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# JPMorgan Chinese Investment Trust: Annual General Meeting

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January 2018

**Howard Wang**, Managing Director  
Portfolio Manager and Head of the Greater China Equities Team

**Rebecca Jiang**, Executive Director  
Portfolio Manager

## Questions from investors

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- What's the impact of the deleveraging? What's your take on the policy landscape in China?
- Given the rally this year, are we at the top of the valuation cycle? Should we sell?
- How should we think about A-shares?
- Besides tech, where are the opportunities?



## The 19<sup>th</sup> Party Congress shows political maturity and should reinforce existing trends

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### Primary takeaways

- Enhanced ability of the central government on **policy execution**
- **Focus on the quality** - not just quantity - of economic growth

### Primary implications

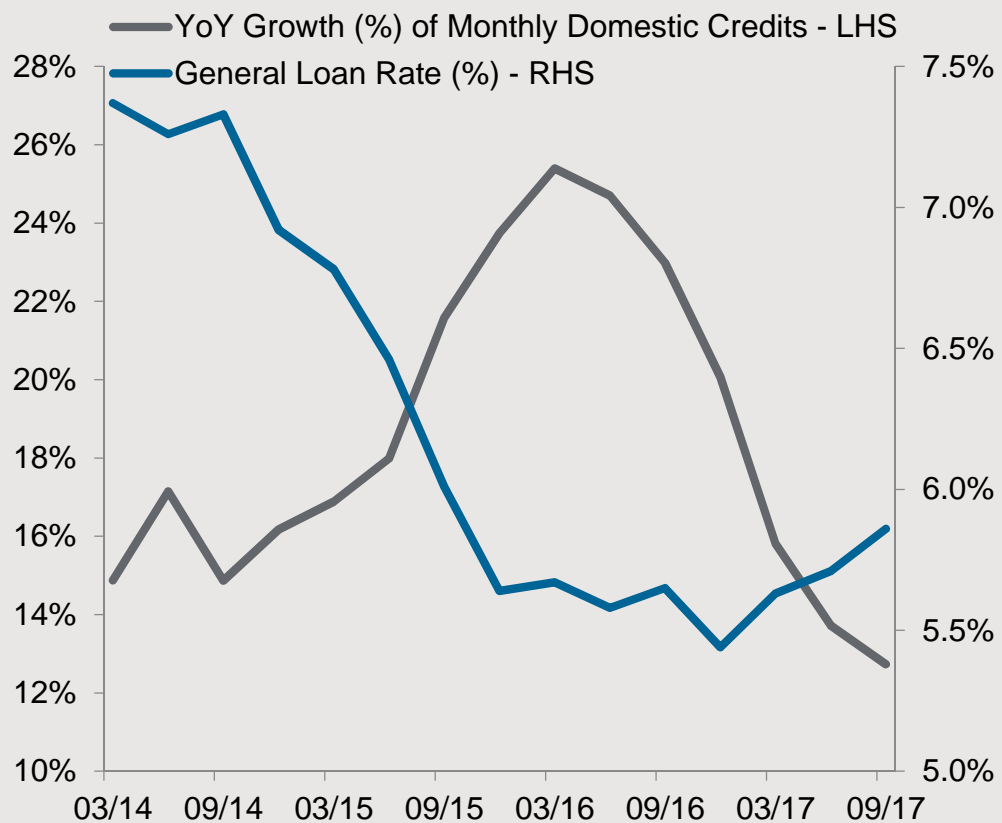
- **De-risking**: of the financial system, of the stress on the environment, of the real estate market
- **Optimization of the economic growth model**: a long-standing goal to move away from investment and towards consumption

... supportive of a lower cost of capital and, eventually, the performance of growth and income equities (especially those within New China)

The opinions and views expressed here are those held by the author at the date of publication which are subject to change and are not to be taken as or construed as investment advice.

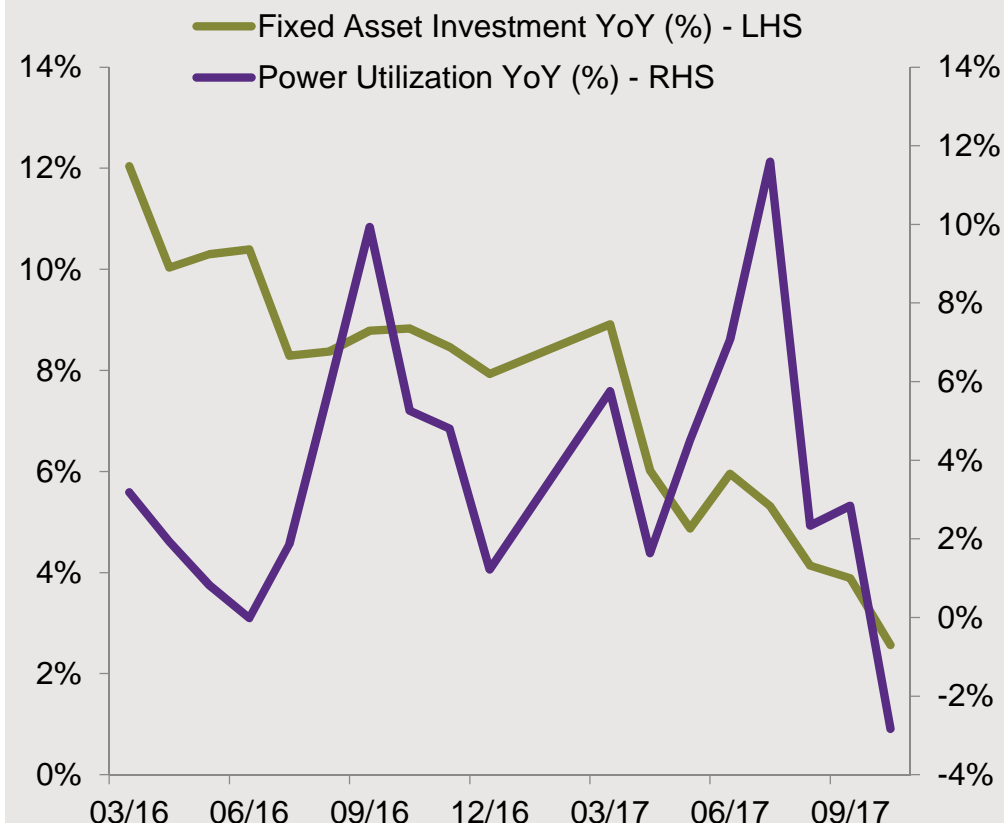
# Slower growth in China amidst long overdue structural adjustments domestically...

## Limited spillover from credit growth being curbed



Source: Morgan Stanley Research, Bloomberg, People's Bank of China. Data as of end Oct 2017

## Impact of environmental control measures<sup>^</sup>



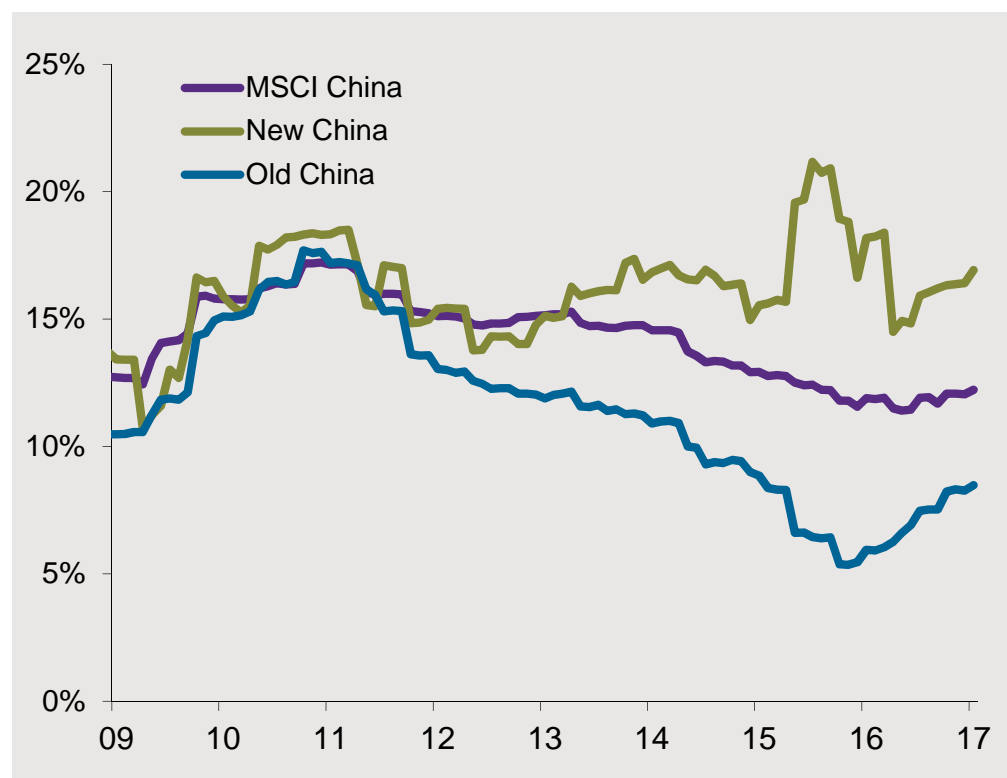
<sup>^</sup> Numbers shown are aggregate of Beijing, Tianjin and Hebei. Source: CICC. Data as of 31 Oct 2017

## ....but it should not impair the corporate earnings of “New China” equities

### Earnings per share trends reflect that structural trumps cyclical



### And a similar story is told by return on equity...



New China = Information Technology, Consumer, Healthcare

Old China = Energy, Materials, Industrials

Source: Factset, Morgan Stanley Research, J.P. Morgan Asset Management. Data available as of 31 December 2017.

Indices do not include fees or operating expenses and are not available for actual investment.

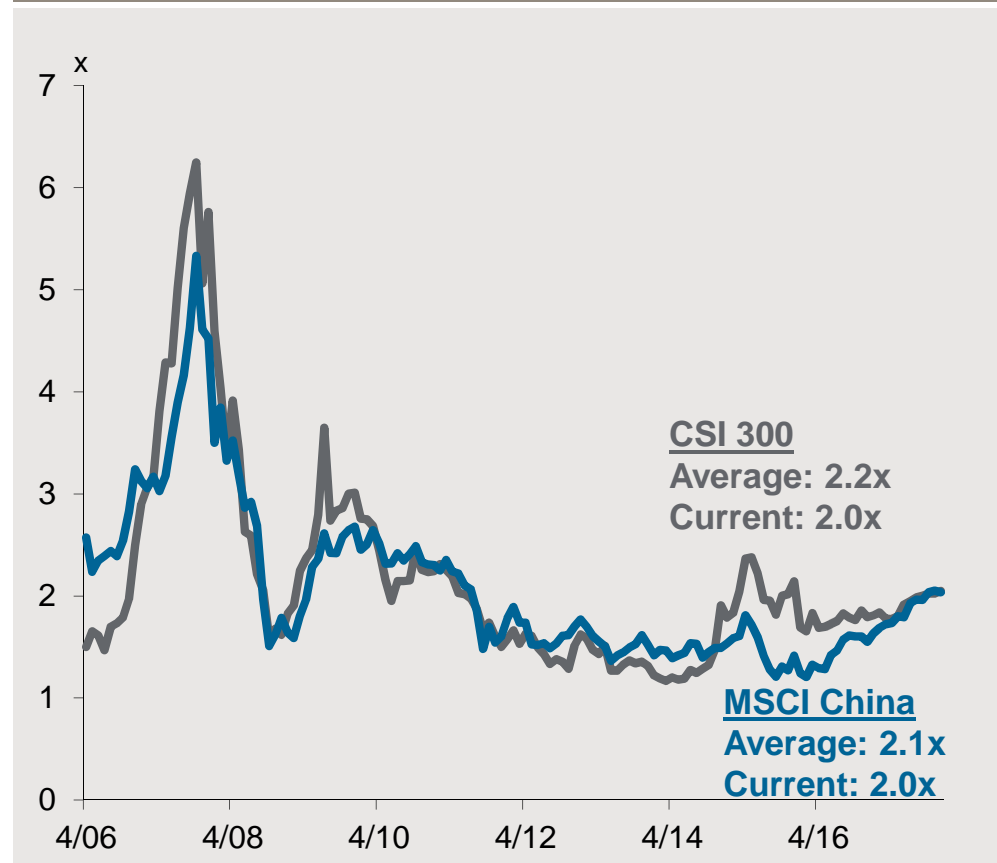
Past performance is not necessarily a reliable indicator for current and future performance.

# Valuations remain reasonable

## 12-Month Forward PE



## Trailing PB



PE = Price to Earnings Ratio

PB = Price to Book Ratio

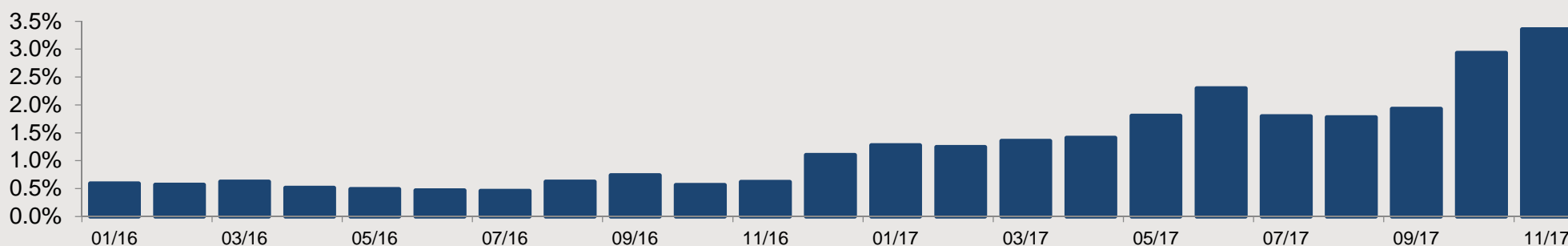
Source: Thomson Reuters Datastream, Bloomberg. As of 31<sup>st</sup> December 2017.

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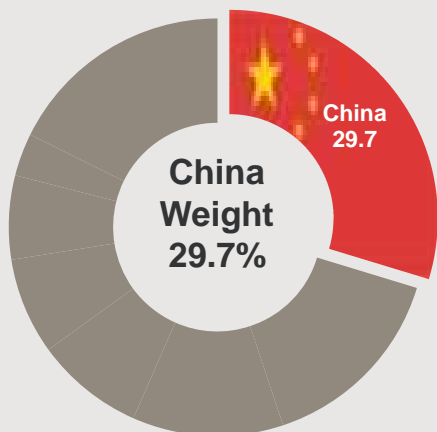
# China's liberalization progress has led to MSCI's inclusion of A-shares in its indices...

## Stock Connect Northbound Trading Value as % of A-share Total

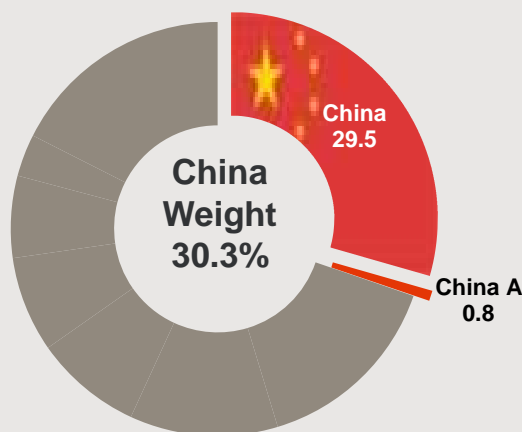


## Roadmap for A-share inclusion in the MSCI EM Index

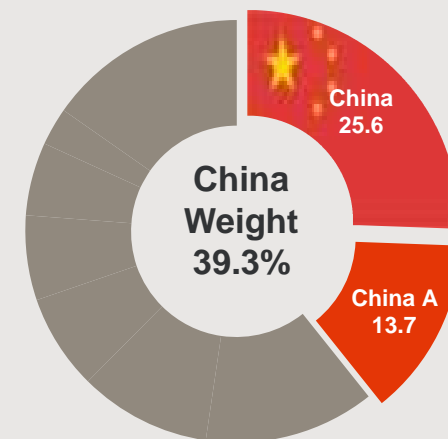
Weight of MSCI EM (Current)



First inclusion step : May 2018  
Second inclusion step: Aug 2018  
(5% inclusion factor for 230 A-shares)



By 2025\*  
(100% inclusion factor for 230 A-shares)

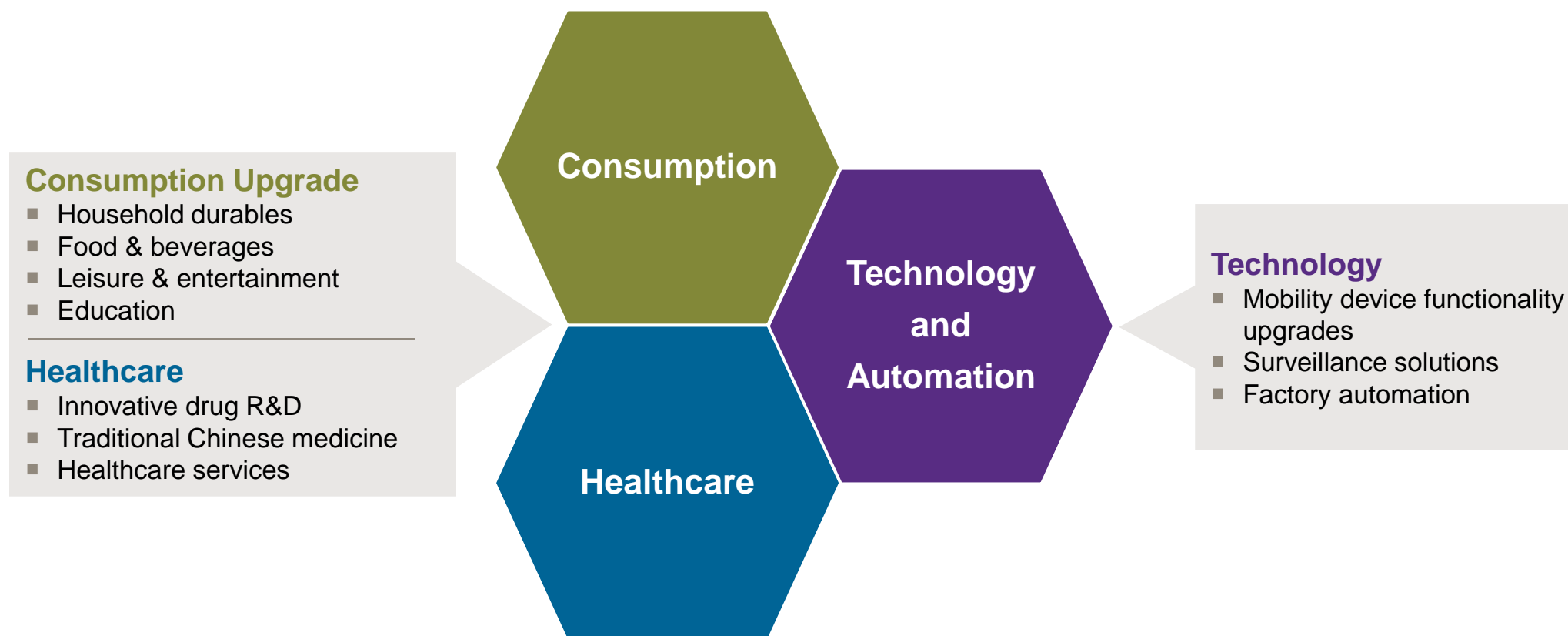


\*Based on free float market-cap of 230 A-share stocks to be included, and a 30% upper limit of foreign ownership.

Source: (Top) WIND and Citi Research. Data as of end November 2017. (Bottom) MSCI Consultation on China A-Shares Potential Inclusion, June 2017. EM = Emerging Markets

## We are positioned towards long term structural growth opportunities

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## Stock example: BOE Technology (A-share, information technology)

Market leader in China with significant market share in TFT-LCD

### Economics

- Strong top-line and return on equity
- Key supplier to TV brands including Samsung, LG & Sony
- World class cost structure on LCDs

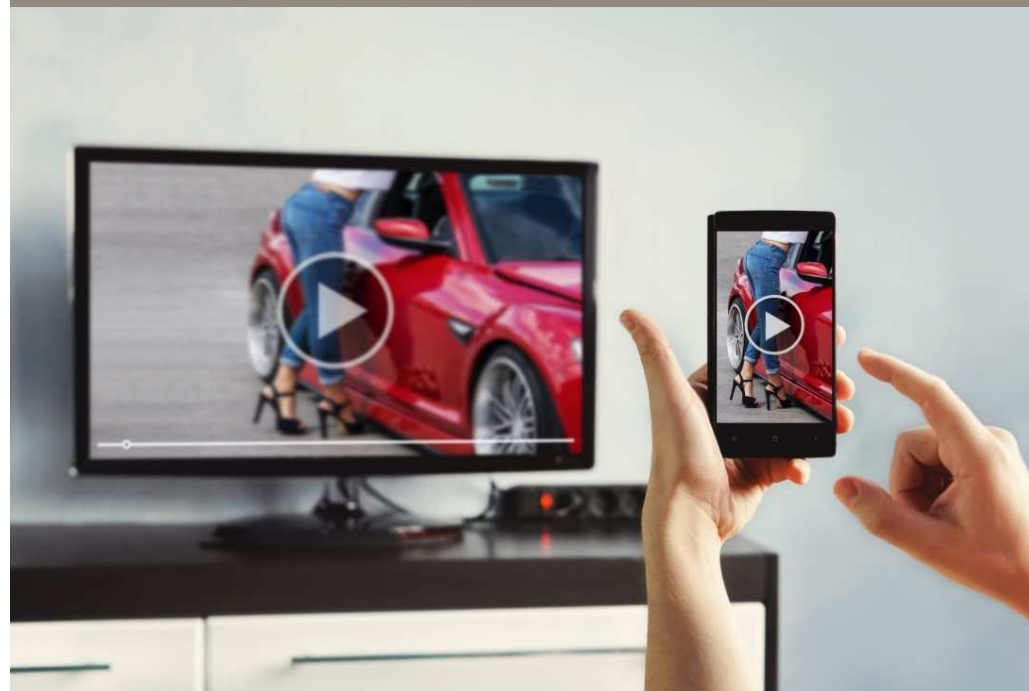
### Duration

- China taking market share from Korea and Taiwan in flat panel displays, with BOE in dominant position
- Excellent R&D capabilities: currently owns over 50,000 usable patents

### Governance

- Minority interests protected by independent directors and the supervisory board

### Favourable market environment with excellent growth prospect



Source: J.P. Morgan Asset Management. Updated as of end November 2017. The companies above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

# Stock example: Jiangsu Hengrui Medicine (A-share, healthcare)

A deep pipeline of surgical anesthetics and oncology drugs with overseas expansion opportunities

## Economics

- Superior R&D capabilities evidenced by strong sales of oncology drugs and surgical anesthetics

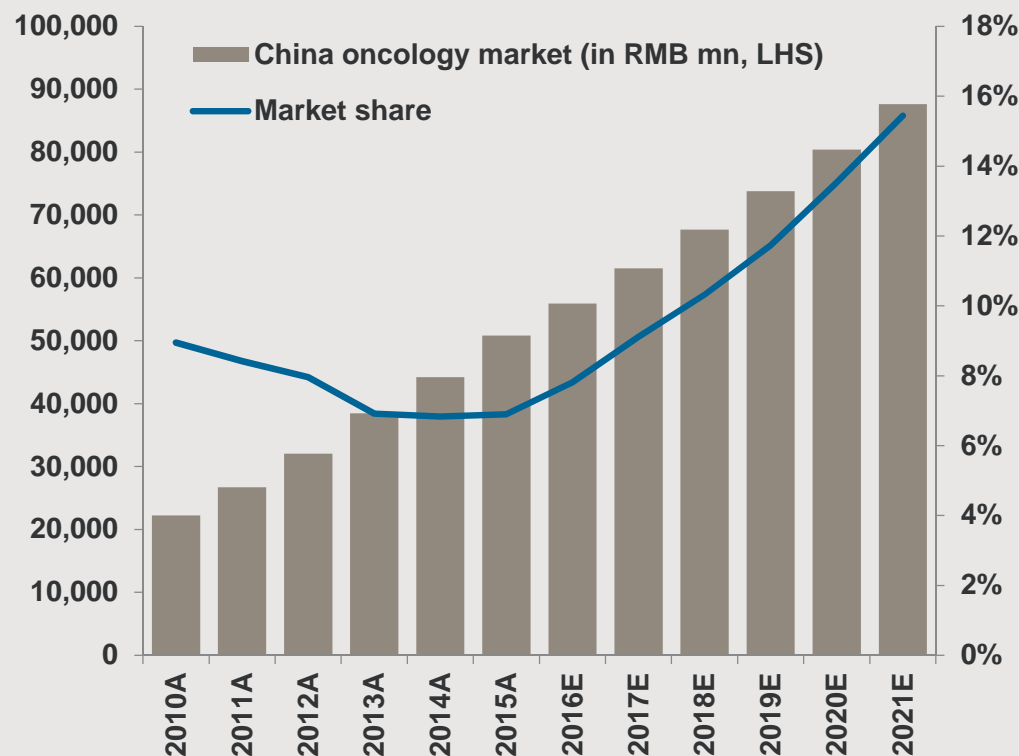
## Duration

- Best positioned in oncology treatment market
- Structurally growing sector supported by demographics and rising healthcare spend

## Governance

- Visionary management with disciplined capital allocation

## Leading position in China's oncology market



Source: R&D = Research and Development; PDB (China Prescription Sales Database), J.P. Morgan Asset Management, as of 25 Jan 2017.

The companies above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

## Stock example: New Oriental Education (consumer discretionary)

Largest tutoring service provider in China

### Economics

- Solid track record in cash flow generation with a strong balance sheet

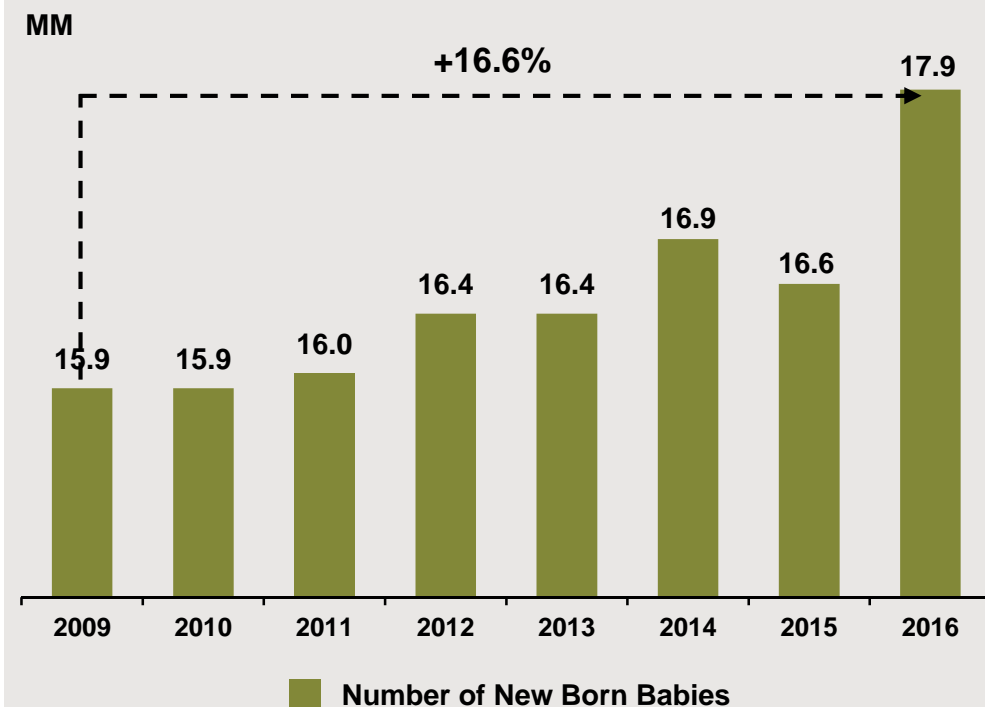
### Duration

- Balanced portfolio with nationwide coverage, including K-12 tutoring, language training and test preparation courses
- A long-term beneficiary of 2<sup>nd</sup> Child Policy and Gaokao Reform in China

### Governance

- Experienced and committed management team with track record of dividend payouts and share buybacks

### Accelerated growth of new born babies in China



Source: gov.cn/xinwen/

Source: J.P. Morgan Asset Management, as of end June 2017

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# JPMorgan Chinese Investment Trust Update

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# Greater China Investment Professionals



**Richard Titherington**  
**Head of EMAP Equities Team**  
 Experience: 34/32

## Greater China Team Portfolio Managers

### China and Greater China Growth



**Howard Wang**  
**Head of Greater China**  
 Experience: 23/13



**Rebecca Jiang**  
 Experience: 13/1

### Hong Kong and China Core and Value / Income



**Emerson Yip**  
 Experience: 24/12



**Lilian Leung**  
 Experience: 23/8

### China Wholly Foreign-Owned Enterprise (WFOE)



**Dong Xu**  
 Experience: 15/1

### Taiwan Growth



**William Tong**  
**CIO, Taiwan**  
 Experience: 24/10



**James Yeh**  
 Experience: 22/16

## Greater China Team Research Analysts



**Shumin Huang**  
**Head of Greater China Research**  
 Experience: 26/12



**Elizabeth Pang**  
**Domestic HK /  
China Industrials**  
 Experience: 13/13



**Bonnie Chang**  
**Automobiles /  
Industrials**  
 Experience: 18/3



**Lin He**  
**Industrials /  
Consumer**  
 Experience: 15/<1



**Connie Shen**  
**Financials /  
Property**  
 Experience: 7/4



**Eva Wang**  
**Consumer**  
 Experience: 13/1



**Robert Yen**  
**Technology /  
Industrials**  
 Experience: 15/2



**William Chen**  
**Technology /  
Industrials**  
 Experience: 11/8



**Mark Mao**  
**Industrials /  
Consumer**  
 Experience: 8/1



**Penny Tu**  
**Internet /  
Consumer**  
 Experience: 12/4



**Vincent Yu**  
**Healthcare /  
Industrials**  
 Experience: 10/5

## Select GEM Global and Sector Analysts



**Andrew Tan**  
**Natural Resources**  
 Experience: 23/10



**Denise Valentine**  
**Biotechnology**  
 Experience: 22/2



**Maciej Wasilewicz**  
**Financials**  
 Experience: 10/3



**Paul Chan**  
**Technology**  
 Experience: 24/18



**Simmy Qi**  
**Industrials**  
 Experience: 7/7



**George Iwanicki**  
**Economics/Strategy**  
 Experience: 30/26

Joiners and Leavers as of 31<sup>st</sup> December 2017. Number of years experience: Industry/Firm as of 31<sup>st</sup> December 2017

# Performance

Morningstar Overall Ratings™

3-Year



5-Year and 10-Year



**Bronze**<sup>™</sup>

JPMorgan Chinese Investment Trust as of 31<sup>st</sup> December 2017

## Market value

JPMorgan Chinese Investment Trust

GBP 254.2m

## Annualised performance (%)

	Three months	Six months	One year	Three years	Five years	Since launch
JPMorgan Chinese Investment Trust plc	12.48	23.69	53.82	21.15	17.98	6.82
MSCI China (NDR) <sup>^</sup>	6.73	18.48	40.73	19.17	15.23	5.41
<b>Excess return*</b>	<b>5.74</b>	<b>5.21</b>	<b>13.09</b>	<b>1.97</b>	<b>2.75</b>	<b>1.41</b>

## Calendar year performance (%)

	2010	2011	2012	2013	2014	2015	2016	2017
JPMorgan Chinese Investment Trust plc	20.38	-22.89	21.16	13.66	13.12	0.14	15.42	53.82
MSCI China (NDR) <sup>^</sup>	16.80	-18.06	16.82	4.91	14.42	-2.07	22.81	40.73
<b>Excess return*</b>	<b>3.58</b>	<b>-4.83</b>	<b>4.34</b>	<b>8.75</b>	<b>-1.30</b>	<b>2.21</b>	<b>-7.38</b>	<b>13.09</b>

Trust launch date = 19 Oct 1993.


<sup>^</sup> Dividends reinvested after deduction of withholding tax. Prior to 26 Jan 2016, MSCI Golden Dragon (NDR). Prior to 1 Jun 2002, MSCI Provisional Golden Dragon Index (NDR). Prior to 1 Oct 2001, Customised benchmark (Calculated by J.P. Morgan Asset Management and comprised 40% HSI, 40% Taiwan Weighted and 20% BNP Paribas China Price). Prior to 1 Oct 1998, BNP Paribas China Price.


\* Arithmetic excess return presented.

Source: J.P. Morgan Asset Management. Performance data has been calculated on NAV to NAV basis, including ongoing charges and any applicable fees, with any income reinvested, in GBP. Please note Benchmark Indices do not operating expenses and are not available for actual investment. **Past performance is not necessarily a reliable indicator for current and future performance.** Morningstar. As of end December 2017. Morningstar Ratings™: © Morningstar. All Rights Reserved. The methodology and calculations used by companies that provide awards and ratings are not verified by J.P. Morgan Asset Management and therefore are not warranted to be accurate or complete

# Performance

Morningstar Overall Ratings™

3-Year 

5-Year and 10-Year 



JPMorgan Chinese Investment Trust as of 31<sup>st</sup> December 2017

## Market value

JPMorgan Chinese Investment Trust

GBP 254.2m

## Rolling 12 Months at Year Ends (%)

	2010	2011	2012	2013	2014	2015	2016	2017
JPMorgan Chinese Investment Trust plc (Share Price)	16.8	-30.1	24.6	11.6	11.4	-4.7	15.4	57.1
JPMorgan Chinese Investment Trust plc (NAV)	20.4	-22.9	21.2	13.7	13.1	0.1	18.1	53.8
<b>MSCI China Index (NDR)^</b>	<b>16.8</b>	<b>-18.1</b>	<b>16.8</b>	<b>4.9</b>	<b>14.4</b>	<b>-2.1</b>	<b>22.8</b>	<b>40.7</b>

Trust launch date = 19 Oct 1993.

^ Dividends reinvested after deduction of withholding tax. Prior to 26 Jan 2016, MSCI Golden Dragon (NDR). Prior to 1 Jun 2002, MSCI Provisional Golden Dragon Index (NDR). Prior to 1 Oct 2001, Customised benchmark (Calculated by J.P. Morgan Asset Management and comprised 40% HSI, 40% Taiwan Weighted and 20% BNP Paribas China Price). Prior to 1 Oct 1998, BNP Paribas China Price.

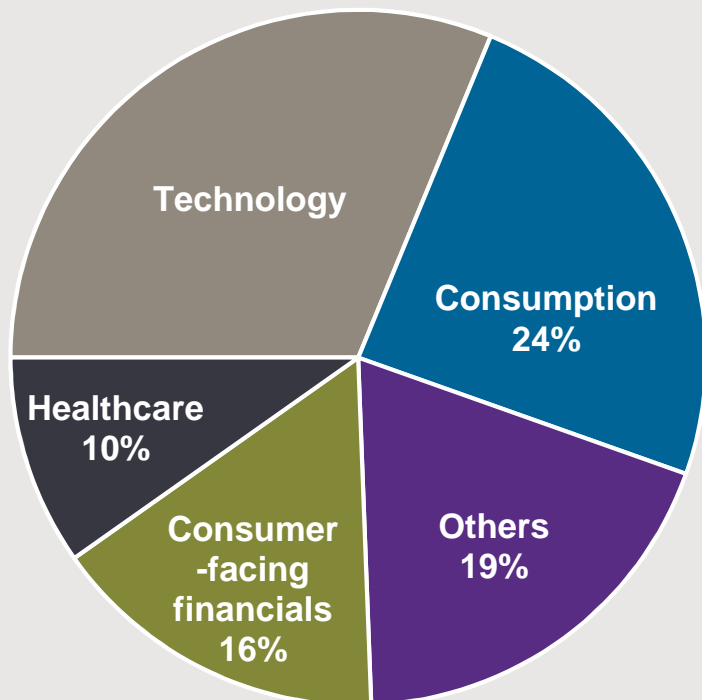
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## Current position is geared towards structural growth

We are positioned in long-term consumer services opportunities, less so in the investment-driven economy

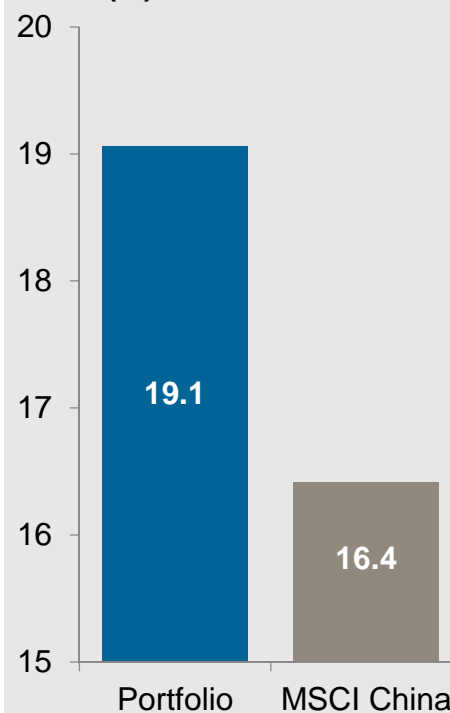
### Investment opportunities breakdown



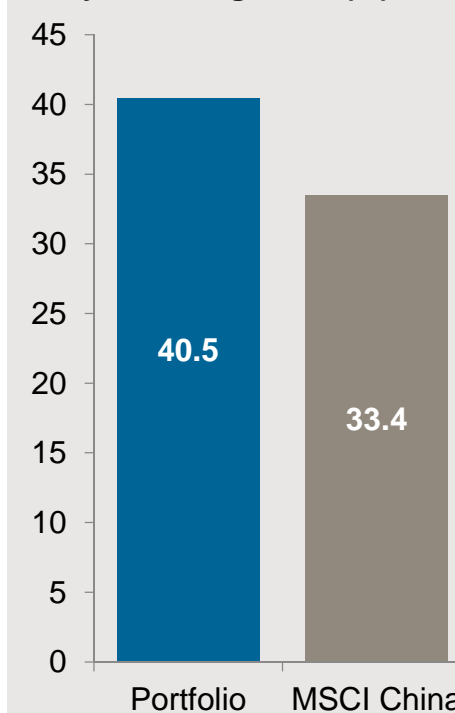
\*Gearing 9.1%

### A focus on ROE and EPS growth

#### ROE (%)



#### 3-5 year EPS growth (%)



ROE = Return on Equity

EPS = Earnings per share

Source: Factset, J.P. Morgan Asset Management; as of 31 December 2017. The Trust is an actively managed portfolio. Holdings, sector weights, allocations and leverage, as applicable are subject to change without notice. Past performance is not an indication of current and future performance.

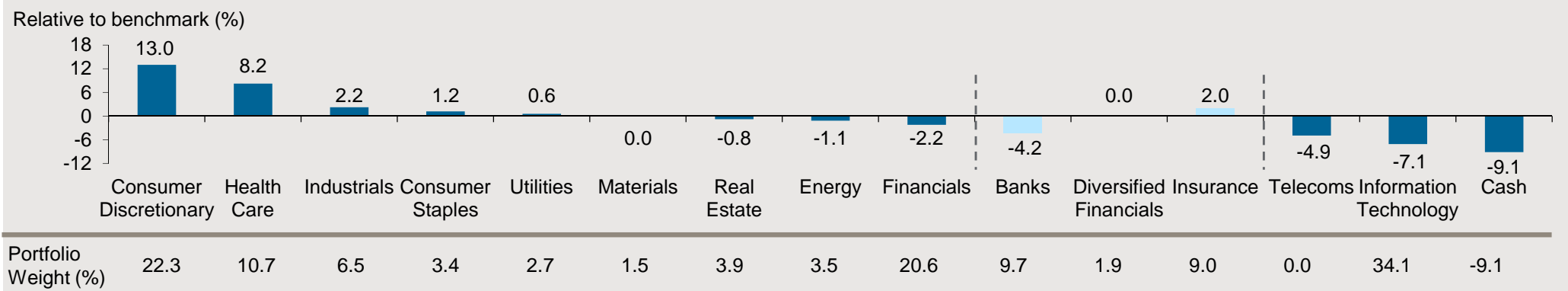


# Country and sector positions

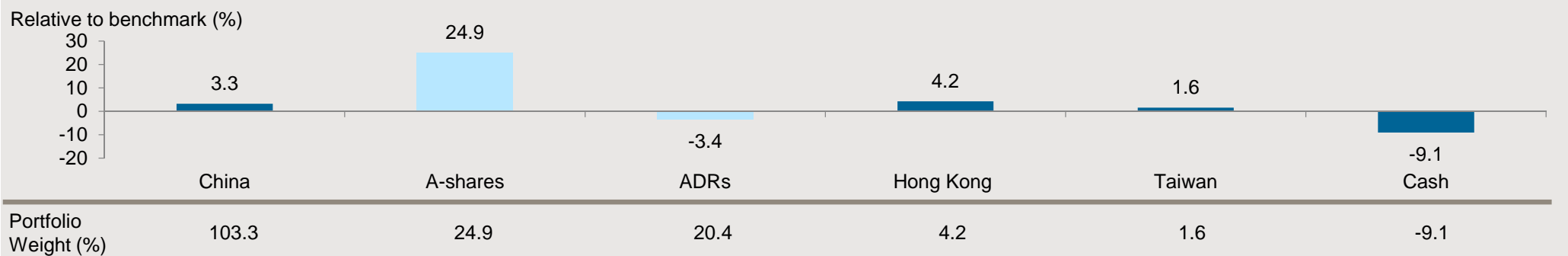
JPMorgan Chinese Investment Trust as of 31<sup>st</sup> December 2017

Benchmark MSCI China (NDR)\*

## Active and absolute sector positions



## Active and absolute country positions



\*Prior to 01/02/16 the benchmark was MSCI Golden Dragon Index (NDR)

Source: J.P. Morgan Asset Management. Individual figures may not add up exactly to the total due to rounding. The Trust is an actively managed portfolio. Holdings, sector weights, allocations and leverage, as applicable are subject to change without notice.

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# Appendix

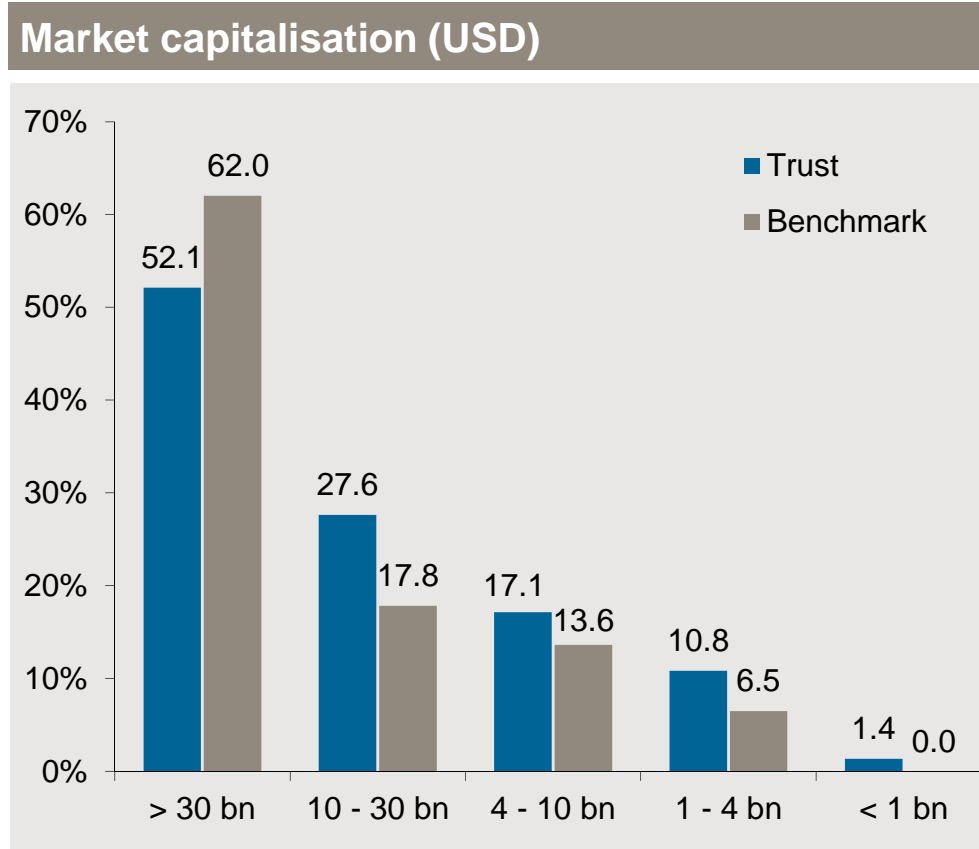
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# Portfolio characteristics

JPMorgan Chinese Investment Trust as of 31<sup>st</sup> December 2017

Benchmark MSCI China (NDR)\*

	Trust	Benchmark
Number of Holdings	64	152
12-Month Forward Price to Earnings (x)	16.2	13.4
3-5 Year Earnings Per Share Growth (%)	40.5	33.4
Dividend Yield (%)	1.3	1.6
Return on Equity (%)	19.1	16.4
Active Share (%)	70.9	



\*Prior to 01/02/16 the benchmark was MSCI Golden Dragon Index (NDR)

Source: FactSet, J.P. Morgan Asset Management. The Trust is an actively managed portfolio, holdings, sector weights, allocations and leverage, as applicable are subject to change at the discretion of the Investment Manager without notice.

# Portfolio positions

JPMorgan Chinese Investment Trust as of 31<sup>st</sup> December 2017

Benchmark

MSCI China (NDR)\*

Top 10 holdings	Trust weight (%)
Tencent	10.9
Alibaba Group	9.5
Ping An Insurance	9.0
China Merchants Bank	4.2
JD.com	3.7
Bank of China	3.4
CNOOC	2.9
AAC Technologies	2.8
China Overseas Land & Investment	2.3
Baidu	2.1

Top 5 overweights	Trust weight (%)	Relative position (%)
Ping An Insurance	9.0	5.7
China Merchants Bank	4.2	3.3
JD.com	3.7	2.0
AAC Technologies	2.8	2.0
Chongqing Rural Commercial Bank	2.1	2.0

Top 5 underweights	Trust weight (%)	Relative position (%)
Tencent	10.9	-7.5
China Construction Bank	0.0	-4.8
China Mobile	0.0	-3.9
ICBC	0.0	-3.7
Alibaba	9.5	-2.9

\*Prior to 01/02/16 the benchmark was MSCI Golden Dragon Index (NDR)

Source: J.P. Morgan Asset Management. The trust is an actively managed portfolio, holdings, sector weights, allocations and leverage, as applicable are subject to change at the discretion of the Investment Manager without notice.

# Important Information

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## JPMorgan Chinese Investment Trust plc

### INVESTMENT OBJECTIVE AND POLICY

The Company aims to provide long term capital growth by investment in companies which are quoted on the stock exchanges of Hong Kong, China and Taiwan or which derive a substantial part of their revenues or profits from these territories. The Company has the ability to use borrowing to gear the portfolio within the range of 10% net cash to 20% geared in normal market conditions.

### RISK INFORMATION

- Exchange rate changes may cause the value of underlying overseas investments to go down as well as up.
- Investments in emerging markets may involve a higher element of risk due to political and economic instability and underdeveloped markets and systems. Shares may also be traded less frequently than those on established markets. This means that there may be difficulty in both buying and selling shares and individual share prices may be subject to short-term price fluctuations.
- This Trust may use derivatives for investment purposes or for efficient portfolio management.
- External factors may cause an entire asset class to decline in value. Prices and values of all shares or all bonds could decline at the same time, or fluctuate in response to the performance of individual companies and general market conditions.
- This trust may utilise gearing (borrowing) which will exaggerate market movements both up and down.
- This trust may also invest in smaller companies which may increase its risk profile.
- The share price may trade at a discount to the Net Asset Value of the company.
- The single market in which the Trust primarily invests, in this case China, may be subject to particular political and economic risks and, as a result, the trust may be more volatile than more broadly diversified trusts.
- The Trust may invest in China A-Shares through the Shanghai-Hong Kong Stock Connect program which is subject to regulatory change, quota limitations and also operational constraints which may result in increased counterparty risk.

Please refer to the Company Annual Report & Accounts for more information relating to the Trust.

# J.P. Morgan Asset Management

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