

WOLFGANG FICKUS, CFA

## GREATER CHINA EQUITIES

### THE EARLY BIRD CATCHES THE WORM

#### THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET



Wolfgang Fickus, CFA  
Member of the Investment Committee

The Shenzhen-Hong Kong Stock Connect, launched in December 2016, is the second leg of a Chinese Connect Scheme. The program began in 2014 with the Shanghai-Hong Kong Stock Connect and offers foreigners seeking to invest in mainland Chinese equities the only direct alternative to A-share quotas. Due to existing market inefficiencies as evidenced in the high stock return dispersion of the Chinese equity market, we consider that Chinese equities are favourable for long-term stock pickers. In our view, market capitalisation weighted indices (i.e., passive investment) remain strongly exposed to the “Old China” and fail to fairly reflect the considerable prospects arising from the rapid shift of the economy towards consumption and services. Based on our two-decade-long research and portfolio management presence in Hong Kong, we have been progressively seizing Chinese stock picking opportunities for our clients. Today, this places us in a position contrary to the majority of the active emerging markets fund management industry, which is still significantly underweight China. Despite the headlines that the country generates, Chinese stocks have been the dominant driver of both absolute and relative performance in our Global Emerging Markets and Asia ex Japan regional strategies in recent years. In addition, our Comgest Greater China portfolio has been fertile ground for new idea generation and offers the purest play on the strong investment opportunities in the regional market created by the combination of China’s increased equity market opening and structural economic shift.

#### THE CONNECT SCHEME: COMGEST INVESTS, FOREIGN INVESTORS STAY ON THE SIDELINES

The Shenzhen- and Shanghai-Hong Kong Connect scheme gives access to more than 50% of China’s market capitalisation or around 1447 stocks through the Hong Kong Exchange. The scheme allows international

— For foreigners seeking to invest in mainland Chinese equity, the Connect Scheme offers the only direct alternative to A-share quotas



Source: World Federation of Exchanges ([www.world-exchanges.org](http://www.world-exchanges.org)), data as of December 2016.

WOLFGANG FICKUS, CFA

## THE EARLY BIRD CATCHES THE WORM

### THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

investors a route to market that largely circumvents the continued capital controls on the renminbi. The connect programs are opening the door to one of the most liquid equity markets in the world. As of 2016, Shenzhen and Shanghai stock turnover represented 22% of the total global stock exchange (US\$19tn).<sup>1</sup>

Full utilisation of the existing allocated A-share quotas<sup>2</sup> would allow foreign investors to hold 3.2% of mainland Chinese market capitalisation. Currently, however, only 1.25%<sup>3</sup> of the mainland Chinese market capitalisation is in the hands of foreigners. We also note that China has remained one of the most underweight countries in active global emerging markets portfolios for a number of years. Even worse, the more active the managers are, the more underweight they seem to be. According to the Financial Times, “Among ‘high-active’ funds, defined as those having an active share — the degree to which their portfolio differs from the underlying index — of at least 75 per cent and fewer than 75 holdings, the underweighting of China is more pronounced still, at 8.4 percentage points, compared to the 3.2 points for ‘low-active’ funds”.<sup>4</sup> The divergence between investable quotas and actual holdings, as shown by Figure 1, demonstrates that foreign equity investors have not been seizing the mainland equity market opening over the past three years.

Figure 1. Widening gap between investable quotas and actual foreign A-share holding



Source: Comgest/Citi Research, as of February 2017.

— High share return dispersion, liquid equity markets and high active share may be the best ingredients for alpha generation, but the higher the active share among emerging markets equity managers, the less inclined they are to invest in China

In China, there is a paradox. High share return dispersion mixed with liquid equity markets and high active share are the best ingredients for alpha generation. However, the higher the active share amongst emerging markets equity managers, the less they are inclined to invest in China. This suggests that a combination of technical elements – essentially access – and country allocation elements, driven by negative macro views concerning alpha opportunities, are dominating decision-making. The bulk of the active emerging markets fund management industry has yet to build up local stock picking expertise. Without local stock picking skills,

<sup>1</sup> World Federation of Exchanges

<sup>2</sup> Adding RQFII and QFII approved quotas to the Connect Scheme quotas for Shenzhen and Shanghai stock exchanges.

<sup>3</sup> The Peoples Bank of China as of end February 2017.

<sup>4</sup> Johnson, Steve. “Fund managers wary of Chinese stocks.” *Financial Times*, 1 March 2017.

WOLFGANG FICKUS, CFA  
**THE EARLY BIRD CATCHES THE WORM**  
 THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

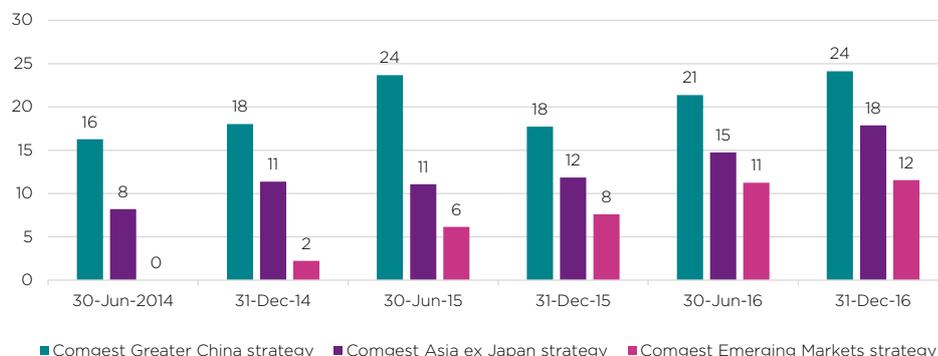
high share return dispersion is a risk to fear rather than a potential area for alpha generation.

While this view is particularly top down, it correlates to what Comgest has progressively discovered since receiving our first Qualified Foreign Institutional Investor (QFII) quota in 2011. Our active investigations into investment opportunities in the domestic Chinese market has made us increasingly positive from the bottom-up, i.e. one business at the time. It always pleases us, as bottom-up stock pickers, to see how the top-down and bottom-up fit together, like pieces of a jigsaw puzzle. In the case of China, we found ourselves constantly asking: why are other investors not seeing the same potential? Our conclusion was that they were being overly swayed by macro concerns.

Comgest, in contrast, has embraced the opportunity to selectively invest in the world's second biggest economy via the Chinese mainland equity markets for years. The exposure to A-shares has grown consistently in our Global Emerging Markets strategy, our Asia ex Japan strategy and, in particular, our Comgest Greater China strategy (see Figure 2).

— Comgest received our first Qualified Foreign Institutional Investor (QFII) quota in 2011

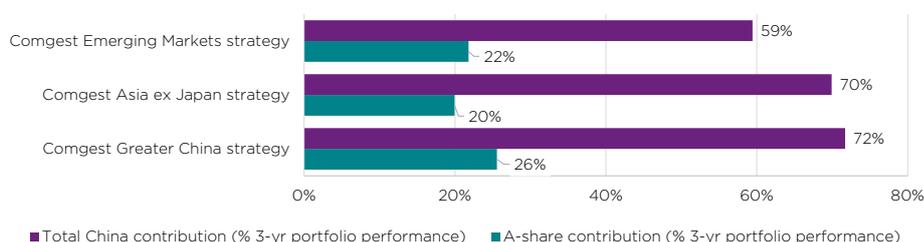
Figure 2. Comgest A-share exposure in global and regional emerging markets funds



Source: Factset/Comgest, data as of December 2016.

These A-shares have been an important incremental driver for our increased exposure to China. The fact that our Global Emerging Markets portfolio positioning is contrarian to most active emerging markets managers is just an outcome (see Figure 3), rather than by design.

Figure 3. Contribution of A-shares and China Exposure to Performance



Source: Factset/Comgest, data as of December 2016.

WOLFGANG FICKUS, CFA

**THE EARLY BIRD CATCHES THE WORM**

## THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

With a presence in Hong Kong for more than 20 years, Comgest's extensive experience on the ground allows us to understand the pitfalls and opportunities of the Chinese equity market, from governance risks to growth opportunities. Our approach has always been resolutely bottom-up with investments in what we view as quality growth companies, which combine visible growth with solid balance sheets. For over 30 years, selectivity is, and always has been, key to our approach. Based on our concentrated portfolios and background in Chinese equities, we view inefficient markets (as demonstrated by the high share return dispersion) not as a risk, but rather as an opportunity to generate alpha.

**AN IRREVERSIBLE A-SHARE MARKET OPENING?**

Although China's market opening appears to be going well, investors occasionally confront us with doubts about the sustainability of Chinese reform efforts to open equity and bond capital markets to foreigners. While a step backwards is possible, the deregulation of the equity market when viewed through the prism of China's general and economic liberalisation strongly suggests that this process is irreversible. Over the last three decades, the country has progressively transformed its economy from a rural socialist system into an increasingly modern, liberal – though clearly not yet fully liberal in a western sense – and market-driven economy. While the rate and efficiency of change can be debated, the direction is very hard to argue against.

If we assume this backdrop, then the continued opening of the investment markets, bonds or equity, are simply logical progressions of an established trend. The ultimate step in this process is the desire of China to internationalize the renminbi, and hence the complete opening of its capital account. The Connect program is one example that the government is indeed delivering on reforms in this regard: not only can foreigners buy renminbi-denominated mainland shares, but the Chinese can buy Hong Kong dollar-denominated shares as well. The admission of the renminbi to the International Monetary Fund's Special Drawing Right basket of currencies on 1 October 2016, was further international recognition that China is on the right path to join the advanced economy club not only in global trade, but also in international financial markets.<sup>5</sup> This process, in our view, is not easily reversible.

The possibility should nevertheless be considered as a "tail-risk" in our opinion rather than a base case assumption, which is somewhat at odds with the market perception. While a fully convertible currency – not only for trade purposes – is part of this plan in the long run, this is clearly the toughest step for Beijing to take.

**Comgest's  
experience in  
Chinese equities  
enables us to view  
inefficient markets  
not as a risk, but  
as an opportunity to  
generate alpha**

— **China has progressively transformed its economy from a rural socialist system into an increasingly modern, liberal (if not completely up to Western standards) and market-driven economy in just over three decades**

<sup>5</sup> "IMF Adds Chinese Renminbi to Special Drawing Rights Basket." IMF. 30 Sept 2016 (<http://bit.ly/2cOYdZO>).

WOLFGANG FICKUS, CFA

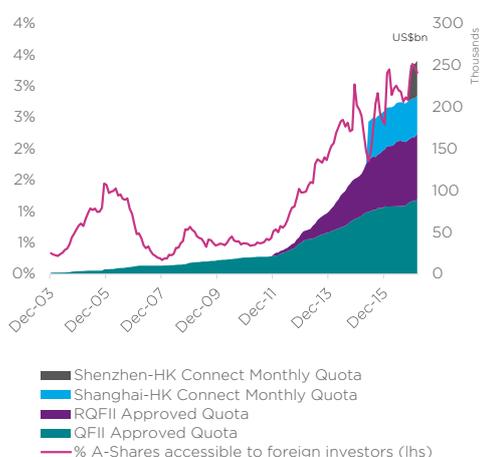
## THE EARLY BIRD CATCHES THE WORM

### THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

Another detail that demonstrates the country’s foreseeable opening of capital accounts are their highly interconnected global trade links, which have made it increasingly difficult for China to completely control their capital account. In addition, capital allocation could be improved, if the renminbi could more freely leave the narrow boundaries of its domestic economy, where it causes imbalances, such as dangerous debt built up in SOEs and local governments, or the domestic presence of speculative excesses and asset bubbles. China, however, will set the speed of their capital account liberalisation. This is the long, tricky and sometimes frustrating aspect of Chinese reform efforts: things get done, but it takes a while to get them done, and no one can seriously pretend to know how long it will take to fully open Chinese capital markets or achieve the complete convertibility of the renminbi.

For stock pickers like Comgest, in contrast, the liquidity that we require to invest in concentrated equity portfolios in mainland China has already strongly improved as noted in Figure 4. Although a completely convertible currency would be pleasing, it is not – given the structures in place – a necessary condition for investment. Across emerging markets we are used to dealing with currency constraints, investor identification and similar issues. Based on our experience, the road to China is comfortably open for us to pursue our objective of selectively investing in high quality franchises.

Figure 4. A-Share quotes for foreign investors

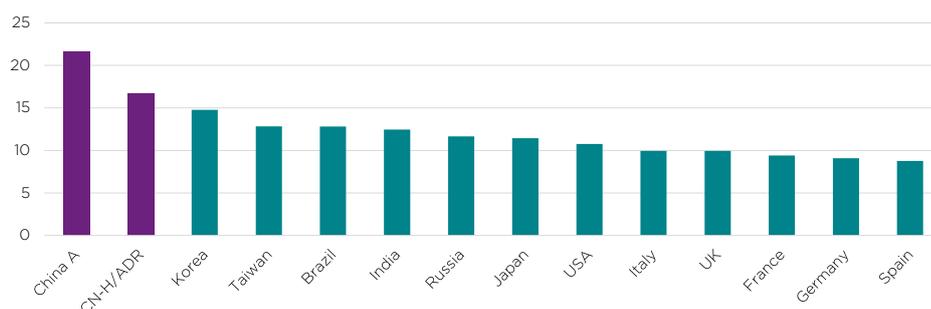


Source: Citi Research, Strategy Asia/China, data as of February 2017.

## MAINLAND CHINESE EQUITY MARKET: STILL INEFFICIENT, THEREFORE YIELDING ALPHA OPPORTUNITIES

Before looking at the result of our local stock picking exercise, it is instructive to highlight some of the particularities of the domestic Chinese stock markets. Let’s start with the large dispersion of share returns, which has been structurally higher than most other emerging and virtually all developed markets, as Figure 5 demonstrates. Indeed, it can be up to three times higher in comparison to developed continental European markets, and could of course be a source of significant alpha if the right stocks are selected.

Figure 5. Average monthly stock return dispersion\* (2010-2016)



\*Return dispersion is calculated by taking the difference between the 10th and the 90th percentile of stocks based on their monthly returns

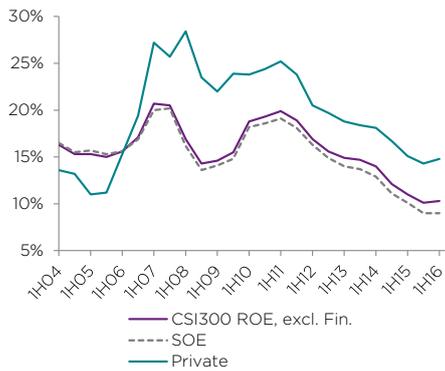
Source: Factset/CLSA, data as of 30 November 2016.

WOLFGANG FICKUS, CFA

**THE EARLY BIRD CATCHES THE WORM**

THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

**Figure 6. CSI 300 ROE – SOEs versus private companies**

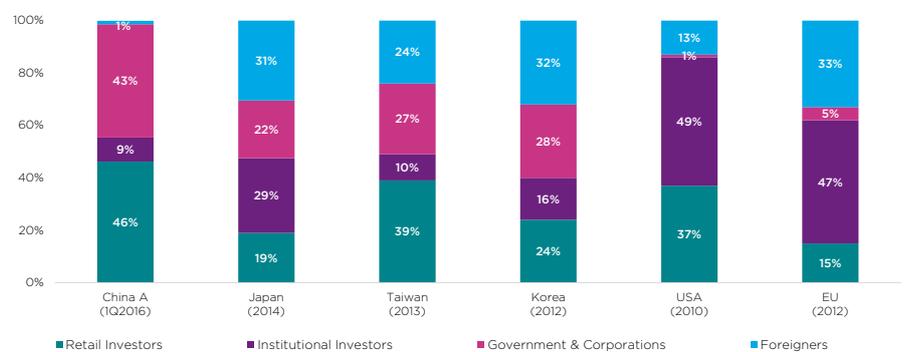


Source: Factset/Comgest, data as of August 2016.

The share return dispersion can be further explained by the dichotomy between SOEs and non-SOEs as shown in the wide ROE gap between both pockets of the market in Figure 6. SOEs do not tend to be driven solely for shareholder interests and that makes them a less attractive investment proposition if we look at both pockets of the market on a consolidated basis. This large and persistent fundamental gap translates into divergence of share returns over the long term.

Another important aspect is the composition of the investor base, as noted in Figure 7. The dominance of less sophisticated private retail as well as state shareholders is the direct result of a lack of professional investors. Roughly half of the A-share market cap is held by retail investors, which have historically been short-term and speculative in nature while typically working with a high degree of leverage by way of broker margin lending. That increased volatility, exacerbating share return dispersion and has been a common phenomenon among “young” North Asian markets with similar trends, e.g. Hong Kong and Taiwan. The second most important shareholder group are state bodies, which are the key shareholders of Chinese SOEs. They act in line with state, not minority, shareholder interests and can also be thought of as inefficient capital. Only about 10% of the mainland Chinese equity market is in the hands of professional investors, a far cry from developed markets such as Japan, the US or Europe. However, even this professional investment capital tends to be somewhat short-term in its investment horizon, as evidenced by the average holding periods. In combination with a fairly inexperienced regulator, which increased rather than reduced volatility during the H1 2015 market correction, this structure underlines the continued inefficiency of the mainland Chinese equity market.

**Figure 7. Shareholder structure: Mainland China in hands of retail and state investors**



Source: Citi Research, Strategy Asia/China, data as of October 2016.

In the past six years, Comgest has diligently worked to build upon our historic knowledge in order to have a sound grasp of the fundamentals of a limited number of quality growth Chinese companies. Has this approach allowed us to seize growth opportunities in an economy that has made large and rapid structural shifts away from manufacturing

WOLFGANG FICKUS, CFA

## THE EARLY BIRD CATCHES THE WORM

### THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

— China has been the dominant driver of return in our Global Emerging Markets and Asia ex Japan strategies

and industrials to consumption and services? Does it enable us to make an excess return without taking excessive risks from these market inefficiencies?

To answer these questions, we measured the contribution of A-share investments over the past three years following the Shanghai-Hong Kong Connect launch, as well as our broader success across our Chinese stock picks including H-shares and ADRs, to the three-year total returns of our Global Emerging Markets, Asia ex Japan and Greater China strategies. The contribution of our A-share stock picking has been homogeneous and positive across all three strategies, similar to the strong contribution of our total Chinese stock picking exposure. As previously seen in *Figure 4*, China has been the dominant driver of return in our Global Emerging Markets and Asia ex Japan strategies.

### COMGEST GROWTH THEMES AND STOCK PICKS IN CHINA

The Chinese middle class is growing, and the strong demand for services is a reality. In areas such as online gaming, digital advertising and internet innovation Chinese companies already compete heads on and very successfully with developed market players. Our China stock picks, such as **NetEase** and **Baidu**, are exposed to these long-term trends and resolutely focused on consumers, who have become the driving force of the economy. These long-term holdings have clear positions of market strength to capture this growth. NetEase is the leading game content company in China, with a substantial number of desktop and mobile games, as well as the expertise to develop content that resonates with the Chinese population and has the flexibility to adapt to new methods of consumption, e.g., smartphones. Baidu, in comparison, has used its core search franchise to build various other franchises, including maps and online video where it has the advertising capability to turn users into advertising revenue. The company was distracted in 2015 by new business lines, but in 2016 it refocused on the core businesses, which has encouraged us to rebuild a larger position.

In consumer industries such as the retail market, the explosive development of internet, combined with a comparatively underdeveloped retail infrastructure, has leapfrogged China's switch from brick and mortar to eCommerce. This provides ample opportunities, but also risks, as brick and mortar business models rapidly lose their appeal. Our long-standing local presence has helped us to avoid this pitfall, since we have not been exposed to brick and mortar retailers for almost four years. In our regional strategies, **Vipshop**, which holds an increasingly prominent portfolio position, is China's largest online discount retailer focusing on flash

The consumer discretionary and staples sectors offer exposure to the rising Chinese middle class

WOLFGANG FICKUS, CFA

## THE EARLY BIRD CATCHES THE WORM

THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

sales in high volume campaigns with up to 70% discounts. Although their innovative business model faces scepticism from the market, our fundamental analysis has enhanced our confidence in their business model – meaning that we can use the market scepticism to hold the position at reasonable valuations given its track record of growth.

The consumer discretionary and staples sectors offer various means of exposure to the rising Chinese middle class. **Kweichow Moutai**, the market leader in the high-end spirits market via its strong position in traditional Chinese Moutai, is one such name that we have held for the past four years. The company successfully transformed itself from the official banquet spirit for high-end parties and military officials to an aspirational brand for all Chinese consumers, a transformation achievable due to the extremely historic brand image that the company has built over many decades. In China, such significant domestic brands are difficult to find. With regard to consumer staples, Inner Mongolia Yili Industrial, a consistent part of our portfolio for some years, is now the leading dairy company in the country having recently dethroned China Mengniu. For Comgest, who ranks number one and two is less relevant than the fact that Yili has been able to grow dynamically by innovating products and consistently reinvesting in the brand to establish a distinctive awareness among consumers.

— The household savings rate in China is among the highest in the world, the level of personal wealth is greatly increasing, but their social security system is lacking -- driving a demand for life insurance, savings and protection products

Although the household savings rate in China is amongst the highest in the world and the level of personal wealth is greatly increasing, their social security system is lacking. That savings pool combined with social insecurity drives a demand for life insurance, savings and protection products. For the past decade, the Chinese market for life insurance has been expanding, with premium growth in the high teens that we believe should continue for many years to come. Due to our investment in **Ping An** and **China Life**, we currently capture 40% of this growth market both in rural, urban and high-income coastal regions.

Additionally, we find examples of global market-leading Chinese companies within the industrial space. Most notable in our portfolio is **Hangzhou Hikvision**, the leading global producer in surveillance equipment, such as cameras, and more importantly, the back-end systems to utilise the stream of digital information flowing from the cameras. The image and pattern recognition software that allows this company to offer advanced services is a capability built up through repeated reinvestment in R&D that is now being supported by corporate and institutional clients on a global scale, sales to consumer companies, police departments and prison systems, as well as traditional retail and infrastructure clients.

WOLFGANG FICKUS, CFA

## THE EARLY BIRD CATCHES THE WORM

THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

### SHOULD WE CARE ABOUT MSCI INCLUSION?

A full inclusion of A-shares into the MSCI Emerging Markets would today leave China with a 40% weighting in the index. That is not an important consideration for us as stock pickers and generally should not be for active managers since we do not believe a market capitalisation-weighted index is the right yardstick to assess the opportunities that are emerging from China's structural economic shift. The index reflects too much of the 'old China' with a number of large or mega-cap SOEs that active investors might want to stay clear of since these companies have much less attractive secular outlooks. The inefficiency of passive investment forces investors to own such companies. This type of investment strategy could also lack the liquidity necessary to track the very broad Shanghai and Shenzhen stock exchanges, which is contrary to our concentrated investment approach.

For Comgest, China will continue to be particularly important in view of its size, structural backdrop, growth potential and our experience on the ground. As of today, the increased market opening has provided us with ample liquidity to implement our quality growth approach and we are continuing to invest in our internal analytical capacity for future benefit.

### COMGEST PERSPECTIVE ON CHINA MACRO CONCERNS

Comgest does not claim to be macroeconomic specialists, but we of course aim to understand the general environment in which our companies operate. Importantly, while we are constructive on the wider framework in which the Chinese economy has evolved over time, we do not need to be "macro bulls" on the country as our approach is resolutely bottom-up and reflects the risks of uncertainty via conservative discount rates. Our investment approach includes neither sector nor country allocation. Portfolio construction is purely bottom-up yielding concentrated portfolios of 30-45 of our best ideas.

China today is much more than just "the manufacturing centre of the world". The middle class is growing and the strength of services is a reality, with the internet in addition to broader economic and industrial innovation – being a formidable driver of change. Fears of protectionism are relevant, but it is noteworthy that exports as a share of the Chinese economy have almost halved to below 20%, a level comparable to the early 2000s before China joined the World Trade Organization. In other words, China's "globalisation dividends" have already diminished to some extent. Still, it is in China's best interests to avoid an escalation of trade frictions with the US, simply because it has more to lose. Nonetheless, in view of the

**The market opening in China has provided Comgest with ample liquidity to implement our quality growth approach**

— We do not need to be "macro bulls" on China as our approach is resolutely bottom-up and reflects the risks of uncertainty via conservative discount rates

WOLFGANG FICKUS, CFA

## THE EARLY BIRD CATCHES THE WORM

### THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

rise of consumption and services, external demand is not going to play the same central role for the development of its economy during the next 15 years as it did during the previous 15-20 years.

While manufacturing represents 25% of employment, the country has already embraced the future: China has been the growth driver for the global factory automation industry, i.e. robotics, for many years since “China Inc.” needs to stay competitive with the pressure of rising real wages – a fact to which investors in our Comgest Japan strategy can attest. In addition, leverage has dangerously crept up in SOEs and local government entities, where overcapacity plagues industries such as steel, coal, cement or paper. However, the importance of SOE’s in commodity industries for employment is minimal. The steel, coal and cement industries currently employ 10 million Chinese, which is about 1% of the working age population. This is hardly a threat to the growth of the middle class. Our selective investment approach allows us to stay clear of commodity industries and to invest in the ample growth available on the consumer and services side. With no exposure to the materials and commodities sectors in our global and regional emerging markets portfolios in recent years, our focus has been steadfast on the Chinese consumer. Overall, the importance of SOEs for the Chinese equity market is dwindling. The economy has already been in full swing for a number of years. SOEs were 95% of the MSCI China market cap in 2005, 50% today, and are forecast to represent just 30% by 2020.<sup>6</sup>

— SOEs were 95% of the MSCI China market cap in 2005, 50% today, and are forecast to represent just 30% by 2020

Clearly, SOE leverage is a serious issue, but is it a manageable one? Based on a persistent trade surplus, the rise in Chinese leverage has been self-funded. The capital account is controlled, foreign currency debt minimal and the currency unpegged, while foreign currency reserves are still at very high levels. Although the debt situation looks critical in terms of numbers, it seems manageable in our view due to China’s specific macro set up and strong external and funding position. Most important to us is that the high leverage of the Chinese economy has not artificially boosted consumption, as was the case in many other emerging and developing markets economies. The Chinese consumer remains in good financial health based on tangible increases of salaries in real terms.

<sup>6</sup> Citi Research Report (2016).

WOLFGANG FICKUS, CFA

**THE EARLY BIRD CATCHES THE WORM**

THE OPENING OF THE MAINLAND CHINESE EQUITY MARKET

— Local expertise and global perspective are important for successful stock-picking in China

**CONCLUSION**

China is a stock picker’s market and ill-suited for passive investors as market inefficiencies, high share return dispersion and liquidity conditions are more aligned with an active and concentrated investment approach. A combination of local expertise and global perspective is important to do a successful stock-picking job, to know which companies really stand out and to have the conviction to invest where we see opportunity. From our perspective, market capitalisation-weighted indices do not reflect the opportunities in the Chinese economy linked to the rapid shift towards consumption and services. Paradoxically, active emerging markets equity managers with active shares over 75% have not yet seized the stock-picking opportunities in the world’s second largest equity market since existing quotas for mainland shares are underutilised and China remains more than 8% underweight in their global emerging markets portfolios.

Comgest, meanwhile, has been leveraging its longstanding Hong Kong presence and used the Connect scheme and QFII quotas to increase exposure to quality growth franchises in China. Given the breadth of the stock market, our Global Emerging Markets strategy is likely to maintain strong exposure to the country. As China has been the key contributor to absolute and relative performances of our Global Emerging Market and Asia ex Japan regional strategies, our local expertise has allowed us to extract significant value for our clients. With the ongoing economic transformation towards more consumption and services, and considering the diversity and breadth of its stock market, the advantages for stock picking in China are not likely to wane in our view. We will continue to pursue these opportunities for our clients with a steadfast focus on the Chinese consumer and a belief that the market opening is unlikely to be reversed. In our view, the further opening of the market is just a matter of time and should ultimately attract more foreign investors.

— Comgest has leveraged its longstanding Hong Kong presence and used the Connect scheme and QFII quotas to increase our exposure to quality growth franchises in China



**Wolfgang Fickus, CFA**  
Member of the Investment Committee

---

Wolfgang Fickus is a graduate of the University of Cologne (Germany) with a degree in business administration (Diplom-Kaufmann) and studied at the London Business School. He also holds a CEMS Master’s in international management and is a CFA® charterholder. Wolfgang began his career in 1995 at Paribas Asset Management Paris as a European-equity fund manager. In 2000, he moved to WestLB where he worked as an analyst for European technology stocks before becoming the Head of Mid- and Small Cap Research in 2005. Wolfgang joined Comgest in September 2012 and is a Member of the Investment Committee.

---

**FOR PROFESSIONAL INVESTORS ONLY**

This document has been prepared for professional/qualified investors only and may only be used by these investors. This material is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. The contents of this document should not be treated as advice in relation to any potential investment.

The information contained in this communication is not an 'investment research' and is classified as a 'Marketing Communication' in accordance with MIFID II. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The securities discussed herein may not be held in the portfolio at the time you receive this document and are subject to change without notice.

Performance figures are provided net of all fees unless otherwise stated and are calculated on a time-weighted, total return basis.

Past performance is no guarantee of future results. Indices are used for comparison of past performance only. The investment may be subject to sudden and large falls in value and the investor could lose the total value of the initial investment. Income may fluctuate in accordance with market conditions and taxation arrangements. Movements in exchange rates can negatively impact both the value of the investment and the level of income received. Funds which specialise in a particular region or market sector may entail higher risks than those which hold a very broad spread of investments. The difference at any one time between the sale and repurchase price of units in the sub-funds means that the investment should be viewed as long term.

Reference to market indices or other measures of relative market performance over a specified period of time are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to the index. The composition of the index will not reflect the manner in which a portfolio is constructed.

The information in this publication and any opinions have been obtained from or are based on information from sources believed to be reliable, but accuracy cannot be guaranteed. No liability is accepted by Comgest in relation to the accuracy or completeness of the information contained in this document. The information in this document is not comprehensive and is presented for informational purposes only. All opinions and estimates constitute our judgment as of the date of this commentary and are subject to change without notice. Forward looking statements, data or forecasts may be not be realised.

Comgest does not provide tax or legal advice to its clients and all investors are strongly urged to consult their own tax or legal advisors concerning any potential investment. Before making any investment decision, investors are advised to check the investment horizon and category of the Fund in relation to any objectives or constraints they may have. Investors must read the latest Fund prospectus and the Key Investor Information Document ("KIID"), available at our offices and on our website [www.comgest.com](http://www.comgest.com).

Investors shall undertake to respect the legal, regulatory and deontological measures relative to the fight against money laundering, as well as the texts that govern their application, and if modified investors shall ensure compliance with the applicable texts.

The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the "MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The investment professionals managing or advising on Comgest portfolios are employed either by Comgest S.A., Comgest Asset Management International Limited, Comgest Far East Limited, Comgest Asset Management Japan Ltd., Comgest US L.L.C. and Comgest Singapore Pte. Ltd. Comgest S.A. is regulated by the Autorité des Marchés Financiers (AMF). Comgest Far East Limited is regulated by the Hong Kong Securities and Futures Commission. Comgest Asset Management International Limited is regulated by the Central Bank of Ireland and the U.S. Securities and Exchange Commission. Comgest Asset Management Japan Ltd. is regulated by the Financial Service Agency of Japan (registered with Kanto Local Finance Bureau (No. Kinsho 1696)). Comgest US L.L.C is regulated by the U.S. Securities Exchange Commission. Comgest Singapore Pte Ltd, is a Licensed Fund Management Company & Exempt Financial Advisor (for Institutional and Accredited Investors) regulated by the Monetary Authority of Singapore.

---

**[www.comgest.com](http://www.comgest.com)****COMGEST S.A.**

17 square Edouard VII, 75009 Paris,  
France  
Tél : (+33) 1 44 94 19 00  
[info@comgest.com](mailto:info@comgest.com)

**COMGEST FAR EAST LIMITED**

Level 10, 28 Hennessy Road,  
Hong Kong  
Tél : (+852) 3972 0200  
[info.asia@comgest.com](mailto:info.asia@comgest.com)

**COMGEST ASSET MANAGEMENT  
INTERNATIONAL LIMITED**

46 St. Stephen's Green,  
Dublin 2, Ireland  
Tél : (+353) 1 631 0100  
[info.camil@comgest.com](mailto:info.camil@comgest.com)

---

**COMGEST ASSET MANAGEMENT JAPAN LTD.**

Prime Building 5/F, 2-13 Hayabusacho,  
Chiyoda-ku,  
Tokyo 102-0092, Japan  
Tel: (+81) 3 5212 4371  
[info-jp@comgest.com](mailto:info-jp@comgest.com)

**COMGEST SINGAPORE PTE. LTD.**

Comgest Singapore Pte. Ltd,  
8 Temasek Boulevard,  
#20-01A Suntec Tower Three,  
Singapore 038988  
Tel: (+65) 6672 7100  
[info.asia@comgest.com](mailto:info.asia@comgest.com)

**COMGEST DEUTSCHLAND GMBH**

Sky Office  
Kennedydamm 24  
40476 Düsseldorf  
Tel: (+49) 211 44 03 87 0  
[kontakt@comgest.com](mailto:kontakt@comgest.com)

---

**COMGEST US LLC**

101 Arch Street, 8th floor  
Boston, MA, 02110, USA  
Tel: (+1) 857 304 0135  
[info.us@comgest.com](mailto:info.us@comgest.com)

**COMGEST BENELUX B.V.**

Gustav Mahlerplein 3-115  
1082 MS, Amsterdam  
The Netherlands  
Tel: (+31) 6 229 20 612  
[contactnl@comgest.com](mailto:contactnl@comgest.com)