

Fidelity China Fund

Quarterly report

As at 31/03/2023

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\$45.26M

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 (%)

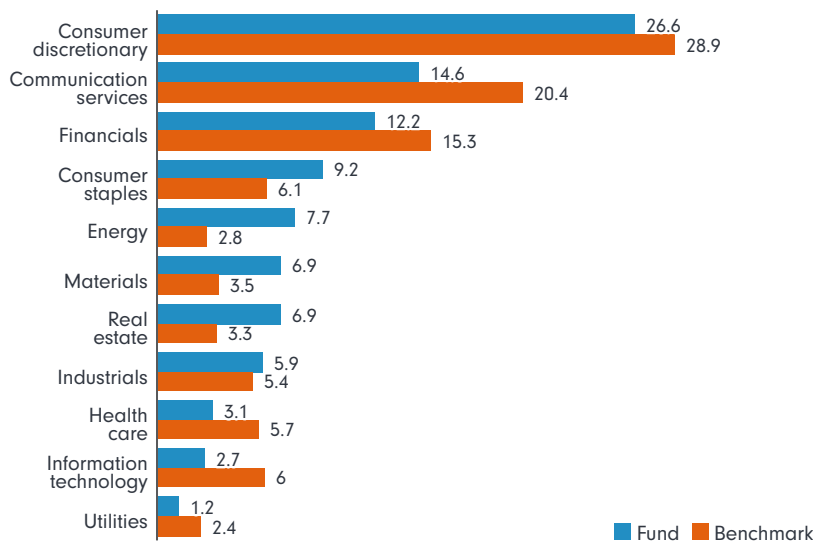
	Fund	B'mark
Alibaba Group Holding Ltd	11.2	8.8
Tencent Holdings Ltd	6.5	14.3
Focus Media Information Technology Co Ltd	4.2	0.0
China Construction Bank	3.5	2.9
Industrial & Commercial Bank China	3.5	1.5
Petrochina Co Ltd	3.1	0.6
Baidu Inc	3.0	1.9
China Res Ld Ltd	2.9	0.7
China Petroleum & Chem Corp	2.9	0.8
Zhongsheng Group Holdings Ltd	2.8	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	6.45	9.58	18.51	19.85	3.65	3.26	9.26	11.68	7.77	11.46
MSCI China Index NR	5.23	6.02	14.10	6.82	-5.52	-1.37	6.52	8.05	4.68	7.98
Excess return	1.22	3.56	4.41	13.03	9.17	4.63	2.74	3.63	3.09	3.48

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 ended the first quarter of 2023 on a positive note and outperformed the broader Asian market amid optimism over China's re-opening earlier in the year.

Investors favoured Chinese equities for their attractive valuations and an upbeat outlook for a consumption-led recovery. Sentiment further strengthened following favourable policy shifts for internet and gaming industries, and an improvement in some macroeconomic data. Additionally, the ailing property sector saw continuous policy support, including a balance sheet improvement at quality developers and a dynamic adjustment mechanism on mortgage rates for cities that reported a price decline for three consecutive months. However, notwithstanding recent marginal improvements, inflationary pressure remained high in most global markets, thus driving major central banks to announce rate hikes during the quarter. Rising geopolitical tensions between the US and China also led to some profit taking post the market rally at the start of the year. The recent banking crises in the West and concerns about global economic development also added to regional market volatility in the latter part of the quarter. On the policy front, the People's Bank of China (PBoC) cut the reserve requirement ratio (RRR) by 0.25 percentage points, signalling its aim to meet liquidity demand amid the ongoing economic recovery. Compared to the West, China's inflation remained at a lower level, with prices of both food and non-food easing in the recent reading. This has given the PBoC more leeway to pursue accommodative monetary policies to spur much-needed economic growth. On the economic front, during the quarter, China's Caixin manufacturing Purchasing Managers' Index (PMI) returned to expansionary territory for the first time since July 2022. However, the pace of manufacturing PMI weakened towards the tail end of the quarter as the impact of subdued global demand weighed on new export orders.

Fund performance

The Fund delivered 9.6% net of fees, while the index returned 6.0%. Robust stock selection in the Chinese consumption and information technology sectors enhanced gains. An overweight stance in energy also added

value. Conversely, an underweight allocation to selected names in communication services weighed on returns. Within internet sector, an underweight stance in online services platform Meituan and e-commerce company JD.com added relative value. In addition to geopolitical turmoil, investors remained concerned over intensifying competition and potential margin pressure in the Chinese e-commerce space, which led to a selling spree during the quarter. Elsewhere in energy, shares of PetroChina and China Petroleum and Chemical Corporation took gains amid recent OPEC oil production cut and an uptick in demand due to recovery in China. Holdings in internet search engine related companies Baidu and Zhejiang Dahua Tech gained on news flows that they have set up a development team to work on a ChatGPT-like chatbot. The subsequent supportive statements from China's Ministry of Science and Technology, which expressed its desire to push for the integration of artificial intelligence into Chinese society and economy, buoyed sentiment towards these stocks. On contrary, an underweight stance in Tencent and NetEase weighed on relative returns. Their share price was further boosted as the technology giant received new game licenses from the Chinese regulators earlier in the year. This strengthens the view that the official rhetoric turned notably more positive, suggesting that regulatory pressure on the gaming sector has somewhat eased, and the industry will therefore experience a cyclical uptrend going forward. Chinese automobile dealers China Yongda and Zhongsheng Group declined following weaker overall automobile demand in China, rising production costs, fading automobile subsidies and intensifying price wars.

Outlook

Whilst western policymakers and central banks are still wrestling with sticky inflation and banking sector turmoil over the past few weeks, China's economy has rebounded rapidly despite still moderate sentiment. The overall pro-growth environment in China helps reverse its post reopening recovery. Following policymakers' accommodative measures, property sector and service activities continued stabilising and improving. All of which are well received by investors. However, China equities is not just a cyclical recovery story. As we come through the initial euphoria

of China's opening post Covid, we don't know what will surprise the global economy or how Chinese domestic policies holds. What we do know however, is that China has a very strong domestic economy with world leading capabilities in manufacturing of many goods, a vibrant domestic consumption economy and a system which continues to invest heavily in education, health care and research & development - essential building blocks for a healthy and robust economy. At the same time, Chinese market valuation remains at the historical low end, despite the recent rally, it is still trading on 11x price/earnings ratio - a significant discount to Western developed markets, suggesting more upside from re-rating. While cognisant of macroeconomic developments, we continue to adopt bottom-up stock selection process with a value-orientated approach and remain firmly focused on the fundamentals of the companies we own or want to own in our portfolio, based on our philosophy to own good businesses, managed by competent management teams, and are available at prices that leave sufficient margin of safety. By consistently doing so, we believe more attractive value opportunities will be found in China equity market.

Major contributors (%)

As at 31/03/2023	Active pos.	Contribution
Meituan	-4.2	1.2
Zhejiang Dahua Tech Co Ltd	1.3	1.0
Jd.com Inc	-2.6	0.8
Petrochina Co Ltd	2.1	0.5
Baidu Inc	1.8	0.5

Major detractors (%)

As at 31/03/2023	Active pos.	Contribution
Tencent Holdings Ltd	-7.2	-1.0
Boc Aviation Ltd	2.4	-0.3
Zhongsheng Group Holdings Ltd	2.9	-0.2
Netease Inc	-1.6	-0.2
China Yongda Auto Svc Holding Ltd	2.6	-0.2

Signatory of:



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