Wellington All-China Focus Equity Fund

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MARKET REVIEW

Global equities advanced in November. Donald Trump's presidential reelection and the Republican Party's sweep of both chambers of Congress led the US to significantly outperform other regions amid expectations for deregulation, additional tax cuts, and a more accommodative US business environment. The breadth of change anticipated from the new US administration reverberated across the globe with far-reaching implications for foreign policy, trade dynamics, inflation, and economic growth. Prospects for a soft landing appeared to remain intact, and central banks in the US, UK, New Zealand, Mexico, and Sweden continued to lower interest rates. Inflation neared central bank targets in many regions. A stronger US dollar pressured emerging markets, and Chinese equities declined amid underwhelming government aid and weak consumer demand.

Chinese and Hong Kong equities retreated during the month, triggered by the market concerns about the new U.S. tariff hikes to Chinese companies following the Trump's presidential win. In November's National People's Congress, China's Finance Minister emphasized a "more forceful" fiscal policy for next year, signaling bolder steps may follow Trump's inauguration in January. Economic data was mixed, with retail sales rising above expectations in October while industrial production lagged forecasts, amid weaker auto sales. A smaller-than-expected increase in core inflation added to domestic demand concerns.

The MSCI China All Shares Net returned -3.2% for the period. Within the index, 10 out of 11 sectors declined over the month. Real estate and consumer discretionary were the bottom performing sectors, while health care and communication services were the top performing sectors for the period.

FUND PERFORMANCE AND ATTRIBUTION

- The fund underperformed the index for the period.
- Security selection was the primary driver of relative underperformance. Weak selection in information technology, financials and industrials was partially offset by selection in communication services and utilities. Sector allocation, a result of our bottom-up stock selection process, also slightly detracted from returns.
- At the issuer level, our top two relative contributors were overweights to NetEase and East Money Information, while our top two relative detractors were overweights to KE Holdings and China Pacific Insurance.
- Shares of NetEase rose over the period despite reporting mixed results for the third quarter. NetEase reported that net profit dropped 17% from a year earlier to 6.54 billion yuan, equivalent to roughly $904.5 million. Investors looked past the earnings miss as there is optimism that the company's robust pipeline of new gaming titles will drive stronger gaming revenue in 2025. Shares of KE Holdings declined during the period. The company reported third quarter revenue slightly below expectations. Revenues increased 26.8% year-over-year but cost of revenues increased 35% and adjusted earnings were down. The existing home market has been stable, but the new home market remains weak with a slower supply and demand dynamics and broader negative market sentiment persists.

FUND POSITIONING AND OUTLOOK

Following Donald Trump's presidential victory, China's long-term economic outlook faces additional uncertainty due to Trump's threat to potentially impose tariffs exceeding 60 percent on all Chinese goods. However, as a 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 real estate. We had no exposure to materials.

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