



**Apuano Foundation China**

**Webinar Update**

**21<sup>st</sup> February 2024**



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# Investment Manager Introduction

## Founded in 2006



## Focus on Absolute Return



## A Pioneer of Value Investing



## Collaborating Institutions

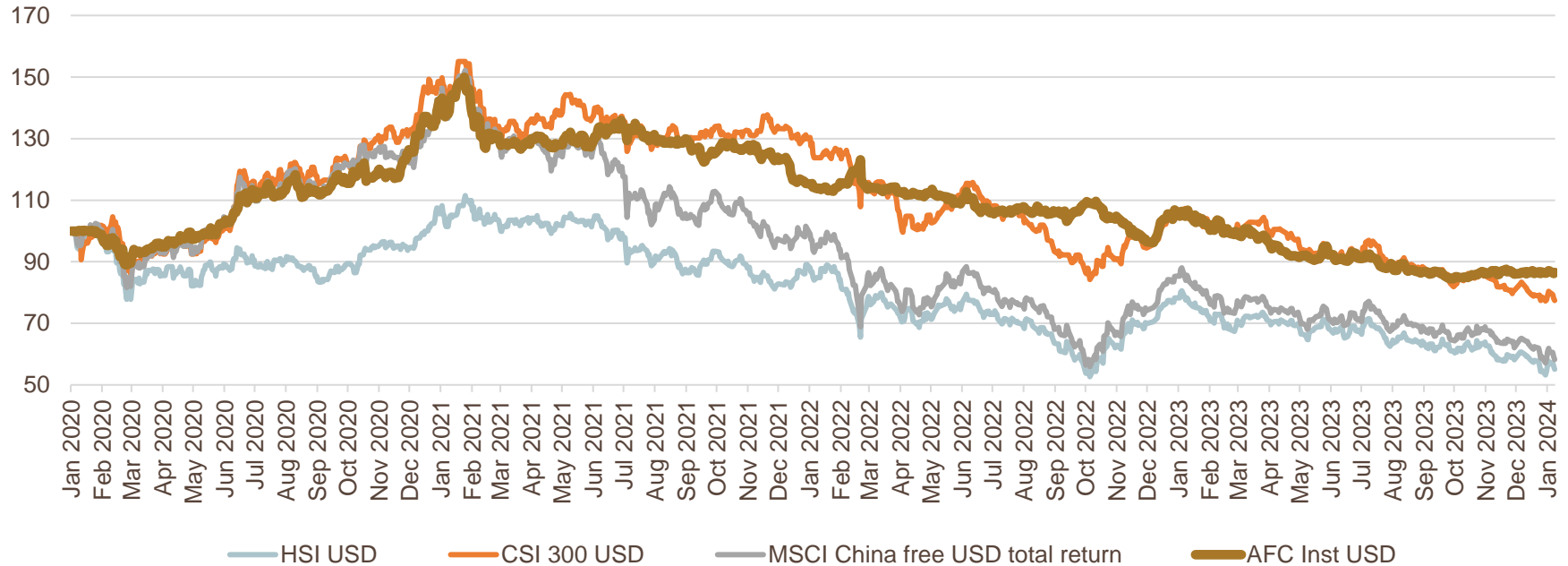


- **Top 3 independent** asset management firms in HK, AUM exceeding **USD 1.3 billion**, with **18-year** cumulative return of **170%**
- Offices in **HK and Qingdao** (China), licensed Type 4 & 9 by HK SFC and WOFE (wholly foreign-owned enterprise) by CSRC
- Wide range vehicles: **long-only/long-biased** mutual funds and UCITS, and **market-neutral hedge fund and SMAs**
- CIO, **a pioneer of value investing** in Asia (Bloomberg), research team with an average experience of **20 years**





# Apiano Foundation China performance vs Indexes



Performance	Since Inception*	2024	2023	2022	2021	2020
<b>Apiano Foundation China Inst USD</b>	<b>-13.50%</b>	<b>-0.02%</b>	<b>-12.41%</b>	<b>-22.30%</b>	<b>-5.45%</b>	<b>31.02%</b>
CSI 300 Index USD	-22.63%	-7.17%	-14.06%	-27.28%	-2.65%	37.72%
MSCI China Index USD	-41.78%	-10.63%	-15.02%	-23.40%	-22.40%	26.70%
Hang Seng Index USD	-44.92%	-9.45%	-15.35%	-15.50%	-14.10%	-3.40%

Source: Foundation Asset Management, 31<sup>st</sup> January 2024

\* 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	12.0%	13.4%	3.8%
9988-HK	Alibaba Group Holding	Consumer Discretionary Distribution & Retail	8.0%	8.4%	-
600519-CN	Kweichow Moutai	Food Beverage & Tobacco	3.7%	1.0%	4.0%
PDD-US	PDD Holdings	Consumer Discretionary Distribution & Retail	3.7%	4.7%	-
9999-HK	NetEase	Media & Entertainment	3.7%	1.9%	-
1299-HK	AIA Group	Insurance	3.5%	0.0%	-
2318-HK	Ping An Insurance Group	Insurance	2.3%	1.8%	-
3690-HK	Meituan	Consumer Services	2.2%	2.8%	-
YUMC-US	Yum China Holdings	Consumer Services	2.0%	0.9%	-
000333-CN	Midea Group	Consumer Durables & Apparel	1.7%	0.0%	-
<b>Total</b>			<b>42.8%</b>	<b>34.9%</b>	<b>7.8%</b>



## 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	CSI 300 Index	Average of Global Managers	Average of China Managers
Information Technology	<u>30</u>	7	16	11	13
Industrials	<u>27</u>	5	15	5	4
Consumer Discretionary	<u>8</u>	30	7	30	24
Consumer Staples	<u>4</u>	5	13	5	7
Communication Services	<u>4</u>	20	2	16	12
Financials	<u>1</u>	16	23	15	12
Health Care	<u>8</u>	6	8	4	7
Materials	-	3	8	5	2
Real Estate	-	3	1	2	3
Energy	<u>4</u>	3	3	4	3



## 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 underpinned by expertise in industrials and tech hardware, and profound grasp of economic cycles
- Differentiated portfolio vs global/China managers; diversified alpha away from crowded names like ecommerce and financials
- AUM of USD 1.3 billion; 170% net return vs MSCI China 7% with 30% lower volatility
- Independence of Investment Committee and Risk Management Committee
- Our 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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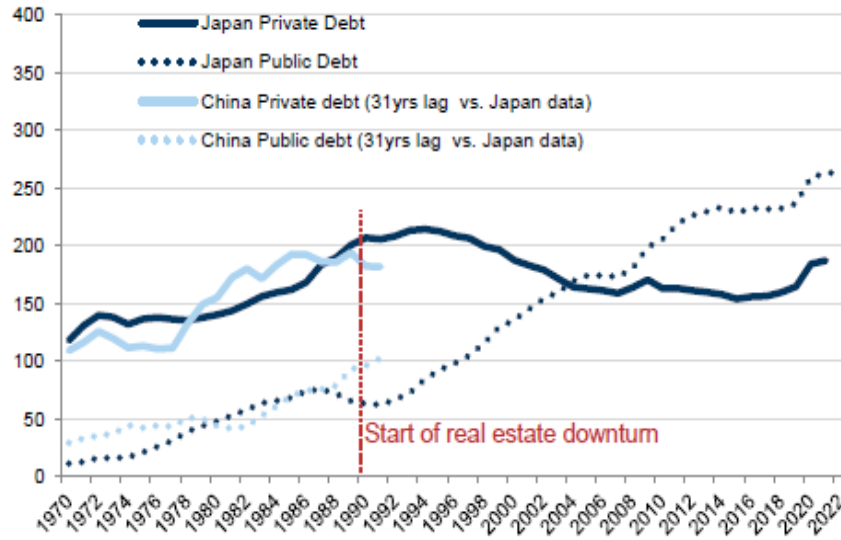
**but on-the-ground situation is more complex...**



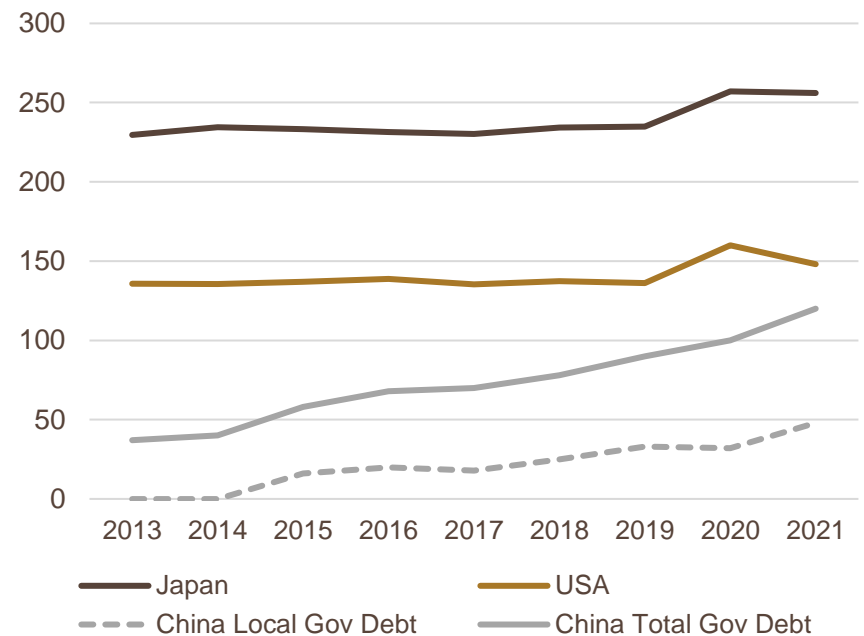
# A China Complex Reality

- 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 (%)



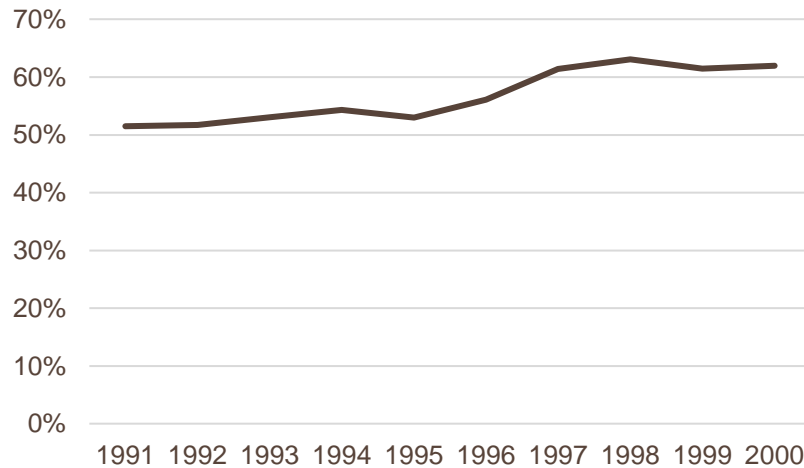
**Government Debt as % of GDP**



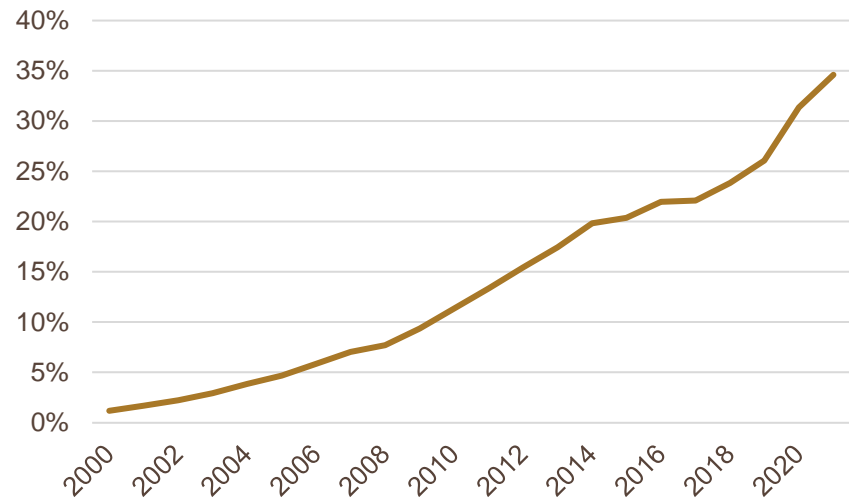
# China Complex Reality

- 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

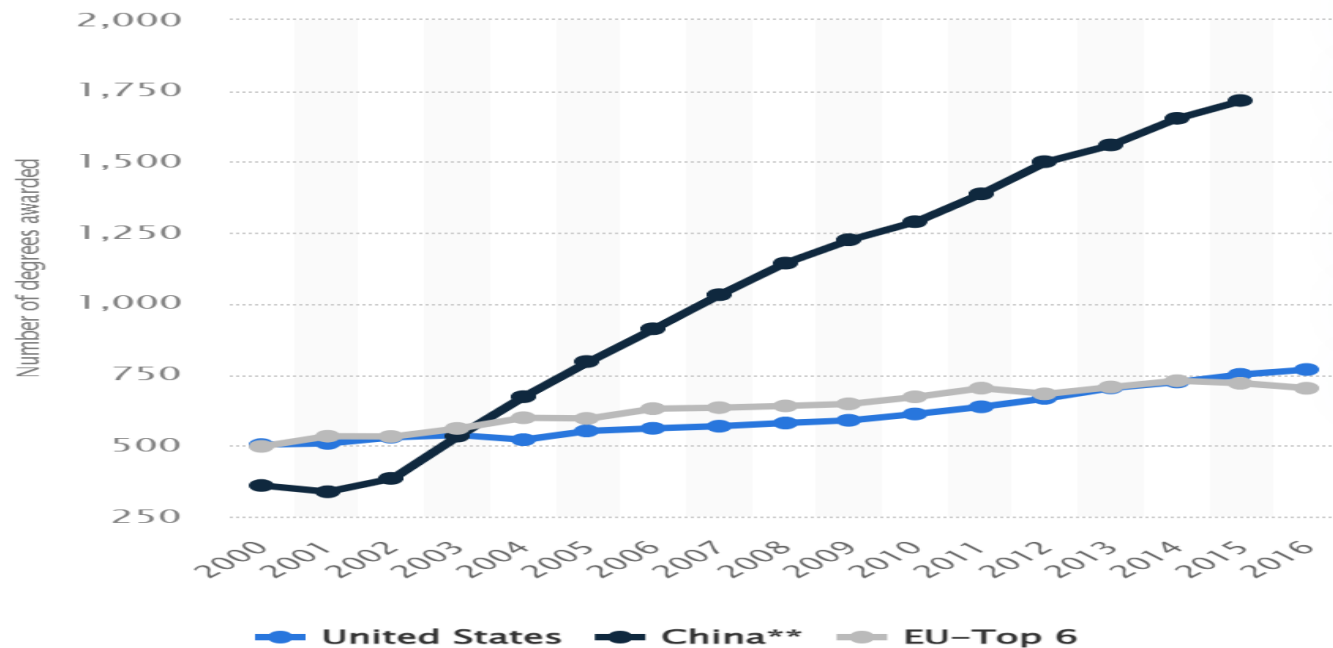




## STEM Graduates: China vs US & EU

- 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)

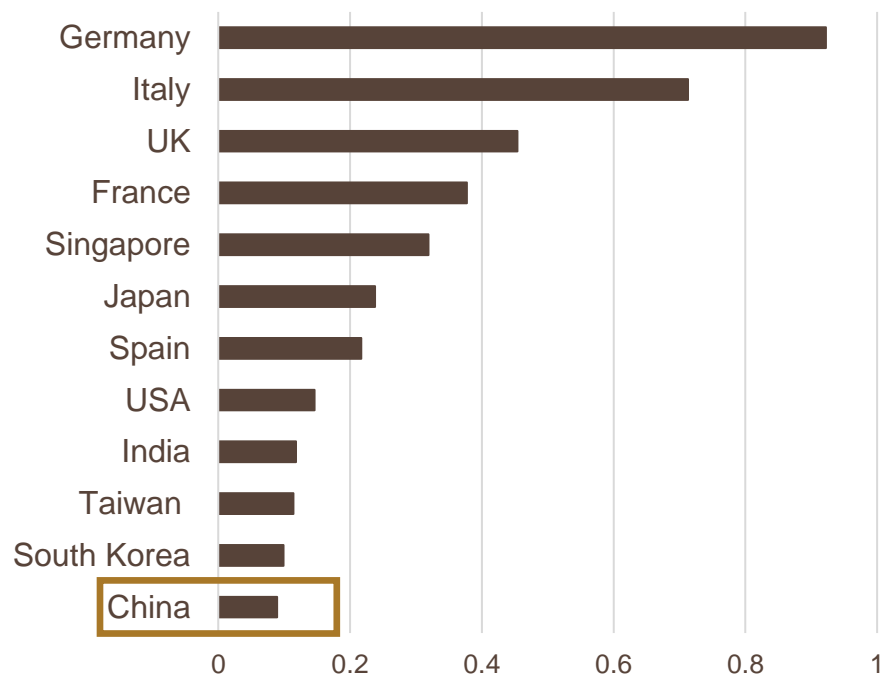




# Cheap and Reliable Electricity Supply

- 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)

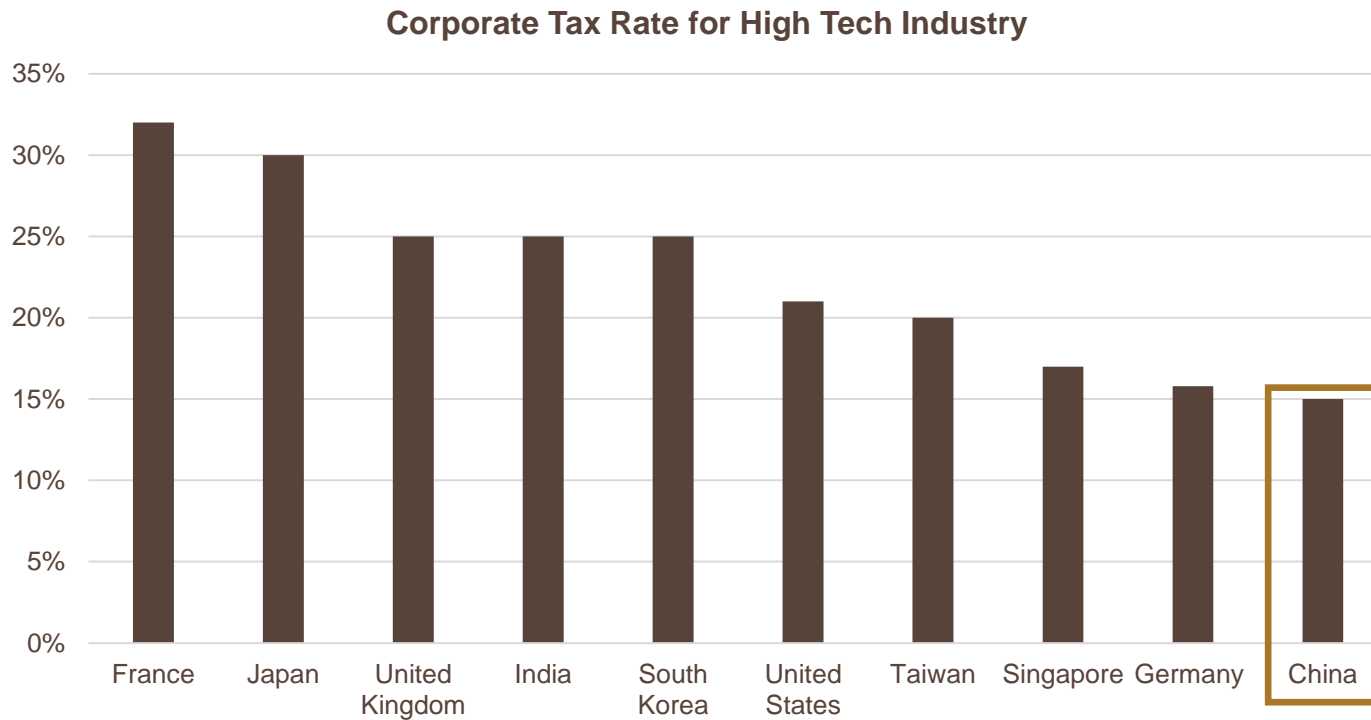


China ranked first in global electricity generation in the year 2022

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

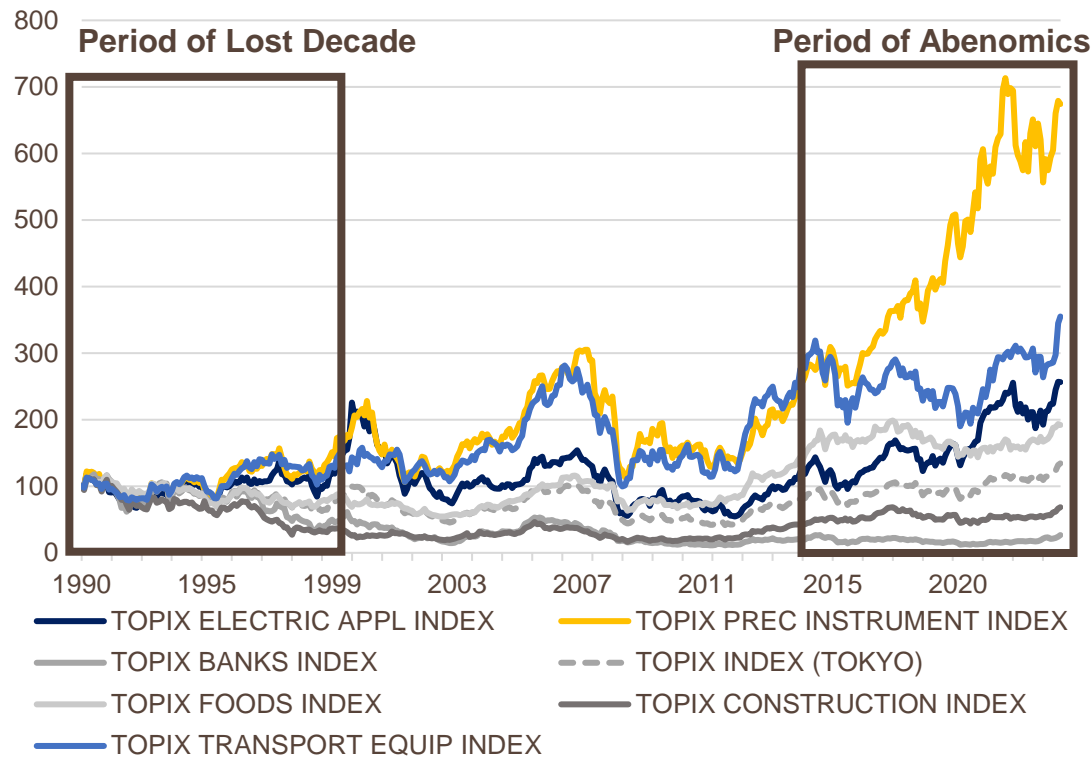
# A The Lowest Tax Rate

- 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

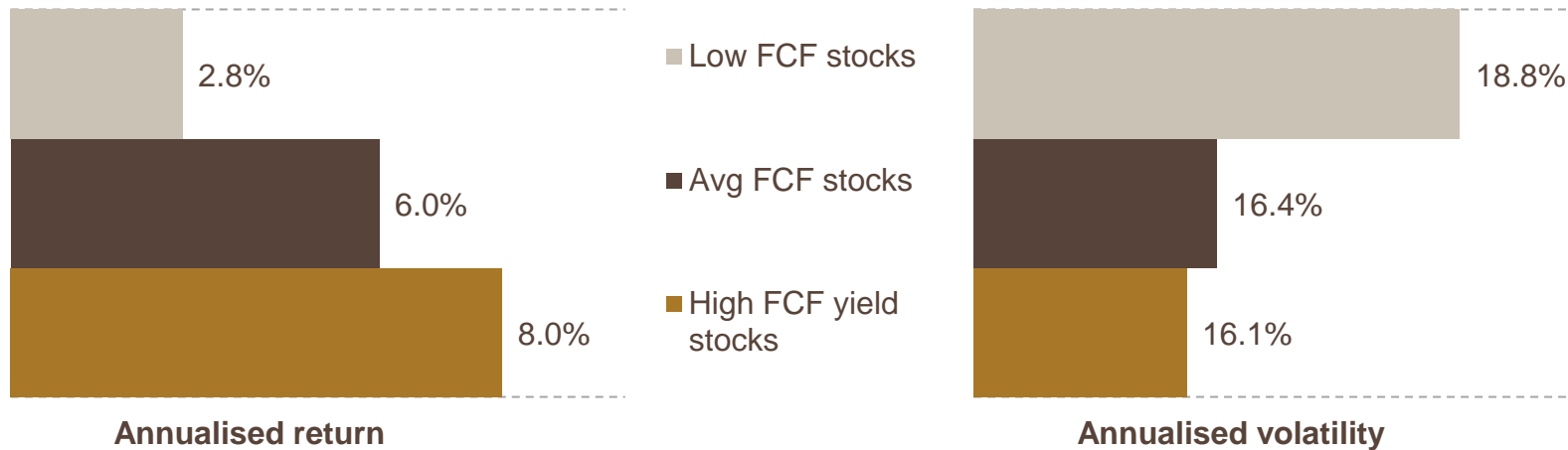
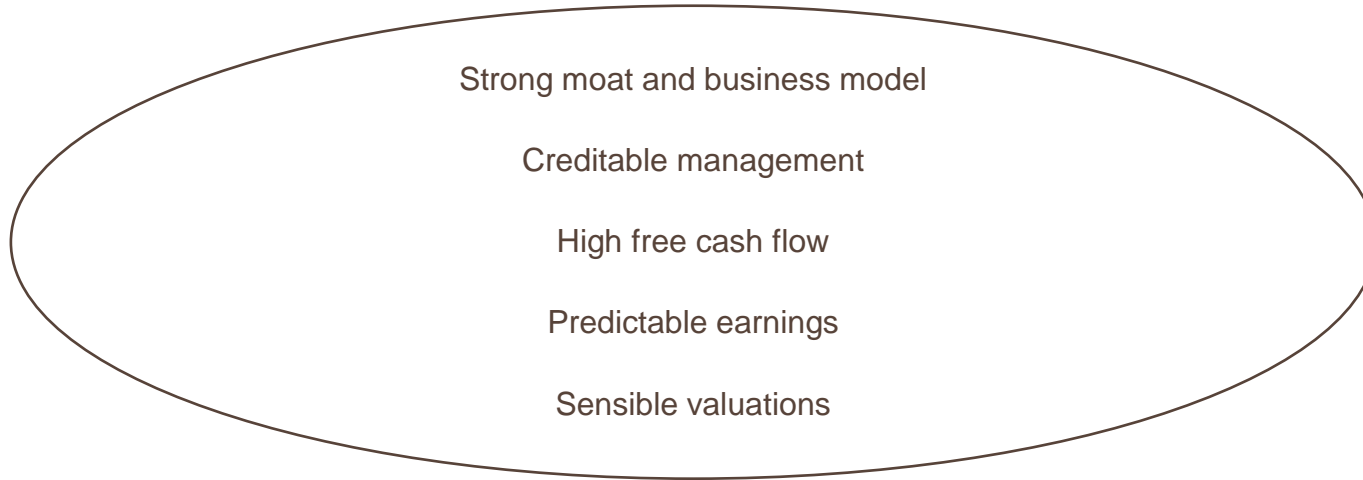
- Japan's industrial and tech companies outperformed the market during the 'lost decade'
- This trend accelerated during Abenomics from 2012
- This highlights the importance of stock picking



	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%



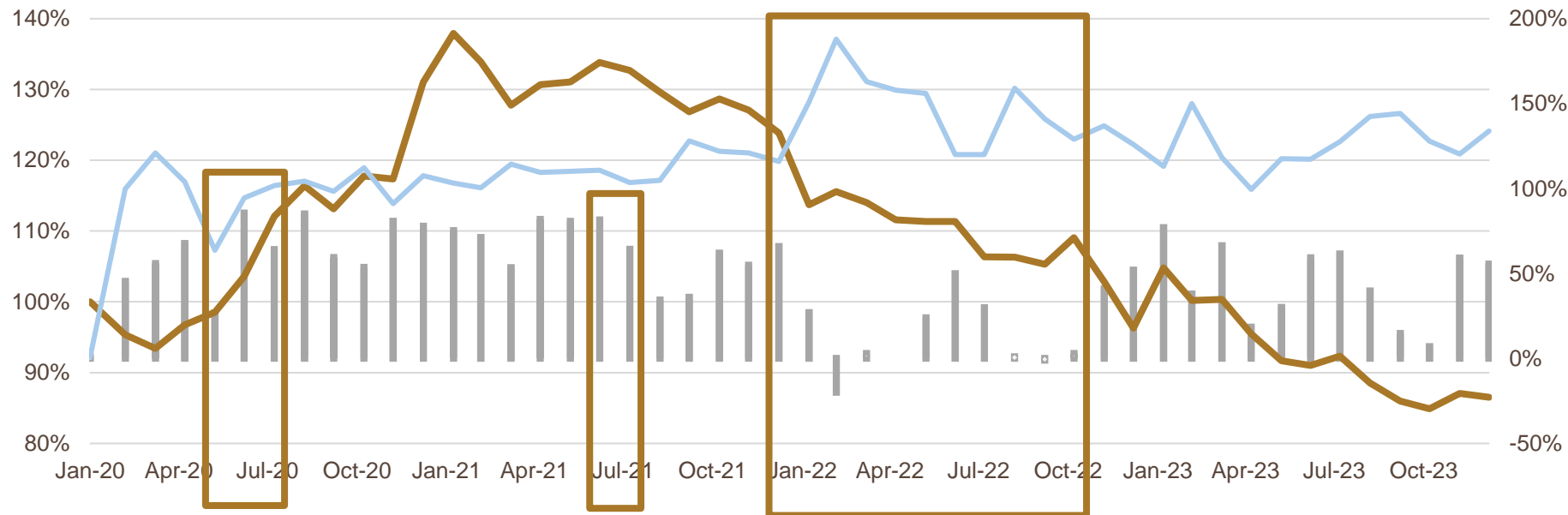
# Apiano Foundation China Fund Strategy





# 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%

■ Net Exposure    — NAV Class Inst USD    — Gross Exposure

**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%.



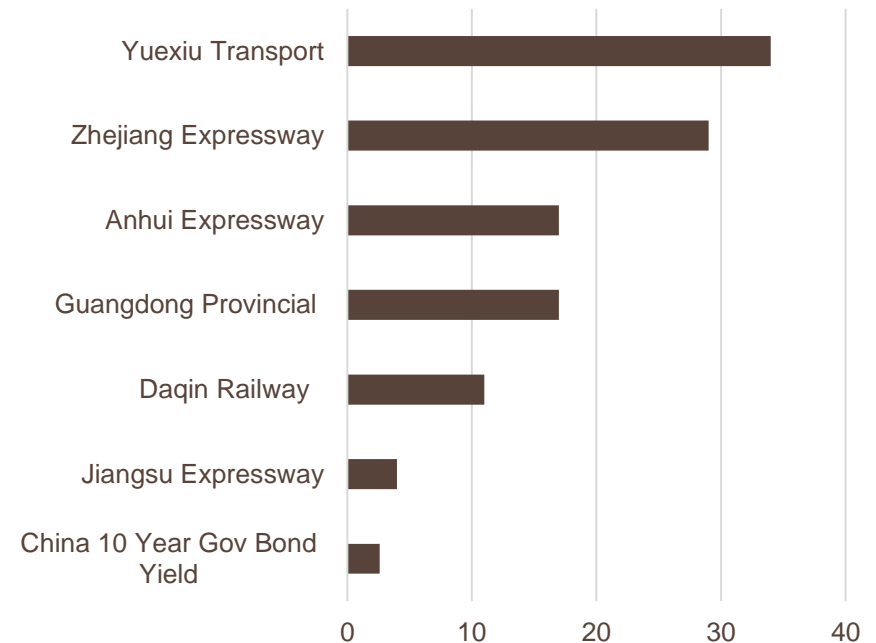
# A Theme 1: Dividend Growers

- 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%

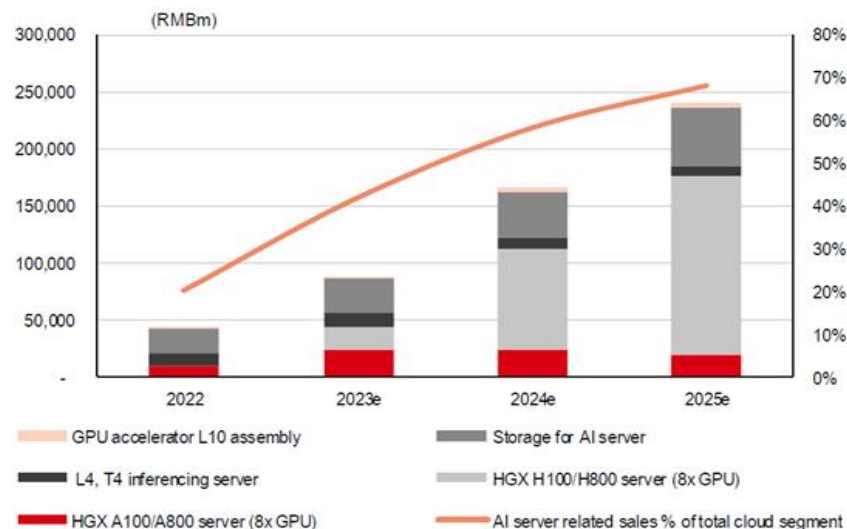
### Lenovo

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

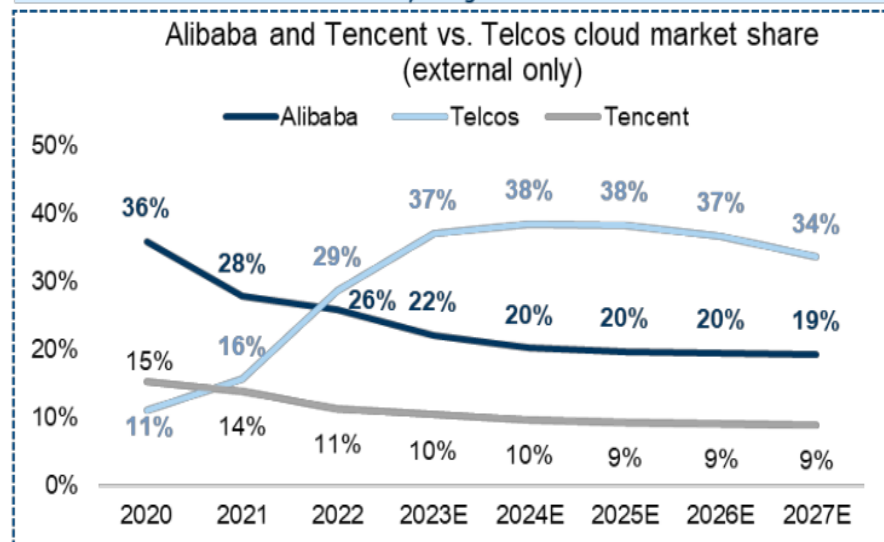
### Cloud Computing

- 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	<b>INOVANCE</b>	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	<b>HCFA</b>	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	<b>INOVANCE</b>	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		

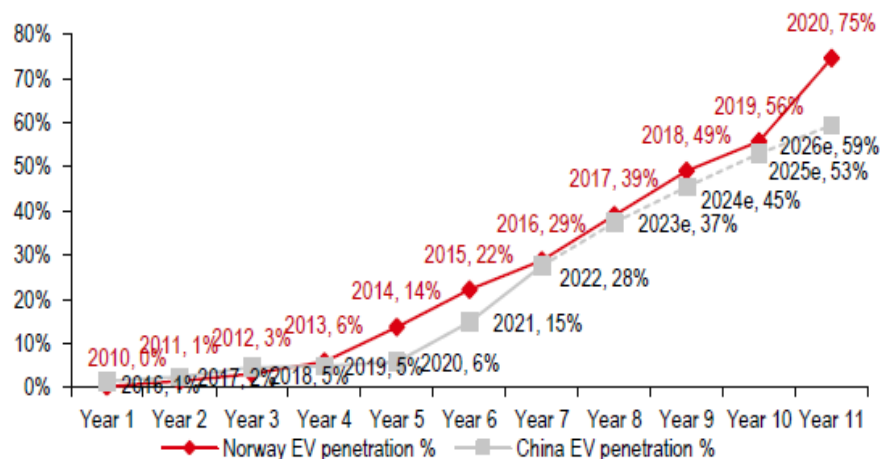
Small PLC			Sales trend		Mkt share									
Rank	Brands	Origin	1Q23	QoQ	1Q23	YoY	1Q23	4Q22	1Q22	2022	1Q23	QoQ	1Q23	YoY
1	Siemens	Overseas	n.a.	n.a.	n.a.	46%	35%	40%	n.a.	n.a.				
2	<b>INOVANCE</b>	Domestic	45%	122%	n.a.	12%	8%	10%	n.a.	n.a.				
3	Mitsubishi	Overseas	n.a.	n.a.	n.a.	12%	14%	10%	n.a.	n.a.				
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.				



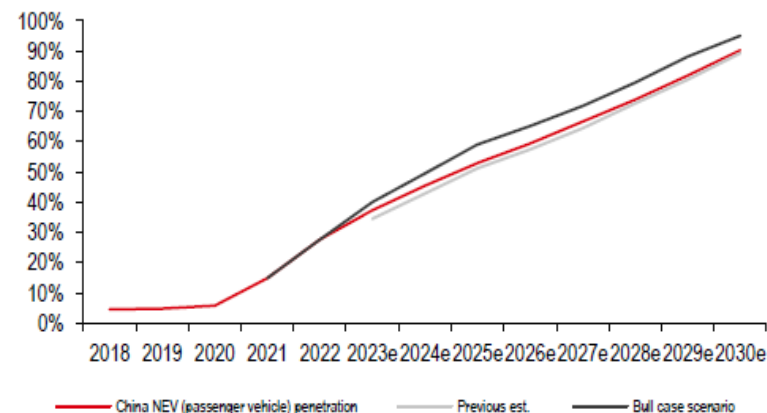
## Theme 4: EV

- 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



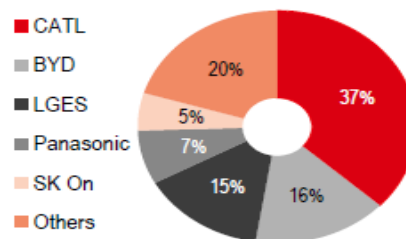
Our 2025e and 2030e EV penetration estimates are 53% and 90% in base case; 59% and 95% in bull case



Source: CPCA, HSBC Qianhai Securities estimates

- China remains integral part of EV supply chain

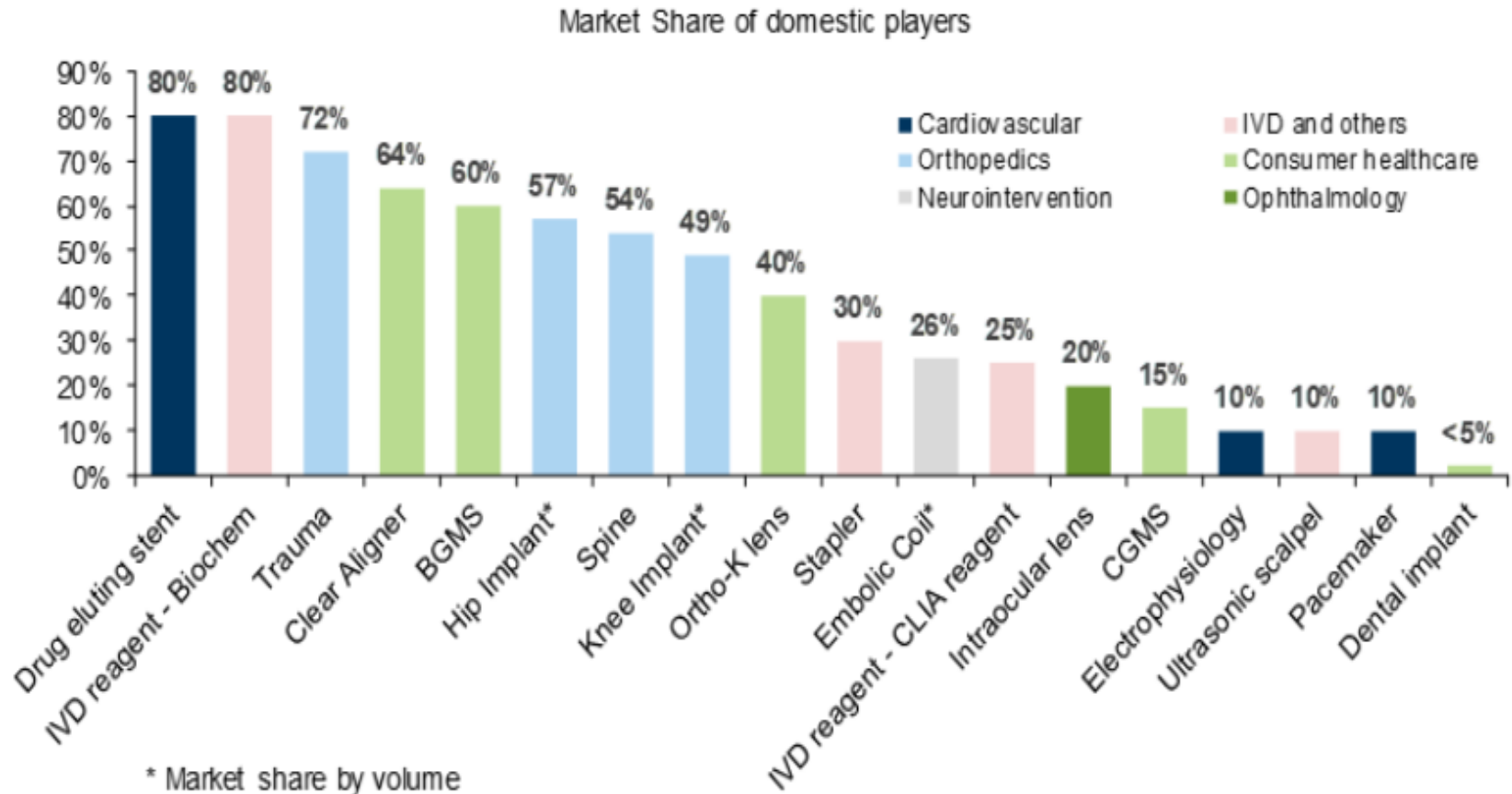
### CATL took 37% in global EV battery market in 6M23...





## Theme 5: Medical Devices

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





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## Annex: Manager Introduction - Founder & CIO: Michael Liang



### Qualifications

- ❖ **EMBA** – Peking University
- ❖ **Chartered Financial Analyst (CFA)**

### Educational Background

- ❖ **BA Economics** – Wollongong University, Australia
- ❖ **BA Industrial Economics** – Renmin University of China

- 30 years differentiated research experience and deep understanding of economic cycles:

**1997 – 2000**

**Asia Financial Crisis**

**Societe Generale, Daiwa Securities**

Analyst - APAC industrials

**2003 – 2006**

**China joining WTO**

**United Overseas Bank, Hong Kong**

Director - advisor to Asian families

**1994 – 1997**

**Japan's 'Lost Decade'**

**Macquarie Bank, Australia**  
Analyst - Commodities

**2000 – 2003**

**Tech Bubble and SARS**

**DBS Vickers Securities, Hong Kong**  
Vice President - China industrials


**2006 – Present**

**GFC, COVID**

**Foundation Asset Management**  
Founder & CIO



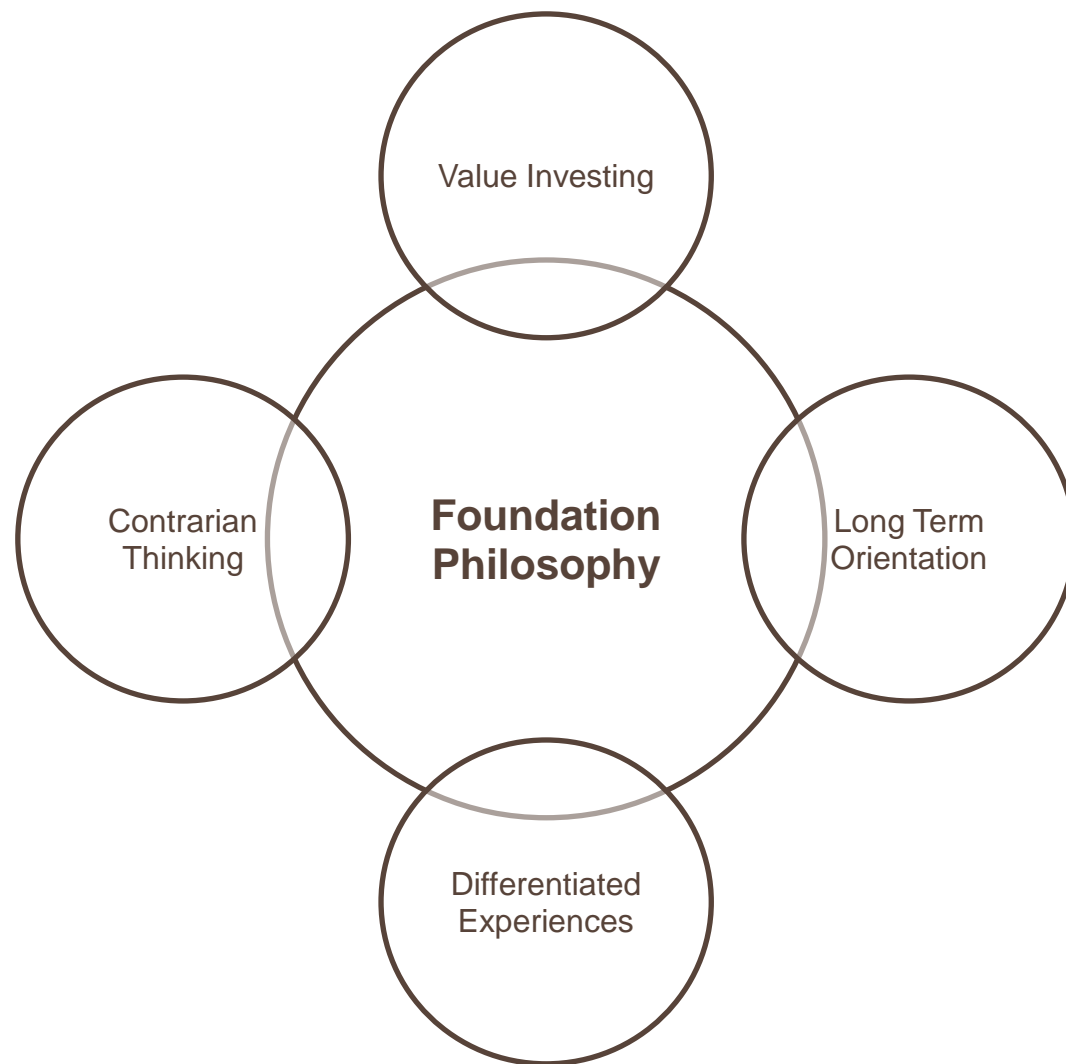
# A Annex: Fund & Company Awards

	<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>





## Annex: Foundation AM Philosophy





## Annex: 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.



# Annex: 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

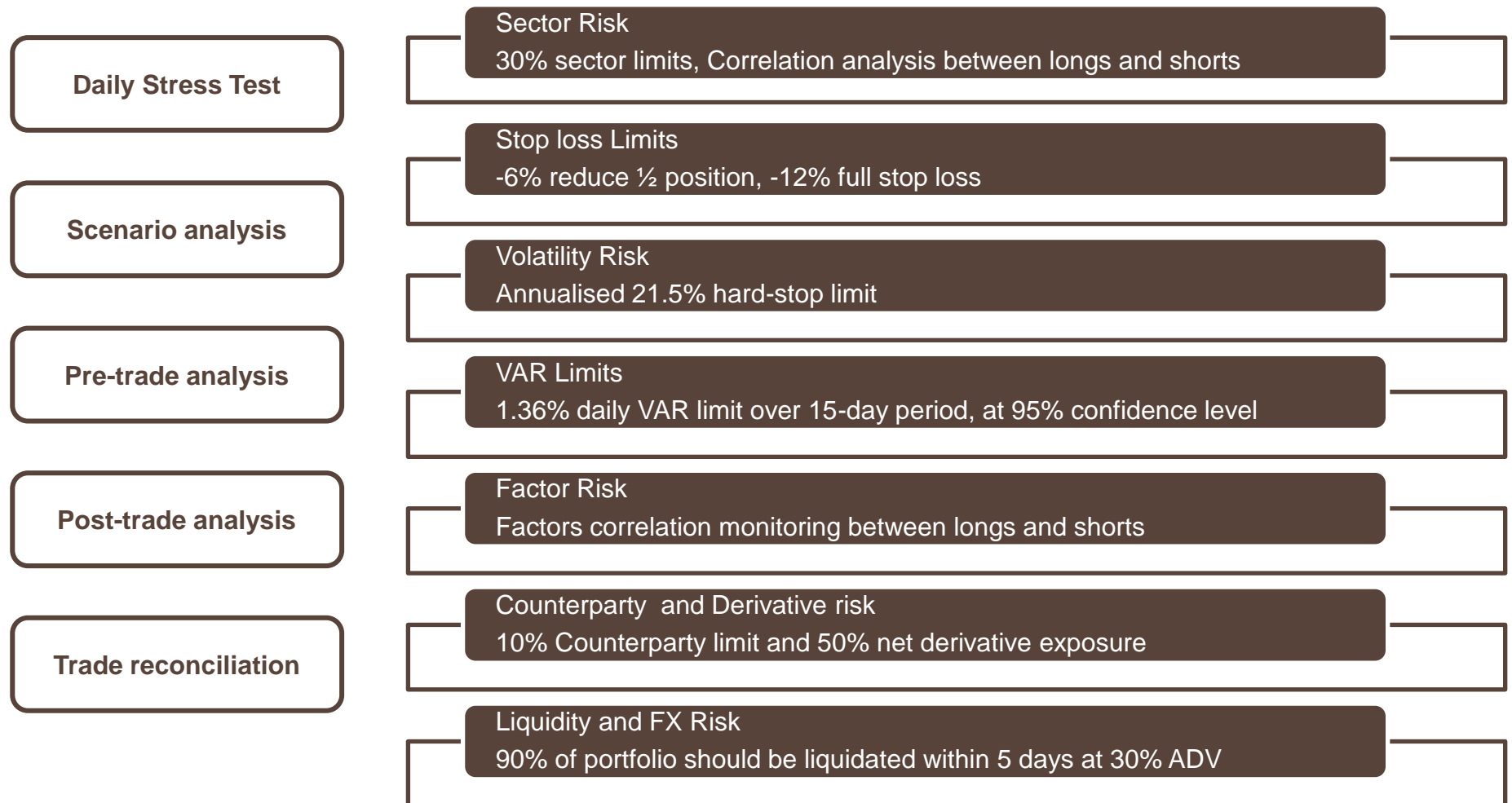
- Stock recommendations list → Building/rebalancing investment portfolio
- ESG at our core
- Sector diversification, position limits, liquidity etc
- Risk/return characteristics of all portfolios

### 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

# Annex: Risk Management

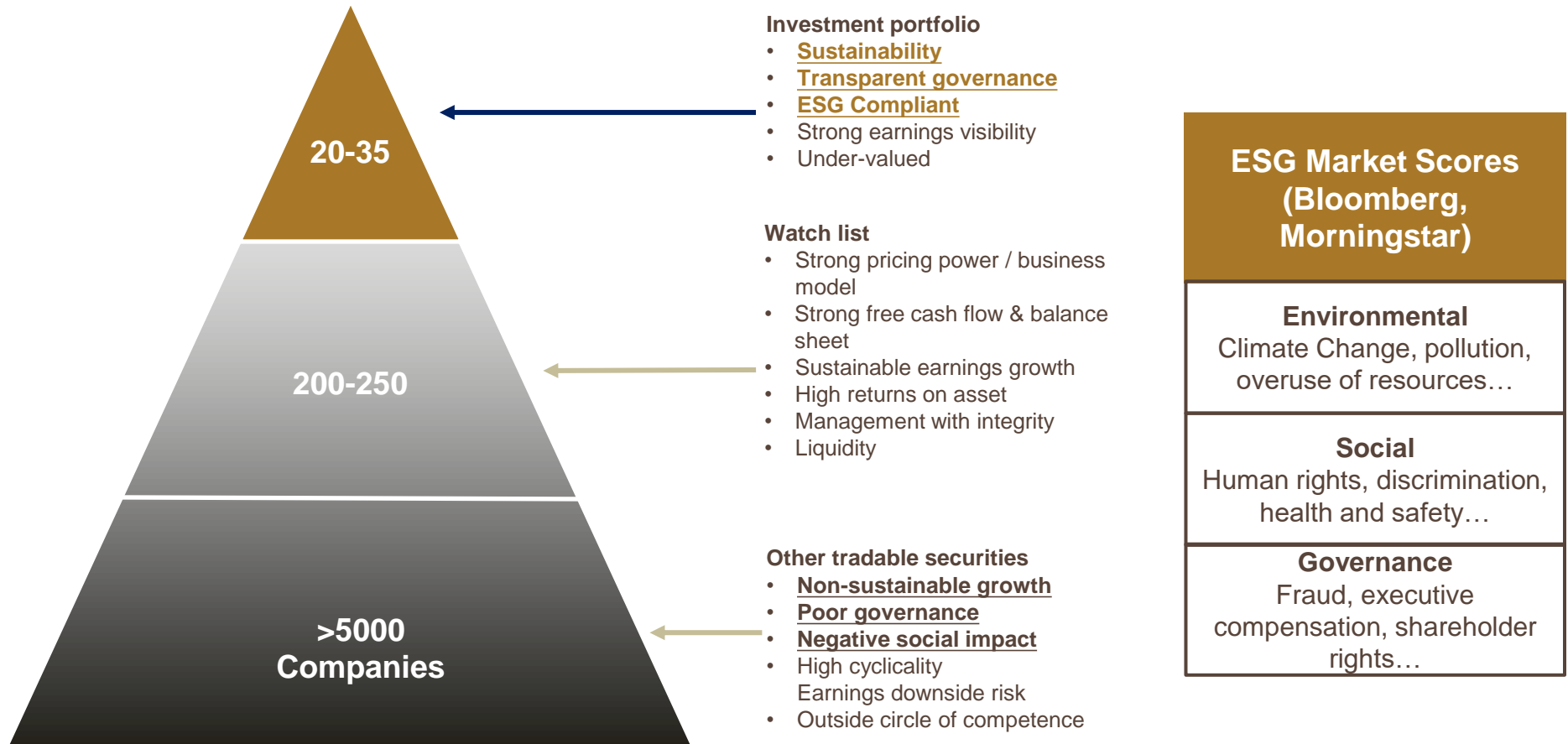
- **Rule-based risk management system**, clear transparency to team members and investors





## Annex: 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





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