

Fidelity China Fund

Quarterly report

As at 30/06/2022

Subscribe now

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: Jing Ning

Benchmark: MSCI China Index NR

Inception date: 29/09/2005

Fund size: AU\$46.14M

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 (%)

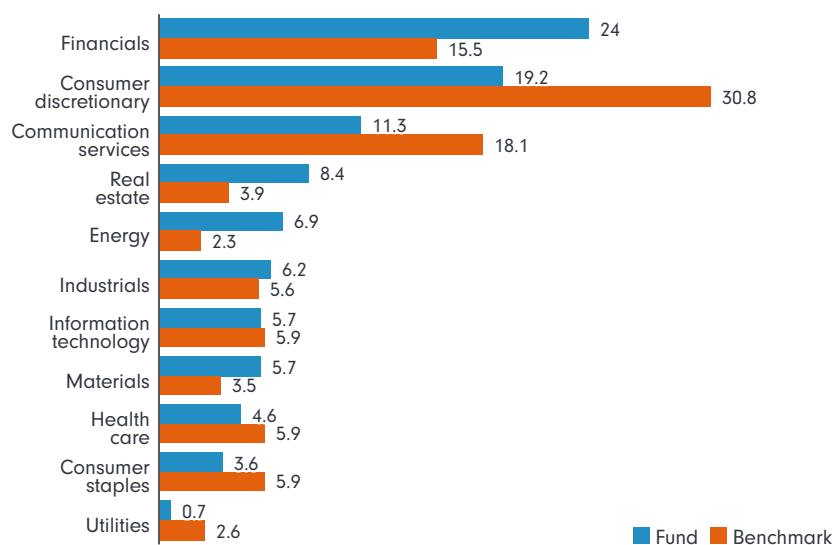
	Fund	B'mark
Alibaba Group Holding Ltd	10.6	9.4
China Life Insurance Co Ltd	5.2	0.6
China Construction Bank	4.7	2.8
Baidu Inc	4.0	1.8
Tencent Holdings Ltd	4.0	12.2
China Merchants Bank Co Ltd	3.6	1.5
Industrial & Commercial Bank China	3.4	1.6
Dongfeng Motor Group Co Ltd	3.2	0.1
China Overseas Land & Investment Ltd	3.1	0.5
China Res Ld Ltd	2.9	0.6

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	10.63	14.34	9.99	2.74	2.57	5.99	4.87	12.21	7.18	11.69
MSCI China Index NR	11.16	12.93	-6.18	-25.53	0.11	4.40	3.34	9.79	4.86	8.71
Excess return	-0.53	1.41	16.17	28.27	2.46	1.59	1.53	2.42	2.32	2.98

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 $\pm 10\%$ 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

Chinese equities gained in the second quarter. Investors turned optimistic about China's policies to stabilise growth, as easing Covid lockdowns, the reopening of major cities and a reduction in quarantine time for inbound travellers towards the second half of the quarter raised hopes for a recovery in demand. Later in the quarter, policymakers announced a package of measures covering fiscal, financial, investment and industrial policies to revive China's economy and help promote tax revenue growth and employment. The People's Bank of China (PBoC) pledged to provide monetary support to ensure ample liquidity. In April, the PBoC lowered its reserve requirement ratio for banks to inject long-term liquidity into the system. In May, the central bank cut the lower limit on interest rates on home loans for first-time purchasers to support demand and promote the healthy development of the property sector. This was followed by liquidity injections into the banking system via open market operations as demand for cash started to pick up in June. Positive macroeconomic data later in the quarter also lifted investor sentiment. China registered faster-than-expected GDP growth in the first quarter of 2022. Its consumer price index (CPI) inflation remained stable for the first two months of the second quarter compared to the West, leaving the door open for more monetary easing to boost domestic demand. Exports registered above-expectation growth in May, contributing to a higher trade surplus. Within financial services, new bank lending in China jumped more-than-expected in May and broader credit growth quickened as Beijing stepped-up policy support. However, uncertainties over global growth remain, as aggressive monetary policy tightening measures by the US Federal Reserve (Fed), and similar indication from European Union (EU) members may lead to a global slowdown. Sector performance was mixed, with consumer discretionary and consumer staples among the top gainers.

Fund performance

The position in housing transactions and services platform KE Holdings gained on

better than expected results in the first quarter. It reported profits, beating consensus expectations of a deep loss. Shares in China Life Insurance rose as its valuations turned attractive. The position in Zhuzhou CRRC Times Electric benefited from supportive policies for new energy vehicles, as it is a major supplier in the electric vehicle (EV) supply chain. Shares in Hansoh Pharmaceutical advanced as investors looked for defensive businesses with strong balance sheets in the current volatile environment. The underweight allocation to Meituan and not holding JD.Com detracted from performance as their shares advanced on expectations of a recovery in consumption following the re-opening of major cities and reduced mobility restrictions. Not holding automobile manufacturers BYD and Li Auto proved unfavourable as their shares rallied following indication that China would extend purchase tax exemptions for new energy vehicles.

Outlook

After a turbulent first quarter, Chinese equities gained in the second quarter, but experienced bouts of volatility as the general "risk-off" sentiment prevailed across major economies, including China. Investors turned optimistic as easing of Covid lockdowns, the reopening of major cities and a reduction in quarantine time for inbound travellers raised hopes of a demand recovery. The Chinese government announced a package of multiple measures covering fiscal, financial, investment and industrial policies to revive its economy and help promote tax revenue growth and employment. Meanwhile, there are structural changes, such as demographic and deglobalisation, underway. China's population growth of 0.034% was almost flat in 2021, signalling a decline in China's working age-population in the long term. China's dramatic growth has been fuelled by its industry sector since decades, and undoubtedly remains a powerful contributor to the nation's income. More recently, the service sector, known as the "new economy", has shown a growing global presence in wholesale and retail trade and information services. These two pillars should enable China to grow its GDP in the future. The Chinese government's stimulus measures are expected to be channelled to traditional sectors such as property, infrastructure and automobile; sectors related

to green projects, green renewable energy/ utilities and fifth-generation (5G) related infrastructure could also benefit. From a style perspective, the relative outperformance of value stocks started to moderate in the second quarter. We divide the stylistic value rotation into three phases. The first phase was quite dramatic and short in duration and generated high relative returns for value stocks within a short span of time. The second phase witnessed a more gradual value rotation, mostly in the energy, financials and industrials sectors. Inflation consensus expectations started building up during this phase. We are currently in the third phase, in which inflation is a consensus expectation and the market has started to build stagflation expectations. Markets are increasingly volatile, with downside risks to growth. The biggest macroeconomic driver behind this stylistic rotation into value stocks, i.e., inflation, is priced in to markets, though value rotation remains a medium-term theme. Markets currently appear to be more balanced in terms of growth versus value stocks. However, we do not expect a sustainable growth rally in the medium term. We believe that the dividend yield play is still under appreciated by markets, especially for those companies with a strong balance sheet and the capability to pay or grow dividends.

Major contributors (%)

As at 30/06/2022	Active pos.	Contribution
Brilliance China Auto Holding Ltd	0.4	1.8
Alibaba Group Holding Ltd	-1.6	0.9
CNOOC Ltd	2.4	0.7
Tencent Holdings Ltd	-5.9	0.6
Ke Holdings Inc	1.4	0.5

Major detractors (%)

As at 30/06/2022	Active pos.	Contribution
Meituan	-4.0	-0.8
Byd Co Ltd	-1.6	-0.5
Lenovo Group Ltd	2.6	-0.5
Pinduoduo Inc	-1.0	-0.5
Li Auto Inc	-0.7	-0.3

Signatory of:



[fidelity.com.au](https://www.fidelity.com.au)



This document is intended for the general information of financial advisers and wholesale clients only. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ("Fidelity Australia"). Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity International. **Prior to making an investment decision, retail clients should seek advice from their financial advisers.** This document has been prepared without taking into account your objectives, financial situation or needs. You should consider these matters before acting on the information. You should also consider the relevant Product Disclosure Statements ("PDS") for any Fidelity Australia product mentioned in this document before making any decision about whether to acquire the product. The PDS can be obtained by contacting Fidelity Australia on 1800 044 922 or by downloading it from our website at www.fidelity.com.au. The relevant Target Market Determination (TMD) is available via www.fidelity.com.au. This document may include general commentary on market activity, sector trends or other broad-based economic or political conditions that should not be taken as investment advice. Information stated herein about specific securities is subject to change. Any reference to specific securities should not be taken as a recommendation to buy, sell or hold these securities. While the information contained in this document has been prepared with reasonable care, no responsibility or liability is accepted for any errors or omissions or misstatements however caused. This document is intended as general information only. The document may not be reproduced or transmitted without prior written permission of Fidelity Australia. The issuer of Fidelity's managed investment schemes is FIL Responsible Entity (Australia) Limited ABN 33 148 059 009. Reference to (\$) are in Australian dollars unless stated otherwise. © 2022 FIL Responsible Entity (Australia) Limited. Fidelity, Fidelity International and the Fidelity International logo and F symbol are trademarks of FIL Limited.