TOP FUNDS 100

2012 Top Performing FUNDS • MPF • ETF

最佳表現 2012 基金 • 強積金 • 交易所買賣基金
Absolute Focus

Martin Lau, Quanqiang Xian and Yee Hou Seck of First State Stewart (First State Investments’ Asia Pacific/Global Emerging Markets Team) talk to BENCHMARK about investment strategy, the market dynamics of China and the importance of socially responsible investing.

By Nicole Keschinger

Left: Martin Lau, Director, Greater China Equities
Middle: Xian Quanqiang, Portfolio Manager
Right: Yee Hou Seck, Senior Analyst/Portfolio Manager
First State Investments (FSI) excelled at the BENCHMARK Fund of the Year Awards 2012 taking home four of the Best-in-Class Fund Awards. The group’s success is no surprise, given its diligent investment approach. Each fund typically has three fund managers – a lead manager, co-manager and deputy manager – in an effort to minimize continuity risk. A team of thirty analysts backs the Asia Pacific/Global Emerging Markets’ management trio.

Investment process

FSI’s focus on absolute returns, rather than relative returns, has led it to incorporate a robust buy-and-hold selection process into its funds. The group summarizes this process through the acronym QGP, which stands for quality, growth and price. Seck, who co-manages the group’s US$262.8 million First State Hong Kong Growth Fund alongside Lau, explains that the quality of a company’s management team is paramount. It also looks for quality in both a company’s business model and its financials. Third, the group looks for companies with sustainable, rather than explosive growth, which is why its funds have an investment horizon of between three and five years when picking stocks. Finally, it looks for stocks with reasonable valuations, to ensure funds do not overpay. The group’s funds have highly experienced management teams, with those behind the First State China Focus Fund having an average experience of seventeen years and an average tenure of nine years. Those behind the First State Hong Kong Growth Fund have an average experience and tenure of sixteen years and twelve years respectively.

But financial metrics are just one of the ways that FSI’s managers evaluate companies, with the group also looking for firms with the “right” managers by getting to know these managers well. Xian explained that analysts have repeated meetings with managers of companies they are interested in to get a better picture of the firm. “We meet with senior management and chairpersons and we try to build a complete picture about a company’s culture,” he said. “Culture is part of the definition of quality in our opinion. And it’s not just the personality of one individual that is important, but the personality of a group of individuals.” Lau points out that companies are driven by people and financial results are the end result of the decisions made by these people. As a result, understanding the behavior of decision makers is very important and the team spends up to seventy percent of its time visiting companies across the region. “We like people who are more conservative and risk-aware, especially in the case of China or Asia where people tend to just look at the positive side and focus on growing capacity,” Lau said. “We prefer to see that management thinks about the downside as well.” An important aspect of understanding the behavior of decision makers is knowing what incentives they may be in line to receive. Lau believes that having the right incentives in place drives positive behavior. But he adds that, in China, sometimes the incentives are too small, while in other cases, they are too high. “It’s really about finding the right balance between being motivated and aggressive enough, versus having the right risk attitude,” he said.
“Almost forbidden” to talk about it. But FSI’s bottom-up stock picking approach means it tends to be underweight in stocks that have a heavy weighting in the index. Lau points out that while banks make up forty percent to fifty percent of the index in China, the group does not think it should put this proportion of its clients’ money into banks, just because that is how the index is made up. Instead, one of the key focus areas over the past five to ten years has been domestic consumption, leading to a strong bias for domestic consumption related stocks in the portfolio. The First State Greater China Growth Fund looks at domestic consumption in a broader sense, including, for example, gas distributors in China. “We think they have a reasonably predictable cash flow as gas penetration will rise with rising incomes and as demand for cleaner energy sources increases,” Lau said.

China’s domestic consumption as a percentage of GDP is still low. Xian points out that, in an emerging market like China, people still have a sense of insecurity when it comes to the supply of goods. “This is a risk that the government is very sensitive to,” he said. “So I think, in the years to come, the government will implement rounds of anti-inflationary measures if they see issues with the supply of products, including property.”

The government in Hong Kong recently stepped in to cool property prices by implementing a further stamp duty on foreign buyers. The First State Hong Kong Growth Fund, which won Best-in-Class, has historically been overweight in Hong Kong financials and real estate.
Lau explained that, for the past five years, the fund has held a positive view on Hong Kong property prices, due to negative real interest rates and the export of capital from China. “This has panned out well over the past few years,” he said. “But now everyone is aware that there is a bubble. Our stance is that, at this juncture, it’s too dangerous to add on to our property exposure and it would be prudent to reduce exposure over time.”

FSI also sees bank debt and general borrowing levels in China as a significant issue. Xian explains that banks have been the main funding channel for Chinese companies over the past thirty years, with the stock market still playing an insignificant role among firms wanting to raise capital. The 2008 RMB4 trillion stimulus by the central government was also expanded to about RMB10 trillion at the local level through bank lending. As a result, Xian thinks bank credits remain significant. “The way going forward has to be deleveraging,” he said. But Xian adds that household debt is low and many listed companies have raised significant levels of cash from the quick economic recovery in the past few years. “Therefore, the area to watch out for is the debt levels at the local government level,” he said.

**Responsible investing**

The group is committed to socially responsible investing through its environmental, social and governance practices framework. It pointed out that this framework is not only about making charitable contributions, but also looking at how companies generate wealth. Xian said, “It’s important to see that companies generate profits in an ethical and socially responsible manner, rather than making money in an undesirable way. When it comes to governance, we want to see that there are checks and balances on the board.” The requirement for companies to be ethical extends to how they treat their employees, with FSI paying attention to how employees are paid and what their work environment is like when they visit companies. Lau said, “Investment is not just about making money. We believe there should be principles when deciding in which companies to invest. For example, as a team we decided that we should not invest in tobacco companies, as we think there are better ways of making money instead of threatening people’s health.”  

For the full article and fund fact sheet, please visit www.FundAsia.net or see the QR code below.
絕對聚焦

來自首域盈信（首域投資旗下的亞太區及全球新興市場投資團隊）的劉國傑、冼全強及石毅豪接受本刊訪問，細談了投資策略、中國市場動向及社會責任投資的重要性。

首域投資於《指標》2012年基金大獎表現卓越，榮獲四個同級最佳獎項。憑藉勤勉的投資探索，團隊的成功並不令人驚訝。每隻基金都有三名基金經理——主經理、聯席經理及副經理——以將持續性風險減到最少，一隻30名分析師組成的團隊支援了亞太╱全球新興市場團隊的基金管理。

投資流程
首域投資著重絕對回報，而不是相對回報，因此公司在基金中嚴格堅持「買入並持有」的選股流程。團隊將此流程概括為QGP，意即質素（Quality）、增長（Growth）及價格（Price）。與劉國傑聯合管理一隻資產總額達2.628億美元的首域香港增長基金的聯席經理石毅豪介紹說，上市公司管理層的質素其實是最重要的。團隊亦會查看那些公司的商業模式及財務狀況。此外，團隊會尋找一些可持續發展，而不是爆發性增長的公司股，因此基金團隊在選股時，都會把眼光放在三到五年之後的預期走勢。最後，團隊會尋找估值合理的股票，以避免在價格過高時買入。團隊的基金經理隊伍經驗豐富，其首域中國核心基金投資團隊成員的平均年資高達17年，平均任期9年，首域香港增長基金投資團隊的平均年資則為16年，平均任期12年。

但財務數字僅僅是首域投資的基金經理評估公司的方式之一。團隊亦會尋找擁有出色管理層的公司，並充分去理解這些管理層成員。冼全強解釋說，分析師會與他們認為值得了解的公司的管理層進行數次會談，以更清楚該公司的狀況。「我們與公司高層及主席們會面，嘗試全面了解其公司文化。」他指出，「我們認為，公司文化是質素的一部分。而且，不僅是個人的個性重要，團隊的個性也更重要。」劉國傑指出，公司是人組成的，財務結果亦是這些人為決定的最終結果。因此，理解決策制定者的行為非常重要，所以團隊花費七成時間用於訪談不同的公司。「我們看好較保守和警惕風險的人，特別是在中國或亞洲，因為這樣的人傾向只看到積極的一面，只把目光放在增長。」劉國傑說，「我們比較喜歡那些也會考慮到不利因素的管理層。」另外一個方面是瞭解決策制定者可以透過努力獲得什麼報酬，劉國傑認為適當的報酬是能夠正面鼓勵團隊的。可是，這種報酬在中國要不是太少，就是太多。「這實際上是關乎在鼓勵及積極性之間取得平衡，以及採取適當的風險態度。」劉國傑說。

風險態度
首域投資十分關注投資風險，團隊首域大中華增長基金因過去五年在同類基金中錄得最佳下跌防禦能力比率，而獲得同級最佳大中華區基金這項殊榮。「我們鼓勵團隊以絕對觀點衡量風險——風險是可以導致損失金錢的。」劉國傑說。相反，基金經理很少關注與基準比較的相對風險，因為從歷史上
我們鼓勵團隊以絕對觀點衡量風險——風險是可以導致損失金錢的。
First State Investments. Well placed.

First State Investments aims to be recognised as world-class for all investment strategies that we manage. We are delighted that the following awards reflect the integrity of our investment approach, and the expertise of our specialist teams.

We remain committed to developing quality investment capabilities and continuing to build on our success.

**BENCHMARK Fund of the Year Awards 2012**

- **Provider of the Year Awards**
  - Provider of the Year – Mutual Fund

- **Capability Awards**
  - Best-in-Class – Socially Responsible Investment

- **House Awards – Best-in-Class**
  - China Equity
  - India Equity
  - Hong Kong Equity

- **Fund Awards – Best-in-Class**
  - First State Long Term Bond Fund
  - First State China Focus Fund
  - First State Greater China Growth Fund
  - First State Hong Kong Growth Fund
  - First State Indian Subcontinent Fund

For more information about First State Investments funds, please visit [www.firststateasia.com](http://www.firststateasia.com)

First State Investments. Specialist teams. Focused on you.

---

- Investment involves risks and past performance is not indicative of future performance.
- Each Fund may have different underlying investments and be exposed to a number of different risks. Refer to the offering documents of the respective funds for details, including risk factors. It is possible that the entire value of your investment could be lost.
- You should not base your investment decision solely on this document. You should not invest unless the intermediary who sells it to you has advised you that the Fund is suitable for you.