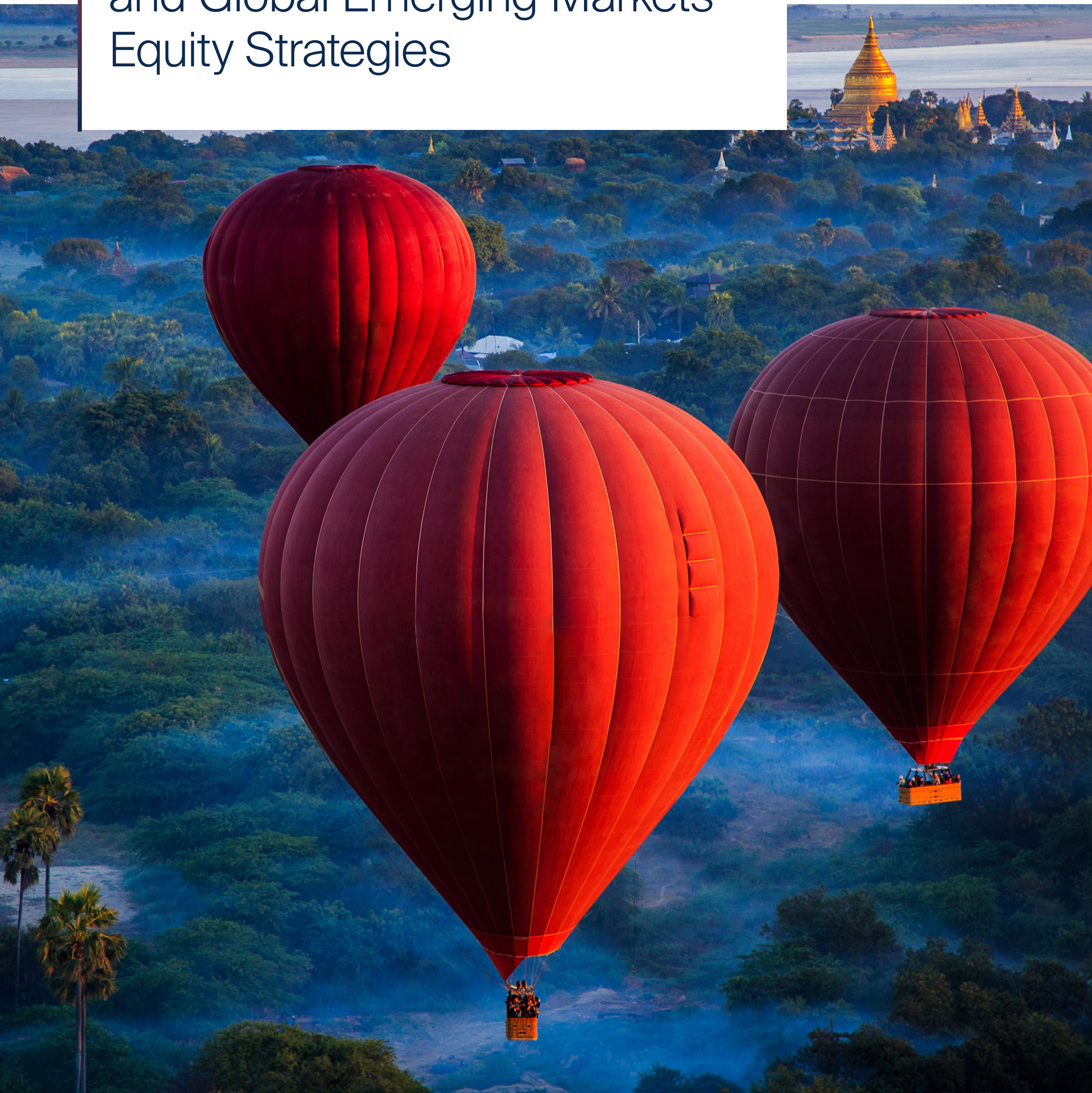
FSSA
Investment Managers

Team Profile

Specialists in Asia Pacific and Global Emerging Markets Equity Strategies



About us

We are specialists in Asia Pacific and Global Emerging Markets equity strategies.

We manage US$25.8 billion^ on behalf of clients globally. Operating as an autonomous investment team within First Sentier Investors, we are a team of dedicated investment professionals based in Hong Kong and Singapore.

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 that we can invest in for 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.

^As at 31 December 2023.

*Environmental, social, and governance: a strategic framework for measuring a company's impact on the environment, relationships with the people and companies it is connected to, and management practices. Source: https://www.dictionary.com/browse/ESG

FSSA Investment Managers

Team history

FSSA Investment Managers was formerly a part of First State Stewart, the Asia Pacific and Global Emerging Markets team of Stewart Ivory & Company Limited. After years of organic growth, in July 2015 the First State Stewart team split in two: one based primarily in Hong Kong (FSSA Investment Managers, formerly known as "First State Stewart Asia") and the other based primarily in Edinburgh (Stewart Investors).

1988
Launch of Stewart Ivory's Asia Pacific capability and strategy

1992
Launch of China Growth and Global Emerging Markets capabilities

1994
Launch of Indian Subcontinent strategy

2000
Stewart Ivory was acquired by the Commonwealth Bank of Australia. The overseas fund management businesses were merged to form First State Investments (FSI)

2002
Launch of Greater China Growth strategy

2009
Launch of China A shares strategy

2012
Team rebranded as First State Stewart

2015
Launch of Japan strategy

2015
In July, First State Stewart split into two businesses: First State Stewart Asia (FSSA) and Stewart Investors

2017
Launch of Global Emerging Markets strategy

2019
First State Stewart Asia rebranded to FSSA Investment Managers.

2020
First State Investments rebranded to First Sentier Investors, under new owners Mitsubishi UFJ Trust and Banking. FSSA Investment Managers remains an autonomous investment team within the group.

Our investment approach

Our investment approach is centred on identifying quality companies, buying them at a sensible price and holding for the long term. 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.

Bottom-up stock selection

We are research-driven, bottom-up investors, carrying out detailed fundamental analysis to identify companies we believe are high-quality, long-term investments. We travel extensively to meet with companies to assess the quality of management and their track record of executing long-term strategies; and supplement this with a qualitative and quantitative analysis of the company's ability to compound growth in excess of the cost of capital.

Quality companies

We define quality companies as those that have an effective management team, high governance standards, a long-term mind-set, strong competitive advantages and an established track record of surviving previous cycles. In addition, we look for cultural integrity and the alignment of management with shareholders. We also make use of ESG analysis to distinguish quality companies from the rest. We believe that owning quality companies that are able to respond effectively to market uncertainties is the best way to mitigate potential losses in the medium-to-long term.

Strong valuation discipline

We strive to ensure that we pay sensible prices for our investments. We use a range of financial and non-financial metrics to estimate a fair market valuation (FMV) for the companies that we want to own and buy at price levels which provide a sufficient 'margin of safety' over the medium-to-long term. We carry out periodic FMV reviews to update the potential risk/reward of every stock in our portfolios and on our watch list.

Long-term investing

We are responsible**, long-term investors and prefer to invest in quality companies that we can buy and hold for at least 3-5 years, though we often hold companies for much longer. As responsible investors, we consider ESG issues when making investment decisions. Through active engagement, we believe we are able to raise legitimate concerns and persuade management to address the issues at hand, thereby adding to portfolio performance. We believe our approach encourages good ESG practices and is critical in carrying out our stewardship duties.

Absolute return mind-set

We are conservative investors with an absolute return mind-set, meaning we define risk in terms of the permanent loss of capital and we evaluate the potential downside of an investment decision as much as the upside. We would expect our portfolios to exhibit lower volatility than the peer group and outperform more often in down markets. Conversely, we would expect our performance to lag in highly buoyant markets.

Indifferent to market indices

We do not use market indices in our portfolio construction process as we do not believe that they fully represent the available opportunities within Asia Pacific and Global Emerging Markets. Instead, we rely on our bottom-up stock selection to construct relatively concentrated portfolios of companies where we have high conviction in their long-term growth potential. As we are not required to own companies, sectors or countries that we do not favour, our portfolio weightings can look very different to the benchmark.

* Integrity: noun, adherence to moral and ethical principles; soundness of moral character; honesty. Source: https://www.dictionary.com/browse/integrity
** Responsible investment has a standard industry definition as per the UNPRI: Responsible investment involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship).

Investment themes

We believe that the Asia Pacific region and Global Emerging Market countries have plenty of quality companies which have the potential to grow over the long term. Spurred by low penetration rates for goods and services, and barriers to entry which protect profits and cash flow, these companies – often consumer, financial and industrial businesses – have a good track record of compounding earnings and creating long-term value for stakeholders.

These are a few of the long-term investment themes that support our bottom-up stock selection.

Dominant consumer franchises

With favourable demographics and populations that are still growing – particularly in Southeast Asia and India – we believe dominant consumer franchises in Asia should offer decent growth over the long term. These businesses command strong margins and pricing power through various elements of brand, distribution and innovation. Minimal capital intensity and strong cash generation promote investment for growth, as well as the potential for rising dividends.

High quality financials

We believe banks and high quality financials should benefit from similar drivers as consumer businesses (demographics, rising incomes and urbanisation). Often, the best banks are supported by a strong deposit franchise or a specific loan niche; and are positioned in markets with low (but growing) financial inclusion. We believe this provides better opportunities to generate high margins and an attractive return on assets, over a market cycle.

Beneficiaries of the rise in healthcare spending

Many Asia Pacific and Global Emerging Market countries are under-invested in healthcare compared to the global average. As these economies become richer, we expect healthcare and health-related spending to rise. This includes government spending on prevention and public health services, as well as consumer spending on personal health care and healthier lifestyle choices.

Case Study:
HDFC Bank

We have been shareholders of **HDFC Bank**, India's largest private sector bank, in our Indian Subcontinent portfolios for close to two decades. Thanks to its conservative lending and risk management practices, it has consistently gained market share at the expense of state-owned banks, which are often plagued by asset quality and capital adequacy issues.

State-owned banks continue to make up around 60% of the Indian banking system. This, along with a large under-banked population in India, provides a long-term growth opportunity for HDFC Bank - an example of how high quality private banks should benefit from financial inclusion in India.

It has delivered industry-leading returns over the last two decades, while consistently focusing on risk management. Earnings per share (EPS) has compounded at 23% compound annual growth rate (CAGR) over this period. The true test of this has been amidst the pandemic, which HDFC Bank sailed through smoothly, with asset quality relatively well maintained.

The management team is highly experienced, and the transition to new CEO Sashidhar Jagdishan has been seamless. The strength of their organisation can be seen in the total shareholder returns, in the order of 22% CAGR over twenty years in USD terms.[1]

[1] Source: Company reports, India Brand Equity Foundation. As at Fiscal Year (FY) 2022 https://www.ibef.org/industry/banking-india.aspx

Case Study:
China Mengniu Dairy

We believe China Mengniu Dairy, one of the two largest dairy companies in China, is well positioned to tap into China's 'premiumisation' trend. Despite being one of the largest markets in the world for dairy products, China's per capita consumption of yoghurt, ice-cream and cheese – higher margin products compared to milk – is still relatively low.

Overall dairy consumption in China is growing at mid-single-digit. Mengniu believes its outperformance will come from improving areas such as ice cream and milk powder, and from developing newer products such as fresh milk and cheese. Our recent discussions with the CEO suggested that Mengniu will prioritise profit growth going forward, rather than scale.

As incomes continue to rise, we believe the growing appetite for premium yoghurts, ice creams, beverages and other non-dairy health products, particularly with the launch of healthier versions and local flavours, should provide a structural tailwind for Mengniu.[2]

Beneficiaries of a smarter, more connected world

The ever-present use of technology and the digitalisation of everything has created new industry sectors, as well as professional consultancies and consumer companies around them. As the world becomes smarter and more connected, Asian technology firms should benefit from strong end demand and a growing market. Taiwanese semiconductor foundries and equipment manufacturers, as well as Chinese internet giants, are among the leaders in their fields – not just in Asia, but globally.

Growing trend of automation

The combination of low birth rates and higher life expectancy is transforming the world's population structure. In Asia, particularly in China and Japan, the proportion of older, retired people to those of working age is growing. As robots become smarter and less costly, manufacturers are more likely to automate their processes to tackle the falling labour participation rate and, at the same time, improve efficiencies in the long run.

[2] Source: Company reports, as at fiscal year (FY) 2022.

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 FSSA Investment Managers' portfolios at a certain point in time, and the holdings may change over time.

Investment team

The investment team consists of more than 20 investment professionals based in Hong Kong, London and Singapore. We have a distinct culture and team structure, which has contributed to the stability of the team. Many of our analysts joined as graduates; and the majority of our portfolio managers have been with us for most of their careers.

Our team members come from diverse backgrounds and speak 15 local languages and dialects, which contributes to the quality of research and analysis when meeting with companies. All portfolio managers are, first and foremost, also analysts; and the entire team contribute stock ideas to each of our client portfolios.

Strategy	Portfolio manager	Benchmark	Approx. number of holdings	Typical market cap threshold
Asia Focus Strategy	Martin Lau	MSCI AC Asia Pacific ex Japan	50-70	USD 1.5bn free float
Asian Equity Plus Strategy	Martin Lau	MSCI AC Asia Pacific ex Japan	50-70	USD 1.5bn free float
Asian Growth Strategy	Richard Jones	MSCI AC Asia ex Japan	40-50	USD 1.5bn free float
Asian Smaller Companies Strategy	Vinay Agarwal	MSCI AC Asia ex Japan	50-70	Below USD 5bn at the time of first investment
Asia Select Strategy*	Vinay Agarwal	MSCI AC Asia Pacific ex Japan	45-55	USD 5bn free float
ASEAN All Cap Strategy	Rizi Mohanty	MSCI AC ASEAN Net Index	40-60	Nil
All China Strategy	Winston Ke	MSCI China All Shares	40-60	Nil
China A Shares Strategy	Winston Ke	MSCI China A Onshore	40-60	Nil
China Focus Strategy	Helen Chen	MSCI China	40-60	Nil
China Growth Strategy	Martin Lau	MSCI China	40-60	Nil
Greater China Growth Strategy	Martin Lau	MSCI Golden Dragon	40-60	Nil
Global Emerging Markets Focus Strategy	Rasmus Nemmoe	MSCI Emerging Markets	40-50	Nil
Indian Subcontinent Strategy	Vinay Agarwal	MSCI India	30-50	Nil
Japan Equity Strategy	Sophia Li	TOPIX Net Total Return Index	40-60	Nil

* Only available in separate accounts.
Note: Not all strategies are available in all regions. Please speak to your local representative to find out more.

Investment strategies

Our investment strategies cover regional and single country portfolios across the universe of small-, mid- and large-cap stocks. We offer collective funds and segregated mandates to suit specific client needs.

Asia Pacific ex-Japan
Our range of Asia Pacific equity strategies cover small, mid and large-cap stocks and are invested with a medium-to-long-term time horizon in mind. Our portfolios are invested in quality companies that we believe have long-term, sustainable growth drivers and should benefit from Asia's structural tailwinds. We are specialists in Asia Pacific equities and have been managing regional Asia Pacific portfolios since 1988**.

Global Emerging Markets
Our Global Emerging Markets (GEM) strategies cover developing markets and are biased towards medium-sized companies that have the potential to grow much larger over time. Similar to our Asia Pacific strategies, we invest with a medium-to-long-term time horizon, and tend to favour dominant franchises operating in industries with long-term structural tailwinds. We continue to add to our GEM research capabilities, and adopt the same high-conviction, bottom-up approach to investing.

Greater China Region
Our Greater China strategies cover China, Hong Kong and Taiwan. We offer a range of single country and regional portfolios that provide investors with the option of tailoring their investment exposure to these key markets. Though China provides the largest opportunity set in the region, Taiwan, with its large technology sector, and Hong Kong, with its more developed governance and regulatory framework, offer a number of interesting investment opportunities.

China A-Shares
Our China A-Share strategy is positioned to capture major growth opportunities in China over the long term. We have invested in domestic market leaders such as dominant consumer franchises and brands, companies providing drugs and medical services, prudent financial services institutions, and technology champions in niche markets. As China continues to liberalise its financial markets, we have increasingly found attractive investment opportunities to add to our portfolios.

Indian Subcontinent
Our Indian Subcontinent strategies cover India, Pakistan, Bangladesh and Sri Lanka. We tend to favour dominant consumer franchises, high quality private banks and infrastructure companies. We believe large populations, supportive demographics and underpenetrated markets in this region should provide a favourable long-term growth environment for these types of companies.

Japan
Our Japan equity strategies are focused on secular growth trends, meaning they do not rely on broader growth in the economy to perform well. These include well-managed Japanese companies that have global brand recognition, domestic leaders that have grown over multiple cycles, and automation companies that have benefitted from structural demand growth.

** As part of the wider First State Stewart team.

Source: FSSA Investment Managers, data as of end of December 2023.