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China Quantitative Strategy | Asia Pacific

Flows and Positioning on A-shares Among Offshore Funds

Northbound stock connect program has recorded four consecutive months of net outflows since August, and the outflows continue MTD. Comparing the flows of A, H, and ADRs, foreign investors preferred to keep A-shares and sell ADRs the most, and this trade has accelerated over last two weeks.

Key Takeaways

- Northbound stock connect program recorded outflows of US\$0.24bn in November, but increased to US\$2.82bn in December MTD.
- A-shares count 28% weight in foreign investors' China portfolios, which is the highest in history. In contrast, weights on Chinese ADRs were trimmed the most.
- In terms of allocation changes QTD, long-only managers' rebalancing in aggregate has been favoring Consumer Staples, Capital Goods and Pharmaceuticals.
- But weights on Semiconductors, Software, Transportation and Banks were trimmed the most concurrently.
- Moutai, Wuxi AppTec, and Haier Smart Home led weight additions on stock level QTD, while CATL, LONGi Green Energy Tech and Wuliangye were reduced.

The year-end redemption this December has been stronger than usual, and China long-only funds have been under pressure. Yet these active long-only managers have been mostly selling ADRs and H-shares to meet redemptions demand, which is lifting weights on A-shares during the rebalancing. Our fund positions data shows that OW on A-shares is now the highest in history (Exhibit 3). Such allocation implies investors' defensive preference in China space.

Exhibit 1: Top 30 A-share holdings and their active weights vs. MSCI China A, being owned by the large-scale offshore mutual funds we track

Rank	Rank Change YTD	Rank Change STD	Ticker	Company Name	GIS Industry Group	Underlying Market Values (\$m)	Weights as of 12/11/2023	MSCI China A Index Weights	Active Weights	Weights as of 12/11/2023	Active Weight Changes QTD	Weights as of 12/11/2023	Active Weight Changes YTD
1	-	-	600519-CN	Kweichow Moutai	Food Beverage & Tobacco	6,751	14.3%	4.3%	14.3%	12.4%	1.9%	10.6%	1.9%
2	-	-	000533-CN	Midea Group	Consumer Durables & Apparel	2,833	6.0%	1.1%	4.9%	5.7%	-0.2%	4.7%	1.0%
3	▲1	-	300766-CN	Shenzhen Mindray Bio-Medical Electronics	Health Care Equipment & Services	1,706	3.6%	0.7%	2.9%	3.8%	-0.2%	3.2%	0.4%
4	▲1	-	300750-CN	Contemp Amperex	Capital Goods	1,622	3.4%	1.8%	1.7%	4.1%	-0.5%	2.9%	0.6%
5	-	▲1	300244-CN	Shenzhen Inovance Tech	Capital Goods	1,582	3.3%	0.5%	2.8%	3.2%	-0.1%	2.4%	0.6%
6	▲1	▲5	600066-CN	NARI Technology	Capital Goods	1,162	2.5%	0.3%	2.2%	2.2%	-0.4%	2.1%	0.3%
7	▼1	▲1	000858-CN	Wuliangye Yibin	Food Beverage & Tobacco	1,083	2.3%	1.3%	1.0%	2.7%	-0.4%	2.5%	0.0%
8	▼7	▲22	603259-CN	Wuxi AppTec	Pharmaceuticals Biotechnology & Life Sciences	862	1.8%	0.8%	1.1%	2.4%	-0.3%	1.7%	0.0%
9	▲2	▲4	601188-CN	Ping An Insurance Group	Insurance	800	1.7%	1.7%	0.0%	2.1%	-0.4%	1.6%	0.3%
10	▼2	▲2	600036-CN	China Merchants Bank	Banks	766	1.6%	1.7%	0.1%	1.6%	0.2%	1.6%	0.4%
11	▲1	▲4	600887-CN	Inner Mongolia Yili Indl	Food Beverage & Tobacco	762	1.6%	0.7%	0.9%	1.4%	0.1%	1.7%	0.0%
12	▼2	▲0	002050-CN	Zhejiang Sanhua Intnl	Capital Goods	750	1.6%	0.3%	1.3%	2.5%	-0.1%	1.8%	-0.3%
13	▼4	▲1	600509-CN	Wanhua Chemical Group	Materials	700	1.5%	0.8%	0.9%	1.5%	0.0%	2.2%	-0.7%
14	▲6	▲7	002027-CN	Focus Media Info Tech	Media & Entertainment	597	1.3%	0.3%	0.9%	1.2%	-0.1%	1.5%	-0.3%
15	▲1	▲3	601100-CN	Hangsu Hengli Hydraulic	Capital Goods	560	1.2%	0.1%	1.1%	1.3%	-0.1%	1.9%	-0.8%
16	▲5	-	002076-CN	Hangsu Hengli Pharmaceuticals	Pharmaceuticals Biotechnology & Life Sciences	551	1.2%	0.8%	0.4%	2.1%	0.0%	2.3%	-0.4%
17	▼4	▼7	000001-CN	Ping An Bank	Banks	506	1.1%	0.4%	0.7%	1.4%	-0.3%	1.1%	0.1%
18	▲5	▲6	000651-CN	Gree Electric Appliances	Consumer Durables & Apparel	475	1.0%	0.6%	0.4%	0.9%	0.1%	0.8%	0.2%
19	▼2	▲7	600660-CN	Fuyao Glass Industry Grp	Automobiles & Components	461	1.0%	0.3%	0.7%	1.3%	-0.3%	0.9%	0.0%
20	▼2	▲1	002142-CN	Bank of Ningbo	Banks	457	1.0%	0.4%	0.6%	1.2%	-0.2%	1.0%	0.0%
21	▲1	▲79	000568-CN	Luzhou Laojiao	Food Beverage & Tobacco	451	1.0%	0.7%	0.3%	0.9%	0.0%	1.0%	0.1%
22	▼3	▲2	600900-CN	China Yangtze Power	Utilities	446	0.9%	0.9%	0.0%	1.2%	-0.2%	0.2%	0.5%
23	▲12	▲0	300059-CN	East Money Information	Financial Services	426	0.9%	0.8%	0.1%	0.6%	-0.1%	0.7%	0.2%
24	▲6	▲5	600909-CN	Haier Smart Home	Consumer Durables & Apparel	412	0.9%	0.4%	0.5%	0.9%	-0.5%	1.0%	-0.1%
25	▲9	▲3	600930-CN	CITIC Securities	Financial Services	376	0.8%	0.9%	0.2%	0.6%	0.1%	0.8%	-0.2%
26	▲10	▲13	600885-CN	Hongfa Technology	Capital Goods	375	0.8%	0.1%	0.7%	0.6%	0.2%	0.9%	-0.2%
27	▲14	▲2	020899-CN	Zijin Mining Group	Materials	373	0.8%	0.8%	0.0%	0.5%	-0.2%	2.2%	-0.5%
28	▲5	▼1	300274-CN	Sungrow Power Supply	Capital Goods	367	0.8%	0.4%	0.4%	0.7%	0.1%	0.9%	0.1%
29	▲5	▼9	603605-CN	Proya Cosmetics	Household & Personal Products	355	0.7%	0.1%	0.6%	0.9%	-0.1%	0.3%	0.4%
30	▲9	▲6	603945-CN	Anjoy Foods Group	Food Beverage & Tobacco	322	0.7%	0.1%	0.6%	0.6%	0.1%	0.6%	0.1%

Source: MorningStar, FactSet, Morgan Stanley Research; data as of December 11, 2023. Please contact us if you would like to receive the full table. Our fund positioning database methodology is described in the section entitled [Methodology of Our Fund Analysis](#).

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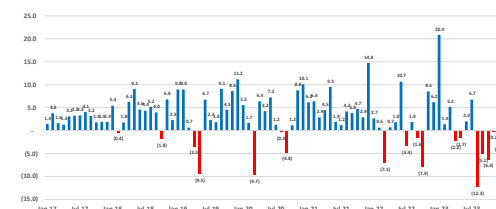
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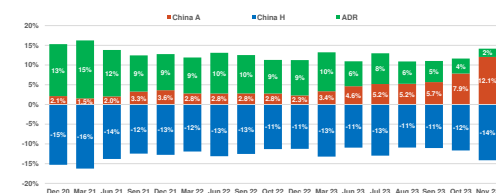
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Exhibit 2: Monthly net fund flows of stock connect northbound program (\$bn)



Source: Bloomberg, Morgan Stanley Research; data as of December 11, 2023

Exhibit 4: China portfolio active weight by share classes managers among offshore active long-only managers



Source: MorningStar, FactSet, Morgan Stanley Research; data as of November 30, 2023

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Top 60 A-share Holdings and Their Active Weights Changes vs. MSCI China A

Exhibit 4: Top 30 A-share holdings and their active weights vs. MSCI China A, being owned by the large-scale offshore mutual funds we track

Rank	Rank Change QTD	Rank Change YTD	Ticker	Company Name	GICS Industry Group	Underlying Market Values (\$m)	Weights as of 12/11/2023	MSCI China A Index Weights	Active Weights	Weights as of 9/30/2023	Active Weight Changes QTD (% of AUM)	Weights as of 12/31/2022	Active Weight Changes YTD (% of AUM)
1	--	--	600519-CN	Kweichow Moutai	Food Beverage & Tobacco	6,751	14.3%	4.3%	9.9%	12.4%	-1.6%	10.6%	-3.4%
2	--	--	000333-CN	Midea Group	Consumer Durables & Apparel	2,823	6.0%	1.1%	4.8%	5.7%	0.2%	4.7%	-1.4%
3	▲ 1	--	300760-CN	Shenzhen Mindray Bio-Medical Electronics	Health Care Equipment & Services	1,706	3.6%	0.7%	2.9%	3.8%	-0.2%	3.2%	-0.4%
4	▼ -1	--	300750-CN	Contemp Amperex	Capital Goods	1,622	3.4%	1.8%	1.7%	4.1%	-0.5%	2.9%	0.5%
5	--	▲ 1	300124-CN	Shenzhen Inovance Tech	Capital Goods	1,582	3.3%	0.5%	2.8%	3.2%	0.1%	2.4%	0.5%
6	▲ 1	▲ 5	600406-CN	NARI Technology	Capital Goods	1,162	2.5%	0.3%	2.2%	2.1%	-0.4%	2.1%	0.3%
7	▼ -1	▲ 1	000858-CN	Wuliangye Yibin	Food Beverage & Tobacco	1,083	2.3%	1.3%	1.0%	2.7%	-0.4%	2.5%	0.0%
8	▲ 7	▲ 22	603259-CN	WuXi AppTec	Pharmaceuticals Biotechnology & Life Sciences	862	1.8%	0.8%	1.1%	1.4%	-0.5%	1.7%	0.0%
9	▲ 2	▲ 4	601318-CN	Ping An Insurance Group	Insurance	800	1.7%	1.7%	0.0%	1.5%	-0.4%	1.6%	0.3%
10	▼ -2	▲ 2	600036-CN	China Merchants Bank	Banks	766	1.6%	1.7%	-0.1%	1.6%	0.2%	1.6%	-0.4%
11	▲ 1	▲ 4	600887-CN	Inner Mongolia Yili Indl	Food Beverage & Tobacco	762	1.6%	0.7%	0.9%	1.4%	0.1%	1.7%	0.0%
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13	▼ -4	▲ 1	600309-CN	Wanhua Chemical Group	Materials	700	1.5%	0.6%	0.9%	1.5%	0.0%	2.2%	-0.7%
14	▲ 6	▲ 47	002027-CN	Focus Media Info Tech	Media & Entertainment	597	1.3%	0.3%	0.9%	1.1%	0.1%	1.5%	-0.3%
15	▲ 1	▲ 3	601100-CN	Jiangsu Hengli Hydraulic	Capital Goods	560	1.2%	0.1%	1.1%	1.3%	-0.1%	1.9%	-0.8%
16	▲ 5	--	600276-CN	Jiangsu Hengrui Pharmaceuticals	Pharmaceuticals Biotechnology & Life Sciences	551	1.2%	0.8%	0.4%	1.1%	0.0%	1.3%	-0.4%
17	▼ -4	▼ -7	000001-CN	Ping An Bank	Banks	506	1.1%	0.4%	0.7%	1.4%	-0.3%	1.1%	0.1%
18	▲ 5	▲ 16	000651-CN	Gree Electric Appliances	Consumer Durables & Apparel	475	1.0%	0.6%	0.4%	0.9%	0.1%	0.8%	0.2%
19	▼ -2	▲ 7	600660-CN	Fuyao Glass Industry Grp	Automobiles & Components	461	1.0%	0.3%	0.7%	1.3%	-0.3%	0.9%	0.0%
20	▼ -2	▼ -1	002142-CN	Bank of Ningbo	Banks	457	1.0%	0.4%	0.6%	1.2%	-0.2%	1.0%	0.0%
21	▲ 1	▲ 79	000568-CN	Luzhou Laojiao	Food Beverage & Tobacco	451	1.0%	0.7%	0.3%	0.9%	0.0%	0.9%	0.1%
22	▼ -3	▲ 2	600900-CN	China Yangtze Power	Utilities	446	0.9%	0.9%	0.0%	1.2%	-0.2%	0.2%	0.5%
23	▲ 12	▲ 10	300059-CN	East Money Information	Financial Services	426	0.9%	0.8%	0.1%	0.6%	0.3%	0.7%	0.2%
24	▲ 36	▲ 45	600690-CN	Haier Smart Home	Consumer Durables & Apparel	412	0.9%	0.4%	0.5%	0.3%	0.5%	1.0%	-0.1%
25	▲ 9	▲ 23	600030-CN	CITIC Securities	Financial Services	376	0.8%	0.9%	-0.2%	0.6%	0.3%	0.8%	-0.2%
26	▲ 10	▲ 13	600885-CN	Hongfa Technology	Capital Goods	375	0.8%	0.1%	0.7%	0.6%	0.2%	0.9%	-0.2%
27	▲ 14	▲ 52	601899-CN	Zijin Mining Group	Materials	373	0.8%	0.8%	0.0%	0.5%	0.2%	1.2%	-0.5%
28	▲ 5	▼ -1	300274-CN	Sungrow Power Supply	Capital Goods	367	0.8%	0.4%	0.4%	0.7%	0.1%	0.9%	0.1%
29	▼ -5	▼ -9	603605-CN	Proya Cosmetics	Household & Personal Products	355	0.7%	0.1%	0.6%	0.9%	-0.1%	0.3%	0.4%
30	▲ 9	▲ 6	603345-CN	Anjoy Foods Group	Food Beverage & Tobacco	322	0.7%	0.1%	0.6%	0.6%	0.1%	0.6%	0.1%
31	▲ 11	▲ 208	601138-CN	Foxconn Indl Internet	Technology Hardware & Equipment	307	0.6%	0.2%	0.4%	0.5%	0.1%	0.4%	0.2%
32	▼ -4	▼ -23	601888-CN	China Tourism Group Duty Free	Consumer Discretionary Distribution & Retail	292	0.6%	0.4%	0.2%	0.9%	-0.2%	0.7%	0.4%
33	▼ -2	▲ 8	688111-CN	Beijing Kingsoft Office	Software & Services	289	0.6%	0.3%	0.3%	0.7%	-0.1%	0.6%	-0.1%
34	▲ 6	▲ 36	688012-CN	Advanced Micro-Fabrication Equipment	Semiconductors & Semiconductor Equipment	284	0.6%	0.3%	0.3%	0.6%	0.0%	0.9%	-0.4%
35	▲ 2	▲ 16	300285-CN	Shandong Sinocera	Materials	279	0.6%	0.1%	0.5%	0.6%	0.0%	0.9%	-0.3%
36	▼ -9	▼ -29	603288-CN	Foshan Haitian Flavouring	Food Beverage & Tobacco	275	0.6%	0.3%	0.3%	0.8%	-0.2%	0.5%	0.3%
37	▼ -9	▼ -9	300015-CN	Aier Eye Hospital Group	Health Care Equipment & Services	273	0.6%	0.3%	0.2%	0.8%	-0.2%	0.7%	-0.1%
38	▲ 6	▲ 332	601689-CN	Ningbo Tuopu Group	Automobiles & Components	262	0.6%	0.2%	0.4%	0.5%	0.0%	0.5%	0.0%
39	▼ -25	▼ -34	601012-CN	LONGI Green Energy Technology	Semiconductors & Semiconductor Equipment	251	0.5%	0.5%	0.0%	1.4%	-0.8%	0.3%	0.6%
40	▲ 27	▲ 33	000538-CN	Yunnan Baiyao Group	Pharmaceuticals Biotechnology & Life Sciences	248	0.5%	0.2%	0.4%	0.3%	0.2%	0.5%	0.0%
41	▼ -12	▼ -24	002271-CN	Beijing Oriental Yuhong	Materials	246	0.5%	0.2%	0.3%	0.8%	-0.2%	0.6%	0.1%
42	▲ 17	▲ 40	002648-CN	Satellite Chemical	Materials	245	0.5%	0.1%	0.4%	0.3%	0.2%	0.6%	-0.1%
43	--	▲ 12	600031-CN	Sany Heavy Industry	Capital Goods	242	0.5%	0.4%	0.1%	0.5%	0.0%	1.0%	-0.4%
44	▼ -12	▼ -7	002475-CN	Luxshare Precision Ind	Technology Hardware & Equipment	240	0.5%	0.7%	-0.1%	0.7%	-0.2%	0.8%	-0.4%
45	▲ 11	▲ 22	002439-CN	Venustech Group	Software & Services	239	0.5%	0.1%	0.4%	0.4%	0.1%	0.2%	0.3%
46	--	▲ 26	688008-CN	Montage Technology	Semiconductors & Semiconductor Equipment	228	0.5%	0.2%	0.3%	0.5%	0.0%	0.5%	-0.1%
47	▼ -2	▼ -25	300347-CN	Hangzhou Tigermud	Pharmaceuticals Biotechnology & Life Sciences	221	0.5%	0.2%	0.3%	0.5%	0.0%	0.0%	0.6%
48	▼ -18	▼ -19	600570-CN	Hundsun Technologies	Software & Services	212	0.4%	0.2%	0.2%	0.8%	-0.3%	0.3%	0.3%
49	▼ -23	▼ -26	300012-CN	Centre Testing International Group	Commercial & Professional Services	204	0.4%	0.1%	0.3%	0.8%	-0.4%	0.4%	0.1%
50	▼ -12	▲ 4	300316-CN	Zhejiang Jingsheng	Semiconductors & Semiconductor Equipment	203	0.4%	0.1%	0.3%	0.6%	-0.1%	0.3%	0.2%
51	▼ -1	▲ 2	603939-CN	Yifeng Pharmacy Chain	Consumer Staples Distribution & Retail	201	0.4%	0.1%	0.3%	0.4%	0.0%	0.7%	-0.3%
52	▼ -3	▲ 79	600176-CN	Cn Jushi	Materials	182	0.4%	0.1%	0.3%	0.4%	0.0%	1.0%	-0.6%
53	▲ 103	▲ 196	002007-CN	Hualan Biological Engineering	Pharmaceuticals Biotechnology & Life Sciences	180	0.4%	0.1%	0.3%	0.1%	0.3%	0.2%	0.1%
54	▼ -1	▲ 40	603338-CN	Zhejiang Dingli Machinery	Capital Goods	180	0.4%	0.0%	0.3%	0.4%	0.0%	0.2%	0.2%
55	▼ -8	▼ -9	002557-CN	Chacha Food	Food Beverage & Tobacco	173	0.4%	0.1%	0.3%	0.5%	-0.1%	0.4%	0.0%
56	▲ 29	▲ 34	002353-CN	Yantai Jereh Oilfield	Energy	172	0.4%	0.1%	0.3%	0.2%	0.2%	0.8%	-0.4%
57	▼ -6	▼ -8	600845-CN	Shanghai Baosight	Software & Services	156	0.3%	0.1%	0.2%	0.4%	-0.1%	1.8%	0.2%
58	▲ 23	▲ 10	688139-CN	Qingdao Haier Biomedical	Health Care Equipment & Services	156	0.3%	0.0%	0.3%	0.2%	0.1%	0.5%	-0.2%
59	▲ 49	▲ 77	603501-CN	Will Semiconductor	Semiconductors & Semiconductor Equipment	156	0.3%	0.4%	0.0%	0.1%	0.2%	0.4%	-0.2%
60	▲ 8	▲ 112	300487-CN	Sunresin New Materials	Materials	156	0.3%	0.1%	0.3%	0.3%	0.0%	0.5%	-0.2%

Source: MorningStar, FactSet, Morgan Stanley Research; data as of December 11, 2023. Please contact us if you would like to receive the full table. Our fund positioning database methodology is described in the section entitled [Methodology of Our Fund Analysis](#)

Fund Positions by GICS Industry Group

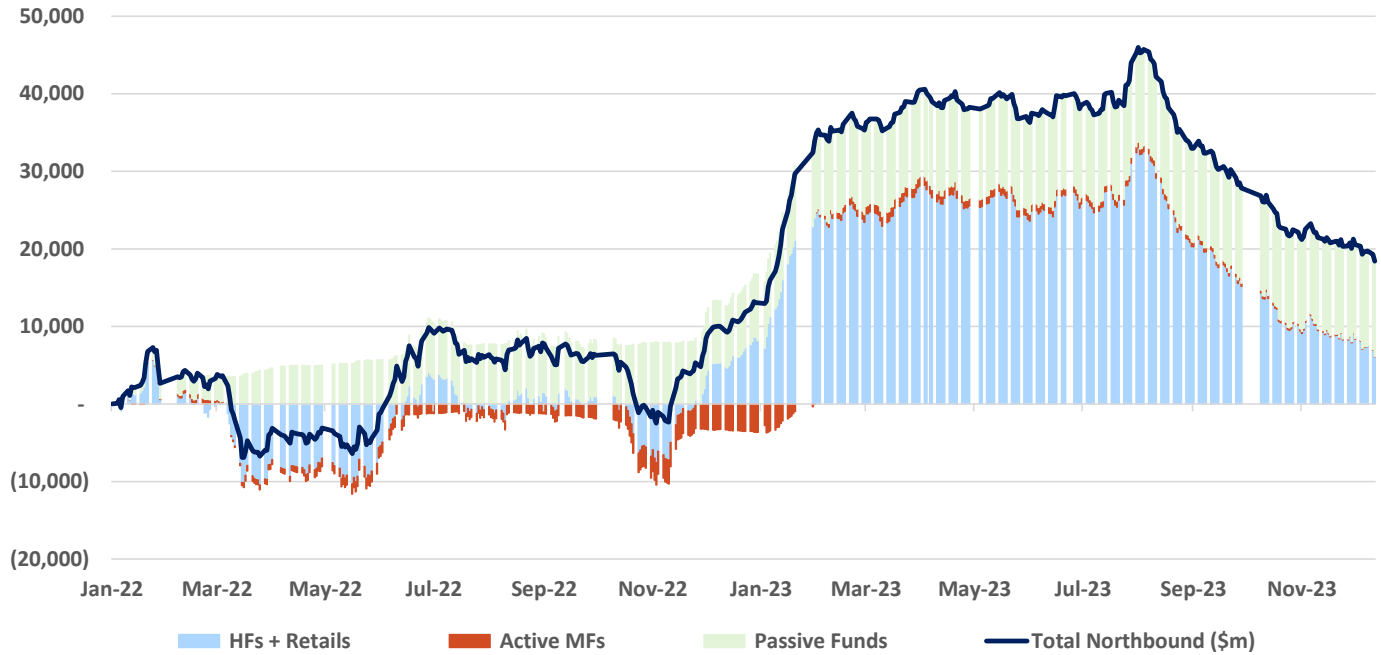
Exhibit 5: Active fund positions in China A-Shares by GICS Industry Group

GICS Industry Group	Portfolio Composite Weights	MSCI China A Index Weights	Active Weights	Active Weights Changes QTD	Active Weights Changes YTD
Food Beverage & Tobacco	22.6%	11.5%	11.0%	1.8%	1.1%
Capital Goods	19.5%	13.2%	6.3%	1.3%	3.4%
Consumer Durables & Apparel	9.1%	2.8%	6.3%	1.3%	1.7%
Health Care Equipment & Services	5.8%	2.8%	2.9%	0.1%	0.4%
Household & Personal Products	0.8%	0.3%	0.6%	-0.4%	-0.5%
Consumer Staples Distribution & Retail	0.8%	0.3%	0.5%	0.0%	-0.2%
Commercial & Professional Services	0.6%	0.3%	0.3%	-0.7%	-1.0%
Media & Entertainment	1.7%	1.5%	0.1%	0.4%	0.9%
Software & Services	2.8%	2.7%	0.1%	-1.4%	-1.7%
Consumer Services	0.2%	0.3%	-0.1%	-0.3%	-0.5%
Consumer Discretionary Distribution & Retail	0.7%	0.8%	-0.1%	-0.6%	-1.3%
Insurance	1.9%	2.3%	-0.4%	-0.1%	0.6%
Telecommunication Services	0.0%	0.6%	-0.6%	0.0%	0.1%
Pharmaceuticals Biotechnology & Life Sciences	5.8%	6.5%	-0.7%	1.9%	0.9%
Real Estate Management & Development	0.3%	1.5%	-1.2%	-0.1%	-0.5%
Automobiles & Components	2.3%	3.5%	-1.2%	-0.2%	0.4%
Transportation	1.0%	2.3%	-1.4%	-0.8%	-1.2%
Energy	1.0%	2.4%	-1.4%	0.2%	0.1%
Utilities	1.2%	2.7%	-1.6%	-0.3%	-0.2%
Semiconductors & Semiconductor Equipment	4.1%	7.0%	-2.9%	-1.8%	-2.1%
Materials	7.6%	11.3%	-3.7%	-0.6%	-0.7%
Banks	4.4%	8.6%	-4.2%	-0.8%	-1.0%
Financial Services	2.1%	6.4%	-4.3%	0.6%	0.3%
Technology Hardware & Equipment	3.9%	8.4%	-4.4%	0.3%	1.2%

Source: MorningStar, FactSet, Morgan Stanley Research; data as of December 11, 2023. Please contact us if you would like to receive the full table. Our fund positioning database methodology is described in section - [Methodology of Our Fund Analysis](#).

Other Related Charts of Allocation and Flows

Exhibit 6: Cumulative stock connect northbound net inflows (\$m) – breakdown by investor type



Source: Bloomberg, EPFR, Morgan Stanley Research; data as of December 11, 2023

Methodology of Our Fund Analysis

Coverage: Our standard fund position analysis aggregates positions among the 40 largest active funds under MorningStar Global, EM, AxJ and Greater China Equity categories, respectively (i.e., 160 funds, AUM US\$510bn), to summarize their top A-share positions and their active weights vs. MSCI China A.

On top of that, our analysis in this report expands the fund universe to include US funds, covering the 30 largest active funds under "US Funds: MorningStar China Equity", the 40 largest active funds under "US Funds: MorningStar Emerging Markets Equity", and the 40 largest active funds under "US Funds: MorningStar Global Equity" (i.e., 110 funds, AUM US \$618bn).

Rationale: We track only the funds with the largest AUM because of better data quality. The changes in individual securities positions across different funds are aggregated based on market value. Please note that not every individual fund discloses month-end positions, so our estimates represent only a best effort for market-indication purposes rather than factual data reporting.

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(as of November 30, 2023)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1667	46%	303	47%	18%	708	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	591	16%	64	10%	11%	221	14%
Total	3,613		640			1535	

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