# Wellington All-China Focus Equity Fund

WELLINGTON MANAGEMENT®



## MARKET REVIEW

Global and Asian equity markets retreated in early August, triggered by a confluence of events including the BOJ raising interest rates, a string of weak economic readings in the US, and market participants unwinding the Yen carry trade. However, the market had rebounded after a softening labor market and further cooling of inflation fueled expectations that the US Federal Reserve would implement interest rate cuts more aggressively. Asian economies performed in line with broader emerging markets over the month with ASEAN economies performing better on a relative basis, while Korea and China lagged.

Chinese equities advanced slightly over the month as market sentiment remained cautious due to softer domestic demand, lower economic forecasts and corporate earnings missing expectations. Economic data was mixed, with retail sales rising above expectations in July and industrial production waning faster than forecast. A smaller increase in core inflation continued to fuel concerns about domestic demand and may signal a potential further easing of monetary policy. Hong Kong equities gained amid optimism that the US economy can achieve a soft landing, and that the Fed may potentially implement more aggressive interest rate cuts.

The MSCI China All Shares Net returned -0.0% for the month. Within the index, seven out of 11 sectors declined over the period. Materials and utilities were the bottom performing sectors, while energy and financials were the top performing sectors over the month.

## FUND PERFORMANCE AND ATTRIBUTION

- The fund modestly outperformed the index for the period.
- Sector allocation, a result of our bottom-up stock selection process, was the primary driver of relative outperformance. Allocation effect was driven by our lack of exposure to materials, underweight to information technology and overweight to communication services, but partially offset by our overweight to utilities and underweight to energy. Stock selection detracted from returns. Weak selection in communication services was partially offset by selection in consumer discretionary, industrials and real estate.
- At the issuer level, our top two relative contributors were overweights to Fuyao Glass Industry Group and ZTO Express, while our top two relative detractors were an overweight to NetEase and an underweight to PDD Holdings.
- The share price of Fuyao Glass, a China-based manufacturer of glass products for the automotive industry, rose after management reported net income for 1H24 rose 23% from the same period last year. Shares of NetEase fell over the period after reporting second quarter results that missed expectations. The company posted second quarter net income that fell 17% year-over-year and revenue that increased 6.1% year-over-year but fell short of estimates.

## FUND POSITIONING AND OUTLOOK

In the near term, we expect market volatility to persist amid deflationary pressure, the new US tariff hike and continued liquidity concerns in the debt-laden Chinese property sector. However, as long-term investor, we continue to remain a cautiously optimistic view on Chinese equities as policy executions accelerate with prudent monetary and proactive fiscal support, further relaxation for the property market and a renewed focus on economic growth. More recently, Chinese financial regulators have proposed reducing rates on outstanding mortgages nationwide by a total of about 80 basis points. Beyond macro 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 real estate and energy. We had no exposure to materials.

## RISKS

**CAPITAL:** Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment. The Fund may experience a high volatility from time to time. **CONCENTRATION:** Concentration of investments within securities, sectors or industries, or geographical regions may impact performance. **CURRENCY:** The value of the Fund may be affected by changes in currency exchange rates. Unhedged currency risk may subject the Fund to significant volatility. **EMERGING MARKETS:** Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. **EQUITIES:** Investments may be volatile and may fluctuate according to market conditions, the performance of individual companies and that of the broader equity market. **HEDGING:** Any hedging strategy using derivatives may not achieve a perfect hedge. **INVESTMENT IN CHINA:** Changes in Chinese political, social or economic policies or securities law and regulations may significantly affect the value of the Fund. Chinese securities may be subject to trading suspensions which could impact the Funds investment strategy and affect performance. Chinese tax law is applied under policies that may change without notice and with retrospective effect. **MANAGER:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. **SUSTAINABILITY:** A Sustainability Risk can be defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

**PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. AN INVESTMENT CAN LOSE VALUE.**

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