

CHINA OPPORTUNITIES FUND A-USD

30 SEPTEMBER 2018

Portfolio manager: Raymond Ma

Performance for 12 month periods in USD (%)

Performance over quarter in USD (%)

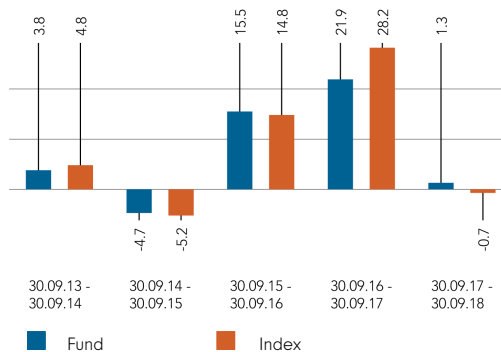
Fund -7.2

Market index -5.6

MSCI Zhong Hua Capped 10% (N)

Market index is for comparative purposes only.

Source of fund performance is Fidelity. Basis: nav-nav with income reinvested, in USD, net of fees. Other share classes may be available. Please refer to the prospectus for more details.



Market Environment

Worries over an economic slowdown in China against the backdrop of the trade war with the US dampened sentiment towards Chinese equities. Macroeconomic data also disappointed. Nonetheless, authorities unveiled a package of targeted stimulus measures to cushion the impact of the trade war, which helped to contain losses. In addition, the central bank injected record liquidity into the banking system and adjusted its methodology to calculate the Chinese yuan's daily reference rate as part of its efforts to stabilise the currency. On the economic front, second quarter GDP growth slowed compared to the previous quarter, due to the impact of Beijing's crackdown on debt risks and a sharp fall in factory output in June. In key developments, authorities approved major urban railway projects and pushed local governments to speed up the issuance of special bonds to fund infrastructure projects. Fear of further interest rate increases and currency turmoil in emerging markets weighed on Hong Kong equities. A slow down in fixed asset investment resulted in weaker-than-anticipated second quarter GDP. The Hong Kong Monetary Authority raised its base interest rate in line with the increase in the US interest rate, as the Hong Kong dollar is pegged to the US dollar. Overall, the information technology (IT) and consumer discretionary sectors were the key laggards. Conversely, energy, industrials and financials stocks ended in positive territory.

Fund Performance

The fund underperformed the index over the quarter, as selected holdings in the industrials and IT sectors came under pressure. Conversely, energy holdings supported gains.

Exposure to industrials and IT hampered performance

Among industrials, smart supply chain and logistics service provider BEST Inc retreated amid concerns over intensifying competitive pressures in its supply chain management and freight businesses. Nonetheless, the stock is favoured given its impressive fundamentals and robust long term growth prospects. It is also likely to be a beneficiary of New Retail initiatives, which is likely to drive secular demand for smart logistics. Within IT, the exposure to Chinese software and internet service company Kingsoft detracted from returns. Launch delays in its gaming business and competitive pressure in its cloud segment led to a full-year profit guidance downgrade.

Selected consumer staples held back gains

Yeast extract manufacturer Angel Yeast declined as foreign exchange losses, higher financial expenses and an increase in the income tax rate resulted in weaker-than-anticipated results.

Energy stocks contributed to returns

Chinese oil and gas company China Petroleum and Chemical Corporation advanced in light of healthy earnings aided by rising crude oil prices. Elsewhere, the position in Industrial and Commercial Bank of China enhanced gains as robust growth in fee income and benefits from economies of scale buoyed its earnings.

Fund Positioning

I continue to favour the "New China" theme. These sectors are expected to witness solid growth in the coming years due to technology advancements, changes in consumer behaviour and flexible business strategies. Furthermore, they are less sensitive to short-term policy shifts.

Overweight in insurers and energy stocks

The allocation to AIA Group is maintained given its defensive business model, differentiated product and distribution strategies, healthy balance sheet and robust earnings outlook. In the energy space, China Petroleum and Chemical Corporation offers strong cash flow generation, a robust dividend outlook and healthy prospects for unlocking value from its marketing business.

Positive on stocks with robust growth prospects

Industrial and Commercial Bank of China is held as it is a well-managed bank, with an improving margin outlook, robust asset quality and strong capital position. Integrated telecommunications operator China Unicom (Hong Kong) is preferred for its defensive business model, management's strong track record, healthy balance sheet and attractive valuations. Within the real estate sector, property developers China Resources Land and Wharf Real Estate Investment Company are favoured. The former has robust rental income prospects, superior operational efficiency compared to its peers, low borrowing costs, healthy balance sheet and attractive valuations. The latter is expected to benefit from a recovery in the retail market in Hong Kong, due to its strong foothold in the region's retail property market.

Important Information

Past performance is not a reliable indicator of future results. The fund's returns can be affected by fluctuations in currency exchange rates.

The value of investments and any income from them may go down as well as up and an investor may not get back the amount invested. The use of financial derivative instruments may result in increased gains or losses within the fund. This fund invests in emerging markets which can be more volatile than other more developed markets. Liquidity is a measure of how easily an investment can be converted into cash. Under certain market conditions assets may be difficult to sell.

Attribution

Performance attribution is produced in the currency shown below. For funds with multiple share classes, the attribution return reflects the aggregate performance across all the share classes. It may therefore deviate from the published return for a particular share class. When using the analysis for hedged share classes, please consider that the attribution is shown before the impact of hedging.

The contributions shown in the tables are before the impact of charges. If charges are applied, their effect is captured in the "Other" category in the tables and will also be reflected in the fund return.

All investments, including derivatives, linked to a particular issuing company have been combined to form a total percentage for each issuing company.

The sector/industry and country contribution tables (where relevant) display a maximum of eleven individual sectors/industries or countries. For funds investing in more than eleven sectors/industries or countries, only top five and bottom five are listed, with the contribution from other sectors/industries or countries shown in the "Other Sectors" or "Other Countries" category.

Currency of attribution US Dollar (USD)

Three month relative return (%) -1.64

Position Contribution (%)

3 months

	Average Relative Weight	Relative Performance Contribution		Average Relative Weight	Relative Performance Contribution
TOP CONTRIBUTORS			TOP DETRACTORS		
INDUSTRIAL & COML BK CHINA	2.6	0.20	BEST INC	0.4	-0.22
CHINA PETROLEUM & CHEM CORP	0.9	0.17	KINGSOFT CORP LTD	0.5	-0.20
AIA GROUP LTD	1.8	0.15	ANGEL YEAST CO LTD	0.8	-0.19
ZHUZHOU CRRC TIMES ELECTRIC CO LTD	0.7	0.15	AUTEK CHINA INC	0.8	-0.18
CNOOC LTD	0.6	0.15	SINO BIOPHARMACEUTICAL LTD	0.5	-0.15
CHINA RES LD LTD	1.4	0.13	HAN'S LASER TECHNOLOGY INDUSTRY GROUP	0.6	-0.14
COUNTRY GARDEN HLDGS CO LTD	-0.6	0.13	CHINA MERCHANTS BANK CO LTD	-0.7	-0.13
JD COM INC	-0.4	0.13	TENCENT HLDGS LTD	-0.7	-0.13
CHINA MOBILE LTD	0.8	0.13	YUNNAN BAIYAO GROUP CO LTD	0.4	-0.13
GEELY AUTOMOBILE HLDGS LTD	-0.5	0.10	JIANGSU HENGRUI MEDICIN CO LTD	0.8	-0.13

Positions in other funds - including ETFs (Exchange Traded Funds) - can appear in this table, but index derivatives form part of an "Index / Unclassified" category which will appear in the table(s) below when relevant.

Sector/Industry Contribution (%)

3 months

Country Contribution (%)

3 months

CONTRIBUTIONS TO RELATIVE RETURN

GICS Sector	Average Relative Weight	Security Selection	Sector/ Industry Selection	Total Relative Contribution
Energy	1.5	0.06	0.33	0.39
Real Estate	-1.9	0.25	0.12	0.36
Materials	-0.1	0.08	0.01	0.09
Consumer Staples	1.4	0.01	-0.03	-0.02
Communication Services	-0.9	-0.61	0.48	-0.13
Information Technology	0.2	-0.30	0.15	-0.14
Financials	-1.7	-0.18	0.03	-0.15
Consumer Discretionary	1.4	0.22	-0.41	-0.20
Utilities	-2.2	-0.08	-0.14	-0.22
Health Care	2.0	-0.80	0.34	-0.47
Industrials	-1.2	-0.47	-0.28	-0.75
Total Primary Assets	-1.6	-1.83	0.60	-1.23
Other*	1.6			-0.41
TOTAL	0.0			-1.64

CONTRIBUTIONS TO RELATIVE RETURN

	Average Relative Weight	Security Selection	Country Selection	Total Relative Contribution
Grand Cayman (UK)	0.0	0.00	0.00	0.00
Singapore	-0.5	-0.04	-0.03	-0.07
Hong Kong	-0.8	-0.23	-0.04	-0.27
China	-0.3	-0.89	0.00	-0.89
Total Primary Assets	-1.6	-1.17	-0.07	-1.23
Other*	1.6			-0.41
TOTAL	0.0			-1.64

*Other includes portfolio components not already listed such as cash, expenses and other miscellaneous items.

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