



Apuano Foundation China

Webinar Update

22nd November 2023



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Investment Manager Introduction

Founded in 2006



- **Top 3 independent** asset management firms in HK, AUM exceeding **USD 1.4 billion**, with **17-year** cumulative return of **170%**

Focus on Absolute Return



- Offices in **HK and Qingdao** (China), licensed Type 4 & 9 by HK SFC and WOFE (wholly foreign-owned enterprise) by CSRC

A Pioneer of Value Investing



- Wide range vehicles: **long-biased** hedge funds, and **long-only** mutual funds, UCITS and SMAs

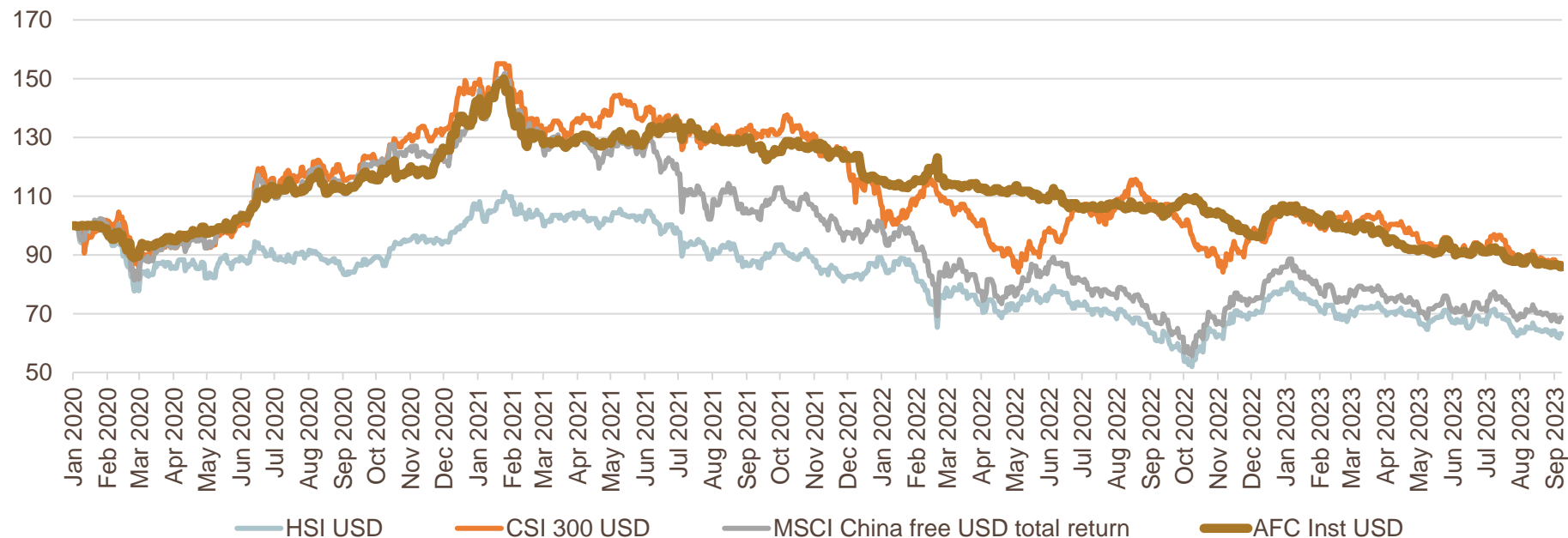
- CIO, **a pioneer of value investing** in Asia (Bloomberg), research team with an average experience of **20 years**

Collaborating Institutions





Apiano Foundation China performance vs Indexes



Performance	Since Inception*	2022	2021	2020
CSI 300 Index USD	-12.79%	-27.28%	-2.65%	37.72%
Apiano Foundation China Inst USD	-14.02%	-22.30%	-5.45%	31.02%
MSCI China Index USD	-31.32%	-23.40%	-22.40%	26.70%
Hang Seng Index USD	-36.74%	-15.50%	-14.10%	-3.40%

Source: Foundation Asset Management, 30 Sept 2023

* Inception is from Apiano Foundation China Fund launch (24th January 2020)



Differentiated Portfolio vs Peers

- According to Morgan Stanley, long-only managers' top 10 holdings mainly consist of ecommerce and consumer stocks, lack of differentiation

YTD Top 10 China/HK holdings among long-only EM and China active managers

Ticker	Company Name	GICS Industry Group	Portfolio Composite Weights	MSCI China Index Weights	Apuano Foundation China Fund
700-HK	Tencent Holdings	Media & Entertainment	11.7%	13.1%	3.8%
9988-HK	Alibaba Group Holding	Consumer Discretionary Distribution & Retail	8.3%	9.6%	-
9999-HK	NetEase	Media & Entertainment	3.6%	2.1%	-
1299-HK	AIA Group	Insurance	3.0%	0.0%	-
600519-CN	Kweichow Moutai	Food Beverage & Tobacco	3.0%	1.0%	4%
3690-HK	Meituan	Consumer Services	2.9%	4.2%	-
YUMC-US	Yum China Holdings	Consumer Services	2.7%	1.1%	-
2318-HK	Ping An Insurance Group	Insurance	2.6%	2.1%	-
PDD-US	PDD Holdings	Consumer Discretionary Distribution & Retail	1.8%	2.5%	-
9618-HK	JD.com	Consumer Discretionary Distribution & Retail	1.8%	1.9%	-
Total			41.4%	37.6%	7.8%



Differentiated Portfolio vs Peers

- Well-known global and China managers have a **high correlation with indexes**
- Our Fund's exposure to **IT & Industrials c50%** vs **10-15%** for index and global peers
Consumer & Financials c20% vs **40-50%** for index and China peers

GICS Sectors (%)	Apuano Foundation China Fund	MSCI China Index	Hang Seng Index	Average of Global Managers	Average of China Managers
Information Technology	31	6	5	8	8
Industrials	21	5	1	8	5
Consumer Discretionary	13	31	28	29	27
Communication Services	11	20	12	16	17
Financials	6	15	33	12	10
Consumer Staples	4	6	3	8	9
Health Care	4	5	3	5	5
Materials	4	3	1	4	6
Real Estate	4	3	6	3	5
Energy	-	3	4	5	4



Best Niche China Manager

Edge in China
Differentiated

Proven
17 years track record

Structure
Institutional

- Led by Michael Liang, a pioneer of **value investing** in Asia
- **Distinctive investment approach** is underpinned by expertise in industrials and tech hardware, and a profound grasp of economic cycles
- **Differentiated portfolio** vs global/China managers; diversified alpha away from crowded names like ecommerce and financials
- AUM of USD 1.4 billion; 189% net return vs MSCI China 12% with **60%** **lower volatility**
- **Independence** of Investment Committee and Risk Management Committee
- Offerings range from long-biased hedge funds to mutual funds, serving **top institutions** from Canadian pensions to China's biggest banks



China News Headlines

Demographic Time Bomb

Property Market Crisis

Balance Sheet Recession

The Lost Decade

US–China Conflict

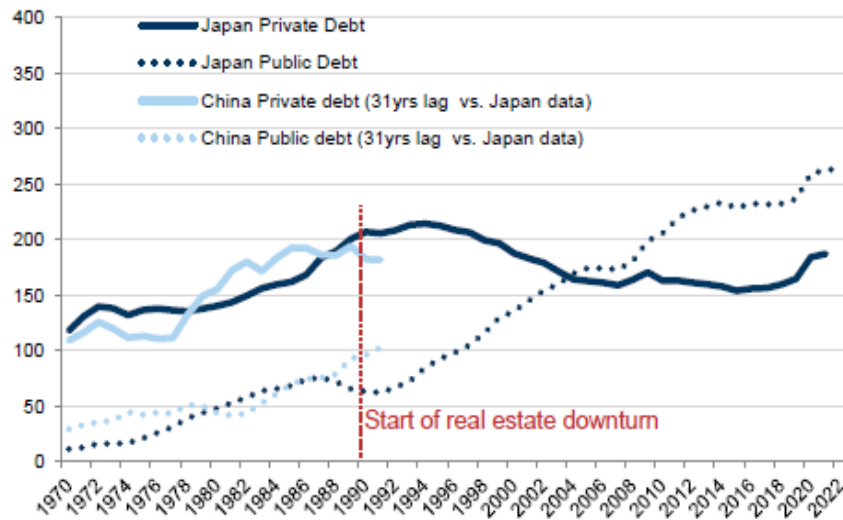
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but on-the-ground situation is more complex...

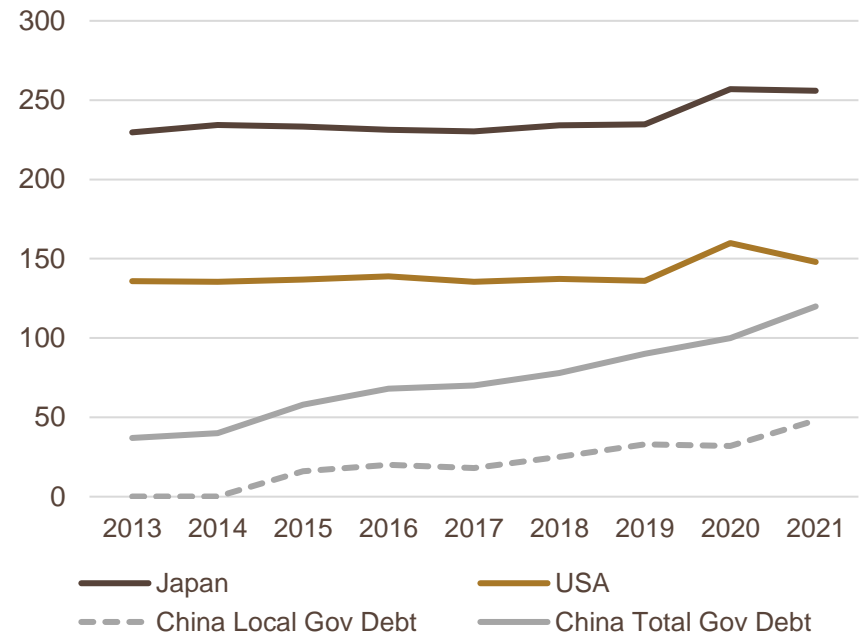
A China Complex Reality

- Demographics, property market and geopolitical headwinds draw striking parallels to Japan's 'lost decade' in the 1990s
- China can dramatically increase fiscal stimulus to tackle structural challenges, learning from the US (COVID spending) and Japan (Abenomics)

Exhibit 4: Convergence of public and private sector debt post real estate downturn for Japan and China
Debt/GDP (%)



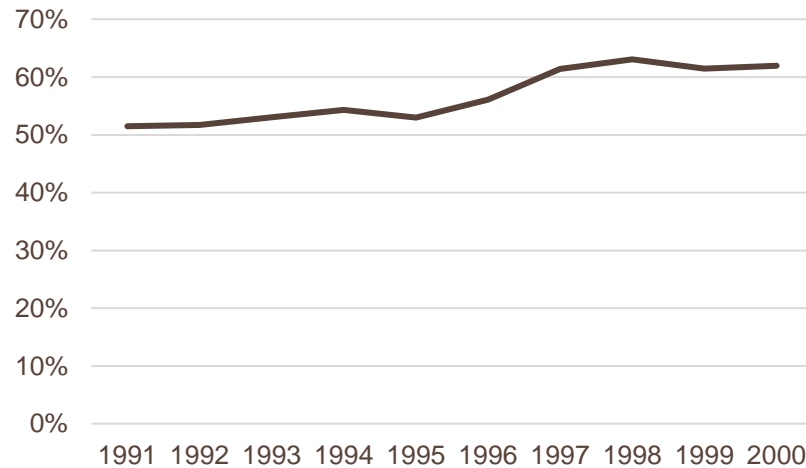
Government Debt as % of GDP



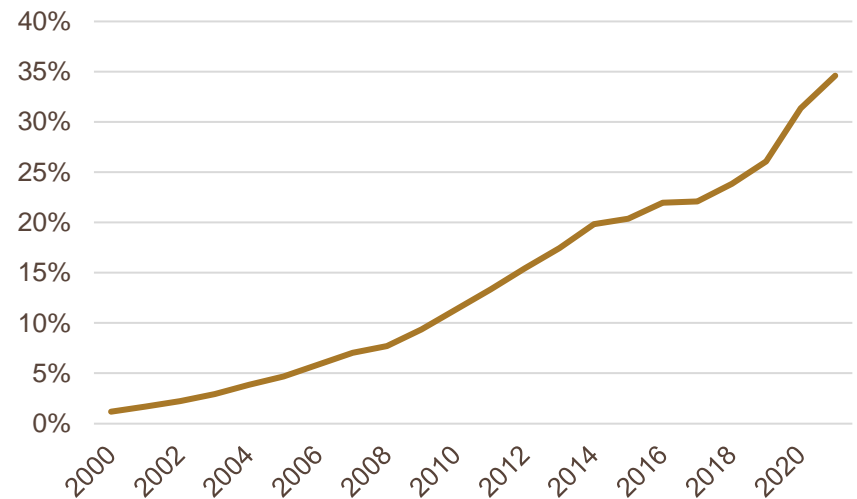
China Complex Reality

- Despite experiencing the 'lost decade', Japan remains a significant market in the world index
- Chinese economy is **too large to ignore**
- It is **prudent for investors to strategize and prepare** for ahead of potential fiscal stimulus

Japan as a % of MSCI AC Asia



China as a % of MSCI AC Asia

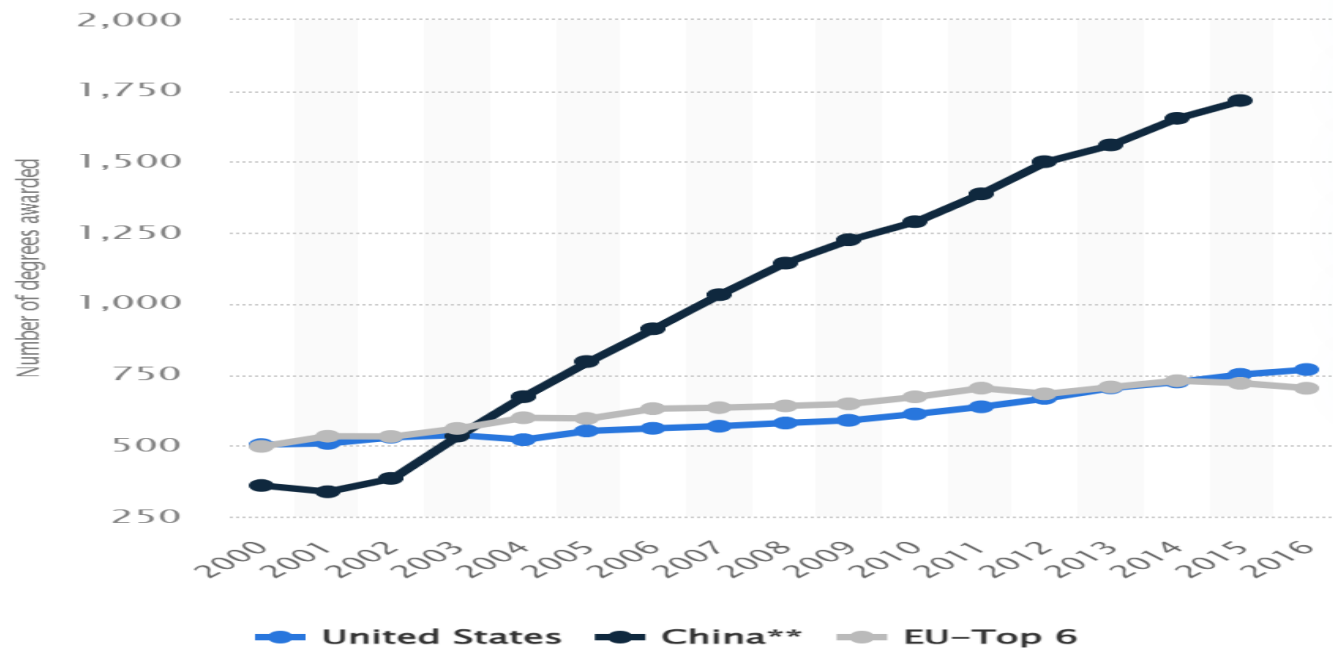




STEM Graduates: China vs US & EU

- 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

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 (in thousands)

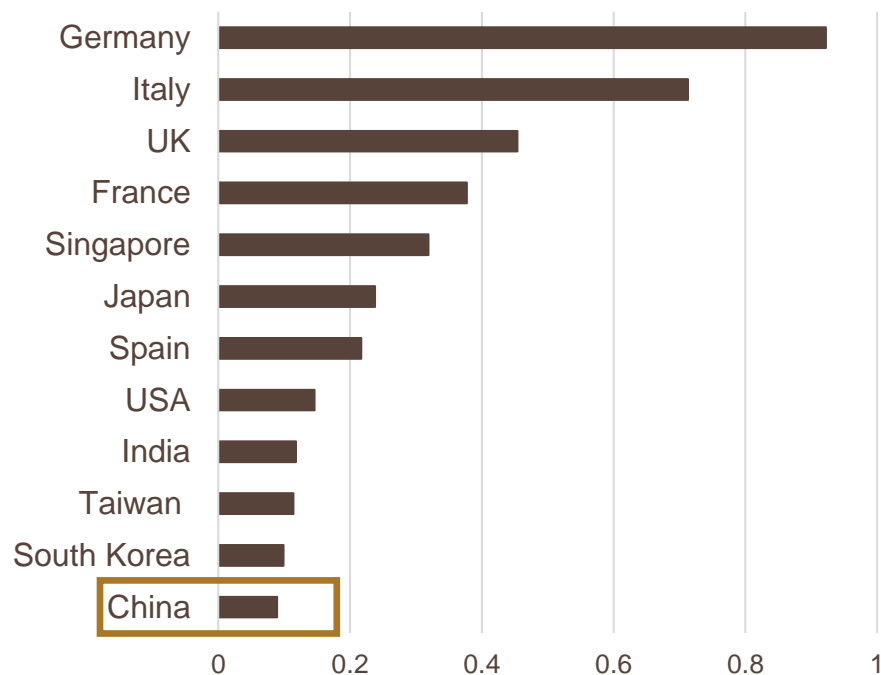




Cheap and Reliable Electricity Supply

- 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)

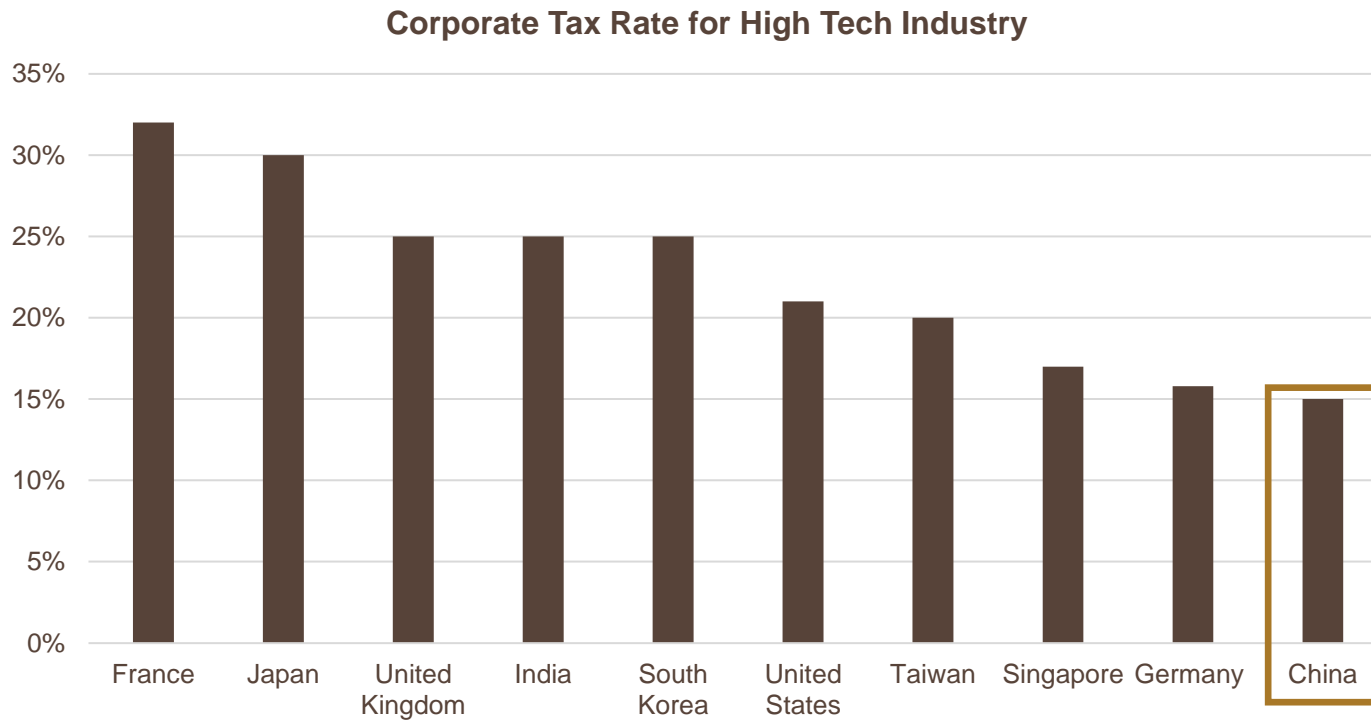


China ranked first in global electricity generation in the year 2022

Rank	Country	Electricity Generation (GWh)	% of Global
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

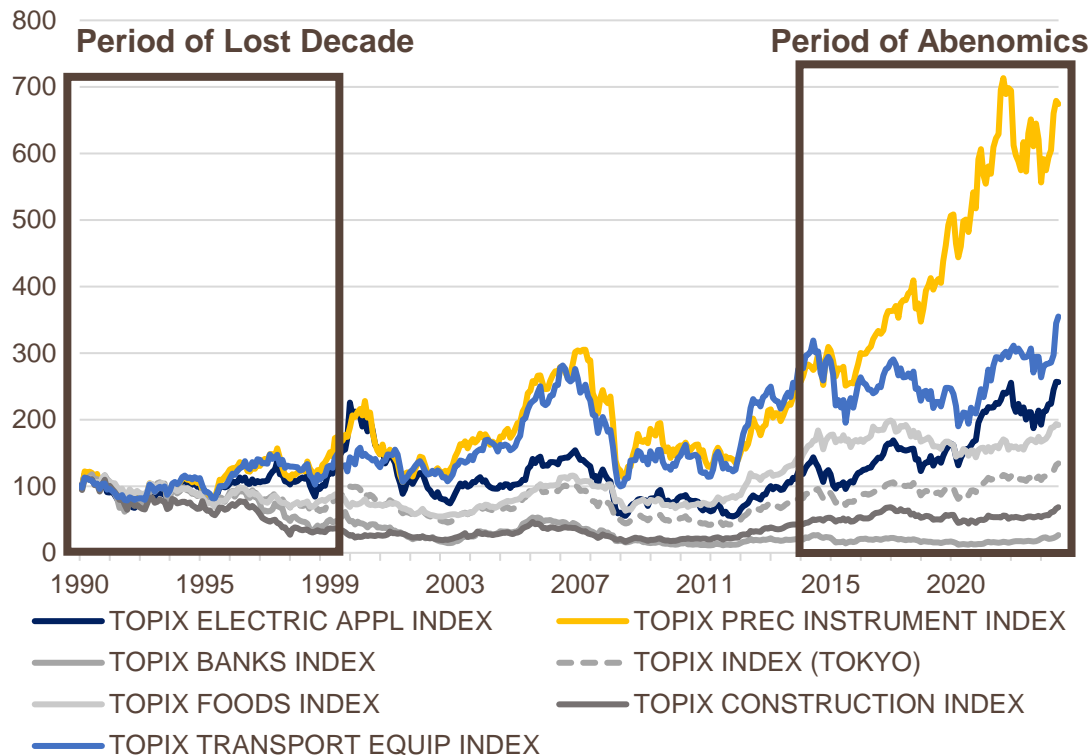
The Lowest Tax Rate

- 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%)



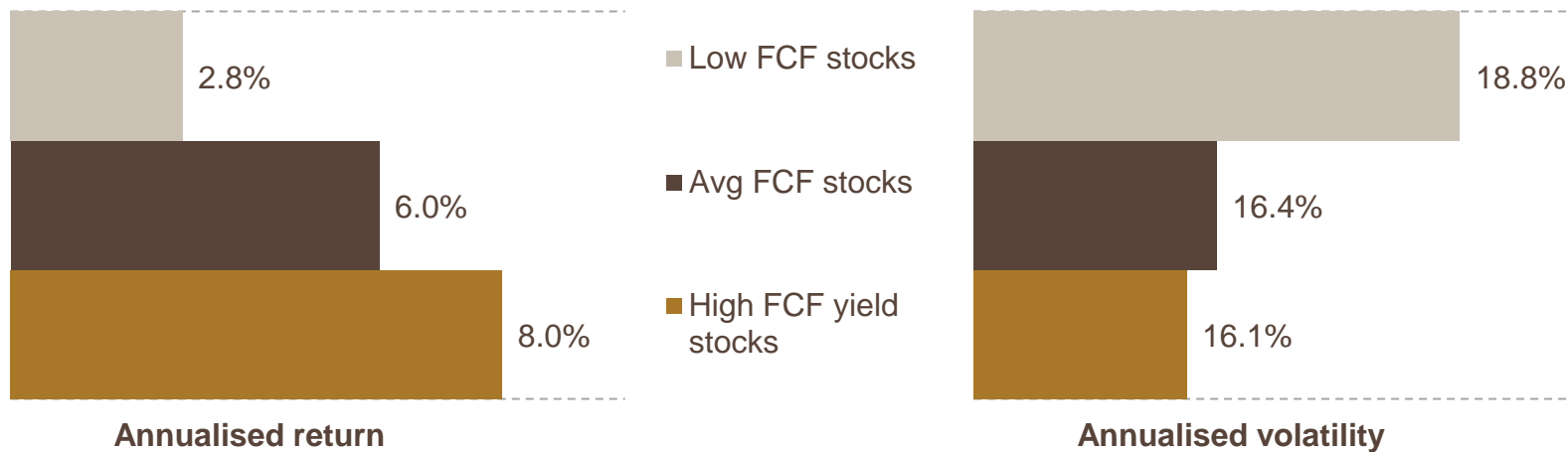
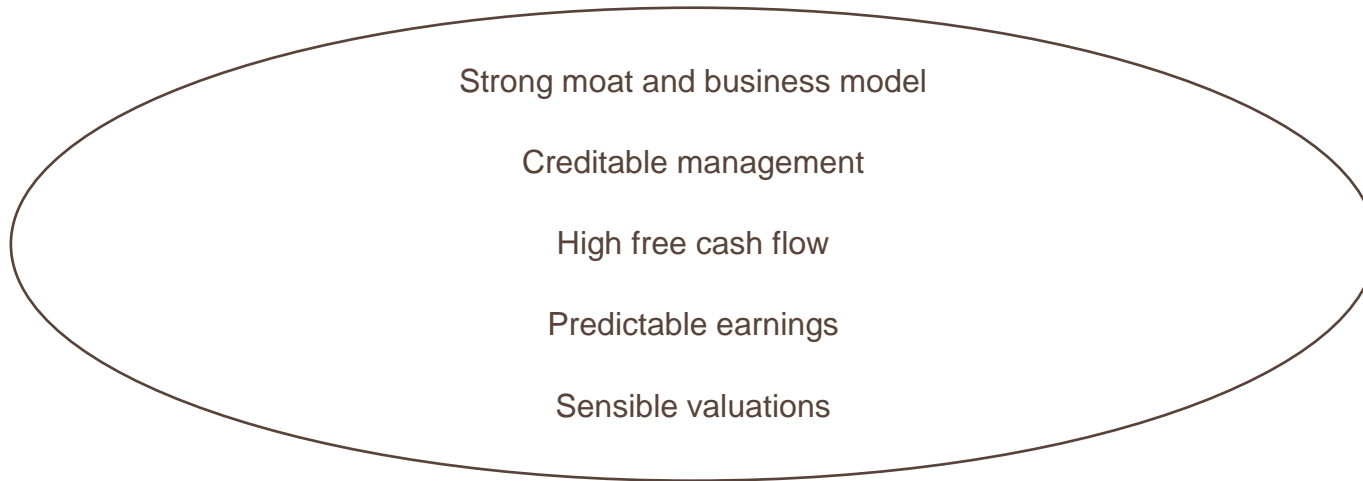
China Complex Reality

- Japan's industrial and tech companies outperformed the market during the 'lost decade'
- This trend accelerated during Abenomics from 2012
- This highlights the importance of stock picking



	Total Return Jan 1991 - Dec 1999	Total Return Jan 2013 – 31 Jul 2023
TOPIX Electric Appliances Index	126%	294%
TOPIX Precision Instrument Index	88%	349%
TOPIX Index	-1%	168%
TOPIX Foods Index	-31%	123%
TOPIX Banks Index	-53%	86%
TOPIX Construction Index	-75%	162%

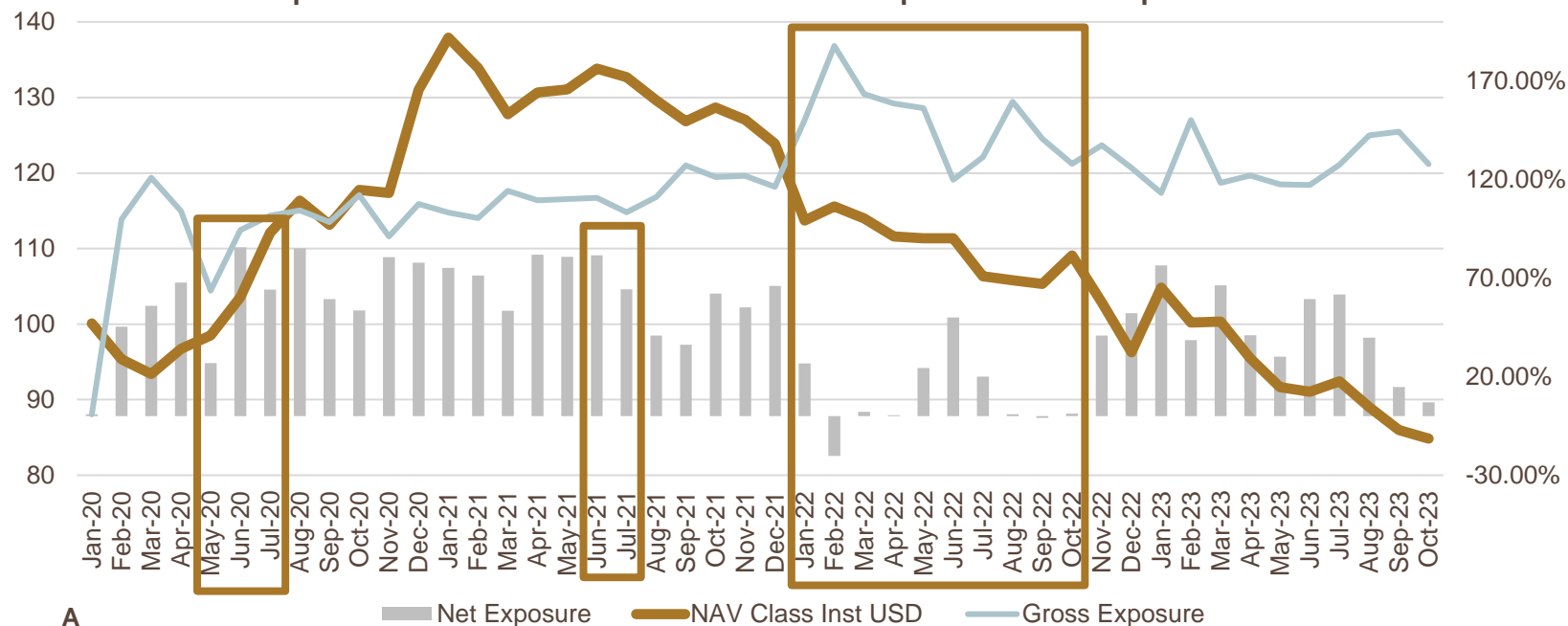
Our Strategy





Dynamic Long/Short Strategy

Apuano Foundation China Fund Gross / Net Exposure Since Inception



A
Uncertainty in the US-China trade war
 HSI -0.2% Fund +16%

B
China's tightened regulatory policies for specific industries
 HSI -11% Fund +0.5%

C
Tightening policy of US and China's lockdown
 HSI -37% Fund -10%

Period A

May to July 2020: **HSI -0.2% vs the Fund +16%**, long positions in healthcare and e-commerce outperform the index.

Period B

June to July 2021: **HSI -11% vs the Fund +0.5%**, due to Chinese government's tightened regulatory policies for specific industries, long positions in new energy and raw materials outperformed.

Period C

Jan to Oct 2022: **HSI -37% vs the Fund -10%**, due to the tightening policy of the US and China's lockdown policy. With more than 60% shorts and long positions in industrial and energy sectors. Especially in Sep & Oct 2022, the Fund +4.3% vs Index -20%.

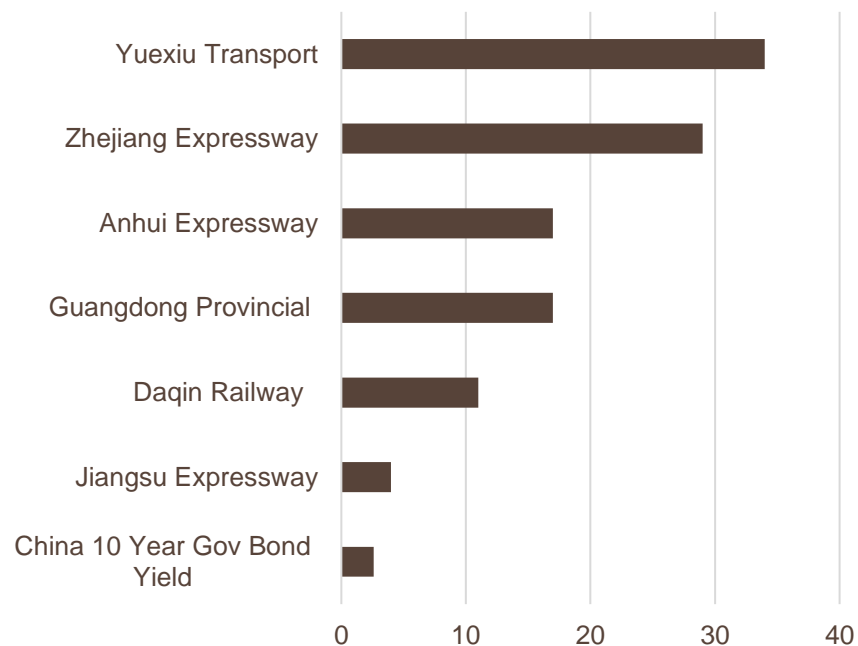
A Theme 1: Dividend Growers

- 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



Strong FCF of Chinese Toll Roads





Theme 2: Tech Hardware vs Cloud

Foxconn Industrial Internet

- Strong moat, creditable management; exclusive AI servers OEM for Nvidia
- FCF yield: 10%

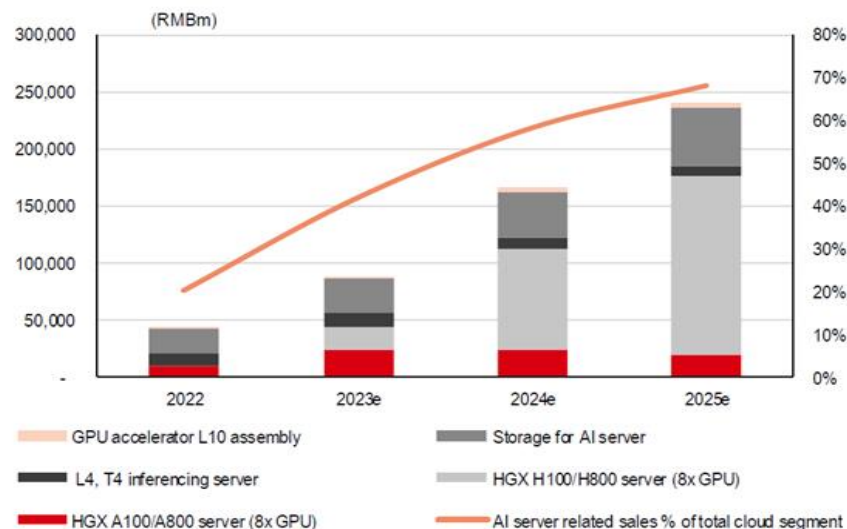
Lenovo

- 30% market share in global PC market; improving traditional/AI server biz
- FCF yield: 16%

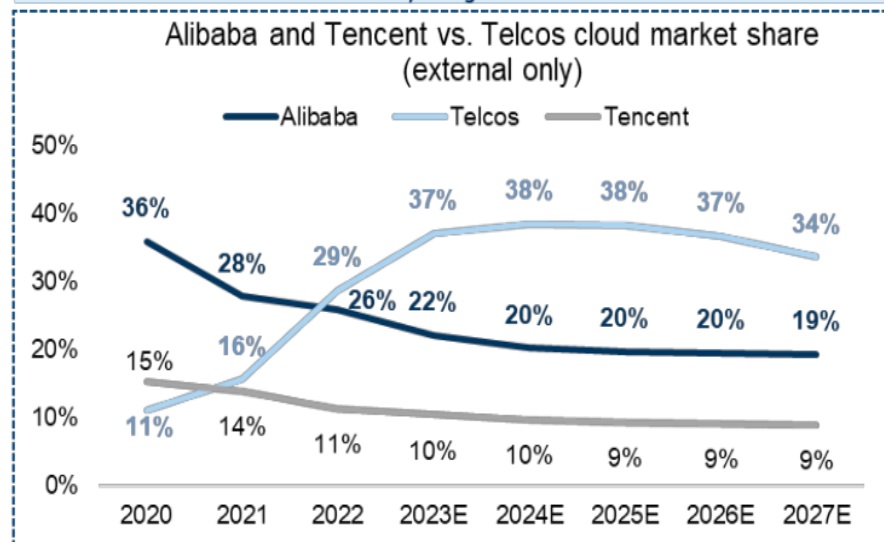
Cloud Computing

- Cloud computing and software in China face **structural headwinds**
- SOE telcos gained significant market share at expense of Alibaba and Tencent
- Cloud will remain SOE and government driven in China

Exhibit 1. AI server-related sales trend



Alibaba and Tencent recent years' market share weakness is due to strategic refocus and unfavorable sector mix, alongside Alibaba's churn of No.1 customer





Theme 3: Industrial Automation

- China automation 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

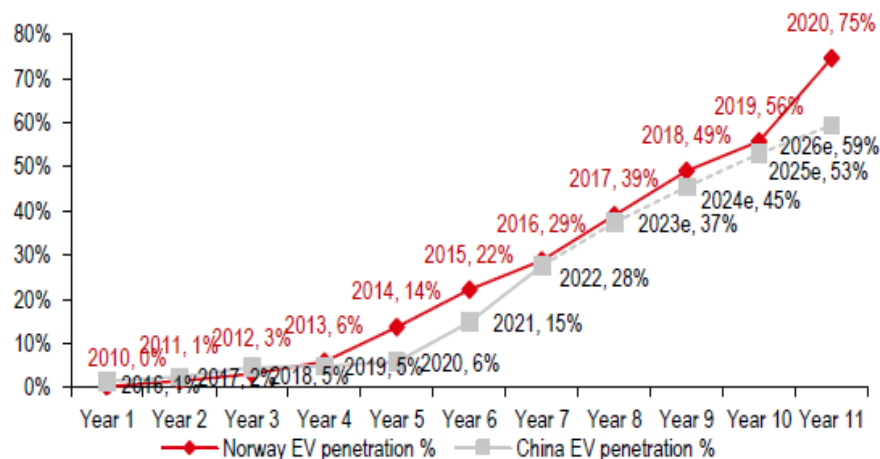
Small PLC			Sales trend		Mkt share									
Rank	Brands	Origin	1Q23	QoQ	1Q23	YoY	1Q23	4Q22	1Q22	2022	1Q23	QoQ	1Q23	YoY
1	Siemens	Overseas	n.a.		n.a.		n.a.	46%	35%	40%		n.a.		n.a.
2	INOVANCE	Domestic	45%		122%		n.a.	12%	8%	10%		n.a.		n.a.
3	Mitsubishi	Overseas	n.a.		n.a.		n.a.	12%	14%	10%		n.a.		n.a.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



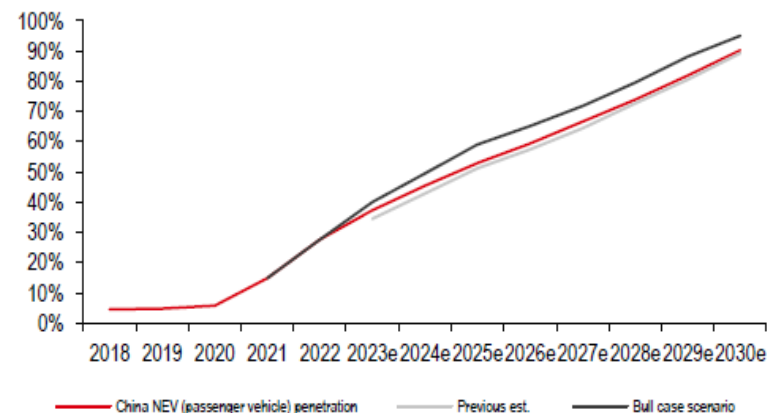
Theme 4: EV

- China's EV penetration expected to go from 28% in 2022 to **90% in 2030**

China EV growth rate vs Norway, the global EV leader in penetration



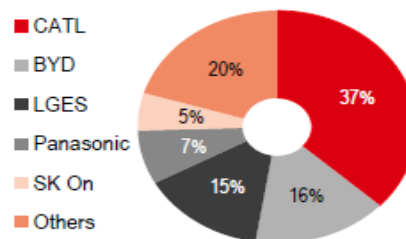
Our 2025e and 2030e EV penetration estimates are 53% and 90% in base case; 59% and 95% in bull case



Source: CPCA, HSBC Qianhai Securities estimates

- China remains integral part of EV supply chain

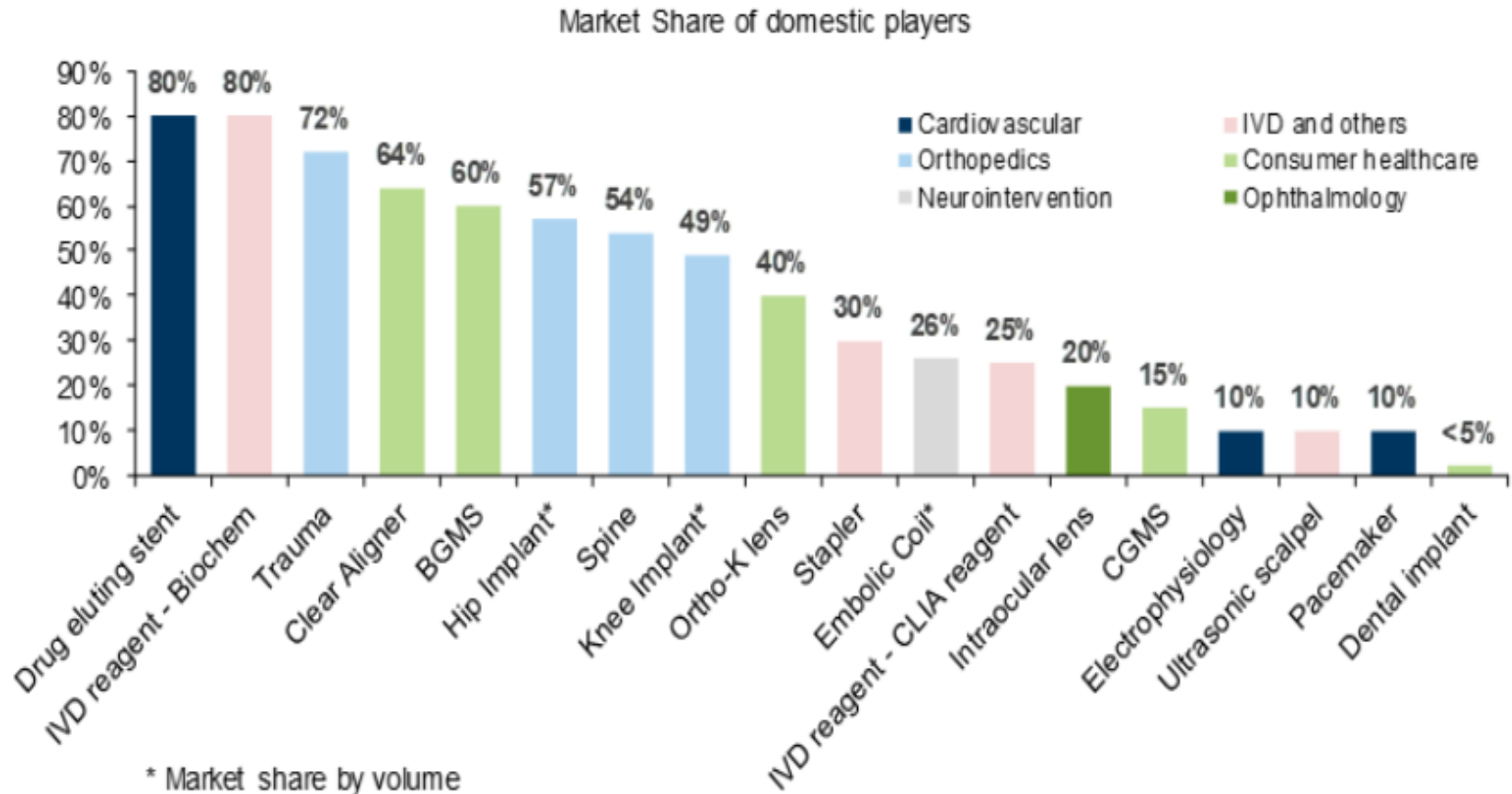
CATL took 37% in global EV battery market in 6M23...





Theme 5: Medical Devices

- **Import substitution accelerated** following volume-based procurement (VBP), because of improving product quality and competitive ASP





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Manager Introduction - Founder & CIO: Michael Liang



- Born in Beijing to an **engineering family**, both his parents are chemical engineers
- Represented Beijing in the national **mathematics & physics Olympiads**, degree in **Industrial Economics** from Renmin University (one of the top 3 universities in China)
- Differentiated research experience **in industrials and tech hardware**; deep understanding of **economic cycles**

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





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

A Fund & Company Awards

	<p>Awarded Five-Star rating, placing Foundation in the top 1% of 500+ funds</p>
	<p>1st Runner-up of Best Total Return Multi-asset Bloomberg/HKCAMA Offshore Chinese Fund Awards 2021</p>
	<p>Bloomberg BusinessWeek Greater China Equity Best Performer Award 2022</p>
	<p>Foundation China Equity Strategy has been awarded as 'Fund of the Year (China)' for two consecutive years.</p> <p><i>AsiaHedge Awards 2013</i> 2013 Funds of the Year</p> <p><i>AsiaHedge Awards 2014</i> 2014 Funds of the Year</p>
	<p>Foundation Funds have consistently garnered recognition from HFM through various category awards over the years</p> <p> 2020 - Global Multi-asset fund Nominated as “New Fund of the Year”</p> <p> 2017 - Winner of HFM Asia Hedge Fund Award of the year</p> <p> 2013 - Foundation China Opportunity Fund was highly commended by the HFM for “Best Greater China Fund”</p>



Institutionalised Management Structure

The Investment and the Risk Management Committees both play important roles in ensuring the success and sustainability of an organization's investment efforts. To effectively carry out their respective responsibilities, it is crucial that these committees maintain **independence** in their decision-making processes.

Michael Liang Founder & Chief Investment Officer
Chairperson – Investment Committee

Michael has been Foundation's CIO from the start. He was recognized as one of the pioneers of value investing in Asia, according to Bloomberg. He is a leader in the Asia hedge fund space, as he founded Foundation AM in 2006 when China hedge funds were still at a nascent stage. He covered base metals in Australia during the commodities boom and was responsible for industrials during the Asia Financial Crisis and China WTO cycle. This allowed to develop a unique framework of understanding cycles and inflections.

Vivian Mui Chief Operating Officer
Chairperson – Risk Management Committee

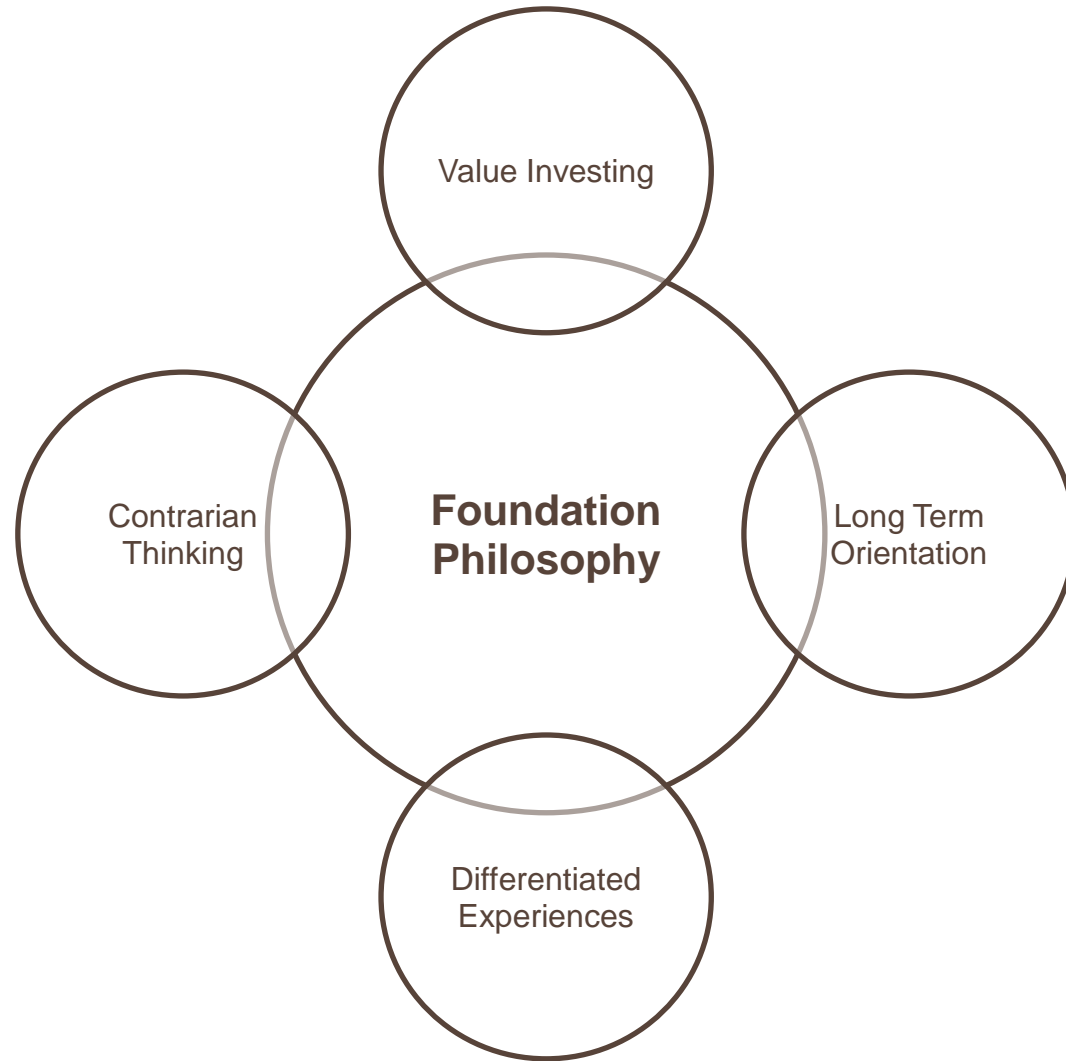
Vivian Mui is a founding member and Chief Operating Officer of Foundation Asset Management. She is chairperson of the Risk Management Committee. She also works closely with Michael on all aspects of providing leadership to Foundation Asset Management, including overseeing daily operations and company affairs.

She has more than 30 years of experience in the financial industry and held senior positions in Sun Hung Kai and DBS Vickers Securities. Vivian graduated from University of Guelph, double majoring in Economics and Management.



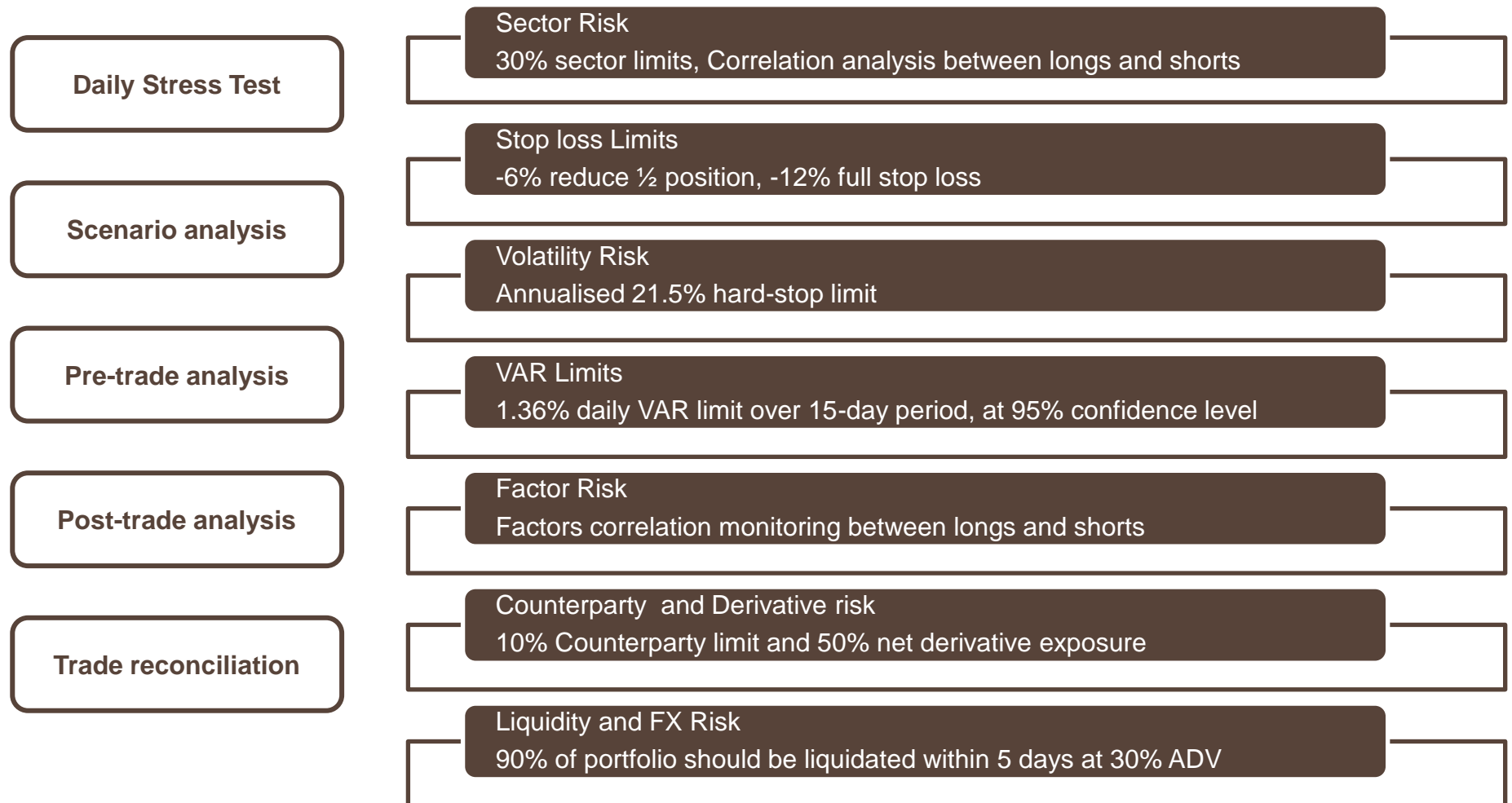


Foundation AM Philosophy



Risk Management

- **Rule-based risk management system**, clear transparency to team members and investors



Investment Process



Bottom-Up Analysis



Top-down Analysis



Portfolio Construction



Risk Management



Private equity-like approach

- Select mispriced stocks
- Deep dive fundamental research: industry analysis, company site visits, management interview, thorough due diligence by research team
- Financial statements and valuation analysis
- Continuously evaluating stock returns, risks and safety margins

'Quantamental' investment process

- Market valuation analysis
- Macro analysis
- Scenario analysis
- Proprietary quantitative analysis
- Technical factors

Define portfolio subject to portfolio constraints

- Stock recommendations list → Building/rebalancing investment portfolio
- ESG at our core
- Sector diversification, position limits, liquidity etc
- Risk/return characteristics of all portfolios

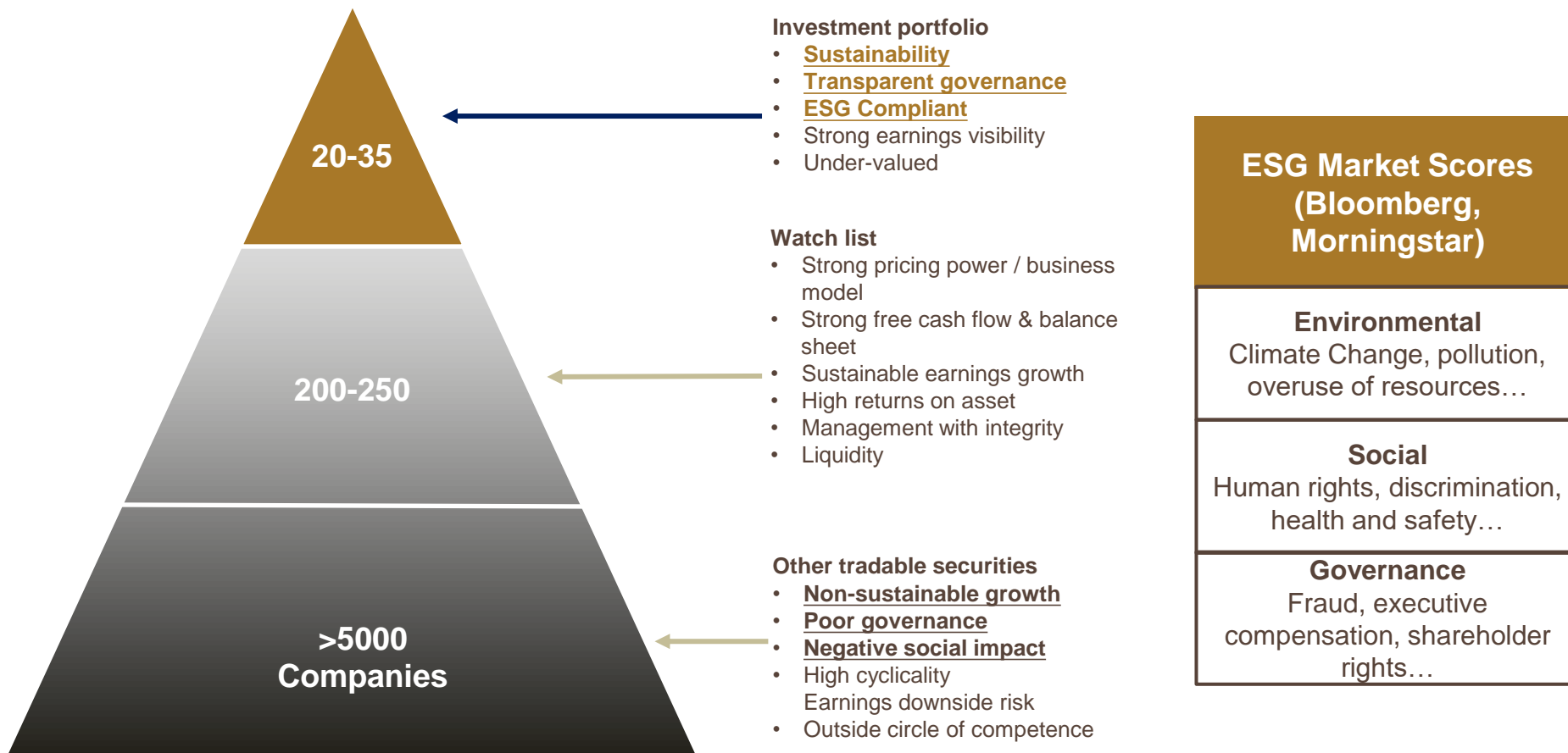
Monitoring portfolio risk and compliance

- Risk reporting
- Operational risk management
- Monitor position sizes
- Stop loss
- Value-at-risk and stress test
- Realized and implied volatility control



ESG at Our Core

- Better ESG practices are a key source of performance for the portfolio
- We do not purely rely on exclusion, thematic approach, or ESG scores
- **Deep research and direct engagement** with companies forms our proprietary ESG process





Abenomics vs China's Policies

- Abenomics consists of 'three arrows' of reform, compared with China's stimulus policies so far:

'Three Arrows'	Japan Abenomics	China's Stimulus Policies
Monetary Easing	<ul style="list-style-type: none"> Boosting Inflation: BOJ's ETF purchase program intends to boost liquidity, encouraging investment, and supporting asset prices ETF Purchase: BOJ owns over 45% of the Japanese ETF market, valued at more than 35 trillion yen (US\$315 billion) by the end of 2020 	<ul style="list-style-type: none"> Interest Rate and RRR Adjustments: China has lowered the interest rates and Reserve Requirement Ratio (RRR), e.g. RRR from 20% in 2014 to 10.75% in July 2023, room to do more ETF Purchase: minimum, no disclosed sum
Fiscal Stimulus	<ul style="list-style-type: none"> Infrastructure Investment: Increase from 1.1% in 2019 to 3.5% of GDP in 2021 Subsidies to small business and individual: a mix of spending measures, from cash payouts to citizens to funding for small businesses (one-off sum of ¥100,000 to every citizen in 2020) Tax Benefits: Japan's Corporate Tax Rate Reduction: Reduced from 38% in 2012 to 29.74% in 2021 	<ul style="list-style-type: none"> Infrastructure Investment: China's Belt and Road Initiative (BRI) has involved over \$3 trillion in infrastructure investments Government Subsidies and Incentives: <ul style="list-style-type: none"> Renewable Energy: Over \$27 billion in subsidies Electric Vehicles (EVs): around \$4.5 billion in 2020 to promote the adoption of EVs High-Tech Industries: China's "Made in China 2025" initiative allocated approximately \$300 billion to support sectors like AI, robotics, and biotechnology Tax Benefits: China reduced corporate income tax rates as low as 15%, particularly in the high-tech industry
Structural Reform	<ul style="list-style-type: none"> Labor Market: Enhance labor mobility Corporate Governance: implemented to enhance transparency and shareholder rights Foreign Investment: FDI rising from \$11.3 billion in 2012 to \$49.1 billion in 2020 	<ul style="list-style-type: none"> Labor Market: Hukou reform has yet to start Corporate Governance: promote '中特估' valuation with Chinese characteristics, emphasis on dividend growers Foreign Investment: FDI slowing or negative