Fidelity China Fund

Quarterly report

As at 30/09/2022

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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$38.23M
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 (%)

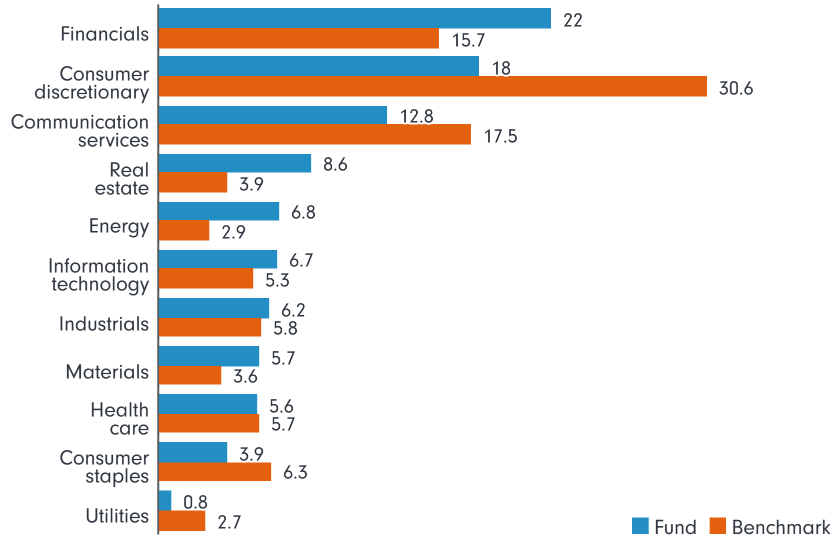
	Fund	B'mark
Alibaba Group Holding Ltd	9.0	8.4
Tencent Holdings Ltd	5.6	11.8
China Construction Bank	4.8	3.1
China Life Insurance Co Ltd	4.6	0.6
Baidu Inc	4.1	1.8
China Merchants Bank Co Ltd	3.5	1.3
Industrial & Commercial Bank China	3.2	1.6
China Res Ld Ltd	2.9	0.7
China Overseas Land & Investment Ltd	2.8	0.6
Ke Holdings Inc	2.8	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	-5.01	-11.56	1.13	-7.18	-0.74	2.05	5.69	10.72	4.35	10.71
MSCI China Index NR	-8.89	-17.11	-6.39	-27.42	-5.69	-1.72	3.04	7.41	1.45	7.39
Excess return	**3.88**	**5.55**	**7.52**	**20.24**	**4.95**	**3.77**	**2.65**	**3.31**	**2.90**	**3.32**

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 equities declined in the third quarter. Investors remained cautious of headwinds, including the country's zero-COVID policy and lingering weakness in the housing market despite stimulus measures from both the central and local governments. Consumer demand and confidence was also weak. Nevertheless, the country has seen some positive developments, including progress on the audit dispute over Chinese ADRs and support from the Chinese Central Bank and the government to ramp up the COVID-ravaged economy. Lower inflationary pressures allowed the People's Bank of China (PBoC) to maintain an accommodative monetary policy stance versus regional peers. In a series of cash injections, the central bank injected roughly more than 200 billion RMB during the quarter to help manufacturers upgrade their equipment. Furthermore, in an effort to fight against the renminbi's weakness, the PBoC increased the foreign exchange risk reserves requirement for financial institutions, making it more expensive to bet against the currency. Extended woes in the property sector led regulators to urge lenders to extend loans to qualified housing projects. Regulators also plan to set up a real estate fund to provide financial support to selected developers. On the economic front, China's Consumer Price Index (CPI) inflation remained stable for the first two months of the quarter, leaving the door open for more monetary easing by the PBoC to boost domestic demand. China's official manufacturing Purchasing Managers' Index (PMI) further eased and remained in contractionary territory amid declining exports. However, uncertainties over global growth exist, as aggressive rate hikes by the US Federal Reserve may lead to a global slowdown.

Fund performance

Preferred holdings in real estate and health care added value

The position in medical consumables supplier Shandong Weigao advanced after it reported robust revenues for the quarter and improved efficiency in its cost management. The company has diverse business lines, making it resilient against various policy changes and risks. Shares in housing transactions company KE Holdings supported performance as it reported healthy results. A positive outlook for company-operated Beike, a platform for housing transactions and services, further buoyed investor sentiment.

Overweight allocation to energy sector proved rewarding

The position in energy enterprise China Shenhua Energy added relative value. The firm offers a desirable investment target due to the sector's modest valuation, relatively high dividend ratio and increasing coal prices. The stock generates robust free cash flow yields and has a significant cash balance, which it uses to pay attractive dividend yields.

Selected positions and underweight stance in growth names held back gains

An underweight allocation to consumer discretionary company Meituan detracted from performance. Investor confidence strengthened as it delivered better-than-expected quarterly results. It also reported resilient delivery service and narrowed new initiative losses. In addition, the position in China Merchants Bank fell as the sector suffers from weak loan demand from its corporate and retail client base given the slowdown in the economy.

Outlook

Chinese equities gained in the third quarter, but experienced bouts of volatility given the general "risk-off" sentiment across major economies. Concerns deepened over rising COVID cases towards the latter part of August. The Chinese economy is now facing a number of challenges and the market has witnessed several uncertainties, including COVID outbreaks, property sector slowdown, rising geopolitical tensions and global inflation fears. Investor sentiment also added to price fluctuation, which in turn, presents opportunities for contrarian investors. Because the market can be like a pendulum, approaching one extreme may result in a high chance for mean reversion to take effect. We believe that China is never worry-free, and eventually will be able to muddle through these uncertain times as the country exhibits resilience. Importantly, fundamentals in the Chinese market are quite good compared to other emerging markets and even some developed markets.

Valuations of Chinese stocks are currently more reasonable. After the correction in late 2021, the most extreme bubbles have been squeezed. In terms of monetary and fiscal policies, the cycle in China is almost opposite that of other major markets. The Chinese government announced a package of fiscal and monetary measures to revive its economy. China's dramatic growth has been fuelled by its industry sector for decades, and the sector 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 with both the 'new' and 'old China' sectors offering interesting opportunities.

Additionally, as inflation is likely to stay, we expect energy prices to remain high. While inflation has been priced into the market, value rotation remains a medium-term theme, with a more balanced outlook for growth vs. value stocks. We also 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 consistently pay or grow dividends. In the next couple of years, the ability to generate income will be as important as the capability to generate growth, given that dividends can generate an outsized contribution to total returns over the medium to long-term and provide a cushion during volatile market conditions.

Major contributors (%)

As at 30/09/2022	Active pos.	Contribution
Shandong Weigao Med Pol Co Ltd	1.4	0.5
Brilliance China Auto Holding Ltd	2.1	0.5
Ke Holdings Inc	1.9	0.5
China Shenhua Energy Co Ltd	1.7	0.5
China Petroleum & Chem Corp	1.4	0.3

Major detractors (%)

As at 30/09/2022	Active pos.	Contribution
Meituan	-4.3	-0.4
Pinduoduo Inc	-1.3	-0.3
Yum China Holdings Inc	-1.0	-0.2
Dongfeng Motor Group Co Ltd	2.8	-0.2
Bank Of China Ltd	-1.4	-0.2

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PRI Principles for Responsible Investment

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