

CHINA CONSUMER FUND W - ACC SHARES

30 SEPTEMBER 2019

Portfolio manager: Hyomi Jie

Performance over quarter in GBP (%)

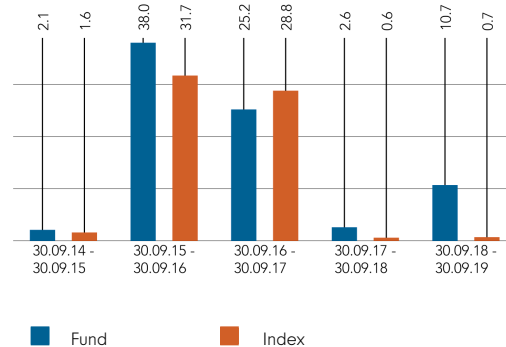
Fund	-0.3
Market index	-2.5

MSCI Golden Dragon Custom Consumer Index (Net)

Market index is for comparative purposes only.

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

Performance for 12 month periods in GBP (%)



Market Environment

Chinese equities declined over a quarter in which news flows surrounding the US-China trade dispute continued to dominate investor sentiment. In August, the trade dispute with the US deepened, with both countries imposing fresh tariffs on each other's imports. Nonetheless, pro-growth policy measures by the Chinese government and hopes of a resumption in trade talks in October helped stocks recover some ground. Chinese policymakers unveiled fresh measures to spur economic activity. The People's Bank of China overhauled its interest rate framework by lowering lending rates and reducing its reserve requirement ratio for banks. The country also removed the cap on qualified foreign institutional investor inflows into Chinese A shares to attract foreign capital. It is calibrating its fiscal and monetary policies to support the economy, keeping in mind financial stability and debt levels. On the economic front, the country's second quarter GDP grew year-on-year, but at the slowest pace in at least 27 years. Retail sales for August grew, but at a weaker than expected rate. Meanwhile, consumer confidence tapered in August. On a sector level, real estate and materials were the key laggards, while health care and information technology (IT) stocks advanced. Going forward, with China continuing its structural reforms, consumption will play an increasingly important role in the economy.

Fund Performance

The fund outperformed the MSCI China Index over the quarter amid a risk-off sentiment. Selected consumer discretionary stocks buoyed performance. In addition, market share gainers added value.

Consumer discretionary stocks buoyed performance

Sportswear manufacturer Li Ning rose after it reported healthy half yearly results, supported by momentum in its wholesale and e-commerce businesses. The company's new management and its focus on improving profitability continues to attract investors. Tutoring services provider New Oriental Education and Technology benefited from an encouraging demand outlook, backed by potential growth in K12 after-school tutoring demand in China. China MeiDong Auto Holdings and DongFeng Motor Group also buoyed performance. The former reported upbeat quarterly earnings driven by strong vehicle sales growth, with the biggest contribution coming from Porsche. Investors favoured the latter for its undemanding valuations and positive profit expectations stemming from its Japanese joint ventures Dongfeng Nissan and Dongfeng Honda. Conversely, Ctrip was caught in weak capital market sentiment.

Market share gainers added value

Sentiment towards China Resources Beer improved amid growth prospects driven by the introduction of Heineken, capacity restructuring, headcount rationalisation and an efficiency improvement. Beverage producer Kweichow Moutai advanced after it reported robust half yearly results. In addition, the company capped liquor sales to its parent company to below 5% of its net asset value and ended speculation on this matter. Conversely, weakness in its Hong Kong business weighed on the position in insurer AIA Group.

Fund Positioning

I favour companies with a high return profile and strong execution capability.

New opportunities in consumption-led and IT names

I sold the position in Inner Mongolia Yili amid corporate governance issues in favour of a new holding in China Mengniu Dairy. The latter has a superior brand image, high quality management with a focus on improving operational efficiency and deepening its distribution network. In addition, its recent bid to acquire 100% of Bellamy's, a popular Australian organic infant formula company, is likely to help it to unlock and benefit from Bellamy's brand value in China. I also bought a new holding in TravelSky Technology, a state-owned enterprise with a monopoly in aviation IT services. The company is expected to witness an acceleration in profits, backed by heavy investments made in the past year.

Continue to favour selected telecommunications holdings

I bought a new holding in China Unicom amid rational capital expenditure expectations. I have a positive view of the comprehensive plan between China Unicom and China Telecom to share expenses on their fifth-generation rollout. I also expect an uptrend in China Unicom's earnings momentum after weakness in the last 12 months. I continue to favour China Mobile for its dominant market share and strong balance sheet.

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.

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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 UK Sterling (GBP)

Three month relative return (%) 1.24

Position Contribution (%)

3 months

	Average Relative Weight	Relative Performance Contribution		Average Relative Weight	Relative Performance Contribution
TOP CONTRIBUTORS			TOP DETRACTORS		
LI NING CO LTD	2.6	0.59	AIA GROUP LTD	7.5	-0.60
NEW ORIENTAL ED & TECH GRP INC	3.1	0.45	CTRIPO.COM INTL LTD	1.8	-0.48
KWEICHOW MOUTAI CO LTD	2.7	0.45	ALIBABA GROUP HOLDING LTD	-4.8	-0.32
DONGFENG MOTOR GROUP CO LTD	1.8	0.37	NOAH HLDGS LTD	0.8	-0.29
CHINA RESOURCES BEER (HOLDINGS) CO LTD	2.3	0.35	LOCK&LOCK CO LTD	1.2	-0.24
CHINA MEIDONG AUTO HOLDING LTD	1.1	0.32	SUNNY OPTICAL TEC(GROUP)CO LTD	-0.5	-0.20
TREASURY WINE ESTATES LTD	1.2	0.27	INNER MONGOLI YILI IND CO LTD	0.8	-0.18
HANGZHOU HIK-V DIG TECH CO LTD	1.2	0.22	JNBY DESIGN LTD	0.9	-0.18
SUN ART RETAIL GROUP LTD	1.8	0.22	COSMAX INC	0.4	-0.18
SHENZHEN YUTO PACKAGING TECH CO LTD	0.9	0.15	PINDUODUO INC	-0.3	-0.14

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

	Average Relative Weight	Security Selection	Sector/ Industry Selection	Total Relative Contribution
GICS Sector				
Consumer Staples	11.3	-0.14	1.12	0.98
Consumer Discretionary	9.4	-0.52	0.99	0.47
Communication Services	-3.0	0.13	0.29	0.42
Real Estate	-5.5	0.00	0.39	0.39
Industrials	-4.9	0.03	0.11	0.13
Energy	-4.1	0.00	0.12	0.12
Information Technology	1.5	-0.03	-0.03	-0.06
Utilities	-3.0	0.00	-0.07	-0.07
Materials	0.7	-0.07	-0.03	-0.10
Health Care	-1.9	-0.01	-0.26	-0.27
Financials	-4.4	-0.98	0.38	-0.61
Index / Unclassified	0.0	0.00	0.00	0.00
Total Primary Assets	-3.9	-1.59	3.00	1.42
Other*	3.9			-0.18
TOTAL	0.0			1.24

CONTRIBUTIONS TO RELATIVE RETURN

	Average Relative Weight	Security Selection	Country Selection	Total Relative Contribution
China	-23.5	2.24	0.00	2.24
Australia	1.2	0.27	0.00	0.27
Taiwan	2.5	0.01	0.00	0.01
United States	0.0	0.00	0.00	0.00
Korea (South)	1.6	-0.42	0.00	-0.42
Hong Kong	14.3	-0.69	0.00	-0.69
Total Primary Assets	-3.9	1.41	0.00	1.42
Other*	3.9			-0.18
TOTAL	0.0			1.24

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

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