T. ROWE PRICE STRATEGY FOCUS
ON CHINA EVOLUTION EQUITY

July 2021

STRATEGY SUMMARY

- We take a holistic approach to investing in China, looking for the best risk/reward proposition across the full spectrum of Chinese markets including but not limited to: onshore Chinese stocks (A-shares), Hong Kong-listed Chinese stocks (H-shares), and U.S.-listed Chinese stocks (American Depositary Receipts).
- The strategy is style-agnostic and unconstrained by any index. We focus on going beyond the top 100 largest companies in the China universe by market cap to identify future winners. The result is a high active share strategy that reflects the changes we anticipate in the Chinese economy and markets. Sector and industry allocation are driven by stock selection.
- Securities are chosen on the basis of bottom-up research, leveraging T. Rowe Price's team of experienced Asia analysts to identify companies in China that we believe will be the potential long-term winners in the evolving Chinese economy. We believe that proprietary, fundamental research is the key driver of value-added active management. To that end, we have one of the industry's strongest commitments to in-house research dedicated to the Asian region and to China specifically.
- Our approach is underpinned by a culture of collaboration, which emphasizes the integration of fundamental research and communication across asset classes and regions. Sharing of analysis and joint on-site research trips allow for a more comprehensive investment view in less transparent markets and improve access to corporate management teams.

Wenli Zheng
Portfolio Manager,
China Evolution Equity Strategy

FEATURES

Investment Philosophy

China has been undergoing unprecedented changes, including an evolving economic model, increased affluence, innovative entrepreneurialism, industrial upgrades, and a shifting geopolitical outlook. We believe these changes have created an investment landscape with ample opportunities. But most investors are only exposed to a narrow, well-known subset of those opportunities.

We believe that strong long-term performance can best be achieved by uncovering stocks where change and growth are underappreciated or undiscovered. Finding these outliers requires an unconstrained approach that delves deeper into the inefficient China opportunity set. Our focus on these outliers results in a strategy that is influenced more by individual, idiosyncratic factors than by broad, macro trends.

Portfolio Management and Construction

The China Evolution Equity Strategy is led by Hong Kong-based Portfolio Manager Wenli Zheng, who has ultimate responsibility for investment decisions. He has managed the strategy since its inception in December 2019. In addition, he is the co-portfolio manager of the International Small-Cap Equity Strategy since December 2014.

When constructing the portfolio, the primary focus is on the idiosyncratic fundamental factors of each holding. Position sizes are determined by the potential upside and downside of an individual stock. The number of holdings typically ranges from 40 to 80, a range we believe is appropriate for our performance objectives.

Idea Generation and Fundamental Research

Our dedicated Asia and China equity analysts, backed by our firmwide global research team, undertake fundamental, bottom-up research analysis, which integrates environmental, social, and governance (ESG) considerations. Our focus is on identifying outlier companies, beyond the widely owned mega-cap stocks, that potentially offer durable growth that can compound over multiple years; accelerating growth from a new product cycle, a change in the industry cycle, or transition from an investment cycle to a harvest cycle; or mispricing opportunities driven by transitory and fixable issues that may create a disconnect between a company's fundamentals and its share price.

ESG Integration

The China Evolution Equity Strategy uses ESG integration as part of its investment process. This means incorporating environmental, social, and governance factors to enhance investment decisions. Our philosophy is that ESG factors are a component of the investment decision, meaning that they are not considered separately from traditional fundamental analysis.

The process of ESG integration takes place on two levels: first, with our research analysts as they incorporate environmental, social, and governance factors into company valuations and ratings, and second, with the portfolio manager as he considers these ESG factor exposures at the portfolio level. Our analysts work closely with our ESG specialist teams who provide investment research on ESG issues at the company level and on thematic topics. Additionally, they have built tools to help proactively and systematically analyze the environmental, social, and governance factors that could impact our investments. A consideration of ESG factors helps us assess the quality of the company and its management team and to identify potential ESG-related risks to our investment thesis.

Disciplined Approach to Risk

Investing internationally involves risks, including economic and political uncertainty and currency fluctuations. In particular, investments in emerging markets, including China, can be subject to abrupt and severe price fluctuations.

Mitigating risk is integral to the active management of our strategy. A significant part of our effort is dedicated to understanding the underlying financial and non-financial risk factors of each active investment position as well as the overall level of risk borne by our portfolios.

T. Rowe Price does not believe that an investment strategy can be successful if risk is viewed as something distinct from the rest of portfolio management. Accordingly, we incorporate risk management throughout every step of our investment process.

Risks – the following risks are materially relevant to the portfolio:

Country risk (China) – all investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licence or the Stock Connect program may be subject to additional risks.

Currency risk – changes in currency exchange rates could reduce investment gains or increase investment losses.

Emerging markets risk – emerging markets are less established than developed markets and therefore involve higher risks.

Small and mid-cap risk – stocks of small and mid-size companies can be more volatile than stocks of larger companies.

Stock connect risk – the portfolio may invest in certain Shanghai-listed and Shenzhen-listed securities ("tock Connect Securities" through the Shanghai-Hong Kong Stock Connect or the Shenzhen-Hong Kong Stock Connect respectively ("tock Connect". This mechanism carries higher risk.

Volatility risk – the performance of the portfolio has a risk of high volatility.

General Portfolio Risks

Capital risk – the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

ESG and Sustainability risk – may result in a material negative impact on the value of an investment and performance of the portfolio.

Equity risk – in general, equities involve higher risks than bonds or money market instruments.

Geographic concentration risk – to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk – a portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk – investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk – the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk – operational failures could lead to disruptions of portfolio operations or financial losses.

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T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

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