

# Fidelity China Fund

## Quarterly report

As at 31/12/2022

### Fund description

Invests in 60 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:** Nitin Bajaj / Alice Li

**Benchmark:** MSCI China Index NR

**Inception date:** 29/09/2005

**Fund size:** AU\$40.39M

**Number of stocks:** 60 to 80

**Management cost:** 1.20% p.a.

**Buy/sell spread:** 0.30%/0.30%

### Portfolio guidelines

**Stocks:** +5% overweight

**Sector:** +20% from benchmark

**Cash:** Target range between 0% and 10%

### Top 10 holdings (%)

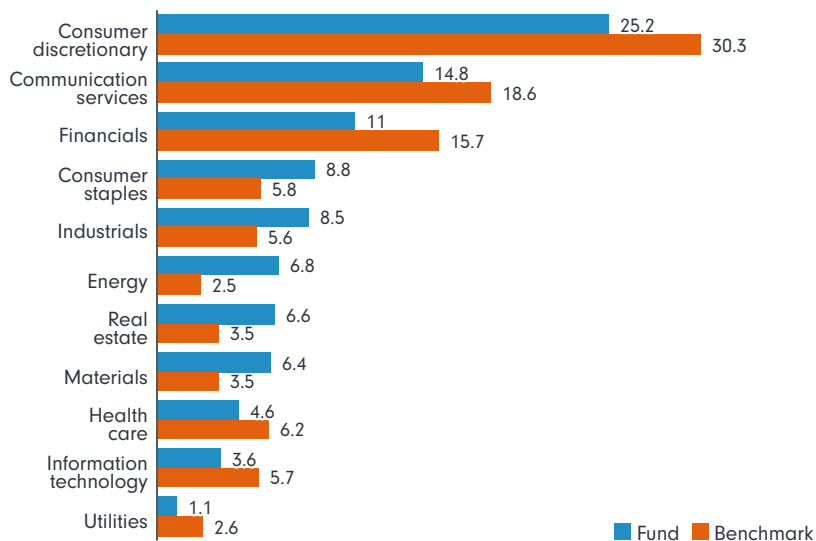
	Fund	B'mark
Alibaba Group Holding Ltd	10.7	8.0
Tencent Holdings Ltd	6.2	13.1
Focus Media Information Technology Co Ltd	4.4	0.0
China Construction Bank	3.4	3.0
Industrial & Commercial Bank China	3.4	1.5
Baidu Inc	3.3	1.5
Zhongsheng Group Holdings Ltd	3.3	0.2
China Res Ld Ltd	3.1	0.7
Boc Aviation Ltd	2.8	0.1
China Yongda Auto Svc Holding Ltd	2.7	0.0

### 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	3.63	8.15	-4.35	5.21	-0.49	2.18	6.24	10.48	4.93	11.05
MSCI China Index NR	3.89	7.62	-10.79	-16.30	-6.39	-1.78	4.07	6.88	2.15	7.73
<b>Excess return</b>	<b>-0.26</b>	<b>0.53</b>	<b>6.44</b>	<b>21.51</b>	<b>5.90</b>	<b>3.96</b>	<b>2.17</b>	<b>3.60</b>	<b>2.78</b>	<b>3.32</b>

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 %



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Note: Generally, a maximum sector position of  $\pm 10\%$  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.

# Quarterly report

## Market performance

Going into the quarter, China's growth outlook was clouded by a series of headwinds, including the rapid spread of Covid-19 infections, housing market conditions and the country's zero Covid-19 policy. Nevertheless, markets rebounded strongly during the tail end of the quarter, supported by strong foreign inflows into Chinese markets. A faster and earlier-than-anticipated border re-opening plan, which marks the end of China's Zero Covid Policy, lent support to the turnaround in Chinese market. A shift towards a pro-growth stance by Chinese authorities, which suggests more supportive economic policies and the end of regulatory scrutiny, also improved the country's economic outlook. On the property front, the recently introduced "16 measures" and "three arrows" to ensure property completions and to provide much needed funding support to developers to stem the property sector downturn were viewed positively. In another key development, China's 20th Communist Party Congress re-elected President Xi Jinping to a third consecutive term. The president has called for China to achieve 'common prosperity' through taxation and other income redistribution levers. In addition, the message from President Xi was clear: economic growth will be a key focus for China's policy direction, suggesting no departure from its economic goal. On the policy front, the central bank lowered the reserve requirement ratio (RRR) by 0.25 percentage points to release more liquidity into the system. On the economic front, China's Caixin manufacturing Purchasing Managers' Index (PMI) remained in contractionary territory over the quarter, primarily due to disruption from the massive COVID-19 outbreak in the country. China's Consumer Price Index (CPI) inflation eased in November, marking the lowest inflation rate since March, driven by a softer rise in food prices. However, uncertainties regarding global growth remain due to higher interest rates and weakened domestic demand given widespread Covid-19 cases.

## Fund performance

The Fund delivered 8.2%, while the index

returned 7.6%. Robust stock selection in industrials and materials enhanced gains. An overweight stance in consumer staples also added value. Conversely, selected names in communication services weighed on returns.

## Conviction holdings added value

Conviction positions in China and Hong Kong, including Focus Media Information Tech and Sinotruk Hong Kong, saw a trend reversal of sorts amid hopes of an economic re-opening.

Furthermore, Focus Media announced a special dividend, highlighting its management's commitment towards its shareholders. Zhaojin Mining added value after it announced that mining company Zijin Mining has initiated a partnership in its offshore project. Furthermore, an improving outlook for gold prices over the quarter and a slowing rate of interest rate increases as indicated by the US Federal Reserve boded well for the stock.

## Underweight in Chinese consumption names contributed

The internet sector suffered heavy losses amid regulatory concerns following the announcement of China's new leadership team earlier in the quarter, as investors remained cautious over the country's common prosperity goals. Against this backdrop, the underweight stance in online services platform Meituan and China's second largest e-commerce platform JD.com added relative value. Meituan also faced selling pressure after its key stakeholder Tencent Holdings announced that it would divest its stake in the food delivery major. Likewise, not holding electric vehicles (EV) manufacturer NIO enhanced relative gains, following ongoing concerns over demand momentum for EVs in China, which is the world's largest EV manufacturer.

## Selected communication services names pared gains

Our holding in search engine provider Baidu detracted from performance. Recent expectations of a consumption recovery amid China's reopening fell short of supporting its share price performance. Its core business remains structurally challenged given the declining importance of search engines.

Meanwhile, an underweight stance in Tencent pared gains as it rebounded amid improving sentiment towards Chinese equities. Brilliance

Auto Group continued to hold back gains as it has been suspended from trading since March 2021, and only recently resumed trading.

## Outlook

In the face of China's accelerated reopening and improving economic outlook, we continue to find attractive value opportunities in China. However, we typically do not position the portfolio based on macro prediction, thus, we believe investors should filter the noise and focus on fundamentals - individual companies with strong balance sheets and ability to generate stable, consistent cash flows with resilient business models. In our view, this involves investing in businesses run by competent and honest management teams, that generate good return on capital and are available at valuations that offer an attractive margin of safety. Over time, the quality of the business and its share price valuations will matter. Therefore, we continue to leverage our in-house proprietary research analyst resource and remain focused on bottom-up stock selection.

## Major contributors (%)

As at 31/12/2022	Active pos.	Contribution
Sinotruk Hong Kong Ltd	1.8	0.6
Nio Inc	-0.9	0.6
Zhaojin Mining Industry Co Ltd	0.7	0.4
Meituan	-4.9	0.3
Focus Media Information Technology Co Ltd	3.7	0.3

## Major detractors (%)

As at 31/12/2022	Active pos.	Contribution
Brilliance China Auto Holding Ltd	1.4	-1.3
Tencent Holdings Ltd	-5.4	-0.7
Ping An Ins Group Co China Ltd	-2.1	-0.4
Zhejiang Dahua Tech Co Ltd	1.3	-0.3
Wh Group Ltd	1.4	-0.3

Signatory of:



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