

JUL
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):	4.96%
Return YTD (net):	12.12%
Trailing Twelve Months (net):	10.92%
Annualised return since inception (net):	13.28%
Fund return since inception (net):	382.74%
FengHe Asia AUM (month-end US\$ mil):	5133.9
Firm wide AUM (estimated US\$ mil):	5868.6

Risk:

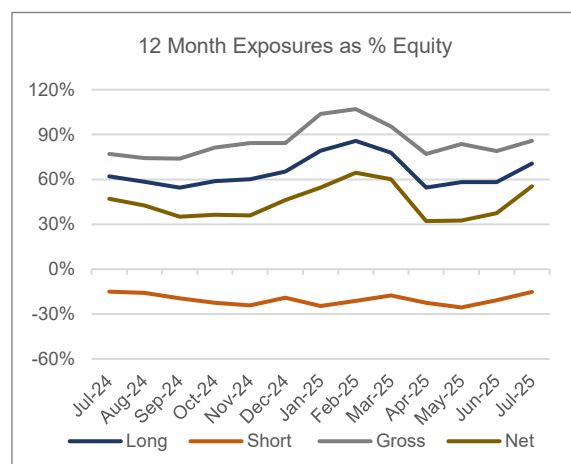
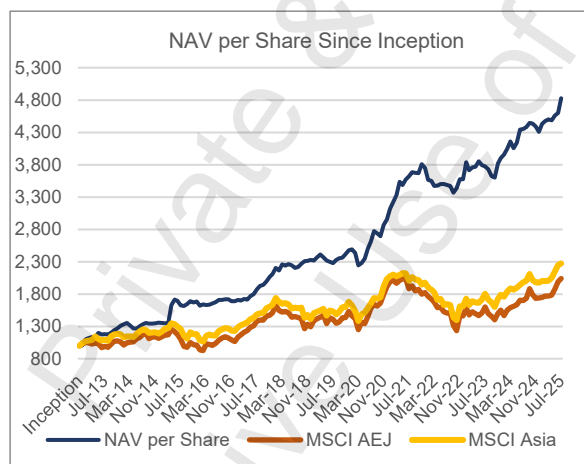
Sharpe Ratio:	1.10
Sortino Ratio:	2.68
95% Confidence VaR as %Eqty 1 Day:	-1.26
95% Confidence VaR as %Eqty 5 Day:	-2.82
Annualised Volatility since inception	10.37%
Correlation to MSCI AEJ / MSCI Asia	0.46 / 0.46
Beta (MSCI AEJ / MSCI Asia)	0.29 / 0.34
Largest Drawdown:	-11.50%
Leverage:	0.86

Top 5 Winners and Losers:

Information Technology	Long	0.94
Health Care	Long	0.76
Health Care	Long	0.61
Information Technology	Long	0.43
Health Care	Short	0.41
Consumer Discretionary	Short	-0.12
Information Technology	Short	-0.15
Industrials	Long	-0.17
Consumer Discretionary	Long	-0.20
Industrials	Long	-0.26

Concentration Data:

No. Longs	95
No. Shorts	36
Top 5 LMV % Equity	14.78%
Top 5 SMV % Equity	-4.53%



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						12.12

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

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Dear Friends and Investors,

FengHe Asia returned 5.0% net in July, bringing our YTD return to 12.1%. While our investors are clearly pleased with this strong result, what matters most to me is the quality of the return.

This month's performance was driven by positive contributions from both our long and short books, achieved with a low portfolio gross exposure averaging just 83%, well below the industry norm. We also generated gains across most of our key sectors, with our technology supply chain and healthcare holdings standing out. Once again, we have proven our ability to deliver while maintaining a highly diversified and conservative portfolio. Our edge lies in our disciplined investment process and deep, focused research on 500 companies by our team of 15 experienced sector specialists under my direct leadership.

In this month's letter, I would like to turn our attention to the healthcare sector. Healthcare has been our third-highest contributing sector since inception, after technology supply chain and financials. Our current top holding is in healthcare, Jiangsu Hengrui, which was the second-best contributor in July and one of our top ten contributors YTD. This company was also among our top ten contributors in both 2018 and 2021. Notably, it was the only long position among our top contributors in 2018, when the Shanghai Composite fell -24.6%, while it was the only short position among our top contributors in 2021, when the index rose +4.8%.

I personally started covering Hengrui 25 years ago. At FengHe Asia, our team took over healthcare coverage and has been responsible for Hengrui's standout performance in our portfolio since then. Other top contributors in the sector over the years include Betta Pharmaceuticals, GenScript Biotech, 3SBio, Maccura Biotech, and WuXi AppTec, across both long and short positions. These successes highlight the important role healthcare has played in FengHe's returns over the years, providing consistent alpha across vastly different market environments.

From 2022 to 2024, China's healthcare sector faced significant challenges and uncertainty, with centralised procurement policies and anti-corruption campaigns weighing heavily on both earnings and valuations. Liquidity also declined sharply, leading us to shift our focus within the healthcare space towards Japanese names. During the sharp correction in Japanese equities last August, it was a healthcare name, Daiichi Sankyo, that carried our Japan book through the drawdown, demonstrating the strength of our healthcare capability across different geographies.

With the healthcare sector proving difficult in recent times, many investment firms in Hong Kong have chosen to downsize their coverage in the sector. At the start of the year, we took this opportunity to hire Sylvia Wu, a seasoned healthcare specialist from Point72. Sylvia works closely with our existing team, and her addition has strengthened our research capability and deepened our edge in the sector. Through our team's hard work, we have found that despite domestic headwinds, many Chinese pharmaceutical companies have been silently making significant breakthroughs in innovative drug development, while also successfully expanding into foreign markets. Many companies have now licensed drugs to major pharmaceutical companies in the U.S. and Europe. This has caught many investors by surprise, with the historical assumption that the flow of innovation was one-way only: drugs were developed by American companies, then licensed by Chinese ones. The dynamic has now flipped, with China emerging as a key driver of innovation. This is most evident in oncology, where 60% of the global cancer drug pipeline originates from China. The country's structural tailwinds will continue—with the world's largest pool of chemists and patients, China possesses both the talent and scale of data required to continue leading drug development.

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Hengrui is a living testament to this trend. Once reliant on generic drugs, the company came under severe pressure from centralised procurement policies, which led to its first-ever consecutive revenue declines in 2021–22 since its IPO. In response to the failing business model, the management made a decisive shift towards innovative drug development. Today, Hengrui has over 100 drugs in clinical development, spanning oncology, metabolism, cardiovascular, immunology, and respiratory diseases. The pipeline continues to strengthen, with new clinical programs entering trials at a remarkable pace—averaging one new drug every three days. Revenues in 2025 are now expected to reach an all-time high. Recently, GSK acquired overseas licensing rights to 12 of Hengrui’s innovative drugs for USD 12 billion, a strong validation of the company’s capabilities. Even though its stock price has risen over the past few months, we continue to maintain high conviction and see significant upside ahead.

Our healthcare book performed well in July, not only in long positions but also in shorts. Notably, one of our top contributors this month was a short on Align Technology (ALGN), the world’s largest manufacturer of invisible braces (Invisalign) with over 60% market share—a lead now in decline. Our conviction in the ALGN short was built on our in-depth understanding of Angelalign, its key global competitor that originated from China. Angel has already taken the top spot in China from ALGN and has been quietly gaining ground in other markets such as Europe, Australia, and South America, gradually eating into ALGN’s global share. Angel recently entered the U.S. market and is making steady progress. While ALGN manufactures in Mexico, Angel produces in Wisconsin for the U.S. market. Angel’s products are both better and more cost-effective, thanks to China’s world-leading manufacturing capabilities, which the company has brought to the U.S. In its Wisconsin facility, robots and 3D printing are used at scale to enhance speed and precision. Over the past decade, Chinese companies have accounted for more than half of global industrial robot adoption. Furthermore, nearly half of the world’s “Lighthouse Factories,” a term designated by the World Economic Forum and McKinsey for global leaders in smart manufacturing, are in China. This reflects the quiet but growing dominance of Chinese companies in industrial innovation.

Companies like Hengrui and Angelalign are not alone. In recent years, China has faced multiple headwinds that have pushed the economy into deflation and weighed on growth. The clear structural slowdown has led many investors to lose confidence in the country’s long-term trajectory and exit the market. Yet beneath the surface, there are companies that have shown remarkable resilience and adaptability, continuing to grow despite the challenging environment. Xiaomi, Pop Mart, Laopu Gold, alongside Hengrui and Angelalign, are just a few examples. These companies have evolved into dynamic enterprises of great vitality, able to thrive against the tide through the innovation and unwavering spirit of their entrepreneurs and teams. We currently hold 28 long positions in Chinese companies, each with a distinct competitive advantage and the ability to generate earnings growth over the next two years. In an economy still grappling with deflation, sustained growth is an extraordinary achievement.

We are truly fortunate to have chosen investment as our profession. It gives us the privilege to engage with some of the most exceptional companies, not just observing their growth but participating in it. In an increasingly volatile and uncertain world, we will only have more and more opportunities to become shareholders of excellence at great prices.

Yours sincerely,

Matt Hu
Founding Partner and CIO

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FengHe Asia Fund

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)	2.46	2.54	(0.08)	27.86	(1.15)	29.01	26.71
Japan	(0.23)	(0.23)	0.01	11.70	(6.59)	18.29	5.11
Korea	1.03	1.01	0.01	5.83	(0.18)	6.01	5.65
Taiwan	0.16	0.32	(0.16)	1.32	(1.08)	2.40	0.24
US	2.87	2.39	0.48	14.27	(4.07)	18.34	10.20
Others	(0.35)	(0.35)	0.00	9.60	(2.09)	11.69	7.52
	5.94	5.68	0.26	70.59	(15.16)	85.75	55.43

Sectors	Return %	Attribution Long %	Attribution Short %	MV Long % Eqty	MV Short % Eqty	MV Gross % Eqty	MV Net % Eqty
Communication Services	(0.06)	(0.06)	-	0.61	-	0.61	0.61
Consumer Discretionary	(0.35)	(0.16)	(0.19)	6.32	(4.62)	10.94	1.70
Consumer Staples	0.32	0.32	-	2.06	-	2.06	2.06
Energy	(0.09)	0.00	(0.09)	0.00	-	0.00	0.00
Financials	0.30	0.29	0.00	5.05	(0.65)	5.70	4.41
Health Care	2.27	1.84	0.43	13.30	(0.66)	13.96	12.65
Industrials	(0.02)	0.04	(0.06)	19.64	(3.72)	23.37	15.92
Information Technology	3.10	2.93	0.17	21.03	(5.51)	26.54	15.52
Internet	0.02	0.02	-	0.22	-	0.22	0.22
Materials	0.46	0.46	-	2.34	-	2.34	2.34
Real Estate	(0.00)	(0.00)	-	-	-	-	-
	5.94	5.68	0.26	70.59	(15.16)	85.75	55.43

Market Capitalisation ⁽²⁾	Return %	Attribution Long %	Attribution Short %	MV Long % Eqty	MV Short % Eqty	MV Gross % Eqty	MV Net % Eqty
Large Cap	5.58	5.33	0.25	67.51	(14.81)	82.32	52.70
Mid Cap	0.34	0.33	0.01	2.81	(0.35)	3.16	2.47
Small Cap	0.03	0.03	-	0.26	-	0.26	0.26
	5.94	5.68	0.26	70.59	(15.16)	85.75	55.43

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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* 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.