

China Bulletin:
**Drive for
sustainable
growth**

Q4 2022



We believe that economic growth will remain lacklustre by historical standards, therefore being selective on company specific opportunities remains critical.

Contents

1

Market backdrop

The latest views on Chinese equities

2

Chinese equity drawdowns

MSCI China valuations and drawdowns

3

Investment perspectives

This quarter's key economic theme

4

Funds

JPMorgan Funds - China Fund and
JPMorgan Funds - China A-Share
Opportunities Fund

5

Investment focus

ESG brings opportunity



Market backdrop

The 20th Communist Party Congress saw President Xi reappointed as leader as expected. Other changes in party leadership created some volatility in Chinese stock markets, with internet companies hit especially hard.

The upcoming Central Economic Work Conference and National Financial Work Conference are expected to give further economic policy direction, which would address the key issue of economic growth. We don't think there will be a major shift in policy direction, with goals such as sustainable growth, common prosperity, national security and social stability to remain front and centre of new policy.

Real GDP growth rebounded to 3.9% year-on-year in the third quarter, beating market expectations. The manufacturing sectors have led the recovery, although the service sectors are still suffering from sporadic lockdowns across the country.

We see no near term wholesale reversal of the Dynamic Covid Zero policy but we do expect at least some fine tuning given the costs to local government budgets, consumption etc.



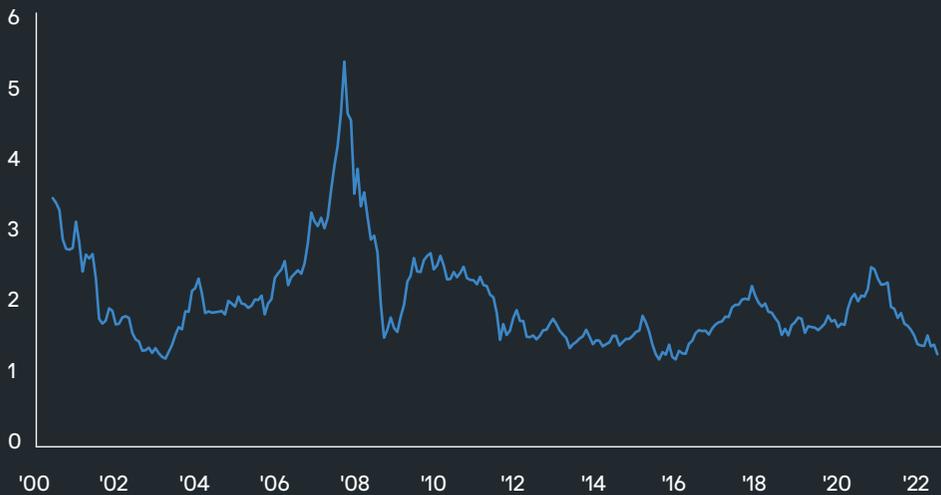


Chinese equity drawdowns

Chinese equities have had a tough run but valuations are reflective of this, with the price-to-book of the market below the level of recent years. Additionally, it is notable that historical drawdowns of a similar size to the one that we see currently have typically started from a much higher level of market valuation.

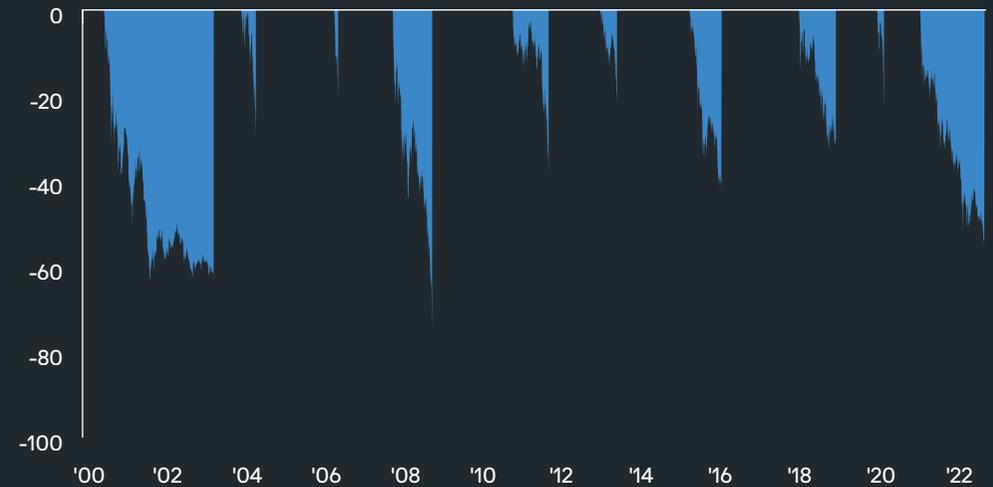
MSCI China price-to-book ratio

x, multiple



MSCI China historical drawdowns

% drawdown from local peak, price return in local currency



Source: (All charts) MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Right hand chart plots all drawdowns of 20% or more from the local peak. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 30 September 2022.



Investment perspectives

We're confident we'll see a continuation of the drive towards self-sufficiency. We anticipate a doubling down on China's strategic Made in China 2025 priorities, and we also expect the US to continue using trade policy (e.g. restrictions on the export of certain products) as a geopolitical tool. This has implications for areas such as industrial automation and technology innovation. We also expect supply chain migration/diversification to accelerate, with ramifications for other geographies such as ASEAN.

On consumption, while social stability and a better social safety net could help support consumption longer term, the implications of a greater focus on quality, sustainable growth could vary by sub-sector. We think those with better ESG (environmental, social and governance) focus and strong execution capabilities should be winners over time.



JPMorgan Funds - China Fund
JPMorgan Funds - China A-Share Opportunities Fund

From a portfolio perspective, we continue to take a micro approach to get a more granular idea of who wins and who loses when the US and China clash on China's technology capabilities.

We believe that economic growth will remain lacklustre by historical standards, therefore being selective on company specific opportunities remains critical. Areas such as domestic technology and renewables/carbon transition are our principal short and medium term overweights, while we remain underweight financials.

Economic sensitivity comes partly through the internet stocks (for the China Fund rather than the China A Fund). We continue to debate the appropriate cost of equity and normalised return estimates, and how that varies by sector and company.



Investment focus: ESG brings opportunity

China’s push towards sustainable growth will have a number of beneficiaries, particularly those companies with strong ESG fundamentals. Here we describe three companies which we think are excelling in their ESG commitments.

<p>Investment Stewardship Principles</p>	<p>Environmental</p>	<p>CATL – A leading electric vehicle (EV) battery supplier in China by output, production scale and technology.</p> <ul style="list-style-type: none"> ● China will aim to hit peak carbon emissions before 2030 and carbon neutrality by 2060. We expect China’s new EV penetration is set to accelerate from here to reach 35% by 2025 from ~20% today. ● CATL is a beneficiary of the high barriers to entry in the battery technology market, which requires considerable experience, know-how and investment. Its Li-ion battery technology (LiB) has set a very high hurdle for other new technologies to disrupt and LiB still has a long runway to improve the key criteria like energy density, cost and safety.
<p> Climate Risk</p>		<p>NetEase – A leading gaming provider in China.</p> <ul style="list-style-type: none"> ● NetEase introduced anti-addiction measures for children as early as 2007 and was one of the first companies in China to do so. ● It continues to lead the industry in upgrading anti-addiction policies as game playing usage and societal attitudes evolve.
<p> Stakeholder Engagement</p>	<p>Social</p>	<p>Shanghai Baosight – A niche player specialising in factory automation software and system integrations.</p> <ul style="list-style-type: none"> ● Shanghai Baosight has delivered revenue and profit growth like a private company, despite being a typical state owned enterprise (SOE) – 50% owned by Baosteel. ● Baosight enjoys strong business tailwinds from the steel industry’s consolidation and modernisation, as carbon- neutral initiatives in China have pushed steel makers to improve their production efficiency, often through IT software and industrial automation. ● The company has expanded its clients outside of Baosteel, while China’s carbon neutral target has created new demand for manufacturing digitalisation to reduce energy intensity in the steel industry. We also note that despite being a SOE, the company’s employee incentives are comparable to private companies and improving with the further rollout of employee share option scheme.
<p> Governance</p>	<p>Governance</p>	

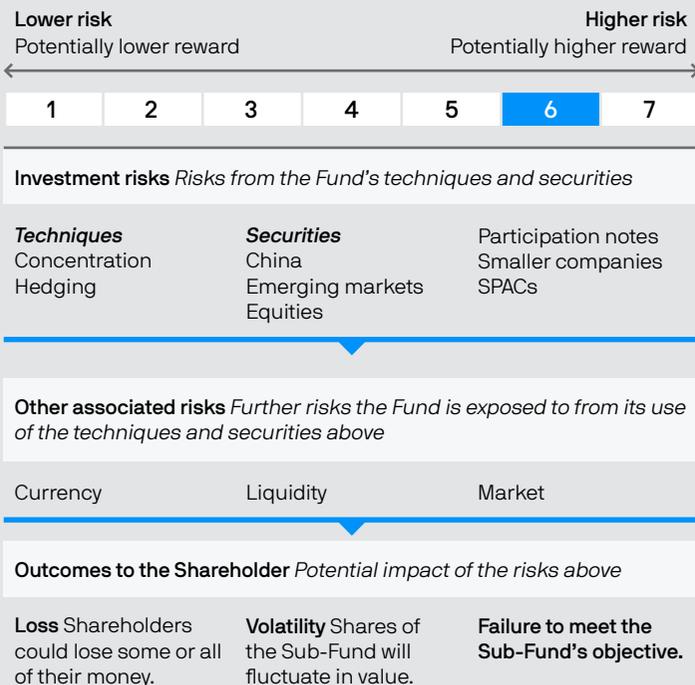
Source: J.P. Morgan Asset Management. The companies above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell. Data as at 30 November 2022.

Risk and reward profile

JPMorgan Funds - China A-Share Opportunities Fund

Investment objective

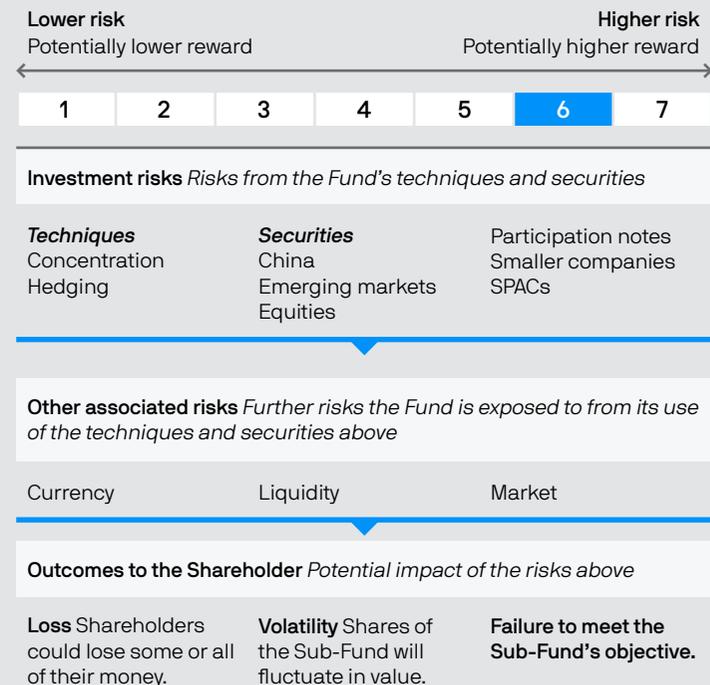
To provide long-term capital growth by investing primarily in companies of the People's Republic of China (PRC).



JPMorgan Funds - China Fund

Investment objective

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



For Professional Clients / Qualified Investors only – not for Retail use or distribution.

This is a marketing communication and as such the views contained herein do not form part of an offer, nor are they to be taken as advice or a recommendation, to buy or sell any investment or interest thereto. Reliance upon information in this material is at the sole discretion of the reader. Any research in this document has been obtained and may have been acted upon by J.P. Morgan Asset Management for its own purpose. The results of such research are being made available as additional information and do not necessarily reflect the views of J.P. Morgan Asset Management. Any forecasts, figures, opinions, statements of financial market trends or investment techniques and strategies expressed are, unless otherwise stated, J.P. Morgan Asset Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all inclusive and are not guaranteed as to accuracy. They may be subject to change without reference or notification to you. It should be noted that the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Changes in exchange rates may have an adverse effect on the value, price or income of the products or underlying overseas investments. Past performance and yield are not a reliable indicator of current and future results. There is no guarantee that any forecast made will come to pass. Furthermore, whilst it is the intention to achieve the investment objective of the investment products, there can be no assurance that those objectives will be met. J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our EMEA Privacy Policy www.jpmorgan.com/emea-privacy-policy. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every reader to satisfy himself as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory and tax advice on the consequences of an investment in the products. Shares or other interests may not be offered to, or purchased, directly or indirectly by US persons. All transactions should be based on the latest available Prospectus, the Key Investor Information Document (KIID) and any applicable local offering document. These documents together with the annual report, semi-annual report, the articles of incorporation and sustainability-related disclosures for the Luxembourg domiciled products are available in English free of charge upon request from JPMorgan Asset Management (Europe) S.à r.l., 6 route de Trèves, L-2633 Senningerberg, Grand Duchy of Luxembourg, your financial adviser, your J.P. Morgan Asset Management regional contact or at <https://am.jpmorgan.com>. A summary of investor rights is available in English at <https://am.jpmorgan.com/lu/investor-rights>. J.P. Morgan Asset Management may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In Switzerland, JPMorgan Asset Management (Switzerland) LLC, Dreikönigstrasse 37, 8002 Zurich, acts as Swiss representative of the funds and J.P. Morgan (Suisse) SA, Rue du Rhône 35, 1204 Geneva, as paying agent of the funds. JPMorgan Asset Management (Switzerland) LLC herewith informs investors that with respect to its distribution activities in and from Switzerland it receives remuneration which is paid out of the management fee as defined in the respective fund documentation. Further information regarding this remuneration, including its calculation method, may be obtained upon written request from JPMorgan Asset Management (Switzerland) LLC. This communication is issued in Europe (excluding UK) by JPMorgan Asset Management (Europe) S.à r.l., 6 route de Trèves, L-2633 Senningerberg, Grand Duchy of Luxembourg, R.C.S. Luxembourg B27900, corporate capital EUR 10.000.000. This communication is issued in the UK by JPMorgan Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority. Registered in England No. 01161446. Registered address: 25 Bank Street, Canary Wharf, London E14 5JP.

LV-JPM53537 | 12/22 | UK | 09zm222911115857 | Image Sources: Getty images, Shutterstock