

# FSSA Greater China Growth B GBP Acc

November 2021  
Investment Research



## Overview

The fund is focused on long-term capital accumulation. In addition, we believe that the managers aim to outperform the MSCI Golden Dragon index over rolling five years. Note that the managers have a long-term investment horizon and therefore they measure their performance over longer time periods than the average fund in this space. We consider rolling five-year periods as a reasonable time frame to assess the fund's performance versus this index.

Investments will primarily be in large and medium sized companies that are based in or have significant operations in China, Hong Kong or Taiwan. Developing markets, such as these, are prone to strong gains as well as significant falls. Whilst we believe the fund will deliver attractive capital growth over the long run, in the short term, it may fall more than the MSCI Golden Dragon index.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●			

## Square Mile Expected Outcome

We believe the fund should be able to outperform the MSCI Golden Dragon index over rolling five-year periods.

<b>Active/Passive:</b> Active	<b>Domicile:</b> United Kingdom
<b>Asset Class:</b> Equity	<b>IA Sector:</b> IA China/Greater China
<b>Launch Date:</b> 01/12/2003	<b>Fund Size (as at 12 Nov 2021):</b> £691.1m
<b>Yield:</b> 0.37%	<b>Distribution Pay Date:</b> Feb 01, Aug 01 (Final)
<b>Fund Manager:</b> Helen Chen , Martin Lau	<b>Ongoing Charge Figure:</b> 1.07%
	<b>Transaction Cost ex Ante:</b> 0.14%



## Fund Opinion

Whilst we believe this fund's objectives are achievable, it may struggle to meet these at times. Given the emphasis on quality, this strategy might struggle in periods when investors are chasing certain themes or when riskier stocks are in demand. The upside to such an approach is that the team's companies have tended to be more resilient in down markets and have, in aggregate, yielded solid risk-adjusted returns over the long term. FSSA is an autonomous investment management unit within First Sentier Investors, and is responsible for managing its own investment decisions and recruitment. We think this is an important feature and allows the team valuable investment freedoms including the ability to implement their distinctive style of management which focuses on being responsible stewards of capital and being long-term holders of high quality businesses. The FSSA team run a significant amount of Asia Pacific and China equity assets, but we believe they are well resourced and have the necessary supportive infrastructure. Additionally, as a business, they have shown they are willing to cap the size of their funds should they feel they are near to capacity and that further capital may be detrimental to returns in the future. The FSSA team believe that investment ought to have a social purpose - companies that ignore their impact on the environment, or that do not look after their customers, employees, suppliers and the larger community are unlikely to be rewarding long-term investments. The team pursue a rigorous research process, where company and country visits help build their collective knowledge and assessment of a business's growth sustainability, franchise, financial strength and management. Overall we see this fund as a very strong and wholly viable option for long-term investors who wish to access the greater China region, but in a more conservative manner, where the emphasis is on identifying high quality growth companies.

## Fund Description

All the strategies and funds managed by First Sentier Stewart Asia (FSSA) draw upon the ideas of the whole team. As generalists, the team have plenty of experience investing in the Asian region; additionally, there is extensive overlap of research responsibilities, with the analysts having a significant input on stock ideas and recommendations for the portfolios, although the lead portfolio managers have the final say. The lead manager of this fund, Martin Lau, is a senior member of the team and has over 20 years of experience managing Asia Pacific and China equity funds. First Sentier Investors (previously First State Investments) was rebranded in September 2020 as part of a global rebranding programme following its acquisition by Mitsubishi UFJ Trust & Banking Corporation in August 2019.

FSSA seek to be long-term investors in quality companies. As responsible stewards of investors' capital, the team look for companies where management have a longer-term vision of growth and returns, possess a level of integrity, and a broader sense of corporate responsibility. Governance, social and environmental factors are a crucial element of their investment process. The chief criteria for any qualifying investment is the team's assessment of a company's quality, in terms of the management, franchise and financial strength. The bulk of idea generation originate from frequent company and country visits, although ongoing debates within the team, industry contacts and external research also provide investment ideas.

The team have an absolute return mindset, focusing not just on a company's long-term growth prospects but also on the potential downside risk of an investment. They will examine a company's history to understand how its strategy has evolved over time. Management incentives and alignment, their attitude to risk and growth, are just some of factors under consideration. A firm's pricing power, competitive advantage, business practices, environmental impact, brand and market share are part of the franchise test. When looking at the financials, the team look to assess a firm's cash flow generation, how it intends to finance its future growth, the size and debt structure and long-term liabilities. They like companies that ideally have real growth (5%-10% p.a), visible earnings and that have taken into account ESG risks, amongst other factors. In terms of valuations, they prefer to look at a company's balance sheet and cash flow, its long-term growth prospects and the market valuation, rather than building financial models and forecasts.

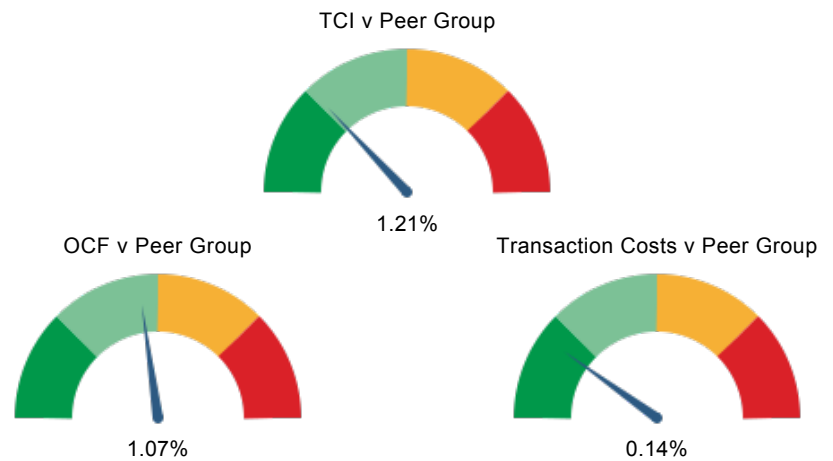
The team look for evidence of market-oriented practices when considering potential investments in the state-owned sector, but given their focus on quality, only a small number of companies actually meet their high standards and whilst they are mindful of macroeconomic trends, this is primarily in relation to the impact of the cycle on companies, both the opportunities and threats that this may create. The resultant portfolio of 40 to 80 holdings is constructed with little reference to a market index, and whilst there are certain absolute limits to individual industries (to ensure sufficient diversification), the sector allocation will ultimately be driven by stock selection and therefore the fund can look very different from the index.

## Risk Summary

This fund has a high asset class risk score, as it invests in developing equity markets and the main risk is that these can be very volatile investments because their performance can be driven by a host of factors. Although the fund's risk score is lower than its peers, the portfolio can carry significant active risks relative to any China index, in this case the fund uses the MSCI Golden Dragon index for performance comparison purposes. This is an index that captures the performance of close to 300 large and medium sized Chinese securities (open to foreign investors) as well as non-domestic Chinese securities listed in Hong Kong and Taiwan. Note that the managers have an absolute return mindset when managing this fund, and ultimately look to provide positive returns over the long run whilst also attempting to preserve capital in more volatile markets. The fund returns can be quite variable, both relative to the index, and on an absolute basis. Overall, as a China equity fund, it may be more suitable for investors with a longer term time horizon.

## Value for Money

This fund's total cost of investment (TCI) is attractive and we believe the fund to be competitively priced since investors have access to an experienced portfolio manager, supported by a well-resourced team, who use a proven investment approach.



## ESG Integration

Company Assessment	0	1	2	3
ESG factors are fully integrated and are instrumental to the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors are fully integrated and are instrumental to the management of this strategy.				

## Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

### Additional Information

<b>Annualised Return</b>	18.22%
<b>Annualised Volatility</b>	16.41%
<b>Max Drawdown</b>	-15.02%
<b>Max Gain</b>	13.59%
<b>Max Loss</b>	-9.59%
<b>Sharpe Ratio</b>	0.96
<b>Sortino Ratio</b>	0.98

(3 years data to last month end unless otherwise stated)

#### Currency of Share Class

GBP

#### Fund Price (as at 12 Nov 2021)

1435.8 pence

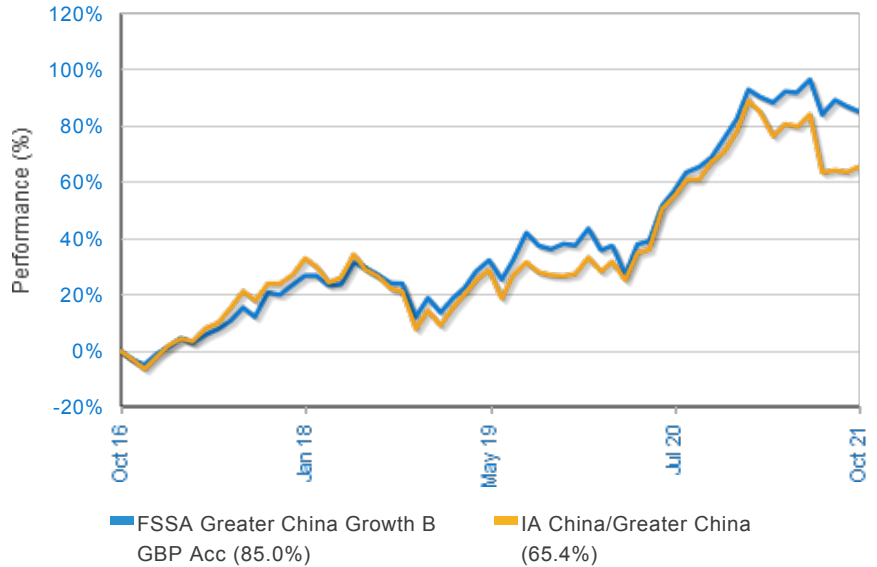
#### Benchmark

MSCI Golden Dragon

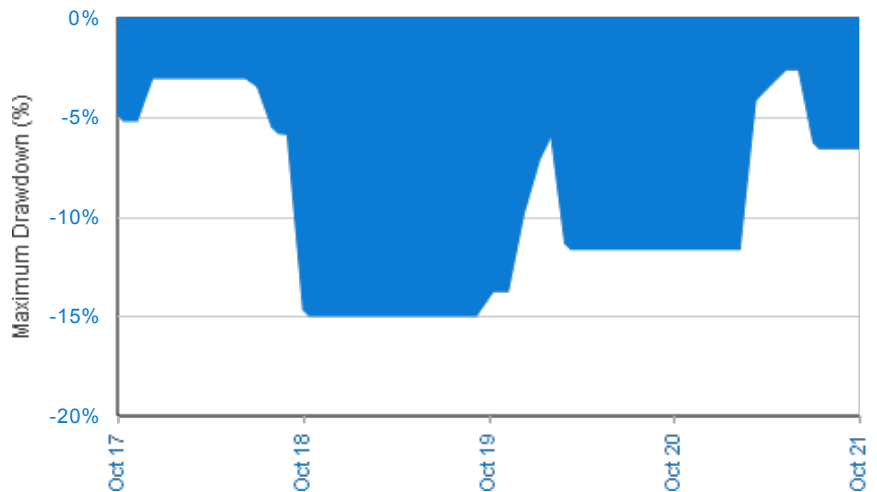
### Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	13.0	1.6	1
12-24m	21.5	26.8	4
24-36m	9.9	4.8	1
36-48m	10.5	2.7	1
48-60m	17.2	23.1	4

### Capital Growth



### Maximum Drawdown (Rolling 12 Months)



### Top Ten Holdings

(Data as at 31 Oct 2021)

Company Name	%
TAIWAN SEMICONDUCTOR MANUFACTURING	8.5
TENCENT HLDGS LIMITED	5.9
CHINA MERCHANTS BANK CO LTD	4.6
MIDEA GROUP CO LTD	4.0
AIA GROUP LTD	3.9
TECHTRONIC INDUSTRIES CO	3.7
SILERGY CORP	3.6
CHINA MENGNIU DAIRY CO	3.5
ENN ENERGY HLDGS LTD	3.4
ZHEJIANG CHINT ELECTRICS CO LTD	3.2

### Sector Breakdown

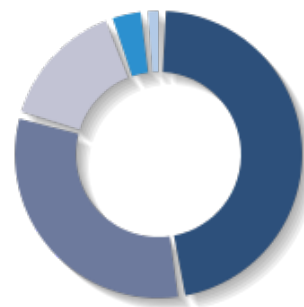
(Data as at 31 Oct 2021)



- Information Technology (26%)
- Consumer Discretionary (20%)
- Industrials (17%)
- Financials (10%)
- Consumer Staples (9%)
- Communications (6%)
- Health Care (5%)
- Utilities (3%)
- Real Estate (3%)
- Other (0.1%)

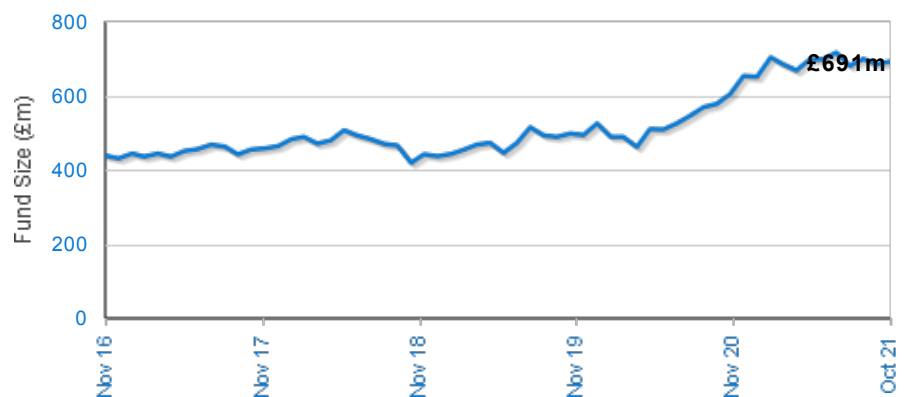
### Geographic Breakdown

(Data as at 31 Oct 2021)



- China (47%)
- Taiwan (32%)
- Hong Kong (15%)
- USA (4%)
- Singapore (2%)
- Money Market (0%)

### Assets Under Management



## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk	●		
Liquidity Risk			●
Emerging Markets Risk	●		
Derivative Risk			●
Manager Risk	●		

### Equity Risk

The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

### Interest Rate Risk

The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

### Credit Risk

This fund does not have significant exposure to corporate debt.

### Exchange Rate Risk

The fund invests abroad and is exposed to foreign currencies. Currency markets may move sharply.

### Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

### Emerging Markets Risk

The fund predominately invests in emerging regions. Economic, political, legal and market events in the region may have a material adverse effect on the fund price. Valuations in emerging market assets can be volatile.

### Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

### Manager Risk

The manager is seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the lead manager were to leave.

FE Risk Rating: 93.00

SRRI: 6

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