AUG

2025

Monthly Insights

FengHe Asia Fund

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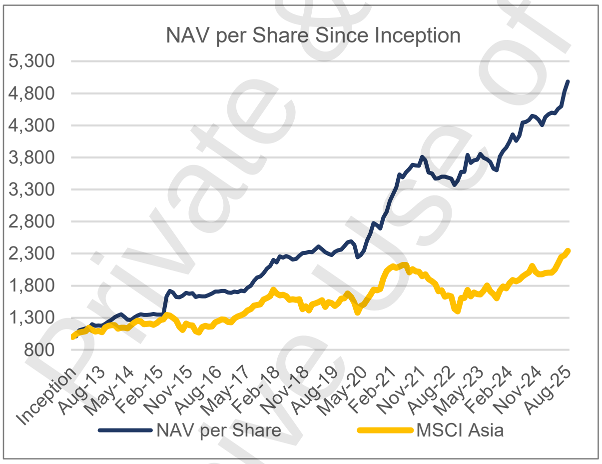
Objective: FengHe Asia Fund is a long-short equity fund that seeks to achieve capital appreciation by investing in the public equities of companies that primarily benefit or are impacted directly or indirectly from Asia's economic transformation.
Approach: The team has utilised their proprietary research framework to perform fundamental bottom-up long-short approach under a resilient and diversified portfolio architecture of low correlation and concentration as well as an active and disciplined risk management system to manage the market volatility and drawdown risks.

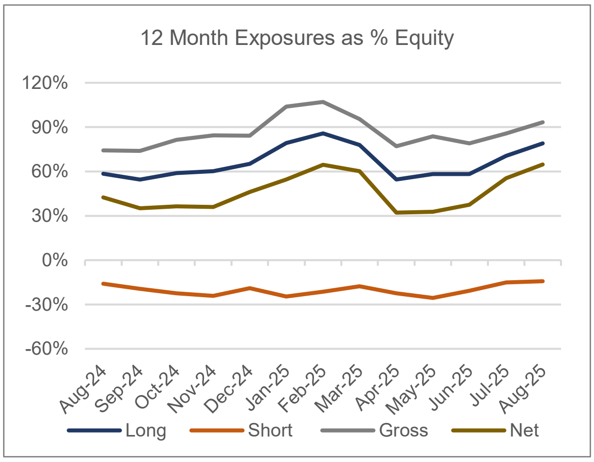
Fund Data:	
Return MTD (net):	3.24%
Return YTD (net):	15.76%
Trailing Twelve Months (net):	13.75%
Annualised return since inception (net):	13.47%
Fund return since inception (net):	398.39%
FengHe Asia AUM (month-end US$ mil):	5371.7
Firm wide AUM (estimated US$ mil):	6110.3

Risk:	
Sharpe Ratio:	1.12
Sortino Ratio:	2.72
95% Confidence VaR as %Eqty 1 Day:	-1.40
95% Confidence VaR as %Eqty 5 Day:	-3.12
Annualised Volatility since inception	10.35%
Correlation to MSCI Asia	0.46
Beta (MSCI Asia)	0.34
Largest Drawdown:	-11.50%
Leverage:	0.93

Top 5 Winners and Losers:		
Information Technology	Long	0.60
Information Technology	Long	0.56
Consumer Staples	Long	0.41
Industrials	Long	0.37
Health Care	Long	0.30
Information Technology	Long	-0.15
Information Technology	Short	-0.18
Information Technology	Long	-0.20
Industrials	Long	-0.28
Information Technology	Long	-0.30

Concentration Data:	
No. Longs	133
No. Shorts	32
Top 5 LMV % Equity	17.35%
Top 5 SMV % Equity	-6.09%





Monthly returns since inception*:

%	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Total
2012												0.79	0.79
2013	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
2014	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
2015	-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
2016	-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
2017	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
2018	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
2019	-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
2020	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
2021	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
2022	-5.10	-0.30	-2.31	0.12	0.76	0.03	-0.40	-0.45	-2.96	1.94	4.09	-0.05	-4.82
2023	7.40	-3.21	1.13	0.26	2.29	-1.57	-0.56	-1.09	-2.85	-0.64	5.98	2.25	9.20
2024	1.35	2.32	2.82	-2.47	2.07	4.90	0.18	0.67	1.50	-0.28	-1.00	-1.93	10.34
2025	2.87	1.06	0.54	-0.30	1.59	0.91	4.96	3.24					15.76

These monthly returns are blended weighted-average returns across time series and share classes with different fee structures.

FengHe FUND MANAGEMENT

Monthly Insights

FengHe Asia Fund

Dear Friends and Investors,

FengHe Asia returned 3.2% net in August, bringing our YTD return to 15.8%. We continued to deliver high-quality results through a diversified and conservative portfolio, with gains across nearly all sectors and most of our core markets.

Our China A-shares book emerged as our largest contributor this month. After cautiously re-building our gross exposure in the A-shares market from a low of zero in February last year, it now stands at 26%, the highest level in almost four years. What have we seen beneath the surface of a seemingly fragile macro backdrop over the past 18 months that gave us the confidence to lift our gross exposure so meaningfully?

Earlier this month, a Chinese economist from a top investment bank visited me, looking puzzled. “With fundamentals this weak,” he asked, “how can the A-shares market be doing so well?” The fundamentals he referred to include a deflationary economy, uncertainty in US-China relations, and the near impossibility of stimulating consumption under the current tax system. His macro reflections were astute, but his understanding of stock market fundamentals was mistaken. Many investors describe themselves as fundamental investors, yet mix macroeconomic headlines into their analysis, much like this economist.

We own shares in companies, not shares in a country. We invest in entrepreneurs, not in politicians. The true stock fundamentals lie in company earnings, including the quality and near-term trajectory, as well as the long-term outlook. Value investing is grounded in a business’s underlying and enduring value, with earnings being the decisive and deciphering factor.

The latest quarterly reports offer a clear signal on the fundamentals of the A-shares market. A significant number of Chinese listed companies have revised their earnings forecasts upwards. Even against a backdrop of weak macroeconomic data and geopolitical uncertainties, many companies are delivering strong results. While global investors have been deterred by top-down news flows and kept A-shares valuations low, these companies have been focused on delivering high-quality growth through innovation and sound management, while diligently preparing themselves to stay resilient even during worst-case scenarios. These strong fundamentals, coupled with attractive valuations, have been the driving force behind our gradual yet selective increase in our A-shares exposure.

Why are the earnings of so many Chinese companies growing despite macroeconomic headwinds? The answer lies in their spirit of entrepreneurship. Many of these companies have been significantly reinvesting their profits earned over the past 30 years into research and development, building world-leading innovative capabilities, and expanding their market share and margins globally. This is how they have delivered earnings growth against the tide. As we have discussed in recent letters, companies like CATL and Hengrui Pharmaceuticals are clear examples.

One of our current core holdings, Sany Heavy Industry, is on track to sustain 30% earnings CAGR over the next three years. When we initiated our position, the stock was trading at just 12x 2026 P/E. The company can deliver such strong growth under tough macroeconomic conditions thanks to its world-class manufacturing capabilities and exceptional management team. Sany operates more Lighthouse Factories — advanced smart factories evaluated and recognised by World Economic Forum and McKinsey — than any other construction equipment manufacturer globally. China’s three-decade infrastructure boom forged Sany’s products in one of the most demanding environments. That boom also allowed the company to reinvest heavily to develop products that rank among the most durable in the global construction equipment industry. In this industry, durability is everything. What further sets Sany apart is its after-sales service, especially its superior response and repair time compared to its competitors. In construction, this is not just an advantage but a necessity: each day an excavator is down, a construction firm loses a day of revenue.

Overseas expansion has also been crucial. After graduating from Harvard, the founder's son returned to join the leadership team at Sany. After years of training and experience, he now leads the company's overseas business and has brought in a senior executive from Huawei to serve as the CEO of international operations. Huawei's strength in building international businesses is well recognised. Through a combination of world-class products and entrepreneurial intensity, Huawei succeeded in taking share from incumbents like Ericsson and Nokia across Europe. Under this next-generation leadership, Sany is now repeating that success abroad. The company continues to win market share internationally, where margins are higher. By 2027, overseas operations are expected to contribute approximately 70% of total profits. Yet many investors still associate Sany's earnings with China real estate. This lingering misperception has created a striking opportunity that allowed us to invest in a business with 30% earnings growth at just 12x forward P/E.

But of course, not all Chinese companies can deliver earnings growth. In the A-shares market of over 5000 listed companies, 300 or fewer can achieve earnings growth above 20%. Even so, this select group of companies would be more than enough to present a universe of ample investment opportunities and support a bull market.

With our deep research capabilities and experience, we are confident in continuing to identify companies within our coverage that can deliver high-quality growth against turbulent tides. Our stock-picking process remains disciplined and diligent, with all holdings in our portfolio carefully selected — especially the current 20 positions we hold in the A-shares market. These companies have not just passed the test of our research, but also the test of time. To quote Warren Buffett: *"Only when the tide goes out do you discover who's been swimming naked"*. In stark contrast to many, these businesses have remained resolute and withstood macroeconomic and geopolitical stress tests. Without the receding tide over the past years, it would have been harder to determine what these businesses are truly made of. Five years ago, we even held a profitable short on Sany during its downcycle. About three years ago, we began turning more constructive on the company, though our position remained small. Recently, our conviction strengthened with greater visibility into its quality earnings growth, and Sany has since become one of the core holdings in our portfolio today.

Most investors who trade on macroeconomic news have missed this bull run. To console themselves, they call it a "water bull" or a liquidity-driven bull market (in Chinese, "water" refers to liquidity). There is no denying that liquidity has played a role: China's interest rates are at their lowest level in 30 years, and capital flowing out of real estate and fixed-income investments has had no choice but to move into the stock market. With both ample quality companies and liquidity, the A-share market may be a gold mine in the coming years. But unlike in the past, this is a market for alpha, one that demands strict stock selection as the quality gap between companies widens day by day. Applying FengHe's 5M3T3D research and stock-picking framework, we continue to be meticulous and disciplined in every step we take. So far this year, A-shares have contributed approximately 20% of our profits.

Our strength is rooted not only in the depth of our research but also in the breadth of our coverage. With 18 sector specialists covering 500 companies across eight core markets, we are positioned to capture opportunities wherever they arise. Our philosophy has never been about predicting markets, but about building our portfolio one company at a time, with discipline and patience. This focus on fundamentals, together with our rigorous bottom-up research process and risk management discipline, ensures that even in changing macro and market conditions, we can continue to deliver outperformance while protecting against downside risk.

Yours sincerely,

Matt Hu
Founding Partner and CIO

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Monthly Exposures and Performance Attributions [1]:

Markets	Return %	Attribution Long %	Attribution Short %	MV Long % Eqty	MV Short % Eqty	MV Gross % Eqty	MV Net % Eqty
China (SH-HK-SZ)	3.33	3.40	(0.07)	37.94	(0.41)	38.35	37.52
Japan	0.59	0.82	(0.22)	8.83	(7.05)	15.88	1.78
Korea	(0.34)	(0.34)	0.00	4.76	(0.17)	4.93	4.59
Taiwan	0.20	0.24	(0.03)	2.55	(1.36)	3.90	1.19
US	0.40	0.55	(0.15)	15.08	(3.91)	18.98	11.17
Others	(0.26)	(0.16)	(0.10)	9.85	(1.37)	11.23	8.48
	3.93	4.52	(0.59)	79.00	(14.27)	93.27	64.73

Sectors	Return %	Attribution Long %	Attribution Short %	MV Long % Eqty	MV Short % Eqty	MV Gross % Eqty	MV Net % Eqty
Communication Services	0.08	0.08	-	0.87	-	0.87	0.87
Consumer Discretionary	0.04	0.33	(0.29)	4.89	(2.26)	7.14	2.63
Consumer Staples	0.41	0.41	-	0.27	-	0.27	0.27
Energy	0.00	0.00	(0.00)	0.00	-	0.00	0.00
Financials	0.33	0.36	(0.04)	5.25	(0.65)	5.90	4.60
Health Care	0.86	0.87	(0.01)	16.81	(0.76)	17.57	16.05
Industrials	0.62	0.55	0.07	19.10	(4.59)	23.69	14.51
Information Technology	1.18	1.50	(0.32)	26.93	(6.01)	32.94	20.92
Internet	0.03	0.03	-	0.73	-	0.73	0.73
Materials	0.39	0.39	-	3.96	-	3.96	3.96
Real Estate	(0.00)	(0.00)	-	0.19	-	0.19	0.19
	3.93	4.52	(0.59)	79.00	(14.27)	93.27	64.73

Market Capitalisation [2]	Return %	Attribution Long %	Attribution Short %	MV Long % Eqty	MV Short % Eqty	MV Gross % Eqty	MV Net % Eqty
Large Cap	3.63	4.27	(0.64)	75.82	(13.98)	89.80	61.84
Mid Cap	0.31	0.26	0.05	3.10	(0.29)	3.38	2.81
Small Cap	(0.01)	(0.01)	-	0.08	-	0.08	0.08
	3.93	4.52	(0.59)	79.00	(14.27)	93.27	64.73

Notes:

(1) Performance Results represent the breakdown of the Fund's net return on equity related positions. It is the total return as a % of NAV from equity related positions, excluding all non-equity returns.

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

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FengHe Asia Fund

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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.

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