

# Monthly Insights

## FengHe Asia Fund

**Objective:** FengHe Asia Fund is a long-short equity fund that seeks to achieve capital appreciation by primarily investing in the public equities of companies that benefit or are impacted directly or indirectly from Asia's economic transformation.

**Approach:** The team has utilized their proprietary research framework to perform fundamental bottom-up long-short approach under a resilient and diversified portfolio architecture of low net, low leverage, low concentration and low correlation as well as an active and disciplined risk management system to manage the market volatility and drawdown risks.

### Fund Data:

Return Jan 2022 (net):	-5.10%
Return YTD (net):	-5.10%
Trailing Twelve Months (net):	14.19%
Annualised return since inception (net):	14.94%
Fund return since inception (net):	256.23%
FengHe Asia AUM (31 <sup>st</sup> Jan US\$ mil):	2311.0
Firm wide AUM (estimated US\$ mil):	3247.5

### Risk:

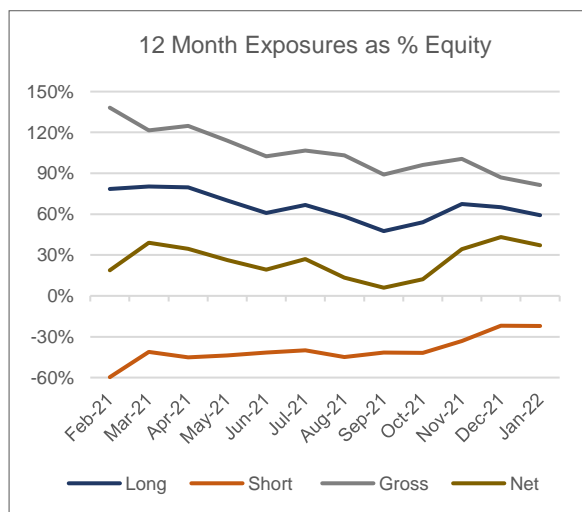
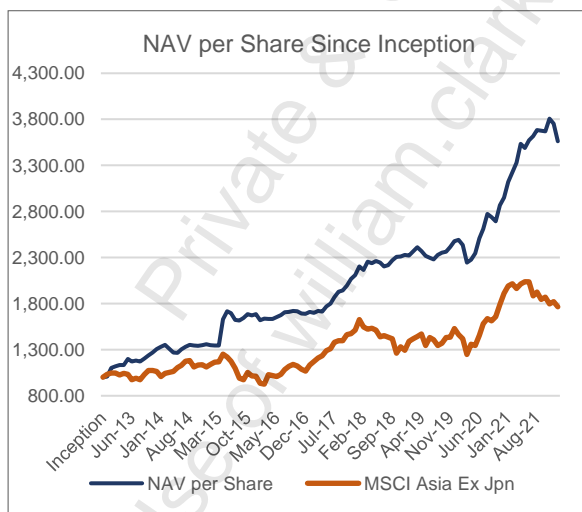
Sharpe Ratio:	1.25
Sortino Ratio:	3.12
95% Confidence VaR as %Eqty 1 Day:	-0.94
95% Confidence VaR as %Eqty 5 Day:	-2.11
Annualized Volatility since inception	11.1%
Correlation to MSCI AEJ since inception	0.42
Largest Drawdown:	-9.89%
Leverage:	0.81

### Top 5 Winners and Losers:

<i>Industrials</i>	Short	0.38
<i>Industrials</i>	Short	0.34
<i>Consumer Discretionary</i>	Short	0.31
<i>Health Care</i>	Short	0.21
<i>Health Care</i>	Short	0.19
Genscript Biotech (1548 HK)	Long	-0.50
Shanghai Milkground (600882 CH)	Long	-0.54
Betta Pharma (300558 CH)	Long	-0.60
Sony Group (6758 JP)	Long	-0.62
Sumco (3436 JP)	Long	-0.66

### Concentration Data:

No. Longs	48
No. Shorts	23
Top 5 LMV % Equity	22.16
Top 5 SMV % Equity	-9.60



Monthly returns since inception\*:

%	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Total
<b>2012</b>												0.79	0.79
<b>2013</b>	9.32	1.50	1.32	0.14	5.73	-2.21	0.66	-0.72	2.73	2.72	2.50	3.12	29.74
<b>2014</b>	1.91	1.51	-2.97	-3.21	-0.45	3.00	2.22	1.58	-0.56	-0.19	0.47	0.82	3.99
<b>2015</b>	-0.69	-0.28	0.02	21.14	5.21	-1.25	-4.16	-0.52	1.76	2.59	-0.92	0.77	23.88
<b>2016</b>	-3.75	1.08	-0.40	0.16	1.14	1.34	1.91	0.11	0.64	-0.19	-1.49	-0.11	0.32
<b>2017</b>	1.15	-0.63	1.38	-0.40	3.10	1.75	3.95	3.05	0.75	2.67	3.65	2.02	24.77
<b>2018</b>	4.57	-1.83	4.29	-0.81	1.14	-0.90	-1.74	0.54	2.32	1.70	0.24	0.64	10.38
<b>2019</b>	-0.31	1.96	1.99	-1.81	-2.08	-0.99	-0.78	2.16	1.04	0.48	2.18	2.60	6.47
<b>2020</b>	0.52	-2.22	-7.84	1.50	2.97	6.93	4.08	6.29	-1.28	-1.71	6.48	2.94	19.10
<b>2021</b>	5.72	3.40	3.19	6.16	-1.30	2.40	1.30	1.78	-0.20	-0.13	3.74	-1.41	27.20
<b>2022</b>	-5.10												-5.10

\* These monthly returns are blended weighted-average returns across time series and share classes with different fee structures. Please refer to the last page of this document for additional disclosures.

JAN  
2022

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## FengHe Asia Fund

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Dear Friends and Investors,

I am not satisfied with our January result of -5.1% net return. The sharp turn in market sentiments caused a wide impact across our long book and an aggregate -6.7% decline therein, which was partially offset by the +1.8% contribution from our short book.

As part of our consistent self-review discipline, we have been deeply analysing whether we made any significant mistakes and assessing where we can improve. An initial impression is that we may have held inadequate shorts coming into 2022 and hence a potential mistake could have been our recent short covering in December. We have reviewed our past decisions on the recent short reductions and determined that these were certainly not mistakes. We had learned well from our past experiences and previously concluded that “a long can be long, but a short must be short”. We had already held these particular shorts for some time and the short catalysts had come to fruition post-earnings reports and valuation adjustments in the course of last year. Accordingly, we saw limited further downside to the stock prices and it was necessary to close these positions based on our bottom-up fundamental approach and valuation discipline. Even when we perform a back-test on these particular shorts, the incremental result in January would have been insignificant, as the underlying stock prices of certain shorts did not decline much and one actually rose (Gree Electric). Furthermore, our December reduction was part of an intra-month portfolio review and streamlining exercise in which we had reduced both our long and short exposures by 10.7% and 8.7% respectively. If we had not conducted such an exercise across both books, our portfolio would have actually lost a further -0.2% in January.

In fact, given our disciplined bottom-up fundamental approach as well as our emphasis on not being directional in predicting (the unpredictable) market, it is very difficult for us to avoid the negative impact on our portfolio from sharp widespread market crashes caused by panic, such as this January and March 2020. Nonetheless, when we look back at all panic-driven crashes in the past, the market will always eventually revert to fundamentals and earnings-driven criteria in line with our FengHe investment framework. As the saying goes, “the market is a weighing machine in the long run”. Hence, we have always recovered from our drawdowns with discipline and confidence.

Given our assessment above, we are highly optimistic and confident of our streamlined portfolio and ideas pipeline. We have continued to hold on to most of our long positions from the start of January, as we remain positive on these fundamental convictions vis-à-vis valuations. For example, our top long position, SUMCO Corp (3436 JP) was our January worst performer and declined -0.66%. SUMCO is a leading manufacturer of silicon wafers for the semiconductor industry and we see structural tightness of the industry as semiconductor demand continues to grow during the ongoing digitalization of the economy. On the supply side, there is limited clean room space for capacity expansion in the next two years. Hence, the silicon wafer industry should see significant wafer ASP hikes which will boost SUMCO's operating margin. Accordingly, we see its January stock price decline as purely sentiment-driven and we intend to continue holding SUMCO among our top long positions.

Notwithstanding our optimism regarding our current long book, we have been steadfast in our risk management discipline throughout this volatile period and executed our stop-loss rule where needed. For example, our other January worst performers included our healthcare long positions in Betta Pharmaceuticals (300558 CH) and Genscript Biotech (1548 HK), which declined -0.60% and -0.50% respectively. We executed our stop-loss procedures and partially reduced these positions. Although we remain positive on these companies, we will follow them closely in view of any potential unknown risks and decide in the future to hold, cut or buy back accordingly.

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It should be noted that we still had profitable long positions in the difficult January market, such as China Pacific Insurance (2601 HK) and Shanghai International Airport (600009 CH), whose share prices were up and contributed +0.12% and +0.11% respectively. We were positive on China Pacific Insurance as we saw its fundamental turnaround potential (with an excellent new CEO who successfully led AIA previously) vis-à-vis the bottoming-out of the insurance industry. Similarly, we saw Shanghai International Airport benefitting from its recent accretive asset acquisitions as well as an impending revival of the tourism industry.

We have begun the recovery of our portfolio and our February MTD return is positive as of the date of this letter, with our current net and gross exposures at +27% and 77% respectively. As our gross exposure range is usually around 120% in normal times, we have significant space of around 40% capacity to expand our long and short books. We are very confident of our performance ahead for the rest of 2022 as we see a lot of potential in our existing portfolio as well as long-short ideas pipelines, where valuations have become more reasonable on the long side, while the earnings downsides have become clearer for our short ideas.

Nonetheless, we will be disciplined and patiently manage through the current market volatility to execute our pipeline of ideas with optimum entry points in terms of valuation and margin of safety. This approach is especially true for our shorts, where we must abide by the strict discipline of our FengHe short methodology where we need to have clear downside visibility for both earnings and valuation.

Investing is a profession that is all about discipline.

Yours sincerely,

Matt Hu  
Founding Partner and CIO

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### Monthly Exposures and Performance Attributions <sup>(1)</sup>:

Thematics	Return %	Attribution Long %	Attribution Short %	MV Long % Eqty	MV Short % Eqty	MV Gross % Eqty	MV Net % Eqty
China	(1.50)	(3.21)	1.70	28.96	(15.14)	44.10	13.82
Tech Supply Chain	(3.41)	(3.53)	0.13	30.27	(7.00)	37.27	23.27
	(4.91)	(6.74)	1.83	59.23	(22.14)	81.37	37.09

Markets	Return %	Attribution Long %	Attribution Short %	MV Long % Eqty	MV Short % Eqty	MV Gross % Eqty	MV Net % Eqty
China (SH-HK-SZ)	(3.67)	(4.34)	0.68	25.98	(7.53)	33.51	18.45
US	0.19	(0.11)	0.30	8.79	(3.54)	12.33	5.26
Taiwan	(0.86)	(0.86)	-	11.71	-	11.71	11.71
Korea	(0.01)	(0.10)	0.09	0.48	(0.76)	1.25	(0.28)
Japan	(0.70)	(1.32)	0.62	12.26	(5.86)	18.12	6.40
Europe	0.14	-	0.14	-	(4.45)	4.45	(4.45)
	(4.91)	(6.74)	1.83	59.23	(22.14)	81.37	37.09

Sectors	Return %	Attribution Long %	Attribution Short %	MV Long % Eqty	MV Short % Eqty	MV Gross % Eqty	MV Net % Eqty
Communication Services	(0.07)	(0.07)	0.00	0.42	-	0.42	0.42
Consumer Discretionary	(0.77)	(1.21)	0.43	12.03	(7.57)	19.59	4.46
Consumer Staples	(0.30)	(0.46)	0.16	1.18	(2.36)	3.54	(1.19)
Financials	0.09	0.03	0.05	1.93	(0.97)	2.91	0.96
Health Care	(0.93)	(1.41)	0.48	4.78	(2.16)	6.94	2.61
Industrials	0.25	(0.47)	0.72	5.95	(3.84)	9.79	2.11
Information Technology	(3.03)	(3.04)	0.01	26.04	(4.83)	30.87	21.21
Internet	0.05	0.07	(0.02)	3.41	(0.41)	3.81	3.00
Materials	(0.19)	(0.19)	-	3.50	-	3.50	3.50
	(4.91)	(6.74)	1.83	59.23	(22.14)	81.37	37.09

Market Capitalisation <sup>(2)</sup>	Return %	Attribution Long %	Attribution Short %	MV Long % Eqty	MV Short % Eqty	MV Gross % Eqty	MV Net % Eqty
Mega Cap	(1.30)	(3.03)	1.73	37.43	(21.09)	58.52	16.35
Large Cap	(1.34)	(1.45)	0.10	10.37	(1.05)	11.42	9.32
Mid Cap	(2.26)	(2.26)	-	11.43	-	11.43	11.43
	(4.91)	(6.74)	1.83	59.23	(22.14)	81.37	37.09

#### Notes:

(1) Performance Results represent the breakdown of the Fund's net return on equity. It is the total return as a % of NAV from equity positions, excluding all non-equity returns. The returns are adjusted for both incentive and management fee.

(2) Mega: > US\$ 10bil; Large: US\$ 5bil- US\$ 10bil; Mid: US\$ 1bil- US\$ 5bil; Small: < US\$ 1bil

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## FengHe Asia Fund

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### Fund Terms:

Subscription: Monthly on the 1st business day of the month

Redemption: Monthly with 30 days notice (no gate, no lock-up period)

Share classes: Series A: 2% management fee/20% performance fee; ISIN: KYG3365C1096  
Series I : 1.5% management fee/17.5% performance fee; ISIN: KYG3365C1252

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\* Performance from March 2014 until February 2015 represents the asset-weighted performance composite of the ArkOne Fund and FengHe Asia Fund. Both Funds were consolidated as FengHe Asia Fund in March 2015. Prior to March 2015, they were separate investment vehicles managed with overlapping mandates. ArkOne started trading in December 2012 while FengHe started trading in March 2014. The individual track records are available upon request.