Fidelity China Fund

Quarterly report

As at 30/06/2023

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$40.53M
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 (%)

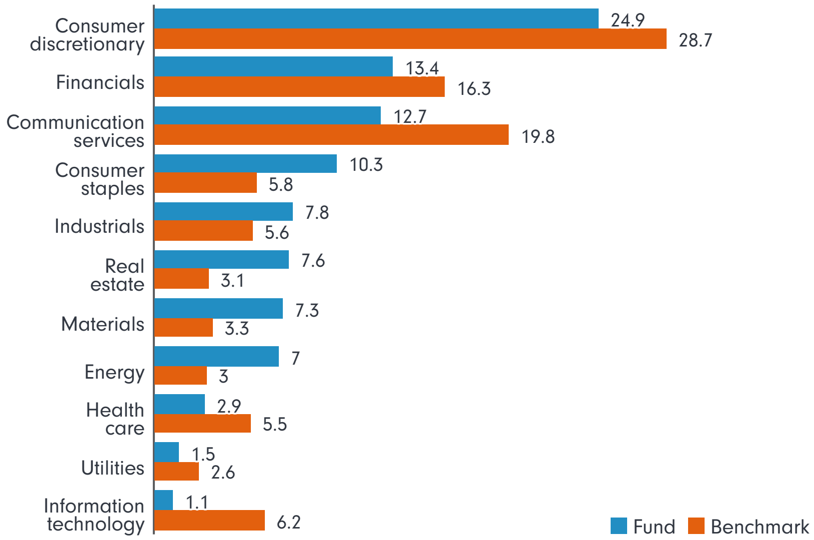
	Fund	B'mark
Alibaba Group Holding Ltd	8.4	8.7
Tencent Holdings Ltd	6.3	13.3
Focus Media Information Technology Co Ltd	4.4	0.0
China Construction Bank	4.2	3.2
Industrial & Commercial Bank China	4.2	1.6
Boc Aviation Ltd	3.0	0.1
China Merchants Bank Co Ltd	2.9	1.2
Galaxy Ent Group Ltd	2.7	0.0
Sinotruk Hong Kong Ltd	2.6	0.0
Petrochina Co Ltd	2.5	0.8

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	1.89	-7.73	1.10	-3.29	3.51	1.46	7.20	10.03	7.64	10.79
MSCI China Index NR	1.08	-9.15	-3.68	-14.07	-9.24	-3.28	4.57	6.38	4.61	7.28
Excess return	**0.81**	**1.42**	**4.78**	**10.78**	**12.75**	**4.74**	**2.63**	**3.65**	**3.03**	**3.51**

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.

Quarterly report

Market performance

Chinese stocks pared most of the gains seen in the previous quarter. Despite stronger-than-expected quarterly GDP growth following the initial reopening boost earlier in the year, investors' perception of the degree and the pace of China's recovery remained muted following some rather weak and patchy April activity data. While service data has been relatively strong, demand for goods was mixed, as consumer confidence remain muted, stemming in part from record high levels of youth unemployment. Meanwhile, rising geopolitical tensions with the US led to questions around the viability of investing in China, which led to a cautious sentiment towards the market. This, in turn, led to investors pulling back return expectations for the world's second-largest economy, which took a toll on its equity market. However, market sentiment improved after the PBoC cut the rate on its medium-term lending facility by 10 Basis points. The prospect of more stimulus measures to support the economy further bolstered the sentiment. Indeed, compared to the West, low inflationary pressures in China have given the PBoC more legroom to pursue accommodative monetary policies to support households and corporate balance sheets. On the economic front, during the quarter, China's Caixin manufacturing PMI entered expansionary territory. However, the pace of manufacturing PMI marginally weakened towards the tail end of the quarter, as the impact of subdued global demand weighed on export orders.

Fund performance

BOC Aviation gained following recent upbeat management guidance on the demand outlook for aircraft leasing. The company has a long runway for growth, with solid leasing demand for aircraft against relatively tight supply, net lease yield recovery and an expansion in new growth opportunities. The increasingly lower financing rate received by BOC Aviation versus its closest peers implies that the company is likely to gain market share via potential industry consolidation among top tier lessors. Sinotruck Hong Kong advanced on expectations of solid demand growth in the HDT industry. The company is expected to benefit from potential re-opening recovery, which is likely to have a positive impact on HDT sales in the near term. Also adding value were our positions in PetroChina and China Petroleum and Chemical Corporation. Despite crude oil price decreased during the period, PetroChina managed to maintain stable gas margin, attributing in part to China domestic gas price reform, while China Petroleum and Chemical Corporation remains defensive with stronger than expected refining oil business recovery. China Yongda and Zhongsheng Group slid due to weakening auto demand and intensifying price wars from EV sales in China. Nevertheless, we retain conviction in China Yongda, as it has a robust balance sheet with solid cash flow and as management is willing to return capital to investors. Moreover, its current valuation offers a high margin of safety. In addition, the growth of used car sales should offset some of the margin pressure on new cars. For Zhongsheng, margins for new cars appear to have bottomed out, while aftersales services remain intact and offer a solid cornerstone for profits.

Outlook

Ten months ago, if we told you that China will reopen quickly from strict pandemic lockdowns, we doubt you would have expected such positive progress. And yet, it did. Then, just after the widespread excitement, investors euphoric about reopening soon realised that the recovery in China would be rather slow and patchy. Recent activities in Chinese market have been once again, a useful reminder of why macroeconomic predictions can be misleading and are not necessarily a good guide to predict what direction stock markets may take. Calling macro is not our strong point. In dealing with a market with sentiment often swinging between polarised hype and pessimism, the right question may first be where do we want to avoid making mistakes, where there are really changes that are taking place in the fundamentals of economies, in the fundamental of businesses and in the fundamentals of management teams instead of headlines and data points we see come across electronic devices that are capturing people's attention in the short-term but not really driving the real value in the long-term. Therefore, the core of our approach remains owning good businesses with superior return on capital, that are managed by competent and honest teams, and available at reasonable prices with sufficient margin of safety. This way allows us to bottom-up position the Fund with our very best individual stock ideas and to focus on businesses we own - in assessing the business model, their vulnerabilities and strengths, in judging the competence of management teams and in trying to figure out their intrinsic value. Having said that, opportunities do thrive amid environment like this, particularly areas that might be overlooked by others. China's domestic economy is still healthy and robust - a vibrant domestic consumption economy and a system which continues to invest heavily in education, healthcare and R&D and with world leading capabilities in manufacturing goods. At the same time, the disconnect between the market's expectation and the reality of the current recovery has left Chinese equities trading at the lower end of their historical levels, and at significant discount to that of other key global economies, which in turn, offers an array of risk reward opportunities. We firmly believe that if we truly stick to our process and stay disciplined, we should be well positioned in the medium term irrespective of market and style cycles and we'll be rewarded in the long term.

Major contributors (%)

As at 30/06/2023	Active pos.	Contribution
Sinotruk Hong Kong Ltd	2.0	0.6
Petrochina Co Ltd	2.2	0.6
Boc Aviation Ltd	2.6	0.4
Lao Feng Xiang Co Ltd	1.1	0.4
Tencent Holdings Ltd	-7.4	0.3

Major detractors (%)

As at 30/06/2023	Active pos.	Contribution
Yixingtang Pharmaceutical Co Ltd	1.7	-0.4
Netease Inc	-1.8	-0.3
China Yongda Auto Svc Holding Ltd	2.1	-0.3
Li Auto Inc	-0.8	-0.3
Zhongsheng Group Holdings Ltd	2.4	-0.3

Signatory of:

PRI Principles for Responsible Investment

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