Prescient

PRESCIENT CHINA QUARTERLY COMMENTARY

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PROGRESS ABROAD, PRESSURE AT HOME

President Xi Jinping's state visit to Washington from 23–25 September marked another step towards stabilising China-US relations, following President Trump's visit to Beijing in May. Beyond the diplomatic ceremony, the two sides announced targeted reciprocal tariff relief and a new AI dialogue, while the trade truce was extended until 10 January 2027. These developments reduced the immediate risk of renewed escalation, although structural differences over technology, strategic supply chains and Taiwan remain unresolved. Planned meetings at APEC and the G20 provide further opportunities to sustain this momentum against a backdrop of continued uncertainty in the Middle East.

The quarter ended 30 September 2026 saw a reversal of the previous quarter's market leadership, with onshore A-shares retreating while the offshore-heavy MSCI China Index recovered slightly. In US dollar terms, the CSI 300 Net Total Return Index declined by 10.69%, compared with a gain of 3.66% for the MSCI China Net Total Return Index. Year-to-date returns stood at −0.21% and −11.86%, respectively. This divergence continues to highlight the importance of distinguishing between China's onshore and offshore investment opportunities.

Our flagship Prescient China Balanced Fund A Class returned −5.15% net of fees in US dollar terms during the quarter, bringing its year-to-date return to 3.75%. The Prescient China Equity Fund A Class returned −9.07% on the same basis, taking its year-to-date return to 1.84%. Although both funds continue to outperform their respective benchmarks, absolute returns came under significant pressure during the third quarter. We continue to assess opportunities across both onshore and offshore markets. Our approach remains unchanged: maintaining a disciplined focus on risk while seeking to generate both relative and absolute returns over the long term.

THE REALITY OF MUTUAL DEPENDENCE

President Xi Jinping's state visit to Washington from 23–25 September reinforced the improvement in China–US relations. President Trump's unusual decision to welcome Xi personally at Joint Base Andrews underscored the importance he attached to the relationship. Beyond the ceremony, the extension of the trade truce until 10 January 2027 provided greater near-term predictability for businesses and investors.

The visit yielded several positive developments. The two sides agreed on recommendations for more favourable tariff treatment covering USD30 billion of non-sensitive goods in each direction, advanced their bilateral trade and investment mechanisms, and established an AI dialogue and a communication channel for AI-related incidents. Washington also announced Chinese commitments to purchase at least 10 million tonnes of US coal in each of 2027 and 2028. Cooperation on fentanyl precursors and law enforcement continued, while both leaders expressed opposition to Iranian nuclear weapons development and the imposition of tolls on international waterways. Implementation remains the key test of these announcements.

As expected, these developments largely represented goodwill gestures rather than substantive improvements in bilateral relations. The annual coal purchase commitment of 10 million tonnes would represent only around 2% of China's total coal imports, while extending the trade truce only until early next year leaves near-term risks unresolved. Nevertheless, the progress was not entirely symbolic. On 13 October, Visa announced that it had received approval from China's central bank to begin preparations for a domestic bankcard clearing business. Visa's chief executive explicitly acknowledged the role of both countries' leaders in supporting a more stable relationship.

The two sides' priorities explain their shared incentive to maintain stability. Against this backdrop, the current US administration is likely to need China more than China needs the US (as illustrated in Figure 1 below).

Figure 1:

Area	What the US wants from China	What China wants from the US
Trade and investment	• Agricultural and energy purchases • Better access to Chinese markets	• Lower, more predictable tariffs • Fair access to US markets
Tech supply chains	• Reliable supplies of rare earths, magnets and other critical minerals	• Relief from advanced-chip and AI-related export controls
Security	• Cooperation on Iran and energy security	• The Taiwan "red line", particularly arms sales and political support
Diplomacy	• Economic achievements ahead of the mid-term elections for Trump administration	N/A

Sources: Prescient (as at October 2025)

As the US mid-term elections approach, we remain hopeful that China–US relations will continue to improve. Mutual economic dependencies give both governments an incentive to contain tensions, while the planned APEC and G20 meetings offer opportunities to advance the implementation of existing commitments and secure further incremental gains. However, greater bilateral stability does not eliminate the risks arising from the Middle East, where renewed conflict could disrupt energy supplies and place fresh strain on the relationship.

THE EUROPEAN COMPROMISE

As with China–US relations, the trade understanding reached between China and the EU on 9 October demonstrated a shared interest in containing economic tensions. Initial reporting indicated plans for an annual limit of approximately 350,000 hybrid electric vehicles, compared with estimated imports of 800,000 in 2026. If confirmed, this would represent a welcome compromise for both sides, helping to avert a broader trade conflict. In return, China agreed to facilitate rare-earth and permanent-magnet export licences to the EU through a fast-track mechanism, an arrangement currently unavailable to the US, and to lower tariffs on products including automotive components, olive oil and footwear. These products account for almost EUR4 billion in existing EU exports, with estimated duty savings of at least EUR225 million. Europe's importance to Chinese carmakers, particularly given the higher trade barriers severely restricting access to the US market, helps explain Beijing's willingness to accept export restraint. Continued incentives for Chinese manufacturers to establish production in Europe could further ease political opposition, particularly where investment preserves existing jobs and creates new employment.

From the EU's perspective, President Trump's tariff pressure and uncertainty surrounding US trade policy strengthen the case for diversifying European markets and supply chains. Maintaining commercially productive relations with China forms part of that diversification, alongside efforts to reduce excessive dependence on Chinese inputs. Broad economic decoupling is not a realistic option: European industry relies heavily on Chinese materials and components, while European businesses retain significant commercial interests in China. The latest understanding offers Europe some protection for its automotive industry and more predictable access to critical inputs, while allowing China to preserve an important export relationship. Although fundamental disagreements remain unresolved, these developments reduce trade and supply-chain risks and provide a basis for further progress.

PAINFUL MARKETS

Chinese equity markets experienced a challenging and volatile third quarter of 2026, with a continued divergence between onshore and offshore performance. The CSI 300 Net Total Return Index declined by 10.69% in US dollar terms, while the offshore-heavy MSCI China Net Total Return Index gained 3.66%. However, the offshore recovery lost momentum towards quarter end, with MSCI China falling by 4.57% in September. This left its year-to-date return at −11.86%, compared with −0.21% for CSI 300.

The onshore correction was particularly pronounced among semiconductor and artificial intelligence-related shares, as the global semiconductor sell-off spread to China at greater magnitude. These previously strong performers became a significant source of market weakness. Few sectors provided stability, although state-owned banks stood out for their relative resilience. In contrast, Hong Kong posted a solid rebound in July and August, partly supported by liquidity released through the unwinding of positions in Korean equities. The divergence between recovering offshore internet platforms and falling onshore semiconductor shares continues to demonstrate why treating Chinese technology companies as a single investment theme can obscure important differences in valuations, earnings prospects and investor positioning. Figure 2 below illustrates the divergent paths of onshore and offshore Chinese equities during 2026.

Figure 2:

MSCI China vs CSI300 - 2026 YTD in USD



Sources: Prescient, Bloomberg (as at 30 September 2025)

Additional policy support was announced towards quarter end. On 29 September, the People's Bank of China reduced its one-year Pledged Supplementary Lending rate by 25 basis points to 1.50% and broadened the facility's coverage of infrastructure investment. It also increased relending quotas by CNY200 billion for technological innovation and equipment upgrades, and by CNY500 billion for agriculture and smaller businesses, including dedicated support for private enterprises. While these measures are welcome, their effectiveness in supporting markets remains to be seen, particularly given subdued credit demand and weak business confidence.

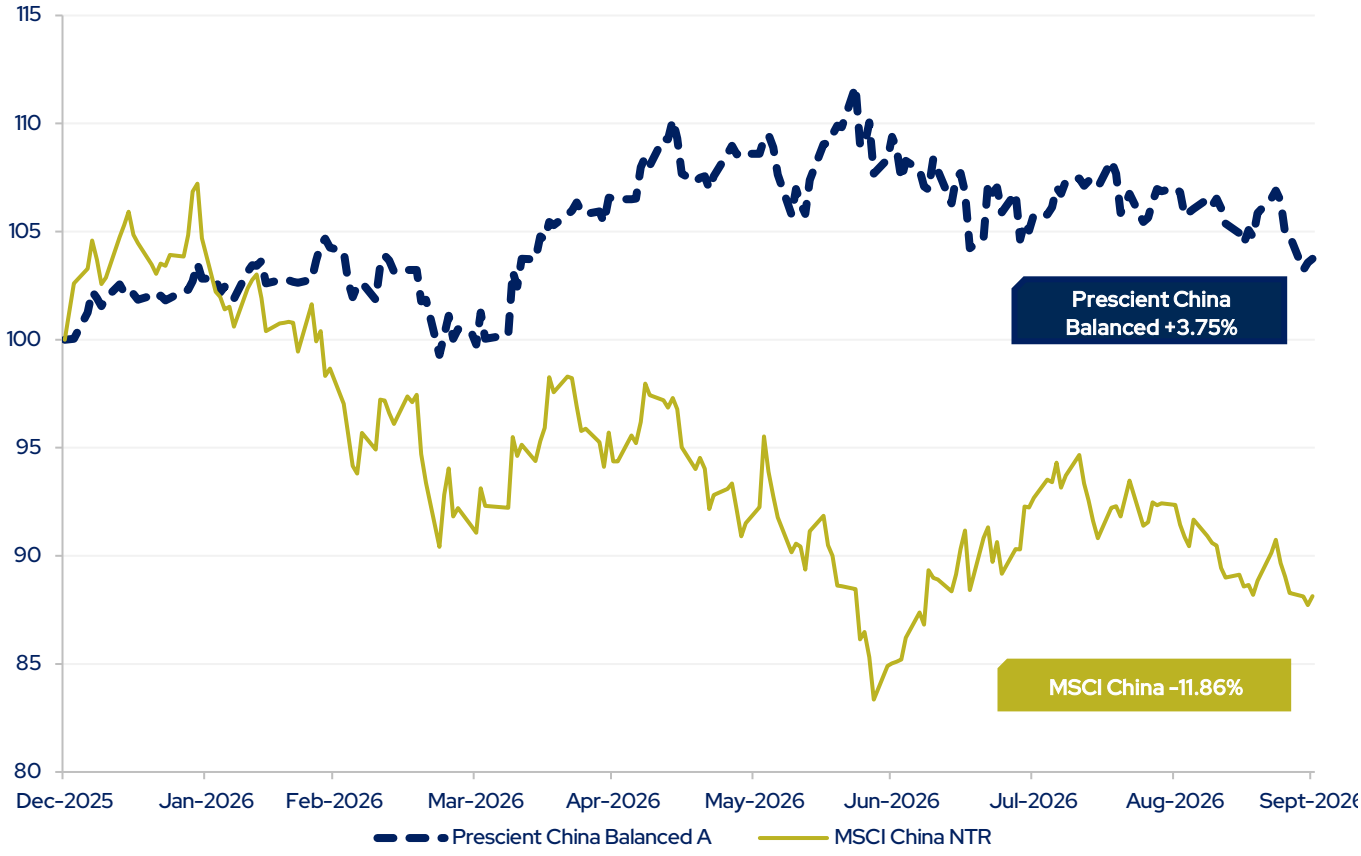
As expected, fiscal measures focused on maintaining stability, including CNY300 billion of special treasury bonds to strengthen the capital of eight state-owned financial institutions. Residential mortgage interest subsidies were also announced, offering a subsidy of one percentage point on qualifying loans of up to CNY1 million for up to five years. However, the scheme's complexity may outweigh its likely impact. Nevertheless, these measures represent positive steps towards addressing the persistent property downturn. GDP figures released in October confirmed that year-on-year growth improved to 4.5% in Q3 from 4.3% in Q2, although consumption and property remained under pressure.

PRESCIENT POSITIONING & PERFORMANCE

Our flagship, all-in-one flexible China strategy, the Prescient China Balanced Fund, navigated a challenging third quarter of 2026. The Fund declined by 5.15% net of fees in US dollar terms, limiting losses relative to the onshore CSI 300 Net Total Return Index, which fell by 10.69%. Despite the quarterly setback, the Fund remained positive year to date, returning 3.75% and outperforming the CSI 300 Net Total Return Index and the MSCI China Net Total Return Index by 3.96 and 15.61 percentage points, respectively, in US dollar terms, as shown in Figure 3 below.

Figure 3:

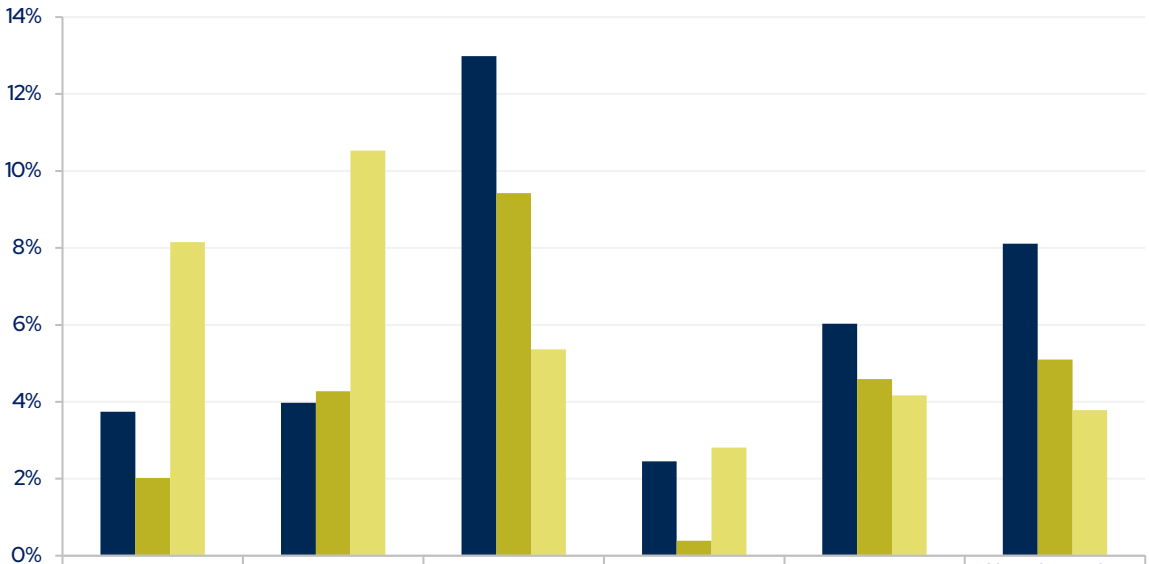
Prescient China Balanced Fund 2026 YTD – USD net (Illustrative Performance)



Sources: Prescient, Bloomberg (as at 30 September 2026)

Figure 4:

Prescient China Balanced Fund – USD A Class Net



	YTD	1Y	3Y	5Y	10Y	Since inception (p.a.)
Fund	3.75%	3.98%	12.99%	2.45%	6.03%	8.11%
Composite 65/35	2.02%	4.27%	9.43%	0.39%	4.59%	5.10%
CPI+3	8.16%	10.53%	5.36%	2.81%	4.17%	3.78%

Source: Prescient, Bloomberg – 30 September 2026, Composite: 65% CSI300 and 35% CSI1Bond

Returns longer than one year have been annualised.

	Fund	Benchmark
Highest rolling 1 year	116.81	17.08
Lowest rolling 1 year	-26.97	-7.82

After fully exiting our exposure to the Hong Kong-listed Chinese technology sector in early January, we began cautiously rebuilding our Hong Kong exposure towards the end of the second quarter, primarily through low-cost option structures. This reflected increasingly attractive valuations, both in absolute terms and relative to onshore A-shares. Our net Hong Kong exposure stands at approximately 4% during October, with downside protection remaining in place.

The third quarter's sharp correction in onshore equities highlighted the importance of managing overall equity risk alongside regional positioning. President Xi's visit to Washington and the extension of the trade truce provided greater near-term stability in China-US relations, although continued uncertainty in the Middle East leaves markets exposed to renewed energy and supply-chain disruptions. Against this backdrop, we retain our preference for onshore A-shares, with overall equity exposure currently at approximately 66%. We remain positioned to participate in a potential recovery while retaining the flexibility to adjust exposure and portfolio protection as conditions evolve.

THE TOUGH ROAD AHEAD

China has several positives to build on, including resilient exports, growth in advanced manufacturing and continued CNY appreciation against the US dollar. Further targeted fiscal and monetary support is expected to help stabilise economic activity, although its scale and timing remain uncertain. In our view, a sustained recovery will depend on addressing local government fiscal pressures arising from the property downturn and the associated loss of land-sale revenues. At the same time, rebuilding confidence among small and medium-sized enterprises should remain a top priority. Restoring local governments' capacity to support economic activity and encouraging SMEs to invest and hire will be critical to improving household income expectations, reviving consumption and supporting a more durable recovery in Chinese financial markets.

At Prescient, we continue to seek opportunities to generate alpha in challenging market conditions, while making efficient use of derivatives to help manage downside risks. We will work as hard as ever to improve your investment outcomes and experience of investing in China.

Disclaimer:

Prescient Investment Management (Pty) Ltd is an authorised financial services provider (FSP 612). Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CISs are traded at the ruling price and can engage in scrip lending and borrowing.

A schedule of fees, charges and maximum commissions is available on request from the Manager. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. There is no guarantee in respect of capital or returns in a portfolio. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request.

Annualised performance shows longer-term performance rescaled to a one-year period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request. Highest and lowest is returns for any one year over the period since inception have been shown. NAV is the net asset value represents the assets of a Fund less its liabilities.

The investment performance is for illustrative purposes only. The investment performance is calculated by taking the actual initial fees and all ongoing fees into account for the amount shown and the income is reinvested on the reinvestment date.

Representative Office: Prescient Management Company (RF) (Pty) Ltd is registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). For any additional information such as fund prices, fees, brochures, minimum disclosure documents and application forms, please visit www.prescient.co.za.

The Prescient China Balanced Fund, the Prescient China Equity Fund, and the Prescient China Growth Enhanced Absolute Return Fund are registered and approved under section 65 of CISCA.

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