SMOOTH SAILING IN CHOPPY WATERS?

20+ YEARS OF EXPERIENCE IN CHINA EQUITIES

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Comgest China Strategy

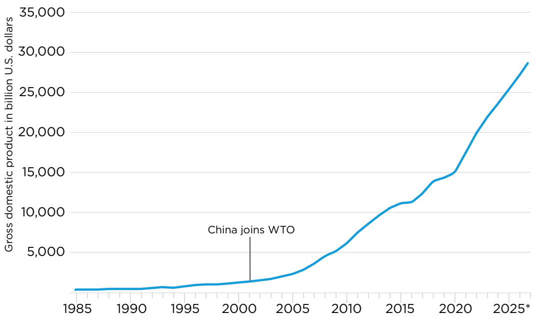
- Investment in China offers a high growth market, but with high volatility
- Mega structural growth trends offer value-added opportunities
- Comgest's Quality Growth responsible investment style aims to moderate volatility and compound returns over the long term.

Investing in China isn't for the faint of heart. Despite over two decades of investment restrictions easing, the combination of geopolitical risk, an underdeveloped regulatory market and continuing cycles of Covid-related lockdowns has led to waves of volatility that can lash investors. The A-shares market alone has been twice as volatile as developed markets in the past 20 years. The long-term promise of Chinese growth seems destined to be tempered with the price of high volatility. But savvy investors know that high volatility, high share price dispersion and deep drawdowns also offer alpha potential, especially in a high growth environment, as illustrated by *figure 1*. Comgest has been navigating these choppy waters since the early 2000s, and for quality growth investors like us, we believe that our style of investment can help like-minded investors to seize the growth opportunities on the horizon.

Since launch in 2001, the Comgest China Equities strategy[1] (the "China strategy") has benefitted from a strong growth backdrop as China developed into the world's second largest economy. 2001 was also the year that China joined the World Trade Organization (WTO), which kicked off the economy's dynamic expansion. The country earned its reputation as the "factory of the world" thanks to an abundance of inexpensive human capital and continued investment in their infrastructure.

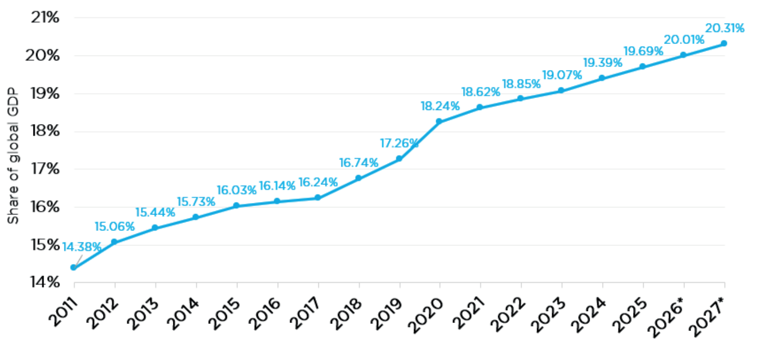
Figure 1. China's economic expansion and scale

A. GDP at current prices in China from 1985-2021 with forecasts to 2027 (USD, bn)**



*Source: Statista, Apr. 2022; *IMF estimate (2023-2027), **GDP = Gross domestic product, (https://bit.ly/2qI3Gup).*

B. China's share of global GDP adjusted for PPP from 2011-2021, with forecasts to 2027**



*Source: Statista, Apr. 2022; *IMF estimate, **PPP = purchasing power parity, (https://bit.ly/3tvoYMt)*

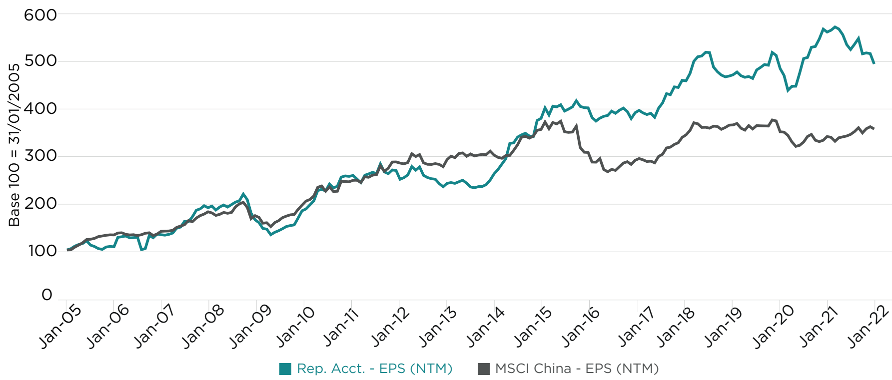
[1] The China Strategy refers to the Comgest China Equities Representative Account (Rep. Acct.), a pooled investment vehicle which has been managed in accordance with the Composite since the Composite's inception. Please refer to the important information section for more details on the representative account, its selection methodology and where to receive the GIPS compliant presentation of the composite.

A REBALANCE TOWARDS SUSTAINABLE ECONOMIC EXPANSION ENHANCES INVESTMENT OPPORTUNITIES

Although the past year has been a trying one for investors amid government-induced regulatory clampdowns and "zero Covid" lockdowns that have slowed China's economy, the reality is that over the past decade productivity has improved as the Chinese government sustained a large investment programme in infrastructure and innovation. The country has been transformed by improved corporate know-how, workforce quality and a manufacturing base that's progressed from producing t-shirts and socks to creating machineries and IT hardware. Behind the Chinese government's unique "Great Firewall",[2] a vibrant domestic digital ecosystem developed that many now consider to be on par with Silicon Valley. Supported by a "Made in China 2025" initiative, new high-tech industries emerged rapidly, ranging from electric vehicles (EVs) and automation to biologics and medical equipment. On the consumer side, younger generations have been gravitating towards local brands with strong distribution channels, while many middle-class consumers have continued to be loyal to well-known global brands.

Against this backdrop, Comgest has closely followed many domestic Chinese companies driven by these evolving economic and social trends. As a global asset management group wholly focused on quality growth stocks, and unconstrained by benchmarks and sectors, we've always applied our long-term investment style to our China strategy. At Comgest, our fundamental research is not just focused on a business' growth potential, but also on the stability and quality of their growth. For this reason, we tend to focus on businesses protected by strong moats due to a distinctive brand, distribution or technology, which we believe will steer them towards future growth and act as a buffer to any economic headwinds. This has helped ensure that investors in our portfolio have been well served in terms of earnings-per-share (EPS) growth versus the MSCI China Index (see *figure* 2). Strong EPS growth has been the portfolio's critical performance driver and has led to the generation of above-market returns since the portfolio's inception.[3]

Figure 2. Comgest China Equity Strategy - EPS Growth



Source: Comgest, FactSet, as of 31-Mar-2022 in EUR. The referenced index is for comparative purposes only.

HIGH RETURNS, BUT ALSO HIGH MARKET VOLATILITY

Comgest's China portfolio has delivered high returns vis-à-vis the comparative MSCI China index since the portfolio's inception, and moreover, at a lower-than-market volatility (see *figure* 3).[4] Volatility tends to spike up not just due to macro-economic risks, but also as a result of geopolitical tensions or state intervention in the economy. In March of 2022, the Chinese market (and global markets) was doubly hit by China's prolonged zero Covid policy mentality and strict lockdown at Shanghai. As vaccine coverage ratio increases in the country, China will eventually follow what the rest of the world has done – opening up the boarder to embrace normal social and economic activities. And the surprise invasion of Ukraine by Russia put a test to China's "no limits"[5] relationship with its neighbouring country. As of the publication of this paper, China has neither condemned the invasion nor offered overt support.[6]

Given the supply chain problems that have become more visible due to the Covid lockdowns, including interruptions in trucking services and factory shutdowns, the country's competitiveness as a global manufacturing centre and a magnet for Western investment and technology transfers is hurting and

[2] https://www.bloomberg.com/quicktake/great-firewall-of-china
[3] Source: Comgest, Factset. Past performance is not a reliable guide to future performance. Inception date of the Representative Account of Comgest China Equities strategy is 11-Apr-2001. Performance data is expressed in EUR, as of 31-Dec-2021. Performance figures are calculated net of investment management fees, administrative fees and all other fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance. See *figure 10* for the past 10 years of annualised calendar performance.
[4] Source: Comgest, Factset. Inception date of the portfolio 11-Apr-2001. Past performance is not a reliable guide to future performance. Performance data is expressed in EUR, as of 31 December 2021. Performance figures are calculated net of investment management fees, administrative fees and all other fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance. See *figure 10* for the past 10 years of annualised calendar performance.
[5] Tom Mitchell et al., "The rising costs of China's friendship with Russia", *The Financial Times*, 10-Mar-2022.
[6] Jack Detsch, "U.K.: China Views Russia's War as 'Bad for Business'," *Foreign Policy*, 11-May-2022.

at risk.[7] That said, in April the Chinese government announced a new retirement plan which would push more of the country's large pool of household savings into financial markets, further developing their pension system.[8] Given China's vast population growth, the potential pension reform could offer opportunity for those willing to take the risk.[9] Investing in China clearly remains a delicate balancing act, but with the current and future size of its economy and the fact that it remains under-owned by international investors, we continue to believe in the need for a long-term view.

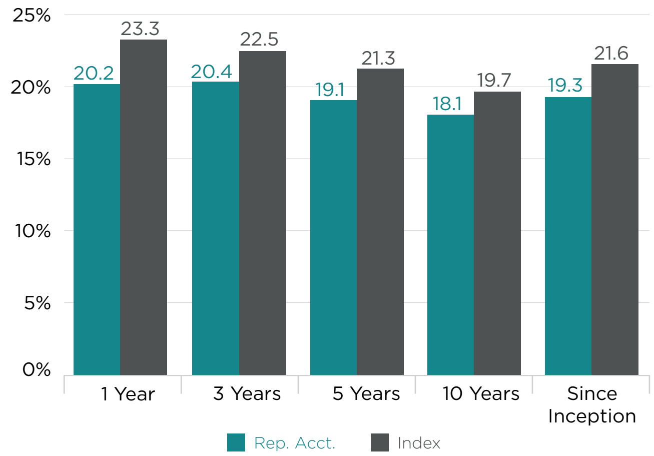
In addition to recent geopolitical tensions and the Covid pandemic problems over the past two years, 2021 saw a regulatory sweep of Chinese internet, education and property companies with a ban on after-school tutoring (AST) and a re-classification of tutoring schools as non-profit institutions which meant the education sector became virtually uninvestable overnight.

Comgest tends to view the Chinese regulatory environment as relatively immature compared to developed markets, and until the past year, one that has not experienced significant change. The country's government and regulators usually respond to perceived socio-economic issues, i.e. as industries grow bigger, the socio-economic issues they bring also become bigger and the government sees more urgency to address them. Chinese regulations also tend to come in waves, reflecting changes in the government's perceived priority of addressing certain issues. Historically we have also seen regulatory changes impacting pharmaceuticals, medical equipment, high-emission industries, insurance and wealth management, online lending (not during the 2020 wave, but in the 2016-17 Qudian wave[10]), ride hailing, gaming, property, etc. What is different this time is that the regulations have hit some of the larger cap growth companies and sectors which are popular with foreign investors.

This is not to say that the Chinese regulatory environment is always investor friendly. Compared to other countries where the passing of new legislation and regulations can be a very public and drawn-out affair, in our view China's process can seem a bit opaque. But regulatory risks are not unique to China and understanding the regulatory risks (i.e., the "social" element in ESG criteria) is very important to investing in the country. It's worth highlighting here that Comgest has always carried a higher discount rate on China than economic indicators would suggest for precisely this reason – the risk in a democracy is a change in government leading to a change in regulation. In China, the government may not change, but it can shift its focus in dramatic ways.

If we look at the bigger picture of what was under discussion in 2021, the news was typically aligned in the global media, e.g., *The Economist*, *The Financial Times*, *The Washington Post* or *The Guardian*, e.g., "unsustainable practices of some of the 'gig economy' businesses, specifically the economics and welfare of delivery people." Comgest pays a lot of attention to regulatory risks when comparing trading-offs with potential rewards. For this reason, our China portfolio hasn't had exposure to AST services, and we've been disciplined in our exposure to various hyped-up sectors and brands in the region. Based on our experience, Comgest's disciplined approach to portfolio construction and highly selective stock picking has helped ensure that the volatility of the portfolio has been lower than the market's volatility. For example, during the last 12 months, the portfolio's volatility was 3% below that of the MSCI China Index as per *figure* 3.

Figure 3. Volatility (annualised since inception)



Source: Comgest, Factset as of 31-Mar-2022, in EUR. Inception date as of 11-Apr-2001. Data for Comgest's China Equities Representative Account, a pooled investment vehicle which has been managed in accordance with the strategy discussed since inception of the strategy. Volatility is calculated on a weekly basis. Index: MSCI China - Net Return (changed from MSCI AC Golden Dragon - Net Return on 01-Jan-2018). The index is used for comparative purposes only and the Representative Account does not seek to replicate the index.

[7] Bradsher, Keith. "China's Covid Policies Have European Companies Wary of Investing," *The New York Times*, 5-May-2022.
[8] Cumbo, Josephine *et al.* "China pension reforms lure international investors," *The Financial Times*, 2-May-2022.
[9] Agnew, Harriet. "Divergent views on China's investment landscape," *The Financial Times*, 2-May-2022.
[10] Ben Livesey, "Fintech Qudian's Profits Boom, Loans Shrink as It Bets on Direct Lending Model," *The Bamboo Works*, 21-Jun-2021.

A FOCUS ON QUALITY GROWTH TO CREATE VALUE FOR CLIENTS

In this volatile market, Comgest has consistently applied its quality growth investing approach by focusing on established franchises with robust outlooks. Our experience has demonstrated that applying fundamental analysis and maintaining a long-term horizon[11] are key to identifying companies capable of generating double-digit EPS growth. Some of our select franchises are domestically focused companies whose underlying earnings are driven by the needs of a rapidly expanding middle class. A key factor in determining a company's quality, is the consideration of environmental, social and governance (ESG) factors, as we believe these can impact a business over time. Further ESG analysis enables Comgest to assign a proprietary ESG Quality Level that is graded on a scale from 1-4.[12] Finally, we invest only when valuation is deemed attractive – sometimes waiting years.

Below are a range of long-term holdings in well-established franchises.

- **Ping An Insurance:** Conglomerate with well-known national brands and strong distribution. Aside from their key insurance company, they have long invested in R&D, and as a result, have generated several technology companies, e.g. Lufax, Ping An Good Doctor, OneConnect and HealthKonnect.
- **Anta Sports Products:** Third largest sportswear company globally, whose brands (FILA, Anta, Descente, Arc'teryx and Wilson) have expanded into international markets over the last decade.
- **Kweichow Moutai:** Domestic high-end spirits business, which has become highly respected internationally over the last few years following the liberalisation of China's market.
- **NetEase:** Content developer in the fast-growing gaming market for over the last 20 years, which is now applying a similar philosophy and technology towards music.
- **Jiangsu Hengrui:** China's biggest pharmaceutical company has invested 22% of revenue in R&D according to their year-end 2021 results. One of their drugs, PD-1, a frontline treatment for several types of cancer including lung or gastric cancers, is the first of its kind in China and may prove to be globally competitive due to its efficacy and price.
- **Shangdong Weigao:** China's largest medical consumables company, which has been upgrading their product offerings towards more value-added orthopaedics, biopsy products and overseas consumers.
- **Inner Mongolia Yili:** China's largest dairy brand, which has grown from offering plain UHT milk to yoghurt, ice-cream and baby formula products.
- **SAIC:** Largest automaker, and a successful exporter thereof, in China. Their joint venture with Volkswagen has made a strong break-through in EVs in China.
- **Travelsky:** Monopolistic travel ticket distribution system provider in China.

> ***Over the past 20 years, our long-term quality growth investment discipline has been the key to success in China's market, which is driven by retail investors sentiment and very strong momentum swings.***
>
> -**Jasmine Kang**, Comgest Portfolio Manager

MEGA STRUCTURAL GROWTH TRENDS OFFER VALUE ADDED OPPORTUNITIES

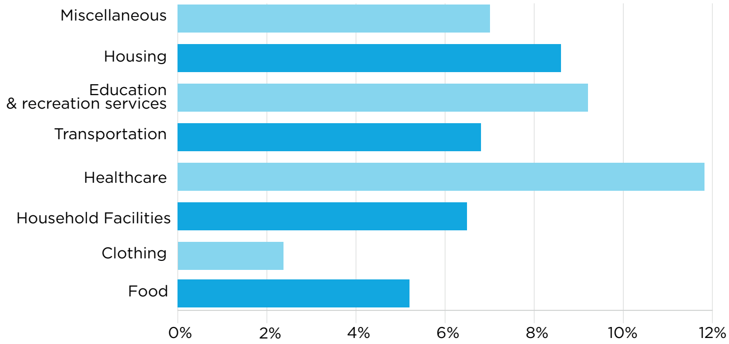
The combination of China's rapid economic liberalisation and seemingly unchanged socialist politics has led many to characterise their economy as state-led, i.e. a heavy hand on structural growth trends in an attempt to drive growth. The strongest trends are driven by the needs of the burgeoning middle class for innovative products and services, particularly in healthcare (e.g., biopharmaceutical), consumer finance (e.g., insurance, wealth management) and IT (e.g., cloud).

In 2011, **China Mobile's** business strengthened rapidly as it provided a much-needed mobile infrastructure until Chinese infrastructure and technology caught up with the developed world and competition increased. Today, our portfolio has sizeable holdings in **Alibaba** and **Tencent**[13], which are benefiting from growth in areas such as

[11] Our average holding period tends to be around a 3-5 year investment horizon.
[12] See Appendix I for an explanation on Comgest ESG Quality Levels.
[13] Tencent was 9.5% and Alibaba was 5.8% of the portfolio as of 31-Dec-2021.

e-commerce, social media, fintech and the cloud. Elsewhere, our early 2012 investment in **Ping An Insurance**[14] has been supported by the rising middle class demand for life insurance and saving products. Looking forward, we expect **Jiangsu Hengrui** and **Shandong Weigao**, a leader in the Chinese healthcare market, could be a key beneficiary of demand for healthcare products (see *figure* 4), and is among those Chinese companies in which we expect to see more attractive growth opportunities.

Figure 4. Chinese consumer spending by sector (2013-2020; in RMB)



Source: National Bureau for Statistics, China

ROE: IMPROVING QUALITY PROVIDES ATTRACTIVE OPPORTUNITIES

Within the new economy driven by middle class desires, many skillful managers have built innovative sustainable franchises, rather than just short-term opportunities. As a result, we believe the quality of Chinese companies will continue to improve, not least due to the increasing role of foreign institutional investors which request strong governance, strategic vision and sustainable business models to invest for the long term. *Figure* 5 highlights key examples of companies that we believe have aided China's transformation from 'Old' to 'New'.

Although we believe the overall quality of Chinese companies is improving, the MSCI China Index's ROE has deteriorated significantly in recent years, which can be explained by the increased index weight of fast-growing, low-return, start-up companies such as **NIO** (EVs), **Meituan** (food delivery) and **Beigene** (biologics). While we are excited about these companies' long-term value creation potential and analyse them closely, we are also aware of risks associated with their unproven business models or heavy losses. Overall, we prefer companies with strong management who have clear vision and who we believe are able to deliver sustained double-digit EPS growth over a five-year investment horizon.

Figure 5. Key company examples in China's transformation from "Old" to "New"

Beijing Airport, Guangshen Railway and **China Mobile**.
Theme: Building complicated infrastructure

Shenzhou International and **Yue Yuen** (biggest suppliers to Nike)
Theme: Export boom after China joins WTO

Wuxi Pharma, Weigao, 3Sbio, Lepu
Theme: Growth in demand for healthcare products and services.

Early 2000s — 2007 — 2009 — Early 2010 — 2015-2021 — Future

Restaurant chains, e.g. **Café de Coral** and shopping malls, e.g. **Lifestyle, Parksons**
Theme: increasing demand of expanding middle-class for dining out and mass market demand.

Internet platforms (**Tencent and Baidu**), brands (**Anta and Chow Tai Fook**), become well-known.
Theme: Domestic brands (GuoChao) gain notoriety and online activities rapidly increase.

Planting seeds in our universe for the future: electric vehicles, video entertainment, software service providers, etc.

Images source: Shutterstock; Anta Sports website.

[14] Ping An was 6.9% of the portfolio as of 31-Dec-2021.

ESG ANALYSIS AND ENGAGEMENT OFFERS SIGNIFICANT INCREMENTAL VALUE

In a country such as China, where modernisation efforts have been constant over the last twenty years, uncovering a quality business that meets Comgest's specifications, i.e. one with durable competitive advantages that can deliver sustainable, double-digit aggregated EPS growth over a five-year investment horizon, requires digging through multiple layers. ESG analysis is a criterial component of our stock selection process. Although Chinese companies' ESG standards may lag those of international peers, our research and company engagement shows that companies' consideration of ESG financial risks and opportunities is growing. From our perspective, interactions with management can lead to positive ESG impacts, as this paper highlights. Comgest's ESG analysis is integrated into to our stock selection process, not just "bolted on". We reflect ESG risks with a valuation discount rates reflecting inhouse ESG research.

An in-depth approach is required in China, as we often hear complaints about a lack of transparency, board diversity, environmental disclosures and inaccurate data. As of May 2021, only 37% of all corporations in China had an established Corporate Social Responsibility (CSR) / ESG committee[15], which implies that most do not have a dedicated governance structure to manage ESG issues.

> ***ESG is particularly important in a developing Chinese equity market with a tradition of state-owned enterprises and highly entrepreneurial private companies, where governance must be scrutinised for long-term success on an ongoing basis.***
>
> -Baijing Yu, Comgest Portfolio Manager

Our engagement activities, however, indicate that Chinese companies are gradually showing a greater understanding of the importance of ESG considerations in building successful businesses for the long term. 70% of mainland-listed Chinese companies and 97% of Hong Kong-listed Chinese companies have published sustainability or ESG reports which is a big jump from 10 years ago[16], although these companies may still lag in terms of international reporting standards.

A GREATER NUMBER OF ESOPS BEING IMPLEMENTED

One effective way for a company to enhance governance in China is to set up an attractive and fair employee stock ownership plan (ESOP) through which key staff interests can be broadly aligned with other shareholders. An increasing number of companies have done this, including **Midea**, **Suofeiya Home Collection**, **SAIC**, **3SBio** and **ANTA Sports**. A clear sign of improving governance has been rising dividend payout ratios. Indeed, a number of holdings have raised their dividend payouts from 20%-30% to 50%-60%, or even higher, such as **SAIC**, **Inner Mongolia Yili** and **China Resources Gas**.

ENGAGEMENT CAN LEAD TO POSITIVE ESG IMPACTS

At Comgest, we engage with key corporate decision-makers, often at the Board level, to draw attention to a range of ESG topics. For example, we voice any concerns about: over-generous and short-term orientated management incentives; board diversity; environmental or supply chain risks such as material shortages or forced labour; and pollution and waste management issues. This type of engagement helps us to gain deeper insights into a company's strengths and weaknesses, insights which we combine with traditional fundamental analysis to build high conviction long-term investment cases.

Comgest's long-term investment approach makes us a credible partner in what can often be drawn out and cumbersome engagement processes. Unlike a sprint relay, i.e., short-term impact investing where other investors built up equity stakes to ask for radical short-term change, we believe in going the distance as if training for a marathon. We focus our engagements on continuous improvements over time that we believe can result in a significant positive ESG impact. Our perspective is that over the long term, a "quality" business that incorporates ESG factors is best able to maintain or strengthen its competitive advantages.

[15] Morgan Stanley research, 11-May-2021.
[16] *ibid.*

With China's success as the production hub of the world, comes an enormous environmental footprint. This means China's ESG success or failure will be vital for the world in the decades to come. This is one reason why the engagement process and quest for continuous company improvement is crucial in China, not only to improve shareholder returns for a specific company, but also to drive greater awareness and compliance of ESG best practices in China. As evidenced in our following investment example for I**nner Mongolia Yili**, we have consistently tried to make our own small contributions to this effort.

ESG CASE STUDY: INNER MONGOLIA YILI ("YILI")

Description: China's leading dairy company, which is a state-owned enterprise (SOE)

ESG challenges: Significant greenhouse gas (GHG) footprint and high water consumption

Comgest ESG Quality Level[1]: 3

History: Since our initial investment in 2012, we believe the company's governance backdrop has been positive with management owning a sizable shareholding and a strong alignment of interest with minorities via long-term equity-based incentive structures. Even so, we voted against a significant equity share granted to Chairman Pan Gang in the 2019 ESOP program.

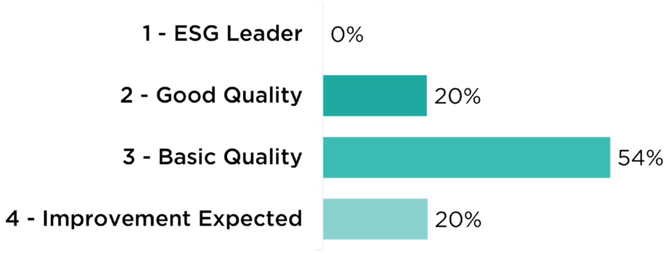
Outcomes: In 2014, our engagement with Yili focused on delivering basic ESG disclosures. We sent management our own list of ESG-related questions and actively debated possible answers with them before realising that the company was not used to such detailed disclosure even though most ESG standards were respected inside the organization.[2] We shared a few environmental reports generated by other global dairy companies to enhance their understanding. Over the last 7 years, the company has become a leader among other Chinese businesses in environmental reporting and GHG reductions. Specifically, Inner Mongolia Yili has achieved the following environmental milestones: a) established an ESG committee with direct links to the Management Board (2016); b) issuing a Sustainability Report annually since 2016;[3] c) became a signatory of the UN Global Compact (2017); and d) quantitatively linked their company strategy to nine Sustainable Development Goals (SDGs) (2018). Between 2012-2019, Yili reduced their GHG emissions per ton of produced product by 48% due to investments in green packaging, reforestation, biodiversity and reducing their carbon footprint at the farming level. In 2019 and 2020, as a CDP lead investor[4], we urged Yili to follow global environmental reporting standards. Yili is now the only Chinese dairy company to do so.

[1] *See Appendix 1 for detailed information on Comgest Quality Levels.*
[2] *Wind as of 31-Dec-2014.*
[3] *Wind as of 31-Dec-2016.*
[4] *CDP is an international non-profit organization which helps companies, cities and governments disclose their environmental impact. Its disclosure platform collects information on issues such as GHG emission reductions, water security and reforestation. Comgest acts as one of the 108 lead investors on the CDP platform: CDP reports record disclosures, despite Covid-19, as corporate environmental action rises*, 10-Nov-2020.

Given that we believe a responsible investment approach has a positive impact on a company's long-term sustainable growth, ESG analysis plays a key role in our research efforts. As a result, our China Investment Team has ensured that most holdings in Comgest's China portfolio are ESG-covered (figure 6). Within this analysis, the carbon and environmental footprints (figure 7) of our China portfolio are substantially below the MSCI China Index – a natural result of our responsible quality growth investment style, which we believe keeps us away from heavily polluting cyclical sectors. This is an outcome of our research efforts given that we don't systematically incorporate carbon emission when selecting stocks.

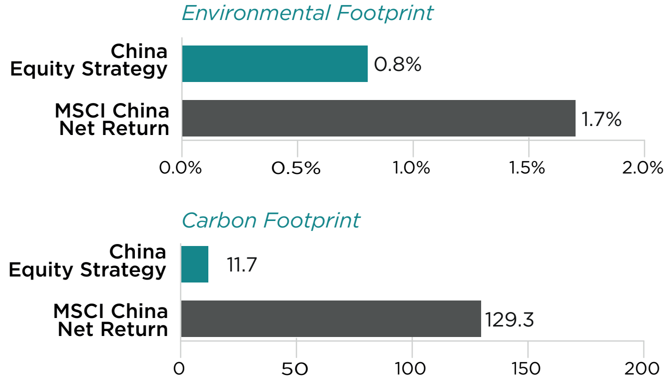
In conclusion, while the ability to conduct ESG analysis in China is more difficult than elsewhere, the incremental benefit to investors is also much greater. Based on our experience, a need to apply judgement exists both at a market and company-specific level as relying on standard ratings is unlikely to yield optimal results. As our case study with Inner Mongolia Yili shows, a steady marathon-like approach to ESG analysis and engagement has the potential to significantly compound ESG effects over time.

Figure 6. Comgest China Portfolio: Breakdown of portfolio by Comgest ESG Quality Levels



Source: Comgest, for illustrative purposes only. ESG Quality Level breakdown as of 31-Mar-2022. Please refer to our Responsible Investment Policy available on our website for a full description of our ESG integration process. The portfolio may include investments for which an ESG Quality Level has not yet been assigned. The ESG Quality Levels assigned may be subject to change at any time. Detailed information on our ESG Quality Levels can be found in the Appendix of this paper.

Figure 7. Comgest China Portfolio: Environmental & Carbon Footprints



Source: Comgest, MSCI, Trucost. Data as of 31-Dec-2021. Carbon footprint computations based on MSCI carbon emission data: tCO_2e per €mn invested. The footprint estimates the amount of Scope 1 and 2 greenhouse gases emitted by the portfolio holdings. Environmental footprint computations based on Trucost data: the footprint estimates the ratio of annual costs linked to greenhouse gases, water abstraction, waste generation, air, land & water pollutants, and natural resource use associated with the portfolio holdings per €mn invested.

OPENING OF A-SHARES MARKET INCREASES OUR POTENTIAL ALPHA GENERATION

The opening of the domestic Chinese market to foreign investors has been a 'game changer' for us throughout the 20+ years of our strategy. At the end of 2010, China became the world's second largest economy[17] and now represents around 18% of global GDP.[18] Although Comgest was an early investor with a Qualified Foreign Institutional Investor (QFII) license in 2012, we quickly took advantage of China's new "Connect Scheme" in 2014, with the Shanghai-Hong Kong Stock Connect and then in December 2016 with the Shenzhen-Hong Kong Stock Connect, which enabled foreigners to directly invest in mainland Chinese equities. In 2018, MSCI started including A-shares in their indices, but the country's weight in the MSCI AC World index is still under-represented – constituting only around 3.5% of the index.[19] More than 30 years after the Shanghai and Shenzhen stock exchanges were set up, both markets are still dominated by domestic Chinese retail investors. Seven years after the launch of Connect program and despite the easing of capital controls on foreign investors, only 5.4% of A-shares are foreign-owned.[20]

OPENING OF THE A-SHARE MARKET EXPANDS OUR INVESTABLE UNIVERSE

The opening of the A-share market is positive for us as stock pickers for two reasons: 1) it increases the potential to generate alpha; and 2) it widens our investable universe. With around 3,500 companies and a market capitalisation of over US$9 trillion, China's A-share market ranks among one of the largest in the world,[21] offering significantly more depth and breadth than other equity market segments. Our Comgest China investment universe has substantially increased over the past three years mainly due to a jump in A-shares coverage by our China Investment Team, as shown in *figure* 8.

Figure 8. Comgest: The "early birds" in A-shares research

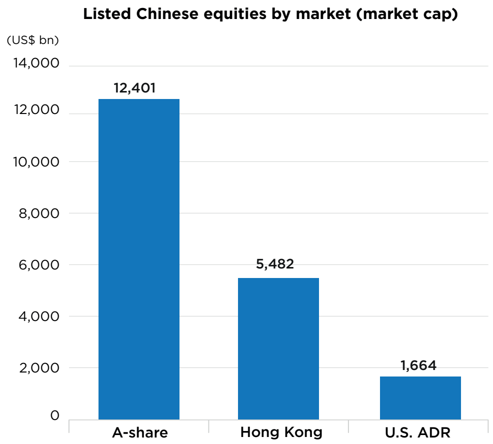
Universe	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020	30/06/2020	31/12/2021
A-shares	6	10	13	13	14	18	22	25	31
Hong Kong	43	41	38	38	34	30	29	33	35
Taiwan	15	13	16	15	9	4	4	4	4
U.S.	6	6	5	10	10	11	12	14	12
Others	0	0	0	2	2	2	1	1	1
	70	**70**	**72**	**78**	**69**	**65**	**68**	**77**	**83**

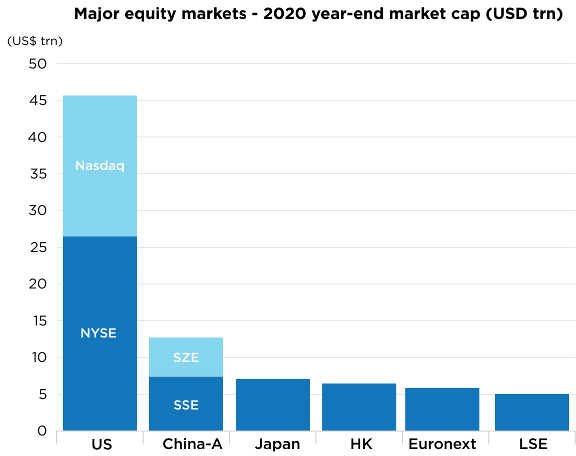
Source: Comgest, data as of 31-Dec-2021.

[17] CNBC, https://cnb.cx/39MQkDn.
[18] Based on purchasing power parity (PPP): Statista, https://bit.ly/3zSd2Vk.
[19] Source: MSCI, as of 29-Apr-2022.
[20] Investopedia as of May 2020, https://bit.ly/3AYWHPT.
[21] https://www.schroders.com/en/insights/economics/eight-charts-that-explain-the-growing-importance-of-china-a-shares/

We believe that the barriers that have limited foreign investment restrictions in China should continue to ease and the opportunities in the mainland equity market will still abound in the years to come.

Figure 9. Still "Day 1" for foreign investors in A-shares





Source: Wind-Economic database, 31-Dec-2020.

Comgest always focuses on selecting strong franchises and being agnostic as to the listing of a company. That said, the significant increase of A-shares in our investment universe over recent years is indicative of our future opportunity set. These shares are likely to reshape the China equity investment landscape in the future and, as a consequence, we anticipate a higher exposure to A-shares in our strategy over the long term. A high share of retail investors and an underdeveloped regulatory backdrop ensures the market is inefficient resulting in high volatility and a wide dispersion of returns and hence plenty of alpha potential for investors with a disciplined and risk-aware approach to investing.

> *"The opening of the Chinese onshore equity market is only at its beginning as China attempts to develop a dynamic and effective capital market. The scope and opportunities for stock pickers like us will rise in this rapidly evolving market.*
>
> -Jimmy Chen, Comgest Portfolio Manager

IN PURSUIT OF LONG-TERM RETURNS WITH LOW VOLATILITY

Driven by the earnings strength of our holdings, the Comgest China Equities strategy outperformed its comparative index (MSCI China Index) over a rolling 10-year period (by 1.7% after cost) and since inception (by 4.4% after cost) (as of 31-Mar-2022).[22] Over the past 20 years Chinese A-shares have been 2x more volatile than global equity markets. In the Chinese market it is hence important to not only generate strong long-term returns but to do so with volatility below the market. As *figure 10* highlights, over a 10-year period we have been able to maintain the

Figure 10. Calendar Year Performance (Net, Annualised)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Rep. Acct.	-22.3	20.2	2.0	33.7	14.2	9.9	29.1	-17.3	26.7	14.9	-12.0
Index	-15.9	20.3	2.3	22.7	3.1	8.6	26.3	-14.8	25.7	18.8	-15.8
+/-	-6.3	-0.1	-0.2	11.0	11.0	1.4	2.8	-2.5	0.9	-3.9	3.8

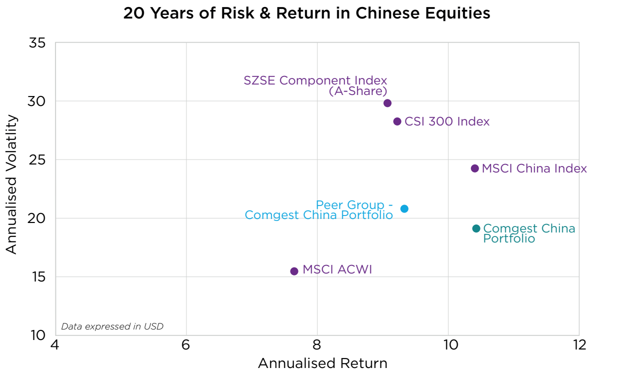
Source: Past performance is not a reliable guide to future performance. Performance data is expressed in EUR, as of 31 December 2021. Index: MSCI China - Net Return (changed from MSCI AC Golden Dragon - Net Return on 01/01/2018). The index is used for comparative purposes only and the Fund does not seek to replicate the index. Performance figures ar calculated net of investment management fees, administrative fees and all fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance.

[22] **Past performance is not a guide to future performance**. Source: Comgest / FactSet financial data and analytics, unless otherwise stated. Data as of 31-Mar-2022 expressed in EUR. Performance figures are calculated net of investment management fees, administrative fees and all other fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance.

portfolio's volatility (see *figure* 3) below the market while outperforming its comparative index.
Our quality growth holdings have provided some downside protection particularly during weak and volatile markets. We don't attempt to employ market timing to deal with bull or bear markets and instead rely on the shock absorbing capacity of our investee companies' durable competitive advantages. We believe that this ensures that our strategy benefits from lower drawdowns and the powerful impact of compounding investing.

From our perspective, the name of the game for us was, and continues to be, the pursuit of strong long-term returns with low volatility.

Figure 11. Quality is as important as growth

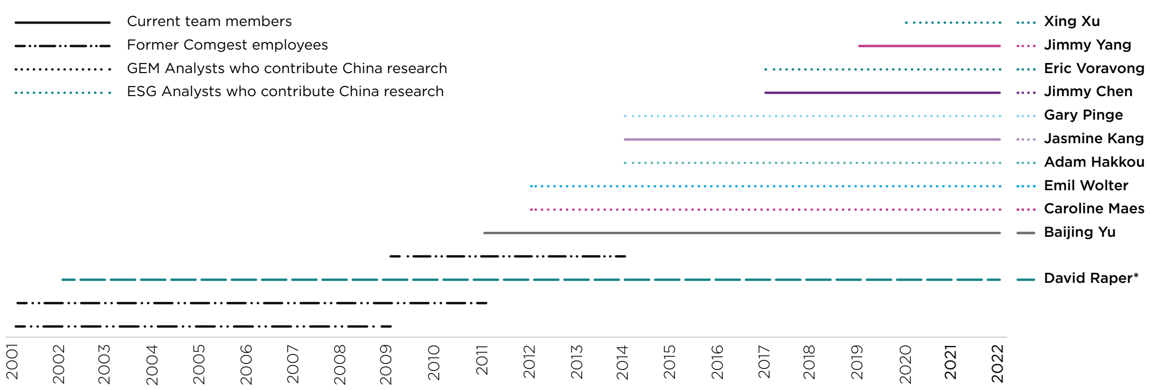


Source: Comgest / Factset data for index return and volatility; 20-year peer group average comprises Morningstar Category = "Greater China Equity" And "Oldest Share Class = Yes"; data as of 2002-04-01 to 2022-03-31, expressed in USD.

TEAM EXPERIENCE AND TENURE CRITICAL TO SUCCESSFUL LONG-TERM PERFORMANCE

Our 20+ year track record reflects the Chinese equities investment team's stability and diversity in terms of gender, experience and culture. Co-Lead Portfolio Managers, Baijing Yu and Jasmine Kang joined the portfolio management team in 2014 and 2015, respectively, while Jimmy Chen was appointed as a joint Portfolio Manager in 2019. David Raper, who has been with Comgest since 2002, was the Team Manager on the China strategy for 10 years from 2011-2021, when he relinquished his mantle to Jasmine, Baijing and Jimmy in order to focus on his role as Team Leader of our Asia and Asia Pac ex-Japan strategies. Our latest addition is Analyst Jimmy Yang, who joined the team in 2019. In addition, two ESG-specialised analysts, Eric Voravong and Xing Xu, provide China research to the team. Likewise, certain members of Comgest's Emerging Markets investment team also engage in China research, including Emil Wolter, Gary Pinge, Caroline Maes and Adam Hakkou. As figure 12 illustrates, this diverse team has consistently broadened experience as it expanded, while maintaining a low turnover rate – a factor that we believe is key to the success of our long-term quality growth investment style. Our portfolio managers long tenure ensures that there is no style drift and that we have consensus on investment decisions.

Figure 12. Evolution of Comgest's China-focused investment team



*Source: Comgest, as of 31-Dec.-2021. *As of Oct. 2021, David Raper relinquished his portfolio manager responsibilities on the China strategy to co-lead China Portfolio Managers Baijing Yu, Jasmine Kang and Jimmy Chen, whom he recruited. He remains Team Manager for Comgest's Asian investment team and is focused on enhancing Comgest's Asia/Asia Pac ex-Japan portfolios.*

CONCLUSION

We've been navigating the choppy waters of China's burgeoning equity market for the past 20+ years, during which it has developed into a distinctive, vast and vibrant economy that, in our view, offers more than the traditional growth opportunities usually found in Western countries. The shift from an export and investment-driven economy has led to an increase in domestic consumption and the service-driven economy, which has opened up opportunities for our investment universe, allowing us to capture exposure to diverse quality companies in the world's second largest and most rapidly growing economy.

As a long-term investor in Chinese equities, Comgest has closely followed many domestic companies driven by evolving economic and social trends in the country – from healthcare and insurance to electric vehicles and automation. These "New China" companies have brought a strong push for innovation and a vibrant consumer and digital industry, which is fertile ground for investors like us who are seeking quality growth stocks with a long-term, buy-and-hold investment approach.

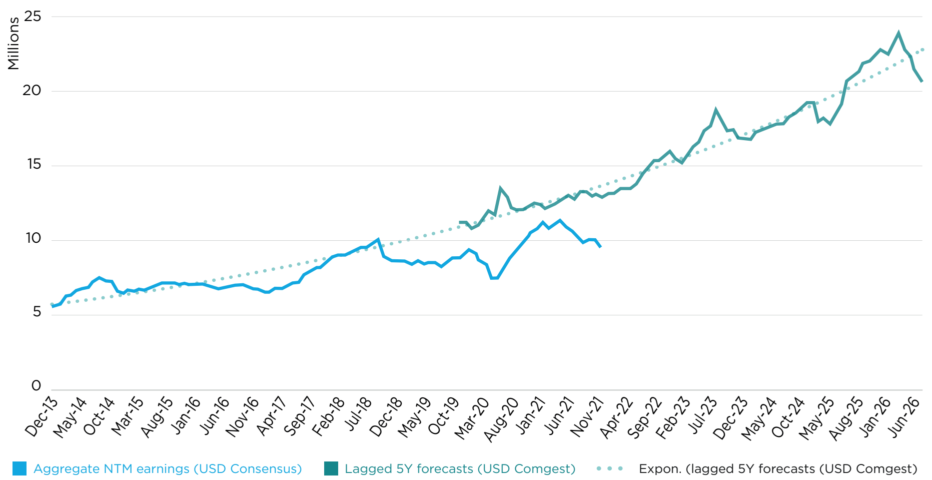
Nevertheless, investing in China isn't for the faint of heart. Despite the easing of investment restrictions over the past two decades, the heavy-handed nature of the Chinese government and geopolitical tensions has led to sporadic market turbulence, as evidenced now by the ongoing Ukrainian-Russian war, fraught tensions with the US, the ongoing Covid pandemic and the 2021 regulatory sweep of Chinese internet, education and property companies. The A-shares market alone has been nearly twice as volatile as developed markets over the past 20 years.[23] All of these considerations mean that the long-term promise of Chinese growth seems destined to be tempered with the price of high volatility. And in a volatile market, things can change overnight. But high volatility, high share price dispersion and deep drawdowns also offer alpha potential, especially in a high growth environment. For Comgest, this is an opportunity to seize. We continue to believe that a portfolio doesn't need to be turned around twice a year to be successful in China. On the contrary, over the past 15 years, the turnover of the Comgest China portfolio was 46%[24] and it delivered a net, annualised outperformance of 4.5%.[25] A stable investment team and disciplined approach have been hallmarks of this performance. Likewise, our decades-long, on-the-ground presence has given us a local, comprehensive and nuanced view of Chinese politics, policies and the country's potential for future growth.

That said, we always target dynamic growth with a cautious approach to risk taking. Strict ESG assessments and engagement processes have helped us to improve our risk exposure and navigate some stormy headwinds in China. Of course, the awareness of these risks doesn't mean that an investor can dodge them all, but it does provide the means to factor in as many as possible into valuation and investment decisions.

Based on our quality growth approach and our extensive experience in managing Chinese equity, we are optimistic about our future. Our optimism is based solely and entirely on the bottom-up earnings outlook of our stock picks, which is, and has always been, the case across all our quality growth strategies.

Despite 2022's ongoing market volatility, based on our research, we believe the prospects of the Comgest China portfolio seem promising and we forecast a five-year earnings CAGR of 17.9%.[26] In our view, if we continue to be disciplined in our stock-picking approach, i.e., relying on established franchises with strong moats and visible growth as we have done over the past 20 years, then we believe the earnings growth outlook for the next five years could support our current optimism.

Figure 13. Comgest China Equities Strategy – EPS NTM: Past, Present and Future



Source: Comgest, data as of 31-Dec-2021. "Expon." refers to exponential. The solid green line is 5-year forecast fund EPS.

[23] Source: CSI 300 index vs. MSCI ACWI, data from Factset for indices and volatility, as of 2002-04-01 to 2022-03-31, expressed in USD.
[24] Portfolio turnover (PTR) provided above is according to the SEC definition lesser of purchases and sales divided by average NAV over 12 months and is for information purposes only. Turnover information for the portfolio is available only from 2007, on an annual basis.
[25] Source: Comgest. Past performance is not a reliable guide to future performance. Performance data is expressed in EUR, as of 31-Dec-2021. Performance figures are calculated net of investment management fees, administrative fees and all other fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance.
[26] Source: Comgest, Factset, data as of 31-Mar-2022.

PERFORMANCE AS OF 31-MAR.-2022:

Cumulative performance since inception (%)

Rolling performance (%)

	1 Month	QTD	YTD	1 Year	Annualised 3 Years	5 Years	10 Years	Inception 11/04/2001
Rep. Acct.	**-8.75**	**-13.21**	**-13.21**	**-27.63**	**-3.40**	**1.43**	**7.97**	**9.50**
Index	-7.12	-12.30	-12.30	-28.74	-2.71	1.32	6.27	5.11

Past performance does not predict future returns. Source: Comgest / FactSet financial data and analytics, unless otherwise stated. Data as of 31-Mar-2022 expressed in EUR. Index: MSCI China - Net Return (changed from MSCI AC Golden Dragon - Net Return on 01/01/2018). The index is used for comparative purposes only and the Fund does not seek to replicate the index. Performance figures are calculated net of investment management fees, administrative fees and all other fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance.

Calendar Year Performance (Net, Annualised)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Rep. Acct.	**-22.3**	**20.2**	**2.0**	**33.7**	**14.2**	**9.9**	**29.1**	**-17.3**	**26.7**	**14.9**	**-12.0**
Index	-15.9	20.3	2.3	22.7	3.1	8.6	26.3	-14.8	25.7	18.8	-15.8
+/-	-6.3	-0.1	-0.2	11.0	11.0	1.4	2.8	-2.5	0.9	-3.9	3.8

Source: Past performance is not a reliable guide to future performance. Performance data is expressed in EUR, as of 31-Dec-2021. Index: MSCI China - Net Return (changed from MSCI AC Golden Dragon - Net Return on 01/01/2018). The index is used for comparative purposes only and the Fund does not seek to replicate the index. Performance figures are calculated net of investment management fees, administrative fees and all other fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance.

MAIN RISKS

- Investing involves risk including possible loss of principal.
- The value of all investments and the income derived therefrom can decrease as well as increase.
- Changes in exchange rates can negatively impact both the value of your investment and the level of income received.
- Emerging markets may be more volatile and less liquid than more developed markets and therefore may involve greater risks.
- The performance of a portfolio investing in a single country could be more volatile than the performance of more geographically diversified portfolios.
- A portfolio invested in a limited number of securities may entail higher risks than portfolios which hold a very broad spread of investments.

APPENDIX I

ESG ANALYSIS: METHODOLOGY AND RESULTS

Comgest uses its proprietary ESG analysis to assess the quality of companies. Comgest's investment team, together with a team of dedicated ESG analysts, focuses analysis on the most material ESG criteria. Following each ESG assessment, an internal score called the "ESG Quality Level" may be assigned to each company. This score reflects Comgest's assessment of the company's ESG quality and may have an impact on the discount rate used in the in-house company valuation model. Details of Comgest's ESG integration process are provided in our Responsible Investment Policy, which is available on our website.

Comgest's analysts develop their ESG analysis and determine a company's ESG Quality Level based on the available data from ESG data providers as well as our own internal research and engagement. It is important to note that the scores given by the ESG data providers are not under any circumstances used by Comgest as a basis to determine our internal ESG Quality Levels. Our analysts prefer to use raw data and fundamental analysis to form their own opinions.

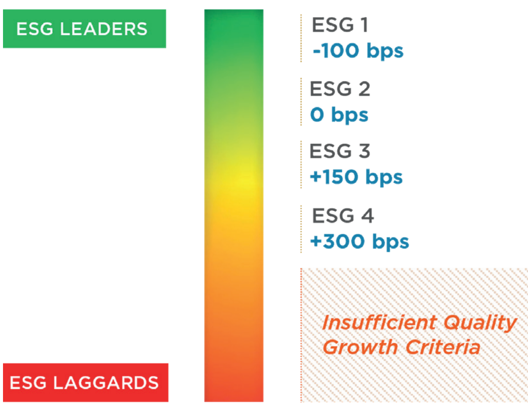
The companies that are included in Comgest's "developed markets" and "emerging markets" investment universe already have a high-quality level, having been selected according to Comgest's Quality Growth criteria. Further ESG analysis enables the perception of each company's ESG Quality Level to be graded on a scale from 1 to 4:

ESG QUALITY LEVEL	DESCRIPTION (ONE OR MORE OF THE SAMPLE ELEMENTS BELOW)
1 **ESG Leader**	Sustainability/CSR fully embedded in corporate culture, strategy to benefit from ESG opportunities, excellent disclosure, mitigation of existing ESG risks
2 **Good Quality**	Good awareness and mitigation of low ESG risks, adequate disclosure, few controversies, able to benefit from ESG opportunities
3 **Basic Quality**	Basic awareness of ESG risks, limited measures in place, moderate ESG risk exposure, low disclosure, ESG controversies, room for improvement
4 **Improvement Expected**	High ESG risk exposure, no consideration of ESG risks, very low or absence of disclosure, no mitigation measures, significant ESG controversies, priority for engagement

For each ESG Quality Level there is a corresponding impact (positive, neutral or negative) on the discount rate in the company's valuation model. Ultimately, this adjustment to the discount rate, to reflect the ESG aspects that cannot be accurately factored in at the level of the cash flows, has an impact on the target share price. In addition, the qualitative elements of the ESG analysis are discussed at research meetings. This qualitative aspect is a very important part of the Comgest investment process. Consequently, the ESG analysis influences the investment team's degree of conviction. This degree of conviction determines the company's weighting within the portfolio.

In Comgest's view, companies assigned with an ESG Quality Level of 3 or 4 offer the most potential for improvement, provided they are able to develop their ESG risk management and/or their ability to benefit from ESG-related growth opportunities (health and well-being, eco-design, ageing population, cyber-security, energy efficiency, etc.). For this reason, Comgest's ESG integration process is combined with a shareholder engagement policy and this leads to a highly active engagement agenda.

COMGEST ESG QUALITY LEVELS
AND DISCOUNT RATE IMPACT (EM)



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Data as of 31 March 2022, unless stated otherwise.

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