

FSSA China A Shares Fund (Irish VCC)

Investment objective and policy

The Fund aims to grow your investment.

The Fund invests at least 70% of its assets in shares of companies listed on Chinese Stock Exchanges.

The Fund may invest up to 100% of its assets in any industry and in companies of any size.

The Fund may invest up to 100% of its assets in China A Shares and up to 10% of its assets in China B shares.

The Fund may use derivatives with the aim of risk reduction or efficient management.

Fund information

Fund launch date	04 June 2019
Fund size (US\$m)	160.7
Benchmark	MSCI China A Onshore Net Index
Number of holdings	39
Fund manager(s)	Winston Ke/Martin Lau
Research rating ^	Morningstar®:Bronze

^ 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 China A Shares Fund USD Class VI (Accumulation)	BH43G61	IE00BH43G612
FSSA China A Shares Fund USD Class VI (Distributing)	BJ065F0	IE00BJ065F05
FSSA China A Shares Fund GBP Class VI (Accumulation)	BJN6RG2	IE00BJN6RG23
FSSA China A Shares Fund USD Class I (Accumulation)	BKF2S51	IE00BKF2S510

Risk factors

This document is a financial promotion for the FSSA China A Shares 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.
- **Smaller companies risk:** investments in smaller companies may be riskier and more difficult to buy and sell than investments in larger companies.
- **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.

FSSA China A Shares Fund USD Class III (Accumulation)

BKF2S62

IE00BKF2S627

FSSA China A Shares Fund AUD Class III (Accumulation)

BKPWC82

IE00BKPWC821

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 2023

	12 mths to 31/12/23	12 mths to 31/12/22	12 mths to 31/12/21	12 mths to 31/12/20	12 mths to 31/12/19
FSSA China A Shares Fund	-23.7	-16.8	-2.6	37.3	-
MSCI China A Onshore Net Index	-11.7	-27.2	4.0	40.0	-

Cumulative performance in USD (%) to 31 December 2023

	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	YTD	6 mths	3 mths
FSSA China A Shares Fund	-4.8	-	-	-38.2	-23.7	-23.7	-13.3	-8.9
MSCI China A Onshore Net Index	7.5	-	-	-33.1	-11.7	-11.7	-7.6	-3.1

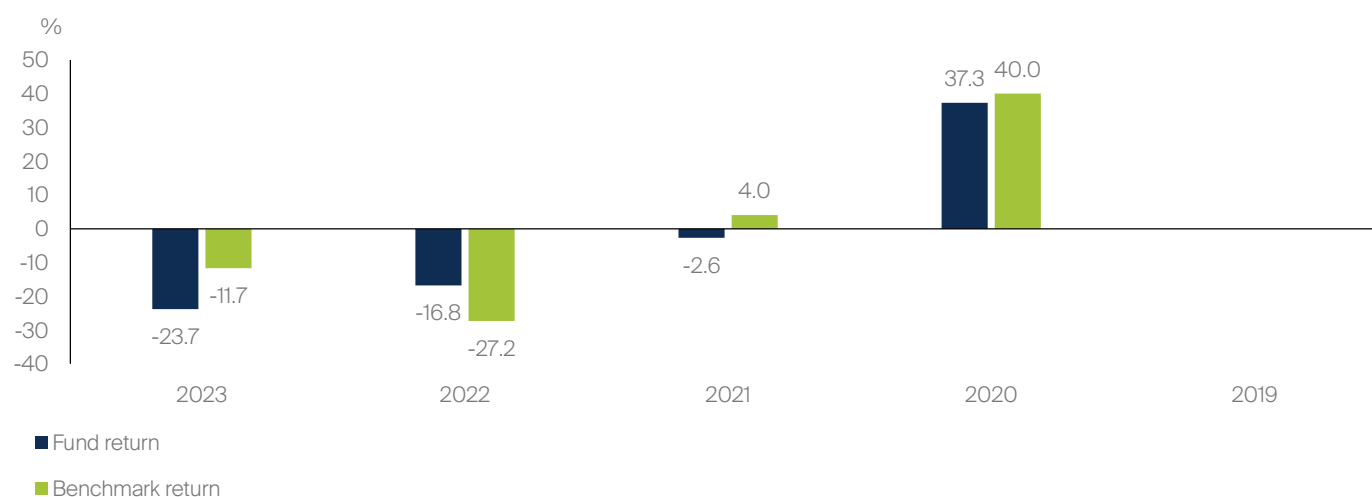
Performance review

Over the past 12 months, key contributors to performance included Midea Group, which continued to execute well despite the challenging environment. While growth remains difficult and pricing has been under pressure, Midea's focus on innovation has led to a shorter upgrade cycle, with replacements now the dominant driver of demand. Midea enjoys a leading market share in the heating, ventilation and air-conditioning sector, and the launch of its new marketing campaign with English Premier League footballer Erling Haaland should help its aspirations of becoming a major global player in other home goods and small appliances. Weichai Power rose after reporting robust earnings growth, improved profitability and a higher dividend payout. Management indicated the demand

for heavy duty trucks (HDTs) looks favourable despite concerns around China's economy, with scope for further market share gains.

On the negative side, Zhejiang Weixing New Building Materials fell despite reporting better-than-expected profit growth (mostly due to one-off investment gains and lower raw material prices), as weak demand from both property and infrastructure weighed on sales. China Mengniu Dairy has been affected by weak consumer demand as China's economic recovery remains fragile. In the long run we continue to believe it should benefit from the "premiumisation trend", with its deluxe offerings, cheese, ice cream, and sports and elderly nutrition.

Calendar year performance (% in USD) to 31 December 2023



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 05 June 2019. All performance data for the FSSA China A Shares Fund Class VI (Accumulation) USD as at 31 December 2023. 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 China A Shares Fund was rebranded as FSSA China A Shares Fund.

Portfolio review

New positions over the quarter included China Resources Beer (CR Beer), China's largest beer company. We believe the group are executing well, with average selling prices (ASPs) growing steadily and unit costs being reduced, which should improve margins and returns. CR Beer has continued to expand its premium portfolio, which should benefit from the premiumisation trend in China.

We divested Fuanna Bedding to consolidate the portfolio and sold Weichai Power to raise cash for better ideas elsewhere.

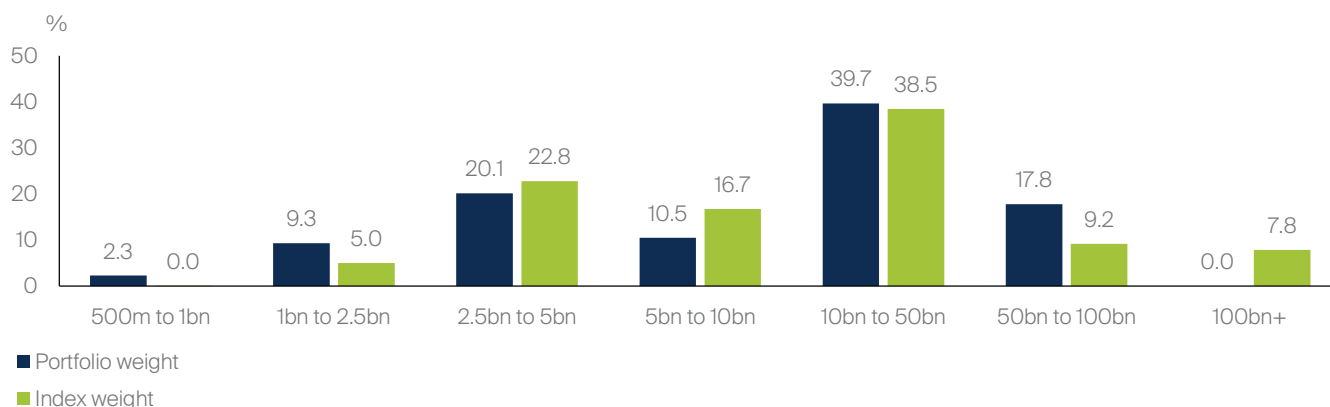
Stock spotlight

China Merchants Bank is the largest joint-stock commercial bank in China, and was the first to focus on retail and high-net-worth customers in the early 1990s. Its leading position in retail deposits combined with its lowest funding costs make it a highly profitable bank without taking too much risk. CMB has shown prudent risk management, with the lowest NPLs and highest coverage among peers, which makes us confident about its asset quality in a relative context. CMB is also a distant leader in wealth management and has a strong credit card and asset management franchise.

Despite being controlled by a central state-owned parent, China Merchants Group, it is seen as the most market-oriented bank in China. CMB has the highest return on assets (1.4%) and return on equity (18%) in China's banking industry, thanks to its low funding cost, lean business model and strong fee income franchise. The bank is not directly owned by the state and doesn't have one dominant shareholder, resulting in a governance system that is much closer to privately-owned banks in other markets. At every level of the organisation, they try to ensure every division is profitable on its own and can generate capital, which is why they have not raised capital in the past decade.

On the other hand, competition in retail is getting fiercer and "Common Prosperity" is a headwind. Under the new CEO, we expect CMB to consistently stay with its retail focus and market-oriented culture. While growth could be structurally lower than before, we still think CMB is probably the best bank to own in China.

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

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, as long-term investors, we also see an attractive opportunity set in a unique market. We have been impressed by the improving quality of Chinese companies and management over the years and we believe there is room for industry leaders to continue to deliver attractive returns in a maturing economy.

As always, we seek to invest in quality companies with proven management, dominant franchises and conservative financials. Market downturns provide us with attractive opportunities to accumulate quality companies at lower prices – and we stand by the belief that the best time to buy is when things appear gloomy and valuations are undemanding. We have taken the opportunity to build up some of the smaller positions in the portfolio, while also adding on weakness to our high conviction and core long-term holdings.

Our long-term investment themes:

- Globally competitive exporters with a growing international business.
- 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 the urbanisation trend.
- Beneficiaries of environmental protection.

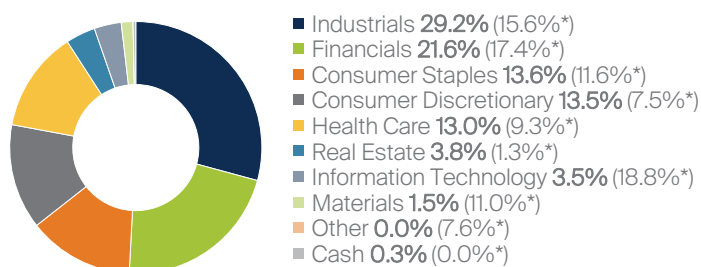
Ten largest company holdings as at 31 December 2023

Stock name	Country	Sector	Portfolio weight (%)
China Merchants Bank Co., Ltd. Class A	China	Financials	7.9
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	7.3
Zhejiang Weixing New Building Materials Co. Ltd. Class A	China	Industrials	6.8
Bank of Ningbo	China	Financials	6.0
Ping An Insurance (Group) Company of China, Ltd. Class A	China	Financials	5.4
Midea Group	China	Consumer Discretionary	4.4
Shanghai Liangxin Electrical Co., Ltd. Class A	China	Industrials	4.2
Beijing New Building Materials (Group) Co Ltd Class A	China	Industrials	3.7
Shenzhen Mindray Bio-Medic-A	China	Health Care	3.6
S.F. Holding Co., Ltd. Class A	China	Industrials	3.4

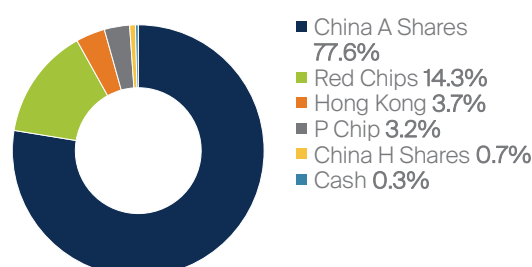
Sector and Country classifications provided by Factset and First Sentier Investors. The Fund may hold multiple equity securities in the same company, which have been combined to provide the Fund's total position in that company. Index weights, if any, typically include only the main domestic-listed security. 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 2023

Stock name	Country	Sector	Value added (bps*)
Sino Biopharmaceutical Limited	China	Health Care	74
Yifeng Pharmacy Chain Co Ltd Class A	China	Consumer Staples	43
Shenzhen Mindray Bio-Medic-A	China	Health Care	38
Luxshare Precision Industry Co. Ltd. Class A	China	Information Technology	30
Autobio Diagnostic A Cny1	China	Health Care	26

12 months to 31 December 2023

Stock name	Country	Sector	Value added (bps*)
Midea Group Co. Ltd. Class A	China	Consumer Discretionary	30
Weichai Power Co., Ltd. Class A	China	Industrials	24
Luxshare Precision Industry Co. Ltd. Class A	China	Information Technology	14
ThinkKingdom Media Group Ltd	China	Communication Services	11
Shenzhen Fuanna Bedding A	China	Consumer Discretionary	10

Bottom 5 contributors to absolute performance

3 months to 31 December 2023

Stock name	Country	Sector	Value added (bps*)
Bank of Ningbo Co., Ltd. Class A	China	Financials	-165
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	-156
Zhejiang Weixing New Building Materials Co. Ltd. Class A	China	Industrials	-144
China Merchants Bank Co., Ltd. Class A	China	Financials	-111
Shanghai Liangxin Electrical Co., Ltd. Class A	China	Industrials	-89

12 months to 31 December 2023

Stock name	Country	Sector	Value added (bps*)
China Mengniu Dairy Co., Ltd.	China	Consumer Staples	-333
Bank of Ningbo Co., Ltd. Class A	China	Financials	-281
Zhejiang Weixing New Building Materials Co. Ltd. Class A	China	Industrials	-264
China Merchants Bank Co., Ltd. Class A	China	Financials	-194
Shanghai Liangxin Electrical Co., Ltd. Class A	China	Industrials	-175

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 2023

Risk measure	Value	Risk description
Beta	1.04	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	-0.09	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	23.65%	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	19.39%	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	12.30%	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 2023

Risk measure	Value	Risk description
Dividend Yield (Fund)	3.09%	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)	2.46%	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)	1.50	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)	1.57	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)	11.25	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)	13.56	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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