Wellington All-China Focus Equity Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

Global equities advanced in September buoyed by the combined impulse of a 50-basis point rate cut and a slew of stimulus measures from the Chinese government. The Fed's half-point cut was the largest downward policy rate adjustment in 4.5 years and market optimism was supported by growing expectation of an easier monetary policy environment as the Fed and other global central banks pursue lower rates to support growth and employment in the months to come. Despite the intensifying geopolitical tensions in the Middle East driven by direct but targeted strikes between Israel and Iran, investor reaction was largely muted.

Over the final days of September, Chinese and Hong Kong equities rallied sharply and erased losses for the year as animal spirit returned and was boosted by a comprehensive range of monetary and fiscal support packages aimed at reviving the world's second-largest economy. Tech, property and brokerage stocks led the gain on strong foreign and retail inflows. On the economic front, the country's PMI index fell to 49.3 in September and the employment shrank with backlogs of work falling for the first time in seven months.

The MSCI China All Shares Net returned 23.2% for the month. Within the index, all of the sectors rose over the month. Real estate and consumer discretionary were the top performing sectors, while energy and utilities were the bottom performing sectors for the period.

FUND PERFORMANCE AND ATTRIBUTION

- The fund underperformed the index over the month, however delivered overall positive returns.
- Sector allocation, a result of our bottom-up stock selection process, was the primary driver of relative underperformance. Allocation effect was driven by our overweight to utilities and communication services, but offset by our overweight to consumer discretionary and real estate and underweight to energy. Stock selection also detracted from returns. Weak selection in consumer discretionary and health care was offset by selection in financials.
- At the issuer level, our top two relative contributors were overweights to East Money Information and Meituan, while our top two relative detractors were overweights to China Oilfield and China Yangtze Power.
- Shares of East Money Information rallied after China's central bank announced plans for its biggest stimulus since the pandemic. The plans included interest rate cuts and support for the property and stock markets, which led to an anticipated increase in trading volumes. Shares of China Oilfield Services declined during the period. In general, energy sector was relatively resilient in the cyclical downturn earlier this year, but it lagged the broader market during this strong rally at the end of the month.

FUND POSITIONING AND OUTLOOK

In the last week of September, the Chinese government announced a series of comprehensive stimulus measures, estimated at approximately 7.5 trillion RMB. Due to its compressed valuation, this announcement triggered a significant rebound rally in the Chinese equity market. Over the past year, the government has implemented various support measures, but this stimulus package stands out for its notably top-down and highly coordinated approach, indicating a clear shift in government mindset and a strong commitment to market support. As long-term investor, we remain a cautiously optimistic view on Chinese equities as policy support continues to accelerate. We will closely monitor the sustainability of this rally, particularly improvements in the property market and consumption. Beyond macroeconomic policy, company earnings revisions and capital allocation are another critical factor to watch, as they will reveal unique opportunities for businesses that can thrive even as the broader economy slows down. Moving forward, we continue to focus on identifying companies with strong organic growth prospects, sustainable higher returns on capital and good corporate governance.

At the end of the period, our largest exposures were consumer discretionary and communication services and we were least exposed to energy and information technology. We had no exposure to materials.

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