China: the opportunity is now

November 2024

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RISCURA

Contents

About RisCura

RisCura and our footprint in China

$165bn
Under advice

$1bn+
Allocated to China

$800m
China pooled funds

A dominant allocator over last 36 months

Trusted partner to state & multinational schemes

Investment processes & systems customized to emerging markets

Researching China since 2013

Staff in Hong Kong

Staff in Shanghai

180+ Managers researched

160 Meetings in 2021

15 Manager allocations

CAPE TOWN | GABORONE | HONG KONG | JOHANNESBURG | LONDON | NAIROBI | PORT LOUIS | SHANGHAI | WINDHOEK | WASHINGTON DC

RisCura's road to China

2009

RisCura macro research

Impact of Chinese demand on commodities

2013

RisCura macro research

China's role in global geopolitics

Risks from Chinese economy

2015

Observing Tencent

Understanding Chinese economy and stock valuations

Opportunities for growth

2016

Sourcing and peer grouping managers

Research and due diligence visits

Naspers dominates South African market

2018

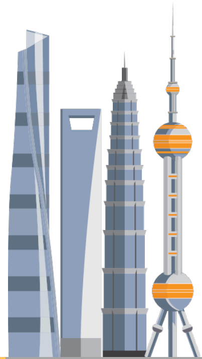
$500m invested into commingled fund

Clients committed about $100m to China venture capital

2019

Clients allocations to Chinese equities grow to $1bn

Office in HK



2021

Office in Shanghai

Why China now?

The China you have read about:

COMMUNIST STATE
Xi Jinping rule
third term
AUTOCRATIC RULE

HOUSE PRICES
-35%
year-on-year
DECLINE

POPULATION GROWTH
0% p.a.
last 8 years
FLAT BUT WILL DECLINE

GEOPOLITICS
Tech sanctions
last 8 years
WORSENING RHETORIC

PROPERTY SALES
-20%
year-on-year
DECLINE

LABOUR COST INDEX
+38%
year-on-year
INCREASE

GDP GROWTH
Stagnating
Last 8 years
WORSENING

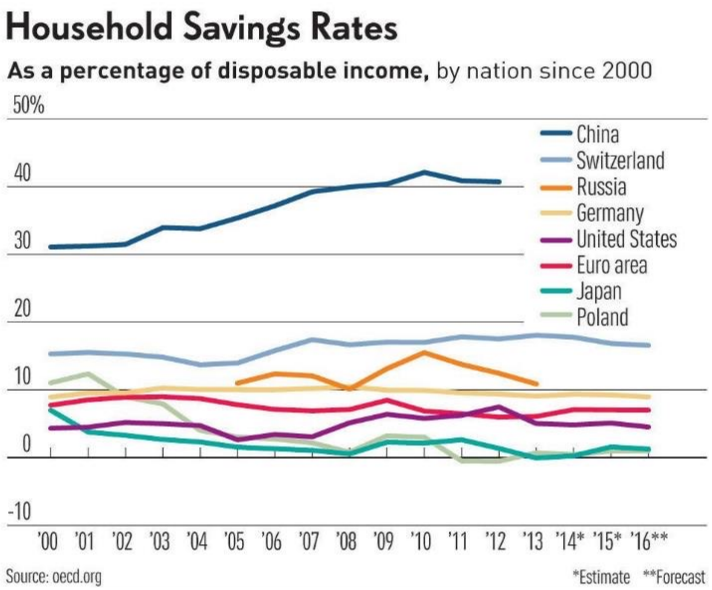
CONSUMPTION GROWTH
Flat
last 3 years
SLOWING

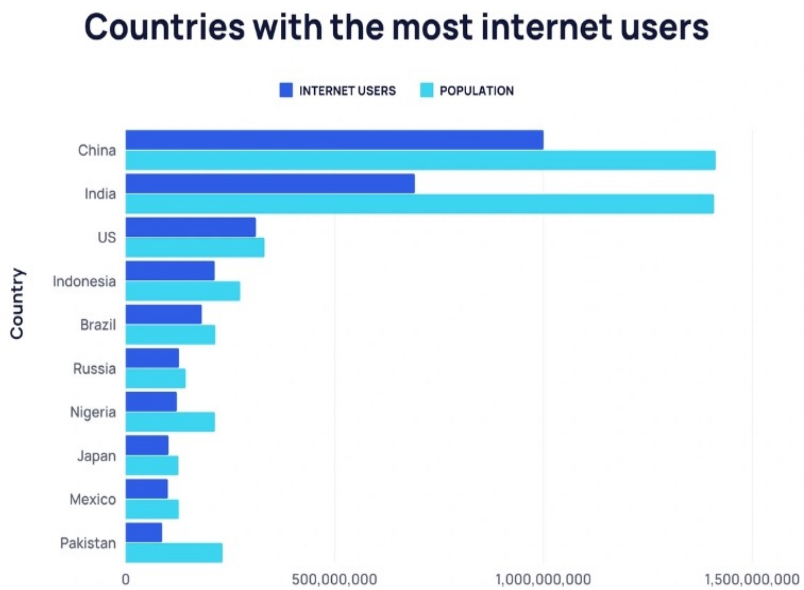
WORKFORCE
-6.5%
last decade
DECLINE

Conventional themes about the real China:
Population - Large Tech Savvy

MARKET SIZE
400m middle class
900m urban
$16tn savings
Highest savings rate in the world

NEW TECHNOLOGY ADOPTION
>1bn people with internet access
960m short video users
720m livestream users
300m online healthcare users





Conventional themes about the real China: Population - Skilled & innovative

SKILLS AND ENTREPRENEURS

240m graduates
10m new graduates p.a.
400m active businesses
23% global unicorns

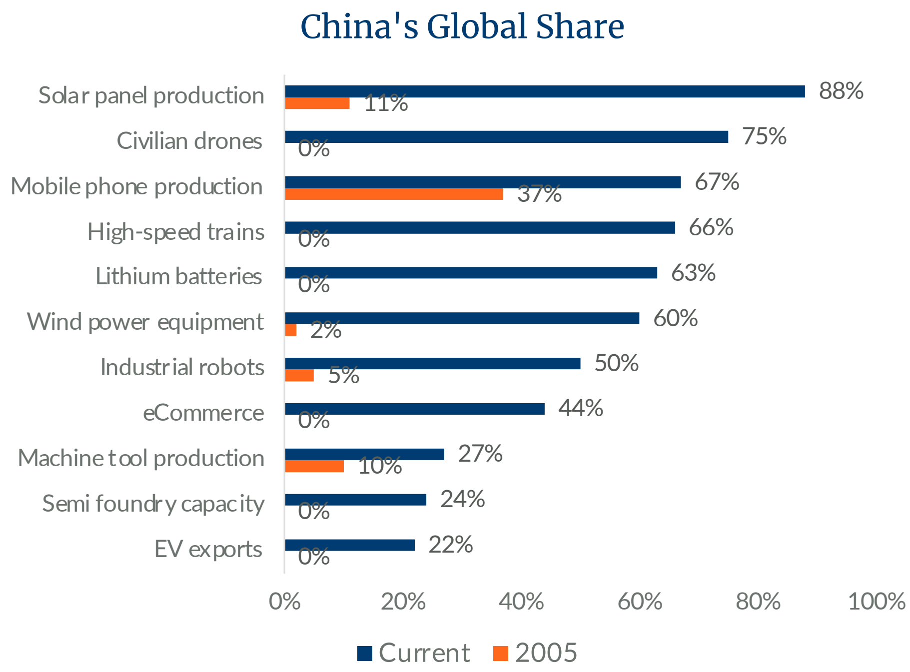
TOP 10 COUNTRIES WITH THE WORLD'S MOST UNICORN COMPANIES

1	US	703
2	CHINA	340
3	INDIA	67
4	UK	53
5	GERMANY	36
6	FRANCE	27
7	ISRAEL	26
8	CANADA	25
9	S. KOREA	18
9	BRAZIL	18

Source: Hurun Global Unicorn Index 2024

TECH INNOVATION

Gaining global market share
Sectors no longer dominated by the West
MOVING UP VALUE CHAIN



Source: KKR, Weijian Shan, Gavekal Research (right)

Many top apps are by Chinese companies

4 of Top 5
Apps in the US

Country	1	2	3	4	5
U.S.	TEMU	TikTok	CapCut	Instagram	SHEIN

#2, #5 & #8
Most Downloaded Apps in 2023

10 Most Downloaded Apps in 2023
Worldwide

1	Instagram	6	Telegram
2	TikTok	7	Snapchat
3	Facebook	8	Temu
4	Whatsapp	9	Whatsapp Business
5	CapCut	10	Spotify

Half of Top 10
Most Downloaded Shopping Apps in 2023

10 Most Downloaded Shopping Apps in 2023
Worldwide

1	SHEIN	6	Flipkart
2	TEMU	7	Shopsy
3	Shopee	8	AliExpress
4	Amazon	9	Alibaba
5	Meesho	10	Mercado Libre

Source: Appfigures, AppMagic.

Conventional themes about the real China: Leading Platform for growth

INFRASTRUCTURE

29% of global manufacturing graduates
4G networks cover 99% of population
largest 5G network
6m km transport network

MECHANISATION

Productivity growth overcomes demographics
Infrastructure, robotics, hardware and software
OUTPUT GROWTH

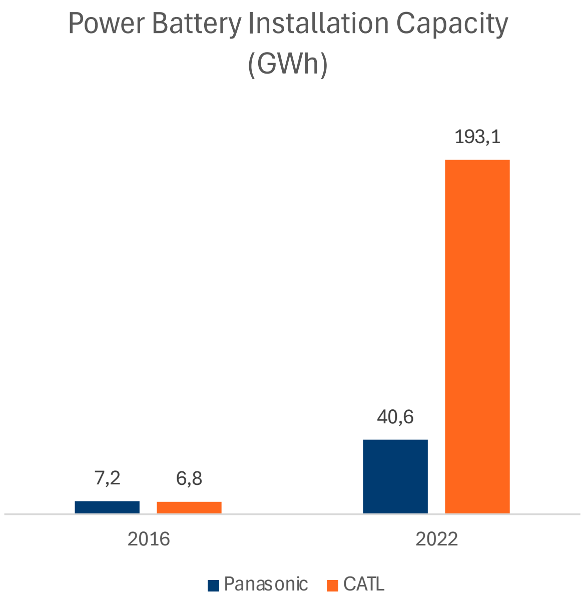
Source: Picture of Xpeng Motors' automated factory in Zhaqing, Guangdong (left). Right Chart – Zhongyuan Real Estate Research, Beike Research, Finance China; Right Chart - NBS, WIND, Macquarie Macro Strategy.

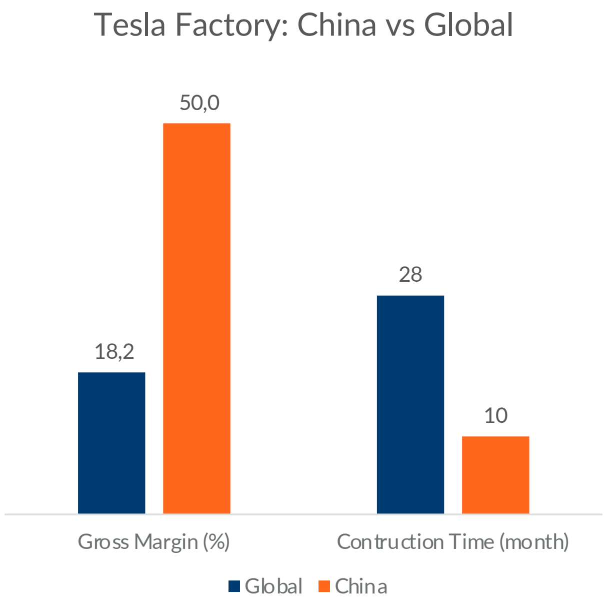
Transforming technology innovation into massive industries

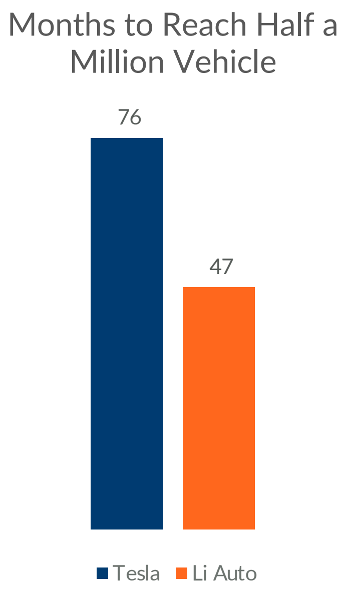
CATL took 7 years to become the world's largest lithium battery producer

Tesla's Shanghai factory is largest by output and most profitable, yet it was built in just 10 months

Li Auto achieved half a million-unit sales much faster than Tesla



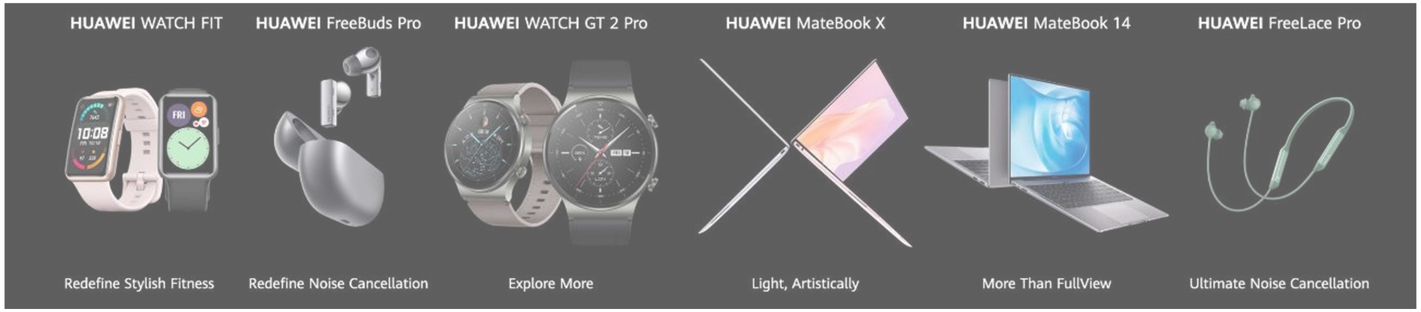


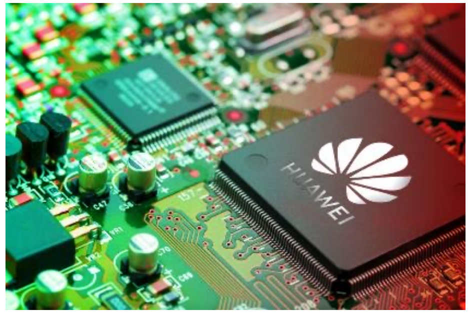


Source: Future Cap.

Elephant in the room: Semi-conductors

Huawei: defying US sanctions





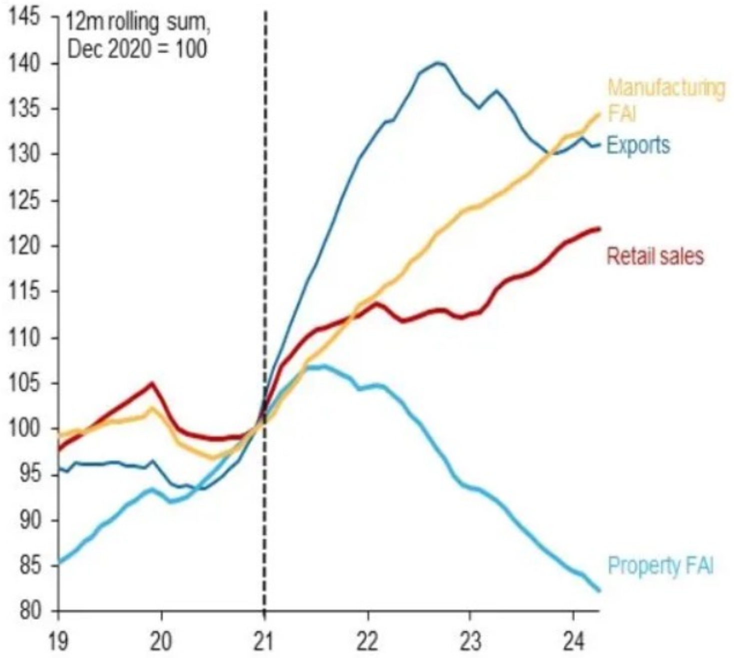
Conventional themes about the real China: Economic Pivot

STRENGTH OUTSIDE PROPERTY

Growth in many sectors despite rhetoric

Auto, advanced manufacturing, exports

CHINESE ECONOMY CONTINUES GROWING

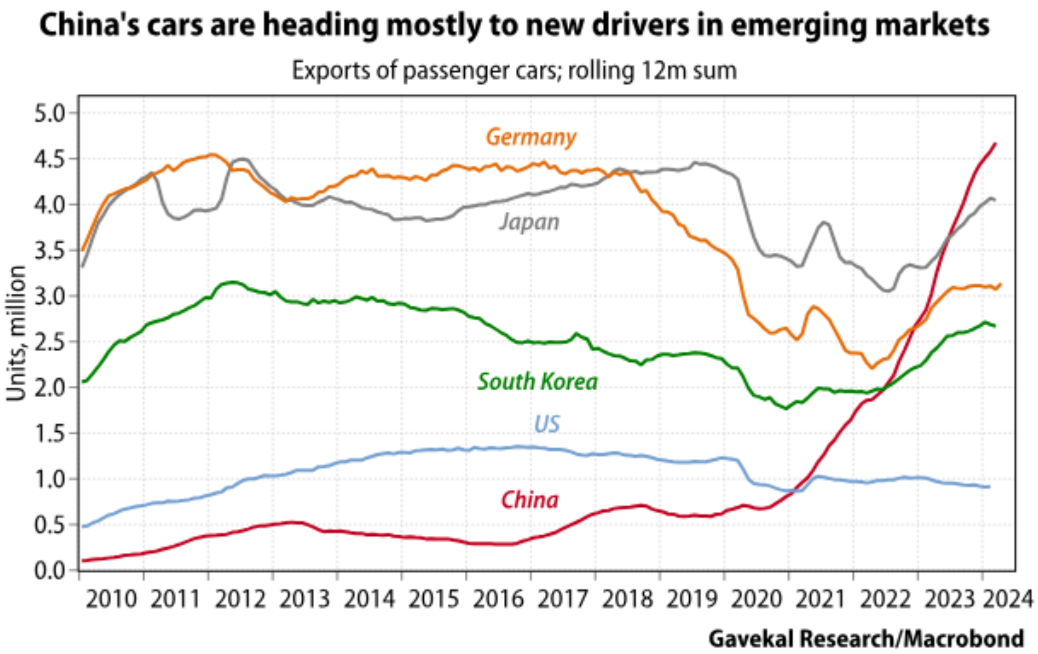


INTEGRATED SUPPLY CHAINS

Rapid market share gains

Disrupting traditional industries

MANUFACTURING POWERHOUSE



Source: NBS, WIND, Macquarie Macro Strategy, Right Chart – Gavekal Dragonomics/Macrobond.

Hard investment facts:
Recent monetary and consumption focused stimulus

MASSIVE STIMULUS

'Whatever it takes'

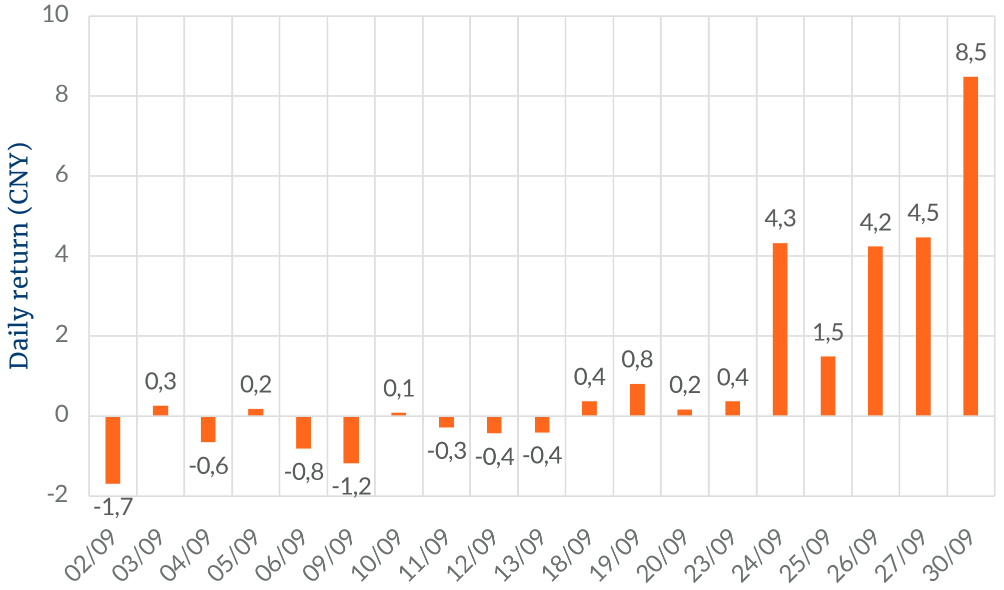
Xi Jinping turnaround

AVOID JAPANIFICATION

September policy announcements

1. Reduce deposit reserve ratio by 0.5%
2. Further decrease of 0.25%-0.5% planned
3. Policy interest rate lowered by 0.25% to 1.5%
4. Concurrent cuts in deposit & loan rates to maintain bank margins
5. Existing mortgage rates decreased by 0.5% on average
6. Second home down payment ratio lowered from 25% to 15%
7. Extension of central bank's supporting documents validity to 2026
8. New capital market policy tools:
   stock buybacks and holding increases to support re-lending

CSI 300 – September 2024



Further fiscal stimulus expected post NPC standing committee meeting in November

Source: Bloomberg and RisCura calculations (daily) | 02 September 2024 until 30 September 2024

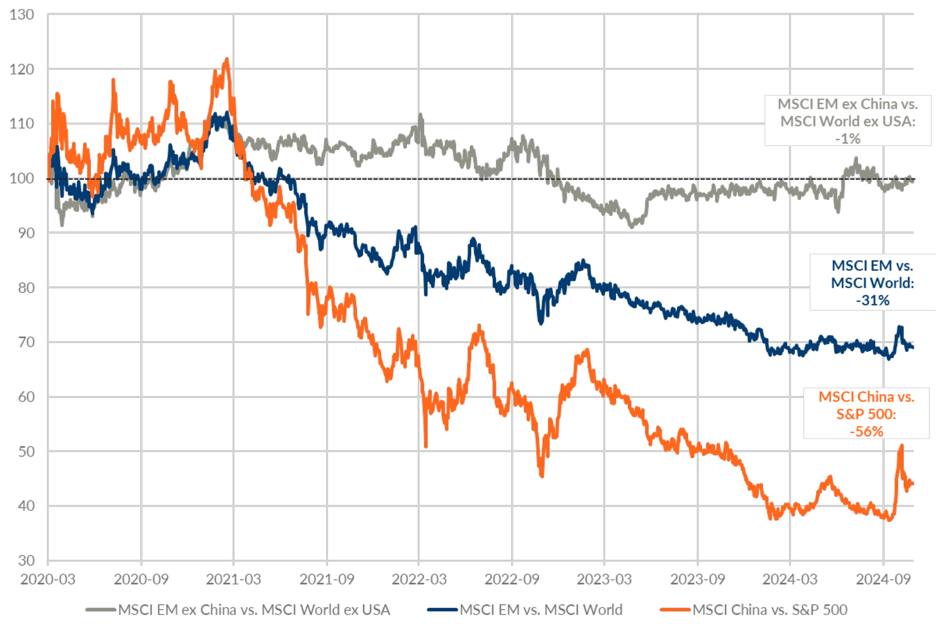
Hard investment facts:
Cheap valuations

RELATIVE MARKET RECOVERY

Locals buying equities

Still 50% underperformance vs USA over three years

RISK AVERSION CHANGE

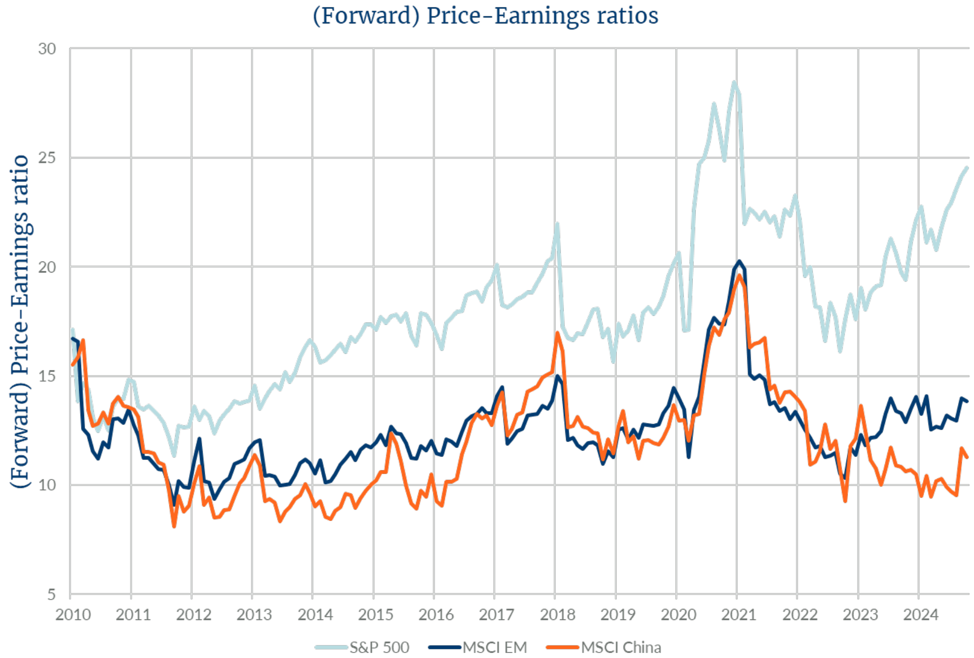


HUGE VALUATION DISCOUNTS

Discount: 52% to USA, 16% to EM

Despite higher earnings growth forecasts

HIGH FUTURE RETURNS

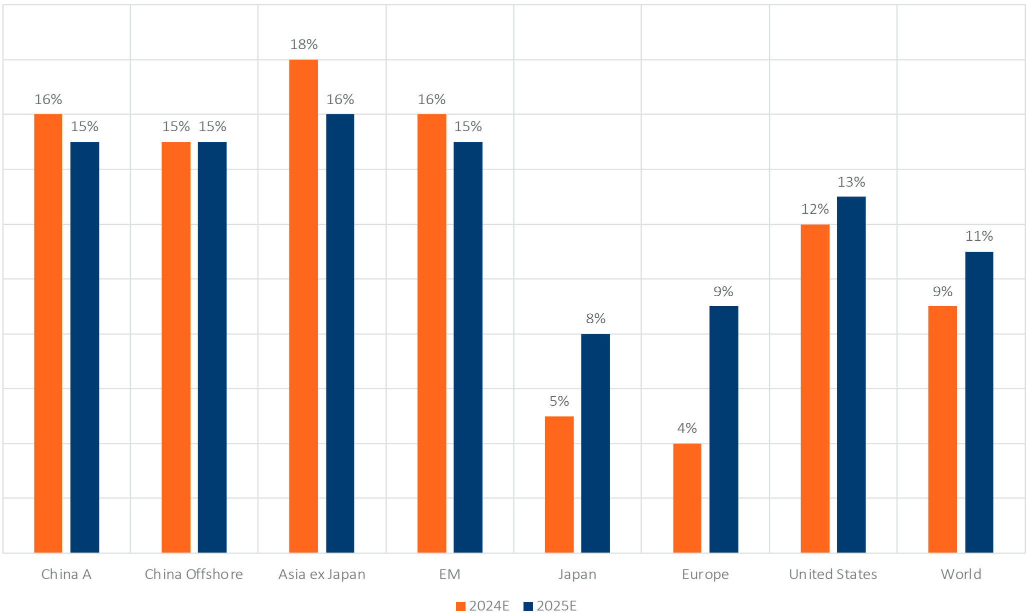


Source: Bloomberg and RisCura calculations

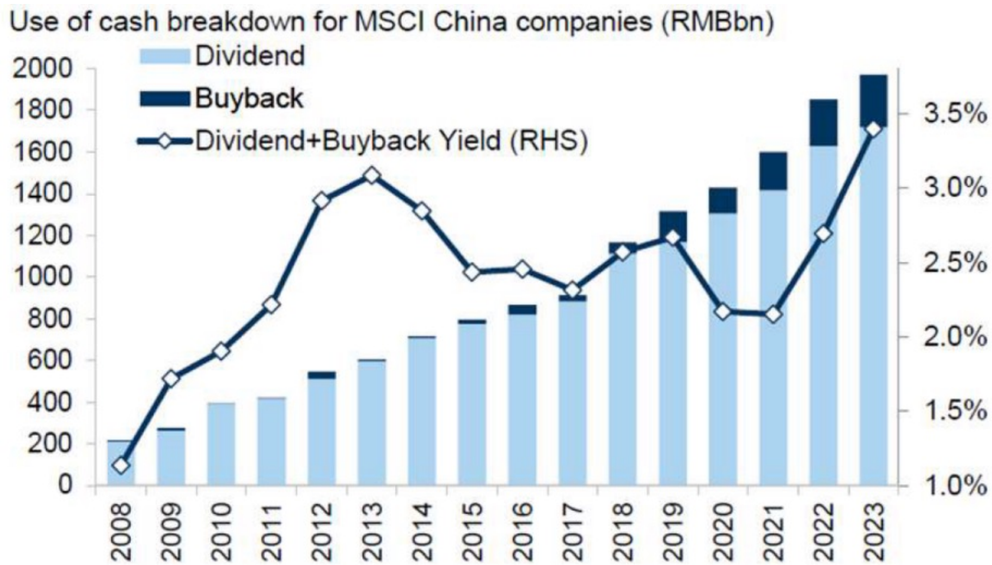
Hard investment facts:
Investment fundamentals already good

COMPANY GROWTH ALREADY ROBUST
Strong underlying earnings growth
Faster than DM and other EM markets
FUNDAMENTAL DRIVER FOR REVALUATION

Consensus Annual Earnings Growth Estimates



AND MARKET REFORM CONTINUES
Policy encouragement for Dividends and Buybacks
Following the playbook of the US and recently Japan
BETTER EQUITY YIELD EXPECTED



Source: FactSet (left chart), FactSet (right chart).

Hard investment facts:
Balance-sheet Recovery underway sooner than thought

POLICY EASING IN PROPERTY

Forceful push for property rebound

Stabilise household finances

JUMP START CONSUMER SENTIMENT

Market activity surged after relaxing purchase restrictions

Significant increase in visits and purchases during the Golden Week holiday

Especially in tier 1 and tier 2 cities

	NEW HOME SALES (% yoy)	SECONDARY SALES (% yoy)
Shanghai	+93%	+143%
Beijing	+200%	+150%
Shenzhen	+664%	+339%
Hangzhou	+399%	+170%

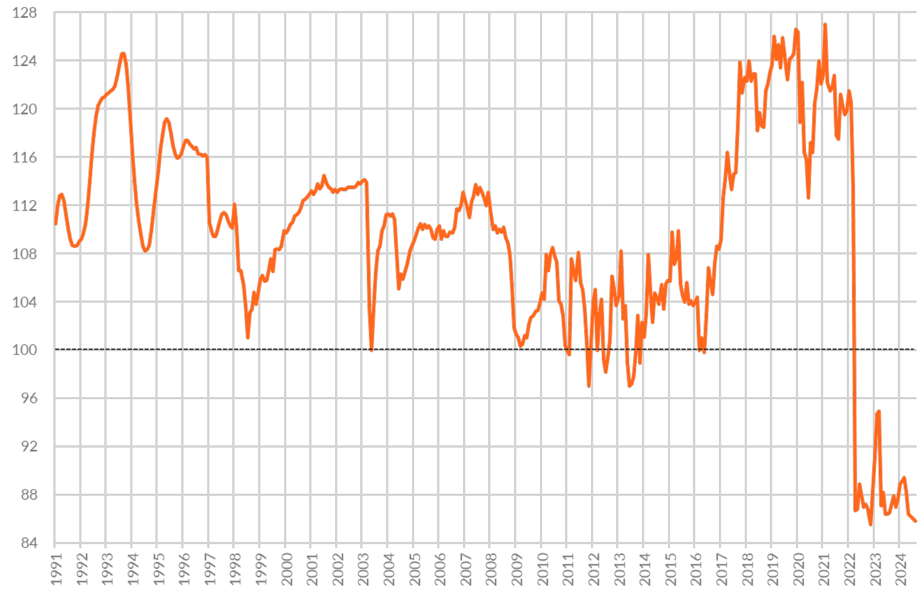
WILL IMPROVE CONSUMER CONFIDENCE

At an all-time low

Retail investors > 70% of trading volume

WHEN THIS TURNS, MARKETS WILL RUN

China Consumer Confidence Index



Source: National Bureau of Statistics, China; Trading Economics

Hard investment facts:
So…where to now?

THE WEST HAS LOST THE SKILLS TO INVEST

US investors have moved to EM ex China

China now 30% of EM and growing

CHINESE MARKETS CAN'T BE IGNORED

So the big question that CIOs must address is whether a supercharged stimulus package, as well as an official reversal inattitudes toward big consumer tech, might create a paradigm shift in Chinese equities again. If a re-rating occurs, it's not too late to build up positions.

Unfortunately, by taking their eyes off China, many are no longer equipped to answer that. By the time they figure out what prompted President Xi Jinping's change of heart – an essential point in that it determines whether this is Beijing's "whatever-it-takes" moment – as well as how much stimulus domestic investors are expecting, the market would have moved beyond their recognition.

Sources: FactSet, Goldman Sachs Research.

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