Fidelity China Fund

Quarterly report

As at 31/12/2020

Fund description

Invests in 70 to 80 Chinese companies and draws on the research capabilities of Fidelity's analysts based on the ground in China and Hong Kong. The Portfolio Manager is aware of the macro environment and policy changes, but believes bottom-up company specific research adds the most value when investing in China.

Fund facts

Portfolio manager: Jing Ning
Benchmark: MSCI China Index NR
Inception date: 29/09/2005
Fund size: AU$68.16M
Number of stocks: 70 to 80
Management cost: 1.20% p.a.
Buy/sell spread: 0.40%/0.40%

Portfolio guidelines

Stocks: +5% overweight
Industry: +20% from benchmark
Cash: Target range between 0% and 10%

Top 10 holdings (%)

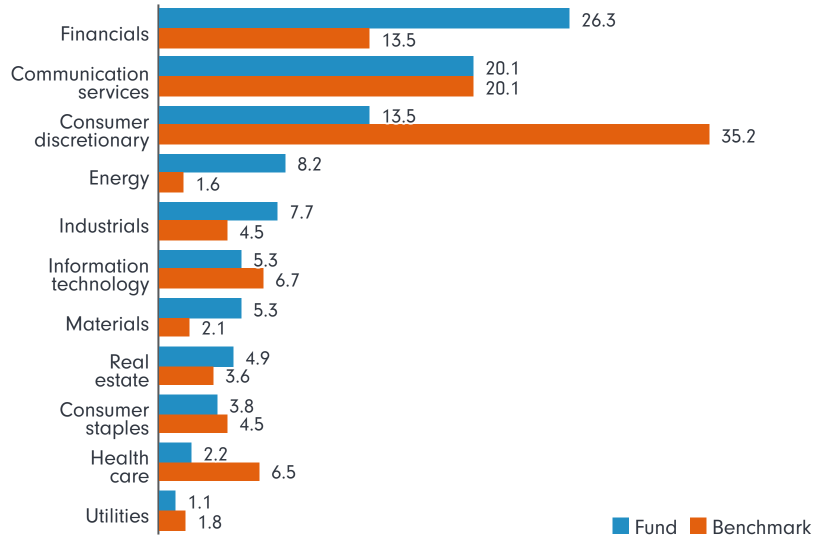
	Fund	B'mark
Tencent Holdings Ltd	6.5	13.6
China Life Insurance Co Ltd	6.3	0.6
China Mobile Ltd	6.2	1.1
China Construction Bank	5.9	2.4
Alibaba Group Holding Ltd	5.5	14.3
Baidu Inc	4.7	1.9
Industrial & Commercial Bank China	4.3	1.4
Dongfeng Motor Group Co Ltd	3.9	0.1
CNOOC Ltd	3.6	0.5
Lenovo Group Ltd	3.6	0.2

Performance %

	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity China Fund	-3.10	2.27	2.43	-7.98	1.32	7.36	9.99	8.82	11.84	12.08
MSCI China Index NR	-1.87	3.29	11.62	17.97	9.55	13.71	12.82	10.71	11.36	11.41
Excess return	**-1.23**	**-1.02**	**-9.19**	**-25.95**	**-8.23**	**-6.35**	**-2.83**	**-1.89**	**0.48**	**0.67**

Total net returns represent past performance only. **Past performance is not a reliable indicator of future performance**. Total returns (net) have been calculated using exit prices and take into account the applicable buy/sell spread and are net of Fidelity's management costs, transactional and operational costs and assumes reinvestment of distributions. No allowance has been made for taxation or for any fees charged by operators of master trusts or wrap accounts through which the products are offered. Returns of more than one year are annualised. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed.

Industry breakdown %



Fidelity funds are available on platforms and mastertrusts via financial advisers. Investors who wish to place at least $25,000 in a single fund can invest with us directly. For further information, please visit www.fidelity.com.au or call Client Services on 1800 044 922.

Note: Generally, a maximum sector position of ±10% from benchmark MSCI China Index NR*.
This Fund is unhedged and is subject to the risk of fluctuations in international stock markets and currencies. Management costs and the buy/sell spread are current as at the date shown above but may be subject to change in the future. Management costs include GST but exclude abnormal expenses and transactional and operational costs. Investors accessing the Fund through a master trust or wrap account will also bear any fees charged by the operator of such master trust or wrap account. Any apparent discrepancies in the numbers are due to rounding.

Market performance

Chinese equities gained over the quarter, driven by positive news flows around vaccine developments and upbeat data releases that signalled a continued recovery in the economy. Sentiment was further supported by the establishment of a China-backed trade bloc. Fifteen Asia-Pacific countries signed the Regional Comprehensive Economic Partnership (RCEP) and formed the world's largest trading bloc, boosting expectations for the pace of future economic growth. Investors also cheered the bilateral investment treaty signed by China and the European Union. However, China-US tensions capped gains. The Donald Trump administration issued an executive order that effectively bans Americans from investing in Chinese companies that support China's military, in a move that further escalates already high tensions between the two economies. On the economic front, China posted a broad-based recovery, leading the way for a solid rebound in the fourth quarter of the year. Growth is expected to be robust in the fourth quarter, with full-year growth of around 2%, significantly ahead of all major global economies. The strong recovery has prompted the central bank to somewhat tighten liquidity, but it is likely to show restraint in tapering policy easing amid lingering uncertainties from both the COVID-19 pandemic and the overall external environment.

Fund performance

The Fund returned 2.3% over the quarter, while the index returned 3.3%. Favourable news flow around the successful roll-out of COVID 19 vaccines led to a value rotation in November. However, it proved to be short lived, as growth-oriented stocks rebounded sharply in December, in line with their US counterparts after the US approved a fresh fiscal stimulus package. Geopolitical tensions also weighed on the performance of selected holdings.

Preferred holdings came under pressure

Shares in state-owned telecommunications operator China Mobile declined following weak sentiment towards the wider telecommunications sector. Energy company CNOOC also declined. Both these stocks were negatively impacted by concerns that their shares will be delisted from the US stock exchange as a result of an executive order passed by the Donald Trump administration barring US investors from purchasing shares in companies that have alleged links with the Chinese military. China Life Insurance also fell out of favour amid a rotation back to growth stocks. Shares in China Overseas Land were caught in weak sentiment towards the wider real estate sector on concern over tightening regulations on top property developers.

Earnings recovery supported selected positions

The position in Lenovo gained after it reported encouraging earnings, driven by strong volume growth in personal computers (PC) on increased work-from-home demand. Shares in search engine leader Baidu rose on expectations of a rebound in its technology business, as well as in its advertising revenue as the economy is expected to gain strongly in 2021. Sentiment was further boosted on reports that Baidu, which also develops autonomous driving technology, is considering developing smart cars. Dongfeng Motor gained as it raised its dividend pay-out ratio and on improving earnings outlook from its joint ventures with Nissan and Honda.

Outlook

China will remain the engine of revival in global growth in 2021. The latest economic indicators, many of which have beat expectations, have prompted upward revisions in consensus GDP growth forecast for 2021, which currently stands in excess of 8%. The strong recovery has given the central bank reason to reassess its policy stance, and we have already seen some tightening in credit growth. That said, policymakers are likely to be patient in tapering liquidity, amid lingering uncertainties from both the COVID-19 pandemic and the overall external environment. While some emergency fiscal measures may be phased out, including special central government bond issuance and extra issuance of special local government bonds, the overall policy response is likely to remain targeted towards long-term development plans.

Prospects of a balanced approach to international relations under newly elected US President Joe Biden and increased optimism about a faster than expected pace of resumption in economic activity following encouraging results from COVID-19 vaccine trials prompted a value-driven rally across geographies including China. The case for a mean-reversion in value outperformance in 2021 is particularly compelling for China. Growth stocks have outperformed value names by over 50% in 2020, and the macroeconomic economic environment is conducive for value rotation, driven by diminishing negative impact on earnings from COVID 19, re-acceleration in global economic growth and bottoming out of bond yields.

China's consumers could emerge as a key driver of a cyclical upturn in earnings, driven by the availability of vaccines, a recovery in the job market and pent-up savings by households. An overall improvement in earnings outlook is also likely to see investors moving out of 'crowded trades' in some growth-oriented sectors. In summary, conditions are conducive for a more balanced performance of Chinese equities in 2021

Major contributors (%)

As at 31/12/2020	Active pos.	Contribution
Dongfeng Motor Group Co Ltd	3.0	1.5
Alibaba Group Holding Ltd	- 3.1	1.1
Baidu Inc	1.7	0.8
Lenovo Group Ltd	2.8	0.7
Zhuzhou Crrc Times Electric Co Ltd	2.3	0.3

Major detractors (%)

As at 31/12/2020	Active pos.	Contribution
China Mobile Ltd	5.2	- 1.4
Pinduoduo Inc	- 1.5	- 1.1
China Life Insurance Co Ltd	5.8	- 1.1
Nio Inc	- 1.7	- 1.1
CNOOC Ltd	3.1	- 0.6

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