
	China Southern Principal Protected Fund	-0.13	5	5.56	4.97

Source: Lipper

Closed-End Fund Performance

Closed-end funds lost 1.54% in price in September, while the return in NAV was 0.19%—close to the gain of 0.17% of the open-end Mixed-Asset Balanced classification. The average closed-end discount as of September month-end was 31.23%, expanding significantly from the 30.24% of August month-end. The expansion of average discounts in September resulted in a worse performance in price than in NAV. **Ke Hui Fund** led the group with a 3.44% gain, and **Tian Yuan Fund** sat at the bottom with a 5.98% loss.

**Top and Bottom Five Closed-End Funds
for August 2005 in CNY**

Fund Name	1M TR	Rank	1Y TR	3Y TR Ann
Ke Hui Fund	3.44	1	27.99	13.73
Ke Xiang Fund	3.31	2	20.14	10.61
Jiu Fu Fund	1.83	3	15.17	-5.19
An Jiu Fund	1.79	4	-6.69	-9.11
Long Yuan Fund	1.66	5	8.24	-4.31
Yu Long Fund	-5.47	50	-26.56	-19.26
Han Sheng Fund	-5.55	51	-17.67	-14.09
Jing Hong Fund	-5.58	52	-17.62	-14.29
Feng He Fund	-5.97	53	-14.10	-14.45
Tian Yuan Fund	-5.98	54	-19.72	-12.32
<i>Total Average (54)</i>	<i>-1.54</i>		<i>-3.51</i>	<i>-8.48</i>

Source: Lipper

Outlook

As stated previously blue chip stocks were sold off in September on share reform concerns right before the National Day holidays, hurting the performance of equity funds. The blue chips regained some lost ground in the last two days of the month after the government restored market confidence through policy reassurance. In the meantime, mid-cap and small-cap stocks continued their rally along with the progress of share reform. The government published a new rule governing the rest of the share reform after the pilot programs, and 99 companies have joined the reform since then. It is expected that about 300 companies may finish the reform by the end of the year, with the remaining ones to be finished in the following year. As long as the reform process goes smoothly as planned, we may see the stock market continue to rise or at least be stable, with the policy support from the government. Market focus may not shift back to company fundamentals until next year. On the fixed income side, although the August CPI growth figure came in lower than expected, the August PPI growth number turned out to be relatively high. The higher raw materials prices, especially oil, will eventually ripple through the economy and push the CPI level higher, reviving the inflation concern. Until then, relaxed monetary policy may continue, and abundance in funds may continue to support a low-yield environment and the high valuation of bonds. But further movement of bond prices should be limited.

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