Fidelity China Fund

Quarterly report

As at 31/03/2021

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$64.39M
Number of stocks: 70 to 80
Management cost: 1.20% p.a.
Buy/sell spread: 0.40%/0.40%

Portfolio guidelines

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

Top 10 holdings (%)

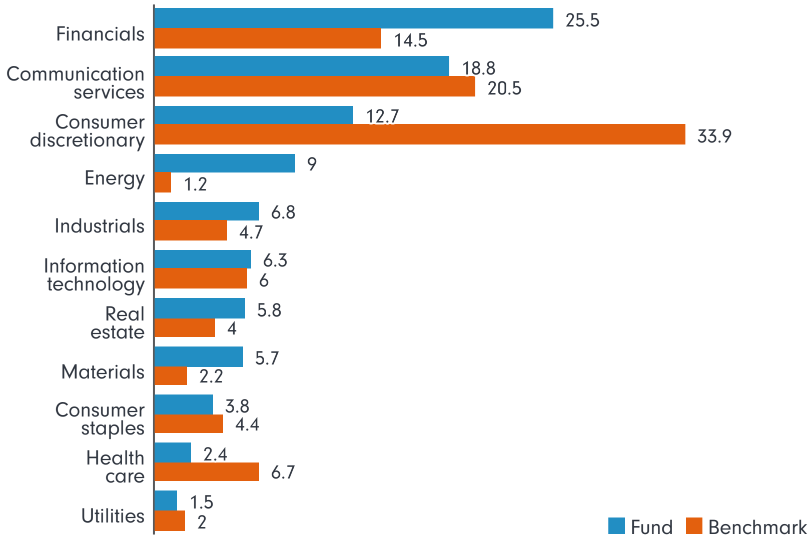
	Fund	B'mark
China Mobile Ltd	6.4	0.0
China Life Insurance Co Ltd	6.2	0.5
Tencent Holdings Ltd	5.9	14.8
Alibaba Group Holding Ltd	5.7	14.1
China Construction Bank	5.6	2.7
Lenovo Group Ltd	4.3	0.3
Industrial & Commercial Bank China	4.3	1.5
CNOOC Ltd	3.8	0.0
Baidu Inc	3.8	1.9
Dongfeng Motor Group Co Ltd	3.1	0.1

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	-0.16	9.29	11.77	3.71	3.02	11.60	13.06	9.82	10.55	12.52
MSCI China Index NR	-4.74	0.88	4.20	15.41	8.50	16.32	14.52	10.59	9.79	11.28
Excess return	**4.58**	**8.41**	**7.57**	**-11.70**	**-5.48**	**-4.72**	**-1.46**	**-0.77**	**0.76**	**1.24**

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 started the year on a positive note but declined towards the end of the period and ended largely flat over the first quarter. The upbeat sentiment from positive economic data was somewhat weighed down by worries about tighter financing conditions and rising short-term interest rates, which spurred talks of further policy tightening by Chinese monetary authorities. Risks emerging from bubbles in global financial markets and China's property sector also led to concerns about a reduction in stimulus measures. The People's Bank of China maintained a flexible policy stance, leaving its prime lending rate unchanged for an eleventh straight month at its March meeting. Meanwhile, simmering US-China tensions and new sanctions from Western allies against China over human rights charges also hurt risk appetite. The Chinese economy expanded by 2.3% in 2020. While this was the slowest pace of growth in decades, it is the only major economy to have avoided an economic contraction in a pandemic hit year, supported by a strong recovery after weeks of lockdown in early 2020. Over the quarter, China's growth stocks lagged their value peers in response to a sharp rise in US Treasury yields. Among sectors, energy producers advanced due to rising oil prices, while higher interest rate expectations lifted financials and utilities stocks. Information technology (IT) and consumer staples stocks declined the most.

Fund performance

The Fund's outperformance was driven by the sector rotation into selected value-oriented high-quality stocks in which the fund holds an overweight position.

Preferred holdings outperformed

The position in Lenovo gained on the back of improving fundamentals, which drove strong share price performance. In addition to sustained high demand for personal computers, its service business is gaining traction, which bodes well for higher margins and better earnings visibility than pure hardware sales. The server business is bottoming out and Lenovo is well positioned to capture the uptrend with its best in class product and software suite. Preferred holdings in China Mobile and CNOOC, which were negatively impacted by geo-political tensions and lagged the growth rally in 2020, rose over the quarter as investors favoured their strong fundamentals and attractive valuations.

Profit taking hurt selected positions

State-owned automobile manufacturer Dongfeng Motor declined as investors locked-in profits following its strong share price performance. The stock trades at attractive valuations and has strong fundamentals due to more proactive management and earnings growth from joint ventures with leading Japanese automakers such as Nissan and Honda. Investors rotated out of China Life Insurance in favour of other insurers that offer strong growth in the near term. However, China Life's long-term growth prospects look attractive as the company has undertaken reforms that focus on quality over quantity, which should yield strong new business value (NBV) growth over the long term.

Outlook

China is expected to continue with its V-shaped recovery, given the steady revival in growth in 2021. The latest economic indicators, many of which have beaten expectations, prompted upward revision in consensus GDP growth forecast for 2021. The strong revival 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, the overall policy response is likely to remain targeted towards long-term development plans. These include promoting technology innovation, accelerating economic restructuring and adjusting income distribution.

Value stocks have started to outperform growth stocks in China. The case for a mean-reversion leading to value outperformance in 2021 is particularly compelling. Firstly, growth outperformed value significantly in 2020, which resulted in the MSCI China Growth index trading at high multiples on forward earnings. Secondly, the macroeconomic environment is conducive for a value rotation, driven by diminishing negative impact on earnings from COVID-19, a re-acceleration in global economic growth and a bottoming out of bond yields.

The prospect of normalisation in economic activity bodes well for an earnings recovery in cyclical sectors, which have lagged the growth rally in 2020. China's consumers could emerge as key drivers 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 the earnings outlook is also likely to see investors moving out of 'crowded trades' in selected growth-oriented sectors that was witnessed in 2020. Conditions are conducive for a more balanced performance in Chinese equities in 2021. Effective virus containment, the rise of the digital economy and continued structural and market reforms are likely to continue to support the outlook for Chinese equities.

Major contributors (%)

As at 31/03/2021	Active pos.	Contribution
Lenovo Group Ltd	3.7	1.6
China Mobile Ltd	6.2	1.2
CNOOC Ltd	3.8	0.6
Pinduoduo Inc	-2.3	0.6
Xiaomi Corp	-1.8	0.5

Major detractors (%)

As at 31/03/2021	Active pos.	Contribution
Dongfeng Motor Group Co Ltd	3.1	-0.7
Zhuzhou Crrc Times Electric Co Ltd	2.6	-0.3
China Life Insurance Co Ltd	5.5	-0.3
Country Garden Services Holdings Co Ltd	-0.4	-0.2
Tencent Holdings Ltd	-3.3	-0.2

fidelity.com.au