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2025 felt like a pivotal year for Chinese investors. Despite the trade wars, AI bubble fears and concerns about a property market downturn. Chinese equities delivered more than 30% total return in US dollar terms, and our portfolio has outperformed. Importantly, this was not just about the AI story. It reflected two shifts we observed on the ground.

Firstly, continued domestic policy support and innovation at scale. The former improves the operating backdrop. The latter delivers real progress and earnings growth. The policy support for consumers, innovation and the private sector has continued since late 2024. More specifically, we've seen further capital market reforms. Regulation is accelerating to improve the corporate governance and also the shareholder returns. The pension funds and insurance companies are being encouraged to allocate more to equities.

So, this makes sense to us. It aligns with Beijing's aim of redirecting the household savings to the capital markets, rather than leaving them in the bank deposit or channelling them into property. In return, this supports the real economy and productive businesses in China. This change will not happen overnight, but the potential is large. The Chinese household holds around US\$23 trillion in the bank, almost the size of the entire equity market.

At the same time innovation is gathering momentum on the ground. We have seen this across advanced manufacturing, including EVs, batteries and industrial automation, as well as in AI and semiconductors. So China's low-cost innovation is scaling rapidly at home and abroad. BYD, one of our holdings in the portfolio, has now become the world's largest EV producer. It actually exported roughly as many cars last year as it sold in its China home market.

Another holding, CATL, delivered a robust operational performance, and the market is only beginning to appreciate the potential of its energy storage business. And that's an opportunity, we think it could be bigger than the EV battery upcycle we have seen in the past. And more broadly, China is building a parallel AI ecosystem to the US, from the chips to the models and applications.

The impact of low-cost AI diffusions through such a large-scale economy should not be underestimated. Yet the equity markets do appear to underprice this shift. So the total market cap of China's 15 largest listed internet stocks is barely comparable to Meta's, and that is likely to change. For now, our preferred exposure is through the platform companies in China.

Two of our members in Shanghai recently attended Alibaba's flagship Cloud Summit and were so impressed by the progress it's made through its whole stock technology stack, and we increased our holding Alibaba during this quarter. We are also keen to research newer disruptors in the AI space, including those independent labs and niche chips designers from China, and many are expected to enter the IPO market in 2026.

Elsewhere, I would say commodities shows meaningful strengths, including copper and lithium, which are supporting our holding in the mining sector. For example, Zijin Mining and Tianqi Lithium were the key contributor to the relative performance, but the consumer sector was mixed during an

uneven recovery. Meituan detracted as growth slowed during a price war in the food delivery business and Moutai also detracted because it actually appears to a softer pricing power in China.

However, we see some positive signals in travel, restaurant and other experience-based areas. So after adding Trip.com and pizza chain DPC early this year, this quarter we broadened our exposure by adding a company called Atour, which is a hotel operator in China.

Despite a strong year, the valuation for most core holdings remains sensible, related to their growth potentials in the future. We're keen to avoid overconcentration in a single growth driver and to stay mindful of complacency.

We see clear benefits in adding less correlated compounders alongside the high growth names which I mentioned. We initiated two holdings in this area called Yangtze Power and Tianqi Lithium last year. More recently, we also added China Mobile, the leading telecom operator. We also took some profits in a few semiconductor and manufacturing holdings, where we felt the share price actually had outpaced the fundamental growth.

So, looking ahead, we'll feel upbeat. While the geopolitical uncertainty remains, many of the macro headwinds that dominate the China equity market in the recent years have eased. Improving private sector sentiment also creates a better investment environment for bottom-up stock pickers like us, and most global investors are still under-allocating to China.

And what excites us the most? I think colleagues on the ground are increasingly highlighting the Chinese companies' technological edge, and this is reflected in a diversity of the key contributors over the past year, from the leading miners to the new consumer brand, from the niche industrial suppliers and the enablers of the green transition.

So, the efficiency and the productivity gains from the innovation in China are real, especially when AI meets deep manufacturing expertise at such a large scale. So, for us, this feels like a turning point for China investors.

China

Annual past performance to 31 December each year (%)

	2021	2022	2023	2024	2025
China Composite (Gross)	-17.5	-27.1	-18.8	10.7	37.9
China Composite (Net)	-18.2	-27.7	-19.5	9.8	36.8
MSCI China All Shares	-12.8	-23.5	-11.4	16.7	29.2

Annualised returns to 31 December 2025 (%)

	1 year	5 years	10 years
China Composite (Gross)	37.9	-5.7	8.3
China Composite (Net)	36.8	-6.5	7.4
MSCI China All Shares	29.2	-2.3	6.6

(MSCI All China prior to 27/11/19, MSCI Golden Dragon Prior to 02/05/19)

Source: Revolution, MSCI. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

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