

# T. ROWE PRICE STRATEGY FOCUS

## ON CHINA EVOLUTION EQUITY



October 2020

### STRATEGY SUMMARY

- We take a holistic approach to investing in China, looking for the best risk/reward proposition across the full spectrum of greater-Chinese markets including: onshore (A-shares), offshore (H-shares), and U.S.-listed Chinese stocks (American Depository Receipts). The strategy may invest up to 10% in Taiwanese companies whose business is predominantly levered to China's economy.
- The strategy is style-agnostic and unconstrained by an index. We focus on the bottom 50% of the MSCI China All Shares Index by full market capitalization. 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, since 2014, Wenli has been a co-portfolio manager of our International Small-Cap Equity Strategy, responsible for the Asian ex-Japan investments.

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 or industry cycle; or rerating opportunities as we look beyond short-term challenges or concerns to the longer-term prospects of the company.

## 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 the sole driver of an investment decision nor are they considered separately from more traditional 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. Both the analysts and the portfolio manager are able to leverage dedicated, in-house resources to assist in analyzing ESG criteria.

## 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 nonfinancial 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.

## INVEST WITH CONFIDENCE<sup>SM</sup>

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

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