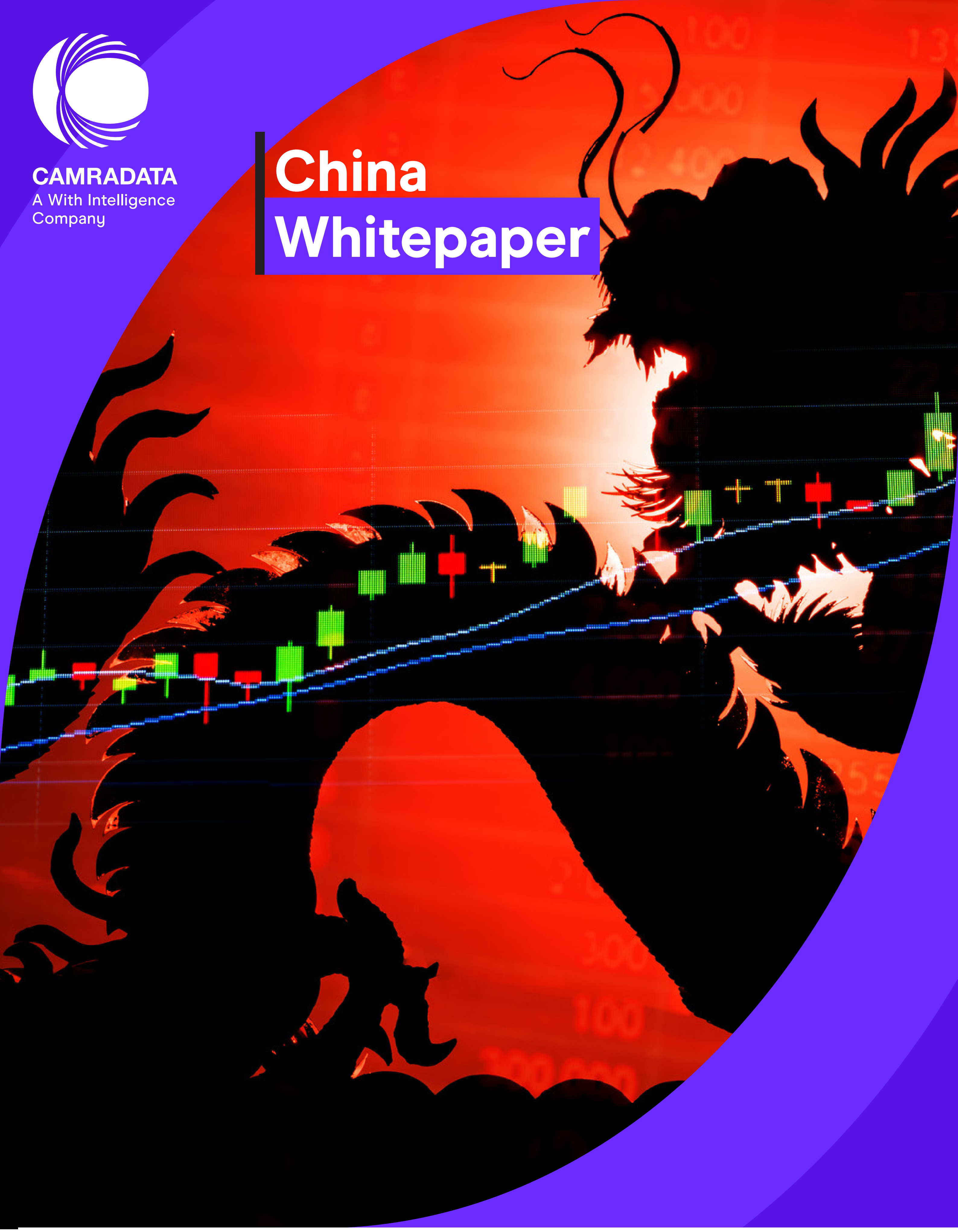
CAMRADATA
A With Intelligence Company

# China Whitepaper



Sponsored by

GUINNESS GLOBAL INVESTORS

Sumitomo Mitsui DS Asset Management

## Clear and Independent Institutional Investment Analysis

We provide institutional investors, including pension funds, insurance companies and consultants, with data and analysis to assess, research and report on their investments. We are committed to fostering and nurturing strong, productive relationships across the institutional investment sector and are continually innovating new solutions to meet the industry's
complex needs.

We enable institutional investors, including pension funds, insurance companies and consultants, to conduct rigorous, evidence-based assessments of more than 5,000 investment products offered by over 700 asset managers.

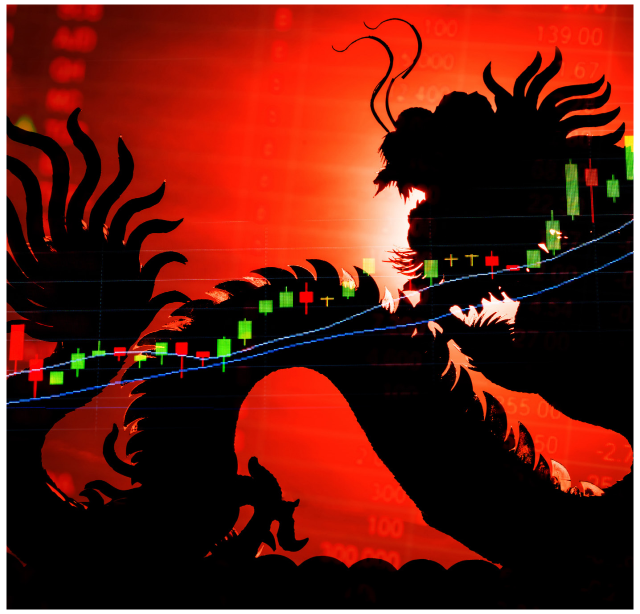
Additionally, our software solutions enable insurance companies to produce consistent accounting, regulatory and audit-ready reports.

## To discuss your requirements

+44 (0)20 7832 6517
info@camradata.com
LinkedIn
@camradata

camradata.com





## Contents





# Welcome to CAMRADATA's China Whitepaper

From a footnote within emerging market fund allocations, to a major growth engine of long-term portfolios, Chinese assets and securities have come a long way over the past decade.

With the liberalisation of entry requirements to Chinese public markets and the flocking of international investors to new ways of making returns, the world's second largest economy now makes up a larger part of the investment mix than ever before. Yet, it has not been plain sailing.

The opening up of such a broad, varied and often still mysterious market to outsiders has meant hours of on-the-ground analysis and getting to grips with companies that operate in an entirely different environment to accepted Western, financial norms.

Additionally, the paradoxes within the arguments for and against the country on sustainability grounds complicates matters further.

Most recently, an untidy exit from the pandemic, combined with sabre-rattling over former territories has spooked some Western investors, along with a chill wind blowing around the nation's real estate. That's before we enter into its domestic political future and wavering social contract.

Yet, China is as embroiled in supply chains as it is with global capital markets, meaning an average portfolio's indirect exposure may massively overstep what an investor might first expect.

In this whitepaper, we will examine the case for, against and just how invested in China institutional investors really are – and what it means for their long-term outcomes.

## Meet the Team

**Natasha Silva**
Managing Director, Client Relations

**Amy Richardson**
Managing Director, Business Development

**Sam Buttress**
Associate, Business Development

**Sarah Northwood**
Marketing and Events Coordinator

Orin Ferguson
Associate, Business Development

# China Roundtable

## The CAMRADATA China Roundtable took place in London in June 2023

**China: Investment opportunity, risk, or a heady mix of both?**

As geopolitical tensions rise, experts discuss how investors should approach making an allocation to the world's second largest economy.

The liberalisation of entry requirements to China's public markets – and the resulting influx of international investors seeking returns – has meant the nation's assets and securities now make up a bigger part of the international investment pool than ever before.

However, while following a broadly positive trajectory over the past decade or so, the Chinese market has not been a straightforward journey. Looking ahead, the path appears beset with new hurdles as well as significant opportunities.

International investors are still getting to grips with companies that operate in an entirely different way to accepted Western financial norms, as well as contemplating China's sustainability paradoxes, political future and wavering social contract.

CAMRADATA invited industry leaders and experts to discuss the case for and against investing in China, where the county is headed, and what it all means for the future of institutional portfolios.

**Increasing appetite**

Over the past decade, institutional investors' appetite for China-focused funds has been growing.

"Across the UK pension fund landscape, most defined benefit (DB) schemes are closed and in de-risking mode. But there is a significant minority of open schemes – such as large corporate and Local Government ones – that have been allocating to China. For example, 1-3% of their entire portfolio," said Norbert Fullerton, investment partner at LCP.

"In the sovereign fund space, for example, large European, Asian and Middle Eastern funds have a huge risk appetite and have been investing in emerging markets, including China and Africa. It's an exciting time for these investors."

The other participants around the table agreed, with Jeff Brummette, CIO at Oakglen Wealth, saying China is just too big to ignore.

"It's the second largest economy and has a huge influence on commodity prices," he said. "There is appetite to invest and there are great opportunities that we don't hear about."

> ***"Across the UK pension fund landscape, most defined benefit (DB) schemes are closed and in de-risking mode. But there is a significant minority of open schemes – such as large corporate and Local Government ones – that have been allocating to China."***



"Up until three years ago we allocated to China as part of our emerging markets exposure," said Robert Scammel, senior portfolio manager at Van Lanschot Kempen UK. "However, this means that you will always be significantly underweight Chinese equities compared to China's share of global GDP.

We have since added a separate allocation to China A shares which is around 1% of our model portfolio exposure. Along with our EM exposure this gives us about 8% of our total equity exposure to China. We currently regard that as a core exposure."

Mediolanum International Funds launched a China fund four years ago, but equity portfolio manager Patrick McKenna stressed that, with the recent geopolitical noise, whether clients make an allocation to it hugely depends on their risk appetite.

"Absolute volatility is hard to stomach for investment committees and clients, but there is an opportunity over the long term in the active management space," he said.

**Managing risk and expectations**

Western international investors and Chinese domestic investors take a very different approach to capital allocation, according to Toshiyuki Murai, product specialist, Asia Equity at Sumitomo Mitsui DS Asset Management.

"The key aspects for international investors are not just based on fundamentals, they are also concerned about short-term risks," said Murai. "Chinese domestic investors are more focused just on the fundamentals, as, over the medium to long term, they have hope in the China economy overall.

"However, our main client base is Japanese retail investors, and their sentiment towards China is quite low. There was a boom in BRICS investing between 2001 and 2007, but nowadays this enthusiasm has almost gone," he said.

Edmund Harriss, board director and CIO of Guinness Global Investors, noted that the rationale behind allocating to China has changed several times over the last quarter century.

"If you were allocating in 1997-98, it would be on an index basis heavily biased towards telecoms," said Harriss. "In 2003 it would be oils, by 2005 it would be banks, and then in 2010 it would be e-commerce. The market has changed hugely and has reflected and underlined China's evolution."

He said global investors thinking about making an allocation to China could invest directly in Chinese stocks if they want pure economic exposure. But, if they also wanted to reduce regulatory and market risks, a better option would be to gain exposure via a multinational.

"It is all about one's appetite for risk," said Harriss. "When you've got a rough roadmap for China's direction of travel, there is a tremendous opportunity to marry up the wide array of well-managed companies directly benefiting from this economic

> ***"Whether or not China becomes the biggest economy in the next ten years, you can't ignore it. When I speak to investment managers who haven't made an allocation to China, I can't believe they can't find any ideas considering the breadth of its market"***

evolution, that are generating cash and have a track record of doing so. You can see this in their dividend streams."

Compressed valuations, most recently due to geopolitical and Covid-19 risks but also through historic disappointment that macroeconomic growth did not deliver the expected profits, "has affected poor companies as well as good ones," added Harriss.

**State, private, other?**

Sumitomo's Murai stressed that investors must consider the difference between state-owned enterprises (SOEs) and privately-owned enterprises (POEs) when allocating capital.

Furthermore, Amandeep Shihn, director of manager research at WTW, noted that not all SOEs have the same structure in China.

"There are government-level SOEs and there are regional-level SOEs," he said. "While they may still have dual mandates, one economic and the other political, the alignment of interest with minority shareholders may differ from entity to entity.

"It's important that investors understand the differences across companies, and not automatically make a blanket judgement to dismiss an investment as poor, just because it has state links."

For Harriss there is another key consideration: "When you're looking at a range of Chinese companies, it's not about whether they are state or privately owned, it's about which ones are creating value and which are not."

"You should undertake financial analysis of the business model, look at non-financial analysis – to see who owns it, how it's operating, who governs it, and whether those financial metrics are likely to persist or not – and build a valuation model around those factors," he said. "China has unique qualities in how it operates, but the underlying investment case for what we're actually buying is the same here as anywhere else."

These qualities offer another element to portfolios, according to Van Lanschot Kempen's Scammel, yet those looking for terrific growth – which was once China's main attraction – may be disappointed.

"When future-proofing your portfolio, you want some exposure to the second-biggest economy in the world. It can provide diversification and, hopefully, a return," he said.

"As the Chinese economy matures, we would expect it to move from an investment model to a consumption model, but this is not going to happen in five years. It's a long-term philosophy, so we have to be long-term investors."

A hurdle, however, is that the hand of the Chinese state is often not-so-invisible, which can put some investors on edge.

"The new problem is that the Chinese authorities are making it harder and harder to gain information about China," said Oakglen Wealth's Brummette. "There is trouble understanding what is going on in China, and in what ways data might be being manipulated, and that makes people nervous."

Murai agreed it can be hard to gain market intelligence, but stressed analysis of information was more important than its volume or quantity.

"There are huge opportunities to invest in China – with technological revolutions and renewable energy upgrades – so investors should look at these for the medium to long term," he said.

Mediolanum's McKenna also believes risk can often become the overriding factor, meaning that even when portfolio managers are on board, institutional investment committees remain unconvinced.

"Whether or not China becomes the biggest economy in the next ten years, you can't ignore it. When I speak to investment managers who haven't made an allocation to China, I can't believe they can't find any ideas considering the breadth of its market," he said.

**Ease of access**

Investment ideas may abound, but the nation has challenges that are not limited to political and corporate governance issues.

"Demographics is a problem as people are getting older, so they need to transition from an investment-led economy to a consumer-driven economy," said Scammel. "It requires a fundamental transition, but this remains to be seen."

McKenna agreed. "The population is getting older, so it needs better healthcare. Investors can try to identify trends and align with the government. China could play a leading role in the energy transition, global healthcare and the manufacturing of semi-conductors. It is very important [for the authorities] to think about the consumer economy, but unfortunately it's just not happening yet."

According to Harriss, the ageing population translates into a significant economic issue: a shrinking labour force. However, China – unlike many other countries facing a similar problem – has a plan.

"China's industrial policy is geared towards pillar industries, where it could achieve dominance in world markets," he explained.

China's pillar industries include sustainable energy, sustainable equipment manufacturing, and advanced manufacturing. China is also leading the way in fifth generation telecoms, both through government policy and capital investment.

"If you divide China's investment universe into structural and sub-themes, and then map good-quality companies that have good capital returns and long track records, you distil a universe of 3,500 companies into about 300. That is our hunting ground," said Harriss. "Then it is about positioning yourself in a way that aligns with China's direction of travel."

Shihn added that investors need to understand the different ways in which they could access market opportunities. Not all asset managers take the same approach, and there are pros and cons to all approaches.

"Some asset managers prefer to have a local presence, which may give them credibility with companies in the region, while others may prefer to travel occasionally, or not travel to meet companies at all," he said. "All investment approaches are fine, but it's context-dependant and ultimately about the insights investors can generate from their chosen approach."

**Good neighbours**

A key concern for many investors is the recent sabre-rattling between China and a very close neighbour. "If China invades Taiwan, it would be a global [economy] killer," said Scammel. "To downplay the impact is extremely difficult.".

LCP's Fullerton added that UK pension fund allocations to China appear set to fall from 5-10% of their equity portfolios to around 3-6%. However, central banks and sovereign wealth funds have been more sanguine, investing in the yuan for foreign currency reserves and China equities, respectively, he said.

"With trust at rock-bottom levels, there is scope for an incident," noted Harriss. "But wealth creation is what keeps a population happy. As long as the channels of communication remain open and the Chinese are confident that the US won't back Taiwan to break away unilaterally, then opposing forces would balance the international order."

McKenna added that the key aim for leaders is to keep their populations happy. "Over the past few years, the Chinese government has aggressively intervened in its economy. Overall, it has made progress – people and children are better off – but if that starts to deteriorate, unrest could appear.

"A worsening of the Taiwan situation would be detrimental to China's common prosperity goals. The consequences might be extreme in terms of jobs and economic losses, which would become the main problem for the government," he added.

**A sustainable paradox?**

Sustainability is an increasingly complicated global issue, and China is both part of the problem and its solution.

"While the environmental aspect is incredibly complex, there is a transition," said Scammel. "The governance issue is also important and this will be solved by good investment practices."

Chinese companies are also increasingly disclosing information for ESG purposes, noted Murai. "Environmental and governance data are easier to combine, as Chinese and global standards are similar. But the social aspect is harder, as in this regard China is very different to the West."

Fullerton said that many of LCP's client conversations centre around governance or social issues, rather than environmental ones.

He added that significant ESG investments are starting to be made and China's economy is likely to benefit disproportionately from institutional investors' effort to create a 'just transition', which is focused in emerging markets.

"But talk is just talk if nothing is done to achieve net zero. There are other topics on the agenda such as diversity and inclusion, so it is not just about environmental sustainability," he added.

**China 2030 – and beyond**

Making an allocation to an economy as large, evolving and politically guided as China's needs to be carefully considered by investors. But, ultimately, it will be a 'when' rather than an 'if' decision for most.

Murai noted it was important not to underestimate China's potential.

"Having lived in the US, my perception is that the Chinese mindset is similar to the one there," he said. "People in China are quick and active, going by trial and error. In Japan, they consider how every mistake happened, so they are slower. In China, there is lots of room for innovation. There is an entrepreneurial mindset, with room for growth and innovation."

Taking a long-term view of China is vital, according to Shihn.

"It will likely be a bumpy and volatile ride for investors," he said. "Not just because of what happens in China, but also the global perception about what's going on. Investors' allocations will be driven by looking at where they are in their investment journeys. Investors who have healthy return-seeking buckets may allocate more to China, directly or indirectly."

Ultimately, to be successful, investors need to embrace China and attempt to understand its dynamics, cultural dimensions and organisational structures.

"Institutional investors tend to apply a developed markets view to investing in emerging markets, including China, but forget that these are markets which are still evolving and expanding in the ways the UK and the US did in the earlier phases of financial liberalisation," said Shihn. "When investing in China, we should look at it from a Chinese perspective to understand the market."

> ***"Ultimately, to be successful, investors need to embrace China and attempt to understand its dynamics, cultural dimensions and organisational structures"***

# Roundtable Participants

## Edmund Harriss

### Director on the board of Guinness Global Investors and Chief Investment Officer

**Personal Profile**

Edmund is head of Asian & Emerging Market investments, serves as a director on the board of Guinness Global Investors and is Chief Investment Officer.

Edmund joined Guinness Global Investors in 2003. Since 2003, he has managed the Guinness Best of Asia strategy and the Guinness Asian Equity Income strategy since its inception in 2006.

Previously, Edmund worked for ten years from 1993 for Guinness Flight, which became Investec after the merger in 1998.

After joining the Far East Investment Desk in 1994, he served as a member of the investment team managing the China & Hong Kong Fund (now the Guinness Atkinson China & Hong Kong Fund, for US investors). He moved to Hong Kong and became the Fund's lead manager in 1998.

**Company Profile**

Guinness is independent and focused purely on investment management. Our in-house economic, industry and company research allow us to take an independent view and not be led by the market.

Our size and specialist nature also enable us to respond quickly and efficiently to market movements. At heart, Guinness Global Investors is a value (or growth at reasonable value) investor.

We combine strategic sector selection with a fundamental screening process to identify stock opportunities.

GUINNESS GLOBAL INVESTORS



## Toshiyuki Murai

### Product Specialist, Asia Equity

**Personal Profile**

Mr. Murai has been in charge of equity investment since 1993, since Mitsui Life. He has 27 years experience of Global equity investment. From 2013 to 2019 he was in the position of the CIO of Asia Equity investment team of Sumitomo Mitsui DS Asset Management.

He has 19 years experience of working abroad including the U.S., U.K. and Asia. His insights on Asia equity with a global perspective is widely acknowledged both from retail and institutional investors.

**Company Profile**

Sumitomo Mitsui DS Asset Management is one of the largest investment management companies in Japan, offering discretionary investment management, investment trusts and advisory services to a range of institutional investors, pension funds, government agencies and retail investors worldwide.

Our investment solutions include Japan and Asia equities, fixed income, multi asset, real estate and others. Our investment expertise is leveraged off our industry-leading research platform and global network. We incorporate new investment techniques in response to an evolving market environment to provide top-tier performance that aims to deliver strong medium and long-term returns.

Sumitomo Mitsui DS Asset Management

# Roundtable Participants

## Rob Scammel
Senior Portfolio Manager

### Personal Profile

Robert is a Senior Portfolio Manager with over 20 years' experience in financial markets. He has responsibility for the balance sheet management of Kempen UK's largest clients. As well as managing the execution of trades within the growth portfolios, he retains responsibility for managing, designing and executing Kempen UK's LDI solution.

Robert sits on both the Dynamic Asset Allocation Committee, which has responsibility for forming Kempen UK's medium term market outlook, as well as the Kempen London Operating Committee which maintains responsibility for the management of the London business.

Robert joined Kempen from BlackRock where he spent four years managing liability hedging portfolios and executing derivative trades for UK and European clients.

Robert started his career at the Bank of England where he held various roles including managing and hedging the Bank's foreign currency balance sheet.

Rob has a degree in Economics & History from the University of Leeds and a Masters in Finance & Economics from Southampton University.

## Norbert Fullerton
Partner - Investment

### Personal Profile

Norbert is a partner at LCP and has over 25 years' experience providing investment and pensions advice to some of the world's largest pension funds, central banks and sovereign wealth funds in Europe, the Middle East and Africa (EMEA).

Prior to LCP, Norbert was Chief Institutional Client Strategist at Janus Henderson Investors, responsible for their thought leadership and strategic investment solutions in EMEA. His previous roles included being a Partner at Mercer, where he was a Strategist and lead investment consultant to UK pension funds.

Prior to Mercer, Norbert was a Director at Russell Investments and Senior Strategist at Willis Towers Watson, providing investment advice to institutional investors, including trustees and corporate sponsors of UK pension funds. Norbert is a UK qualified actuary and graduated with a MSc in Actuarial Science from City, University of London and a BSc in Mathematics from the University of the West Indies.

## Patrick McKenna
Equity Portfolio Manager

### Personal Profile

Patrick McKenna is Equity Portfolio Manager at Mediolanum International Funds Ltd. (MIFL). Based in Dublin, he is responsible for the firm's suite of emerging market and US equity strategies.

Prior to joining MIFL in 2020, he was Investment Analyst at Saunderson House and Portfolio Manager at Aon in London. Patrick is a Chartered Financial Analyst (CFA®) and Chartered Alternative Investment Analyst (CAIA®).

## Jeff Brummette
Chief Investment Officer

### Personal Profile

Jeff is the Chief Investment Officer (and acting CEO UK) for Oakglen Wealth. He brings decades of investment markets experience to his role and was one of the founding partners of Rubicon Fund Management LLP and latterly Head of Investor Relations.

Prior to his return to Rubicon he was founder and CIO of Onewall Advisors UK LLP. Before setting up Onewall, Jeff was a Partner and Portfolio Manager at Strategic Fixed Income UK LLP where he was involved in managing strategies in the macro hedge fund and a variety of managed accounts.

Earlier in his career he worked for the foreign exchange unit of Salomon Smith Barney (in Singapore) and managed a variety of global fixed income portfolios at Prudential Global Advisors (a unit of The Prudential Insurance Company of America), and as an analyst in the economic research department of the Irving Trust Company in New York City.

Jeff holds a BA with High Honours in Economics from Rutgers University and an MBA from New York University's Stern School of Business Administration.

# Moderator

## Amandeep Shihn
Director of Manager Research

## Elizabeth Pfeuti
Chief Client Officer

### Personal Profile

Amandeep Shihn leads WTW's Quantitative Equity manager research efforts, co-leads Sustainable Investment manager research efforts and is a member of the Investment Committee for WTW's Diversified Equity Fund. He led WTW's Global Emerging Markets Equity manager research for four years until mid-2021. Particular areas of focus are researching global and regional equity strategies, as well as sustainable investing. In this role he is involved in portfolio construction for WTW's global client base, sourcing and developing new investment ideas and has designed a number of the tools and frameworks used to research asset managers and monitor their portfolios from a sustainability perspective.

Prior to joining the manager research team, Amandeep was a member of WTW's investment strategy team where he worked on strategic asset allocation and liability management projects. Amandeep graduated from the University of Bristol with a BSc in Economics and Imperial College Business School with a MSc in Finance.

### Personal Profile

Former Dow Jones staffer Elizabeth Pfeuti is Rhotic's Chief Client Officer and a member of the Rhotic Media executive leadership team. A highly-decorated journalist, Elizabeth has been in financial journalism for around 15 years. At Dow Jones, she covered the asset management, investment banking and investor services beats for Financial News, where she also wrote on a wide range of regulatory themes

She was previously the European Editor for CIO Magazine and boasts an exceptional contact book of buy-side and in-house institutional CIOs and asset management executives. More recently she has worked on corporate briefs for pension consultants, investment banks and asset management groups.

wtw

RHOTIC

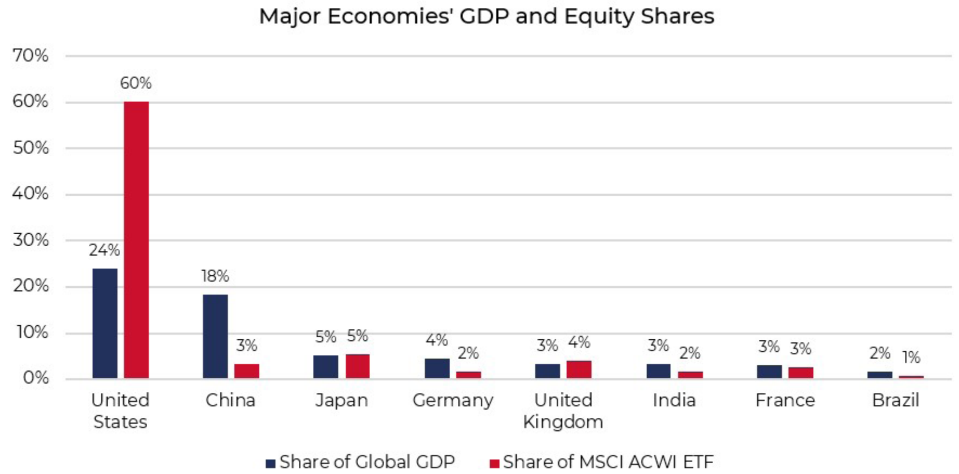
# Why China in 2023?

## Demand for Chinese equities

The Chinese economy is the second largest in the world. We think at some point it will surpass the US to become the world's largest. This will actually be a reversion to the pre-20th century norm.

However, China's share of global equity markets is much smaller than its share of GDP. We believe that over time this gap should close, and Chinese markets are likely to take up a significantly larger share of major equity benchmarks as index providers increase their inclusion factors.

*"The Chinese economy is the second largest in the world. We think at some point it will surpass the US to become the world's largest"*




*Source: World Bank, Guinness Global Investors calculations. 2021 nominal GDP. Categorisations based on domicile.*

This is likely to lead to greater demand for A shares as passive funds match the new index weights. The secondary effect is that A shares' weight and so China's overall weight in global benchmarks will increase, making China harder to ignore for asset allocators.

We expect that in the medium term, many investors will split China out of their emerging markets allocation into a dedicated China allocation. Therefore, sophisticated investors should be thinking seriously about China today.

**Author:**

*Edmund Harriss, Guinness Greater China Fund (co-manager)*

## Economic growth

Despite China's large economy, there is still plenty of room for economic growth. Average GDP per capita is just over $12,000, compared to $40,000 - $50,000 in most developed economies and $69,000 in the US. The average Chinese consumer has only just entered the middle class in these terms.



In the search for growth compounding companies, China cannot be ignored. We define earnings compounders as those which have grown earnings by at least 15% a year over the past decade. China accounted for less than 1% of worldwide earnings compounders 20 years ago. Today, China's share is 25%.


*Source: Bloomberg, Guinness Global Investors calculations, to 31.12.2022*

## Diversification

From November 2015, when China ADRs were included in the MSCI China Index, to September last year, MSCI Europe had a correlation of 0.75x with the S&P 500. MSCI United Kingdom and MSCI Japan's correlations were 0.69x and 0.60x respectively. MSCI China had a correlation of only 0.50x. Exposure to Chinese equities can provide diversification in volatile markets.

## Diverging monetary policy

In response to the original Covid outbreak, central banks in developed countries loosened monetary policy considerably. This surge in liquidity led to substantial consumer price inflation. Meanwhile, in China, the money supply growth rate moderated in 2020 and 2021 and inflation has not been so great a problem. In 2022, the monetary situation reversed as the US tightened while China continued to ease. We expect China's looser policy to be more supportive of businesses than that of the US.

## Investing in structural growth

China has developed since the 1980s from a predominantly agrarian economy into a diversified, middle-income economy which is integrated into global supply chains. This has supported a burgeoning consumer class which, in spite of recent economic headwinds, remains fundamentally optimistic about national and personal prospects. Policy is aimed at moving the country toward becoming a higher-income consumer economy. This leads us to focus on long-term growth themes for this new stage of China's growth.

We follow a disciplined process which steers away from the risks which arise from a thematic approach and the challenges inherent to investing in China. Through this process we invest in high-quality, growing companies which give exposure to China's structural growth themes, in a style Guinness has been using for some time. The funds holdings have historically grown sales and earnings at a premium to the broader market, at a much higher return on equity. We follow a valuation discipline to make sure we do not overpay for this growth. We believe our systematic approach gives investors a solution which results in outcomes which are superior to the broader market.

China's post-covid reopening has disappointed investors and the market is trading at a low valuation relative to history. We argue current valuations reflect current sentiment, and only add to the long-term opportunity we have outlined.

Sumitomo Mitsui DS Asset Management

# China A-Shares - international capital's route to sharing the country's domestic growth potential

*"By using China A shares, foreign investors now have an opportunity to directly access a unique domestic growth story and find exposure to the companies poised to benefit from the unleashed potential of the Chinese consumer."*

*Toshiyuki Murai*
*Sumitomo Mitsui DS Asset Management*
*Product Specialist, Asia Equity*

**The investment case for China has long been on the minds of the international investment community**

Through myriad reports and articles surrounding the nation's latent potential, China has often been cited as the 'next big thing' in investment markets And while many investors have taken notice and aptly upped their exposures, most likely via an Asia Pacific fund or similar, few have been allowed to feel the nation's true investment capability.

In some ways, the situation international investors have historically faced when investing in China has mirrored that of the nation's cuisine, or rather, the international interpretation of it Chinese restaurants are a popular component of the global diet, however, while many of the tones and flavours may be indicative of true Chinese fare, the international version has been irrevocably skewed toward the Western palette, meaning those that have sampled may have enjoyed a different experience to having eaten within mainland China.

This sentiment carries true to the Chinese investment story, where much of the exposures available have been broad brush or simplified to accommodate the restrictions of an international investment portfolio, while the nation's more attractive domestic stories have laid tantalisingly out of reach.

**Gradual opening up of capital markets**

China A Shares have been in circulation since 2002 (following the - launch of the QFII system, and Stock-Connect in 2014) albeit in limited supply due to the nation's more protectionist approach to foreign investment China A Shares afford investors direct access to the Chinese economy, with equity in Chinese companies via the Shanghai and Shenzen stock exchanges, and are denominated in the local currency, the Renminbi.

There are several benefits of this approach China A Shares allow investors to directly access the country's two premier stock exchanges, crucially in their domestic currency, thereby cutting much of the noise from international markets and allowing investors to analyse companies based on their true fundamentals Additionally, China A Shares have shown a significant decorrelation to broader investment markets, providing additional diversification to a balanced investment portfolio.



Sumitomo Mitsui DS Asset Management

**So, why is this important?**

Following a prolonged period of city wide lockdowns due to the Covid 19 pandemic, the Chinese economy finds itself in a unique position, having reopened at a significantly slower rate than much of the global economy While the US, UK and Europe have each felt the wrath of pent up inflation following the pandemic, China's then closed borders left it relatively well insulated from the fallout Central banks across the developed economies have spent much of the last year tightening their respective monetary policies, while China now finds itself at an entirely different point in its economic cycle In fact, in stark contrast to many other economies, China is now entering a phase of looser monetary policy, underpinned by a revised economic strategy from its government, targeting domestic growth and a softer stance toward international investment.

The Communist Party of China outlined its objectives at its Central Economic Work Conference in December 2022 where the key pillars centred around expanding domestic demand, accelerating construction and modernising of manufacturing, equal treatment for private and state owned businesses, attracting foreign capital and improved management of economic and financial risks.

Having released the valve in what was an overtly defensive approach to managing the Covid 19 infection rate, the Chinese government has enacted a pro growth strategy aimed, in part, at harnessing the pent up demand for goods and services, both domestically and internationally In addition, there is a desire to support domestic innovation and entrepreneurialism while the economic picture remains in a more supportive position than elsewhere in the world.

At a time of slowing global economic growth, by using China A Shares, international investors now have an opportunity to directly access this unique domestic growth story and find exposure to the companies poised to benefit from the unleashed potential of the Chinese consumer.

# Important Notice

This document is produced by CAMRADATA Analytical Services Limited ('CAMRADATA'), a company registered in England & Wales with registration number 06651543.

CAMRADATA is neither authorised nor regulated by the Financial Conduct Authority in the United Kingdom nor the Securities and Exchange Commission in the United States of America.

This document is a marketing documentation and is not intended to constitute an invitation or an inducement to engage in any investment activity. It is not intended to constitute investment advice and should not be relied upon as such. It is not intended and none of CAMRADATA, its holding companies or any of its or their associates ('With Intelligence Group') shall have any liability whatsoever for (a) investment advice; (b) a recommendation to enter into any transaction or strategy; (c) advice that a transaction or strategy is suitable or appropriate; (d) the primary basis for any investment decision; (e) a representation, warranty, guarantee with respect to the legal, accounting, tax or other implications of any transaction or strategy; or (f) to cause the With Intelligence Group to be an advisor or fiduciary of any recipient of this report or other third party.

The content and graphical illustrations contained in this document are provided for information purposes and should not be relied upon to form any investment decisions or to predict future performance.

CAMRADATA recommends that recipients seek appropriate professional advice before making any investment decision.

Although the information expressed is provided in good faith, the With Intelligence Group does not represent, warrant or guarantee that such information is accurate, complete or appropriate for your purposes and none of them shall be responsible for or have any liability to you for losses or damages (whether consequential, incidental or otherwise) arising in any way for errors or omissions in, or the use of or reliance upon the information contained in this document. To the greatest extent permitted by law, we exclude all conditions and warranties that might otherwise be implied by law with respect to the document, whether by operation of law, statute or otherwise, including as to their accuracy, completeness or fitness for purpose.

CAMRADATA Analytical Services Limited and its logo are proprietary trademarks of CAMRADATA and are registered in the United Kingdom.



**CAMRADATA**
With Intelligence
One London Wall
London
EC2Y 5EA

+44 (0)20 7832 6500
camradata.com

Join us on LinkedIn