EMERGING MARKETS AND ASIA PACIFIC EQUITIES GROUP

China Bulletin:

Heading for higher quality growth

Q2 2022

J.P.Morgan ASSET MANAGEMENT

New government regulations could cause disruption in the near-term, but we think they are likely to move China onto a longer, and more stable, growth trajectory.

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Market backdrop

Despite the prospect of near-certain stimulus in China this year, Chinese equities performed poorly in the first quarter of 2022, even in the context of rising global risk aversion and equity market falls. We believe they have been impacted by a combination of: geopolitical uncertainty, renewed concerns on regulatory interventions in two widely held companies – Wuxi Biologics and Meituan, the ongoing rotation from growth to value sectors, the return of American Deposit Receipts (ADR) de-listings to front page news and rising Covid cases that could have a short term impact on consumption.

We believe the best case for both emerging markets and China during the rest of the year is a dovish Federal Reserve with Chinese easing, which we think could be an increasingly likely scenario. A recovery in margins by corporates as raw material prices ease and the strongest franchises raise prices, should support earnings growth. Finally, our expected returns for Chinese equities are now at historical highs and we note the rising number of companies where cash is more than 50% of the market cap, indicating markets are pricing extreme outcomes.

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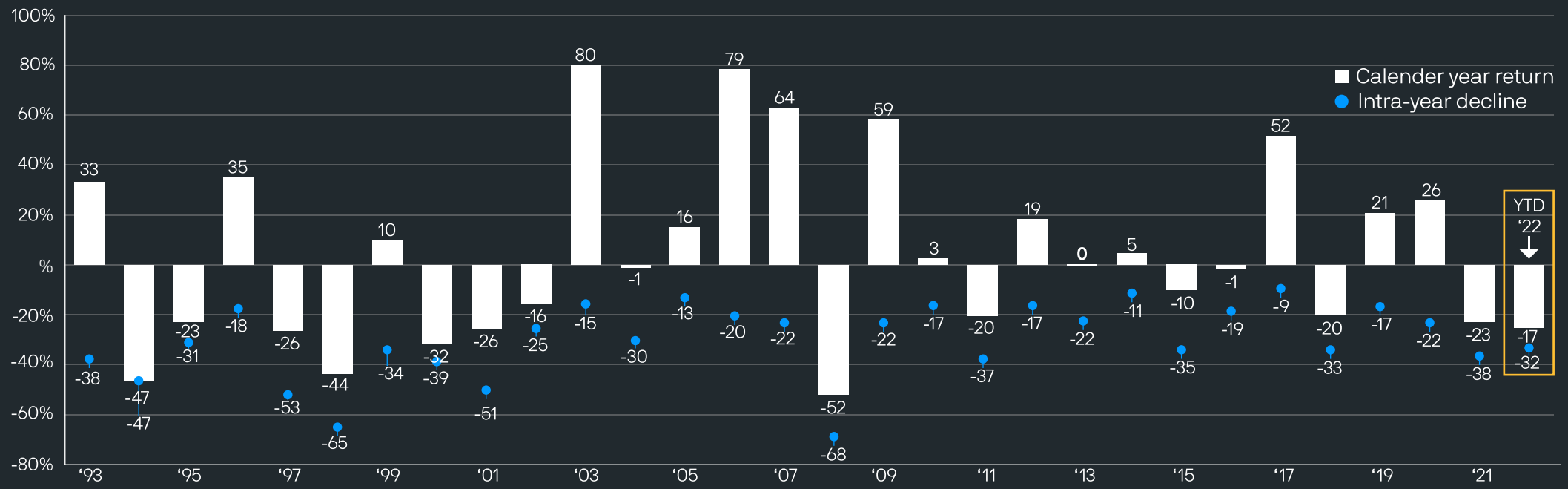
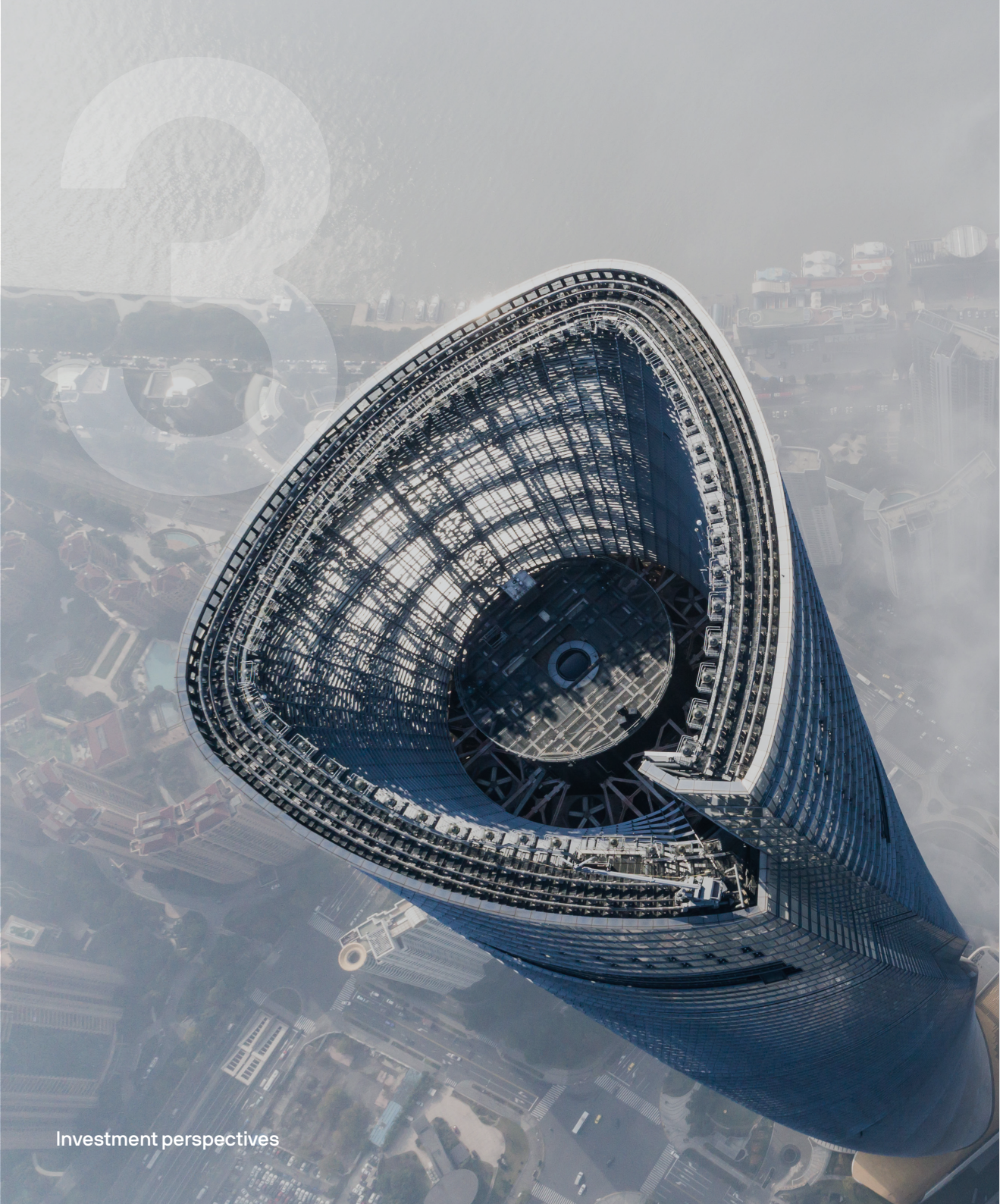
Annual returns

MSCI China intra-year declines vs. calendar year returns

Local currency, average intra-year falls of 29.2% (median -26.3%) and annual returns (average 4.4%) positive in 15 of 30 years



Source: FactSet, MSCI, J.P Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns are calendar year returns from 1993 to 2021 for the MSCI China.
Guide to China. Data are as pf April 30, 2022.



Investment perspectives

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Investment perspectives

After the Lunar New Year, the Chinese government announced further supportive monetary and fiscal policies designed to secure jobs, assist service industries and to sustain industry output growth. Over the long run, we think China's focus on sustainable, higher quality growth will result in a structural deceleration but a stronger duration of growth.

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

The Covid resurgence in China will pass and in the meantime neither the JPM China Fund nor the JPM China A-Share Opportunities Fund have any exposure to restaurants or travel other than a couple of stocks (e.g. Huazhu). We assume that, similar to in 2020, China will make manufacturing and supply chains a priority once lockdowns and testing is over so we don't see a lasting impact.

Given the rising economic damage from the Russia-Ukraine conflict and China's surprisingly-high 5.5% GDP growth target for a politically-sensitive year, we think the probability of a large stimulus is close to 100% and will work along all three tracks – fiscal, monetary and regulatory. Consequently, we have positioned the funds to benefit from the first steps of the stimulus package – we've increased solar exposure (including to companies involved in solar engineering, procurement and construction and energy storage solutions buildout), other renewables (hydro, wind) and smart power stocks. In addition, we have continued to increase positions in domestic semiconductors which benefit from import substitution.

We're increasing active positions in terms of Chinese stimulus, energy transition and self-supply of hard technology and reducing what are, for the present moment, out-of-favour positions in Chinese health care and offshore internet stocks.

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Investment focus: Health care and consumption

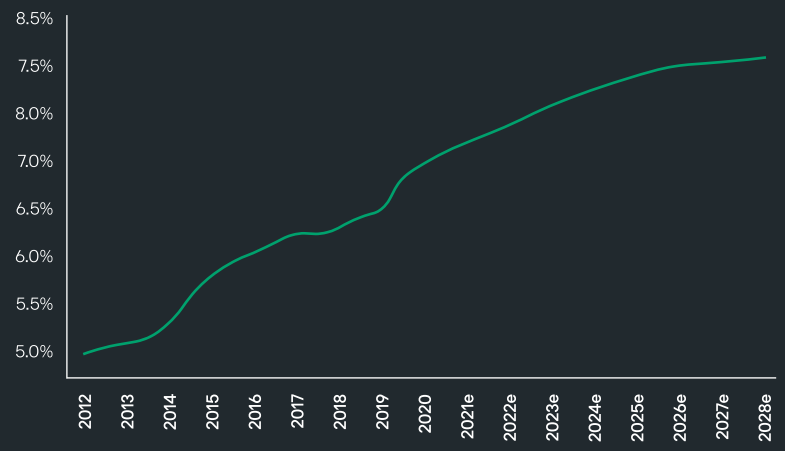
As the Chinese middle class continues to expand, demanding better and healthier products, companies capturing premiumisation and industry consolidation opportunities can compound growth for many years to come. Health care spending will also likely continue to increase, and we see attractive investment opportunities in areas such as medical equipment and contract research organisations /contract manufacturing outsourcers.

	Total health care expenditure*
2012-2026	13.3%
2017E-2021E	9.4%
2022-2026E	8.9%

*Compound annual growth rate

Consumption and health care

Health care expenditure as % of GDP in China



Source: Frost & Sullivan. Company data. J.P. Morgan Asset Management. Data as of end May 2019. Forecasts are not a reliable indicator of future performance.

Health care stock stories

Hangzhou Tigermed

The largest domestic clinical contract research organisation. The company benefits from higher R&D spending from Chinese pharmaceutical companies as well as multi-national companies. It is also moving to clinical trials and possess a good network from which it can recruit patients easily.

Shenzhen Mindray

A large medical device conglomerate with globally competitive product lines, i.e. similar product quality but cheaper than foreign brands. The company's brand is already well known domestically and also increasingly overseas. The investment case is that demand/replacement demand for all medical equipment is linked to hospital capital expenditure and people spending on regular check-ups – both of which should be in a structural uptrend.

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

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).

Risk and Reward Profile

Lower Risk — **Higher Risk**

Potentially lower reward — Potentially higher reward

1	2	3	4	5	6	7

Investment risks

Risks from the Sub-Fund's techniques and securities

Techniques
Concentration

Hedging

Securities
China

Emerging markets

Equities

Participation notes
Smaller companies

Other associated risks

Further risks the Sub-Fund is exposed to from its use of the techniques and securities above

Currency

Liquidity

Market

Outcomes to the Shareholder

Potential impact of the risks above

Loss
Shareholders could lose some or all of their money.

Volatility
Shares of the Sub-Fund will fluctuate in value.

Failure to meet the Sub-Fund's objective.

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Disclaimer

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