



CHINA AND BEYOND CHINA

Arjun Divecha

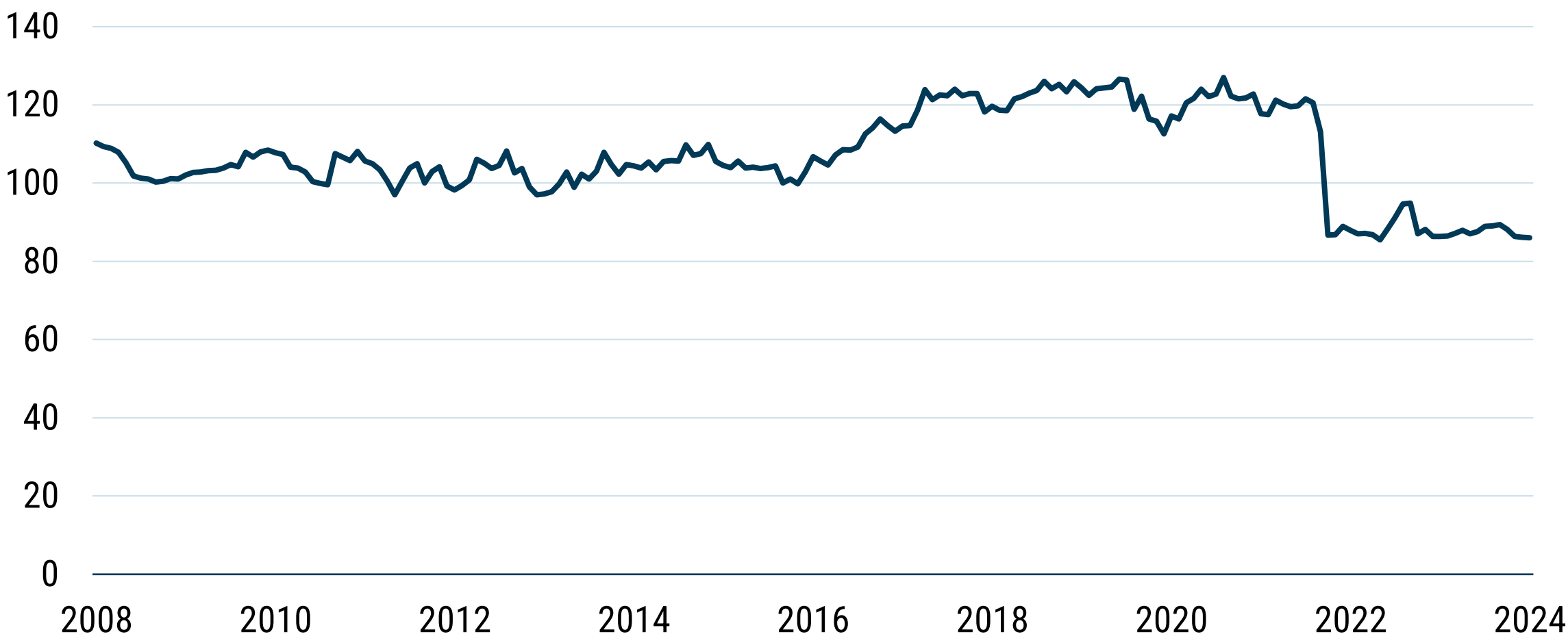
GMO

FROM CHINA TO BEYOND CHINA

- China has become less attractive.
- Is this cyclical or secular? Yes
- Supply chains are moving out of China for multiple reasons.
- Is the U.S. benefiting from onshoring?
- If not the U.S., then who's benefiting?
- Mainly emerging markets, not Europe or other domestic markets.
- What are the criteria for success?
- An example of a company that's benefiting.
- This is a long game.

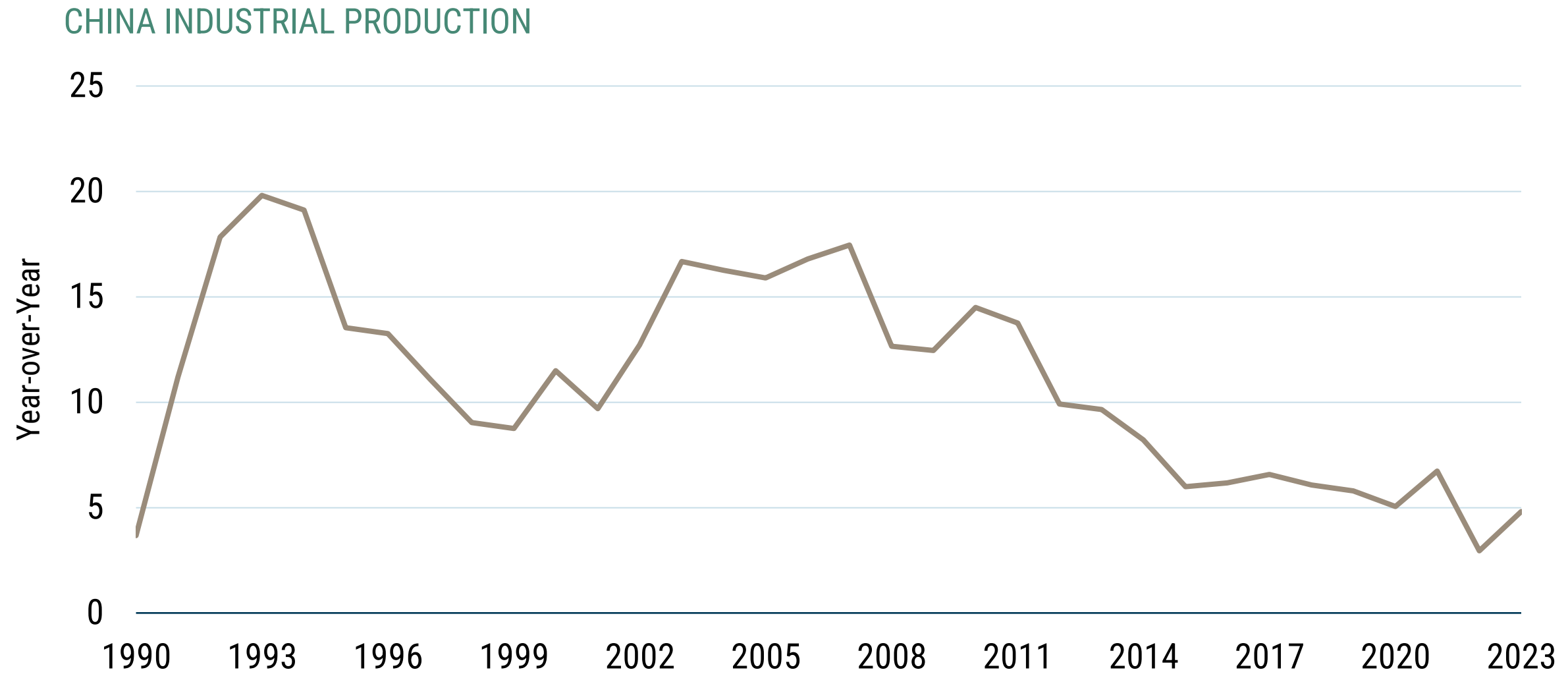
CHINA'S ECONOMY HAS NOT REBOUNDED FROM THE PANDEMIC

CHINA CONSUMER CONFIDENCE



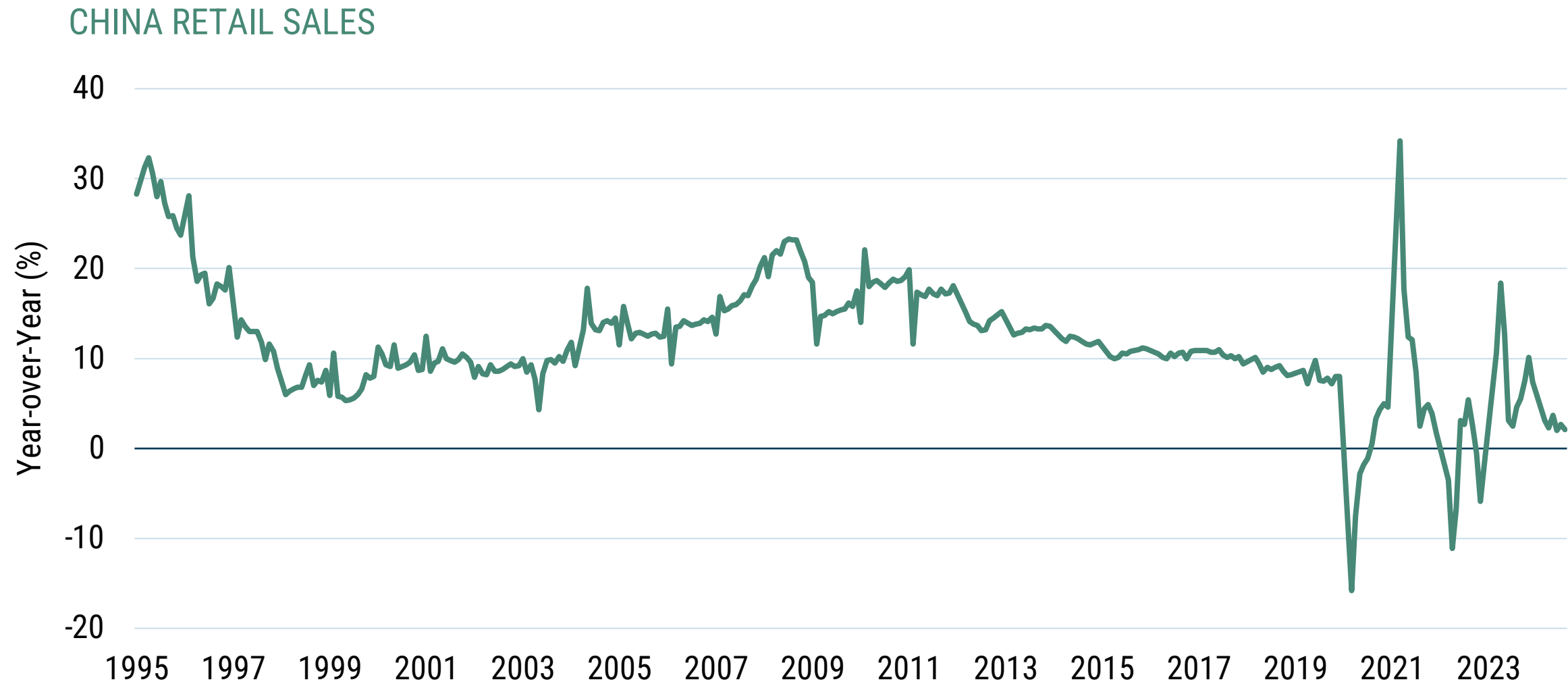
As of 7/31/24 | Source: Bureau of Statistics: China

CHINA'S ECONOMY HAS NOT REBOUNDED FROM THE PANDEMIC



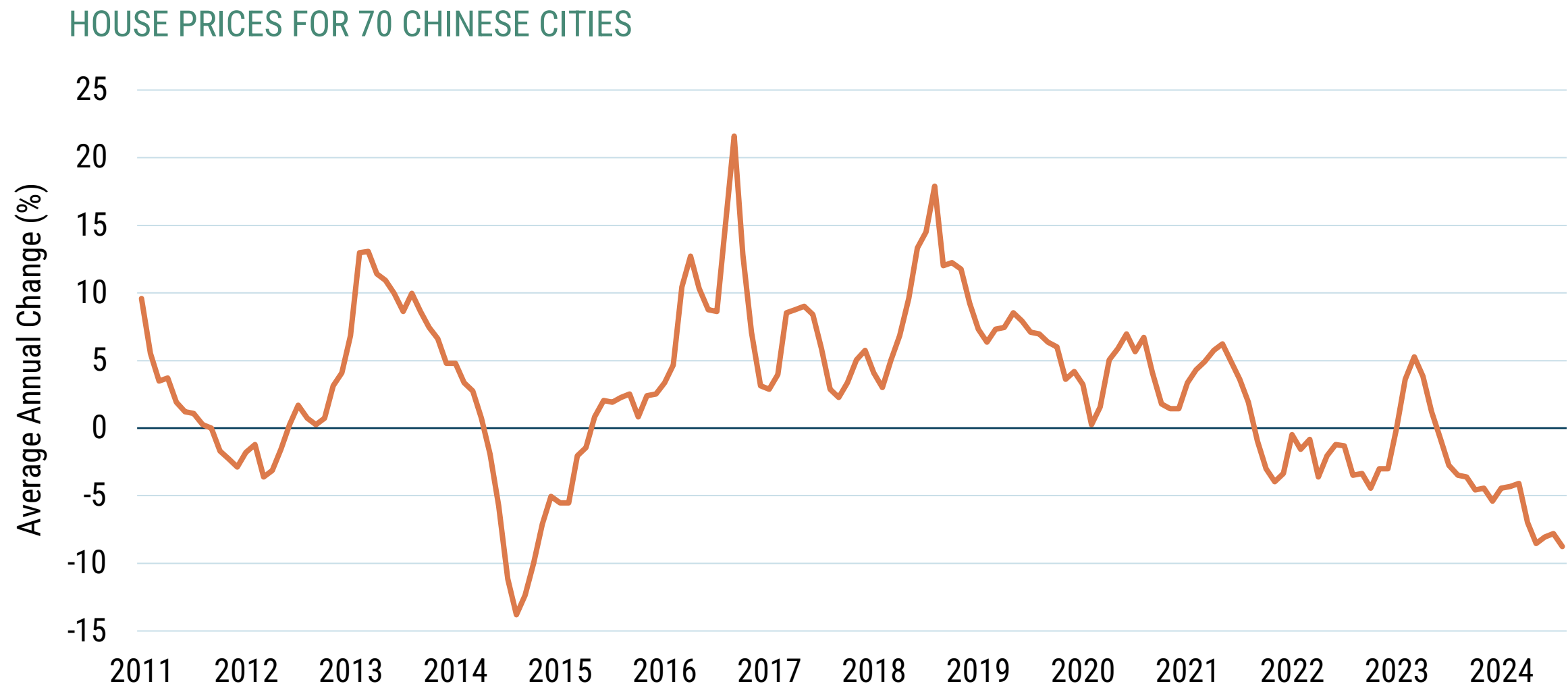
As of 12/31/23 | Source: Bloomberg

CHINA'S ECONOMY HAS NOT REBOUNDED FROM THE PANDEMIC



As of 8/31/24 | Source: Bureau of Statistics: China

IT'S NOT JUST CYCLICAL...



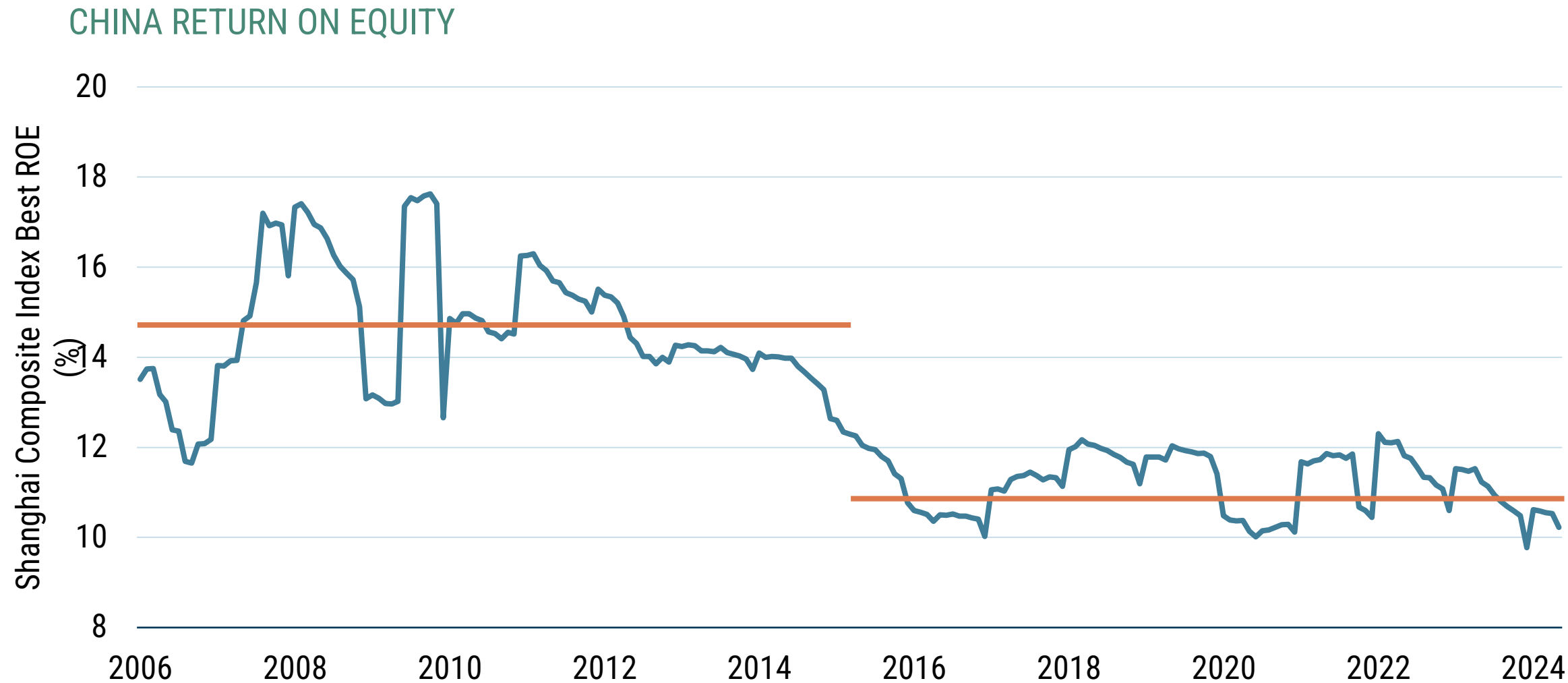
As of 8/31/24 | Source: Bureau of Statistics: China

...IT'S REFLECTED IN THE STOCK MARKET AS WELL



As of 9/30/24 | Source: Bureau of Statistics: China

IT'S NOT JUST SENTIMENT, BUT REALITY



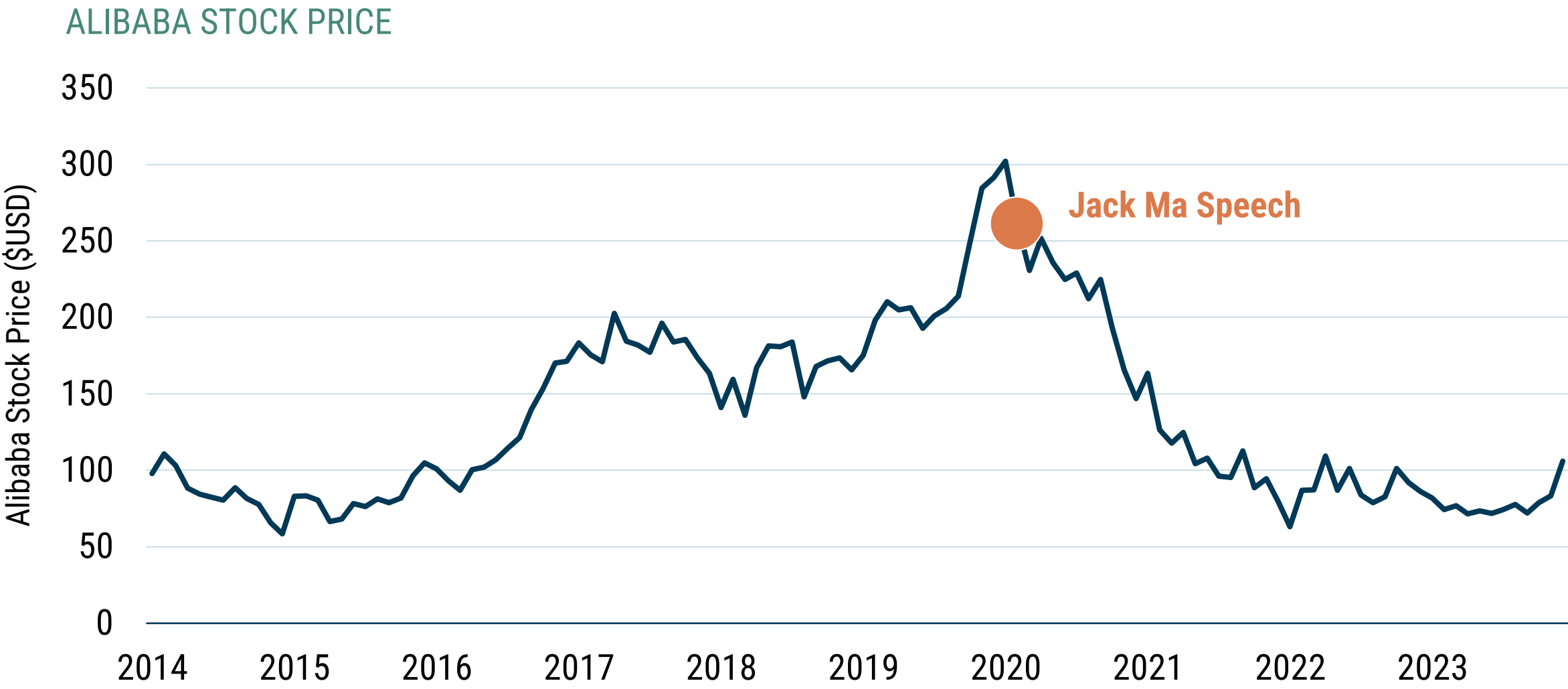
As of 8/31/24 | Source: Bureau of Statistics: China, Bloomberg

AND MARKETS ARE NOT STUPID



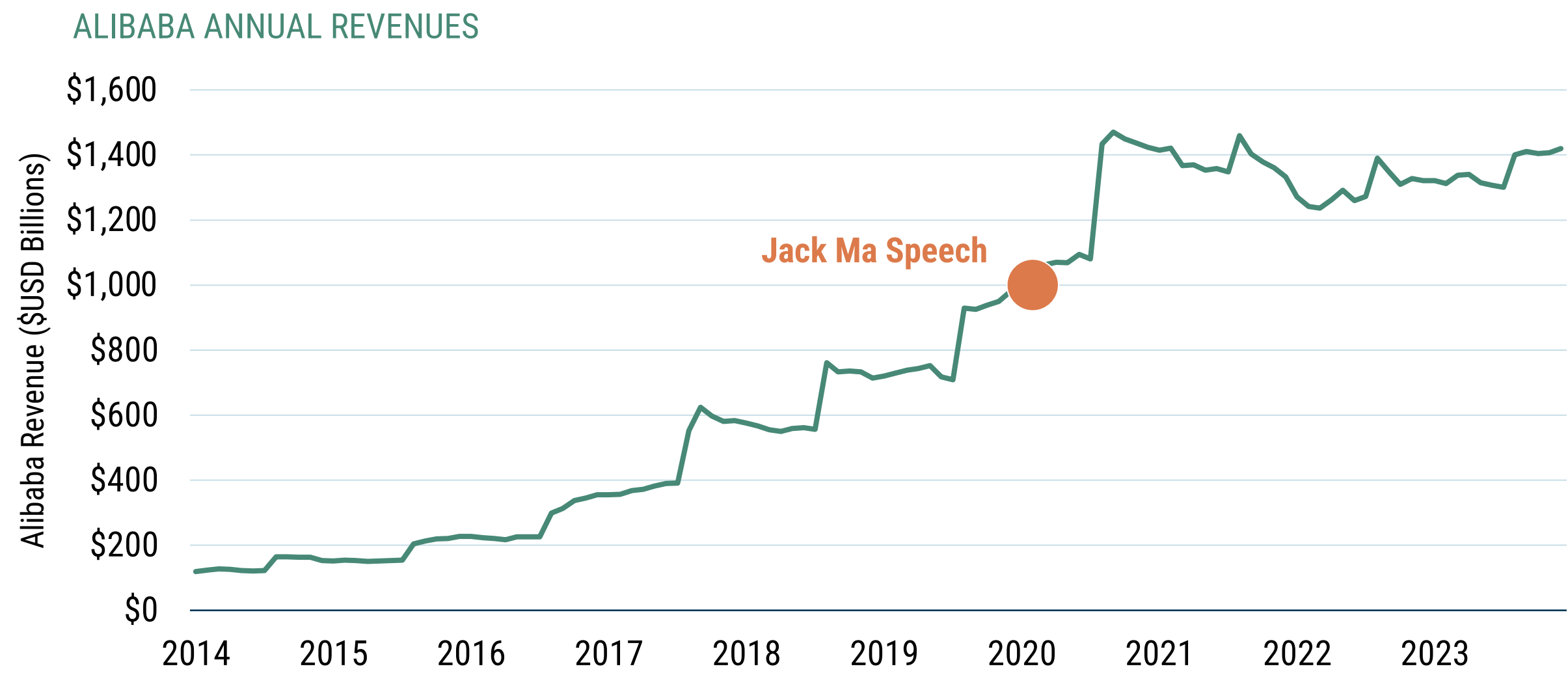
As of 9/30/24 | Source: Bureau of Statistics: China, Bloomberg

CASE STUDY: ALIBABA – KILLING THE GOLDEN GOOSE



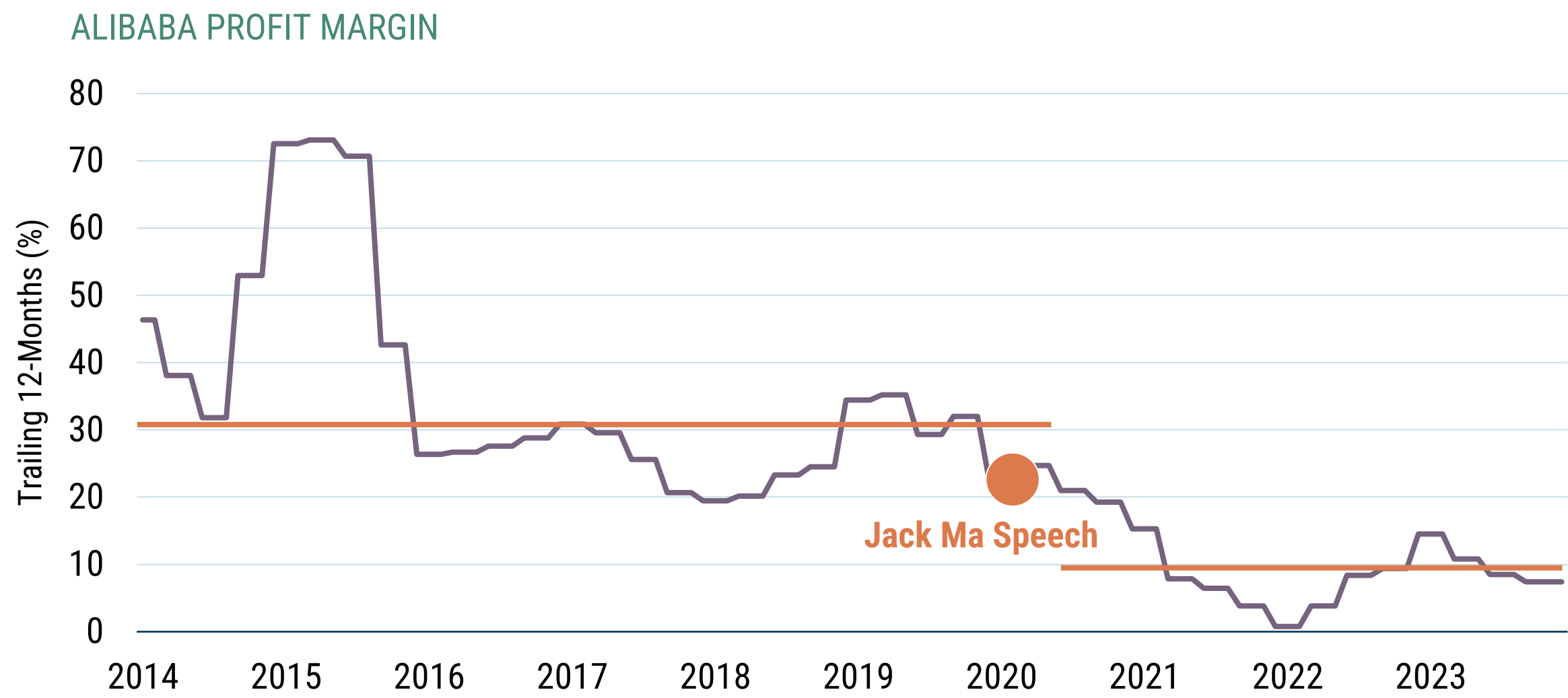
As of 9/30/24 | Source: Bloomberg

CASE STUDY: ALIBABA – KILLING THE GOLDEN GOOSE



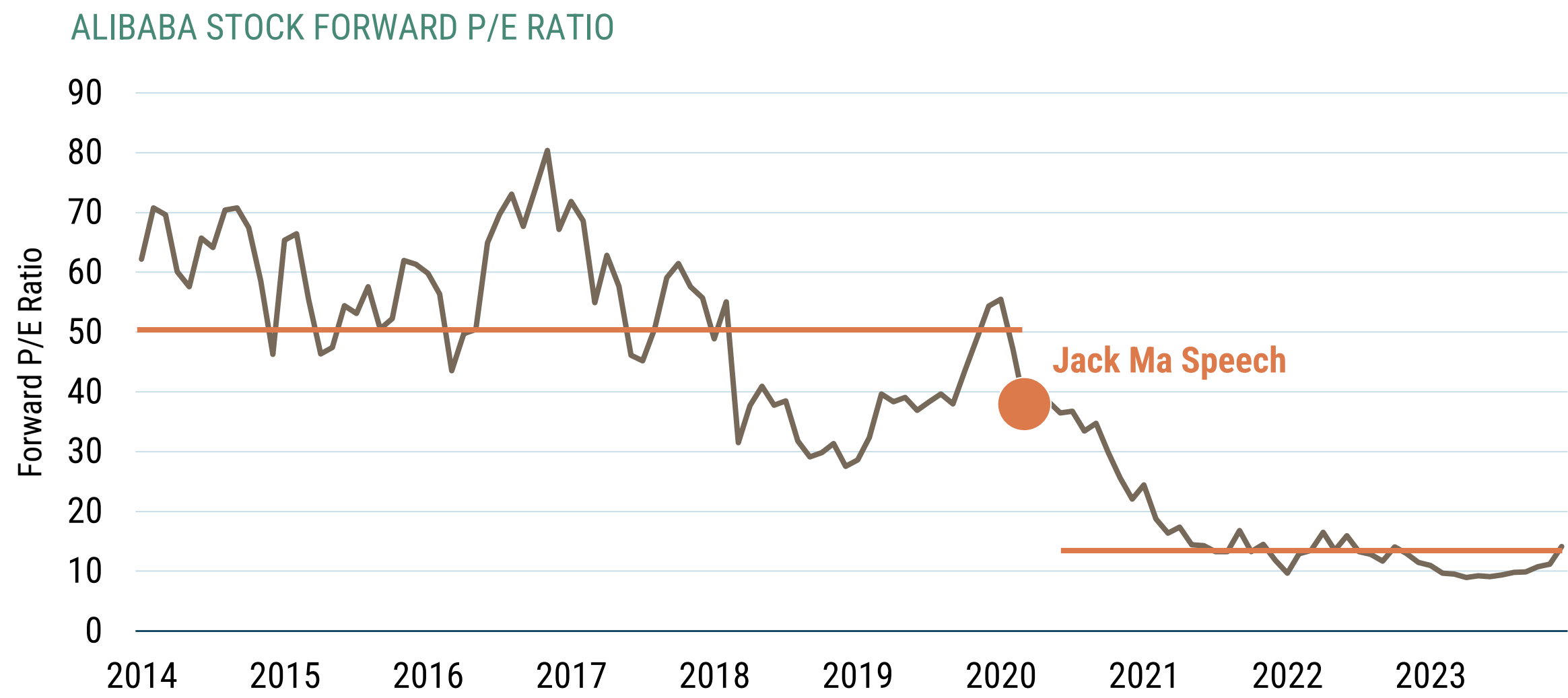
As of 9/30/24 | Source: Bloomberg

CASE STUDY: ALIBABA – KILLING THE GOLDEN GOOSE



As of 9/30/24 | Source: Bloomberg

CASE STUDY: ALIBABA – KILLING THE GOLDEN GOOSE

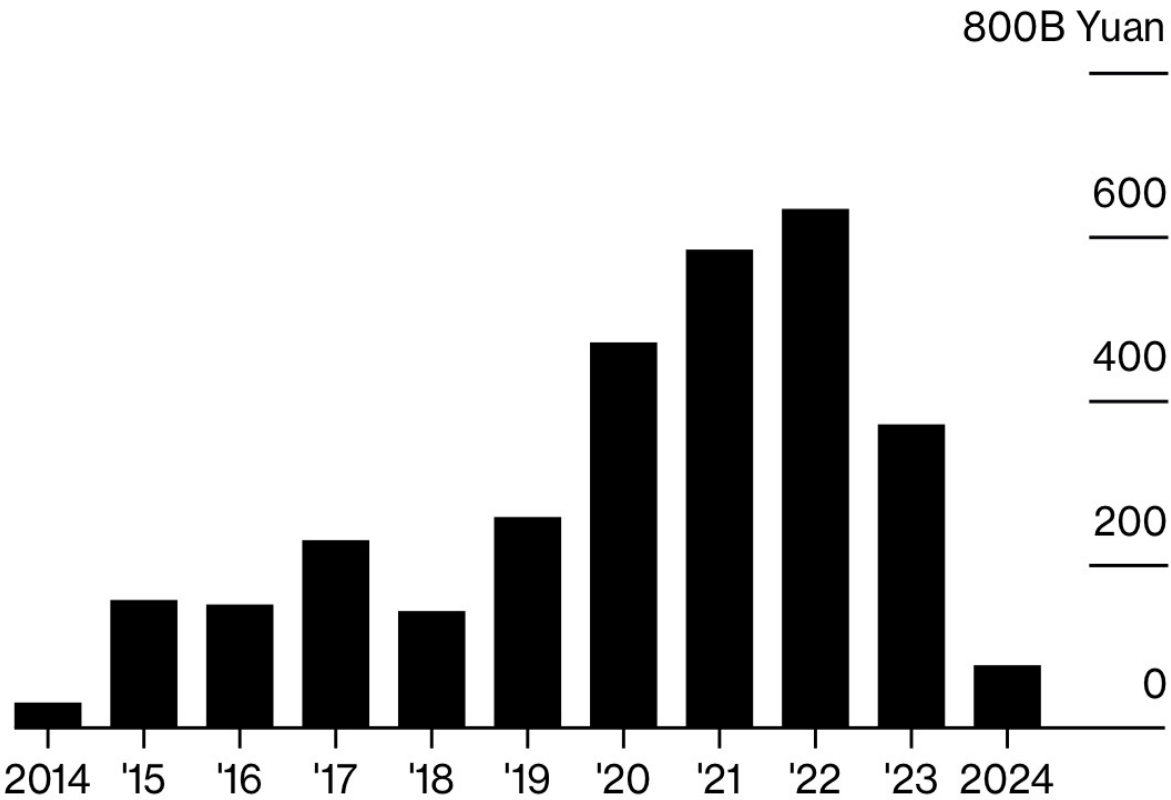


As of 9/30/24 | Source: Bloomberg

CAPITAL RAISING IS AT A STANDSTILL

Deal Drought

Initial public offerings in mainland China have slowed sharply

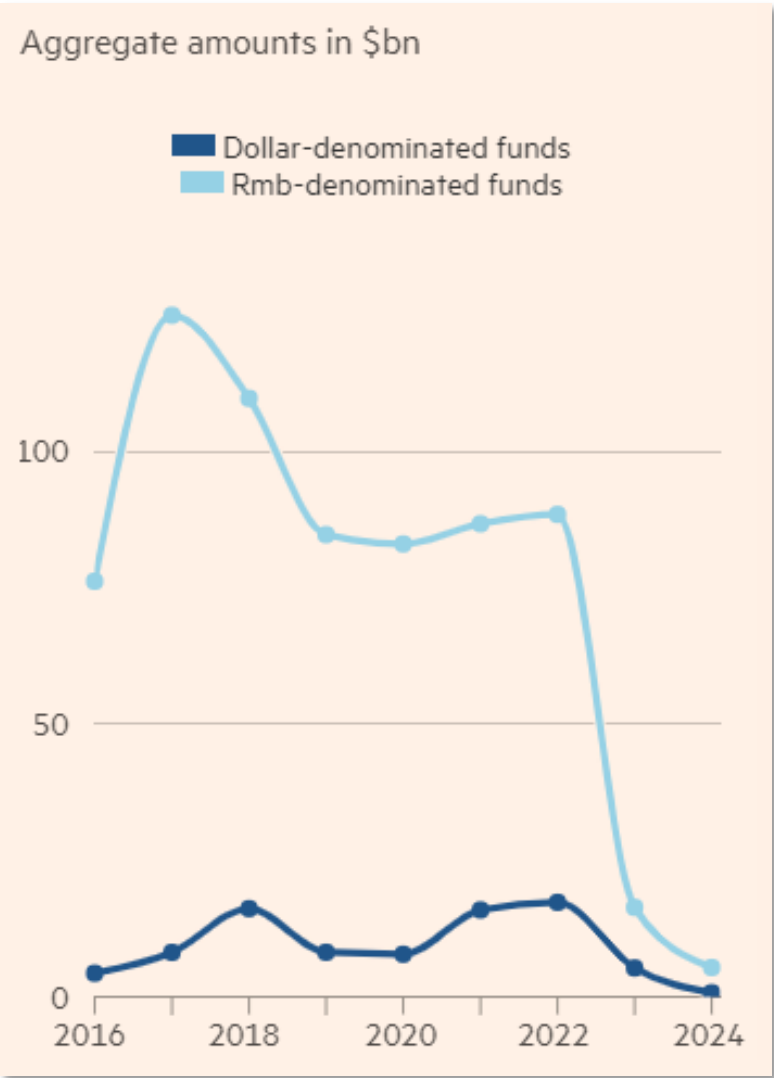


Source: Financial Times, Bloomberg
IPO data for 2024 as of early September.

CAPITAL RAISING IS AT A STANDSTILL

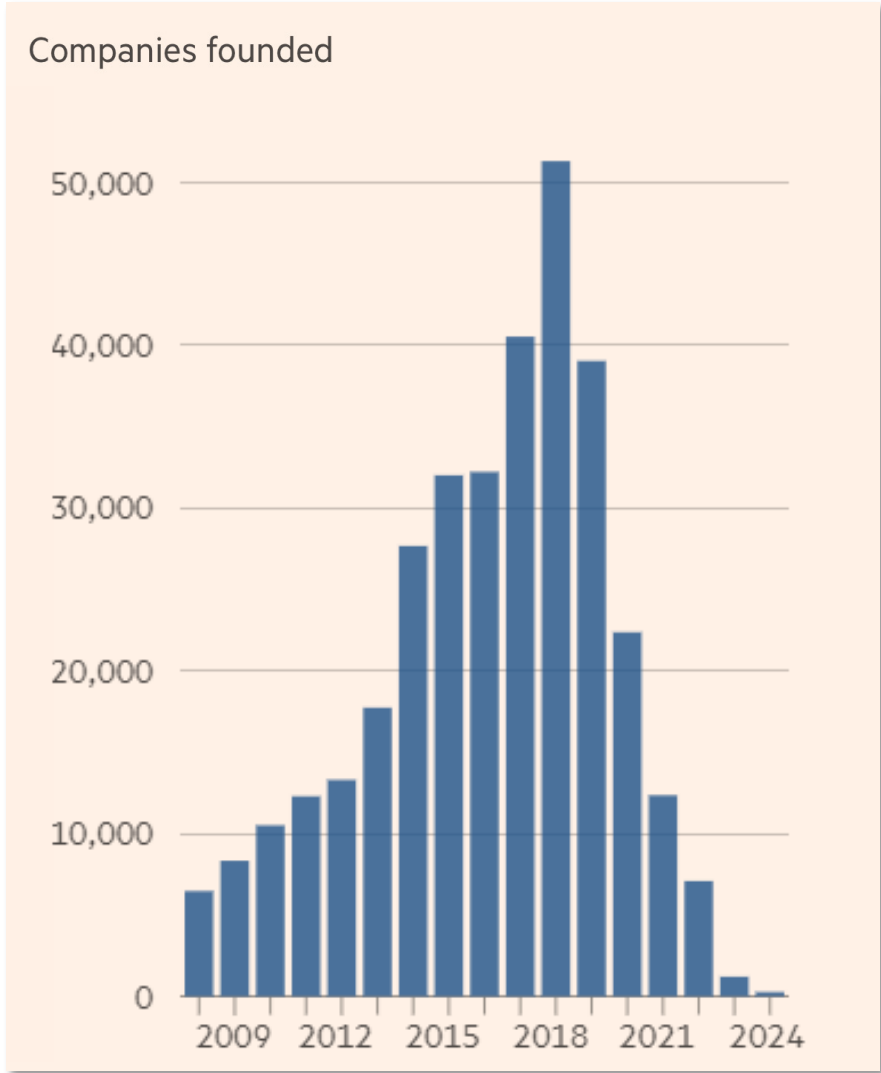
FINANCIAL TIMES

Overseas and domestic VC fundraising for China have fallen, as the country's entrepreneurs shy away from launches



Source: Financial Times, Prequin, IT Juzi
2024 data ends in August and is incomplete; funding data is YTD.

AND NEW BUSINESS FORMATION HAS GROUND TO A HALT



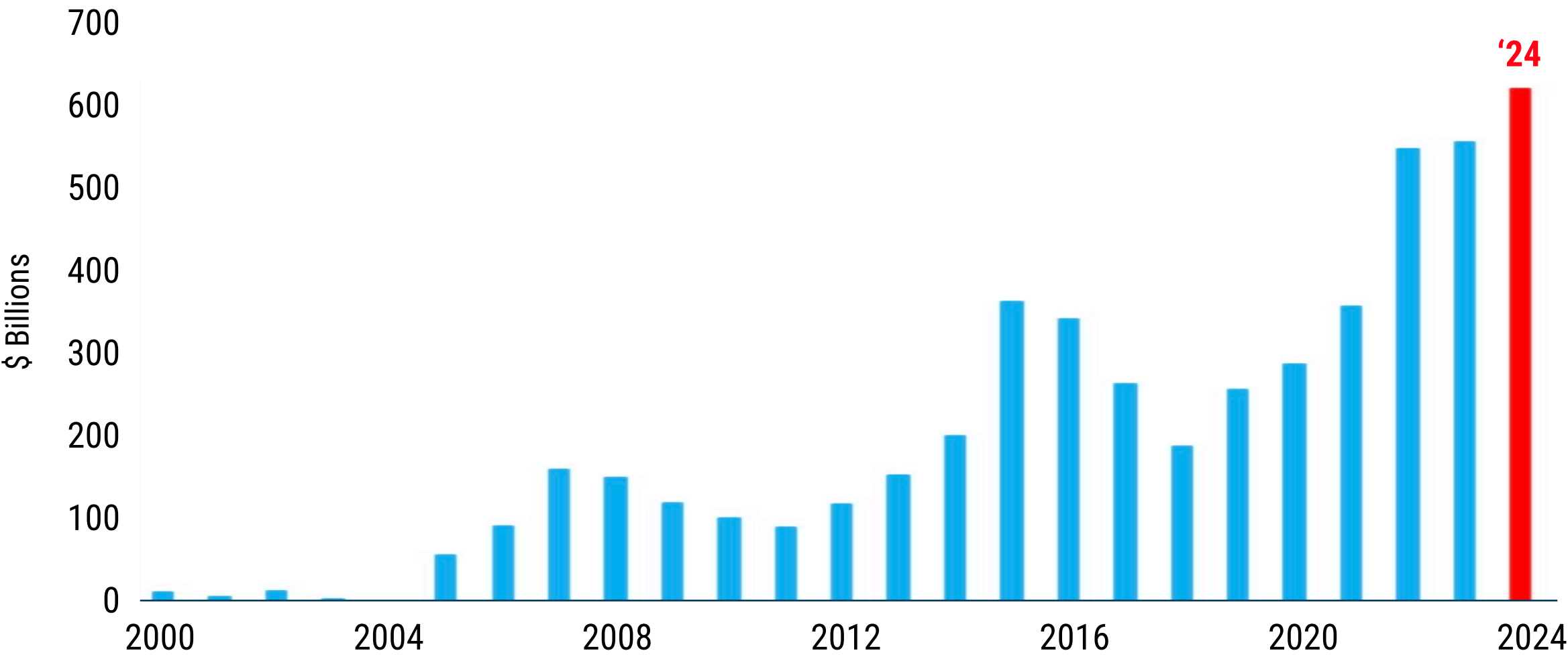
FINANCIAL TIMES

The downbeat mood is reflected in the statistics. In 2018, at the height of VC investment, 51,302 start-ups were founded in China, according to data provider IT Juzi. By 2023, that figure had collapsed to 1,202 and is on track to be even lower this year.

Source: Financial Times, Prequin, IT Juzi
2024 data ends in August and is incomplete; funding data is YTD. Includes start-ups that have received VC backing, plus some in areas that are a focus for VCs even if they have not received funding.

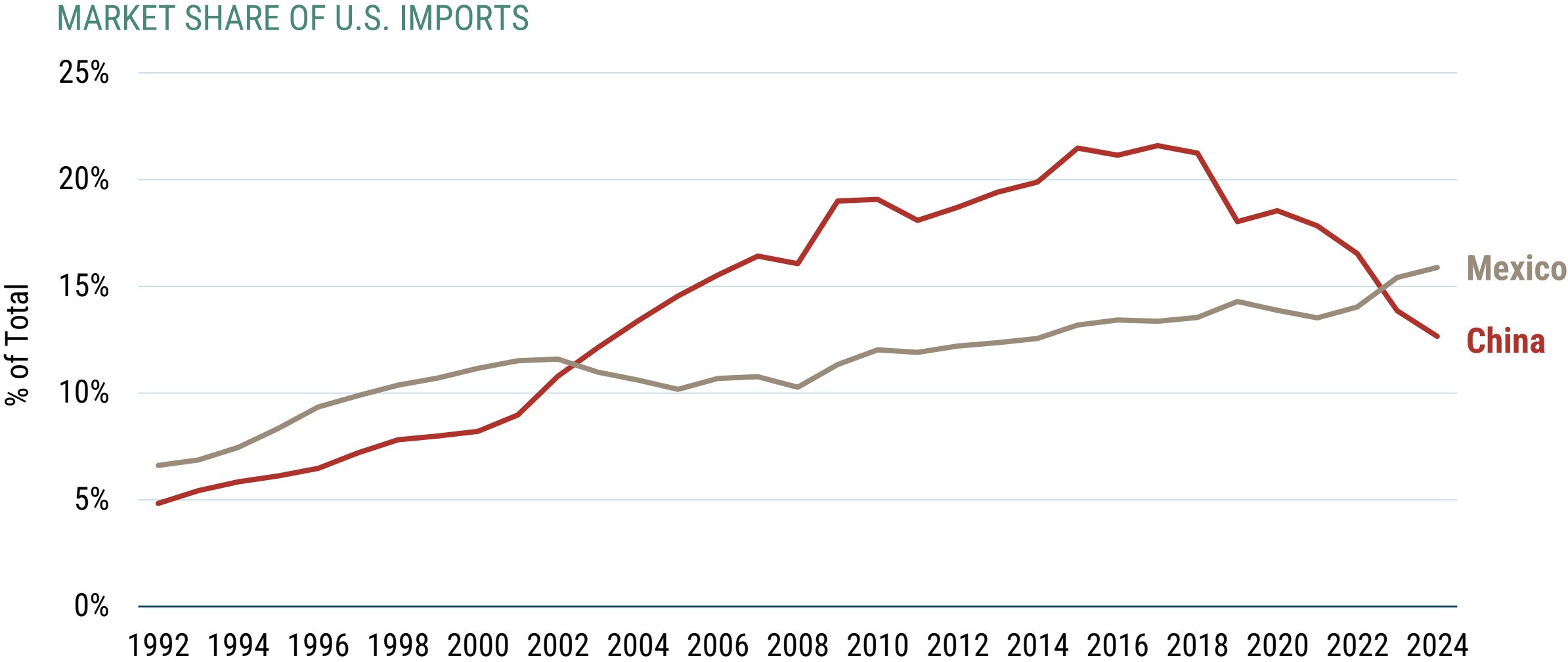
THE LACK OF DOMESTIC VIGOR IS BEING COMPENSATED FOR BY BOOMING TRADE SURPLUSES

CHINA'S TRADE SURPLUS (+) EVERY JANUARY – AUGUST FROM 2000 – 2024



Source: China Customs

BUT NOT TO THE U.S.



Source: <https://www.census.gov/foreign-trade/balance/c5700.html>

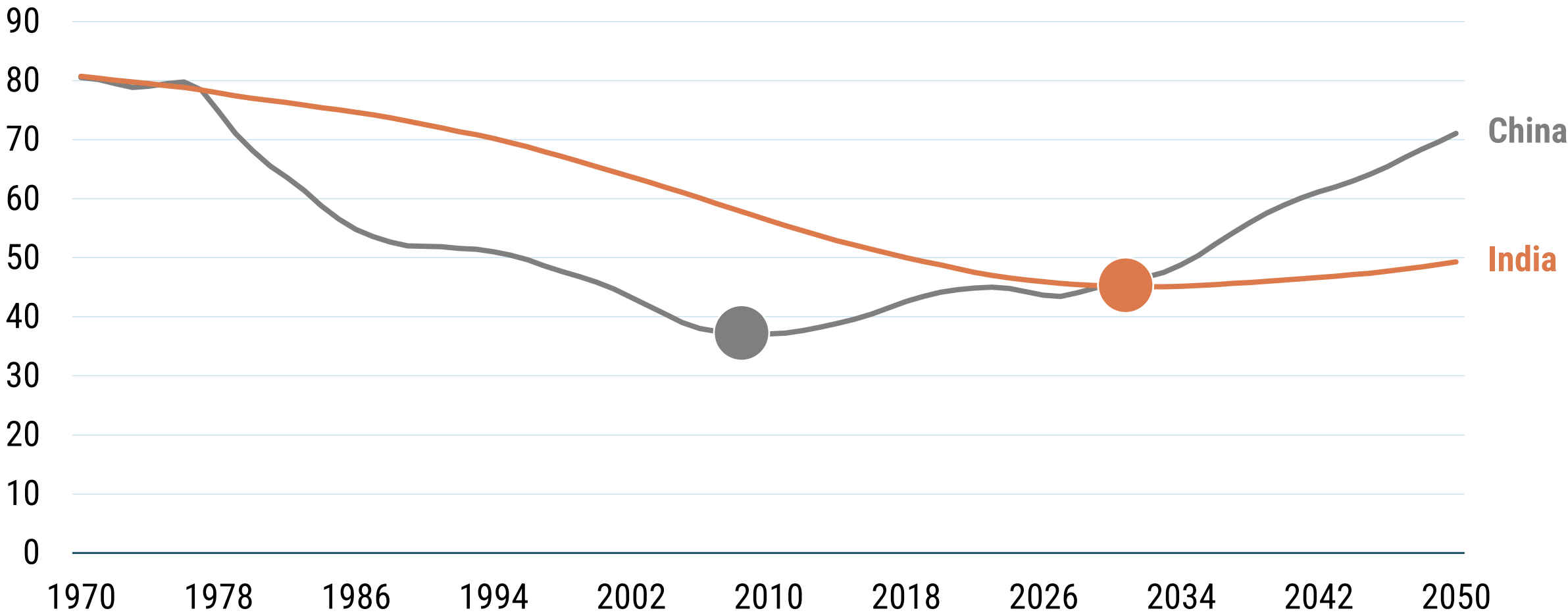
WHAT'S THE STORY BEHIND THE MALAISE?

Let's look at why China succeeded from 1978 – 2014, and what's changed now?

- **Demographics:** labor force growth has gone from positive to negative as a result of the one child policy.
- **Capitalism:** Deng set in motion a shift away from state ownership and encouraged private investment. Xi has reversed that trend.
- **Access to global markets:** Nixon opened up global markets and WTO massively increased that access. Now both imports and exports are being restricted by the West.
- **Competence:** economic decision-making shifted from the collective wisdom of the Mandarins to Xi.

DEMOGRAPHICS ARE A BIG FACTOR THAT'S NOT GOING AWAY

CHINA AND INDIA DEMOGRAPHICS OVERALL DEPENDENCY RATIO



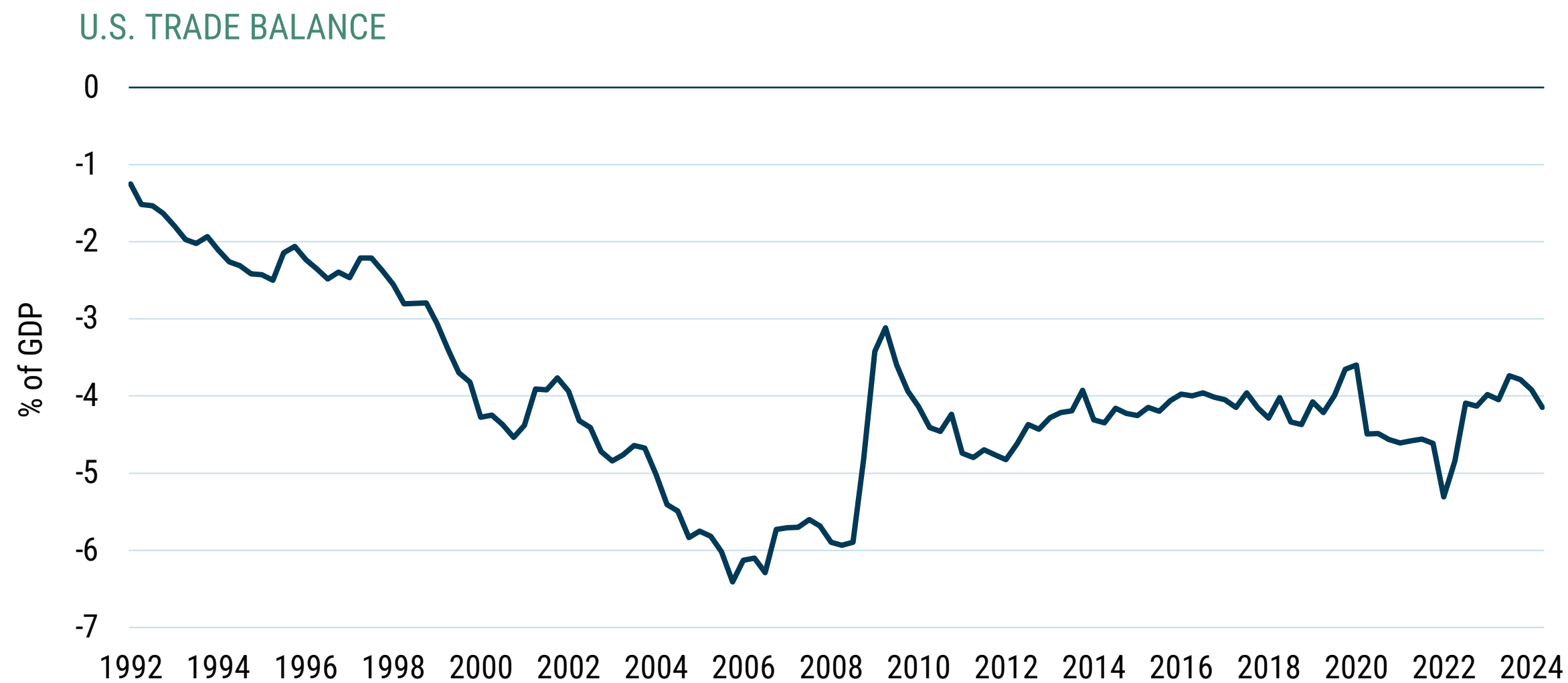
Source: United Nations

DUE TO COVID, TAIWAN, TRADE TENSIONS, ETC., THE U.S. IS PIVOTING AWAY FROM TRADE WITH CHINA

	China	Mexico	Vietnam	India	Korea	Taiwan	Thailand	Europe
China Peak, 2018	21.59	13.24	1.98	2.07	2.95	1.80	1.31	18.63
March 2024	11.46	15.91	3.81	2.90	4.44	4.97	2.01	20.89
Percent of Peak	53%	120%	192%	140%	151%	276%	153%	112%
	—							

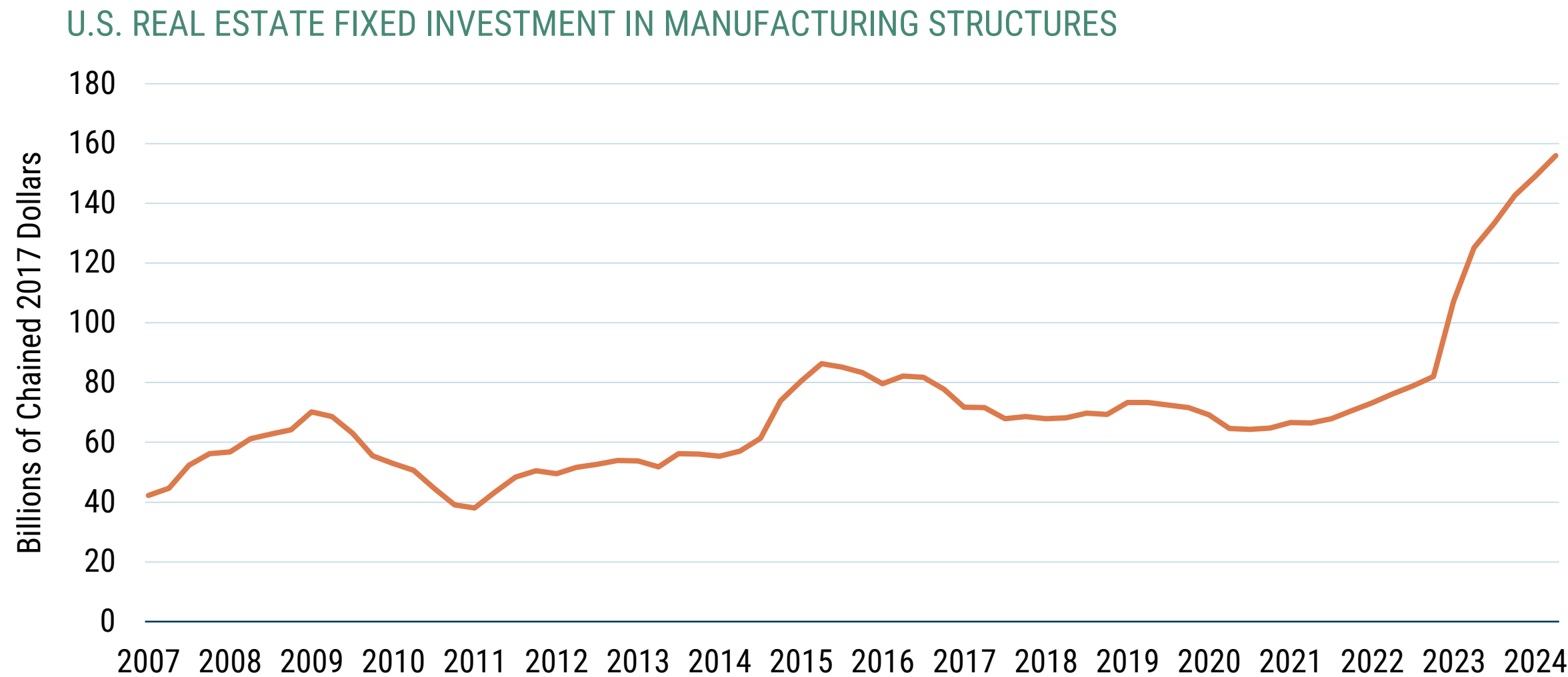
As of 8/31/23 | Source: Federal Reserve Bank, GMO

SO, DOES THIS MEAN ONSHORING IS BOOMING? UMM...



As of 4/30/24 | Source: U.S. Federal Reserve

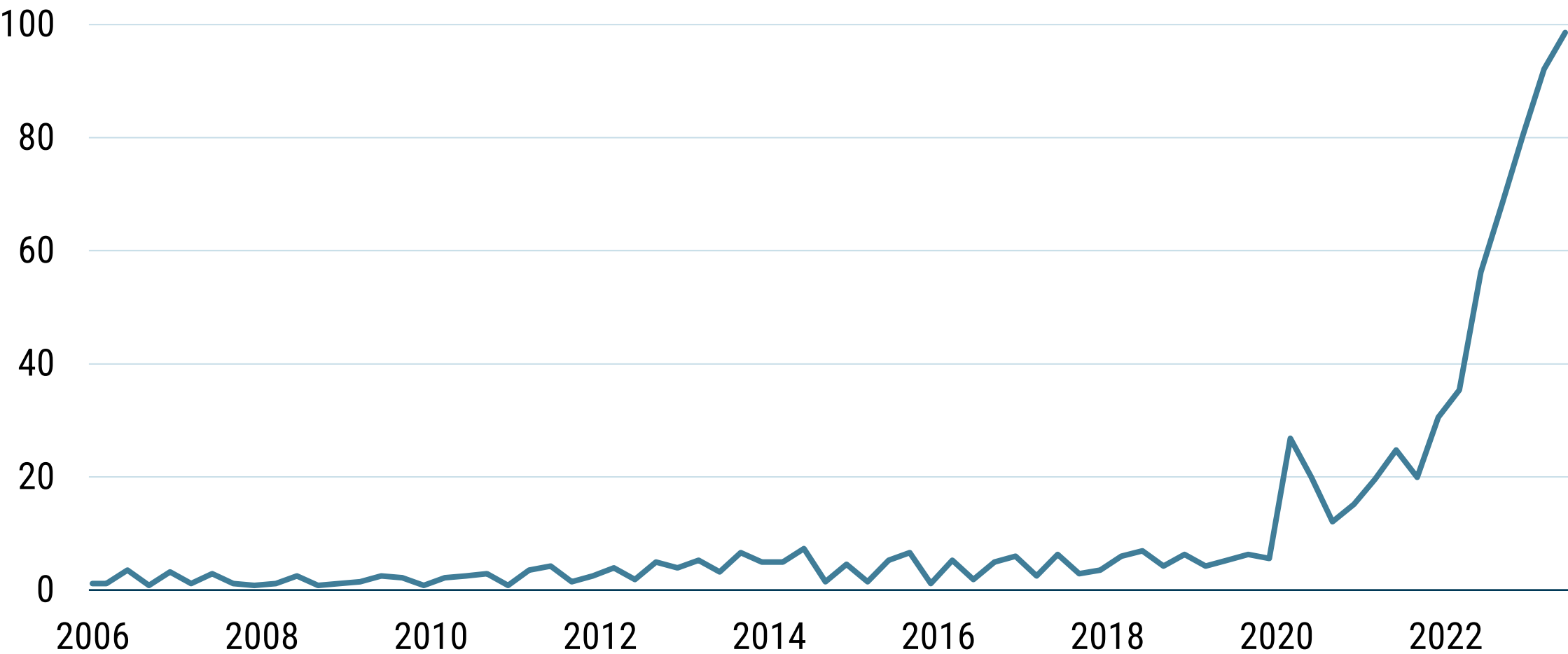
BUT THE IRA AND CHIPS ACT ARE STARTING TO IMPACT INVESTMENT IN THE U.S.



As of 4/30/24 | Source: U.S. Federal Reserve
Data is quarterly, seasonally adjusted annual rate.

AND GLOBAL CORPORATES AND GOVERNMENTS ARE LOOKING TO DIVERSIFY AWAY FROM CHINA

MENTIONS DURING U.S. CORPORATE PRESENTATIONS OF RE-/NEAR/ON-SHORING



Source: BofA Global Research, AlphaSense

SO WHO'S BENEFITING FROM THIS MOVE?

And how do we capture this opportunity?



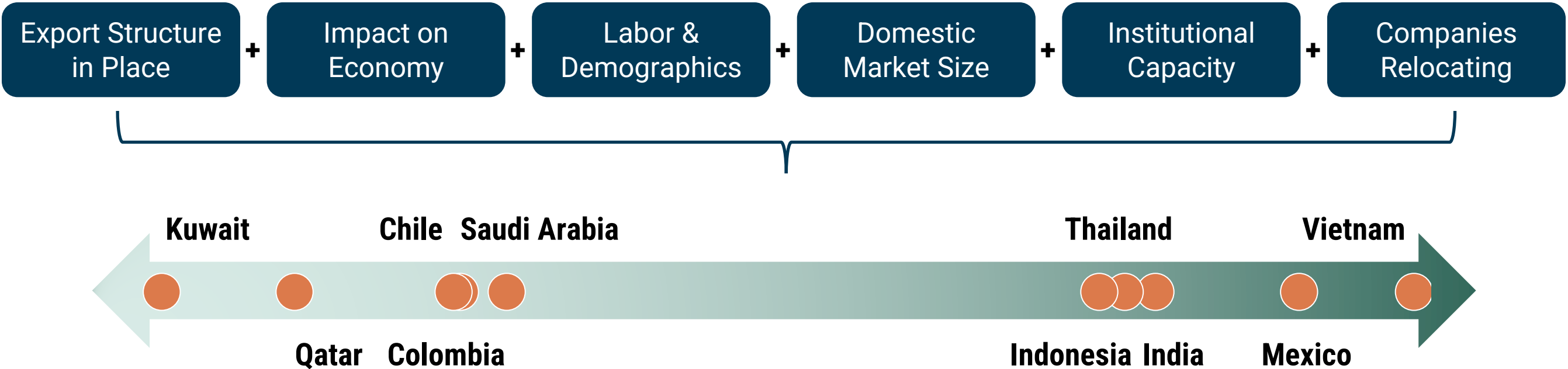
Impact on Economy

Export Structure in Place

Labor and Demographics

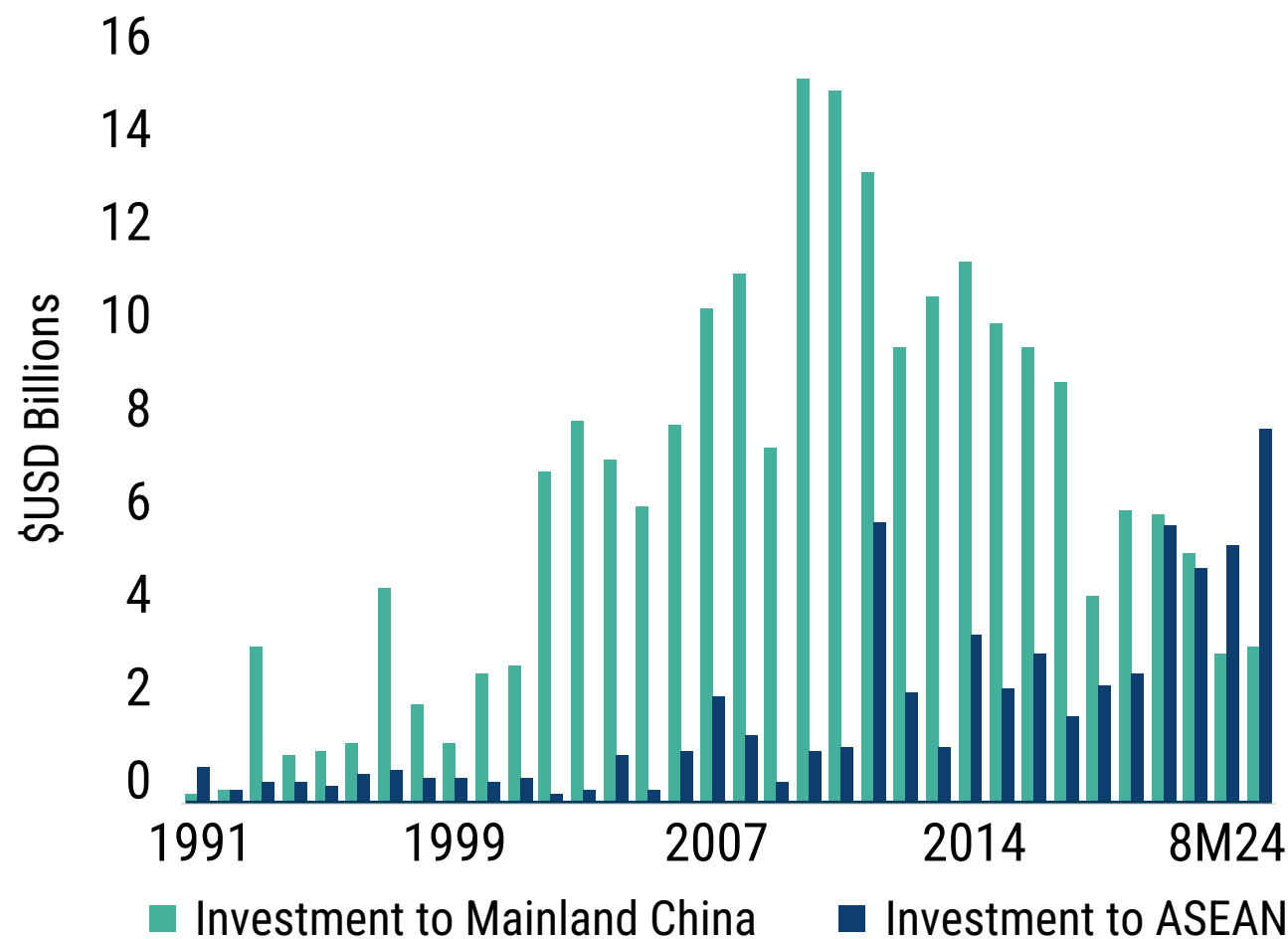
Institutional Capacity

SO, WHO'S BENEFITING FROM THIS MOVE?

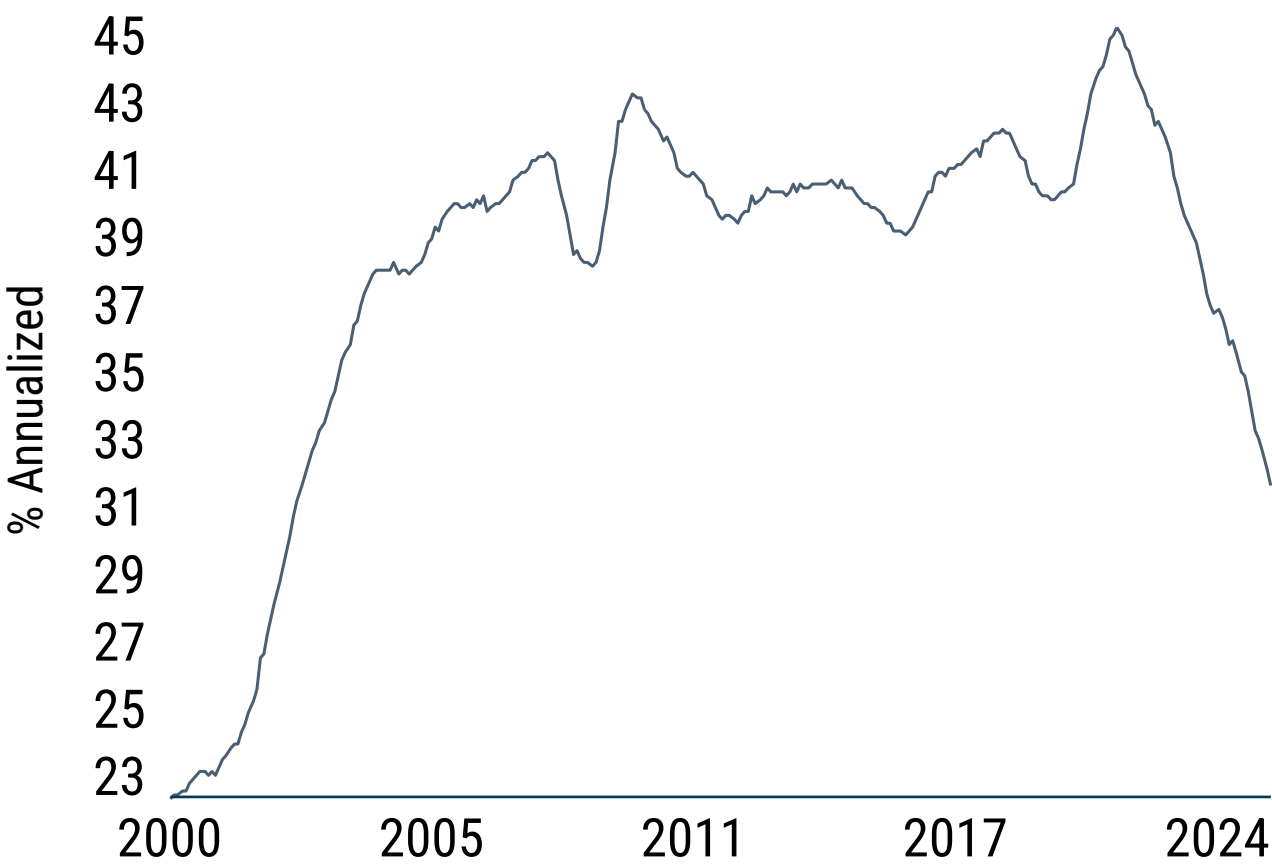


TAIWAN TECH IS SHIFTING AWAY FROM CHINA

TAIWAN APPROVED OUTWARD INVESTMENTS TO MAINLAND CHINA AND ASEAN

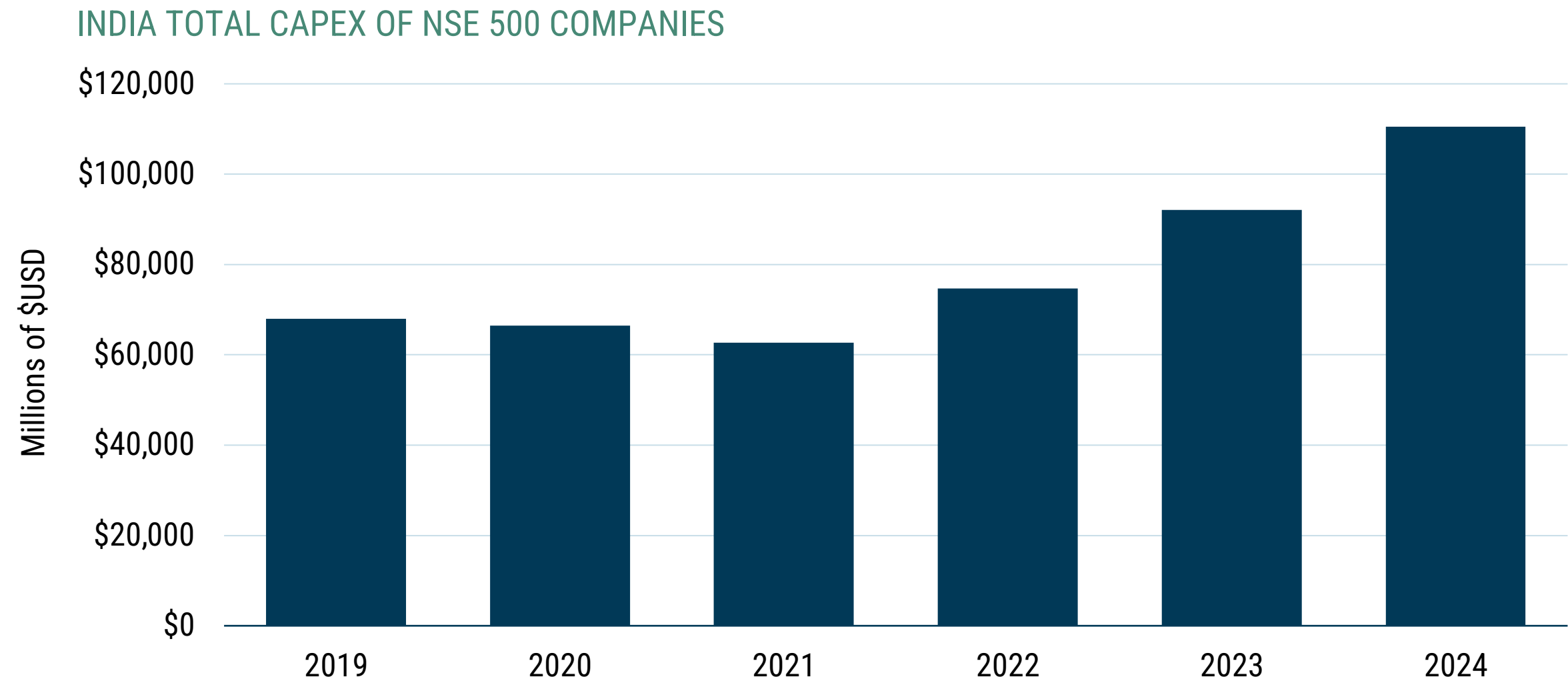


CHINA/HONG KONG AS PERCENTAGE OF TAIWAN'S TOTAL EXPORTS



As of 9/30/24 | Source: Jefferies, Department of Investment Review, Ministry of Economic Affairs, CEIC

SO, WHO'S BENEFITING FROM THIS MOVE?



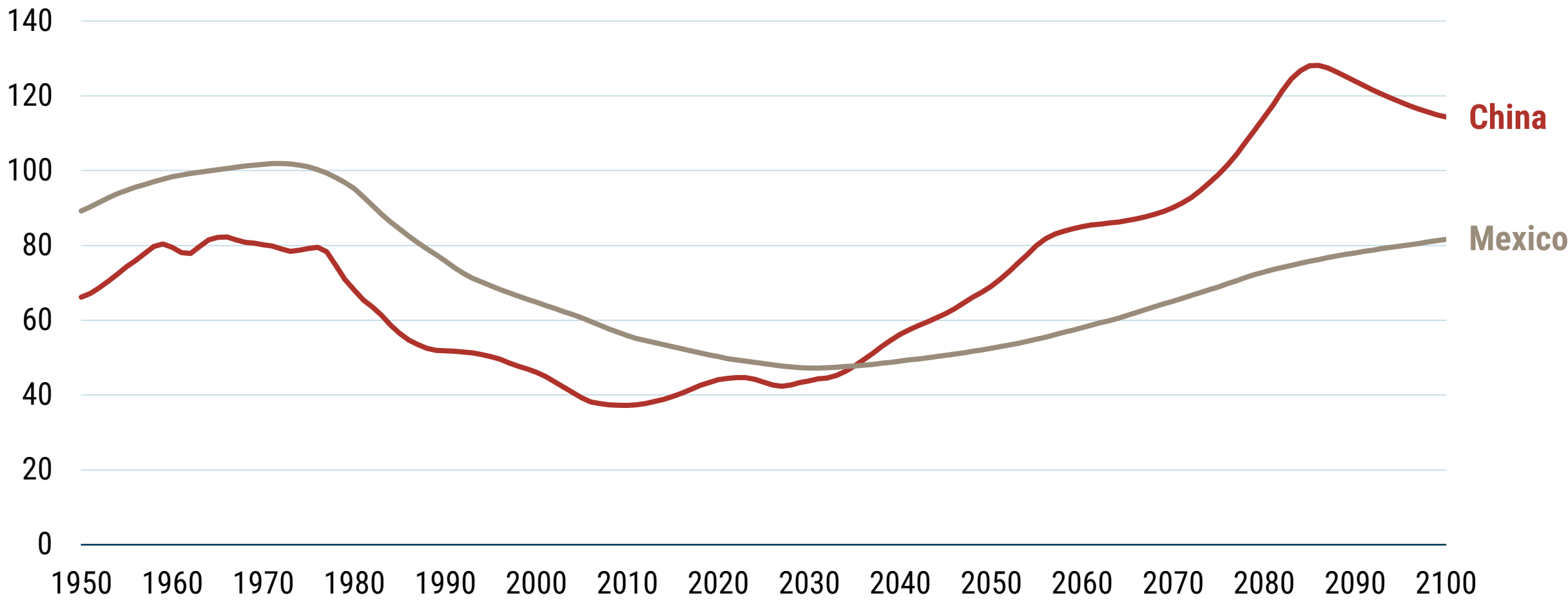
Source: Capitaline

INDIA IS INVESTING IN INFRASTRUCTURE

	Sector	Investment
	Energy - Oil & Gas	36%
	Metals & Mining	13%
	Power and Renewables	12%
	Automobile and Auto Components	6%
	Telecommunication	6%
	Cement	5%
	Financial Services	5%

MEXICO IS WELL POSITIONED

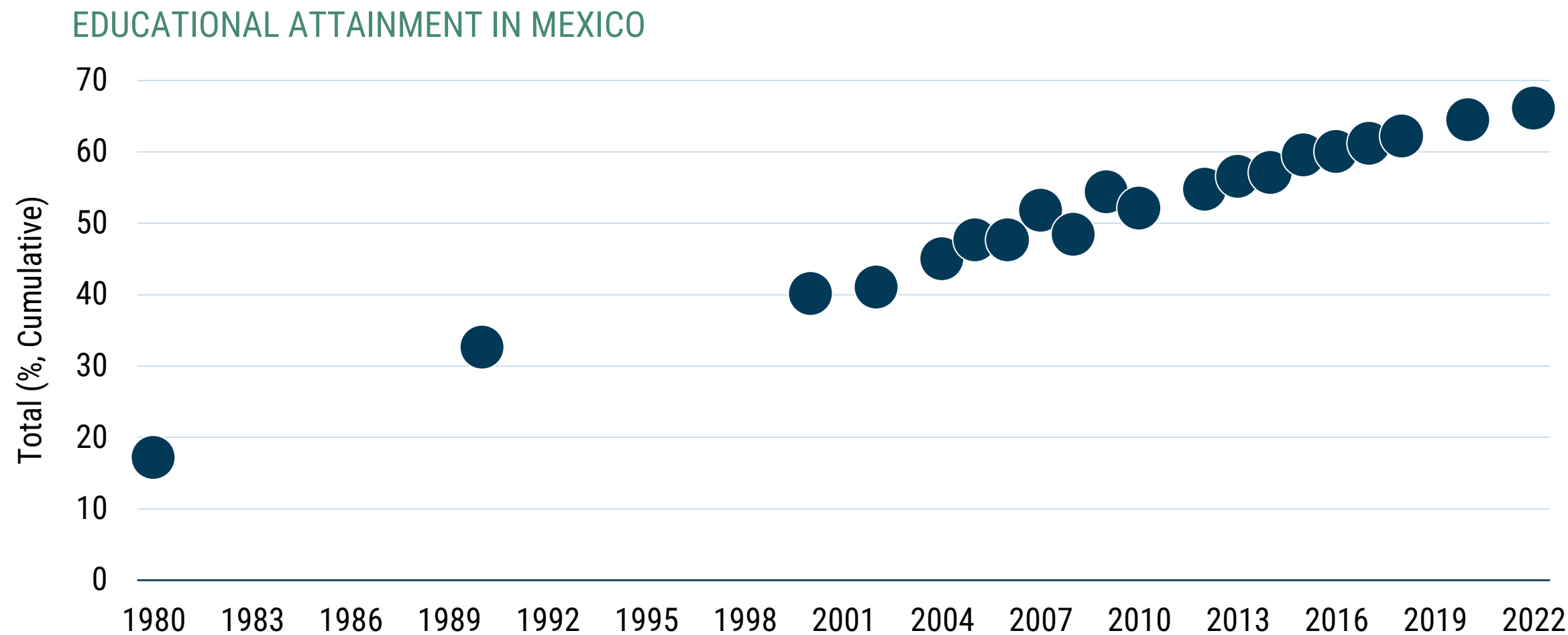
TOTAL DEPENDENCY RATIO



Source: United Nations
Total dependency ratio per 100 working-age population. Projections to 2100 are based on the UN's medium population scenario.

MEXICO IS WELL POSITIONED

A work force that can add value



As of 6/30/24 | Source: World Development Indicators
Percentage of population ages 25 and over who have, at least, completed lower secondary education.

MEXICO IS WELL POSITIONED

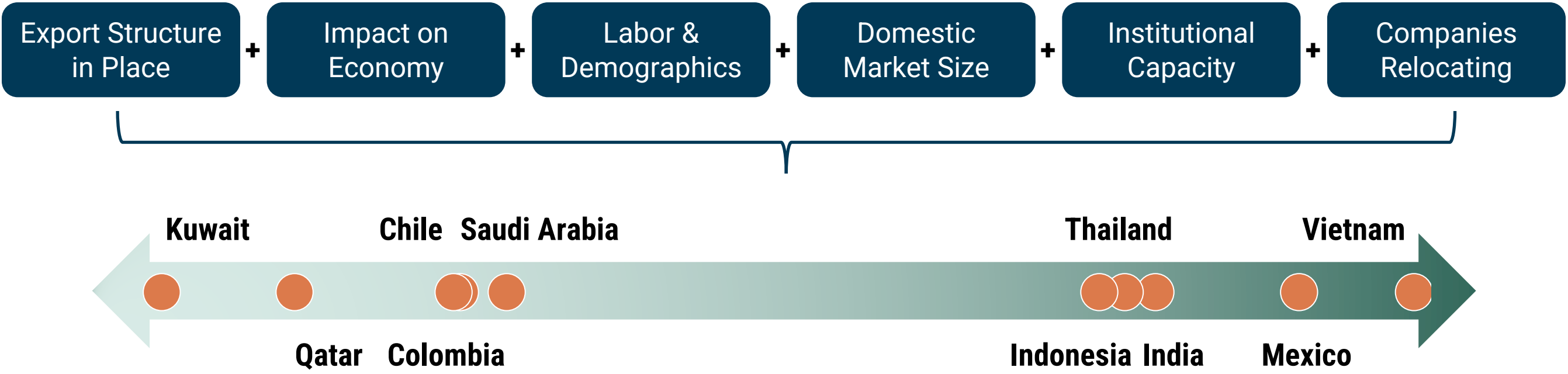
And able to fund expansion



As of 6/30/24 | Source: World Development Indicators
Domestic credit provided by the financial sector (% of GDP). Includes all credit to various sectors on a gross basis, with the exception of credit to the central government, which is net. The financial sector includes monetary authorities and deposit money banks, as well as other financial corporations where data is available (including corporations that do not accept transferable deposits but do incur such liabilities as time and savings deposits). Examples of other financial corporations include finance and leasing companies, money lenders, insurance corporations, pension funds, and foreign exchange companies.

MOST AND LEAST ATTRACTIVE COUNTRIES

Who benefits from a China manufacturing exodus?



THEMES THAT BENEFIT FROM THIS MOVE

Theme

Higher Economic Growth Due To Nearshoring

Banks

Retailing

Market Share Gain from Chinese Competitors

Tech Hardware

Apparel

Chemical

Consumer Electronics

EV Battery

Construction Materials

Engineering and Construction

Auto Components

Real Estate and Infrastructure

Theme

Rise in Industrial Activity

Port and Logistics

Airport

Energy and Power Distributors

Increase in Global Capital Expenditure

Industrial Machinery

Tech H/W Supply Chain

High-end Semiconductor Equipment

Air Conditioning

Shift in Global EV & Renewables Supply Chain

As of 3/31/23 | Source: GMO
Model portfolio characteristics have many inherent limitations and may not reflect the impact that material economic and market factors may have on the decision-making process if client fund were actually managed in the manner shown. Actual characteristics may differ substantially from the model characteristics presented.

THEMES MAP ONTO SECTOR OPPORTUNITIES

Model exposures by country sectors

	Consumer Discretionary	Consumer Staples	Energy	Financials	Industrials	IT	Materials	Real Estate
Brazil								
Chile								
Czech								
India								
Indonesia								
Korea								
Mexico								
Poland								
Taiwan								
Thailand								
Turkey								
Vietnam								
MNC								

As of 3/31/23 | Source: GMO

GMO BEYOND CHINA INVESTMENT STRATEGY

- Pick the countries that benefit the most from this move.
- Pick the sectors that reflect the themes that are most exposed.
- Pick high quality companies within these sectors.
- Control risk so that return is correlated to the theme rather than individual stock performance.
- Build portfolios that are not benchmark sensitive but well diversified.

THE “BEYOND CHINA” UNIVERSE IS NOT EXPENSIVE

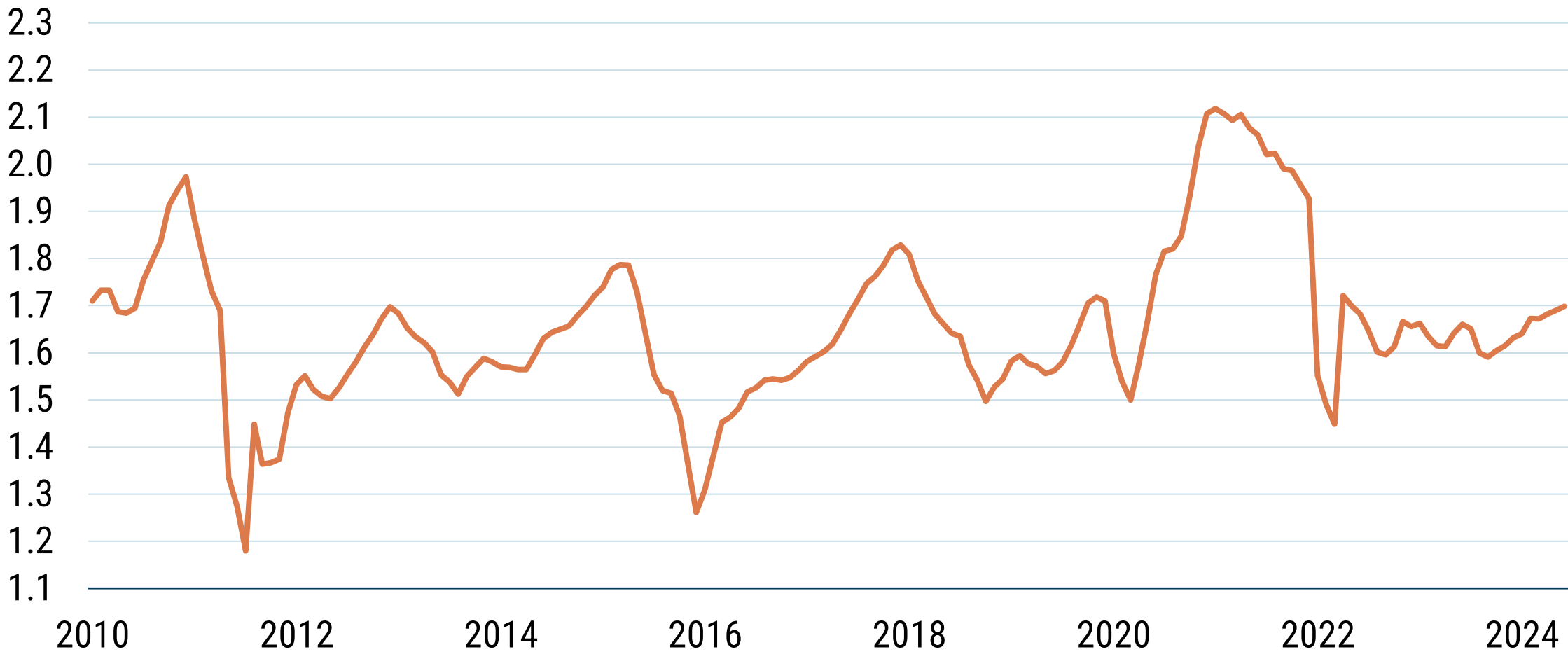
P/E MULTIPLES HAVE NOT CHANGED



As of 8/31/24 | Source: MSCI, GMO
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THE “BEYOND CHINA” UNIVERSE IS NOT EXPENSIVE

PRICE-TO-BOOK MULTIPLES



As of 8/31/24 | Source: MSCI, GMO
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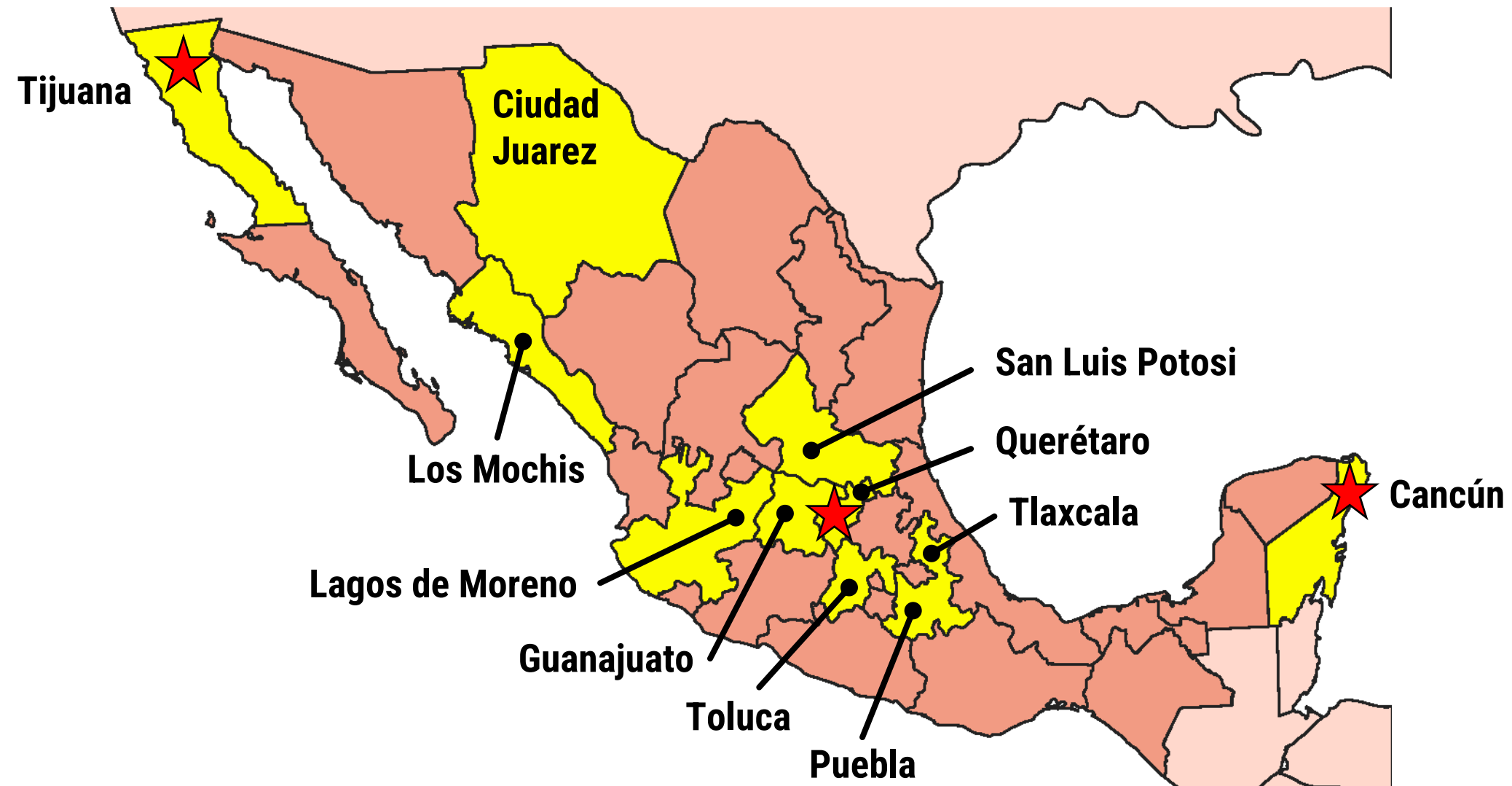
MEXICO REAL ESTATE EXAMPLE: VESTA

The logo for Vesta, featuring the word "vesta" in a bold, blue, sans-serif font. The letter 'v' is stylized with a sharp, upward-pointing chevron at its base. The letter 'a' is also stylized, ending in a sharp, upward-pointing chevron. A thin vertical orange line is positioned to the right of the logo.

Vesta is a fully integrated real estate owner, operator, and developer. It has one of the largest and most modern industrial portfolios in Mexico.

MEXICO REAL ESTATE EXAMPLE: VESTA

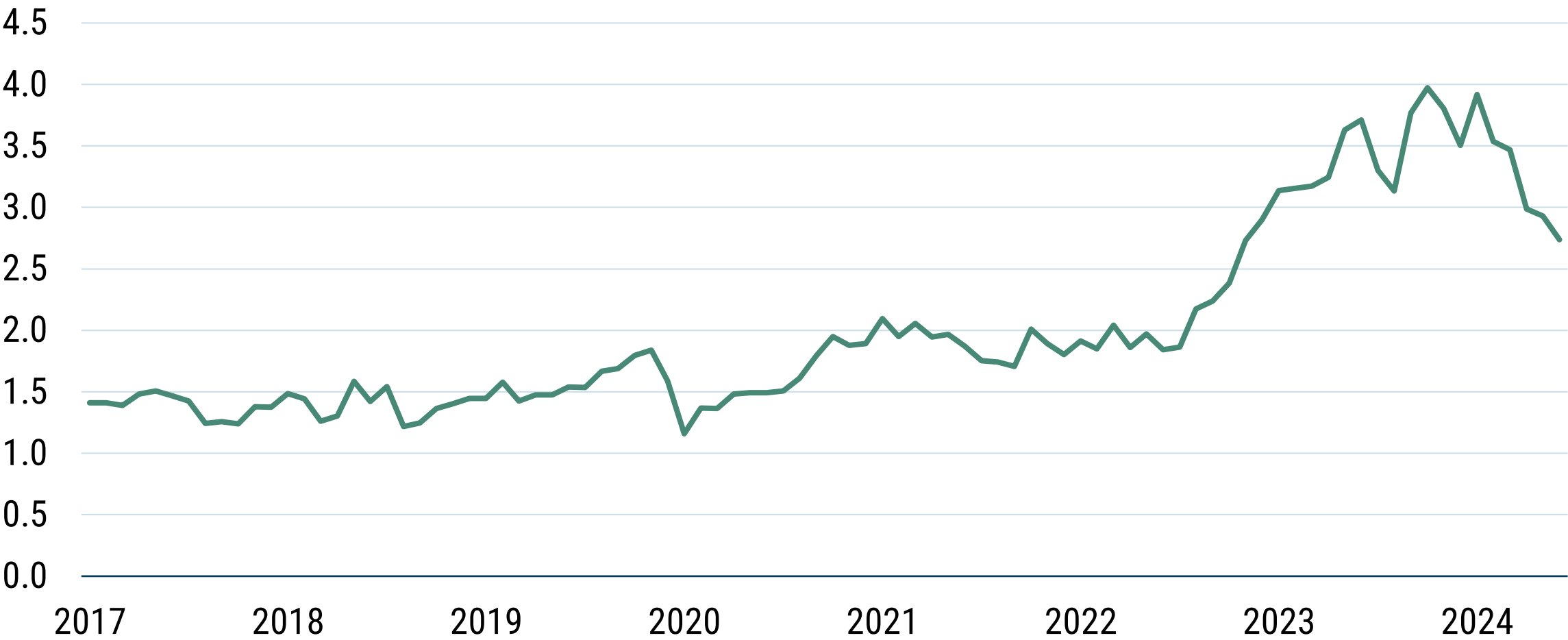
Selected distribution of Vesta's industrial properties



Source: vesta.com.mx

MEXICO REAL ESTATE EXAMPLE: VESTA

PRICE (\$USD)



As of 8/31/24 | Source: Bloomberg

MEXICO REAL ESTATE EXAMPLE: VESTA

PRICE-TO-NET ASSET VALUE PER SHARE

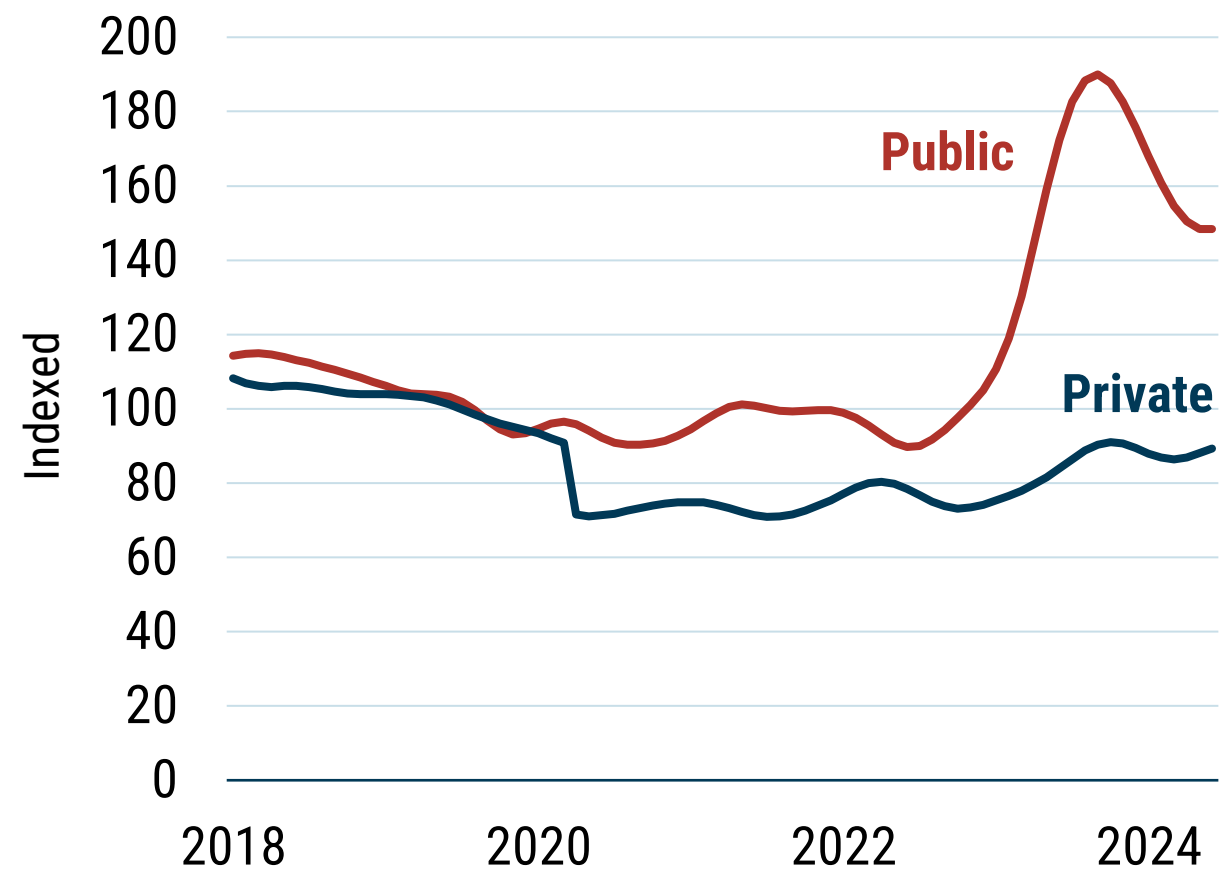


As of 8/31/24 | Source: Bloomberg

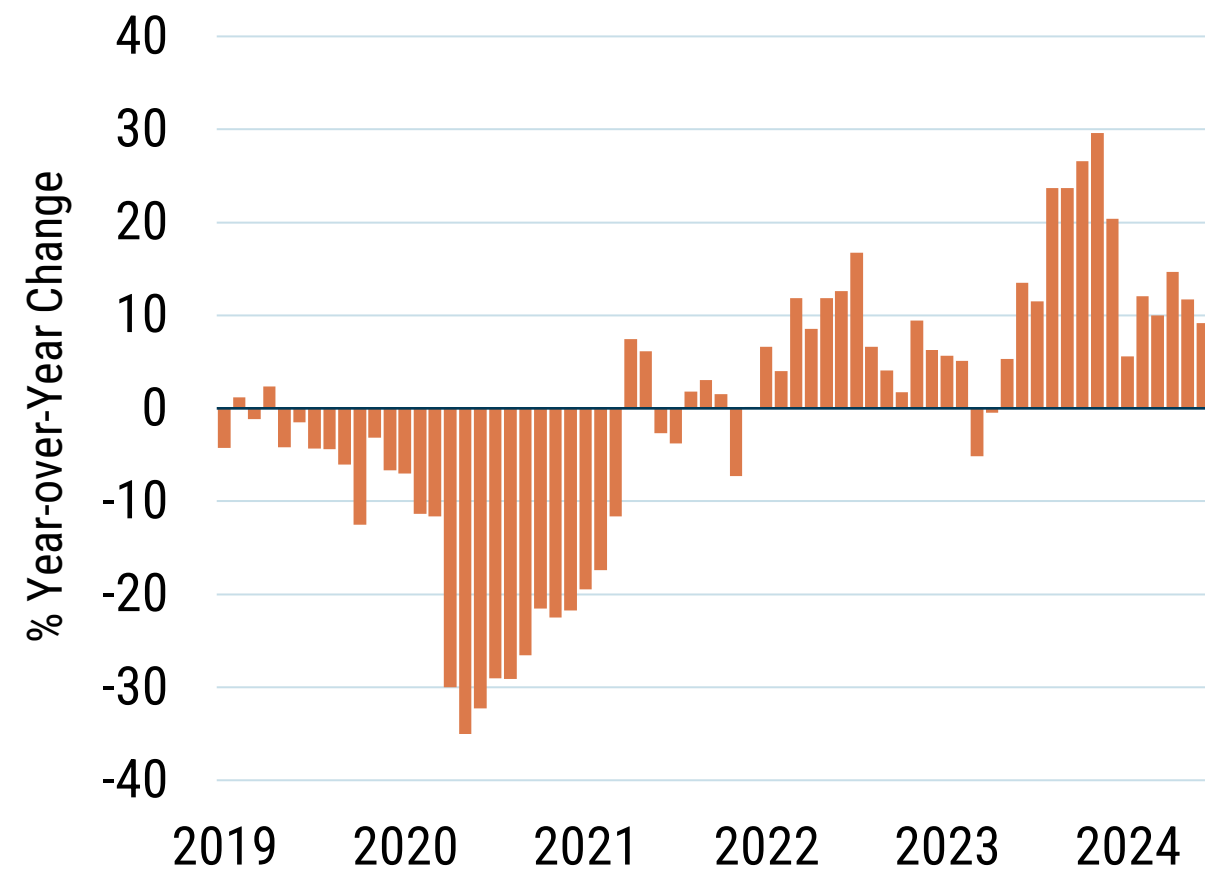
MEXICO IS GEARING UP

Private construction is growing at 20% already

MEXICO INVESTMENT IN CONSTRUCTION



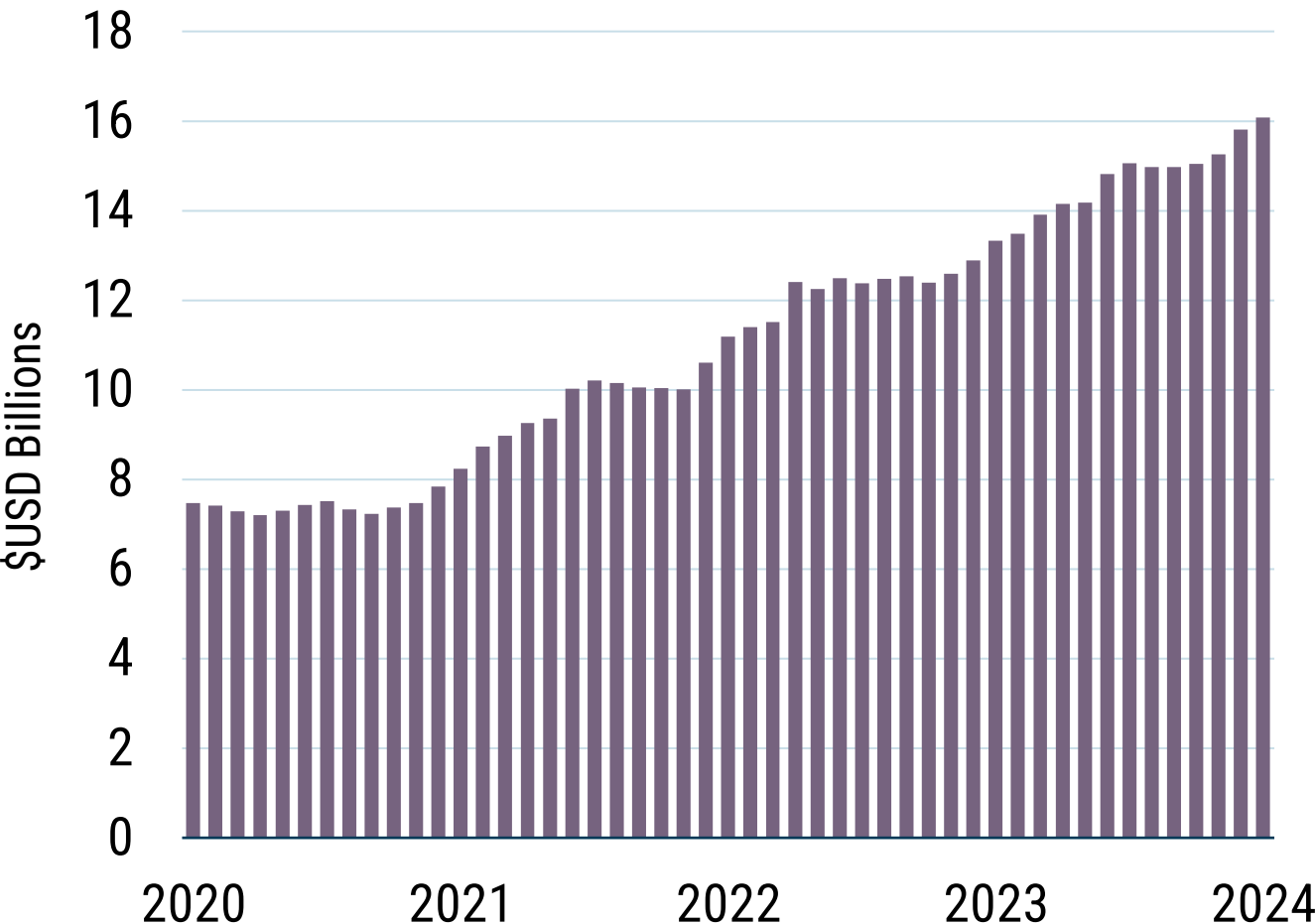
MEXICO REAL PRODUCTION IN PRIVATE CONSTRUCTION EX-RESIDENTIAL



As of 6/30/24 | Source: Jefferies, BANXICO

WE'VE ONLY JUST BEGUN...

INDIA ELECTRONICS AND ELECTRICALS



- Indian companies have doubled their sales in the past four years.
- Apple will produce 25% of their iPhones in India by 2025.
- India government support – it is expected the semiconductor business will be worth \$63 billion by 2026.

But:

For India to take 10% of China’s market share in Electronics, the industry would have to expand 600%

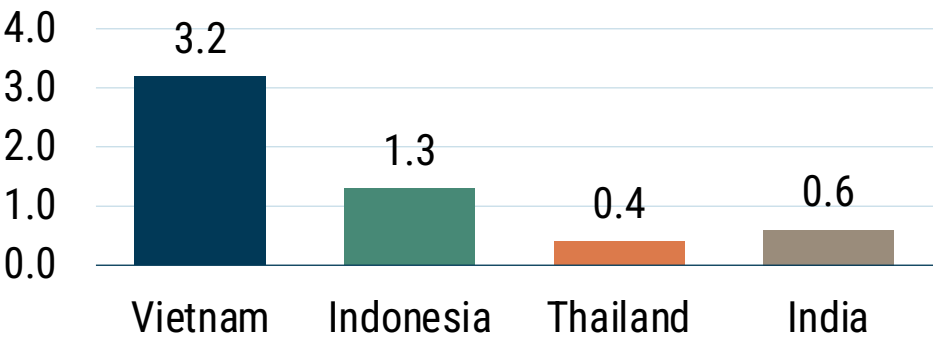
THE BEYOND CHINA JOURNEY IS IN ITS EARLY STAGES

We've only just begun...

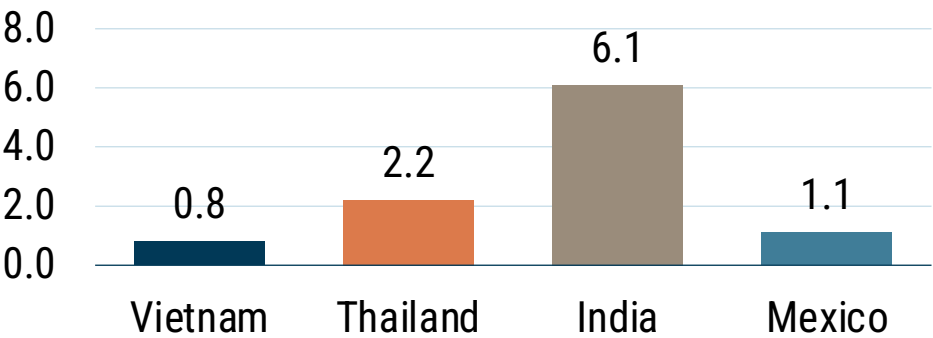


10% of China's industry exports scale to peers' current exports

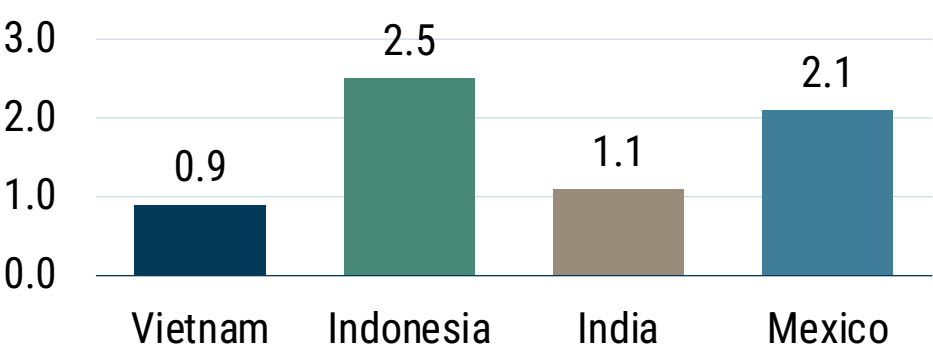
AUTOMOTIVE



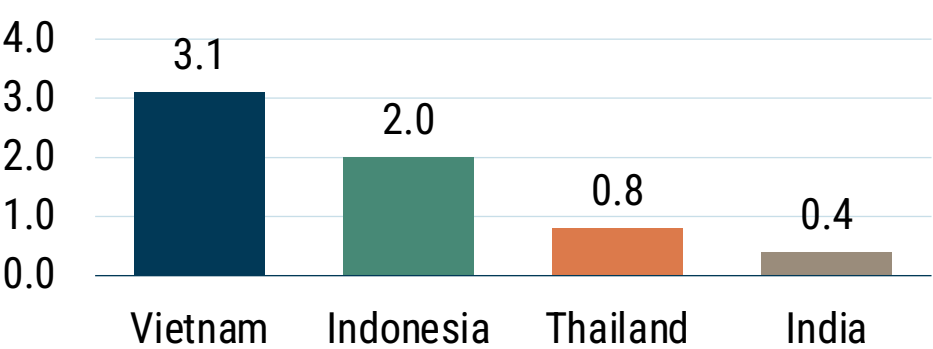
HIGH TECH ELECTRONICS & ELECTRICAL



TEXTILES & APPAREL



CHEMICALS



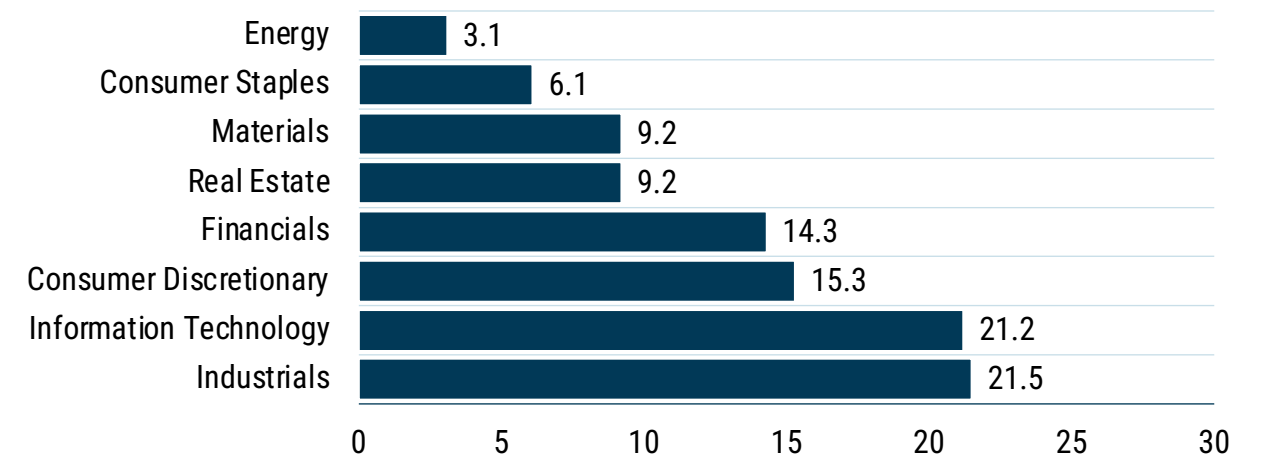
As of 5/31/23 | Source: UNCTAD, GMO

BEYOND CHINA STRATEGY

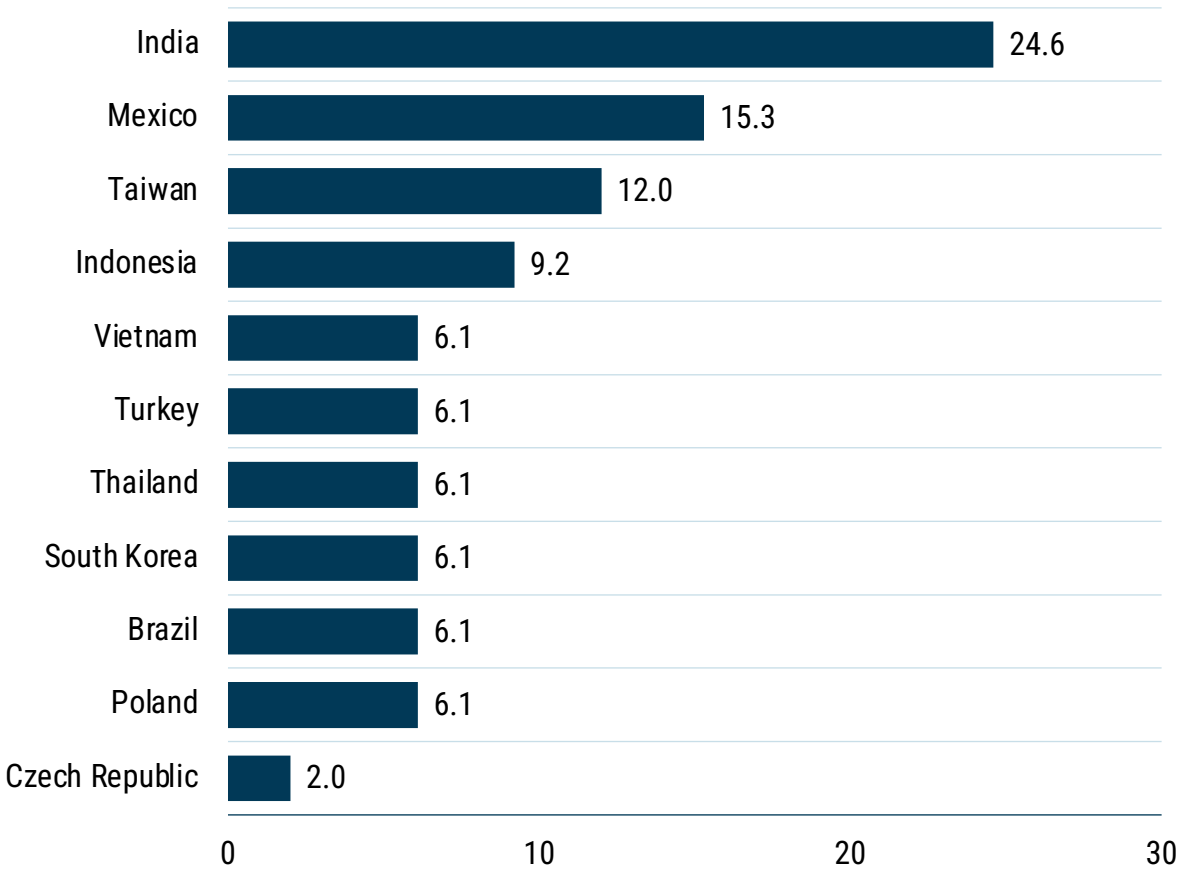
Portfolio characteristics

CHARACTERISTICS	Beyond China	MSCI Emerging Markets	MSCI Emerging ex-China
Price/Earnings - Hist 1 Yr Wtd Mdn	17.7 x	20.9 x	21.5 x
Price/Earnings - Forecast 1 Yr Wtd Mdn	16.6 x	14.9 x	17.6 x
Price/Book - Hist 1 Yr Wtd Avg	2.8 x	1.8 x	2.1 x
Debt/Equity - Wtd Mdn	0.3 x	0.4 x	0.5 x
Dividend Yield - Hist 1 Yr Wtd Avg	3.3 %	2.7 %	2.6 %
Return on Equity - Hist 1 Yr Mdn	21.7 %	15.7 %	16.2 %

SECTOR WEIGHTS (%)



COUNTRY WEIGHTS (%)



As of 8/30/24 | Source: GICS Sector Report, GMO
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Q & A

The background is a dark teal color. It features an abstract geometric pattern of thin, light blue lines forming a network of interconnected polygons, primarily hexagons. Scattered throughout this network are small, solid-colored dots in shades of red, yellow, green, and cyan. In the center of the image, the letters "GMO" are displayed in a large, white, serif font, enclosed within a white rounded square border.

GMO

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The simulated model performance is adjusted to reflect the reinvestment of dividends, other income and is net of estimated transaction cost and borrowing costs. Simulated model returns are being shown net of a model management or incentive fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. GMO's fees are available upon request and also may be found in Part 2 of its ADV. Past performance is no guarantee of future results.

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