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Baring China Select Fund

Barings Asia Regional Conference 2015

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Investment philosophy
Quality Growth at a Reasonable Price (GARP)

Growth

Focus on companies with growth of 10-20% CAGR

Reasonable price

Seek unrecognised growth over a three- to five-year horizon, only paying a justified short term premium over the market

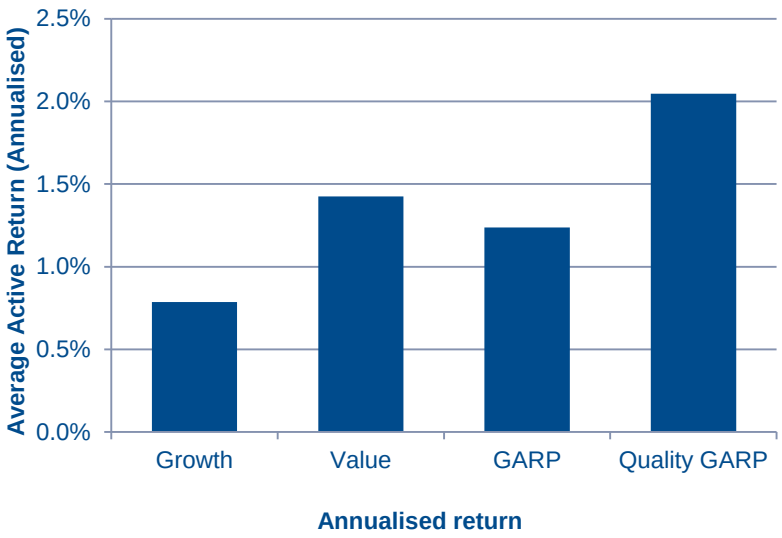
Quality

Provides the level of certainty needed for a three- to five-year earnings forecast

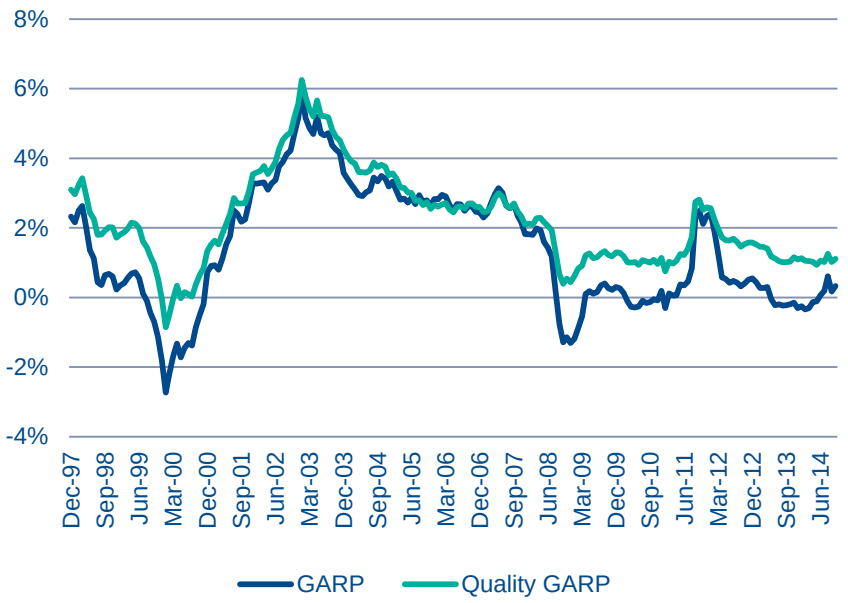
Quality GARP companies have delivered superior returns with lower volatility

Investment philosophy
Quality Growth at a Reasonable Price (GARP)

GARP and quality



Three-year rolling relative return



Quality GARP companies have delivered superior returns with lower volatility

Based on quant simulations for an ACWI universe, with returns adjusted downwards to reflect assumed implementation shortfall effects. Simulations do not take into account the potential benefits to performance of using fundamental stock selection to capture idiosyncratic company specific drivers. Graphic shows gross performance characteristics of long-only portfolios rebalanced each month, and formed out of the top quintile of most attractive stocks on the following measures: a) Value – Price to Earnings over next twelve months; b) Growth – EPS Growth over the last three years (weighted 50%) years and ROE (50%); c) GARP - Combination of Value (50%) and Growth (50%); d) Quality – Barings Quality definition (best placed companies in terms Profitability, Cash Flow measures, Accruals and Unusual items to Operating Income); e) Quality GARP – Combination of Quality (33%), Value (33%) and Growth (33%). Source: Barings December 2014

Investment process

Sourcing ideas



High conviction ideas generated from Barings' diverse pool of global investors

- Analyst and Portfolio Manager expertise
- Quantitative screening for quality GARP
- Thematic screening

Researching companies



- Focused and in-depth
- Finding unrecognised growth on a three- to five-year horizon
- Companies scored 1 to 5
- Best Ideas List owned by a panel of three senior investors

Constructing portfolios



Maintaining

- Quality
- Growth
- Upside

Analysing

- Liquidity
- Volatility
- Concentration

Delivering

- High conviction
- High active share
- Quality GARP

Monitoring portfolios



- Portfolio Manager
- Quant Team
- Investment Committee
- Investment Risk

Finding unrecognised growth
Researching companies

Quality

Helps to drive sustainable, steady results

- Franchise
  - Competitive advantage
  - Efficiency
  - Stability
- Management
  - Competence
  - Commitment
  - Alignment with shareholder interest
- Balance sheet

Quality (1 to 5)

Growth

Provides a long term platform for outperformance

- Last three years net earnings growth
- 12-month earnings growth
- Next five years' earnings growth

Growth (1 to 5)

Upside

Measured using a disciplined, discounted earnings approach

- Discounted earnings over five years
- Next 12 months P/E
  - Compared to history
  - Compared to sector
  - Compared to peers
- P/B relative to ROE and cost of capital

Upside (1 to 5)

Consistent stock scoring methodology

Baring China Select Fund

- Seeks to benefit from the growth of China by investing in stocks in Hong Kong as well as other Asian markets
- Captures growth companies in the early stages of the re-rating cycle with a bias towards mid-cap companies
- Focus in identifying quality growth companies from discipline bottom-up stock selection by an experienced team
- A thematic approach through a relatively concentrated portfolio

Stock example 1
Ping An Insurance

Company scorecard

Company name	Ping An Insurance	
Quality	Franchise	1.0
	Management	2.0
	Balance sheet	2.0
	Overall	**1.7**
Growth	Last three years	1.0
	Next 12 months	1.0
	CAGR next five years	1.1
	Overall	**1.0**
Upside	Market measure	2.9
	Static measure	1.0
	Discounted earnings	1.0
	Overall	**1.6**
Stock score		**1.4**

- Ping An was established in 1988 as an insurance company and gradually developed into a full financial services provider in China
- Efficient agency team with highest productivity and retention ratio among Chinese peers; most unique and innovative product offering, leveraging on its strong brand, nation-wide coverage and cross-platform financial services
- Solid track record of delivering superior business performance; clear long term strategy on sustainable franchise and competitiveness, focusing on diversification, innovation and risk-control
- Stock currently undervalued, due to 1) over-concerns on risks (e.g. connected transactions, inter-segment leverage) and 2) under-estimation of the benefits (e.g. cross selling, financial risk diversification, branding, operational leverage) from the business model of a financial holding company

Source: Barings, August 2015

Stock example 2
L'Occitane

Company scorecard

Company name	L'Occitane International	
Quality	Franchise	1.0
	Management	2.0
	Balance sheet	1.0
	Overall	**1.3**
Growth	Last three years	4.0
	Next 12 months	1.0
	CAGR next five years	2.0
	Overall	**2.3**
Upside	Market measure	1.0
	Static measure	5.0
	Discounted earnings	1.0
	Overall	**2.3**
Stock score		**2.0**

L'OCCITANE EN PROVENCE

- L'Occitane is the only Provence-style body and skin care brand. It is a global leader in the natural ingredients-based skin care/ body care beauty segment
- L'Occitane has a globally diversified geographic footprint with exposure to both high-spending developed markets and fast-growing emerging markets
- L'Occitane has a solid execution track record in building the brand. The founder owns a large proportion of stake and senior management has stock options

Source: Barings, April 2015

Stock example 3
China State Construction

Company scorecard

Company name	China State Construction	
Quality	Franchise	3.0
	Management	1.0
	Balance sheet	3.0
	Overall	**2.3**
Growth	Last three years	1.0
	Next 12 months	2.0
	CAGR next five years	3.0
	Overall	**2.0**
Upside	Market measure	1.0
	Static measure	1.0
	Discounted earnings	2.0
	Overall	**1.3**
Stock score		**1.9**

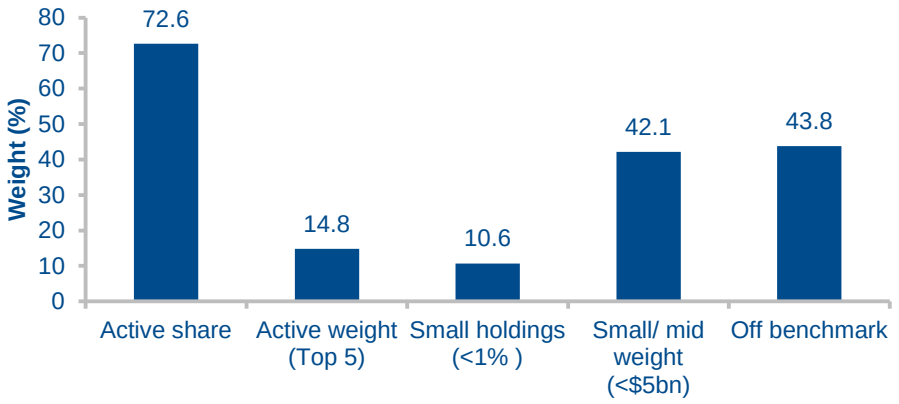
- Leading and long established construction company in Hong Kong with China Overseas Group as major shareholder
- With strong support from parent company, China State Construction has successfully penetrated the Chinese market, thus gaining exposure to a much bigger market
- A key beneficiary of China's lead in One Belt One Road (OBOR) as well as other infrastructure construction projects. We expect OBOR to present new investment opportunities
- Conservatively managed, company pay is focussed on profit growth rather than top line expectation

Source: Barings, April 2015

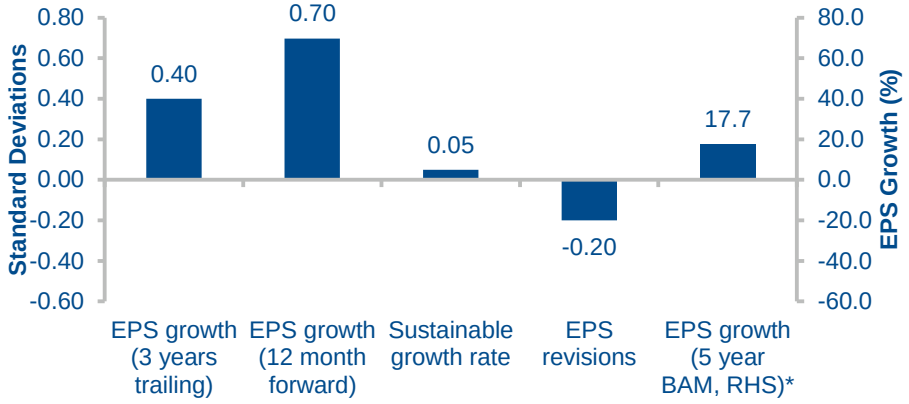
Systematic analysis of the portfolio

Baring China Select Fund scorecard

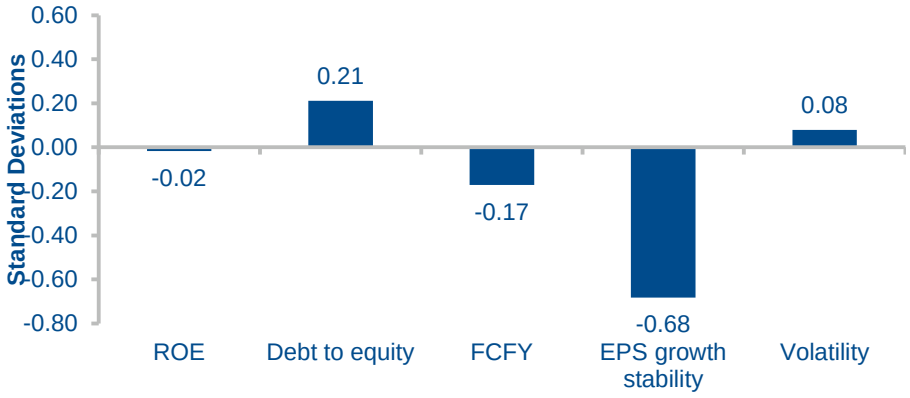
Conviction



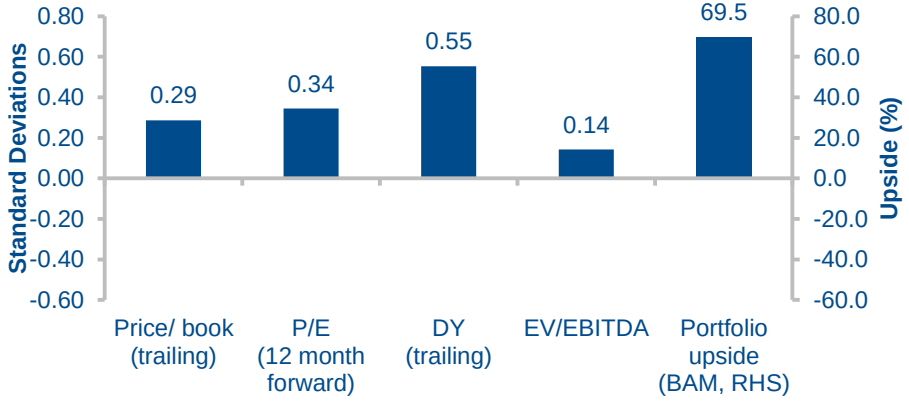
Growth



Quality

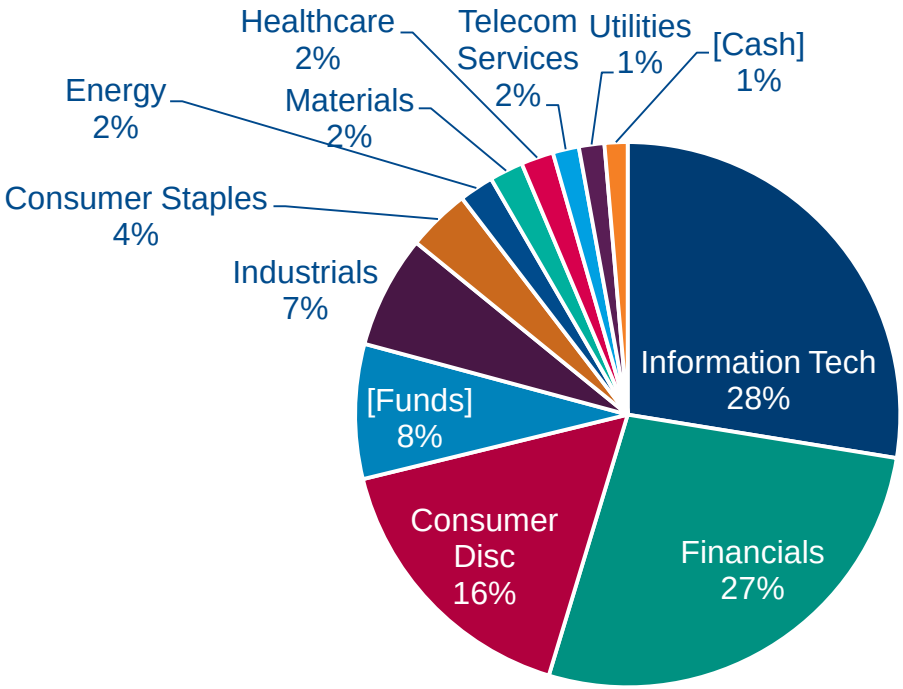


Upside/ valuation



Source: Barings, 31 August 2015
*EPS growth (5 year BAM) and upside are computed for the portfolio only

Baring China Select Fund
Sector breakdown



Sector breakdown is a byproduct of bottom-up stock selection

As at 31 August 2015
Source: Barings

Baring China Select Fund
Country breakdown

	(%)	(%)
Overseas-listed Chinese companies		**70.4**
H share	23.0	
Red chip	24.8	
Others – listed in HK	19.2	
Others – listed outside HK	3.4	
China-listed Chinese companies		**8.0**
A share	8.0	
B share	--	
Hong Kong companies		**16.7**
Taiwan companies		**3.5**
Cash		**1.4**
Total		**100.0**

We offer comprehensive and balanced exposure in China

As at 31 August 2015
Source: Factset , Barings

Baring China Select Fund
Top 10 holdings

Company	Weighting (%)
Tencent	8.9
Baring China A-Share Fund	8.0
Ping An Insurance	5.1
FIH Mobile	3.1
China State Construction	3.0
Sunny Optical Technology	2.8
Baidu, Inc.	2.8
Bank of China	2.7
Nexteer Automotive	2.7
Hong Kong Exchanges & Clearing	2.5

As at 31 August 2015
Source: Barings

Baring China Select Fund
Portfolio characteristics

Portfolio characteristics

	Portfolio (%)	Benchmark index** (%)
Forward P/E (FY2)	11.1x	9.3x
EPS growth (12 month forward)	27.0%	12.5%
Price/ book	1.8x	1.5x
ROE	17.4%	17.5%
Number of stocks	46	144

Market capitalisation comparison

	Portfolio (%)	Benchmark index** (%)
Over US$10 bn	39.7	64.2
US$1-10 bn	46.8	35.2
Below US$1 bn	12.1	0.6
Weighted avg (US$ bn)	28.0	67.0

Portfolio turnover

Rolling 12-month portfolio turnover (adjusted)	63.9%

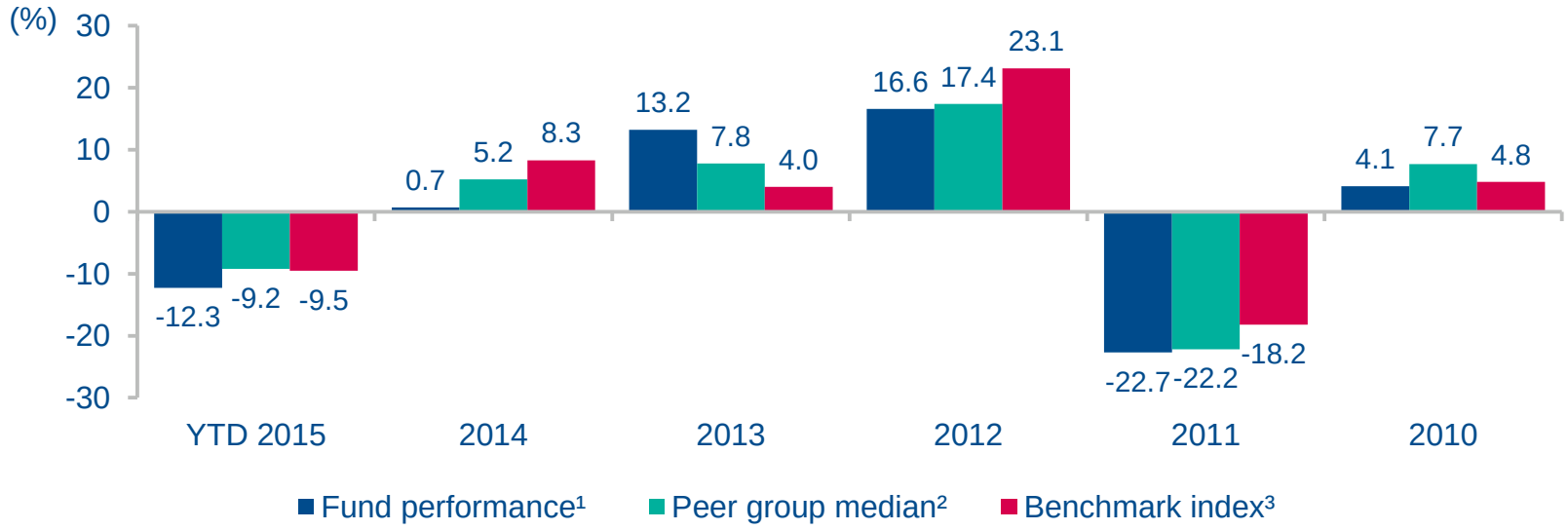
Risk summary

Tracking error versus benchmark index**	8.4%
Beta versus benchmark index**	0.9

As at 31 August 2015
Source : MSCI, Style Research, Barings. **Benchmark Index: MSCI China Total Return

Baring China Select Fund

Performance as at 31 August 2015



Quartile[2]	3rd	3rd	2nd	3rd	3rd	3rd

Past performance is not a guide to future performance

[1] Fund performance are NAV to NAV, net of fees, gross income, US$, Class A USD Inc. Source: © 2015 Morningstar, Inc. (See Important Information)
[2] Peer Group Median / Preliminary Quartile Ranking is based on Morningstar China Equity Universe. Source: © 2015 Morningstar, Inc. (See Important Information)
[3] Benchmark Index - MSCI China Total Return. Reference to the index is for comparative purposes only.
For risks associated with investment securities in emerging and less developed markets, please refer to the Offering Document for details.Transactions in derivatives, warrants and forward contracts and other fund derivatives instruments may be used for the purpose of meeting the investment objective of the Fund. The Net Asset Value of the Fund may have a high volatility due to these instruments and techniques being included in its scheme property and may involve a greater degree of risk.

Appendix
Investment themes and market outlook

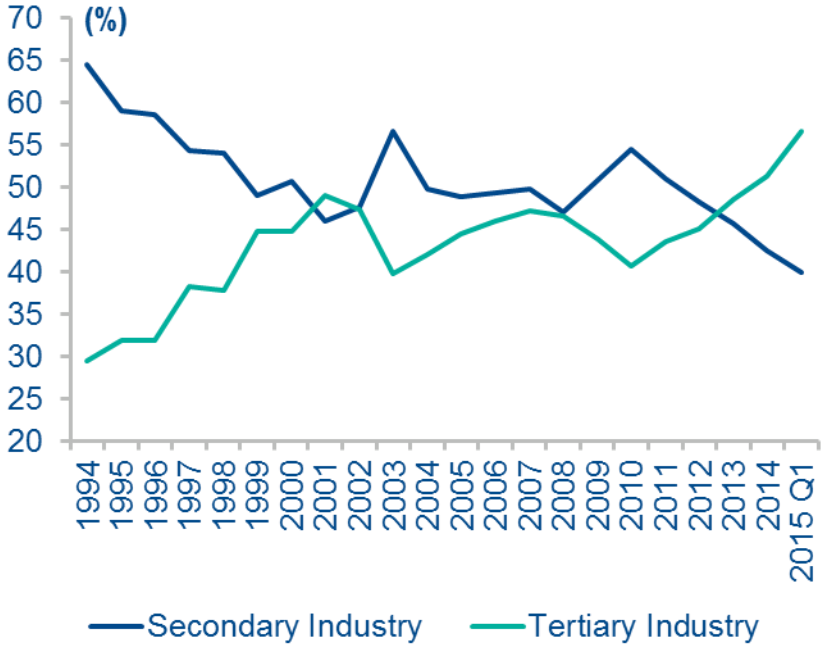
Investment themes

- New urbanisation and beautiful China concept
- Upgrading of consumption patterns: huge demand for online and service industries
- Technology advancement and development of Chinese brands
- Survival of the fittest: upgrading of value-adds for industrial/ export companies



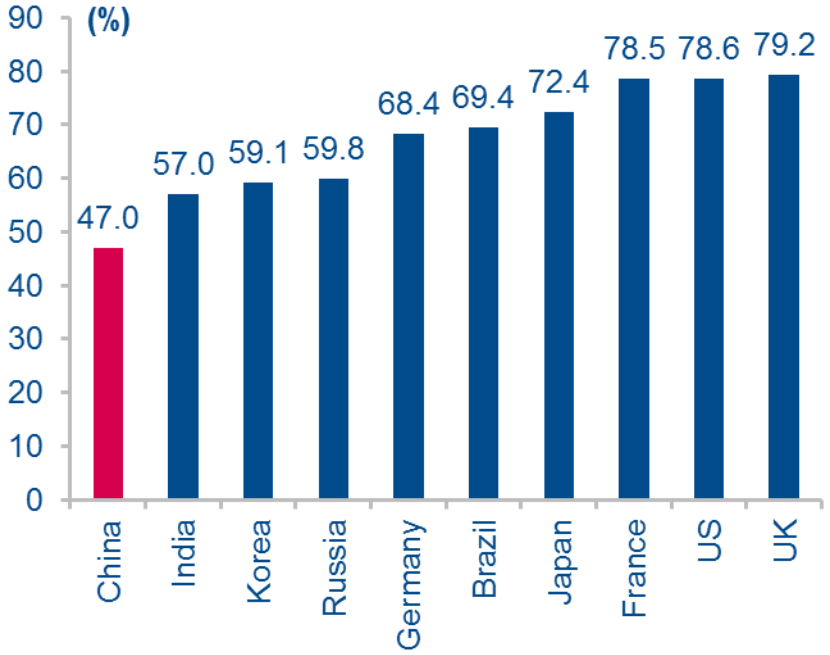
Rebalancing of the economy
Service industry taking the lead

China GDP growth contribution – Secondary and tertiary industries



Source: Wind, Everbright Securities, June 2015

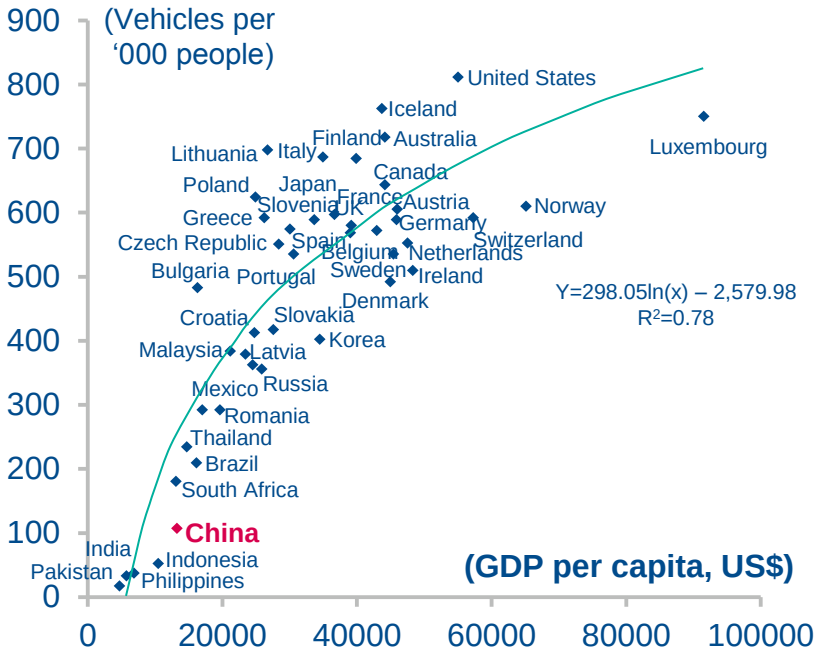
Share of service industry in GDP



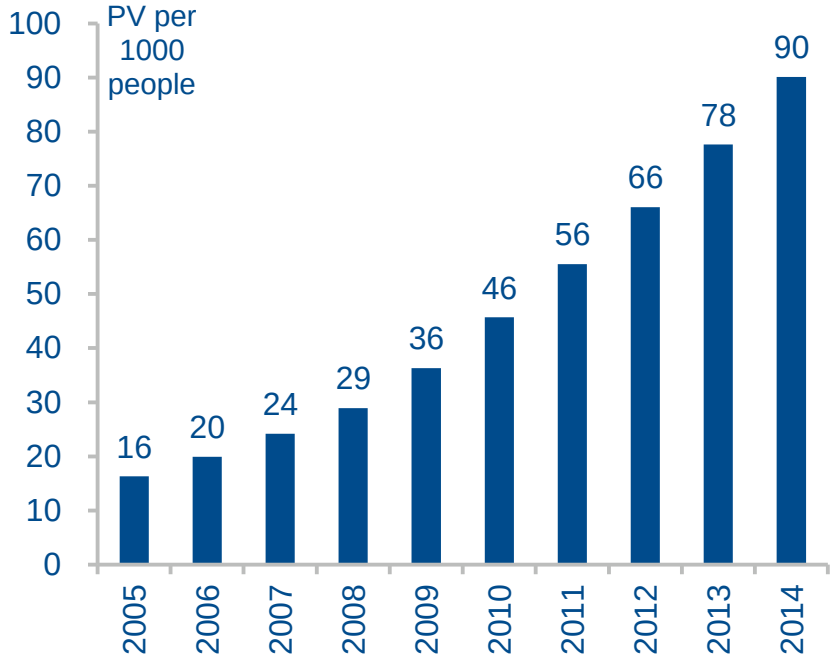
Source: NBS, BNP Paribas, May 2015

Automobile - steady growth to continue

Motor vehicle penetration and income



PV penetration in China



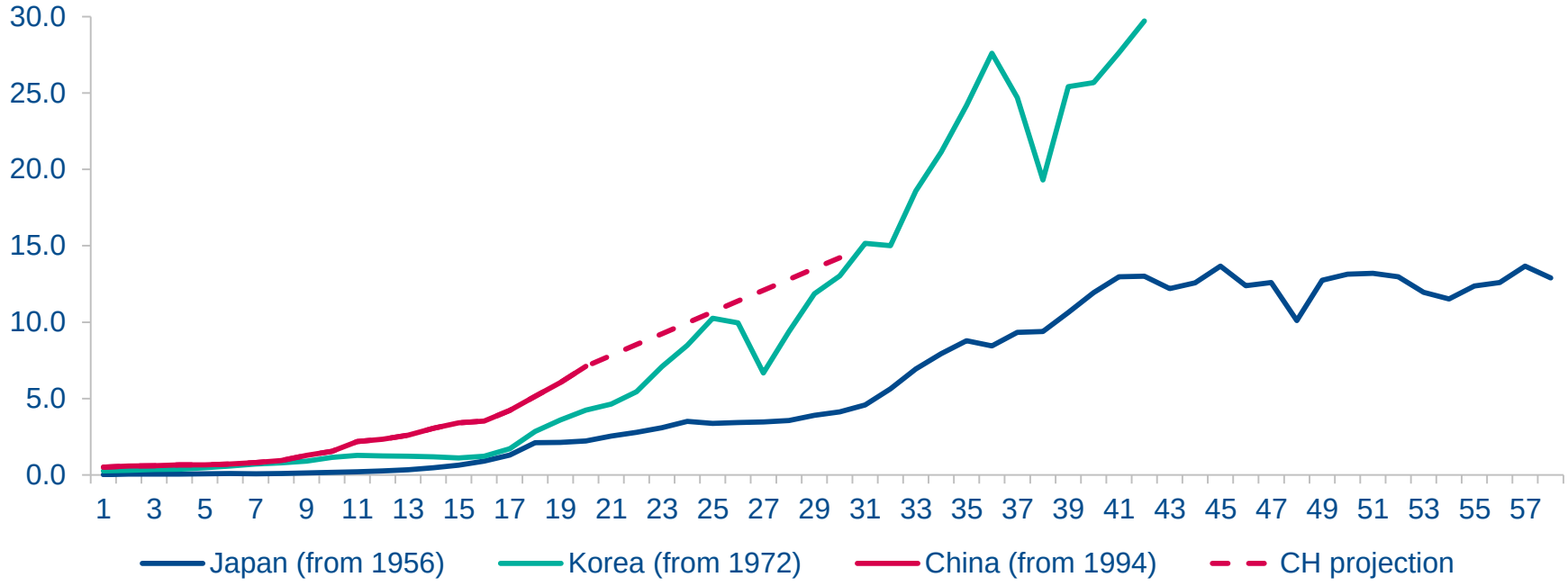
Key is to monitor new product launches

Source: CLSA as at September 2015

A new pattern of consumption

Outbound tourists since relaxation of travel restrictions

(% of total population)

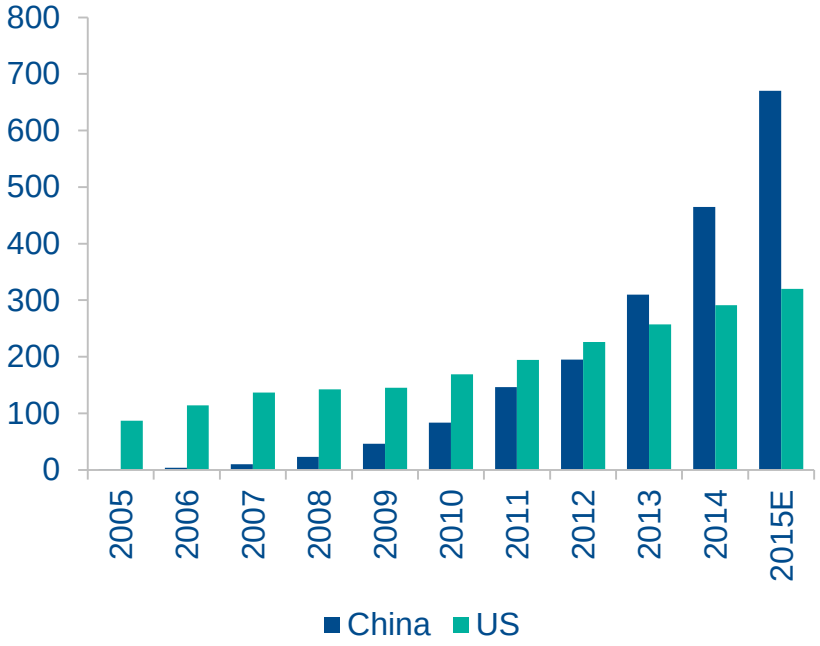


It is just the beginning…

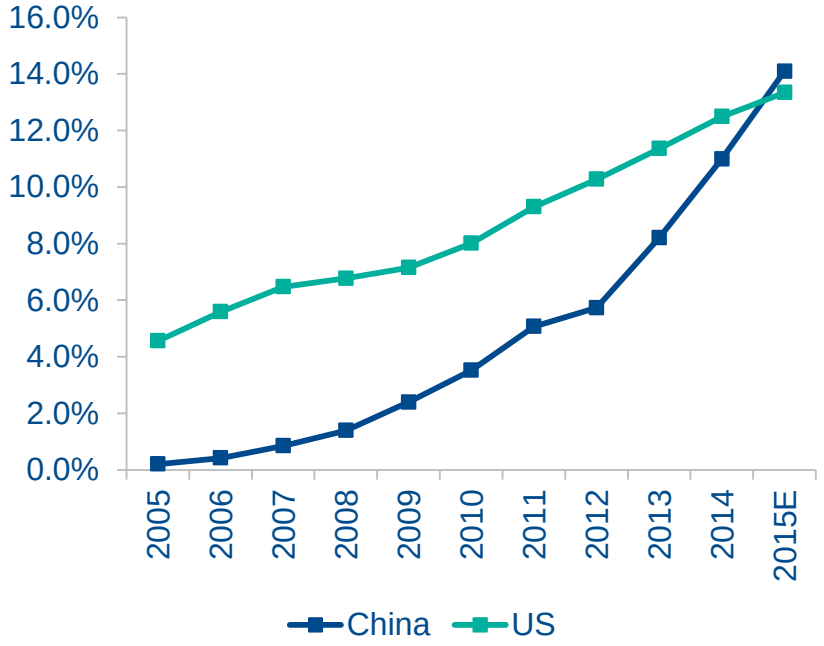
Source: CEIC, HSBC, September 2014

E-commerce development taking off

E-commerce size in China has surpassed the US (US$ bn)



E-commerce penetration in China rises to US level (as % of retail sales)



Source: Company data, US Census, BofA Merrill Lynch Global Research, September 2015

The new growth driver - One Belt One Road (OBOR)



1. Replacing traditional export industries to become new driver of economy
2. Reducing the overcapacity situation
3. Total foreign investment to exceed USD 500bn in five years

As at May 2015
Source: Goldman Sachs

China: economic outlook

Economy: short term - growth bottoming; medium term - “new normal”

“New normal” = sustainable growth

- **Fiscal policy** – higher central government fiscal deficit to hedge shrinking local government debt; LGFV debt swap; targeted loosening
- **Monetary policy** – accommodative; to stabilise the economy and buy time for reform
- **Development of multi-tier capital markets** – optimise capital allocation and support reforms
- **Establishment of three national-level economic development zones**
  - Beijing/ Tianjin/ Hebei
  - Yangtze River region
  - “One Belt, One Road”

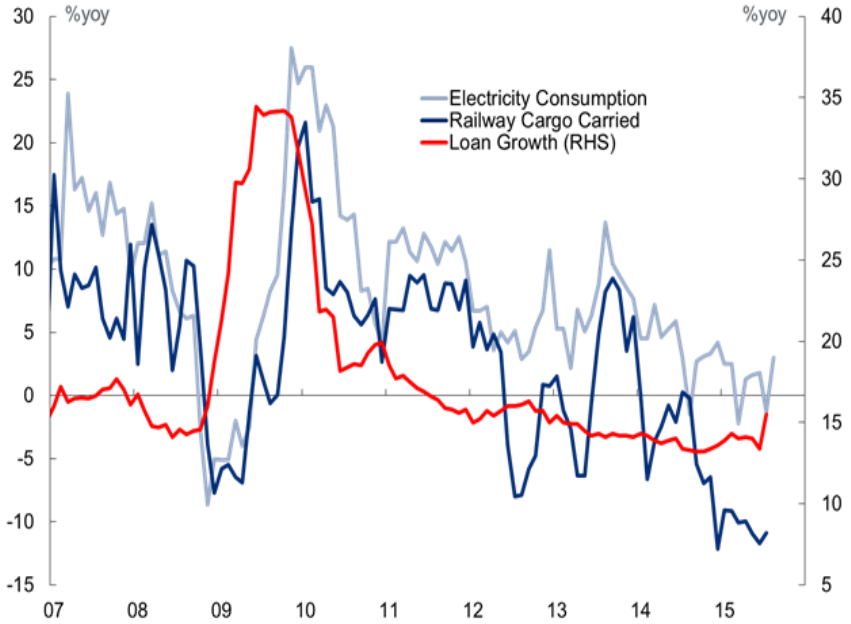
Source: Barings, December 2014

China macro

Monetary and fiscal policies should work

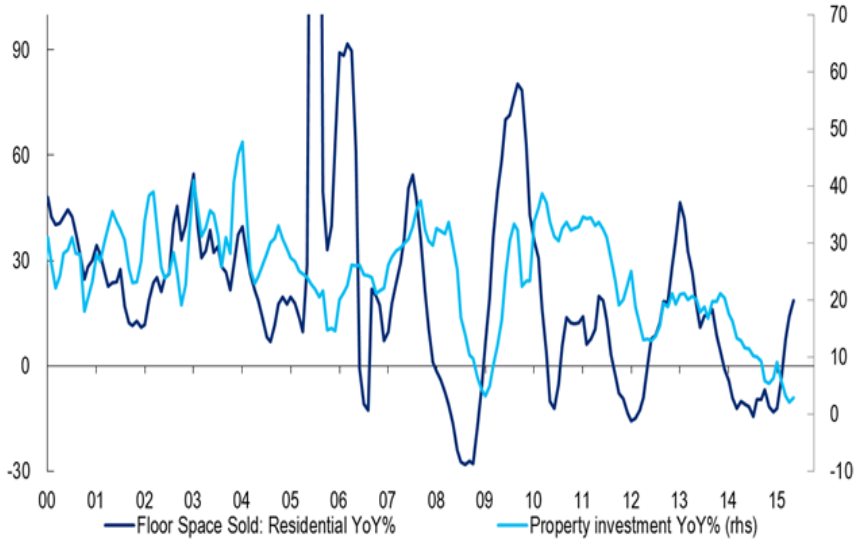
Real economy

From MoM improvement to YoY improvement



Property sales/ investments

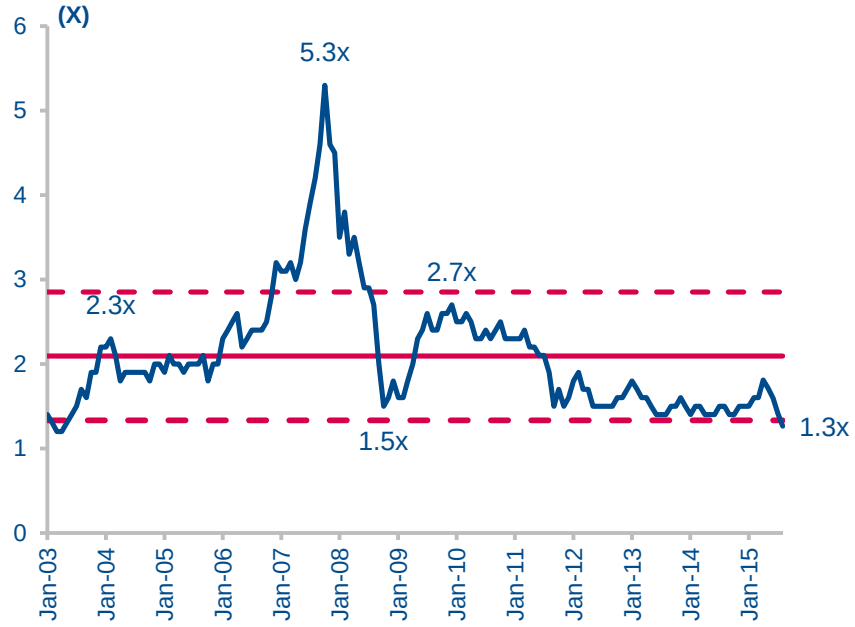
Sales is doing well to ease inventory problem in near term; limited downside on property investment growth going forward.



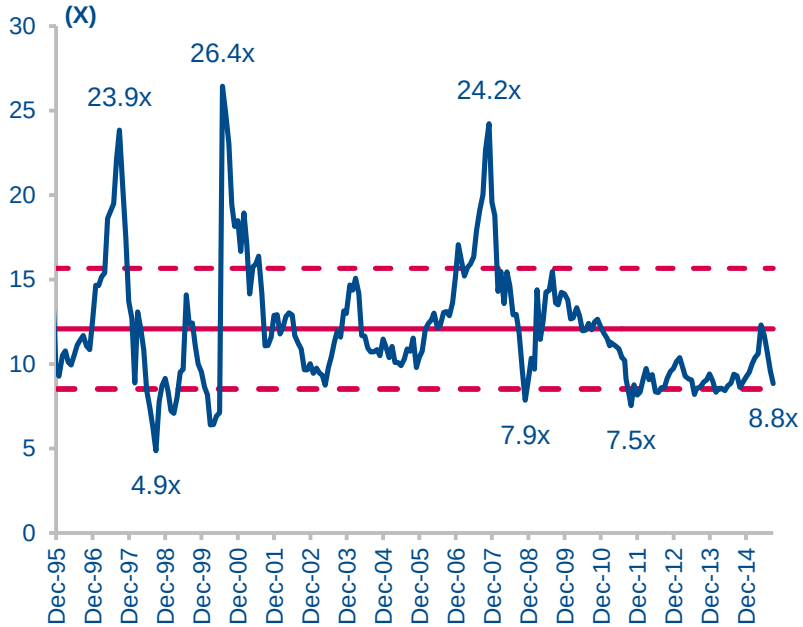
Source: Citi, September 2015

Valuation of equity market appears reasonable

Trailing P/B for MSCI China



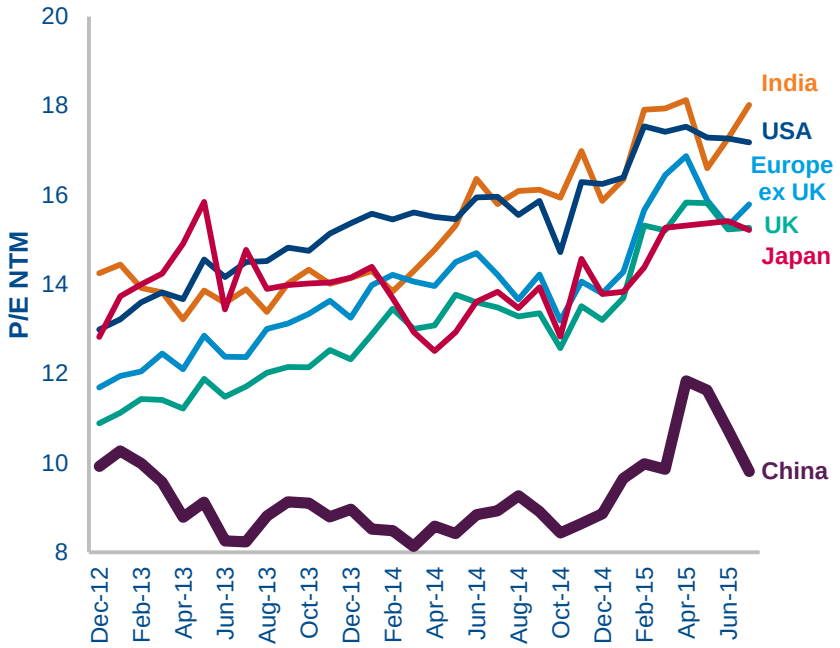
Forward P/E for MSCI China



Source: Goldman Sachs, August 2015

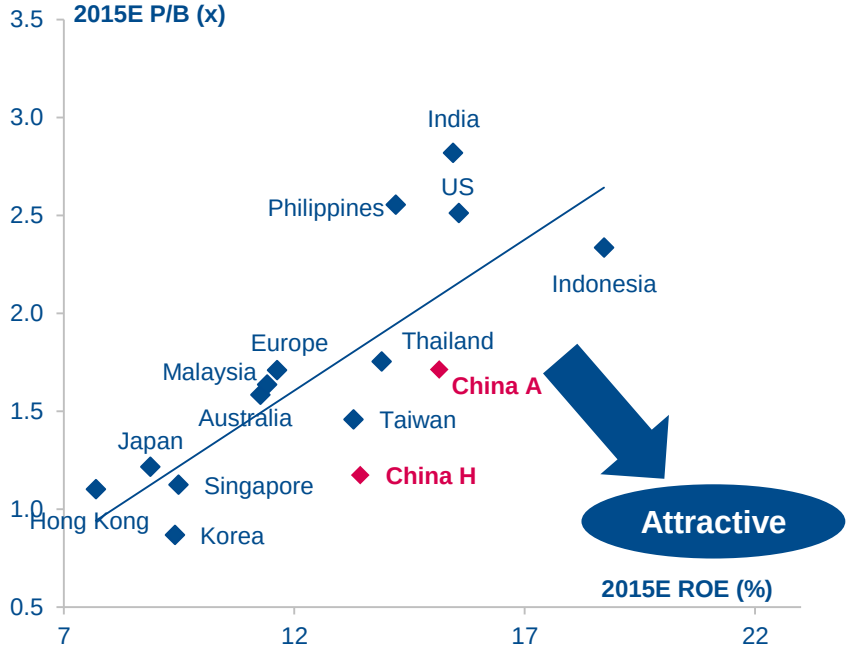
Valuation of equity market appears reasonable

Price to earnings ratio (NTM)



China clearly stands out

as an attractive market from a PB versus ROE perspective



Source: Factset, Barings, August 2015

Source: FactSet, MSCI, I/B/E/S, Goldman Sachs, August 2015

Biography

William Fong, CFA



Investment Director,
Asia Pacific Equities

Location: Hong Kong
Investment Experience: 15 Years

William is the lead manager of Baring China Select Fund and manages a number of dedicated Hong Kong China portfolios. His research responsibilities include Hong Kong, China and Taiwan. William joined Baring Asset Management in 2004 from Primasia Securities where he was as an Investment Analyst specialising on Taiwanese stocks. He received a B.B.A. (Hons.) in Finance from The Chinese University of Hong Kong. William was awarded the CFA designation in 2003. He is fluent in Cantonese and Mandarin.

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A portion of the fund's portfolio is invested into emerging markets and investors should read the offering documents for risk factors associated with such investments.

Investment involves risks. Past performance is not a guide to future performance. Investors should read the offering documents for details and the risk factors. Investors should not base on this document alone to make investment decisions. This document has not been reviewed by the Securities and Futures Commission of Hong Kong.

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