T. Rowe Price

T. Rowe Price Funds OEIC

CHINA EVOLUTION EQUITY FUND

A unique approach to investing in China

Fund snapshot

- A style agnostic, unconstrained portfolio investing across onshore and offshore China equity markets.
- Focuses on areas of the market that may be overlooked by some investors, investing outside of the 100 largest, well-owned mega caps.
- Seeks to uncover stocks where change and durability of growth are underappreciated or undiscovered by the market.

Asset class	China equities
Comparator Benchmark*	MSCI China All Shares Index Net
Inception	December 2021
Portfolio Manager	Wenli Zheng
Style	Agnostic, but with growth bias
No of holdings	40-80
ISIN	GB00BMHRML25 (C Acc)

* Not a formal benchmark; shown only for comparison purposes. The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

Fund overview

"Investing beyond the mainstream holdings in China sets us apart. We believe this fund can play a key role in complementing investors' existing China exposure while capturing the exciting potential for grass-roots growth in their portfolios."

Wenli Zheng | Portfolio Manager

The China Evolution Equity Fund is designed to focus on areas of the market that are being largely overlooked by most investors. Our approach is to go beyond the top 100 largest companies in the China universe by market cap – ie those companies that dominate the index and many investor portfolios – to invest where change and growth are underappreciated or undiscovered by the market, in our view.

As well as avoiding the stocks which most investors already own, historically it is this area of the market that has been home to the outlier companies we seek – that small percentage of exceptional companies which drive the majority of market returns. Finding those future outliers is critical for sustainable returns and alpha generation.

Reasons to consider this fund

Alpha Opportunity

A portfolio of idiosyncratic ideas with relatively low correlation to macro influences and mainstream equity markets that seeks to exploit the inefficiencies and ample mispricing opportunities across the full extent of China's large, liquid equity markets.

Unique Exposure

A high active share fund that we believe offers a truly differentiated exposure to China's exciting growth potential and which can complement investor portfolios by avoiding the widely-owned mega caps and focusing on the vast overlooked segments of the market.

Asia-based Investment Team

With a long history of investing in China and with one of the largest and most experienced Asia-based analyst teams in region since 1987, we have built extensive local knowledge and long-term relationships which are essential to uncovering the future winners.

The Active Opportunity in China

Quick takeaways

- China is a dynamic economy reflected in a large and constantly evolving equity market of over 5,500 companies
- Mainstream China indices are concentrated into a small subset of companies and do not reflect the true opportunity set
- The equity market is vast, dynamic and inefficient – an active stock picker's paradise

An inefficient and under-explored market

Whilst China's share of global gross domestic product (GDP) has more than doubled over the past decade from 9% in 2010 to over 20% today, its expansion has not been matched in global equity indices. China exposure in the MSCI AC World Index expanded from 2% to just over 4% during the same period.

On the other hand, China's equity market capitalisation has increased by 25 times since 2002 and it is now the second largest stock market globally, by market cap. China is a fast-evolving market, with new companies coming to the market across a range of innovative sectors. The total universe comprises more than 5,500 onshore- and offshore-listed stocks.

However, mainstream indices are not an accurate representation of the opportunity set. For example, the MSCI China Index comprises just under 750 listed companies – with the largest 100 stocks having a weighting of over 70%. The remaining 5,400+ companies – some 98% of the investable market – are being largely ignored.

While many of China's mega caps will have rewarded investors and remain sound companies, it is the overlooked areas of the market where we believe many of the investable success stories of tomorrow lie.

China A shares: accessible and under owned

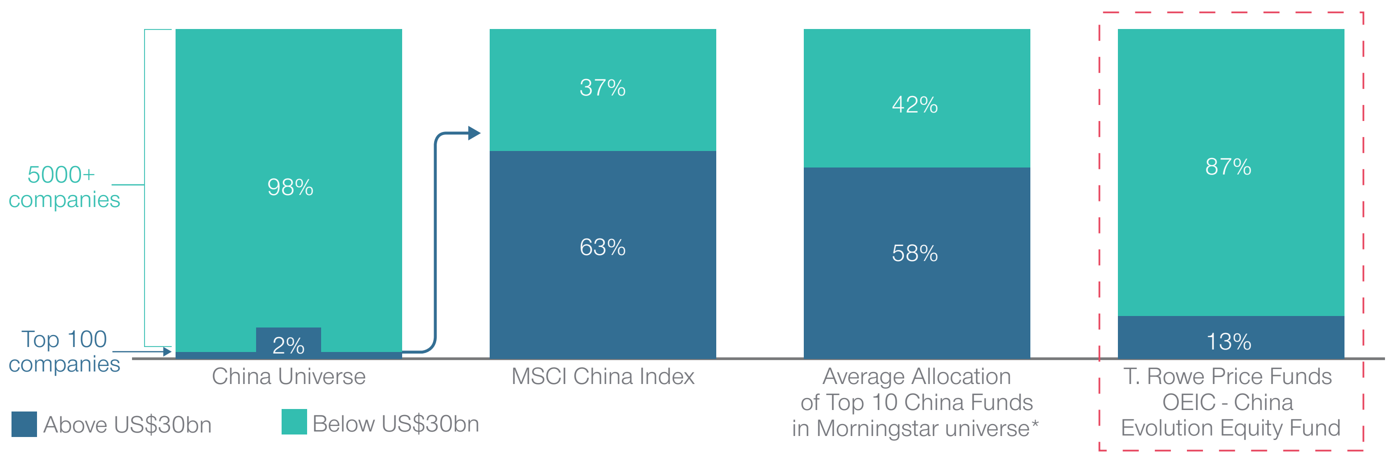
China's domestic A-shares are by far the biggest investment universe by both number of companies and market cap, yet this dynamic, fast evolving segment is greatly underrepresented in both the index and, consequently, many China funds.

The underrepresentation of A-shares in the index is important, not only because of the broad range of investable opportunities A-shares have to offer, but also because the A-share market remains highly inefficient given its retail-driven investor base. It is a high liquid, high velocity market, with local retail investors accounting for 70% of market turnover and an average holding period of just 16 days.

Furthermore, a lack of sell-side coverage outside of a handful of A-share companies serves only to exacerbate these inefficiencies and creates mispricing opportunities. A-share companies with a sizeable market capitalisation of between US$5-US$30 billion are covered, on average, by five analysts. For smaller companies, the average falls to just one.

As such, we believe the A-share market presents an attractive opportunity set for skilled fundamental, active investors to invest in potentially mispriced assets

Fig. 1: The opportunity set is much more than the mega caps.
Market cap breakdown by stock count (%), as at 31 December 2021



Sources: MSCI, HKex, FactSet, Wind, Morningstar. Financial data and analytics provider FactSet. Copyright 2022 FactSet. All Rights Reserved.

Please see Additional Disclosures for information about this MSCI and Morningstar information.

[1] The Top 10 China funds refer to the funds in the Morningstar China Equity universe, measured by AUM.

Our Investment Approach

Quick takeaways

- Fundamental approach based upon a large, local and experienced investment team
- A framework designed to find tomorrow's winners that lie outside of the 100 largest companies
- A portfolio that is concentrated, style agnostic and unconstrained

The China Evolution Equity Fund is designed to give clients a highly differentiated exposure to China's opportunity set. By excluding the mega caps and looking to invest in the future winners we take a truly active approach to stock selection in China across both on- and offshore markets. The ability to identify future winners in areas of the market overlooked by others relies on proprietary, forward-looking fundamental research. To that end, we have one of the industry's strongest commitments to in-house research dedicated to China.

Investing beyond the mainstream mega caps

Based in Hong Kong, Portfolio Manager Wenli Zheng and our team of dedicated China analysts have close proximity to companies and extensive local market knowledge.

They are supported by teams of emerging market debt analysts, ESG specialists and over 100 globally based sector and regional specialists who can provide a broader perspective on what is happening in other countries and can help evaluate the potential impact for companies in China.

Our bottom-up approach seeks to identify outlier companies, beyond the well-understood 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.

Fig. 2: Future winners and mispricing opportunities - the types of stocks we want to own

Compounders

- Long-term core holdings
- Foundation for long-term wealth creation
- Key: durability of competitive advantage and growth

Nonlinear growers

- Step function change leading to improving fundamentals
- Potentially outsized return over medium-term
- Key: where we are in the cycle

Special situations

- Mispricing from clear, identifiable factors
- Asymmetric risk-reward
- Key: understanding the valuation disconnect

A balanced portfolio unconstrained by any index, sector or style

Going beyond the top 100 largest companies by market cap means that we invest in stocks with a market cap that translates to roughly US$30bn or below under current market conditions (although we are not compelled to sell should a stock go above this threshold provided our investment thesis remains intact).

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.

We are unconstrained by index, style or sector with the portfolio driven by bottom-up considerations where we believe we have unique insights beyond the consensus names.The result is a portfolio that is very different from both the MSCI China Index and our peers, that can, in our view, complement most investors' existing exposure to China equities. A portfolio that, we believe, stands out from the crowd.

Holdings	40-80
Position size range	Typically 1%-10% with an average of 2%-4%
Comparator Benchmark*	MSCI China All Shares Index Net
Cash level	Max 8%; typically < 5%
Expected turnover	20%-100%
Sectors	All industries with emphasis on technology, healthcare, consumer, industrials, and services
Countries	Minimum 80% invested in China; selective investment in global companies levered to Chinese consumer or supply chain

* The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

Risks

The following risks are materially relevant to the fund:

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. **Equities risk -** Equities can lose value rapidly for a variety of reasons and can remain at low prices indefinitely. **Geographic Concentration risk -** Geographic concentration risk may result in performance being more strongly affected by any social, political, economic, environment or market conditions affecting those countries or regions in which the fund's assets are concentrated. **Investment fund risk -** Investing in funds involves certain risks an investor would not face if investing in markets directly. **Issuer concentration risk -** Issuer concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting those issuers in which the fund's assets are concentrated. **Management risk -** Management risk may result in potential conflicts of interest relating to the obligations of the investment manager. **Market risk -** Market risk may subject the fund to experience losses caused by unexpected changes in a wide variety of factors. **Operational risk -** Operational risk may cause losses as a result of incidents caused by people, systems, and/or processes.

General fund risks

Equity risk – In general, equities involve higher risks than bonds or money market instruments. **Geographic concentration risk** – To the extent that a fund 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 fund's attempts to reduce or eliminate certain risks through hedging may not work as intended. **Investment fund risk** – Investing in funds 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 fund to be in conflict with their obligations to other investment fund they manage (although in such cases, all portfolios will be dealt with equitably). **Market risk** – Prices of many securities change daily and can fall based on a wide variety of factors. **Operational risk** – Operational failures could lead to disruptions of fund operations or financial losses.

Additional disclosures

MSCI data: MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

Important information

The SICAV Funds are sub-funds of the T. Rowe Price Funds SICAV, a Luxembourg investment company with variable capital which is registered with Commission de Surveillance du Secteur Financier and which qualifies as an undertaking for collective investment in transferable securities ("UCITS"). The OEIC Funds are sub-funds of the T. Rowe Price Funds OEIC, an investment company with variable capital incorporated in England and Wales which is registered with the UK Financial Conduct Authority and which qualifies as a UCITS. Full details of the objectives, investment policies and risks are located in the prospectus which is available with the key investor information documents in English and in an official language of the jurisdictions in which the Funds are registered for public sale, together with the articles of incorporation and the annual and semi-annual reports (together "Fund Documents"). Any decision to invest should be made on the basis of the Fund Documents which are available free of charge from the local representative, local information/paying agent or from authorised distributors and via www.troweprice.com. A summary of investor rights for the T. Rowe Price Funds SICAV is available in English at www.troweprice.com. The Management Company reserves the right to terminate marketing arrangements.

Please note that the Funds typically have a risk of high volatility.

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