

# FSSA Regional China Fund

## Investment objective and strategy

The Fund aims to achieve long term capital appreciation and invests all or substantially all of its assets in the FSSA Greater China Growth Fund (the “Underlying Sub-Fund”), under the Dublin registered First Sentier Investors Global Umbrella Fund plc. The Underlying Sub-Fund invests primarily (at least 70% of its net asset value) in equity securities or equity-related securities issued by companies with either assets in, or revenues derived from, the People’s Republic of China, Hong Kong, and Taiwan and which are listed, traded or dealt in on regulated markets in the People’s Republic of China, Hong Kong, Taiwan, the U.S., Singapore, Korea, Thailand and Malaysia or in a member state of the OECD.

On 22 September 2020, First State Regional China Fund was rebranded as FSSA Regional China Fund.

## Fund information

Fund size (S\$m)	604.4
Benchmark	MSCI Golden Dragon Index
Number of holdings	48

## Available share classes

Share class	Inception date	Nav/per share	ISIN code
Class A (SGD - Acc)	01 Nov 1993	S\$4.0482	SG9999000194

## 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.

### Annualised performance in SGD (%) to 30 September 2023 ^

	Since Inception	10yrs	5yrs	3yrs	1yr
Fund (Ex initial charges)	7.4	5.7	0.6	-6.2	-0.4
Fund (Inc initial charges)	7.2	5.2	-0.5	-7.8	-5.4
Benchmark	3.8	4.9	-0.5	-8.0	3.8

### Cumulative performance in SGD (%) to 30 September 2023 ^

	Since Inception	5yrs	3yrs	1yr	3mths
Fund (Ex initial charges)	739.0	2.8	-17.6	-0.4	-7.2
Fund (Inc initial charges)	697.1	-2.3	-21.7	-5.4	-11.8
Benchmark	206.5	-2.5	-22.1	3.8	-3.7

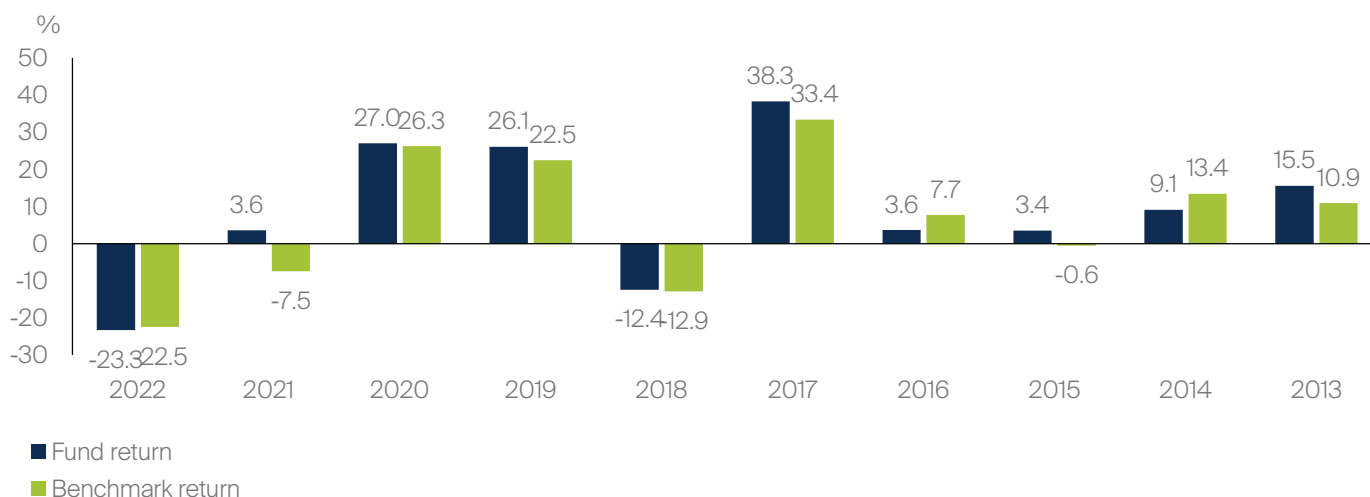
^ The performance prior to 18 Oct 02 is in relation to the Fund before its conversion to a feeder fund.

### Performance review

Over the past 12 months, key contributors to performance included Taiwan Semiconductor (TSMC) which was buoyed by the positive sentiment on AI-related stocks. Tencent rose 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.

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 SGD) to 30 September 2023



Source: Lipper and First Sentier Investors, single pricing basis with net income reinvested. 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.

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.

### Portfolio review

We bought China Resources Beer (CRB), the largest beer company in China with around 30% market share. Although it is an SOE, China Resources businesses have typically been well run, with returns comparable to private enterprises. The company's strategy focuses on quality growth and profitability in a consolidating industry. China's beer market is different from global markets, as volumes have been in decline since 2014. Despite this hurdle, CRB is expected to benefit from the premiumisation trend, given its competitive operations. We initiated this position on recent weakness, at a valuation around 25x FY23 PE.

We also bought Delta Electronics, a power electronics, automation and infrastructure provider in Taiwan. Growth has accelerated in recent years, as its investments into power management, electric vehicles, servers and automation have started to bear fruit. We previously owned this stock for many years, and bought it back at around 25x FY23 PE after some pullback, for around 10% expected sales growth per annum.

We sold Sunny Optical and Gree Electric to consolidate the portfolio into higher-conviction holdings.

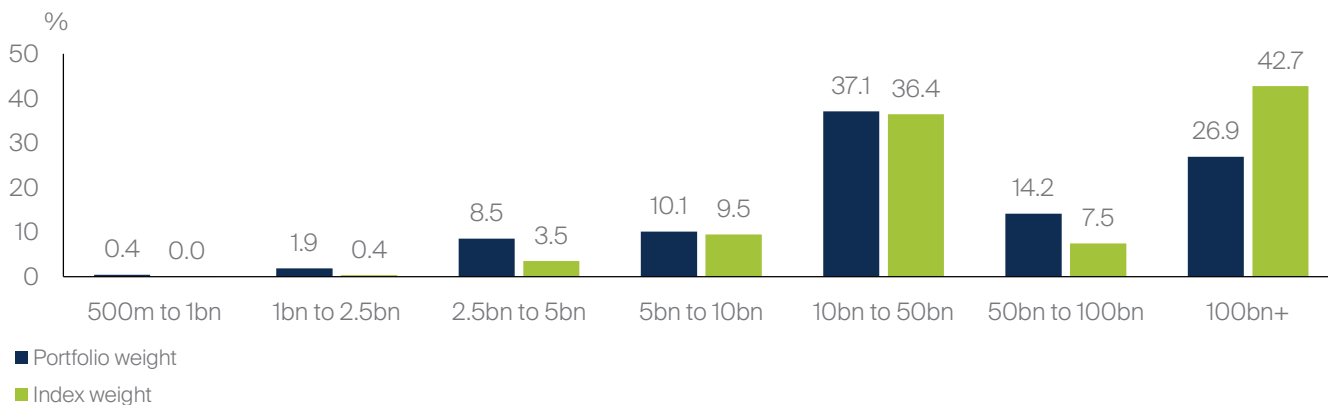
### Stock spotlight

Taiwan Semiconductor (TSMC) is a core holding across FSSA's Asia Pacific and Greater China portfolios. We believe it is one of the best ways to capture the rising trend of artificial intelligence, smart devices and the Internet of Things (IoT).

Established in 1987, TSMC was the pioneer of the foundry model, which separated semiconductor chip designs (produced by fabless companies) from the fabrication or manufacturing process (outsourced to a foundry). Over the last 30 years, foundries have gained market share from traditional integrated design and manufacturing (IDM) chip companies. There were two main reasons for this: on the manufacturing side, the process has become more complicated and capital intensive; while on the customer side, more fabless (e.g. Nvidia) and system companies (e.g. Apple) have emerged.

TSMC has become the world's largest dedicated contract chip manufacturer, with more than 50% market share. Growth has remained strong due to its advanced technology and strategy of partnering with, instead of competing with, its customers. As long as semiconductor demand continues to grow – which we believe is likely, as devices become more complex and require increasingly powerful processors – TSMC should continue to thrive.

### Market capitalisation breakdown (SGD)



Source: First Sentier Investors as at 30 September 2023. Portfolio weights may not add up to 100% as cash holdings are excluded and full coverage of stocks is not always available. This information is calculated by First Sentier Investors. 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.

## 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.

## Ten largest company holdings as at 30 September 2023

Stock name	Geography	Sector	Portfolio weight (%)
Taiwan Semiconductor (TSMC)	Taiwan	Information Technology	8.2
Tencent Holdings Ltd.	China	Communication Services	6.1
Midea Group	China	Consumer Discretionary	5.4
China Merchants Bank Co., Ltd. Class H	China	Financials	4.4
ANTA Sports Products Ltd.	China	Consumer Discretionary	4.1
Ping An Insurance (Group) Company of China, Ltd. Class H	China	Financials	4.1
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	4.1
AIA Group Limited	Hong Kong	Financials	4.1
China Resources Land Limited	China	Real Estate	3.2
JD.com	China	Consumer Discretionary	3.2

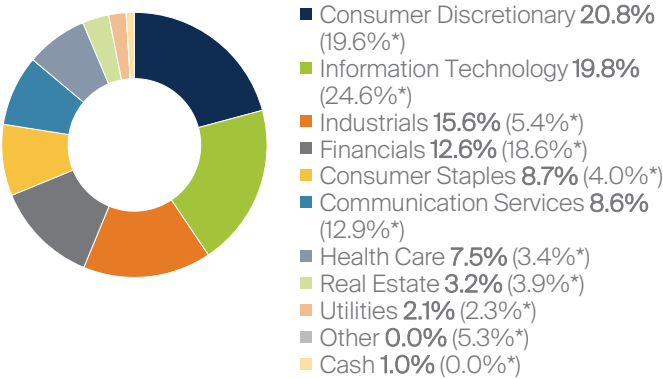
Source: First Sentier Investors as at 30 September 2023. Sector and Share class classifications provided by FactSet and First Sentier Investors. The Fund may hold multiple equity securities in the same company, which have been combined to provide the Fund's total position in that company. Index weights, 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%.

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## Our long-term investment themes:

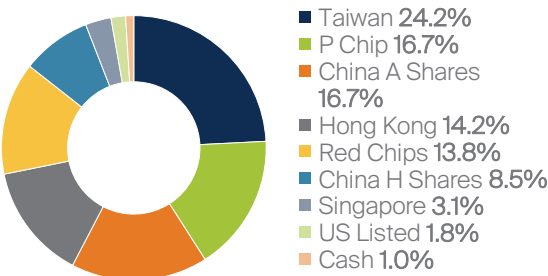
- Dominant consumer franchises which have an edge in brand, distribution and innovation.
- The rise in healthcare spending, due to increasing incomes and healthy consumer choices.
- Beneficiaries of a smarter, more connected world.
- An ageing population and the growing trend of automation.
- Globally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

Sector breakdown



\*Index weight

Share class breakdown



## Top 5 contributors to absolute performance

### 3 months to 30 September 2023

Stock name	Geography	Sector	Value added (bps*)
Accton Technology Corp.	Taiwan	Information Technology	43
ANTA Sports Products Ltd.	China	Consumer Discretionary	37
Netease Inc	China	Communication Services	10
MediaTek Inc	Taiwan	Information Technology	7
Hongfa Technology Co., Ltd. Class A	China	Industrials	6

### 12 months to 30 September 2023

Stock name	Geography	Sector	Value added (bps*)
Taiwan Semiconductor Manufacturing Co., Ltd.	Taiwan	Information Technology	147
Tencent Holdings Ltd.	China	Communication Services	120
Airtac International Group	Taiwan	Industrials	105
Realtek Semiconductor Corp	Taiwan	Information Technology	88
Advantech	Taiwan	Information Technology	88

## Bottom 5 contributors to absolute performance

### 3 months to 30 September 2023

Stock name	Geography	Sector	Value added (bps*)
Taiwan Semiconductor Manufacturing Co., Ltd.	Taiwan	Information Technology	-102
ENN Energy Holdings Limited	China	Utilities	-86
AIA Group Limited	Hong Kong	Financials	-85
Tencent Holdings Ltd.	China	Communication Services	-48
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	-42

### 12 months to 30 September 2023

Stock name	Geography	Sector	Value added (bps*)
ENN Energy Holdings Limited	China	Utilities	-113
JD.com, Inc. Class A	China	Consumer Discretionary	-112
JD.com, Inc. Sponsored ADR Class A	China	Consumer Discretionary	-71
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	-53
Silergy Corp.	China	Information Technology	-51

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. 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. 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.

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