

Fidelity China Fund

Quarterly report

As at 30/09/2023

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\$36.78M

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 (%)

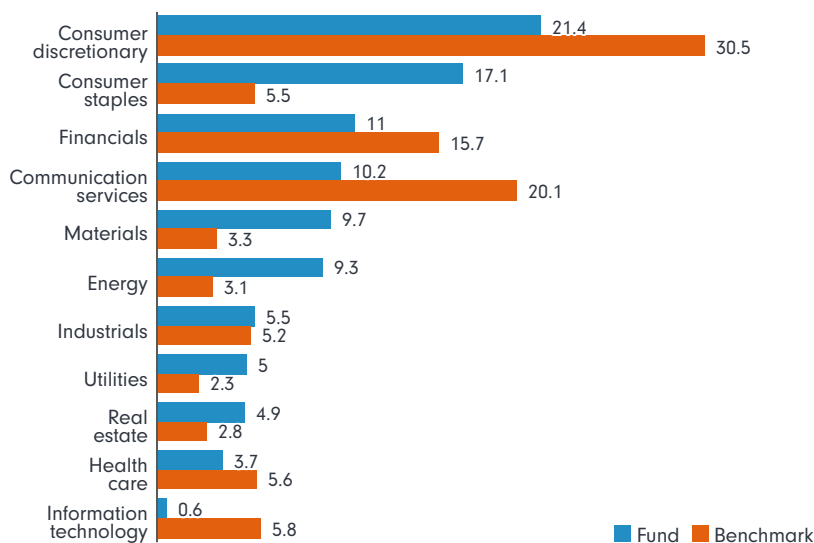
	Fund	B'mark
Wh Group Ltd	5.4	0.0
Enn Energy Holdings Ltd	5.0	0.3
Focus Media Information Technology Co Ltd	5.0	0.0
Tencent Holdings Ltd	4.8	13.4
Beijing Oriental Yuhong Waterproof Technology Co Ltd	4.8	0.0
Galaxy Ent Group Ltd	4.7	0.0
China Mengniu Dairy Co	4.5	0.5
Zhongsheng Group Holdings Ltd	4.1	0.1
Industrial & Commercial Bank China	4.0	1.7
Alibaba Group Holding Ltd	4.0	9.2

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	-1.26	-1.35	-8.98	7.87	2.99	1.07	5.73	8.73	8.09	10.55
MSCI China Index NR	-2.41	1.14	-8.12	4.84	-11.22	-1.94	3.21	5.51	5.35	7.24
Excess return	1.15	-2.49	-0.86	3.03	14.21	3.01	2.52	3.22	2.74	3.31

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

Investor sentiment was adversely impacted by subdued macroeconomic data releases earlier in the quarter and renewed stress on the financials and real estate sectors. China's ailing property market continued to struggle as developers grappled with mounting debt and unsold inventory after years of overexpansion. These recent challenges have had a trickle-down effect on consumer confidence. However, Chinese authorities stepped up their supportive stance, indicating the top leadership's recognition of the underlying issues and their willingness to prop-up growth and ensure financial stability. Policymakers unveiled further easing of mortgage policies alongside other stimulus measures aimed at the automobile, services and infrastructure industries, among others. To boost confidence in the country's flagging stock market, authorities also reduced the stamp duty on stock trading by almost half and lowered margin requirements. Moreover, towards the tail end of the quarter, the People's Bank of China (PBoC) lowered the reserve requirement ratio for banks to further support government spending and stoke economic growth. On the economic front, the country's factory activity entered into expansionary territory (above 50) during the quarter, as indicated by China's Caixin manufacturing PMI, primarily led by growth in export orders, signalling a potential improvement in external demand conditions over the near term. In this environment, energy and financials were the leading performers, while real estate, IT and consumer discretionary were among the notable laggards.

Fund performance

ENN Energy faced a sell-off after it reported lacklustre earnings and weaker than expected growth guidance in its recently released results. The market seems to have priced in all the negatives. However, we think the management has given a rather conservative FY24 guidance while the recent massive stock plunge is overdone. Now with its valuation at the bottom, we believe this presents attractive risk reward, offering good upside potential. Elsewhere, the position in aircraft leaser BOC Aviation fell as investors priced in the impact of a prolonged interest rate hiking cycle on the company's profitability in the near term,

which put the cost of funding pressure on the company. Nonetheless, with its best-in-class management and large exposure to high growth markets in Asia vs peers, we believe the company is set to benefit from an increase in lease rates, driven by a cyclical recovery and market share gains. Chinese automobile dealers China Yongda Auto Services and Zhongsheng Group slid amid intensifying price wars and rising competition among EV makers in China. This led to some profit taking in the stocks. Demand for EVs is seeing strong upside potential amid an array of supportive measures by Chinese policymakers to support sales, including an extended purchase tax break and the roll-out of high-quality charging infrastructure. We retain conviction in China Yongda as it has a robust balance sheet with solid cash flow and as its management is willing to return capital to investors. In the consumption space, an underweight stance in PDD Holdings weighed on returns. The company advanced after its reported quarterly revenue and earnings exceeded market expectations. Positions in Brilliance China Automotive and Focus Media Information Technology supported performance as they fared well in light of improving fundamentals. Investor enthusiasm towards Brilliance China was buoyed by news flow around its board's decision to distribute a special dividend earlier in the quarter, which was well received by investors. Meanwhile, Focus Media Information Technology delivered robust results for the first half of 2023. Its management issued a promising outlook for 2023 and 2024, underpinned by a robust order book, effective cost controls and high margins. Holdings in China Hongqiao and China Oilfield Services also advanced. Investors remain optimistic about China Hongqiao's near-to-long-term prospects as renewables and the penetration of EVs gains importance in terms of driving aluminium demand. China Oilfield Services gained as its shares tracked oil prices higher.

Outlook

When China reopened there was a lot of optimism in the market, but it turned out the market euphoria was short-lived amid rather bumpy economic recovery. Consequently, there is a heightened perception of risks around investing in China, leading to a decline in stock prices. We do not pretend to know when the economy will turn around and we agree with quite a few of the reasons for negative sentiment around China. However, we feel

that these negative macro factors are transitory. Great investment opportunities often arise during economic downturns when investors are feeling most pessimistic. As a value investor, we believe this is probably the best time to invest in China as we are now able to buy these businesses when both expectations and valuations are low. By the time the turnaround emerges, we think valuations would have already moved upwards. Forecasting is difficult but we feel China has built a robust economy with good human and physical infrastructure. In the event of the housing bubble bursting, we may see some further negative events - which could impact short term numbers but in the medium term, we feel comfortable. Therefore, we will continue to follow the philosophy of owing good businesses run by competent and honest people and buy them with a margin of safety. We firmly believe that if we truly stick to this simple 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 30/09/2023	Active pos.	Contribution
Brilliance China Auto Holding Ltd	1.4	0.7
Focus Media Information Technology Co Ltd	4.8	0.5
China Oilfield Svcs Ltd	3.1	0.5
Tencent Holdings Ltd	-7.7	0.4
Picc Pty & Cas Co Ltd	1.2	0.4

Major detractors (%)

As at 30/09/2023	Active pos.	Contribution
Enn Energy Holdings Ltd	2.6	-1.1
Pdd Holdings Inc	-2.0	-0.8
Zhongsheng Group Holdings Ltd	3.0	-0.6
Shandong Weigao Med Pol Co Ltd	1.8	-0.6
China Yongda Auto Svc Holding Ltd	1.6	-0.4

Signatory of:



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