INVESTING IN CHINA: TAMING THE DRAGON

Value Partners
Investing through discipline

OXFORD METRICA

ABOUT OXFORD METRICA

Oxford Metrica is a strategic advisory firm, offering informed counsel to boards.
Our advisory services are anchored on evidence-based research in risk and financial performance.
Our work includes statistical analysis and index construction for banks and insurers, risk and performance analytics for asset managers, due diligence support in mergers and highly customised services for corporate boards.

ABOUT VALUE PARTNERS GROUP

Established in 1993, Value Partners is one of Asia's largest independent asset management firms offering worldclass investment services and products for institutional and individual clients globally. In addition to the Hong Kong headquarters, they operate in Beijing, Shanghai, Shenzhen, Kuala Lumpur, Singapore, London and Boston.
Value Partners was the first and only asset management firm listed on the Main Board of the Hong Kong Stock Exchange (stock code: 806 HK) after it went public in 2007. Value Partners offer a diversified asset management portfolio for both institutional and individual clients in Asia Pacific, Europe and North America. It includes: Equities, Fixed Income, Alternatives, Multi Asset and ETFs.

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FOREWORD

Dr Rory Knight, is the Chairman of Oxford Metrica and he chairs investments at the John Templeton Foundation. Formerly he was Dean of Templeton College, Oxford University's business college and before that the Vize-Direktor at the Schweizerische Nationalbank (SNB), the Swiss Central Bank.

Oxford Metrica is delighted to present, in association with Value Partners of Hong Kong, the third report in its *Dragon* series on Chinese financial prospects and strategies, exploring the ways international investors can currently best benefit from China's large but complex and volatile financial markets.

China led the global bounce-back in equities, ending 2020 as one of the world's leading market performers. Although tensions between China and the United States heightened in 2020, the impact on equity market performance was more than offset by China's ability to deal with Covid-19, enabling it to take the lead internationally in lifting lockdown measures and opening up its economy. This boosted market sentiment and drove up demand for Chinese equities. Now, as China moves towards a year of normalisation other segments of the market are set to outperform namely: domestic consumption, financials and technology hardware.

Attractive opportunities are opening in China especially in domestic consumer stocks. Chinese domestic consumption's proportion of GDP is still vastly smaller than in Japan and the US and will be an ever greater element of Chinese output. This is underpinned by the rising purchasing power of China's middle-class, a cohort of 600 million citizens - roughly double the US population. China's wealth management industry is poised for tremendous growth in the next decade. The investable asset base of retail investors in China, classified as 'affluent' or 'mass affluent', is expected to more than double by 2030, reaching US$51 trillion. Finally, low inventory levels and slow manufacturing processes mean demand will out-strip supply in the semiconductor market which will by supportive for semiconductor manufacturers earnings.

The report is organised in four main sections: China's return to normalised growth, the importance of portfolio implementation and dividend strategies, and finally a look at what financial future lies ahead for China. It argues above all that achieving the best sectoral allocation in the mainland markets will be paramount and, secondly, that focusing on dividend returns will be beneficial. The unique dynamics at work in today's Chinese markets now provide international investors with the opportunity to allocate their investments in line with a dividend strategy which has fallen out of favour over the last five years but is now ripe for resurgence.

As I write this Foreword in early August, Chinese markets have suffered a set back triggered by policy directives curbing on-line education and Chinese technology giants. This illustrates that notwithstanding the opportunites in China there are significant attendant risks. A carefully informed discerning sectoral allocation is key to taming the dragon that is the China markets.

Dancing with, riding and taming the Chinese financial dragon will be a roller-coaster ride but a highly exciting and potentially enormously profitable one. We hope that this report will provide a helpful and insightful guide

Dr Rory Knight
Chairman
Oxford Metrica

PREFACE

As a practitioner of active management in the Greater China region for more than three decades, I believe strongly in the China story. Value Partners' discipline is centred around identifying quality value investment opportunities and employs the 3 R's approach: *Right business*, run by the *Right people* and trading at the *Right price*.

International investors considering investing in Chinese markets need to implement a clear and carefully crafted strategy. Chinese equity markets are large and highly liquid with a substantial proportion of retail investors. As a result it exhibits great turnover and large pricing inefficiencies. Moreover, as well as fears of increased volatility, many international investors are hesitant to allocate capital to the mainland markets due to their lower levels of transparency, restrictions on international ownership, rules on eligibility and other regulatory concerns.

Despite all these obstacles, Chinese markets offer great opportunities to find and exploit undervalued stocks and to generate alpha. We highlight the drawbacks of a passive strategy and the benefits of an active one. One solution in this regard would be to work through an active local manager such as Value Partners who understands the dynamics of the markets, enjoys access to more accurate and up-to-date information and has the expertise to identify quality stocks with greater earnings and growth potential.

As China enters the second half of 2021 several market forces will determine how Chinese equities close out the year. US-China relations are once again centre-stage, and negotiation between the Biden Administration and China will be pivotal. Likewise, China's focus on opening up its equity markets to international investors and encouraging domestic ownership of Chinese stocks will drive up demand and boost equity prices. Finally, monetary policy will be key to equity market performance, especially how both the Fed and Chinese policy-makers tackle possible inflation.

China-related stocks are emerging as an important and separate asset class in their own right. I hope this report will provide a useful compass for navigating this this vibrant market.

Cheah Cheng-Hye
Co-Chairman and Co-Chief Investment Officer
Value Partners Group

Dato' Seri CHEAH Cheng-Hye is Co-Chairman and Co-Chief Investment Officer of Value Partners Group. He is in charge of the Group's fund management and investment research and he sets the Group's overall business and portfolio strategy. In 2007, he led Value Partners to a successful listing in Hong Kong, making it the first asset management company listed in the city. He has over 30 years of investment experience and is considered a leading practitioner of value investing in Asia. Prior to founding Value Partners, he worked at Morgan Grenfell Group in Hong Kong and had a stint as a financial journalist.

Dato' Seri CHEAH currently serves as an Independent Non-executive Director, Chairman of Investment Committee and Cash Market Consultative Panel of Hong Kong Exchanges and Clearing Limited ("HKEX"), a member of the Hong Kong University of Science and Technology ("HKUST") Business School Advisory Council, Convenor of Advisory Council for the Malaysian Chamber of Commerce (Hong Kong and Macau), a member of the Hong Kong Trade Development Council Belt and Road & Greater Bay Area Committee, a Fellow of the Hong Kong Management Association, and a member of the Hong Kong Academy of Finance ("MAoF").

In August 2016, Dato' Seri CHEAH was conferred Darjah Gemilang Pangkuan Negeri ("DGPN"), one of the highest civil honours granted by the state of Penang in Malaysia to recognize exceptional individuals. The DGPN award comes with the title of "Dato' Seri". In 2013, Dato' Seri CHEAH Cheng-Hye was conferred Darjah Setia Pangkuan Negeri ("DSPN") with the title of "Dato'" and was named an Honorary Fellow of the Hong Kong University of Science and Technology.

CHINA - RETURN TO NORMALISED GROWTH

Over the past 18 months the Chinese equity markets have endured large swings in volatility and performance. Chinese growth rebounded strongly in 2020 and as result the equity markets flourished. The strong performance was primarily driven by the ability of China to contain the spread of Covid-19, avoid national lockdowns and its ability to reopen the economy ahead of global developed peers.

However, the continued strong performance has not been sustained though the first half of 2021 as the rest of the developed world has caught up and emerged robustly from the pandemic. This year the mainland markets have undergone large swings in performance, with the Shanghai Composite index selling off 5.3% in July alone[1]. US- China relations, regulatory restrictions on certain sectors and companies, the emergence of the delta variant and associated future restrictions have all been headwinds to China's economy and markets. Figure 1, presents the performance of the mainland markets and broad market equity indices, highlighting the volatility since the onset of the pandemic.

As a result of the current headwinds, coupled with central bank stimulus, the remainder of 2021 is to set to be a year of normalisation in China with modest growth. However, opportunities still remain in certain sectors of the equity markets and stock selection will be paramount for international investors.

1. See footnotes on page 22

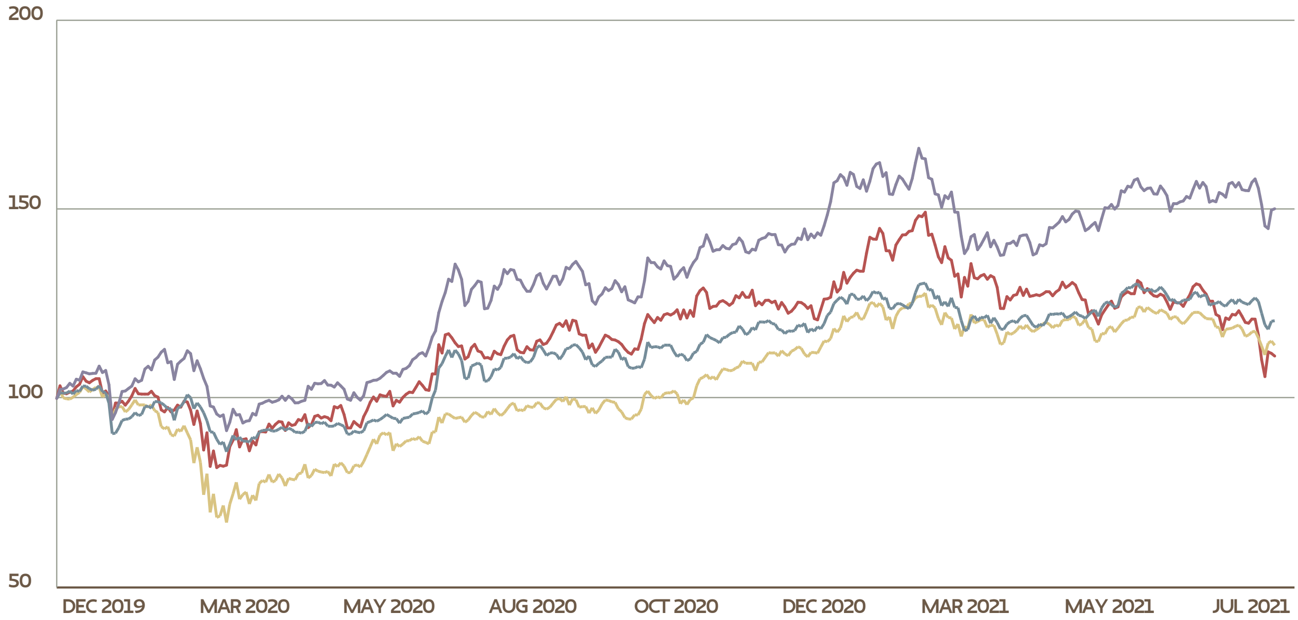
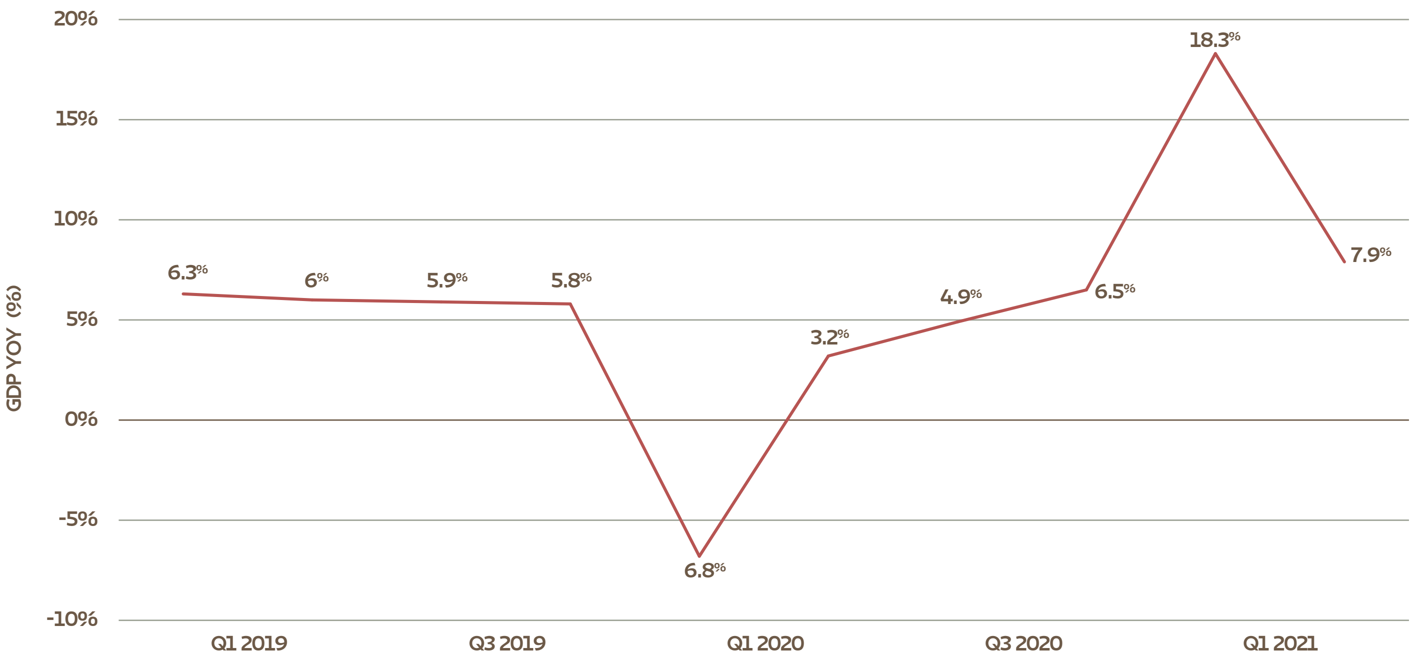
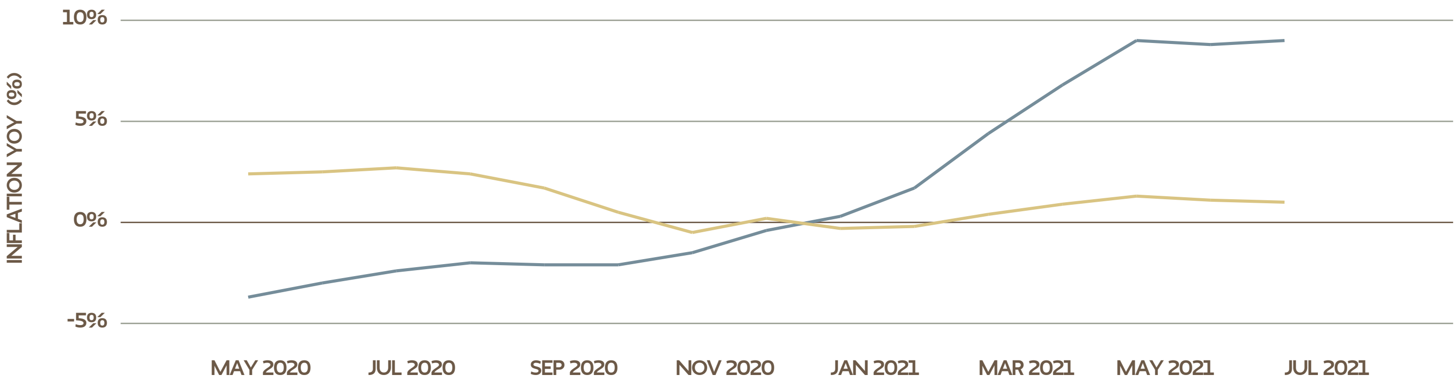


FIGURE 1: Chinese equity market performance, December 2019 to July 2021

Growth prospects have slowed with GDP growth in the 2nd quarter falling. Furthermore, other economic indications such as the purchasing manager's index (PMI) and exports have slowed. In addition, inflation has started to rise with PPI YOY growth rate reaching 9% in May. Although, investors argue that such inflation may be transitory it has increased the likelihood of tighter monetary policy from the PBOC in near future, all of which has been have been detrimental for equity performance.

However, the PBOC has been clear in its stance and remains accommodative but targeted in its approach to achieve their quality growth agenda. The monetary authority has reiterated that it will manage the timing and intensity of policy to keep GDP growth in line with the government's target of "just over 6%". The Government has been able to manage inflation by curtailing spikes in commodity prices through the release of metal reserves. Likewise, the recent cut in the reserve requirement ratio (RRR) supports market liquidity and lowers funding cost, with all measures supporting economic growth and performance.





One headwind which has caused some concern to international investors, is the regulatory direction of China. Intervention by the Chinese government has caused extreme volatility in some sectors of the market and dramatically impacted valuations of certain companies such as in the education and e-commerce space. However, such reforms will be contained to certain sectors of the market and many of the reforms imposed will be aligned with China's quality growth goals and benefit China's development moving forward. Many of China's new markets are at the early stage of their development and have lax regulatory frameworks, as a consequence, increased regulation of such sectors shouldn't be detrimental. Growth will continue as regulation takes hold, like in many highly regulated markets in developed economics.

Overall, the outlook is positive for Chinese equities, especially for firms that are able to ride the structural growth cycle. However, investors need to be aware of the impact that new policy can have on share price performance. Hence, utilising a selective bottom up approach and favouring quality companies with strong balance sheets and leading governance practises is essential.

FIGURE 2: China GDP and inflation growth

GDP
CPI
PPI

PORTFOLIO IMPLEMENTATION

International investors considering investing in China's mainland markets need a clear strategy to optimise their exposure. Two main paths may be employed: a passive global vehicle involving exposure to China, or an actively crafted portfolio strategy. While there are costs and benefits associated with both which include fees, risk dynamics and overall exposure, this section highlights the drawbacks of a passive strategy and by contrast the benefits of an active one.

Since MSCI's announcement in 2017 that China A-shares would be included in their Emerging Markets (EM) Index there has been a steady increase both by their ratio and weighting in the Index. Market reforms, such as lifting quotas for Qualified Foreign Institutional Investor (QFII) schemes and the broadening of the Shanghai and Shenzhen Stock Connect vehicles have also greatly benefited international institutional investors seeking to increase their exposure to mainland China. As a result, investors who based their global emerging market strategy on the MSCI EM Index have seen a 5.1% weighting of Chinese A-shares in the index and a further 37.4% in China ex-A-shares[2]. Figure 3, presents the allocations to China of the MSCI EM Index

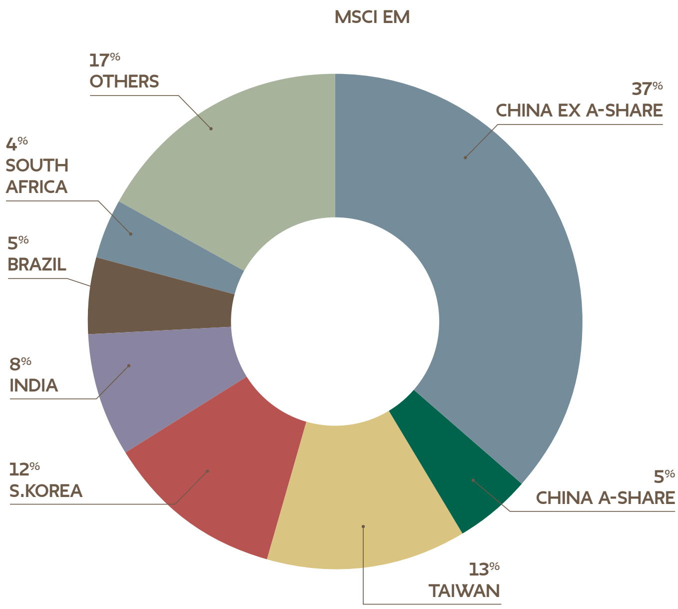
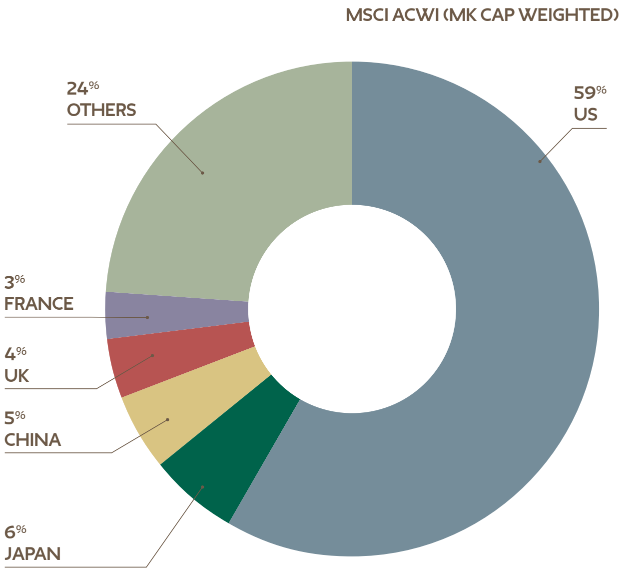


FIGURE 3: MSCI Emerging Markets country weights

However, investors need to be aware that, given the size and growth of the Chinese economy and its equity market, passive investing may result in an under-representation of China in their portfolio. As an example, figure 4 below indicates the weighting difference between the MSCI ACWI by market capitalisation and by GDP. The figure highlights that relying on an index based solely on market capitalisation weights China at 5.48% in contrast to 18.6% in the GDP weighted index. Hence, relying solely on a broad global vehicle may not be appropriate for investors seeking optimal exposure to China, as the China weighting can be significantly lower than the size its economy represents globally.



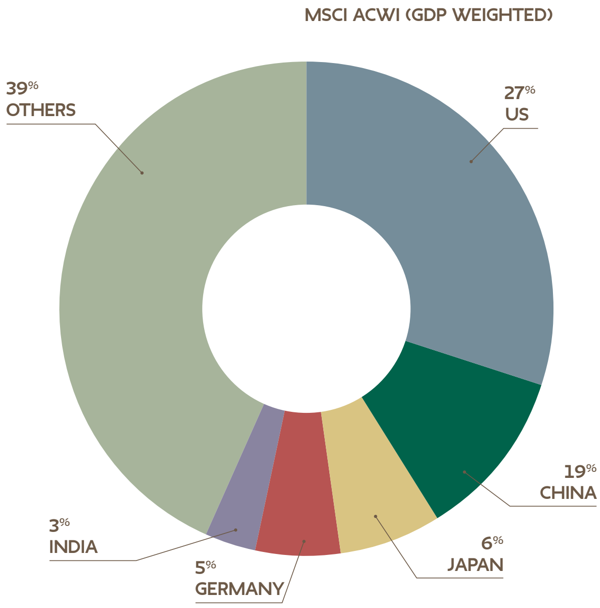


FIGURE 4: MSCI ACWI Market Capitalisation and GDP weighted country weights

The bulk of Chinese equity exposure in both the ACWI or EM indices involves offshore listings of Chinese companies while A-shares account for more than three quarters of China's total market capitalisation. There is therefore a significant opportunity cost to investing passively in China as opposed to an active strategy which provides access to the returns generated in the A-share market.

Risk is also an important consideration for both passive and active strategies. Chinese equity markets exhibit up to 50% more volatility and a fourfold increase in turnover compared to the MSCI ACWI. If an institutional investor's benchmark involves, say 60% exposure to the ACWI, this means at least 3.5% of their total assets will be invested in Chinese equities and exposed to their volatility. Managing such risk via a passive strategy could be troublesome and require additional resources to ensure overall portfolio risks are aligned. As a result, many large institutions are turning to GEM ex-China or Asia ex-China passive strategies in combination with an active Chinese approach in order to manage their overall exposure to risk.

Another good reason to employ an active strategy involves alpha generation. Chinese equity markets are large and highly liquid with a substantial proportion of retail investors. As a result, the market exhibits greater turnover and pricing inefficiencies. These in turn create value with alpha generating opportunities. In addition, since the level of research into Chinese stocks lags behind other developed markets, this also offers greater opportunities to find and exploit undervalued investments.

Of course, other concerns come into play when investing directly in Chinese stocks. As well as their fears of increased volatility, many institutional investors are hesitant to allocate capital to the mainland markets due to factors such as their lower levels of transparency, restrictions on international ownership, their rules on eligibility and other regulatory concerns. One solution to mitigate such risks is to work through an active local manager who knows the dynamics of Chinese markets, has access to more accurate information and the expertise to identify quality stocks with greater earning and growth potential.

DIVIDEND STRATEGIES

The unique dynamics at work in today's Asian and Chinese equity markets provide international investors with the opportunity to allocate their investments in line with a strategy that has somewhat fallen out of favour over the last five years but is now ripe for resurgence, namely an equity dividend strategy.

The early 2021 outstanding performance of growth stocks in both the Asian and Chinese equity markets, reflecting their abundant liquidity and relative scarcity, has diverted attention from the value of allocating stocks with regard to their dividend returns. The Pandemic further undermined Asian dividend strategies as 38% of Asia corporations (excluding Japan) announced dividend cuts in 2020. Figure 5 presents the percentage of corporations that cut dividends in that year, underlining just how Asian companies (ex-Japan), including those in China led the world in cutting back income to investors.

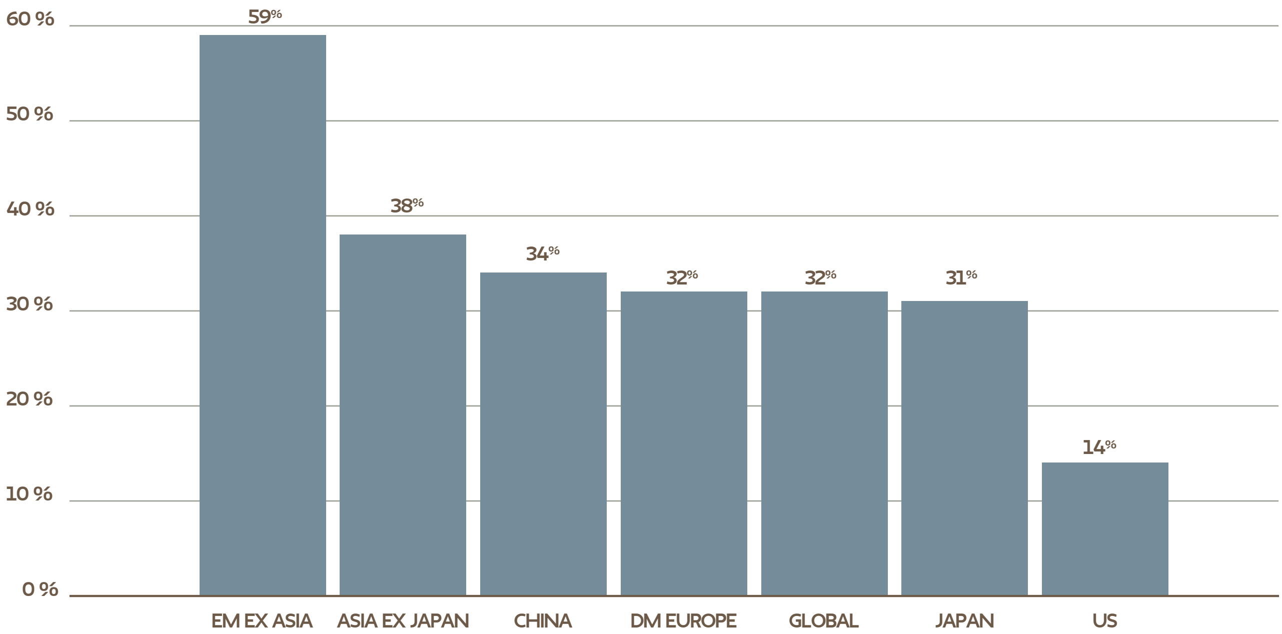


FIGURE 5: Percentage of companies reducing dividends in 2020

However, the investment landscape has now shifted significantly. Five leading market forces have underpinned the change and collectively indicate that now is the right moment for international investors to adopt Asian dividend strategies - and especially why a Chinese dividend strategy could generate alpha during 2021.

2021'S REVERSION TO NORMALITY

The expectation at the start of 2021 was that global markets would significantly exceed both their GDP and earnings growth compared to 2020. Although some Asian markets including China and Taiwan had showed positive signs of GDP growth at the tail end of 2020, this trend is expected to spread across the whole Asian region by the end of 2021. Figure 6 presents regional GDP growth in 2020 set against the expectations for 2021. China clearly was in the forefront of the peloton after emerging strongly from the pandemic, closely followed by other markets in South-East Asia.

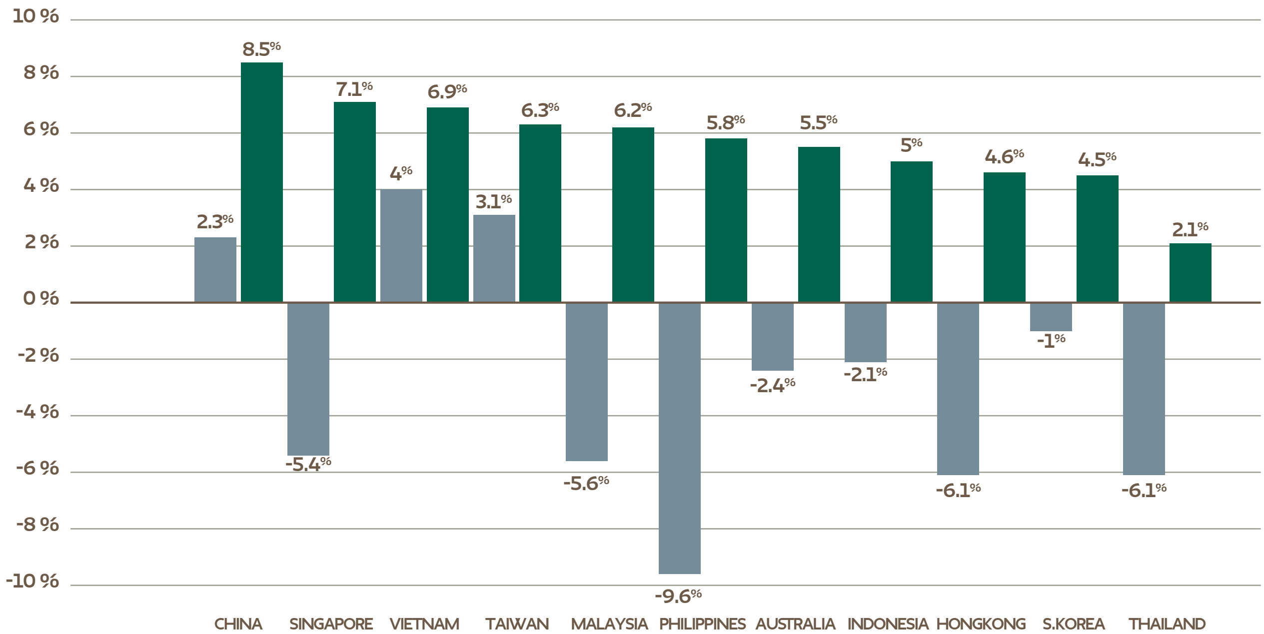


FIGURE 6: GDP growth

2020
2021E

Furthermore, a similar trend was expected in earnings per share (EPS) in 2021. Again, China in addition to Taiwan and South Korea set the pace by recording positive earnings per share growth by the end of 2020. These markets are set to continue to exhibit strong EPS growth throughout the remainder of this year, with China expecting a year-on-year growth rate of 23.7% and Malaysia and South Korea 56.6% and 70.8% respectively. Figure 7 presents EPS growth across the main Asian equity markets.

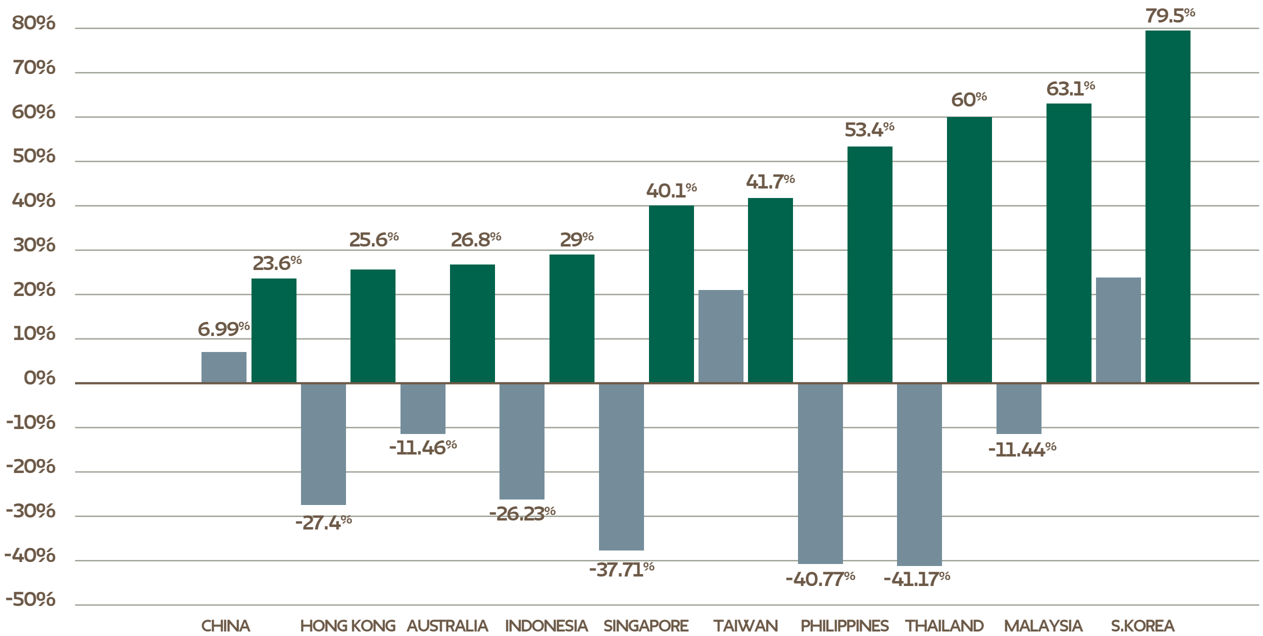


FIGURE 7: EPS growth

2020
2021E

This boost to earnings will impact upon sectors of the equity markets at different speeds but will not be limited to the few growth sectors that were favoured during the pandemic, namely the internet and healthcare. Other sectors set to rebound strongly in earnings include transport, energy and banks.

RESUMPTION OF DIVIDENDS

The normalisation of GDP and earnings has increased corporations' ability to return cash to shareholders. 2021 is set to record the highest number of companies increasing their pay-out ratios. 68.4% of companies are forecast to increase dividends - the highest rise in the last sixteen years, even overtaking dividend resumption in the wake of the 2008 financial crisis. Figure 8, presents a breakdown of Asian (ex - Japan) dividends, highlighting the dramatic change after 2020 and its comparison across previous business cycles.

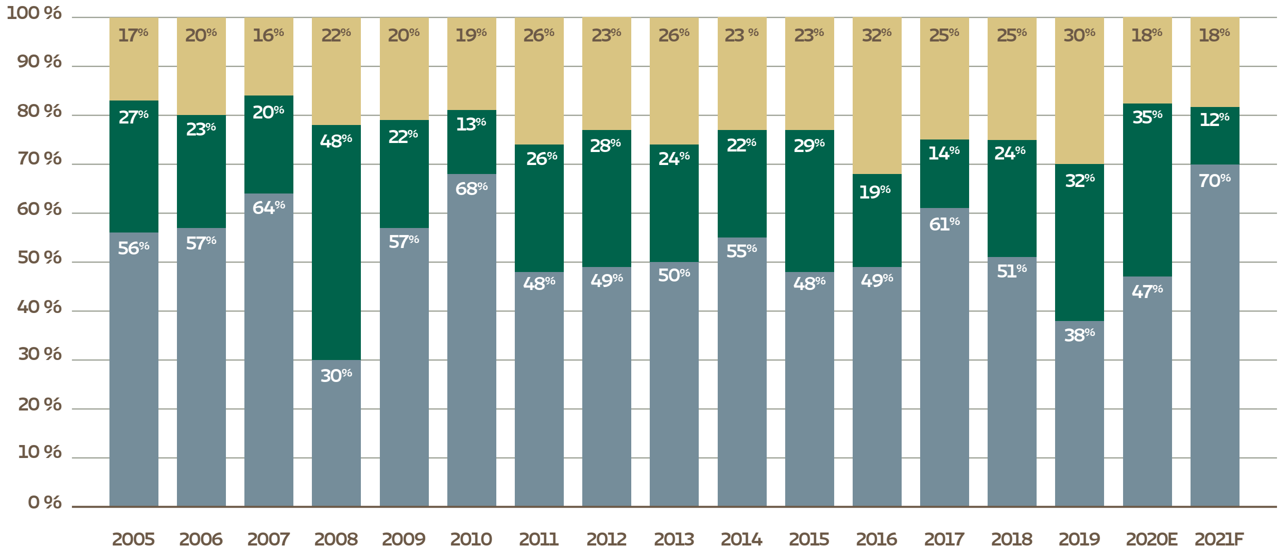


FIGURE 8: Asia ex Japan equity dividend breakdown

CONSTANT DIVIDEND
REDUCED DIVIDEND
INCREASED DIVIDEND

So far this year this trend has played out as predicted. A significant number of firms increased their dividends in the year to April 2021, with Chinese A-shares companies in the forefront at 73%, followed closely by Asia (ex-Japan) at 68%.

As the number of dividend-paying companies has increased, dividend strategies have outperformed. The MSCI Asian (ex-Japan) High Dividend Yield Index generated 11.2% up until May this year, outperforming the region's broad market index by 4.7%[3].

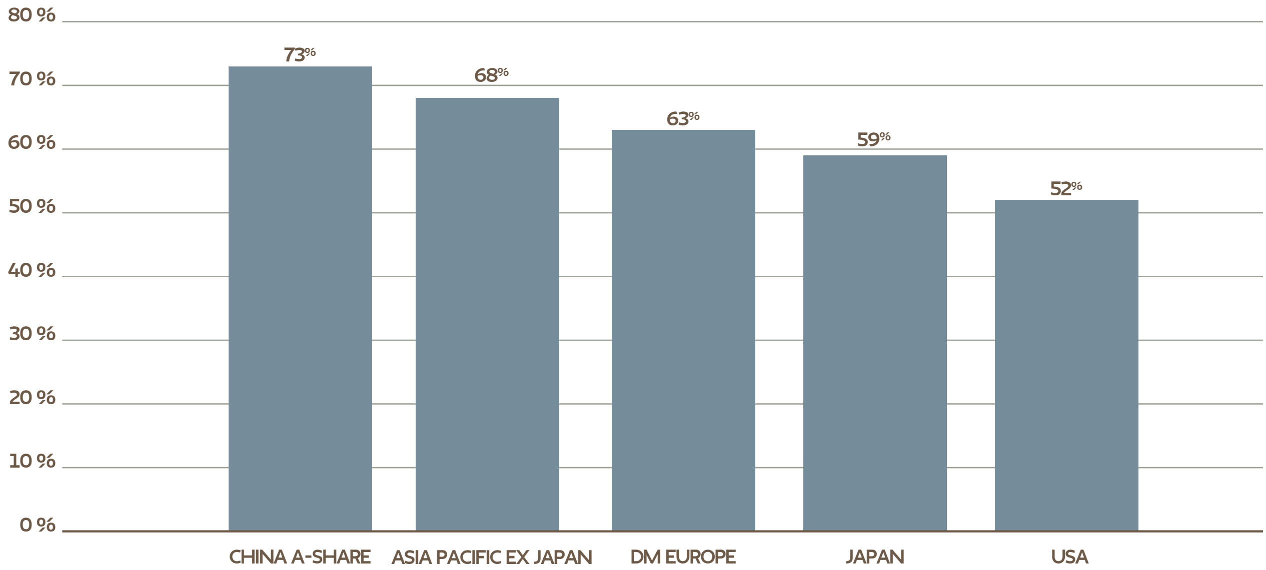


FIGURE 9: Company 2021 dividend increases of 5% or more

STRONG CORPORATE FUNDAMENTALS

A healthy corporate balance sheet is essential for a dividend recovery. Corporations need to have strong free cash flow coverage and low gearing in order to service high dividends. Comparing the ratio of free cash flow to dividends and buy-backs, the Asian (ex-Japan) region highlights its comparative advantage. Currently, listed companies in the region have an average coverage ratio of 1.9 as opposed to 1.3 in the United States. China's free cash flow position is even stronger, with a 2.6 coverage ratio. Furthermore, Chinese companies and those based externally in the broader Asian region have maintained low levels of debt to equity in their balance sheets - further supporting their ability to return cash to shareholders. On average, the net gearing ratio of the Asian (ex-Japan) region is 25.7% and China's is 28.2% as against 79.4% in United States.

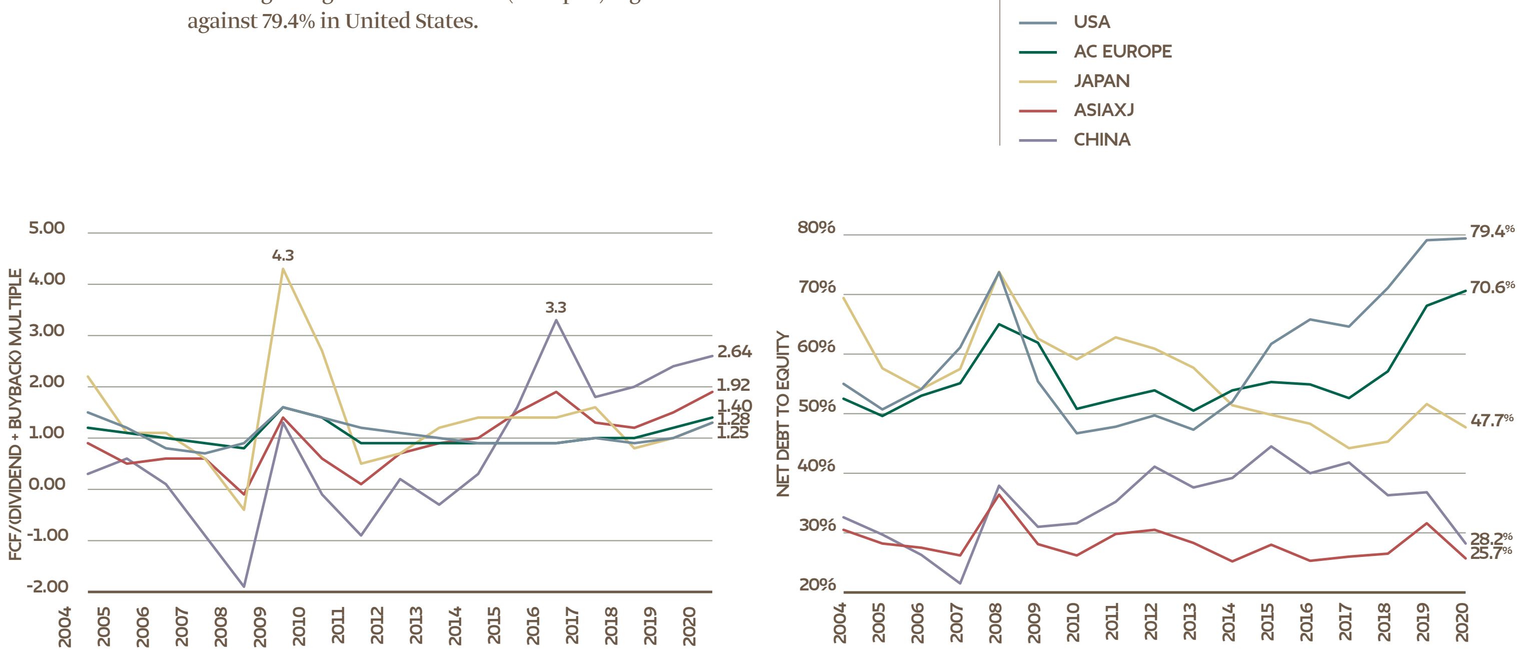


FIGURE 10: FCF and gearing ratios for Asia - ex Japan

INFLATION FEARS

Inflation expectations have started to rise as economies have reopened following the rise in vaccination rates. Some argue inflation may be short-lived due to supply bottlenecks and that many central banks' policies will in consequence remain dovish. However, inflation expectations in Asia have spurred a shift away from growth stocks to value and high dividend yield stocks. Performance in both value and high-dividend yield indices have far outperformed the growth indices in these markets. As figure 11 shows, growth only generated a 3.4% return compared to 10% and 11.2% for both value and high dividend yield benchmarks.

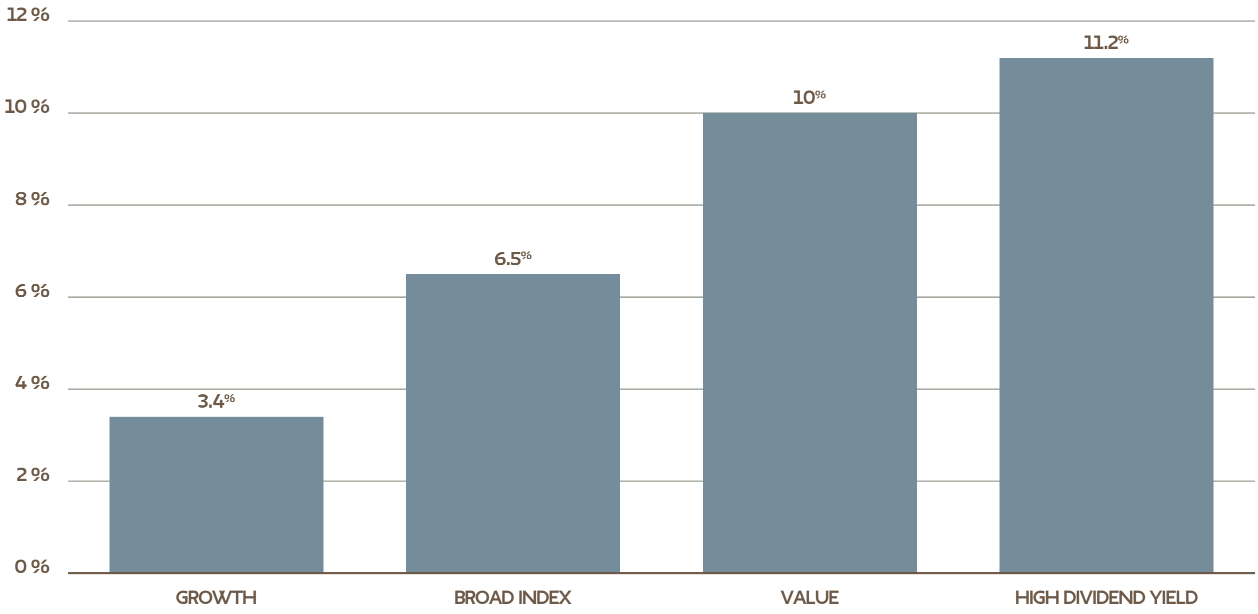


FIGURE 11: Performance for MSCI Asia Ex - Japan indices (Jan - May 2021)

LOW INTEREST RATE ENVIRONMENT

The aforementioned inflation fears may in the near term lead some central banks to re-evaluate their rate of asset purchases or even the possibility of raising interest rates. However, the emergence of the delta variant in Asia and the slow relative pace of the vaccination roll out in the region, implies the interest rates globally should remain low for the foreseeable future. As the path out of the pandemic still remains somewhat uncertain, any increase in interest rate will be a policy action of last resort. In turn, international investors will want to allocate increasing proportions their portfolios towards strategies with higher yields which will drive demand for the dividend strategy.

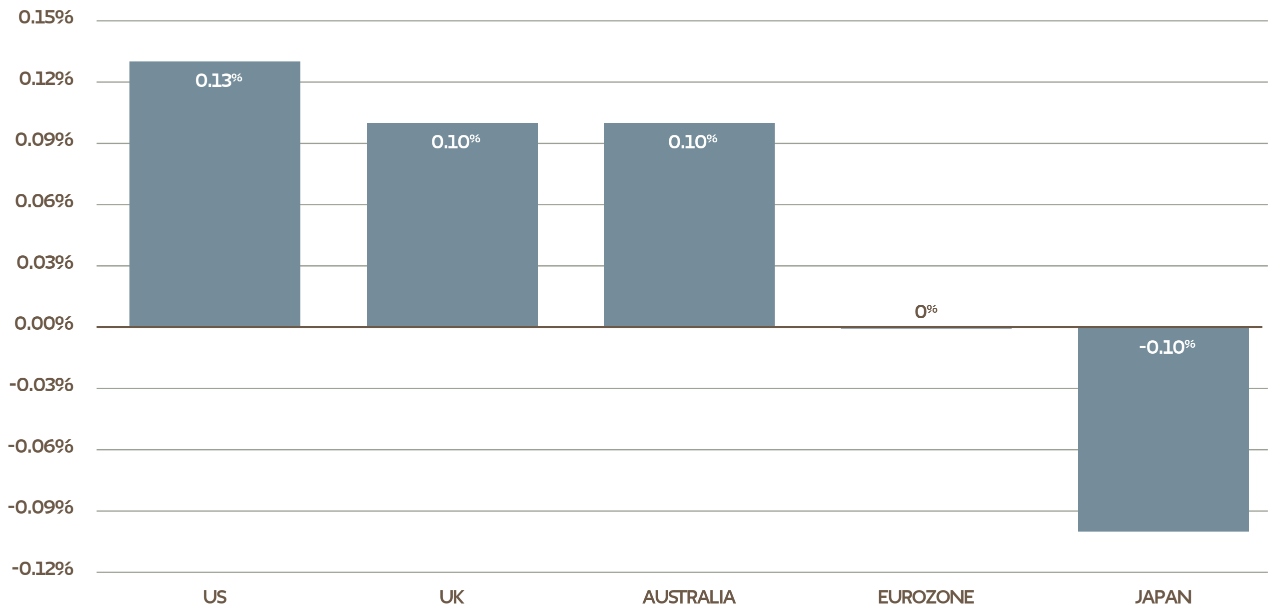


FIGURE 12: Global interest rates

WHAT FINANCIAL FUTURE FOR CHINA?

As China enters the second half of 2021 a number of market forces will determine how Chinese equities close out the year. US-China relations are once again centre-stage, and negotiation between the Biden Administration and China will be pivotal. Likewise, China's focus on opening up its equity markets to international investors and encouraging domestic ownership of Chinese stocks will drive up demand and boost equity prices. Finally, monetary policy will be key to equity market performance, especially dependent on how both the Fed and Chinese policy makers tackle possible inflation. As a consequence, achieving the best sectoral position in the mainland markets will be of paramount importance for international investors.

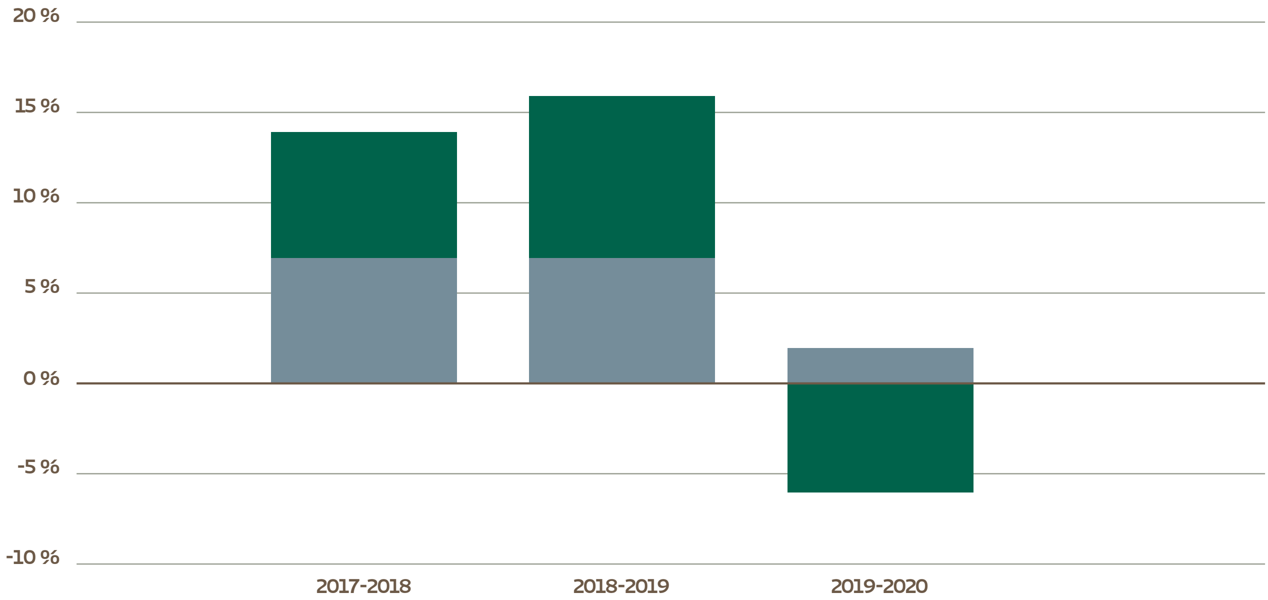
Three sectors are likely to continue to outperform in the second half of this year: domestic consumption, financials and technology hardware:

DOMESTIC CONSUMPTION UPGRADE

Chinese domestic consumption continues to be positive and to support the value of consumption stocks, with increasing numbers of consumers eager to spend more to upgrade their lifestyles. The three key drivers of consumption – a rising middle class population, surging household income, and urbanisation – look certain to remain robust and to continue to spur domestic consumption in China.

Moreover there is significant potential for growth here. Currently, Chinese domestic consumption's proportion of GDP is still vastly smaller than in Japan and the US and is set to represent an ever greater element in Chinese output. One catalyst is China's Dual Circulation Policy with its aim of achieving a more sustainable economy. This policy is underpinned by the rising purchasing power of the middle-class, a cohort of 600 million citizens[4] - roughly double the US population.

However, the most significant force driving Chinese consumption is the rise of Guochao - the incorporation of traditional cultural elements into fashion. As the concept is also tied in the rise in nationalism, Guochao has driven a preference for domestic brands over foreign ones. Figure 13 shows an increasing preference for domestic brands at the expense of foreign ones, with year-on-year growth of international brands' market share in China dropping drastically in recent years as a result.



Younger consumers, including Gen-Z and Millennials are leading the way in Guochao. China's young generation increasingly values national pride as the country has become a global powerhouse, unlike the older generation who often perceive foreign brands as symbols of better quality. As figure 14 below shows, there has been a marked rise in the cohort's interest in domestic brands.

FIGURE 13: Year-on-year market share growth of domestic and foreign fast moving consumer goods

CHINESE
FOREIGN

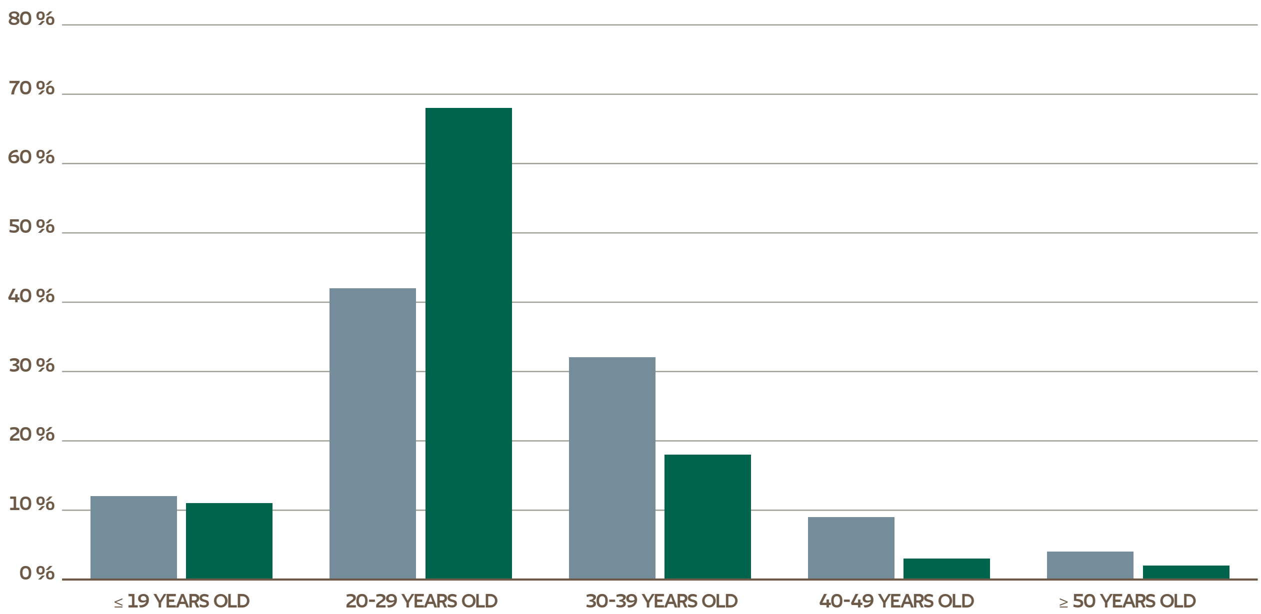


FIGURE 14: Awareness of domestic brands

AWARENESS IN 2009
AWARENESS IN 2019

An example of this trend is the Chinese sportswear sector. Domestic manufacturers have increasingly emphasised that such products can also be fashionable, incorporating the latest fashion trends in athletic products. This in turn is enabling such brands to sell at premium prices and to increase their market share.

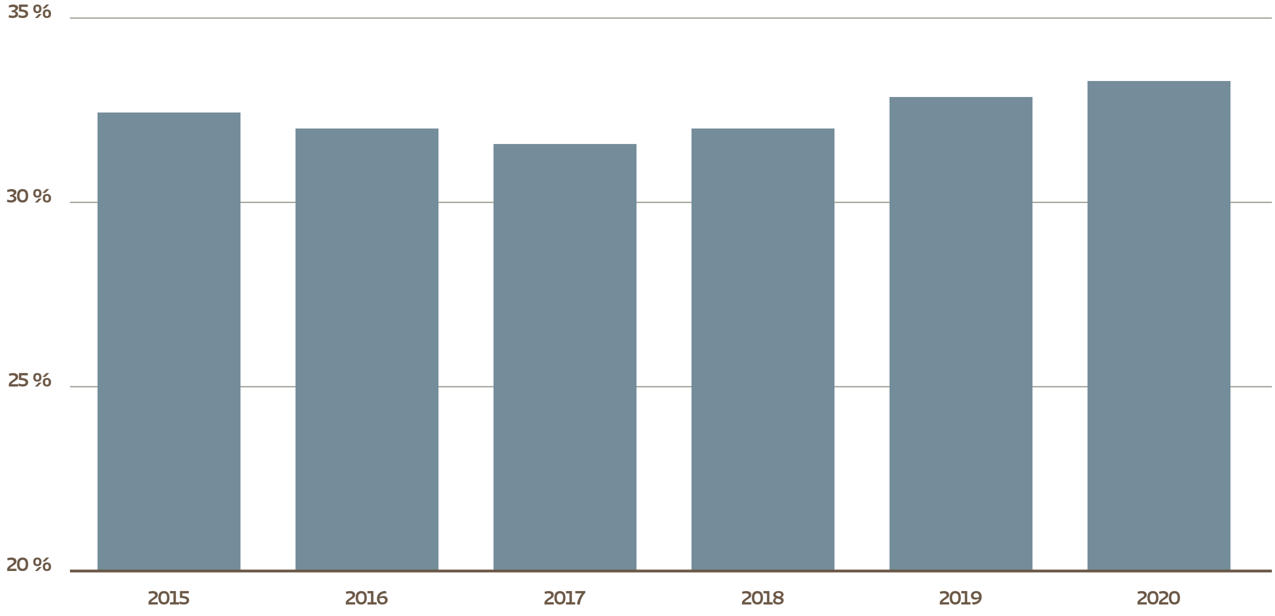


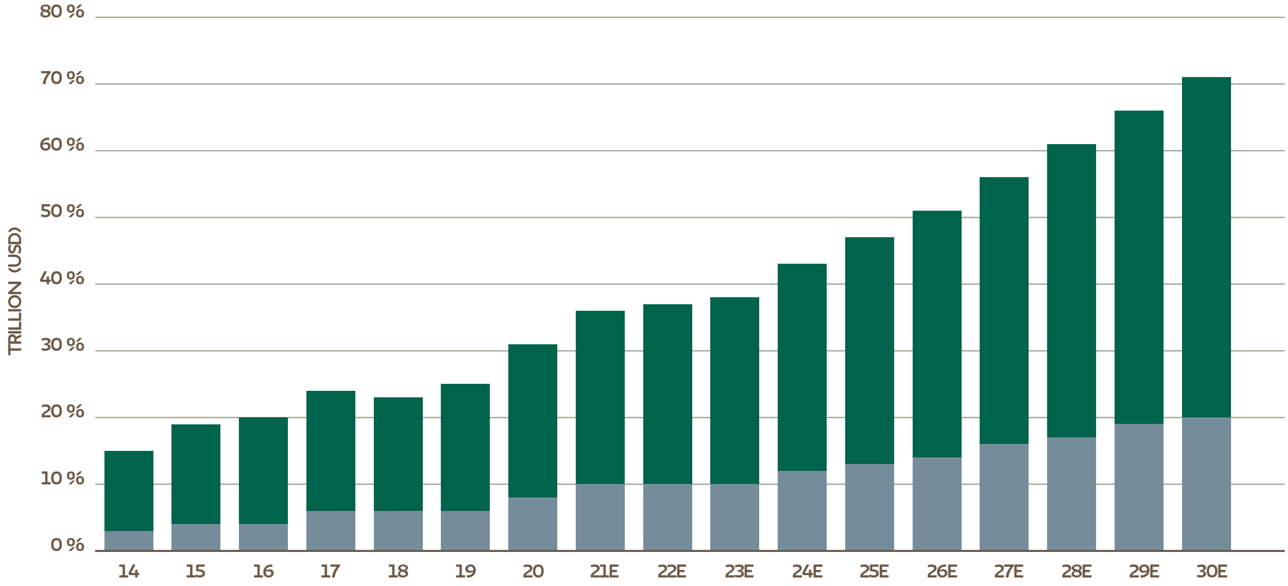
FIGURE 15: Market share of top 5 Chinese sportswear brands

FINANCIALS - WEALTH MANGEMENT

Globally, the financial sector performed well in the first half of 2021, driven by the brighter economic outlook and the implementation of 'relation trade' on the part of investors. However, financials in the Chinese market provide long-term investment opportunities that extend beyond the immediate post-Pandemic recovery, with steeper yield curves and tighter credit conditions benefiting banks' margins. In addition, the local Chinese wealth management industry is poised for tremendous growth in the next decade.

The investable asset base of retail investors in China - specifically those classified as 'affluent' or 'mass affluent' - is expected to more than double by 2030, reaching US$51 trillion. This massive increase in personal wealth will directly benefit those firms able to cater to the growing wealth management needs of this class. Figure 16 shows the expected future growth of China households' investable financial assets, indicating the substantial growth of wealth in the retail market.

Individual investable financial assets include deposits, securities, mutual funds, bank wealth management products, and other financial assets but excludes non-financial assets such as real estate and luxury goods



Chinese investors currently under-utilise wealth management products such as equity and mutual funds relative to other Asian markets and the US. Chinese households traditionally favour investments in property and cash. Figure 17 shows household asset allocations in Asian markets compared to the UK and the US. As the wealth of Chinese retail investors grows, it is expected that households will seek alternative investment opportunities and consider other wealth management products. This will tend to favour those local wealth management firms already active in the market since China's wealth management industry has high entry barriers, and Chinese investors usually invest in established brands that have a good reputation.

FIGURE 16: China household investable financial assets

HIGH NET WORTH
AFFLUENT & MASS-MARKET

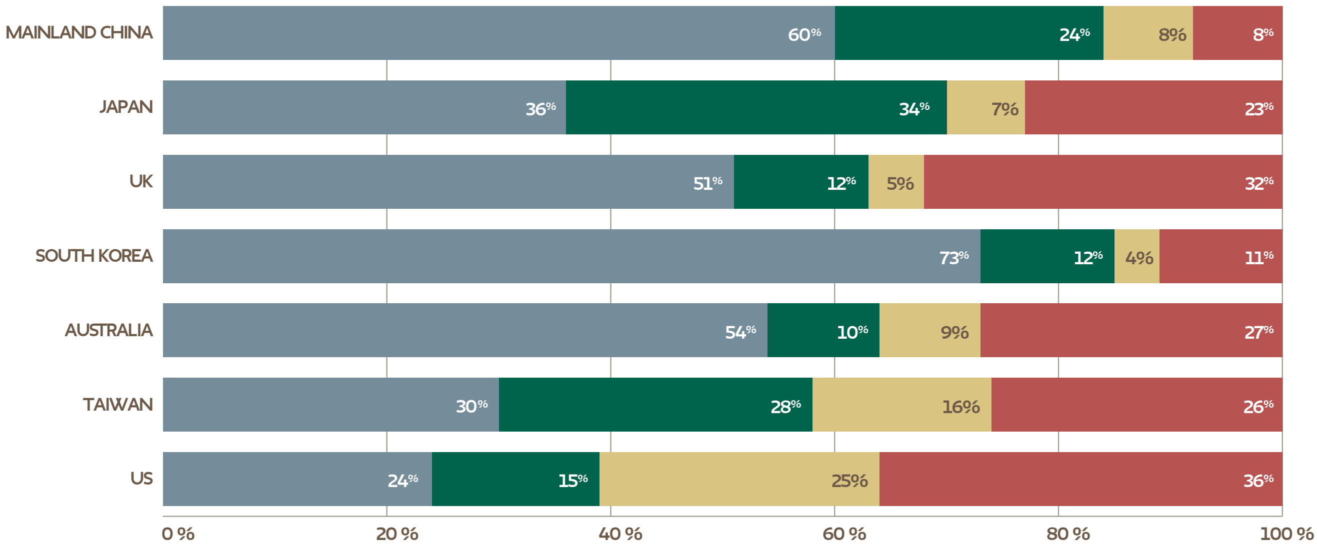


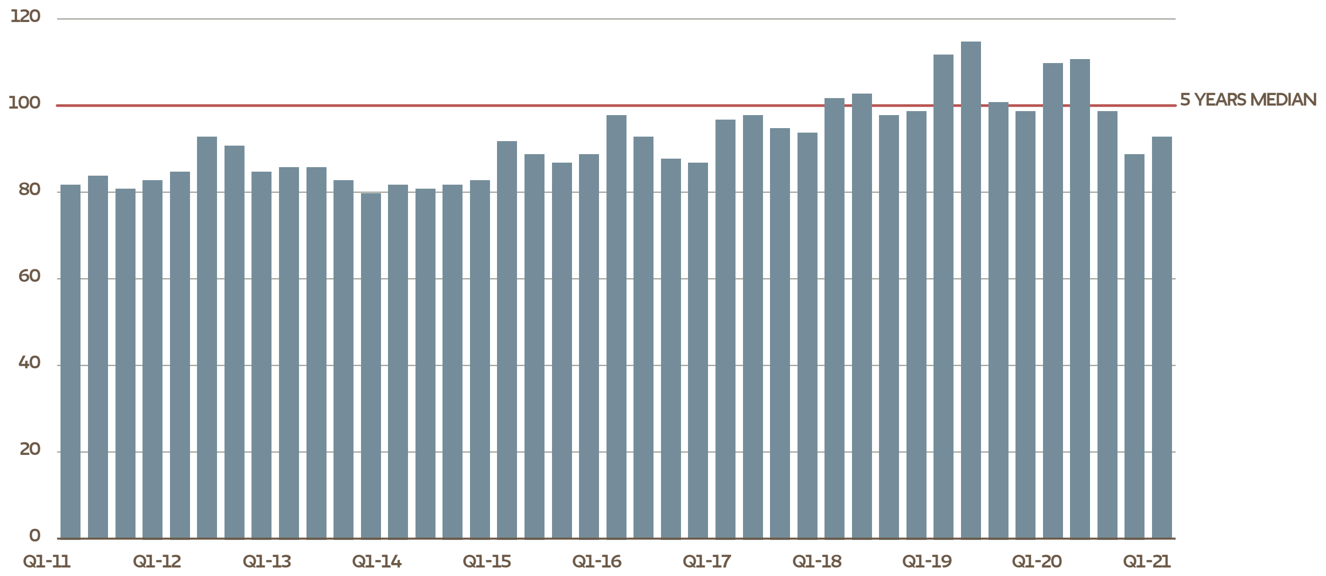
FIGURE 17: Household asset allocation

TECHNOLOGY HARDWARE - SEMI CONDUCTORS

The technology hardware sector offers a number of investment opportunities, specifically the semiconductor segment is poised to deliver strong investment returns over the medium to long term.

The driving structural trend benefiting the sector is the growth of the internet of things (IoT). The number of globally connected IoT devices is set to grow significantly over the course of the decade, growing from 27bn in 2017 to 125bn by 2030[5]. The growth in the IoT sector will create significant earnings potential for companies across the value chain and the semiconductor market is at the heart of the creation of gadgets in this growing market. Furthermore, the IoT market is set to have far reaching applications in new forms of entertainment, consumption, transportation, smart city infrastructure and finance.

Although, there is concern that valuations of semiconductor companies may be stretched and the sector as a whole is at the peak of the cycle there are a number of underlying factors that are supportive for the segment. Firstly, an analysis of inventory stock highlights that these are currently well below 5-year median level and have significant headroom to grow before surpassing pre Covid-19 levels. Figure 18, presents historical semiconductor inventory stock and highlights the fall in inventory over the last three quarters.



Secondly, the manufacturing process of semiconductors is slow and as a consequence the expansion of capacity takes time. Given the complexity of the manufacturing process, it can take over 6 months to process a finished chip as the chip passes through production, assembly and testing before being distributed. As a result, supply can be slow to react to increasing demand. Furthermore, figure 19 presents the quarterly capacity of the sector, indicating that manufacturers are at near full capacity. The combination of slow supply and capacity constraints implies that average selling prices in the sector will increase and earnings of semiconductor producers should be robust until 2022 and beyond. Asia manufacturers are set to be primary beneficiaries with 60% of the global market share with China holding a 7% share globally[6].

FIGURE 18: Semiconductor inventory days vs 5-year median

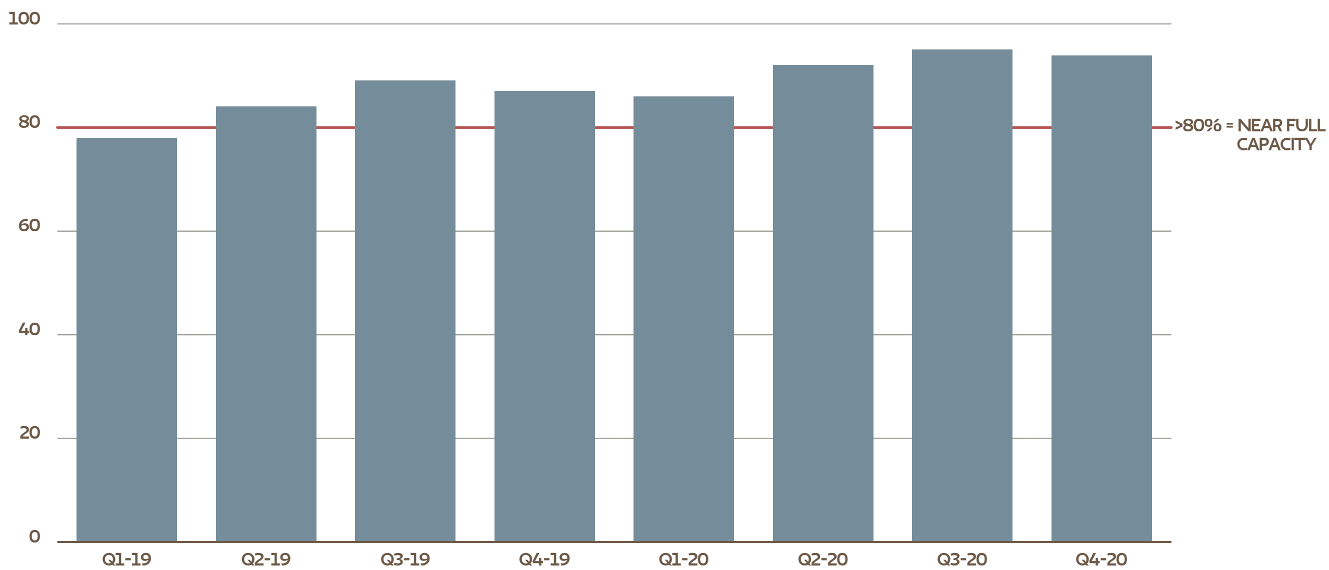


FIGURE 19: Services consumption as a percentage of total consumption

FOOTNOTES

1. Yahoo Finance
2. MSCI, August 2020
3. Bloomberg, Jefferies, FactSet alpha tester, May 2021
4. Citi estimates
5. Markit
6. BofA Global Research
7. MSCI EM based on futures index & MSCI China based on iShares ETF

FIGURE SOURCES

FIGURE 1:	Yahoo Finance, July 2021[7]
FIGURE 2:	National Bureau of Statistics of China and Wind, NBS, CEIC, Bloomberg, Goldman Sachs Global Investment Research, July 2021
FIGURE 3:	MSCI factsheets, August 2020
FIGURE 4:	MSCI factsheets, June 2021
FIGURE 5:	FactSet, Jefferies Research, December 2020
FIGURE 6:	Goldman Sachs Global Investment Research, June 2021
FIGURE 7:	FactSet, I/B/E/S, MSCI, Goldman Sachs Global Investment Research, June 2021
FIGURE 8:	FactSet, Jefferies Research, May 2020
FIGURE 9:	MSCI, April 2021
FIGURE 10:	FactSet, Jefferies, May 2020
FIGURE 11:	Bloomberg, Jefferies, FactSet alpha tester, May 2021
FIGURE 12:	Bloomberg, May 2021
FIGURE 13:	Bain & Company, Kantar Worldpanel
FIGURE 14:	Baidu Index
FIGURE 15:	Euromonitor
FIGURE 16:	BCG, PBOC, CBIRC, Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research
FIGURE 17:	NFID, CEIC, Wind, Goldman Sachs Global Investment Research, Gau Hua Securities Research, 2019
FIGURE 18:	BofA Global Research estimates, FactSet
FIGURE 19:	VLSI Research

NOTES

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