# Q4: China Equity Fund

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The fund's management team has developed a co-operative research approach with China Asset Management, one of China's highest-ranked asset management companies. With a team of more than 60 analysts, the company's share recommendations, in-person research and knowledge of China's market and economic conditions provide the fund with a significant advantage over the company's competitors.

## Market and portfolio overview

Asian markets in general, and China's markets in particular, posted better relative performance than most other international markets, driven in part by the fall in energy prices. Asian countries are generally net importers of oil and should therefore benefit from the near-50% decline in the price of the commodity. This relative benefit was magnified by the fact that many emerging Asian economies are energy intensive given their exposure to manufacturing and infrastructure building.

Aside from benefitting regional trends, China was also boosted by the Shanghai-Hong Kong Stock Connect program, which eased restrictions on foreign investors' ability to access the local A-share market on the Shanghai Stock Exchange. Investor sentiment rose further after the People's Bank of China cut interest rates in an attempt to stimulate demand. The Chinese market thus gained approximately 12% during the quarter, with much of that gain attributable to a strong rally in financials shares.

## Contributors to performance

The fund's allocation to A shares contributed to performance during the quarter. Both Chinese and foreign investors poured money into shares as the government cut interest rates and opened up local markets to foreign investors, who were allowed to invest up to US$42 billion of new capital. As a result, Chinese A shares notably outperformed.

The fund's underweight to the energy sector aided performance, given that energy shares underperformed during the quarter because of the sharp decline in the price of crude oil.

The fund also benefitted from underweight allocations to the poorly performing information technology and telecommunication services sectors.

## Detractors from performance

Share selection generally detracted during the quarter, with especially unfavourable results in the industrials sector. One of the key detractors was dry bulk shipping company Pacific Basin Shipping Ltd., which corrected because of a challenging operating environment coupled with weak Chinese demand. We believe that Pacific Basin is one of the best-managed operators in its business and that it is well positioned to benefit from a potential industry recovery in 2015.

The fund's financials shares performed well but lagged slightly behind the exceptionally strong return of the benchmark's financials shares. A modest underweight allocation to the strongly performing sector also detracted. The fund's consumer shares did not perform particularly well. Consumer staples company WH Group Ltd., the largest pork producer in China, was among the most notable detractors. The shares have performed poorly, in part, because growth in the Chinese economy has slowed. We believe that WH Group's setbacks are temporary and that, over the intermediate term, the company should continue to benefit from rising middle-class incomes.

## Market Outlook

We continue to believe that China remains an attractive market for investment. The year 2015 should be better than 2014 because China's exports stand to benefit from the country's relative currency weakness, especially relative to the stronger US dollar. China should also see a benefit from cheaper energy prices. Across Asia, we believe that emerging Asian economies remain relatively inexpensive compared with their historical valuations and also compared with developed markets. We believe that China is particularly inexpensive, even compared with Asian markets. We see a number of opportunities to add value through fundamental analysis and share picking.

We also believe that China's investors should see continuing benefits from greater access to local shares. For example, we believe that China will gradually become a more significant part of the benchmark now that it's easier for foreign investors to purchase shares, which should eventually result in higher investment allocations to that market. We remain extremely bullish on China for the long run.

More information about the Wells Fargo (Lux) Worldwide Fund, including a copy of the prospectus or KIIDs, is available upon request from Wells Fargo Asset Management or from your local Wells Fargo Asset Management regional contact. Please visit the fund's website at **wellsfargoworldwidefund.com** or call:

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