Wellington All-China Focus Equity Fund

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MARKET REVIEW

Global equities declined over the past month, as investors became increasingly concerned about a slower pace of rate cuts and potential inflationary pressures, especially with the possibility of Republican candidate Trump returning to the presidency. The latest US CPI report indicated that inflation eased less than anticipated, which, coupled with strong corporate earnings and a better-than-expected labor market report, has tempered expectations for rate cuts. Additionally, uncertainties in the Middle East have further dampened sentiment. Geopolitical tensions in the region have created a cloud of uncertainty, leading investors to adopt a more cautious stance.

Chinese equities retreated in October after a sharp rally last month. The country's third-quarter GDP grew 4.6% annually, its slowest pace since early 2023 and down from 4.7% in the second quarter. The sharp property sector downturn, alongside weakening export growth and deflationary pressures, continued to weigh on the economy. The government announced more support for the struggling economy, while the central bank cut key lending rates by 25 bps. Similarly, Hong Kong equities declined over the month as market sentiment remained relatively cautious given the tepid economy recovery and potential tariffs impact to Chinese companies following the Trump's presidential win.

The MSCI China All Shares Net returned -5.3% over the month. Within the index, 10 out of 11 sectors declined over the period. Consumer staples and health care were the bottom performing sectors, while information technology and financials were the top performing sectors over the period.

FUND PERFORMANCE AND ATTRIBUTION

- The fund underperformed the index over the period.
- Sector allocation, a result of our bottom-up stock selection process, was the primary driver of relative underperformance. Allocation effect was driven by our underweight to information technology and overweight to communication services, but modestly offset by our lack of exposure to materials and underweight to energy. Stock selection contributed to returns. Strong selection in consumer discretionary, real estate and health care was partially offset by selection in communication services, financials and industrials.
- At the issuer level, our top two relative contributors were overweights to KE Holdings and PICC Property & Casualty, while our top two relative detractors were an overweight to NetEase and not owning Xiaomi.
- Shares of KE Holdings rose during the period. The Chinese property sector traded higher as China's housing minister cited that the housing market has begun to bottom out and promising to expand projects eligible for financing, increase bank lending for developments, and expand urban redevelopment. Shares of NetEase, fell over the period as the market remained concerned about near-term gaming slowdown and uncertainties in the progress of new product launches. The game revenue slowdown is primarily attributed to a drop in sales of Fantasy Westward Journey and Egg Party.

FUND POSITIONING AND OUTLOOK

As long-term investor, we remain a cautiously optimistic on Chinese equities as policy support continues to accelerate. In the last week of September, the Chinese government announced a series of comprehensive stimulus measures, estimated at approximately 7.5 trillion RMB. This announcement helped 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. 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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