

# FSSA China Growth Fund

- The Fund invests primarily in equity securities or equity-related securities issued by companies with either assets in, or revenues derived from China.
- The Fund invests in emerging markets which may have increased risks than developed markets including liquidity risk, currency risk/control, political and economic uncertainties, high degree of volatility, settlement risk and custody risk.
- Investing in securities of small /mid-capitalisation companies may have lower liquidity and their prices are more volatile to adverse economic developments.
- The Fund's investments may be concentrated in China and single sector which may have higher volatility or greater loss of capital than more diversified portfolios.
- The Fund may expose to China market risk including repatriation risk, uncertainties to PRC taxation policies and risks associated with StockConnects, QFI, the ChiNext market and/or the STAR board. The Fund may also expose to RMB currency and conversion risk.
- The Fund may use FDIs for hedging and efficient portfolio management purposes, which may subject the Fund to additional liquidity, valuation, counterparty and over the counter transaction risks.
- It is possible that a part or entire value of your investment could be lost. You should not base your investment decision solely on this document. Please read the offering document including risk factors for details.

## Investment objective and strategy

The Fund aims to achieve long term capital appreciation and invests primarily in equity or equity-related securities issued by companies with either assets in, or revenues derived from the People's Republic of China that are listed, traded or dealt in on regulated markets in China, Hong Kong, Taiwan, the U.S. or in a member state of OECD.

## Fund information

Fund size (US\$m)	2,633.6
Benchmark	MSCI China Net Index <sup>▲</sup>
Number of holdings	58

## Available share classes

Share class <sup>+</sup>	Inception date	Nav/per share	ISIN code
Class I (USD - Acc)	17 August 1999	US\$162.46	IE0008368742
Class I Hedged N (CNH - Acc)	01 December 2022	¥85.06	IE000KX3CXG6

<sup>+</sup> Acc represents share class with dividends accumulated.

<sup>▲</sup> The benchmark displayed is the MSCI Golden Dragon Index until 31 May 2002 and the MSCI China Index from 1 June 2002 onwards.

## About FSSA Investment Managers

FSSA Investment Managers is an autonomous investment management team within First Sentier Investors, with dedicated investment professionals based in Hong Kong and Singapore. We are specialists in Asia Pacific and Global Emerging Markets equity strategies, managing assets on behalf of clients globally.

We are bottom-up investors, using fundamental research and analysis to construct high-conviction portfolios. We conduct more than a thousand direct company meetings a year, seeking to identify high quality companies to invest in. We look for founders and management teams that act with integrity and risk awareness; and dominant franchises that have the ability to deliver sustainable and predictable returns over the long term. As responsible, long-term shareholders, we have integrated ESG analysis into our investment process and engage extensively on environmental, labour and governance issues.

### Annual performance (% in USD) to 30 September 2023

	12 mths to 30/09/23	12 mths to 30/09/22	12 mths to 30/09/21	12 mths to 30/09/20	12 mths to 30/09/19
FSSA China Growth Fund Class I (USD - Acc)	0.8	-31.6	9.4	26.7	1.7
FSSA China Growth Fund Class II (USD - Acc)	1.1	-31.2	10.0	27.3	2.2
MSCI China Net Index	5.2	-35.4	-7.3	33.6	-3.9

### Cumulative performance (% in USD) to 30 September 2023

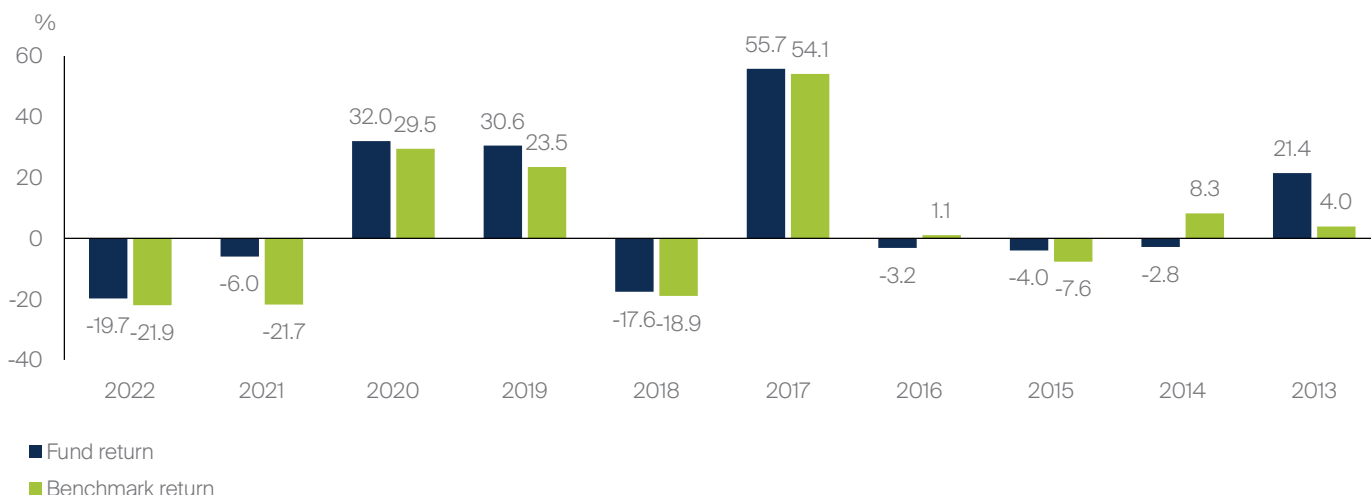
	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	YTD	6 mths	3 mths
FSSA China Growth Fund Class I (USD - Acc)	1524.6	38.7	-2.8	-24.5	0.8	-15.0	-16.5	-7.6
FSSA China Growth Fund Class II (USD - Acc)	2325.4	42.9	-0.6	-23.6	1.1	-14.8	-16.4	-7.5
MSCI China Net Index	360.5	18.8	-19.1	-37.0	5.2	-7.3	-11.5	-1.9

### Performance review

Over the past 12 months, key contributors to performance included Tencent, as profits returned to year-on-year growth on the back of strong demand for online games and certain advertising segments. New game approvals have accelerated, signalling an easing of the regulatory overhang from 2021. We expect decent growth for Tencent's advertising business, driven by the recent monetisation of Weixin's short video function and the recovery of advertising demand. Cloud and fintech could also become major growth engines in the mid-to-long term. Midea rose on solid earnings growth and margin improvement, driven by strong demand for its air-conditioner units. Midea enjoys a leading market share in the heating, ventilation and air-conditioning sector and

should benefit from a recovery in the property market. On the negative side, JD.com fell on concerns of slowing sales growth and rising competition. We think the franchise is still solid, consumer mindshare is strong (especially among mid to high income groups) and valuations are very attractive. ENN Energy reported weaker-than-expected results, mainly due to lower gas volumes sold to industrial clients such as power plants. We believe its execution has been better than other gas companies, and the company is trying to diversify away from gas sales by selling appliances or value-added services to its large network of customers.

### Calendar year performance (% in USD) to 30 September 2023



Source: Lipper and First Sentier Investors, Nav-Nav (USD total return) data as at 30 September 2023. This Fund is a sub fund of Ireland domiciled First Sentier Investors Global Umbrella Fund Plc. Class I (USD-Acc) and Class II (USD-Acc) are the non-dividend distributing class of the fund, the performance quoted are based on USD total return (non-dividend distributing). Class II (USD-Acc) was launched on 20 May 1992 and has been closed for subscription. The benchmark displayed is the MSCI Golden Dragon Index until 31 May 2002 and the MSCI China Index from 1 June 2002 onwards. Gross of tax benchmark performance is shown before 1 July 2016 and net of tax benchmark performance is shown after the aforementioned date. Class I (USD - Acc) performance is shown in the above chart. Unless otherwise specified, all information contained in this document is as at 30 September 2023. Investment involves risks, past performance is not a guide to future performance. On 22 September 2020, First State China Growth Fund was rebranded as FSSA China Growth Fund.

### Portfolio review

There were no significant new purchases over the period. We sold Weichai Power, ASM Pacific and Gree Electric to consolidate the portfolio into higher-conviction holdings.

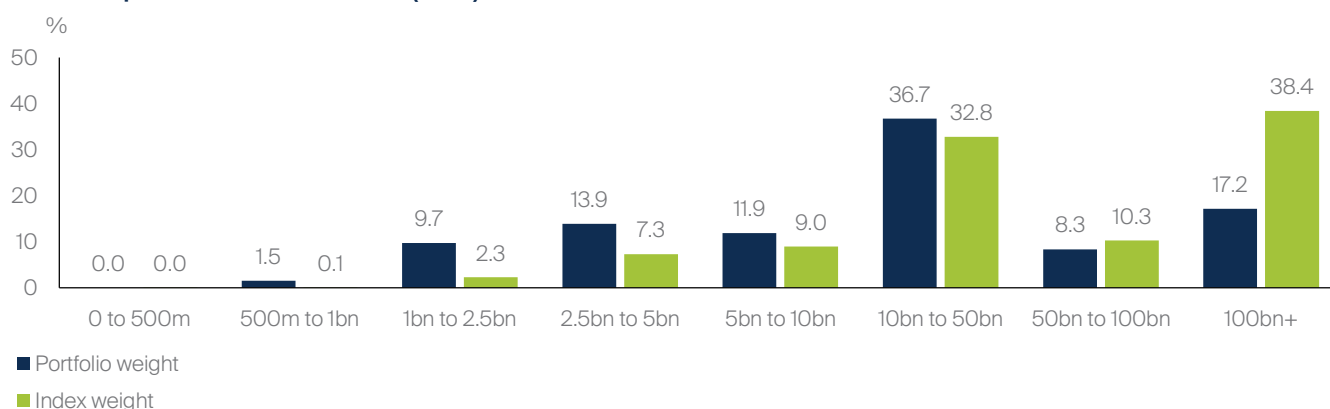
### Stock spotlight

Midea Group is China's largest home appliances company, with a comprehensive product portfolio that includes air conditioners, refrigerators, washing machines and small home appliances. Midea is a dominant consumer franchise, well-positioned to benefit from rising income levels and the premiumisation trend in China (as incomes rise, consumers demand better quality and more expensive products).

Midea has strong bargaining power over suppliers and distributors; and operating cash flows and free cash flows (FCF) are usually higher than net income. The stock is currently trading on 6% FCF yield.

Midea's strong emphasis on research and development have improved its product quality over the years; and its market share in most home appliance categories in China ranks it among the top three. Meanwhile, its acquisitions of Kuka (top 4 industrial robotics company) and Toshiba (Japanese premium brand home appliances) should add new areas of growth, especially in areas such as logistics and industrials.

### Market capitalisation breakdown (USD)



Data source: First Sentier Investors. For illustration purposes only. Portfolio weights may not add up to 100% as cash holdings are excluded and full coverage of stocks is not always available. Past performance is not indicative of future performance. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of First Sentier Investors' portfolios at a certain point in time, and the holdings may change over time. The index refers to MSCI China Net Index.

## Outlook

Investing in China's dynamic market comes with an evolving set of challenges and opportunities. Today, the key challenges include shifts in geopolitics, policy priorities and demographics. In the shorter term, weak consumer confidence and rising unemployment have been additional areas of concern.

But we also see an attractive opportunity set in a unique market. The demographic tailwinds may be less robust than before, but we still see room for industry leaders to deliver attractive returns in a more mature economy with a growing middle class. We have been impressed by the improving quality of Chinese companies and management over the years. We expect China to deliver steady albeit lower growth than before, given it is a more mature market. In this context, we can still find industry leaders who benefit from gaining market share over weaker rivals, or companies improving their returns and expanding their customer markets.

If we look at some of the most successful companies across the world, like Procter & Gamble, Estee Lauder and Nestle, their profits do not grow 20-30% every year. Rather, they generate steady profits and reward shareholders with value over the long term. Similarly, we look for companies in China which can generate 10-15% annual growth on a sustainable basis, and have returns on equity (ROE) in the mid-teens or higher.

Considering the broader China market's mediocre returns over the past decade, we believe our active management approach with bottom-up stock selection makes sense. We continue to seek absolute returns by investing in portfolios that are concentrated and benchmark agnostic, while our focus on quality and the long term sets us apart from our peers. Finally, we stand by our belief that the best time to buy is when things appear gloomy and valuations are undemanding.

## Our long-term investment themes:

- Dominant consumer franchises which have an edge in brand, distribution and innovation.
- The rise in healthcare spending, due to increasing incomes and healthy consumer choices.
- Beneficiaries of a smarter, more connected world.
- An ageing population and the growing trend of automation.
- Globally competitive exporters with a growing international business.

## Ten largest company holdings as at 30 September 2023

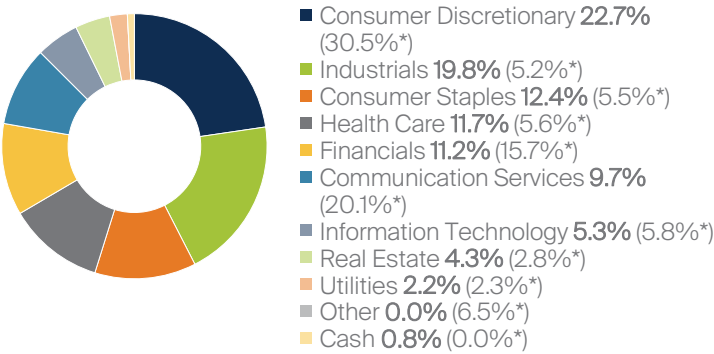
Stock name	Geography	Sector	Portfolio weight (%)
Tencent Holdings Ltd.	China	Communication Services	7.3
Midea Group	China	Consumer Discretionary	5.9
China Merchants Bank Co., Ltd. Class H	China	Financials	5.1
Ping An Insurance (Group) Company of China, Ltd. Class H	China	Financials	4.8
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	4.5
ANTA Sports Products Ltd.	China	Consumer Discretionary	4.4
JD.com	China	Consumer Discretionary	3.5
China Resources Land Limited	China	Real Estate	3.2
Shenzhen Mindray Bio-Medic-A	China	Health Care	3.1
Shenzhen Inovance Technology Co., Ltd Class A	China	Industrials	2.8

Sector and Share class classifications provided by Factset and First Sentier Investors. The Fund may hold multiple equity securities in the same company, which have been combined to provide the Fund's total position in that company. Index weights, if any, typically include only the main domestic-listed security. The above Fund weightings may or may not include reference to multiple securities. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%.

Past performance is not indicative of future performance. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of First Sentier Investors' portfolios at a certain point in time, and the holdings may change over time.

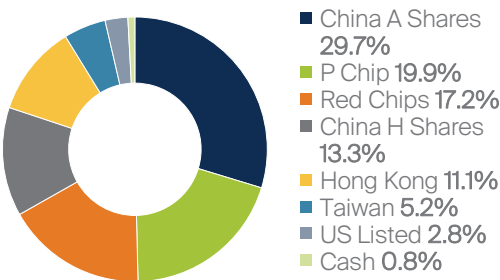
The index refers to MSCI China Net Index.

Sector breakdown



\*Index weight

Share class breakdown



Cash 0.8%

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## Top 5 contributors to absolute performance

### 3 months to 30 September 2023

Stock name	Geography	Sector	Value added (bps*)
ANTA Sports Products Ltd.	China	Consumer Discretionary	39
Shenzhen Sunlord Electronics Co., Ltd. Class A	China	Information Technology	22
Netease Inc	China	Communication Services	11
Shenzhen Inovance Technology Co., Ltd Class A	China	Industrials	9
Hongfa Technology Co., Ltd. Class A	China	Industrials	8

### 12 months to 30 September 2023

Stock name	Geography	Sector	Value added (bps*)
Tencent Holdings Ltd.	China	Communication Services	128
Ping An Insurance (Group) Company of China, Ltd. Class H	China	Financials	74
Midea Group Co. Ltd. Class A	China	Consumer Discretionary	72
Netease Inc	China	Communication Services	66
Airtac International Group	Taiwan	Industrials	65

## Bottom 5 contributors to absolute performance

### 3 months to 30 September 2023

Stock name	Geography	Sector	Value added (bps*)
ENN Energy Holdings Limited	China	Utilities	-84
Shandong Weigao Group Medical Polymer Co. Ltd. Class H	China	Health Care	-59
Tencent Holdings Ltd.	China	Communication Services	-57
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	-44
Ping An Insurance (Group) Company of China, Ltd. Class H	China	Financials	-42

### 12 months to 30 September 2023

Stock name	Geography	Sector	Value added (bps*)
JD.com, Inc. Sponsored ADR Class A	China	Consumer Discretionary	-109
ENN Energy Holdings Limited	China	Utilities	-109
JD.com, Inc. Class A	China	Consumer Discretionary	-79
Shandong Weigao Group Medical Polymer Co. Ltd. Class H	China	Health Care	-66
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	-58

Stock contributions show the impact of the individual stock's performance to the total fund performance. These stock contributions show the top 5 and bottom 5 contributors to the fund and are not representative of the performance of the fund as a whole.

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This stock information does not constitute any offer or inducement to enter into investment activity.

Contributions are calculated at the investee company level before the deduction of any fees incurred at fund level (e.g. the management fee and other fund expenses) but after deduction of transactional costs. Stocks held/listed in non-index countries have economic activity > 50% from developing economies.

\* A basis point is a unit of measure used in finance to describe the percentage change in value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

Data source: This information is calculated by First Sentier Investors.

### Important information

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