

# FSSA Hong Kong Growth Fund (Irish VCO)

## Investment objective and policy

The Fund aims to grow your investment.

The Fund invests at least 70% of its assets in shares of companies which have the potential for long term growth and are based in, or are closely associated with, Hong Kong. The Fund may invest up to 100% of its assets in companies of any size or industry.

The Fund will not invest more than 30% of its assets in China A Shares. The Fund may use derivatives with the aim of risk reduction or efficient management.

## Fund information

Fund launch date	30 July 1999
Fund size (US\$m)	105.3
Benchmark	MSCI Hong Kong Net Index*
Number of holdings	41
Fund manager(s)	Martin Lau/Tianyi Tang
Research rating ^	Morningstar®:Gold

\* The benchmark of the Fund changed from MSCI Hong Kong Gross to MSCI Hong Kong Net with effect from 1 July 2016. This change has been reflected in the calculation of the benchmark performance.

^ This does not constitute an investment recommendation and is not indicative of future results. Methodology available on rating provider's website.

## Available share classes

Share class	Sedol	ISIN
FSSA Hong Kong Growth Fund USD Class I (Accumulation)	0178446	IE0008369823
FSSA Hong Kong Growth Fund USD Class III (Accumulation)	0843528	IE0008375762

## Risk factors

This document is a financial promotion for the FSSA Hong Kong Growth Fund in the EEA and elsewhere where lawful. Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back substantially less than the original amount invested.**
- **Currency risk:** The Fund invests in assets which are denominated in other currencies; changes in exchange rates will affect the value of the Fund and could create losses. Currency control decisions made by governments could affect the value of the Fund's investments and could cause the Fund to defer or suspend redemptions of its shares.
- **Single country / specific region risk:** investing in a single country or specific region may be riskier than investing in a number of different countries or regions. Investing in a larger number of countries or regions helps spread risk.
- **China market risk:** Although China has seen rapid economic and structural development, investing there may still involve increased risks of political and governmental intervention, potentially limitations on the allocation of the Fund's capital, and legal, regulatory, economic and other risks including greater liquidity risk, restrictions on investment or transfer of assets, failed/delayed settlement and difficulties valuing securities.

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. Reference to the names of any company is merely to explain the investment strategy and should not be construed as investment advice or a recommendation to invest in any of those companies.

For a full description of the terms of investment and the risks please see the Prospectus and Key Information Document.

**If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.**

**If you are unsure of the terminology used in this report, please seek independent financial advice.**

### 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.

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#### Annual performance in USD (%) to 31 December 2024

	12 mths to 31/12/24	12 mths to 31/12/23	12 mths to 31/12/22	12 mths to 31/12/21	12 mths to 31/12/20
FSSA Hong Kong Growth Fund	7.8	-16.9	-10.7	-5.2	12.9
MSCI Hong Kong Net Index	0.1	-14.8	-4.7	-3.9	5.8

#### Cumulative performance in USD (%) to 31 December 2024

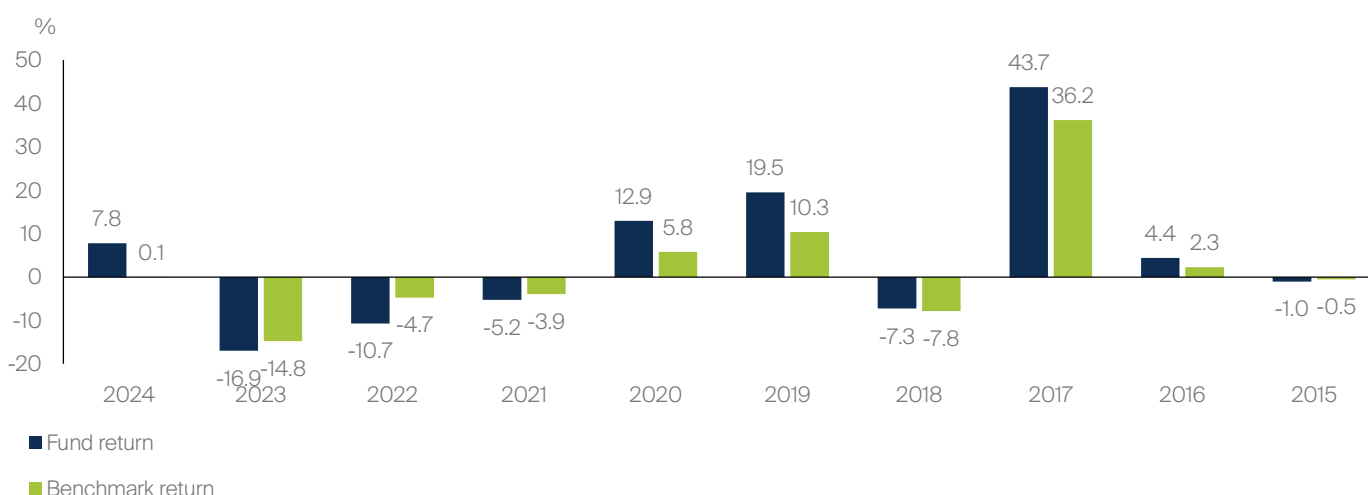
	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	YTD	6 mths	3 mths
FSSA Hong Kong Growth Fund	1157.8	41.0	-14.4	-20.0	7.8	7.8	9.8	-7.1
MSCI Hong Kong Net Index	247.2	16.4	-17.4	-18.7	0.1	0.1	12.2	-9.8

#### Performance review

Over the past 12 months, key contributors to performance included China Merchants Bank, which reported decent results with steady loan growth and effective cost controls. It also benefited from the government's policy pivot in September, which management expect will help various parts of the business, such as wealth management and retail loan demand. Tencent also added to performance as it continued to develop new functions within WeChat (such as Video Accounts and Mini Shops) to slowly improve monetisation and enhance the quality of the franchise. Tencent has proven its ability to deliver decent growth despite the weak environment – for example, its Video Accounts grew by 60% in 9M24 and contributed to a high double-digit percentage of its total advertisements' revenue.

On the negative side, CSPC reported weaker-than-expected sales as legacy drugs were impacted by volume-based procurement (VBP) price cuts. The company also lowered its targets for new products, as the stringent regulatory environment may delay their adoption at hospitals. Shenzhou fell as data in the US and UK suggested soft retail demand, while Nike's cautious outlook hurt sentiment towards apparel makers. In the longer term, we believe Shenzhou could gain market share as brands become more conscious about their supply chain and consolidate in favour of the best quality operators.

#### Calendar year performance (% in USD) to 31 December 2024



These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than USD, the return may increase or decrease as a result of currency fluctuations. Since inception performance figures have been calculated from 30 July 1999. All performance data for the FSSA Hong Kong Growth Fund Class III (Accumulation) USD as at 31 December 2024. Source for fund - Lipper IM / First Sentier Investors (UK) Funds Limited. Performance data is calculated on a net basis by deducting fees incurred at fund level (e.g. the management fee and other fund expenses), save that it does not take account of initial charges or switching fees (if any). Income reinvested is included on a net of tax basis. Source for benchmark - MSCI, income reinvested net of tax.

▲On 22 September 2020, First State Hong Kong Growth Fund was rebranded as FSSA Hong Kong Growth Fund.

## Portfolio review

New purchases over the quarter included DPC Dash, which operates the Domino's Pizza chain in China, where it is the third largest pizza brand with around 5% market share. Despite its short track record in this market, it is gaining momentum and we believe it can become significantly larger. Over the past five years, it has built a good reputation among Chinese consumers through appealing products, excellent service and affordable pricing. Increasing scale and brand awareness should allow for increased profitability, better locations and cost savings. In our meetings with the top management, they came across as thoughtful and prudent.

We also bought Stella International, a footwear maker which specialises in small batches of higher-end shoes. The current CEO is the nephew of one of the founders and has been leading the firm since 2019. We think this generational change has been positive, with the focus shifting from casual shoes to sports, fashion and luxury segments, which have higher gross margins and lower working capital needs. Our channel checks indicate the firm's culture is stable and risk-aware. Valuations are attractive and the firm is returning cash to shareholders via special dividends or buybacks, on top of its 70% dividend payout.

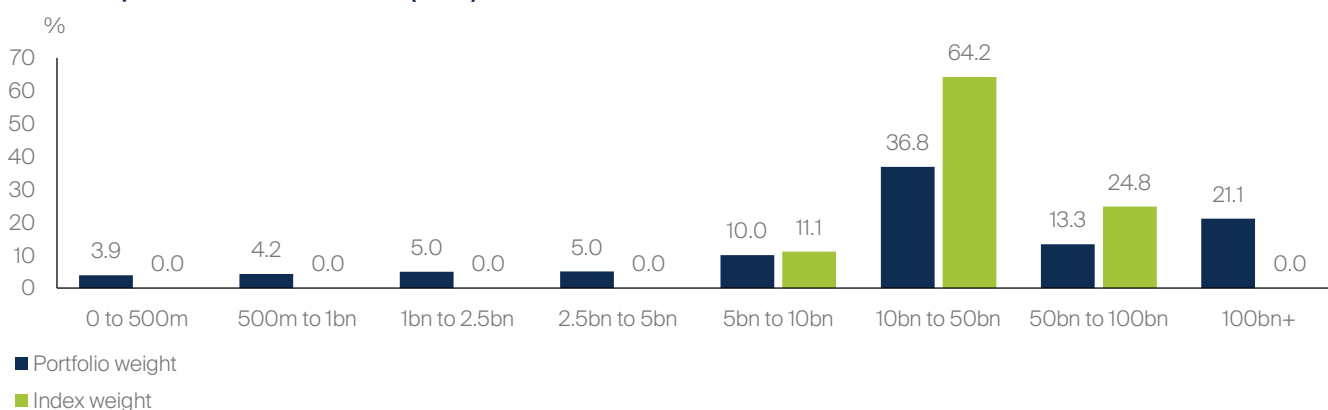
We sold China Resources Land to reduce exposure to property development, and we prefer CR Mixc for its asset-light business model. We also sold China Resources Medical as the franchise was weaker than we originally thought. Increased government scrutiny around drug and medical services pricing have put pressure on the company's sales and margins.

## Stock spotlight

**Shenzhou** is a leading contract manufacturer of textiles, with sportswear and key customers Nike, Adidas, Puma and Uniqlo accounting for the bulk of its sales. We think it is a high-quality company, judging from its track record of good ESG practices and ability to gain market share. Its vertical integration allows for quality control, shorter production times and better margins than peers. The company has humble beginnings, starting in 1987 with a father-son team (who started their careers as factory workers, both at age 13 coincidentally). Because of their background, they have always treated their employees well with good working conditions and above-industry compensation. They have also benefited from a series of key strategic decisions. In its early years, the company built a sewage treatment plant, a rarity at the time and despite opposition from other employees, to ensure they were doing business the right way. This helped years later, when local governments shut down Shenzhou's competitors for poor waste treatment.

When the company listed in 2005, they transitioned from predominantly casual wear to focusing on sportswear, based on its growth potential. They also invested in overseas expansion early to reduce the risk of trade tariffs and to lower labour costs, having entered Cambodia in 2005 and Vietnam in 2014. Now more than half of its production is outside of China. Although China's textile industry is losing share, chairman Ma Jianrong sees potential to upgrade the industry via digitisation, green production and automation, and target the growing domestic consumer base.

## Market capitalisation breakdown (USD)



Data source: 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. 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. These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than USD, the return may increase or decrease as a result of currency fluctuations.

## Outlook

The Chinese economy is undergoing difficulties, with ongoing deflationary pressure after the property market started correcting three years ago. Overall corporate earnings growth has been under pressure while domestic demand is likely to remain weak. Since September, China's central government has shown a major change in attitude, recognising the need to stimulate consumption and adopt more progressive fiscal and monetary policies. We think the change in policy stance is positive.

As bottom-up investors, we look for companies which we believe can grow earnings in a sluggish growth environment. Perhaps they are gaining market share, monetising existing businesses or simply have stronger pricing power in a more consolidated industry. We have also seen Chinese companies becoming more proactive in returning cash to shareholders, through increased dividends and buybacks. Meanwhile, even though overall demand is weak, there are still certain secular growth trends in China, such as travel. We believe if we stick to our investment philosophy, we can still find pockets of growth and deliver decent returns for our clients in the long run. We also believe well-managed business franchises will emerge stronger after going through a challenging period, as they adapt to the environment and take steps to strengthen their franchises.

## 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.

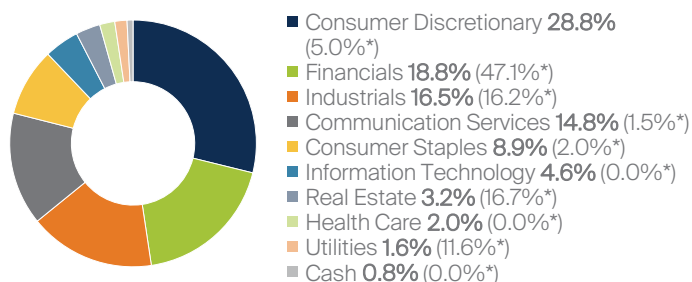
## Ten largest company holdings as at 31 December 2024

Stock name	Country	Sector	Portfolio weight (%)
Tencent Holdings Ltd.	China	Communication Services	9.6
AIA Group Limited	Hong Kong	Financials	5.8
China Merchants Bank Co., Ltd. Class H	China	Financials	4.7
Shenzhou International Group Holdings Limited	China	Consumer Discretionary	4.3
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	4.1
Techtronic Industries Co., Ltd.	Hong Kong	Industrials	4.1
Netease Inc	China	Communication Services	4.1
ANTA Sports Products Ltd.	China	Consumer Discretionary	3.5
Jardine Matheson Holdings Limited	Hong Kong	Industrials	3.4
Wasion Holdings, Ltd.	China	Information Technology	3.1

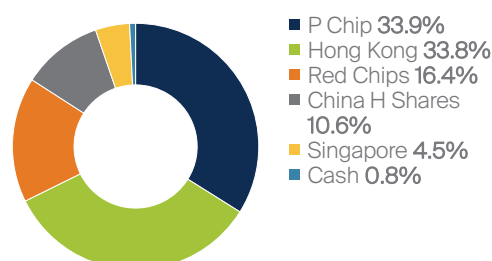
Sector and Country classifications provided by Factset and First Sentier Investors. The Fund may hold multiple equity securities in the same company, which have been combined to provide the Fund's total position in that company. Index weights, if any, typically include only the main domestic-listed security. 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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## Sector breakdown



## Share class breakdown



\*Index weight



## Top 5 contributors to absolute performance

### 3 months to 31 December 2024

Stock name	Country	Sector	Value added (bps*)
JNBY Design Limited	China	Consumer Discretionary	32
Standard Chartered PLC	UK	Financials	31
Wasion Holdings, Ltd.	China	Information Technology	31
Nissin Foods Co Ltd	Hong Kong	Consumer Staples	25
Sunny Optical Technology (Group) Co., Ltd.	China	Information Technology	25

### 12 months to 31 December 2024

Stock name	Country	Sector	Value added (bps*)
Tencent Holdings Ltd.	China	Communication Services	357
China Merchants Bank Co., Ltd. Class H	China	Financials	219
Wasion Holdings, Ltd.	China	Information Technology	182
JNBY Design Limited	China	Consumer Discretionary	135
Standard Chartered PLC	UK	Financials	106

## Bottom 5 contributors to absolute performance

### 3 months to 31 December 2024

Stock name	Country	Sector	Value added (bps*)
AIA Group Limited	Hong Kong	Financials	-130
China Resources Beer (Holdings) Co. Ltd.	China	Consumer Staples	-88
ANTA Sports Products Ltd.	China	Consumer Discretionary	-75
Tencent Holdings Ltd.	China	Communication Services	-56
Techtronic Industries Co., Ltd.	Hong Kong	Industrials	-56

### 12 months to 31 December 2024

Stock name	Country	Sector	Value added (bps*)
CSPC Pharmaceutical Group Limited	China	Health Care	-118
AIA Group Limited	Hong Kong	Financials	-103
Shandong Weigao Group Medical Polymer Co. Ltd. Class H	China	Health Care	-75
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	-65
Shenzhou International Group Holdings Limited	China	Consumer Discretionary	-59

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.

**Portfolio risk analysis - ex-post 3 years annualised to 31 December 2024**

Risk measure	Value	Risk description
Beta	1.08	Beta is a measure of volatility relative to the market. A beta of 1 would indicate that the fund tended to move in line with the market; a beta greater than 1 would indicate that the fund has been more volatile than the market; whereas a beta less than 1 would indicate that the fund has been less volatile than the market.
Information Ratio	0.05	The fund's excess return divided by its tracking error. It is designed to assess a portfolio's performance relative to its level of benchmark risk. The higher the fund's information ratio, the more excess return it generates for each unit of tracking error.
Portfolio Standard Deviation	29.01%	A measure of how much the returns of the fund vary relative to the arithmetical average. The higher the fund's standard deviation, the more its returns tend to deviate from the mean.
Benchmark Standard Deviation	25.14%	A measure of how much the returns of the index vary relative to the arithmetical average. The higher the index's standard deviation, the more its returns tend to deviate from the mean.
Tracking Error	10.35%	The standard deviation of the difference between the fund's returns and those of the index. The higher the fund's tracking error, the more its performance relative to the benchmark may vary.

**Portfolio risk analysis - ex-ante at 31 December 2024**

Risk measure	Value	Risk description
Dividend Yield (Fund)	3.50%	The annual dividend yield paid per share divided by the share price. This factor measures the value of company shares according to the stream of dividend income resulting from share ownership.
Dividend Yield (Index)	4.17%	The annual dividend yield paid per share divided by the share price. This factor measures the value of company shares according to the stream of dividend income resulting from share ownership.
Price to Book (Fund)	1.36	The ratio of the company's book value (the sum of shareholders' equity plus accumulated retained earnings from the P & L account) to its share price. This factor has been one of the most successful measures of the intrinsic value of company shares.
Price to Book (Index)	0.94	The ratio of the company's book value (the sum of shareholders' equity plus accumulated retained earnings from the P & L account) to its share price. This factor has been one of the most successful measures of the intrinsic value of company shares.
Price to Earnings (Fund)	12.60	Annual earnings (adjusted for amortizations of intangibles, extraordinary charges and credits) per share divided by the share price. This factor measures the worth of a company's ability to support each share with after tax earnings.
Price to Earnings (Index)	15.03	Annual earnings (adjusted for amortizations of intangibles, extraordinary charges and credits) per share divided by the share price. This factor measures the worth of a company's ability to support each share with after tax earnings.

Data source: Ex-post information is calculated by First Sentier Investors, ex-ante information is provided by FactSet.

### Important information

This document has been prepared for informational purposes only and is only intended to provide a summary of the subject matter covered and does not purport to be comprehensive. The views expressed are the views of the writer at the time of issue and may change over time. It does not constitute investment advice and/or a recommendation and should not be used as the basis of any investment decision. This document is not an offer document and does not constitute an offer or invitation or investment recommendation to distribute or purchase securities, shares, units or other interests or to enter into an investment agreement. No person should rely on the content and/or act on the basis of any material contained in this document.

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References to "we" or "us" are references to First Sentier Investors.

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Certain funds referred to in this document are identified as sub-funds of First Sentier Investors Global Umbrella Fund plc, an umbrella investment company registered in Ireland ("VCC"). Further information is contained in the Prospectus and Key Information Documents of the VCC which are available free of charge by writing to: Client Services, First Sentier Investors, 1 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland or by telephoning +353 1 635 6798 between 9am and 5pm (Dublin time) Monday to Friday or by visiting [www.firstsentierinvestors.com](https://www.firstsentierinvestors.com). Telephone calls may be recorded. The distribution or purchase of shares in the funds, or entering into an investment agreement with First Sentier Investors may be restricted in certain jurisdictions.

Representative and Paying Agent in Switzerland: The representative and paying agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnastrasse 16, 8002 Zurich, Switzerland. Place where the relevant documentation may be obtained: The prospectus, key information documents, the instrument of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.

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