



China Beyond the Headlines: Understanding the Reality & Discovering the Unseen Boom

China Equity Markets Strategy Update

August 2023





- INVESTMENT MANAGER INTRODUCTION
- OUR PHILOSOPHY
- CHINA: NEWS HEADLINES & COMPLEX REALITY
- DISCOVER THE UNSEEN BOOM
- PORTFOLIO ANALYSIS
- CONTACTS

Manager Introduction

Founded in 2006
Managing
USD 1.4 Billion



- One of the top three **independent** asset management companies in HK, with assets under management exceeding **USD 1.4 billion**, with offices in **HK and Qingdao** (China)
- Licensed Type 4 & 9 by HK SFC and WOFE (wholly foreign-owned enterprise) by CSRC
- Providing professional investment management services to global institutional and retail investors, with over **17 years** of performance and a cumulative return of around **189%**

Focus on Absolute
Return



- **Value analysis + Quantitative indicator analysis**
- Focusing on listed securities, bottom-up fundamental selection with a value-oriented approach, emphasizing business models, management quality, cash flow, and valuation; top-down quantitative model to **reduce downside risk and volatility**

A Pioneer of Value
Investing



- CIO-Michael Liang is recognized as **a pioneer of value investing in Asia (Bloomberg)**, supported by **a team of research specialists**
- The core members have strong academic backgrounds and an average of **20 years of industry experience** in investment management

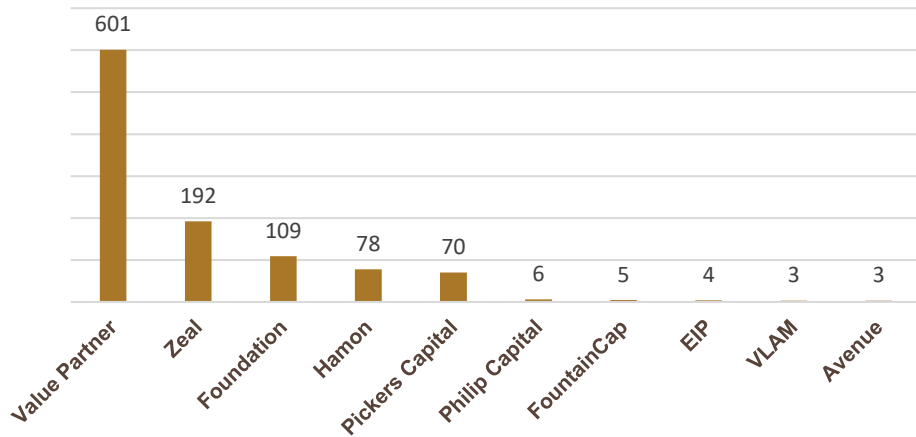
Collaborating
Institutions



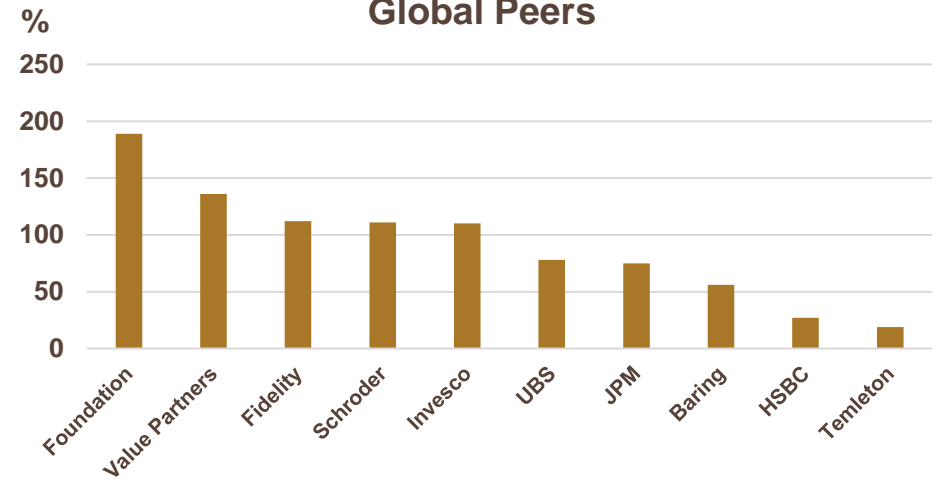
Manager Introduction

- Currently managing assets of USD 1.4 billion and is one of the top three independent asset management companies in Hong Kong in terms of AUM
- Over the past 17 years, independent asset managers have done best in managing active China funds, with Foundation maintaining a consistent lead in long-term performance

Assets Under Management (in HKD 100 Million)



Independent Asset Managers Outperform Global Peers





Manager Introduction - Founder & CIO: Michael Liang



- Michael Liang, a leader in Asia Hedge Fund space, founded Foundation in 2006 when China hedge funds were still at a nascent stage
- Foundation remains one of the **longest standing China hedge funds with over 17 years history**
- **Differentiated industry knowledge**, experienced the commodities boom in Australia, industrials research during Asia Financial Crisis and China WTO cycle

Education and Qualifications

- Chartered Financial Analyst (CFA)
- EMBA, Peking University
- BA Economics, Wollongong University, Australia
- BA Industrial Economics, Renmin University of China

1997 – 1998
Societe Generale Securities
 Hong Kong
 Vice President
 APAC industrials

2000 – 2003
DBS Vickers Securities
 Hong Kong
 Vice President
 China industrials

2006 – Present
Foundation Asset Management
 Hong Kong
 Founder & CIO

邦德資產管理
FOUNDATION
 ASSET MANAGEMENT

1994 – 1997
Macquarie Bank
 Australia
 Analyst
 Australian equity research - commodities

1998 – 2000
Daiwa Securities Capital Markets
 Hong Kong
 Vice President
 China industrials

2003 – 2006
United Overseas Bank
 Hong Kong
 Director
 Advisor to Asian families and global investors



Manager Introduction - CIO: A Pioneer of Value Investing



- Michael has more than **30 years** of investment-related experience and is **one of the pioneers of value investing in Asia**, according to Bloomberg
- Led by Michael, Foundation's funds have **successfully navigated numerous market fluctuations** since inception, including the 2008 financial crisis and the 2011 European debt crisis
- Michael is regularly interviewed by various media outlets for his investment insight, including **CNN, Bloomberg, China Central Television 新闻联播, China News Service, Hong Kong Economic Times and Ming Pao**



Our Philosophy

Value As Our Foundation

- **Value is the foundation** of our investment philosophy. We apply our proprietary fundamental framework to identify these opportunities. We believe **our unique experiences across cycles** and understanding of China is the key to long term value creation to our investors.
- There are two important tenets of our investment philosophy: **contrarian thinking and long-term orientation**. Because investors and market force tend to have short term horizon, the investment process becomes greatly influenced by consensus-building and short-term behavior. **Creating a governance process that encourages long-term, independent, contrarian investment is paramount to us.**
- Our mission is to achieve 'Quality' returns over the long term. To us, **'Quality' signifies a commitment to conviction and discipline, rather than blindly pursuing returns.** We aspire to do so in a way that makes our partners proud, as we build a unique investment platform for global investors.



China: News Headlines & Complex Reality – News Headlines

Demographic Time Bomb

Property Market Crisis

Balance Sheet Recession

The Lost Decade

US–China Conflict

.....

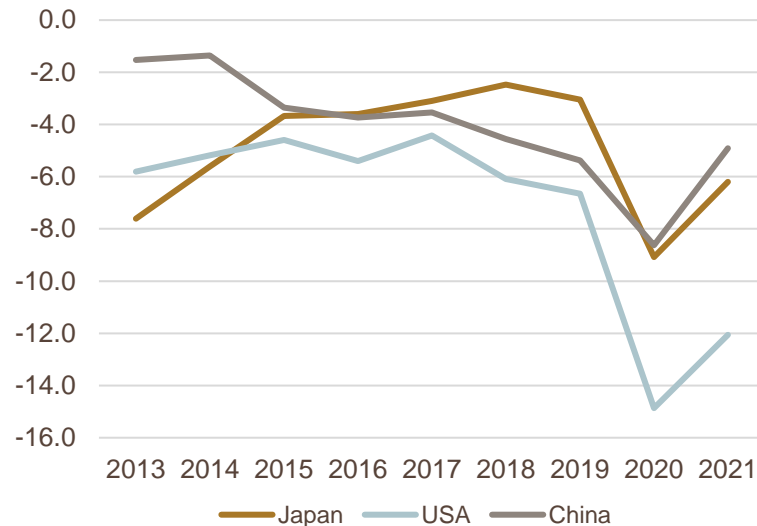
outright negative, but on-the-ground situation is more complex...



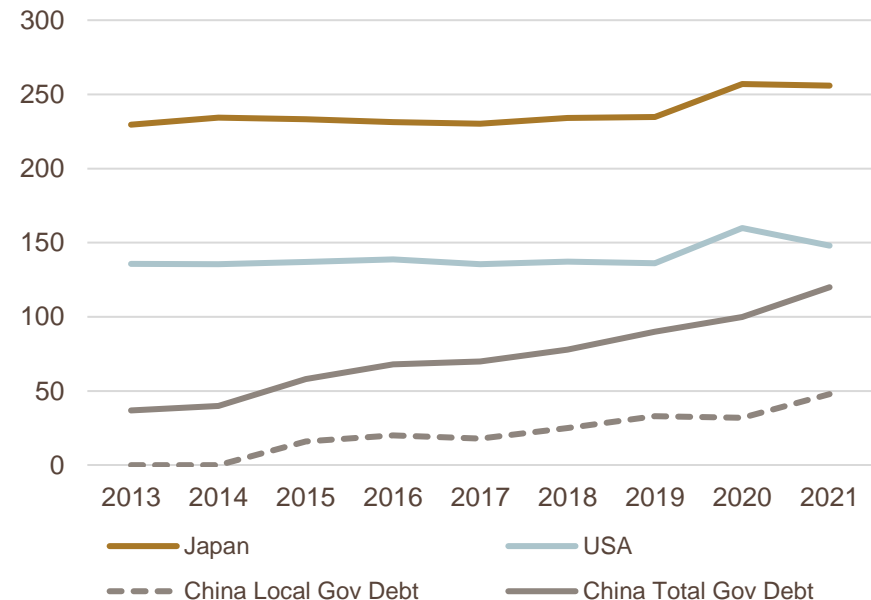
China: News Headlines & Complex Reality - Complex Reality

- The aging population in China, an overleveraged property market, and geopolitical headwinds all **draw striking parallels** to the conditions leading up to **Japan's 'lost decade'** in the 1990s
- China should learn from the US (COVID spending) and Japan (Abenomics), **dramatically increase deficit spending /fiscal stimulus to counter structural problems**
- While the extent of the Chinese Central Government's fiscal stimulus is still uncertain, it is **prudent for investors to strategize and prepare** for potential outcomes

Fiscal Deficit as % of GDP



Government Debt as % of GDP





China: News Headlines & Complex Reality - Complex Reality

- With its vast economy and fiercely competitive domestic market, China cultivates powerful industry leaders on a global scale, a phenomenon that inevitably draws attention and responses from the West

GNI vs GDP

- The China-plus-one strategy (de-risking) can benefit China's GNI vs GDP

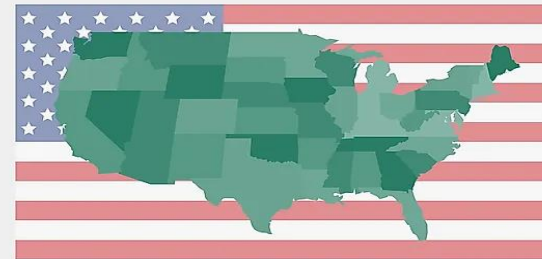
What is the difference between GNI and GDP?

GNI - Global National Income



GNI is the sum of **all income** earned by a country's **residents and businesses**, whether they are located **inside the country or abroad**.

GDP - Global Domestic Product



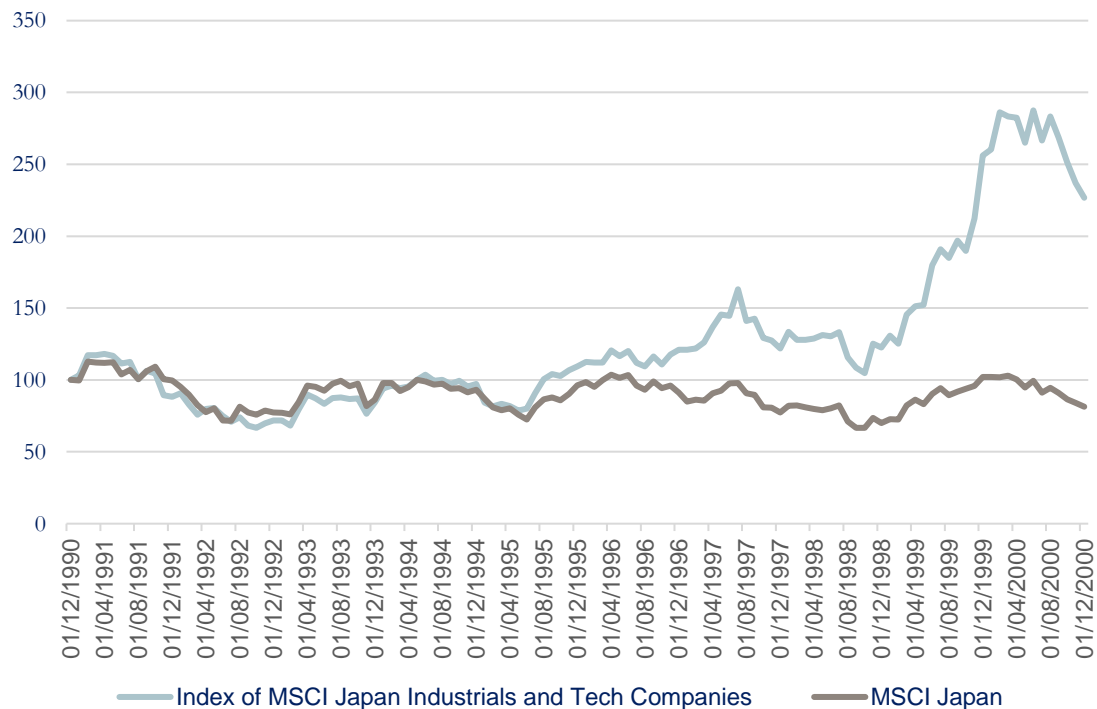
GDP is the total monetary value of all **goods and services** produced **within a country's borders** during a specific time period, usually a year.

© WorldAtlas.com



China: News Headlines & Complex Reality - Industrial and Tech Excel

- Taking Japan during the 'lost decade' as an example, its **industrial and tech companies** have shown resilience and **consistently outperformed the market**
- This highlights the importance of **investing in industries where a specific country demonstrates exceptional prowess**



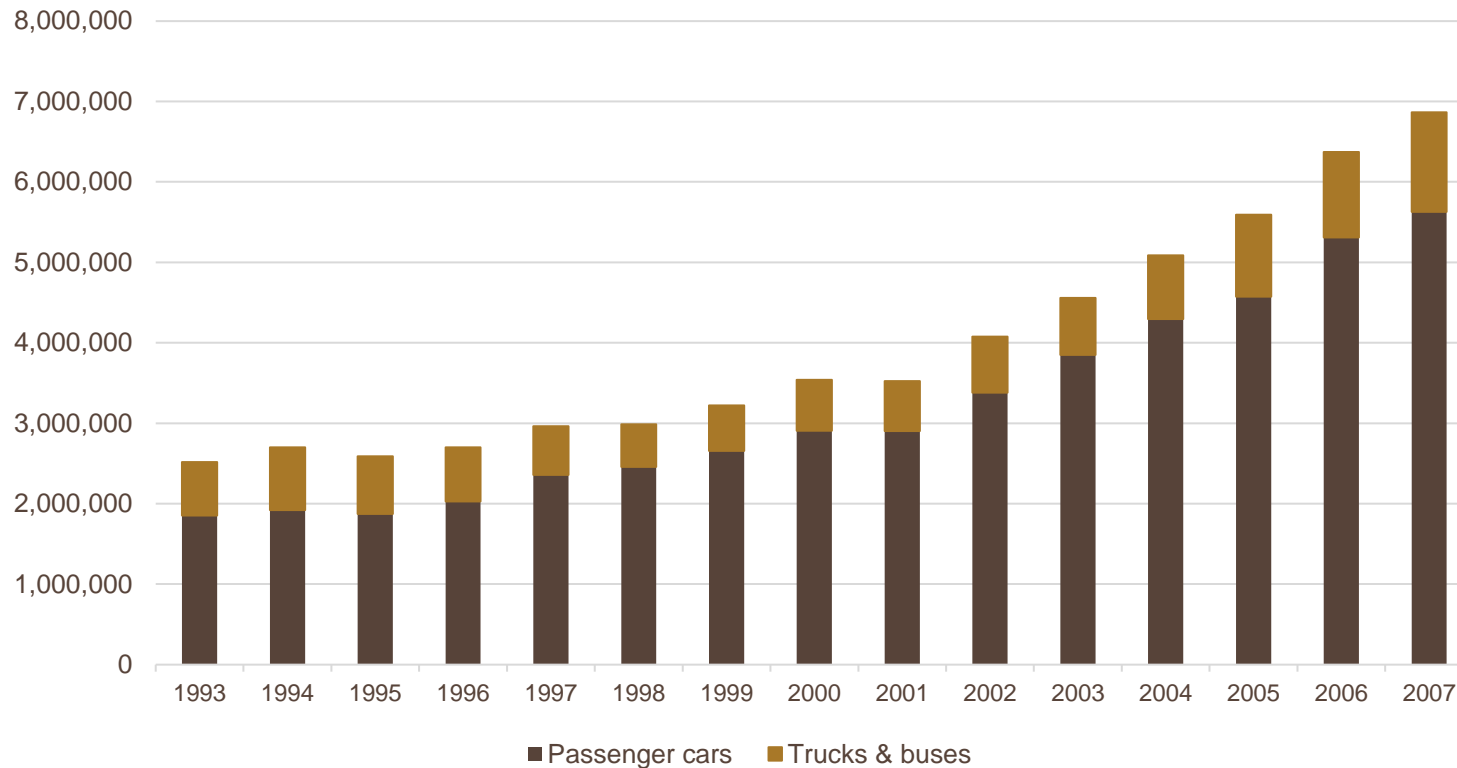
	Total Return Jan 1991 - Dec 2000	CAGR Jan 1991 - Dec 2000
Index of MSCI Japan Industrials and Tech Companies	227%	9%
MSCI Japan	-19%	-2%



China: News Headlines & Complex Reality - Industrial and Tech Excel

- The trajectory of China's auto industry is beginning to mirror the patterns exhibited by Japanese car manufacturers during the 1990s and 2000s.

Toyota's exported vehicles from 1993 to 2007

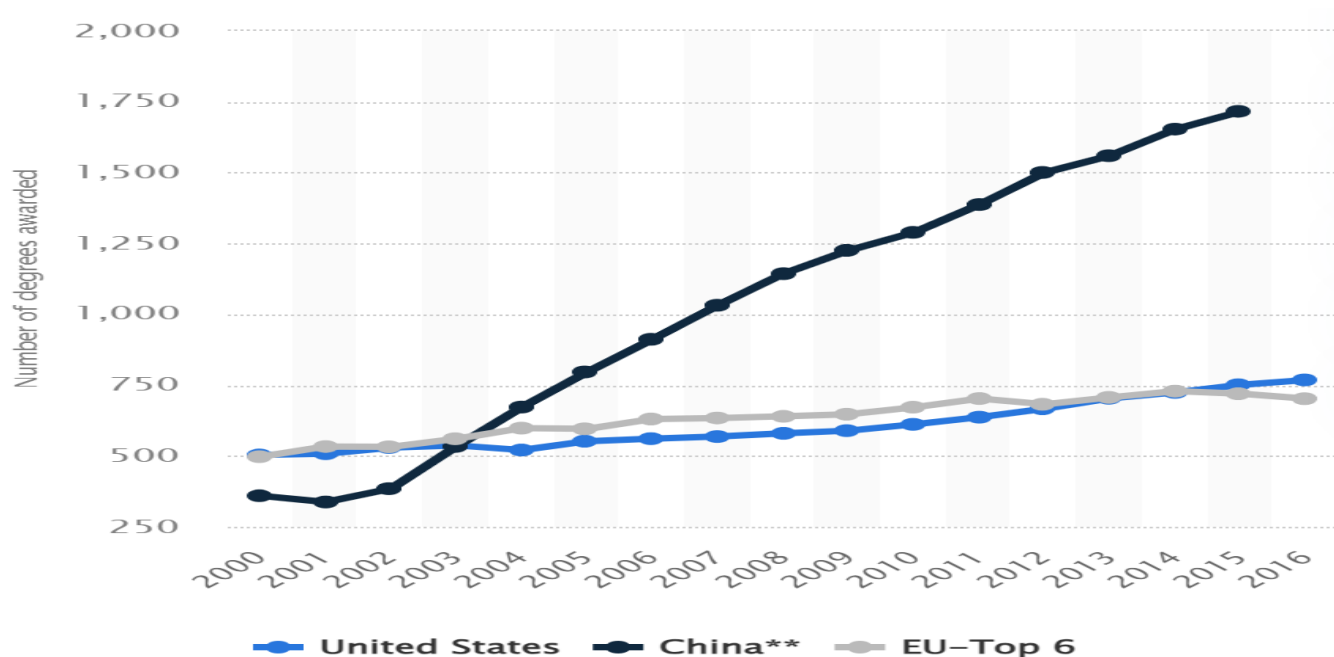




China: News Headlines & Complex Reality - STEM Graduates: China vs US & EU

- China's economy has transitioned **from cheap labor to engineer-based**
- The number of new graduates in Science and Engineering degrees from China **exceeds the combined total from the US and EU**
- **Human capital** is an integral component of economic growth

Number of bachelor's degrees awarded in science and engineering (S&E) fields in the U.S., China and EU-Top 6 from 2000 to 2016

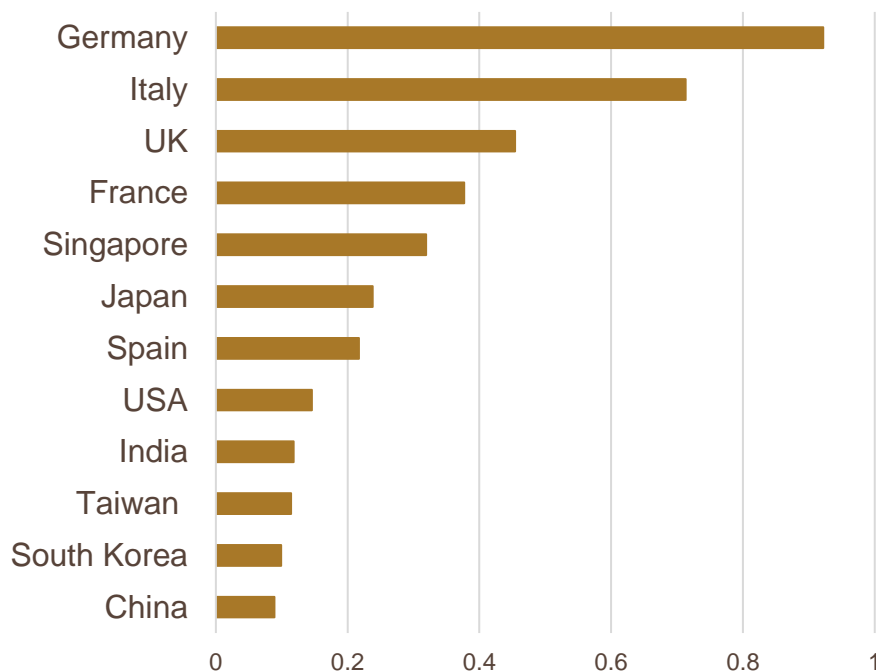




China: News Headlines & Complex Reality - Cheap and Reliable Electricity Supply

- Among all industrialized nations, China boasts the **most affordable and reliable electricity** supply
- Key to its economic sustainability and manufacturing success

Electricity prices for business
(kWh, U.S. Dollar)



China ranked first in global electricity generation in the year 2022

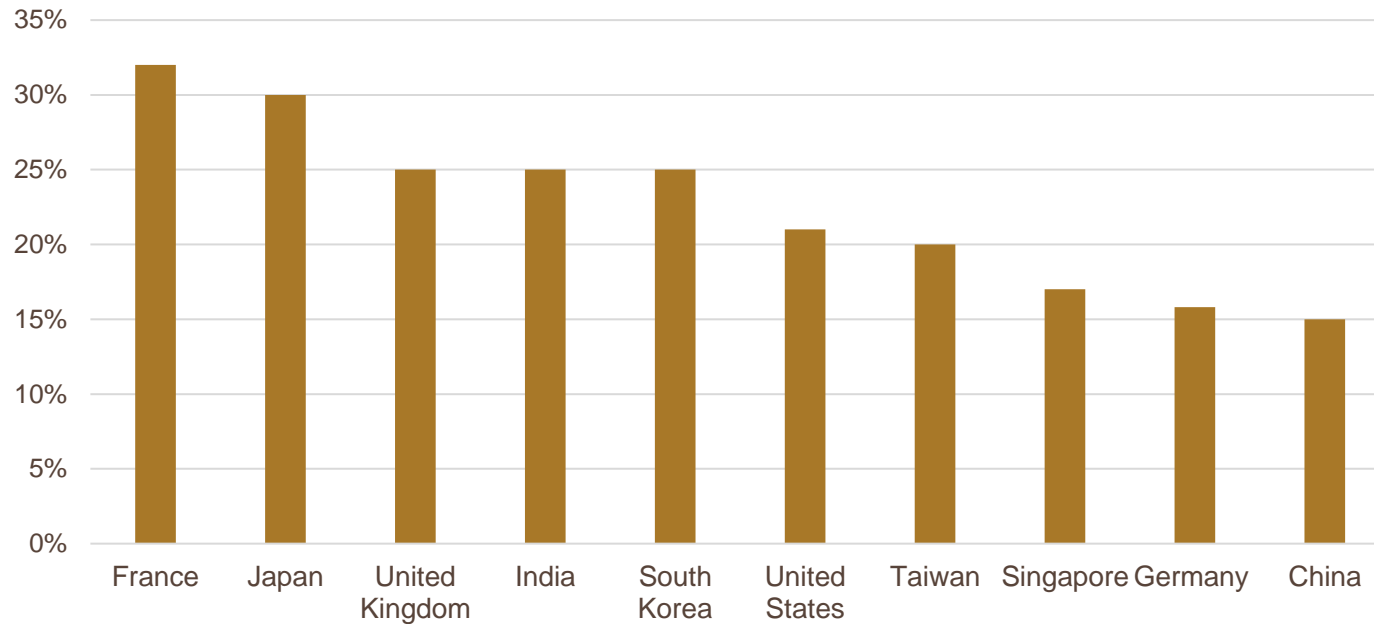
Rank	Country	Electricity Generation (GWh)	%
1	China	91368	31.33
2	US	45477	15.59
3	India	18580	6.37
4	Russia	11669	4.00
5	Japan	10366	3.54
6	Brazil	6772	2.32
7	Canada	6596	2.26
8	Korea	6203	2.13
9	Germany	5773	1.98
10	France	4677	1.60



China: News Headlines & Complex Reality - The Lowest Tax Rate

- China's corporate income tax - standard tax rate is 25%, **tax rate reduced to 15%** for high tech industries
- vs. US (21%), Japan (30%), India (25%), Germany (15.8%)

Corporate Tax Rate for High Tech Industry





Discover the Unseen Boom - Disruptive Technology: AI

- Diversified manufacturing base is important for our risk management

Foxconn Industrial Internet:

- Server and network equipment OEM, exclusive GPU module manufacturer for Nvidia
- Listed in China, a subsidiary of Taiwan parent co. with manufacturing facilities throughout various locations around the world

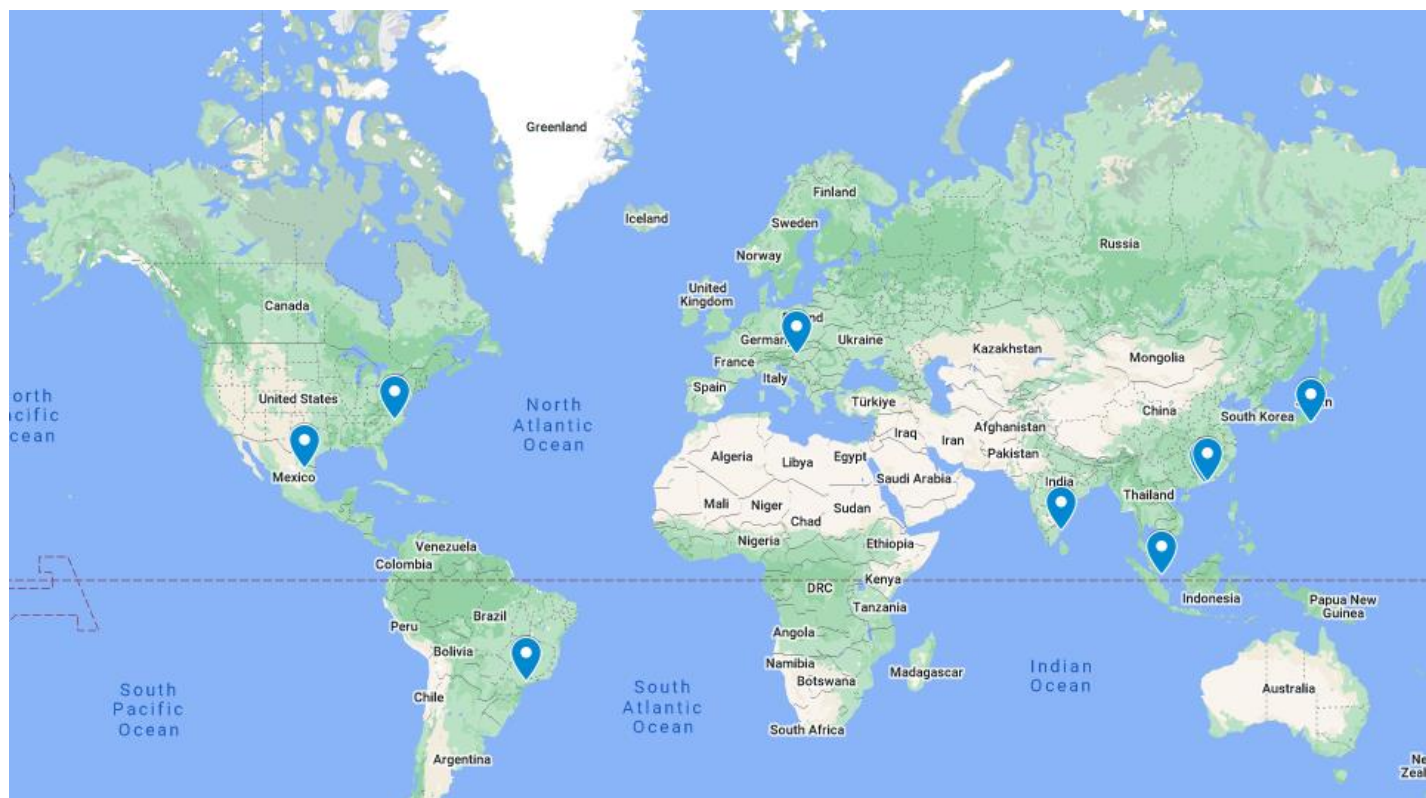




Discover the Unseen Boom - Disruptive Technology: Electronics

Lenovo:

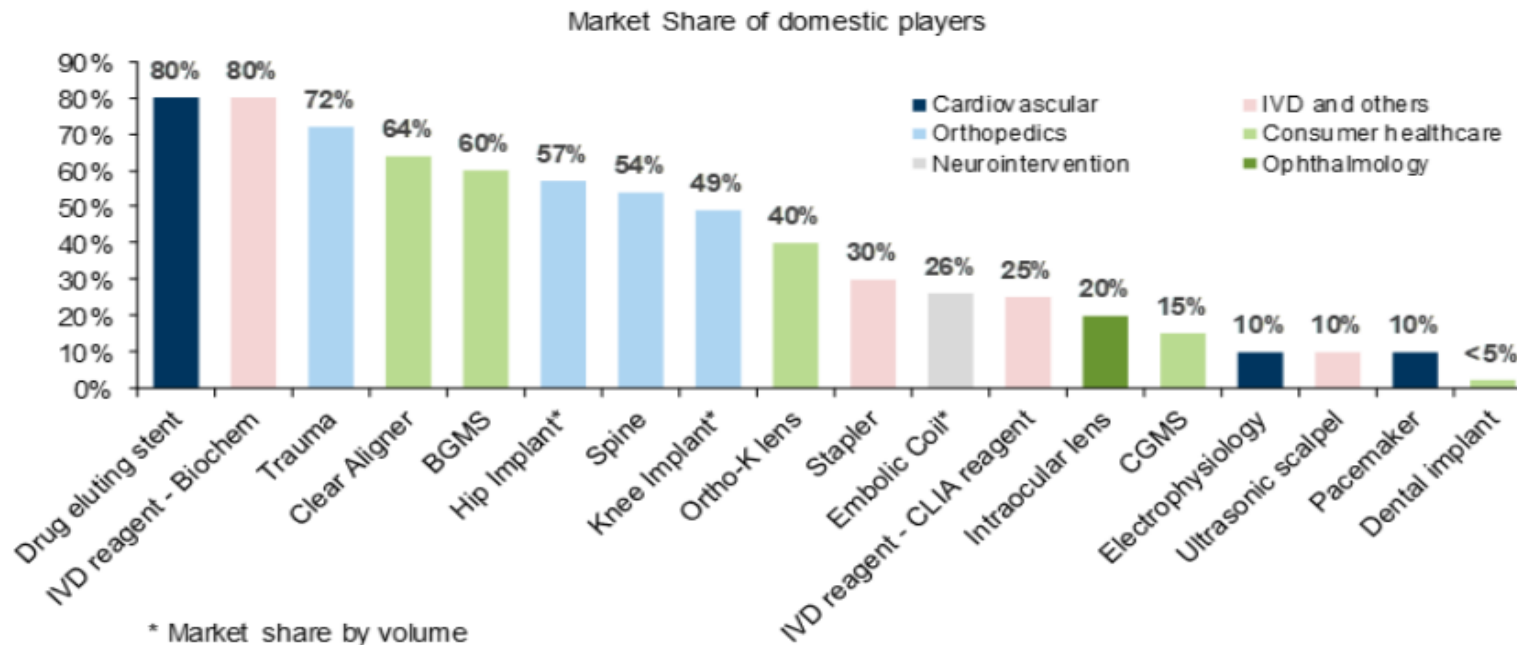
- PC and traditional and AI server OEM
- 30% market share in global PC market, with diversified manufacturing base globally





Discover the Unseen Boom - Medical Device

- The medical device industry **greatly benefited from the robust development of China's manufacturing industry**
- **Import substitution accelerated** following volume-based procurement (VBP), as Chinese companies have lower costs of goods sold (COGS) and are continually improving the product quality





Discover the Unseen Boom - Automation

- China automation industry share the similar trend, showing **consistent market share gain**
- Companies with **technological innovation** and lower product prices (because of **lower production cost, cheaper manpower/talents, tax** etc.) are gaining market share

Servo			Sales trend				Mkt share							
Rank	Brands	Origin	1Q23	QoQ	1Q23	YoY	1Q23	4Q22	1Q22	2022	1Q23	QoQ	1Q23	YoY
1	INOVANCE	Domestic	9%		25%		23%	23%	17%	20%	▼	-1pp	▲	6pp
2	Siemens	Overseas	41%		10%		13%	10%	11%	10%	▲	3pp	▲	2pp
3	Mitsubishi	Overseas	4%		-24%		8%	8%	9%	8%	▼	-1pp	▼	-2pp
4	Yaskawa	Overseas	15%		-10%		8%	7%	8%	8%	▬	0pp	▬	0pp
5	Delta	Domestic	5%		3%		6%	7%	5%	6%	▬	0pp	▲	1pp
6	Panasonic	Overseas	13%		-34%		6%	6%	9%	8%	▬	0pp	▼	-2pp
7	HCFA	Domestic	11%		10%		4%	4%	3%	4%	▬	0pp	▲	1pp
8	Omron	Overseas	-16%		21%		2%	3%	2%	2%	▼	-1pp	▲	1pp
9	Xinje	Domestic	-21%		6%		2%	3%	2%	3%	▼	-1pp	▬	0pp
10	Sanyo	Overseas	49%		-20%		2%	1%	2%	2%	▬	0pp	▬	0pp
Major Domestic Brands Total			-4%		10%		35%	41%	29%	35%	▼	-6pp	▲	6pp
Major Overseas Brands Total			11%		-15%		44%	44%	47%	45%	▼	-1pp	▼	-3pp
Others			60%		-18%		22%	15%	24%	19%	▲	6pp	▼	-2pp

Low voltage inverter			Sales trend				Mkt share							
Rank	Brands	Origin	1Q23	QoQ	1Q23	YoY	1Q23	4Q22	1Q22	2022	1Q23	QoQ	1Q23	YoY
1	ABB	Overseas	40%		3%		19%	16%	18%	16%	▲	4pp	▲	1pp
2	Siemens	Overseas	34%		2%		18%	15%	17%	15%	▲	3pp	▲	1pp
3	INOVANCE	Domestic	32%		20%		16%	14%	13%	15%	▲	2pp	▲	3pp
4	Danfoss	Overseas	-6%		6%		5%	6%	5%	6%	▼	-1pp	▲	1pp
5	Mitsubishi	Overseas	198%		-1%		4%	2%	4%	3%	▲	3pp	▬	0pp
6	Schneider	Overseas	40%		-6%		4%	3%	4%	5%	▲	1pp	▬	0pp
7	INVT	Domestic	-12%		8%		4%	5%	4%	4%	▼	-1pp	▬	0pp
8	Yaskawa	Overseas	-26%		18%		3%	4%	2%	3%	▼	-1pp	▲	1pp
9	Delta	Domestic	-33%		-3%		3%	4%	3%	4%	▼	-2pp	▬	0pp
10	Rockwell	Overseas	-15%		10%		1%	2%	1%	1%	▬	0pp	▬	0pp
Major Domestic Brands Total			10%		15%		23%	23%	19%	23%	▬	0pp	▲	4pp
Major Overseas Brands Total			26%		0%		57%	50%	54%	51%	▲	6pp	▲	2pp
Others			-12%		-26%		21%	26%	27%	27%	▼	-6pp	▼	-6pp

Small PLC			Sales trend				Mkt share							
Rank	Brands	Origin	1Q23	QoQ	1Q23	YoY	1Q23	4Q22	1Q22	2022	1Q23	QoQ	1Q23	YoY
1	Siemens	Overseas	n.a.		n.a.		n.a.	46%	35%	40%	n.a.	n.a.	n.a.	n.a.
2	INOVANCE	Domestic	45%		122%		n.a.	12%	8%	10%	n.a.	n.a.	n.a.	n.a.
3	Mitsubishi	Overseas	n.a.		n.a.		n.a.	12%	14%	10%	n.a.	n.a.	n.a.	n.a.
4	Omron	Overseas	n.a.		n.a.		n.a.	7%	7%	6%	n.a.	n.a.	n.a.	n.a.
5	Xinje	Domestic	-17%		-14%		n.a.	7%	7%	7%	n.a.	n.a.	n.a.	n.a.
Major Domestic Brands Total			5%		17%		n.a.	22%	20%	22%	n.a.	n.a.	n.a.	n.a.
Major Overseas Brands Total			n.a.		n.a.		n.a.	73%	65%	65%	n.a.	n.a.	n.a.	n.a.
Others			n.a.		n.a.		n.a.	5%	15%	13%	n.a.	n.a.	n.a.	n.a.



Discover the Unseen Boom - EV Export

- China's passenger vehicle export volume ramped up after 2020
- China's strong New Energy Vehicles sales and position in the global NEV industry is backed by **advanced manufacturing technology/know-how, and integrated supply chain**

Exhibit 7: Chinese PV export volume, 2018-2022

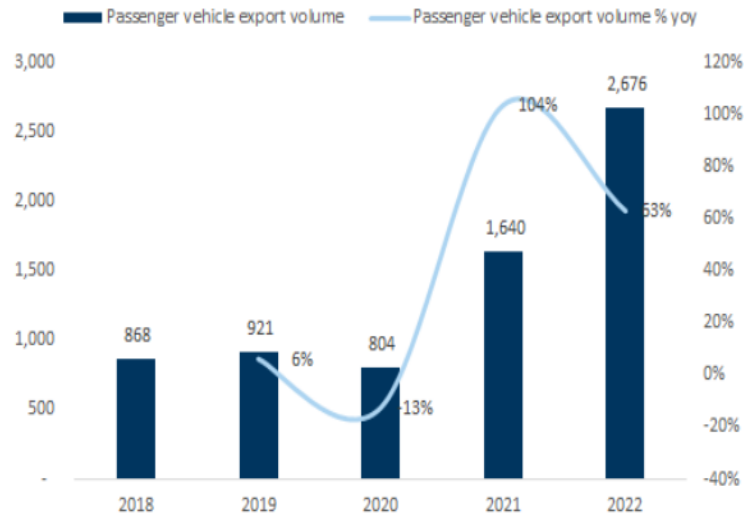
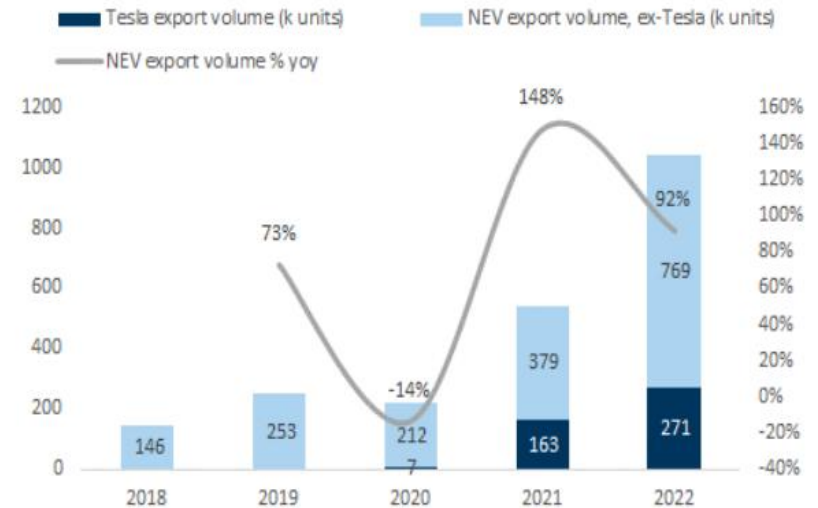


Exhibit 8: Chinese NEV export volume, 2018-2022



Source: Company data, Goldman Sachs Research



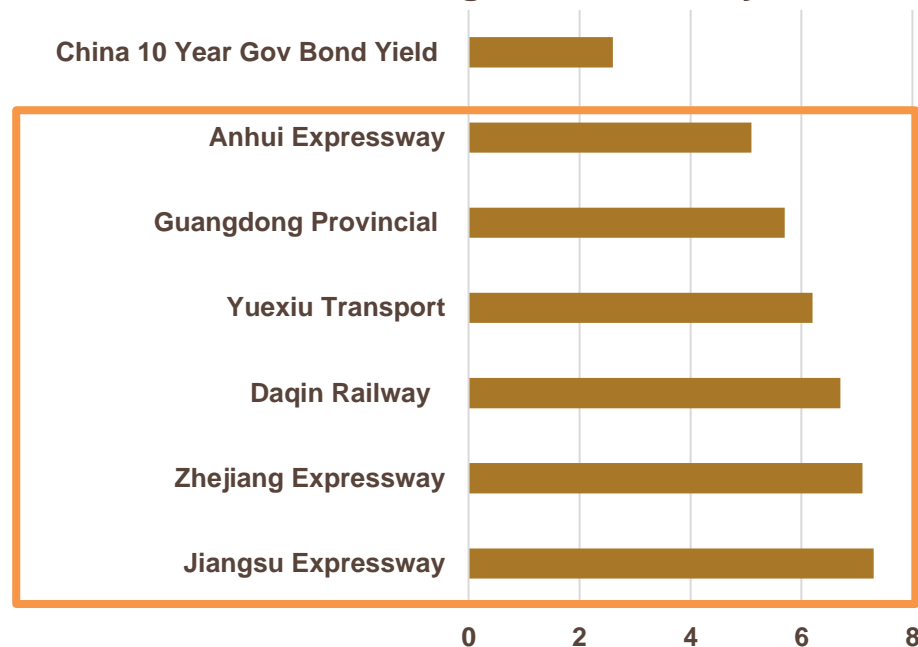
Discover the Unseen Boom - Dividend Grower

- Dividend growers, when backed by strong free cash flow, offer a reliable source of **income**; their share prices also typically demonstrate **greater stability and lower volatility**
- Dividend yield of **Chinese banks and real estate** stocks are high, but they **don't qualify as dividend growers**, due to uncertain cash flow and high leverage

Total Return of High Dividend vs World Index



Chinese toll roads – dividend growing amid strong traffic recovery





Portfolio Analysis

	<u>Sectors</u>	<u>% of Portfolio</u>
	Disruptive Technology	20%
	Industrial Automation and Manufacturing	10-20%
	Auto/EV and Consumer Electronics	10-20%
	Medical Device	5-10%
	Toll Roads/Utility	5-10%
Selective	Consumer Brands	
	Communication Services	
	Ecommerce	
	Banks	
	Real Estate	
	Software	
	Materials/Energy	



European and Global Investments Ltd

Pembroke House, 28-32 Upper Pembroke Street,
Dublin 2, D02 EK84, Ireland

Apuano Capital SA

Via Canova 1
6900 Lugano (CH)
T +41 91 9222 513

Foundation AM Ltd

Suite 2703, Tower One Lippo Center, 89 Queensway
Hong Kong, China

Disclaimer and confidential

IMPORTANT INFORMATION: This document is intended for professional investors only. This document is published by Apuano Capital SA for information purposes and does not constitute an offer or recommendation to buy or sell any fund. Before deciding on the investment, we invite you to read the prospectus and relevant KIDs and note the risk factors. Financial data and results reported herein concern only the past; any reference to performance, prices, interest rates, exchange rates and other past data contained should not be construed as a guarantee of performance, prices, interest rates, exchange rates and other future data. The performance shown does not take account of any commission and costs charged when subscribing to and redeeming shares. The State of the origin of the Fund is Ireland. This Fund may only be distributed in or from Italy to retail investors and from Switzerland to qualified investors within the meaning of Art.10 Para.3, 3bis and 3ter CISA. The Basic documents (including the prospectus and KIDs in English and Italian) of the Fund as defined in Art. 13a CISO as well as the annual and semi-annual reports (in English) may be obtained free of charge, from www.egifunds.com. A summary of investor rights associated with an investment in the Fund shall be available in English from www.egifunds.com/InvestorRights.pdf. A decision may be taken at any time to terminate the arrangements made for the marketing of the Fund in any EEA Member State in which it is currently marketed. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Fund free of any charges or deductions for at least 30 working days from the date of such notification. This document may not be reproduced (in whole or in part), transmitted, modified or used for information purpose without the prior written permission of Apuano Capital SA.