China Bulletin:
Unearthing the structural growth opportunities
Q4 2023
“We continue to believe that economic recovery is a question of patience and time horizon.”

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Market backdrop

The Chinese equity market has declined year-to-date in 2023 as expectations around the pace of economic recovery have moderated. We believe there are two primary reasons for the disappointing economic performance. First, the Covid-related measures seem to have had a more prolonged impact on consumer confidence, even once the restrictions were lifted. Pent-up demand was expected to drive a rapid recovery in consumption after the ending of lockdowns in late 2022 but instead consumers have remained cautious. In fact, aggregate household savings have continued to rise in 2023. Second, the ongoing weakness in the real estate sector has had a wider impact on the economy. There have been instances of developers suffering negative credit events – even if not official defaults – which have hampered homebuyers’ confidence and hit contracted sales (the most important driver of cashflows for developers). This in turn has resulted in a negative impact on other developers in the market given already-low confidence from homebuyers as well as from financial institutions. That said, we believe the marginal impact to the system should diminish from here.
Assessing the spill-over effect from the default crisis in Country Garden

Country Garden Holdings (CGH) faced liquidity challenges in making interest payments to creditors in Q3. While significant news, we think the CGH event is unlikely to cause systemic contagion for the following reasons:

1. After two years of a property market downcycle, the financial sector’s exposure to real estate related loans has declined;

2. Structurally, bank balance sheets are much cleaner compared with a few years ago as much bad debt has been written off, problem banks have been restructured, interbank exposures reduced, and “shadow” lending decimated;

3. The policy response has been accelerated in recent months as evidenced by the 15 basis point cut in the one-year medium-term lending facility to some financial institutions.

There should be more supportive policies for the housing market, but these will be aimed at revitalising the wealth effect (or to break the negative wealth effect triggered by house price depreciation) rather than to create another property market bubble. More incremental easing measures remains the base case, as opposed to large scale stimulus.

Outstanding real estate loans in China

Source: Citibank, People’s Bank of China. Data are as of June 30, 2023.
The strategies have underperformed as the market rotated away from quality growth names, which we prefer, to value plays. One aspect of the switch to value names was seen in the outperformance of certain state-owned enterprise (SOE) names. SOE companies from areas such as construction, railways and telecoms benefited from a bout of enthusiasm around the prospect of reform.

Predominantly, we retain our conviction in structural growth opportunities in areas such as technology, carbon neutrality and consumption, which we expand on in the Investment Focus section. Within technology, we’ve been adding to artificial intelligence names on dips, as well as quality tech names after the last leg of earnings downgrades. Our renewable energy names are focused mainly on solar and electric vehicle supply chains, while our consumer holdings are especially skewed to travel demand.
Investment focus

Structural growth opportunities

We continue to believe that economic recovery is a question of patience and time horizon. It will take some time for confidence to build for both consumers and businesses. However, Chinese households have built up huge surplus savings, which we think is likely to be deployed over the coming months.

The structural growth opportunities we see include:

Technology: Driven by industry upgrades and import substitution, China offers a diversified range of opportunities in areas such as semiconductors, automation and software. Some potential artificial intelligence (AI) beneficiaries have been bid up beyond levels we’re comfortable with, but hardware stocks can be an attractive play: irrespective of whatever the most dynamic use cases for AI turn out to be, demand for certain servers and semiconductors will continue to expand.

Carbon neutrality: Cleaner government policy, evolving consumer preferences, and a drive towards energy independence is positive for new energy, including the global solar industry and the electric vehicle supply chain.

Consumption: Consumer-related stocks offer many opportunities as consumers become wealthier, including high tech medical products and services in areas of the market with lower regulatory risk, and alcohol stocks, which should benefit from a rise in post-lockdown socialising.
# Investment objective and risk profile

## JPMorgan Funds - China A-Share Opportunities Fund

### Investment objective
To provide long-term capital growth by investing primarily in companies of the People’s Republic of China (PRC).

### Investment risks
#### Risks from the Fund’s techniques and securities
<table>
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<th>Securities</th>
<th>Participations</th>
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#### Other associated risks
Further risks the Fund is exposed to from its use of the techniques and securities above

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#### Outcomes to the Shareholder
Potential impact of the risks above

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## JPMorgan Funds - China Fund

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The risk indicator assumes you keep the product for 5 years. The risk of the product may be significantly higher if held for less than the recommended holding period. In the UK, please refer to the synthetic risk and reward indicator in the latest available key investor information document.
EMERGING MARKETS AND ASIA PACIFIC EQUITIES GROUP

Investment objective and risk profile

JPM China A Research Enhanced Index Equity (ESG) UCITS ETF*

**Investment objective**
The Sub-Fund aims to achieve a long-term return in excess of MSCI China A Index (Total Return Net) (the “Benchmark”) by actively investing primarily in a portfolio of Chinese companies.

**Summary Risk Indicator**
The risk indicator assumes you keep the product for 5 years. The risk of the product may be significantly higher if held for less than the recommended holding period. In the UK, please refer to the synthetic risk and reward indicator in the latest available key investor information document.

**Investment risks**

**Risks from the Fund’s techniques and securities**

- **Lower risk**
- **Summary Risk Indicator**
- **Higher risk**

1 2 3 4 5 6 7

- The value of equity securities may go down as well as up in response to the performance of individual companies and general market conditions, sometimes rapidly or unpredictably, if a company goes through bankruptcy or a similar financial restructuring, its shares in issue typically lose most or all of their value.
- Since the instruments held by the Sub-Fund may be denominated in currencies other than the Base Currency, the Sub-Fund may be affected unfavourably by exchange control regulations or fluctuations in currency rates. For this reason, changes in currency exchange rates can affect the value of the Sub-Fund’s portfolio and may impact the value of the Shares.
- The Sub-Fund will invest primarily in China A-Shares through the China-Hong Kong Stock Connect Programmes which are subject to regulatory change, quota limitations and also operational constraints which may result in increased counterparty risk.
- Movements in currency exchange rates can adversely affect the return of your investment. RMB is currently not a freely convertible currency as it is subject to exchange controls and restrictions. The Sub-Fund’s investments via China-Hong Kong Stock Connect may be adversely affected by movements of exchange rates between RMB and other currencies. There can be no assurance that the RMB exchange rate will not fluctuate widely against US Dollars or any other currency in the future. Any depreciation of RMB will decrease the value of RMB denominated assets, which may have a detrimental impact on the performance of the Sub-Fund.
- The Sub-Fund may invest in securities of smaller companies which may be less liquid, more volatile and tend to carry greater financial risk than securities of larger companies.
- Exclusion of companies that do not meet certain ESG criteria from the Sub-Fund’s investment universe may cause the Sub-Fund to perform differently compared to similar funds that do not have such a policy.

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