



# CHINA AND BEYOND CHINA

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Arjun Divecha

GMO

# FROM CHINA TO BEYOND CHINA

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- 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

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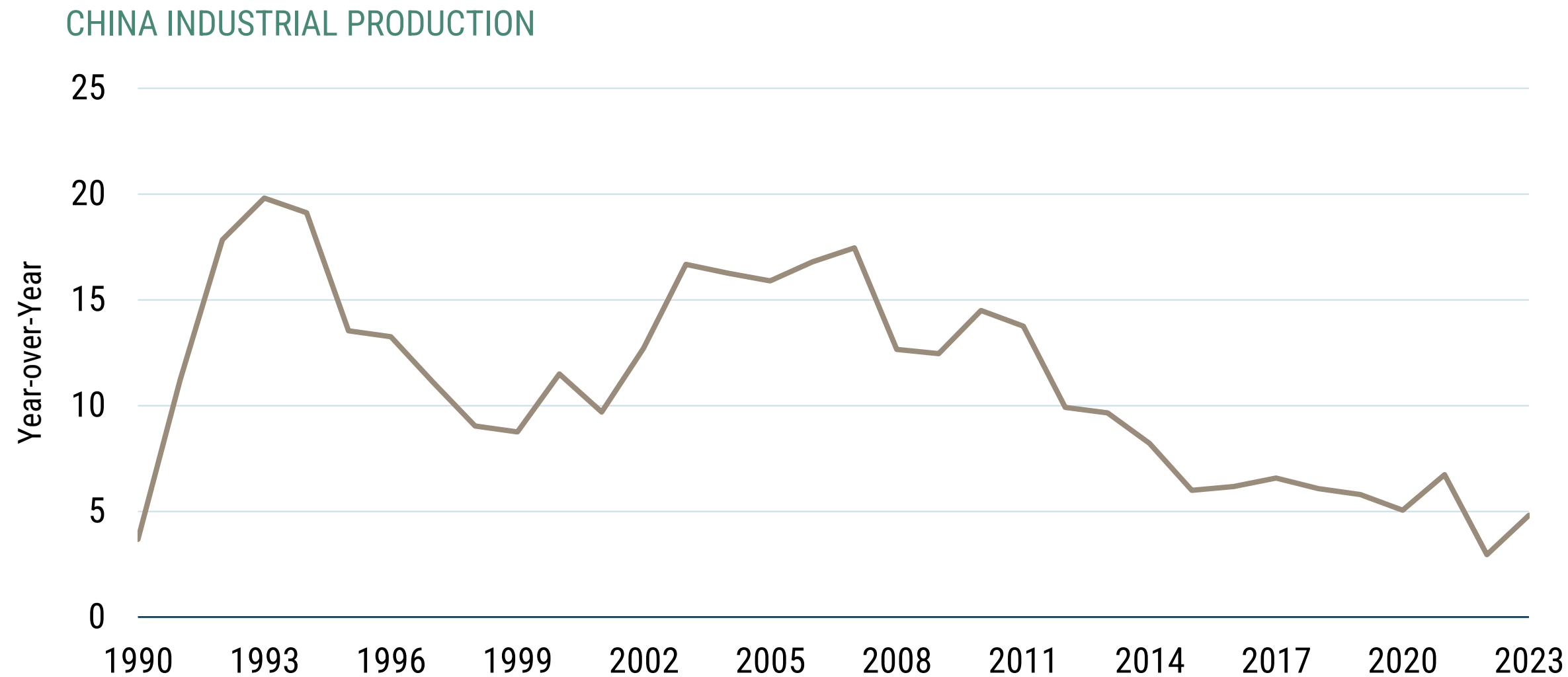
## CHINA CONSUMER CONFIDENCE



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

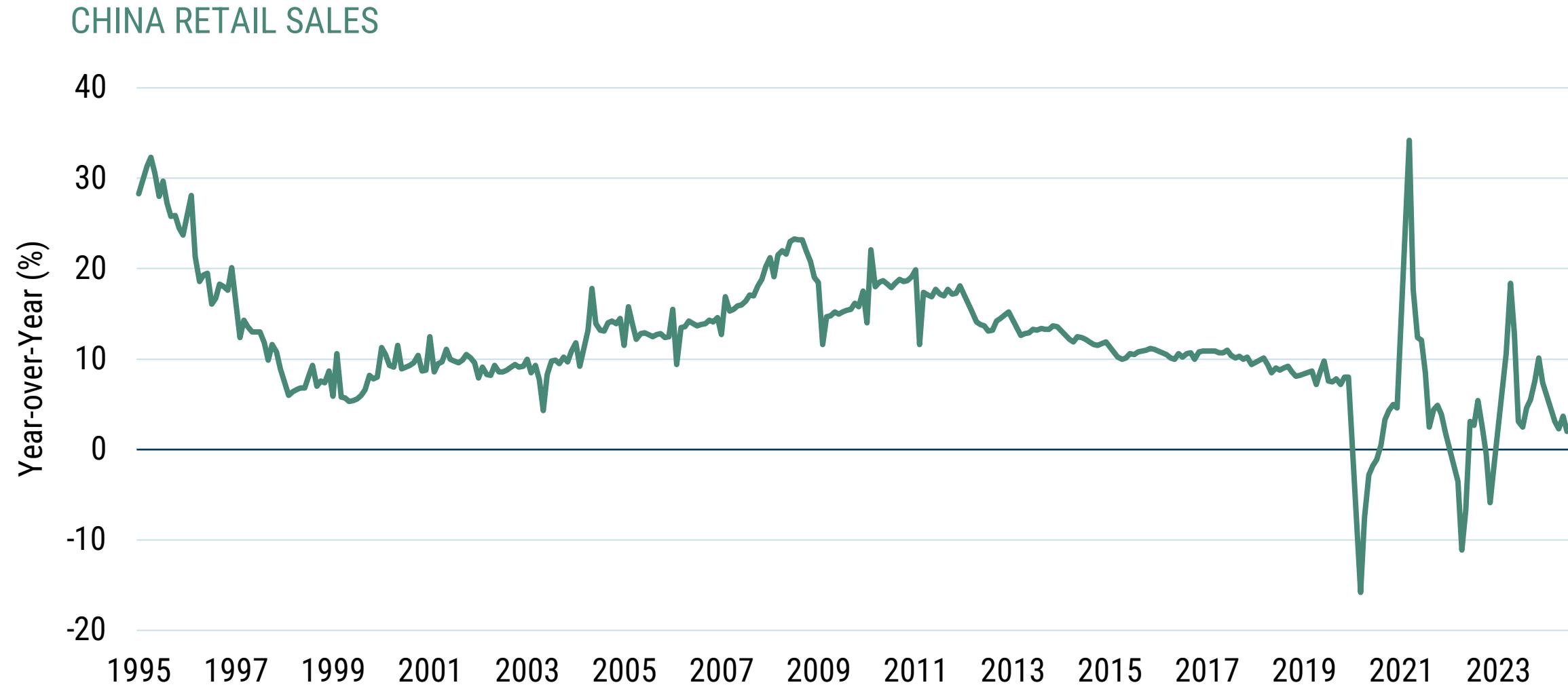
# CHINA'S ECONOMY HAS NOT REBOUNDED FROM THE PANDEMIC

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As of 12/31/23 | Source: Bloomberg

# CHINA'S ECONOMY HAS NOT REBOUNDED FROM THE PANDEMIC

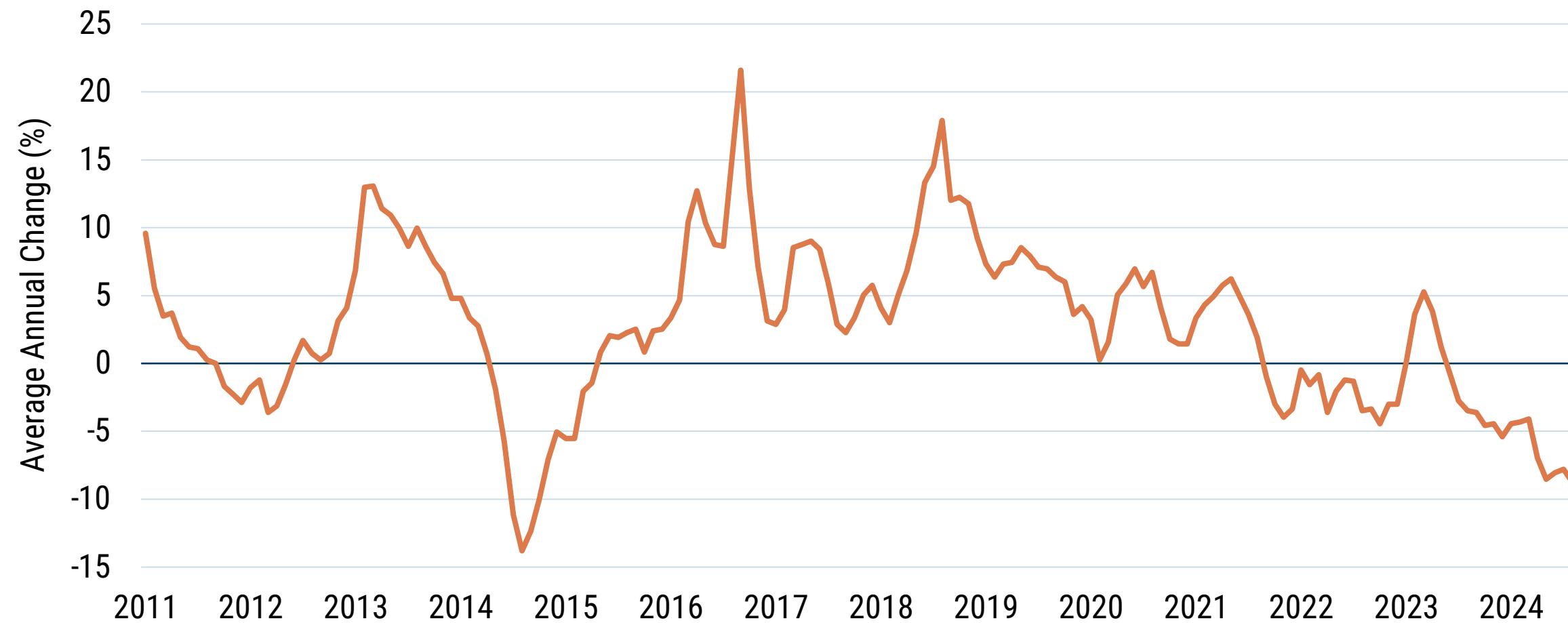


As of 8/31/24 | Source: Bureau of Statistics: China

# IT'S NOT JUST CYCLICAL...

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HOUSE PRICES FOR 70 CHINESE CITIES



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

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

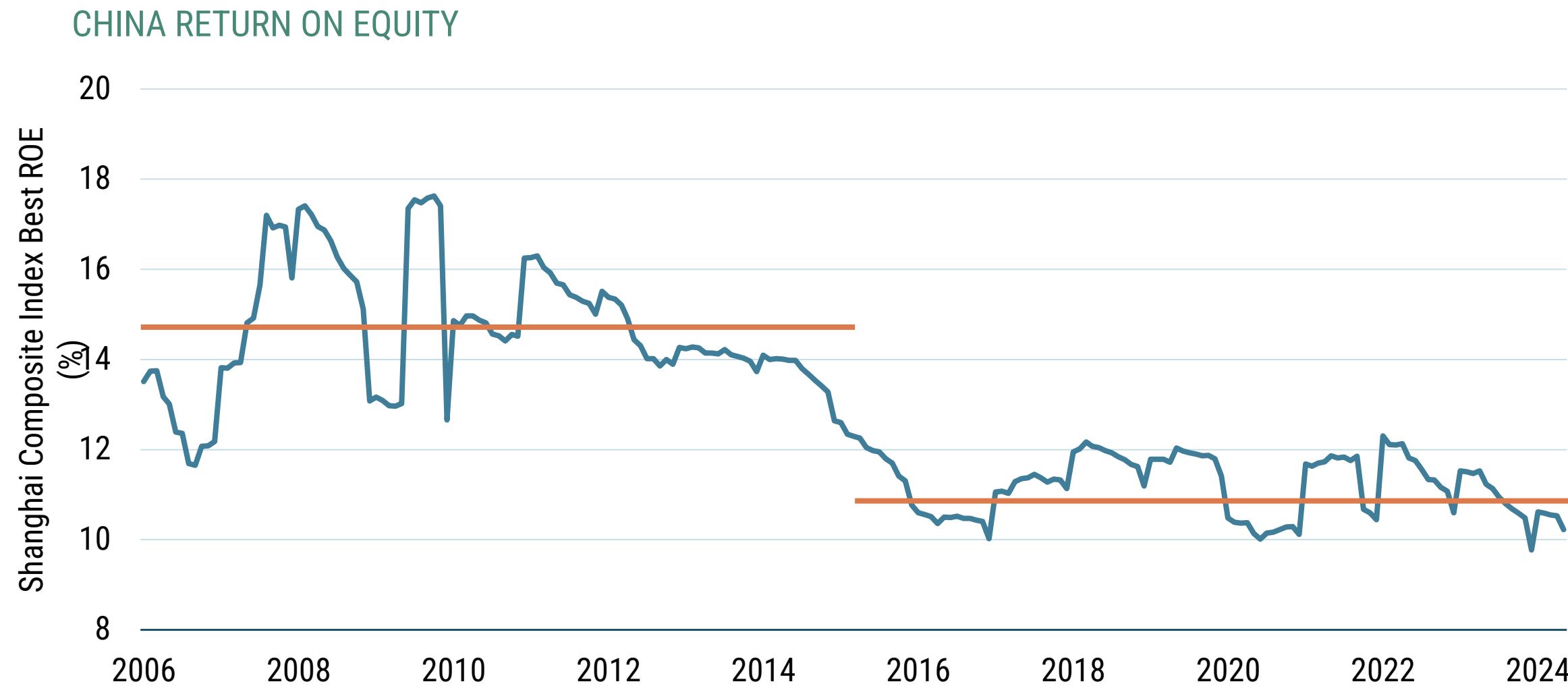
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As of 9/30/24 | Source: Bureau of Statistics: China

# IT'S NOT JUST SENTIMENT, BUT REALITY

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

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# AND MARKETS ARE NOT STUPID

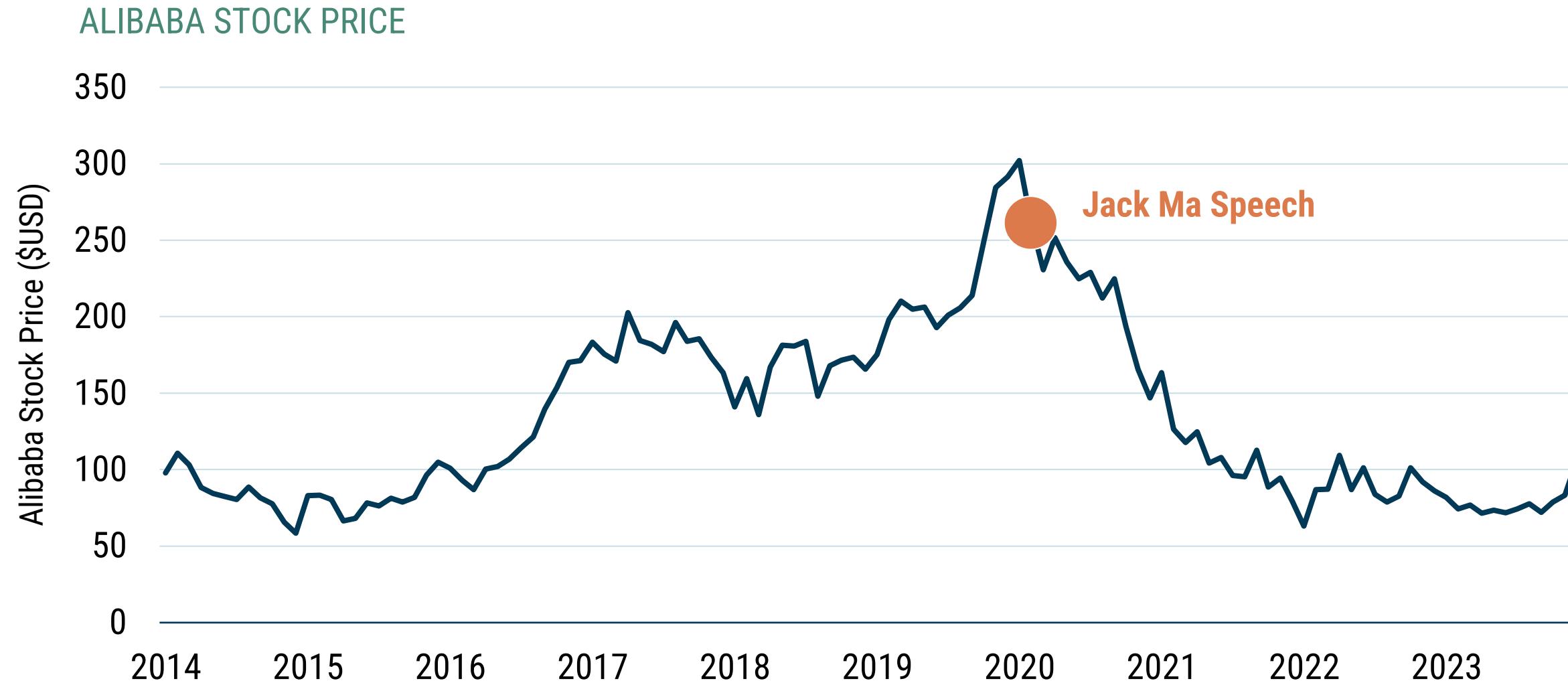
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As of 9/30/24 | Source: Bureau of Statistics: China, Bloomberg

# CASE STUDY: ALIBABA – KILLING THE GOLDEN GOOSE

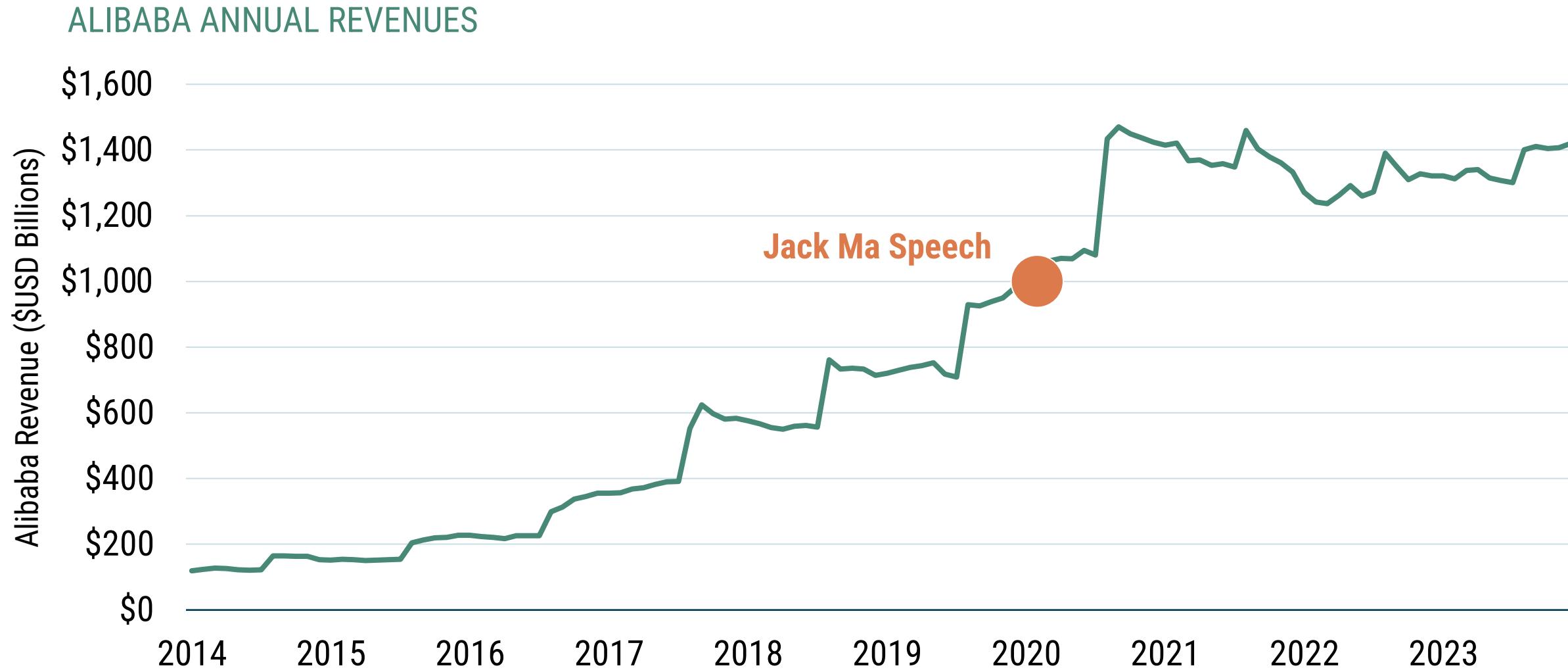
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As of 9/30/24 | Source: Bloomberg

# CASE STUDY: ALIBABA – KILLING THE GOLDEN GOOSE

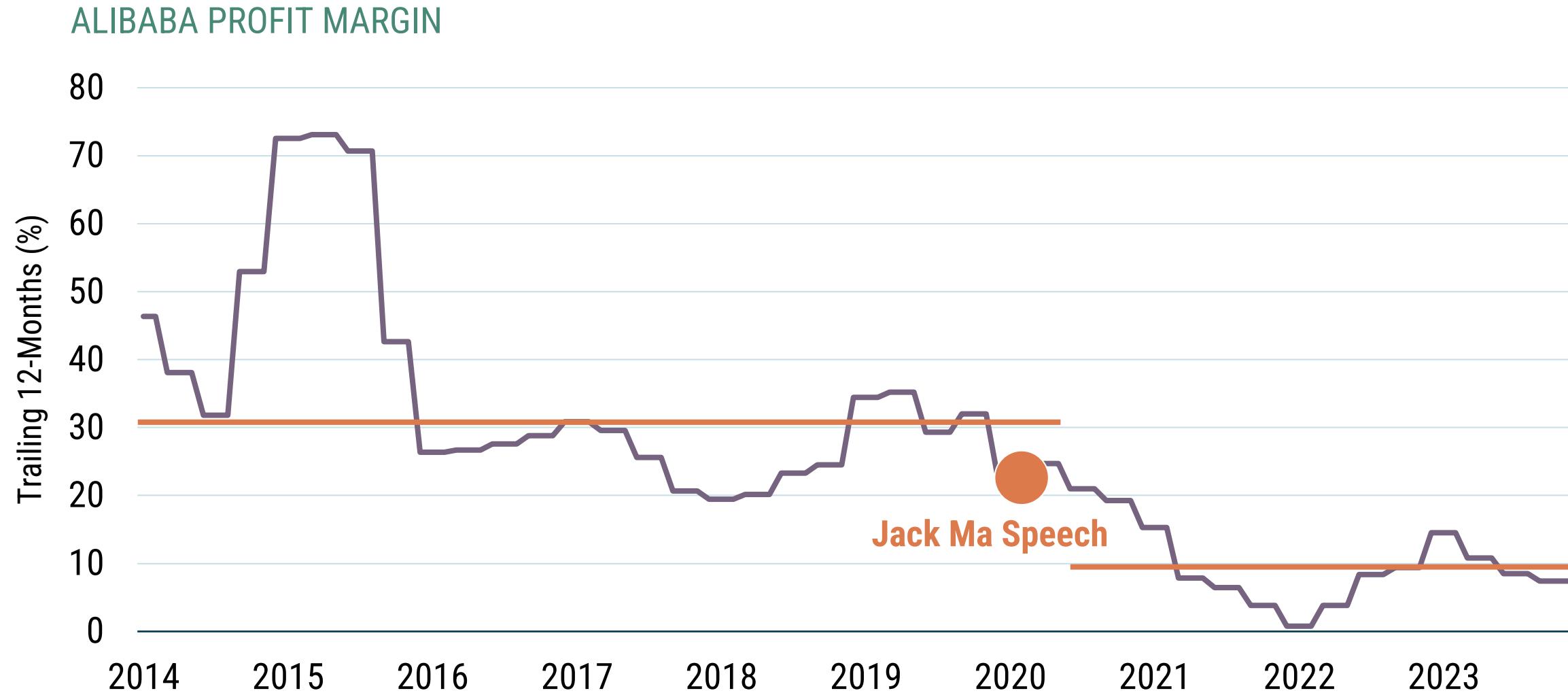
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As of 9/30/24 | Source: Bloomberg

# CASE STUDY: ALIBABA – KILLING THE GOLDEN GOOSE

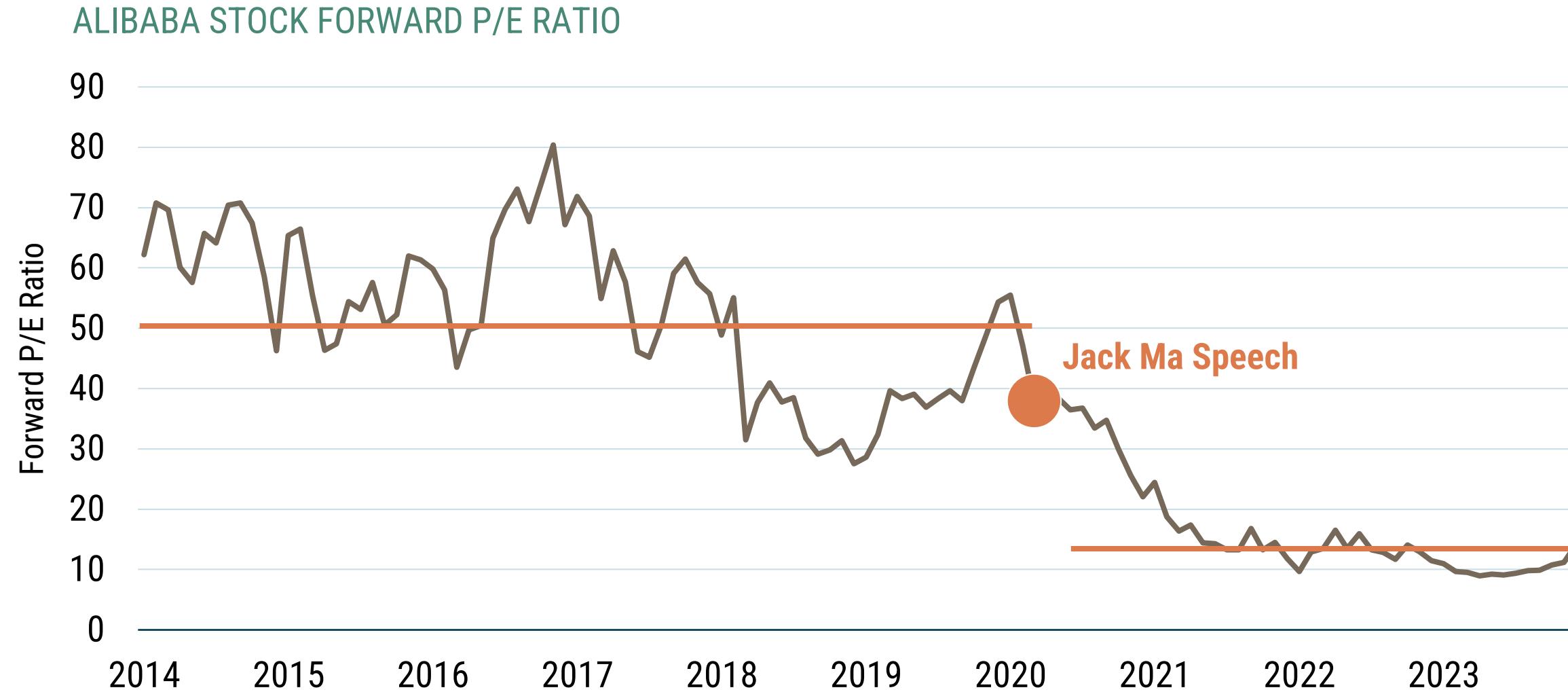
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As of 9/30/24 | Source: Bloomberg

# CASE STUDY: ALIBABA – KILLING THE GOLDEN GOOSE

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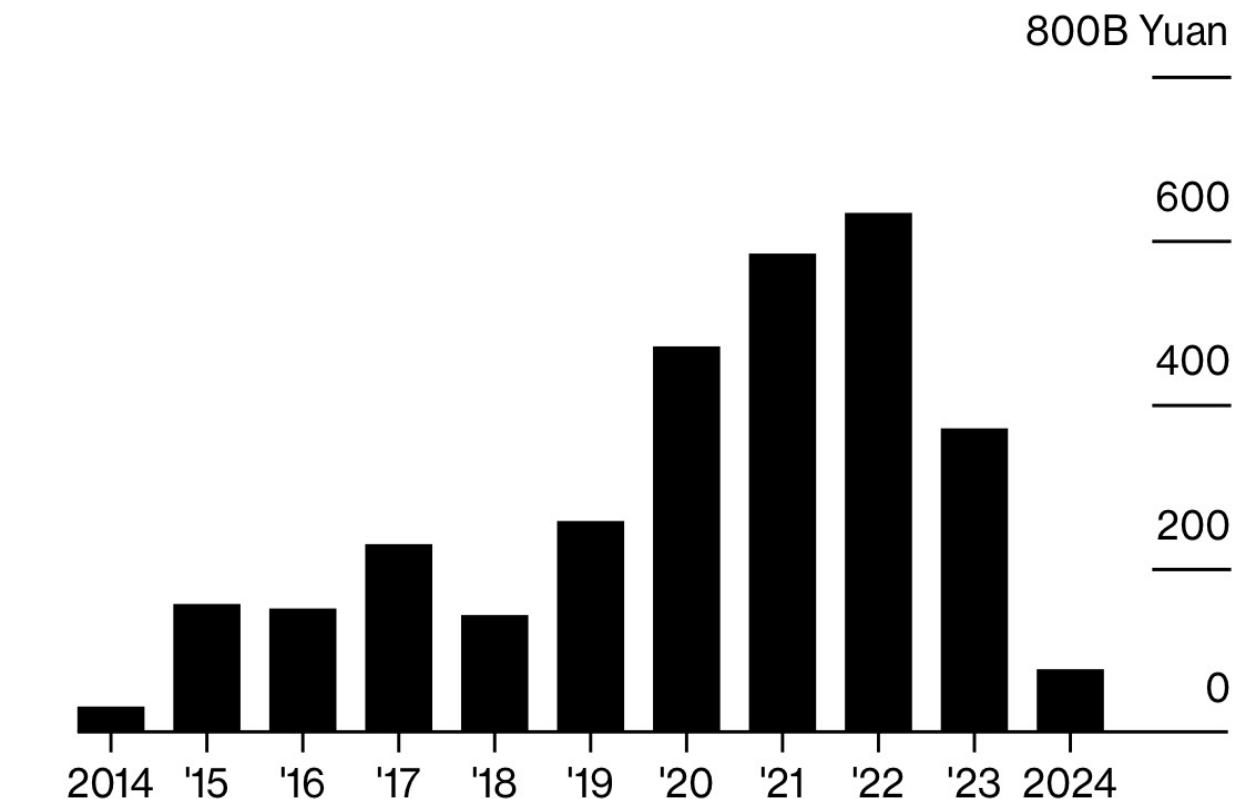


As of 9/30/24 | Source: Bloomberg

# 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

Aggregate amounts in \$bn

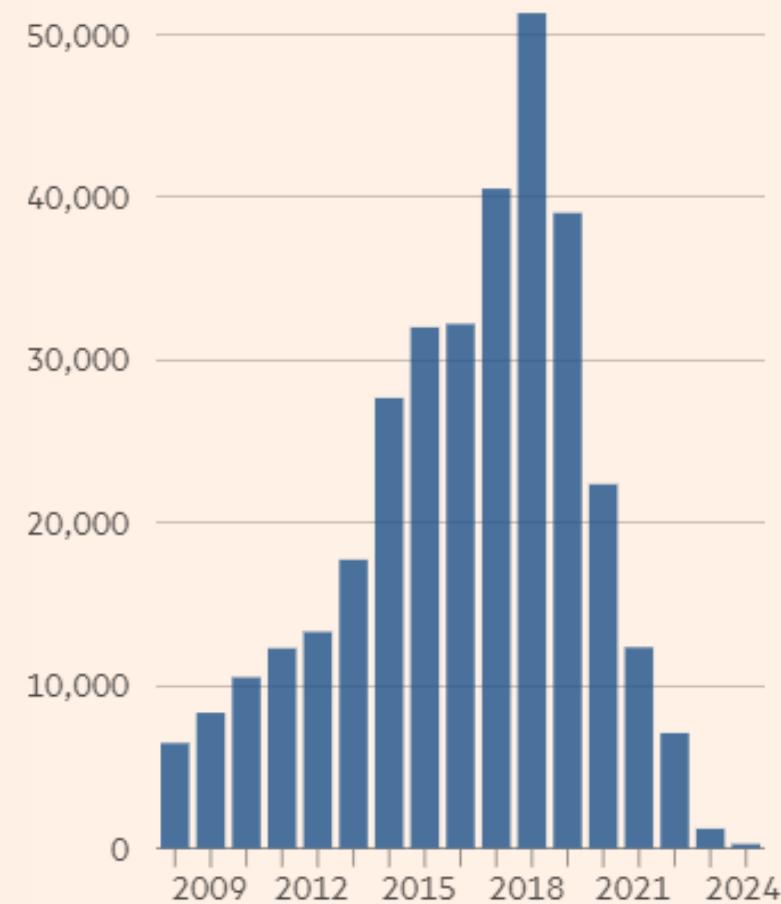
Dollar-denominated funds  
Rmb-denominated funds



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

Companies founded



## FINANCIAL TIMES

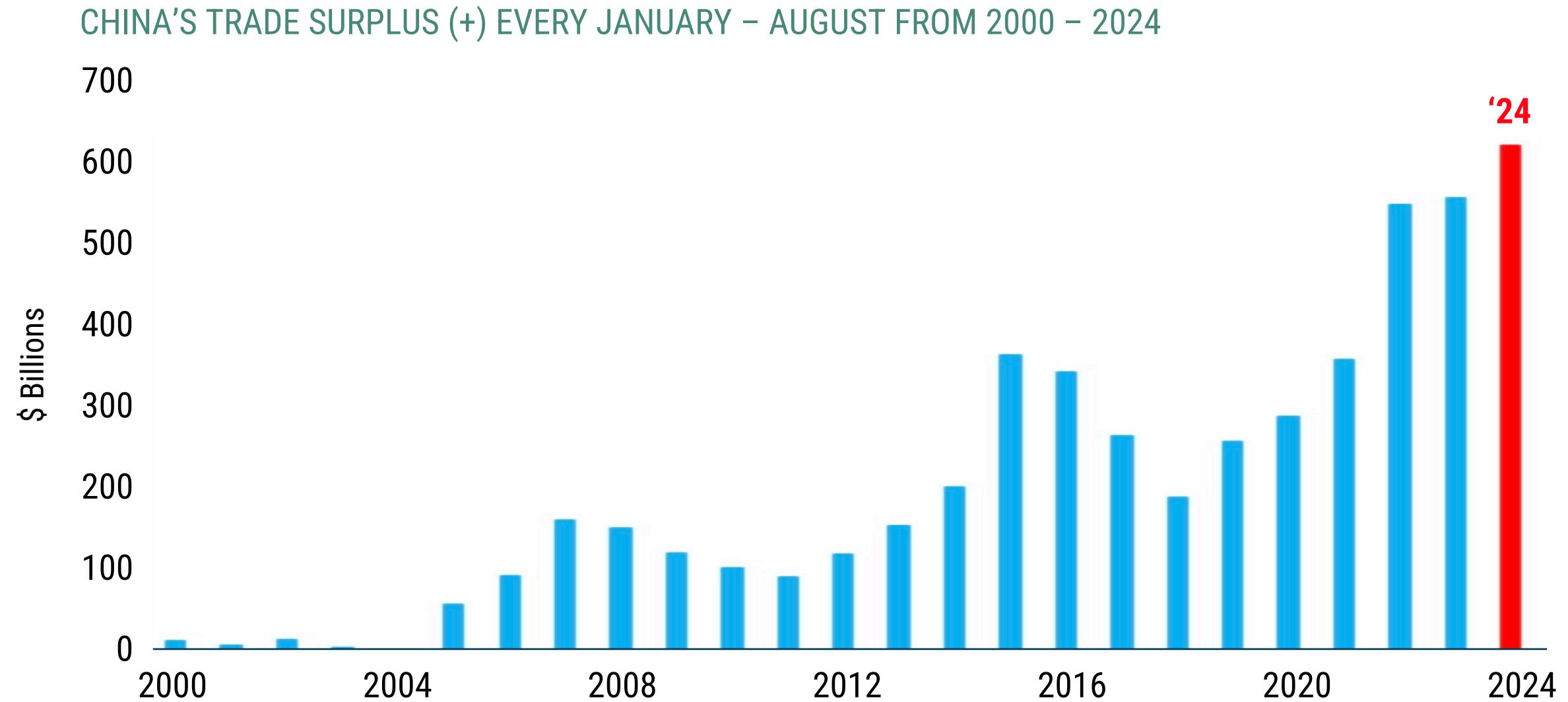
The downbeat mood is reflected in the statistics. In 2018, at the height of VC investment, 51,302 start-ups were founded in China, according to data provider IT Juzi. By 2023, that figure had collapsed to 1,202 and is on track to be even lower this year.

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

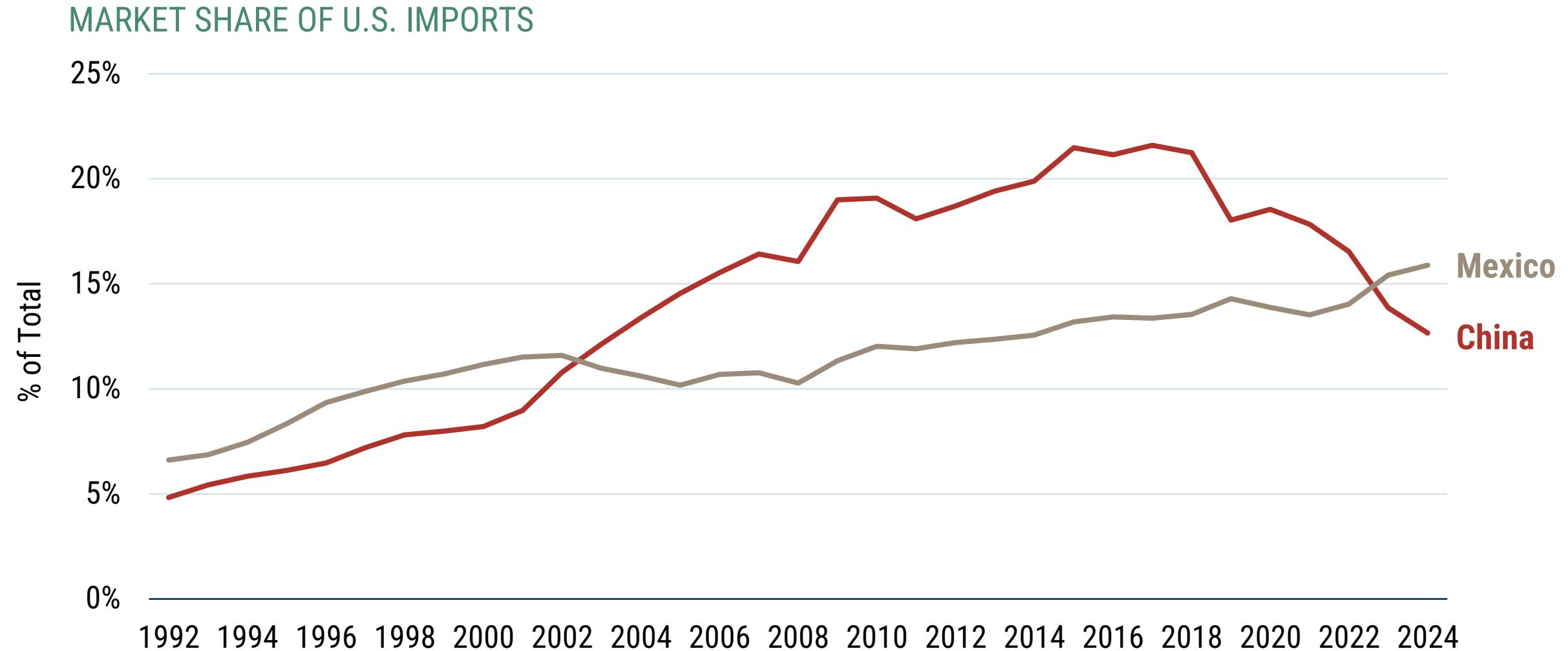
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Source: China Customs

# BUT NOT TO THE U.S.

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

# WHAT'S THE STORY BEHIND THE MALAISE?

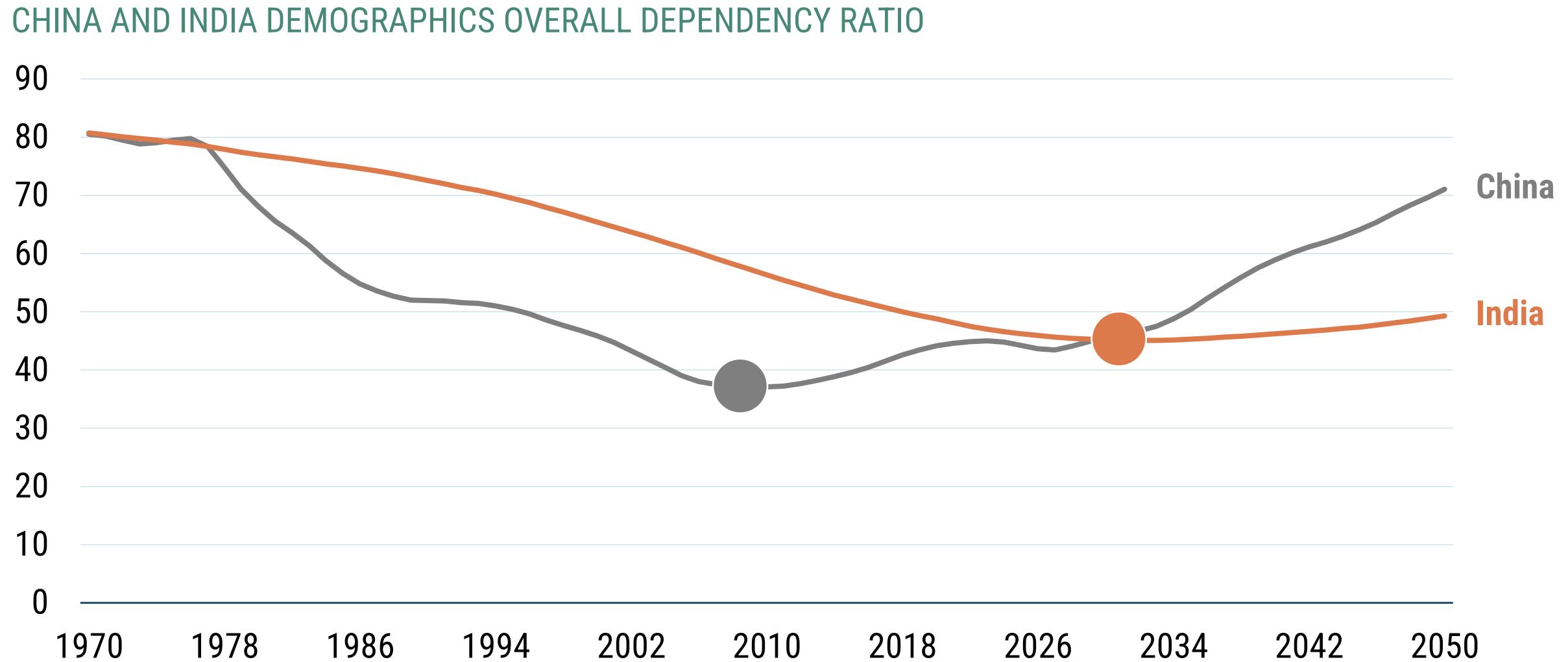
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Let's look at why China succeeded from 1978 – 2014, and what's changed now?

- **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

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Source: United Nations

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

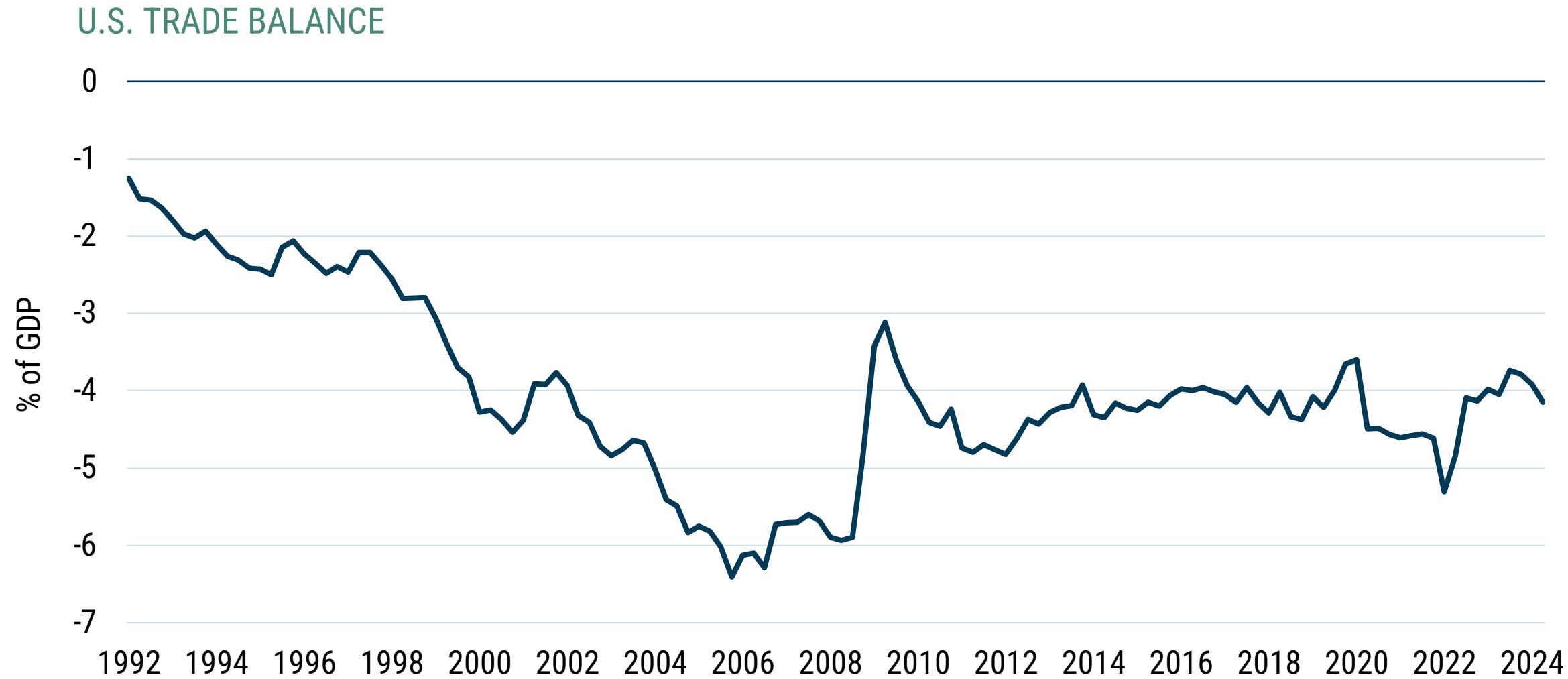
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	China	Mexico	Vietnam	India	Korea	Taiwan	Thailand	Europe
China Peak, 2018	21.59	13.24	1.98	2.07	2.95	1.80	1.31	18.63
March 2024	11.46	15.91	3.81	2.90	4.44	4.97	2.01	20.89
Percent of Peak	53%	120%	192%	140%	151%	276%	153%	112%
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As of 8/31/23 | Source: Federal Reserve Bank, GMO

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

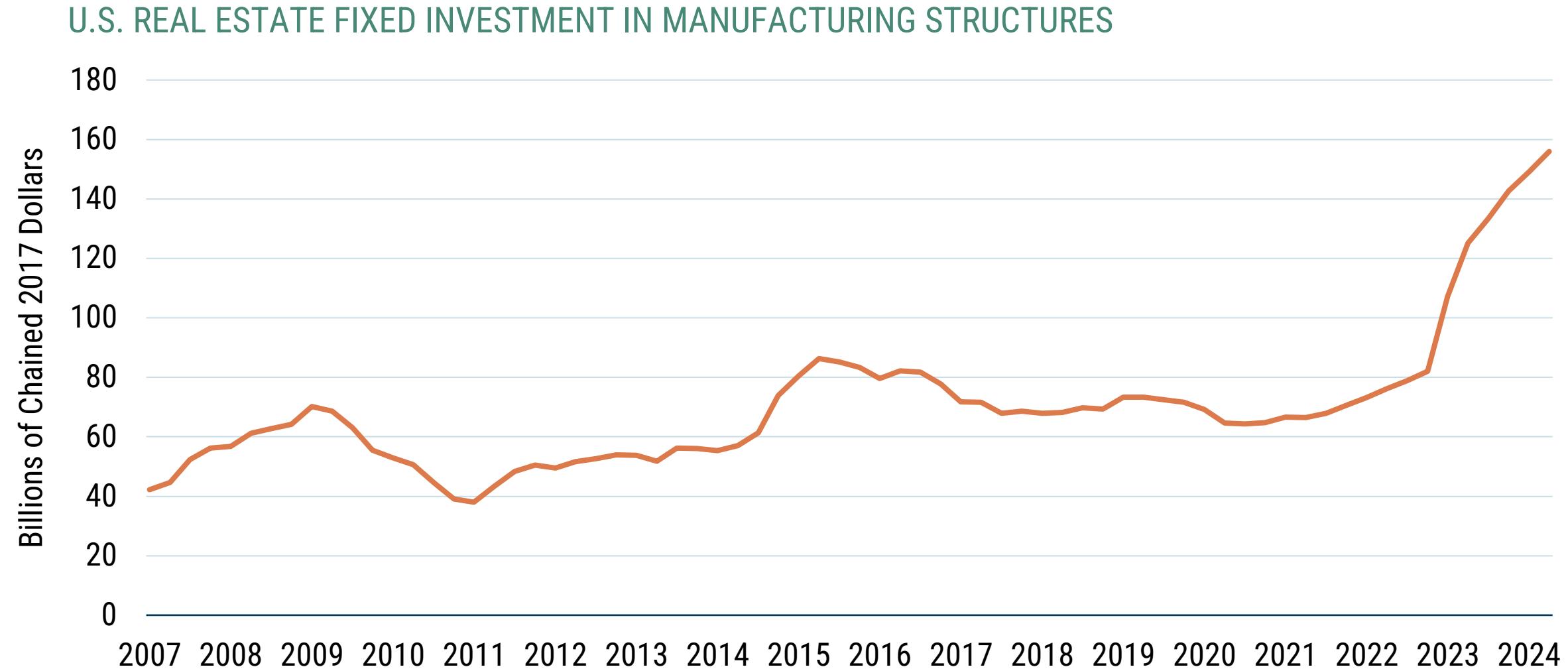
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As of 4/30/24 | Source: U.S. Federal Reserve

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

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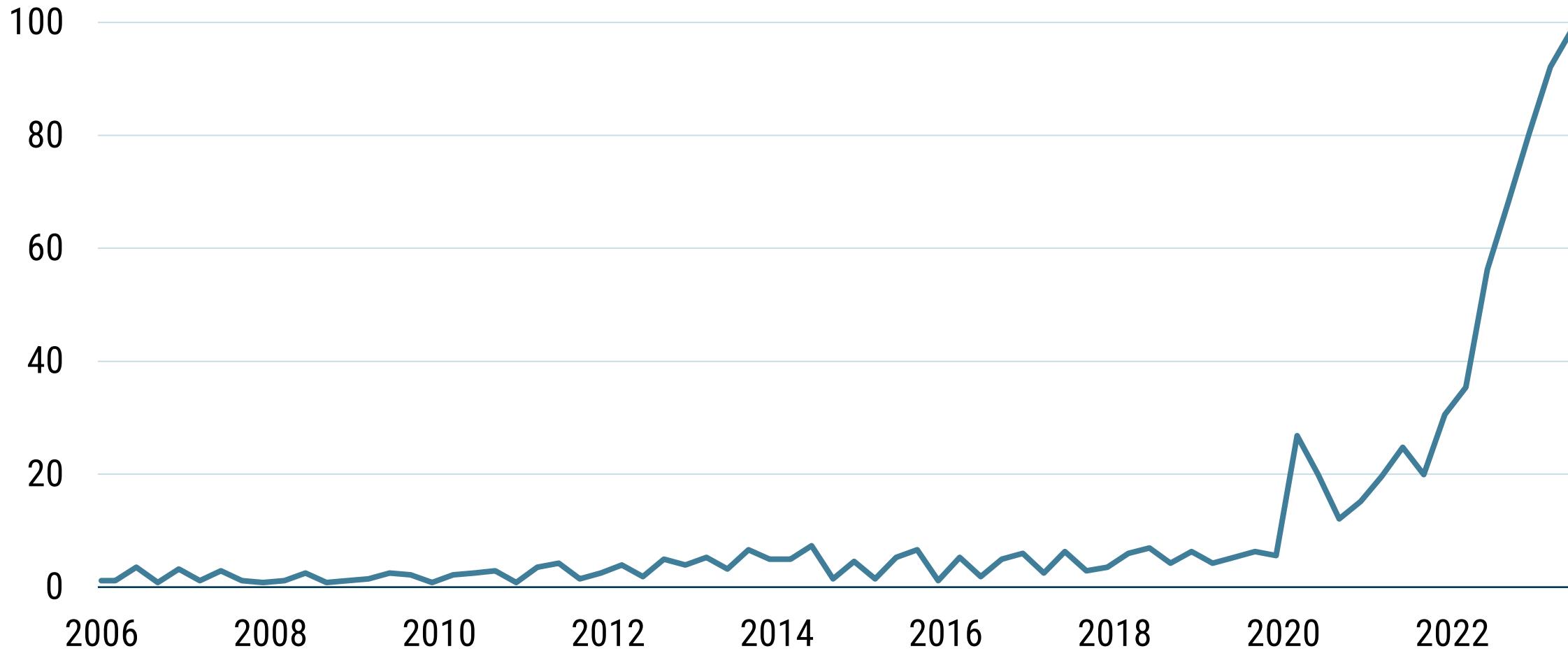


As of 4/30/24 | Source: U.S. Federal Reserve  
Data is quarterly, seasonally adjusted annual rate.

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

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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?



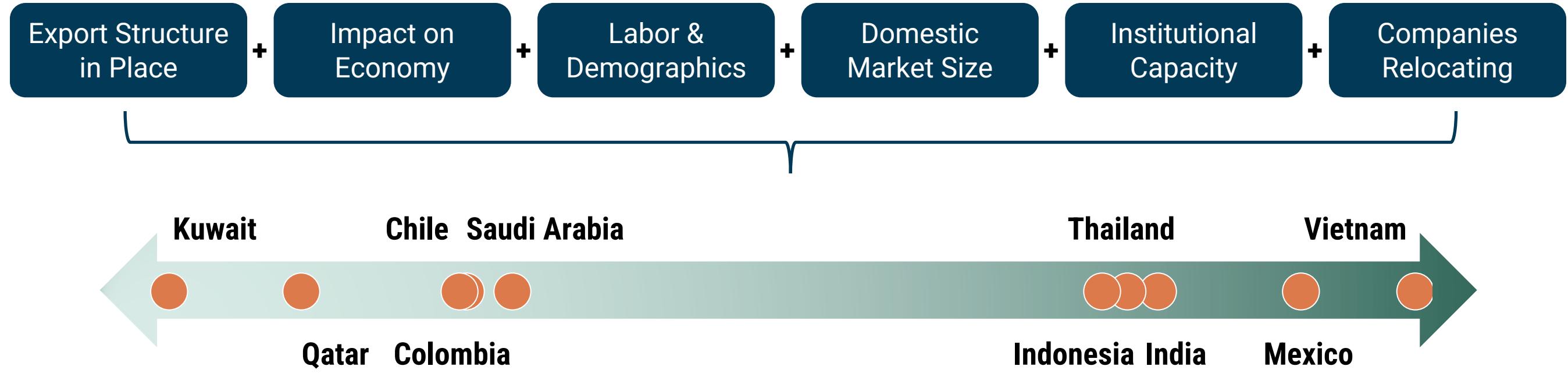
## Impact on Economy

## Export Structure in Place

## Labor and Demographics

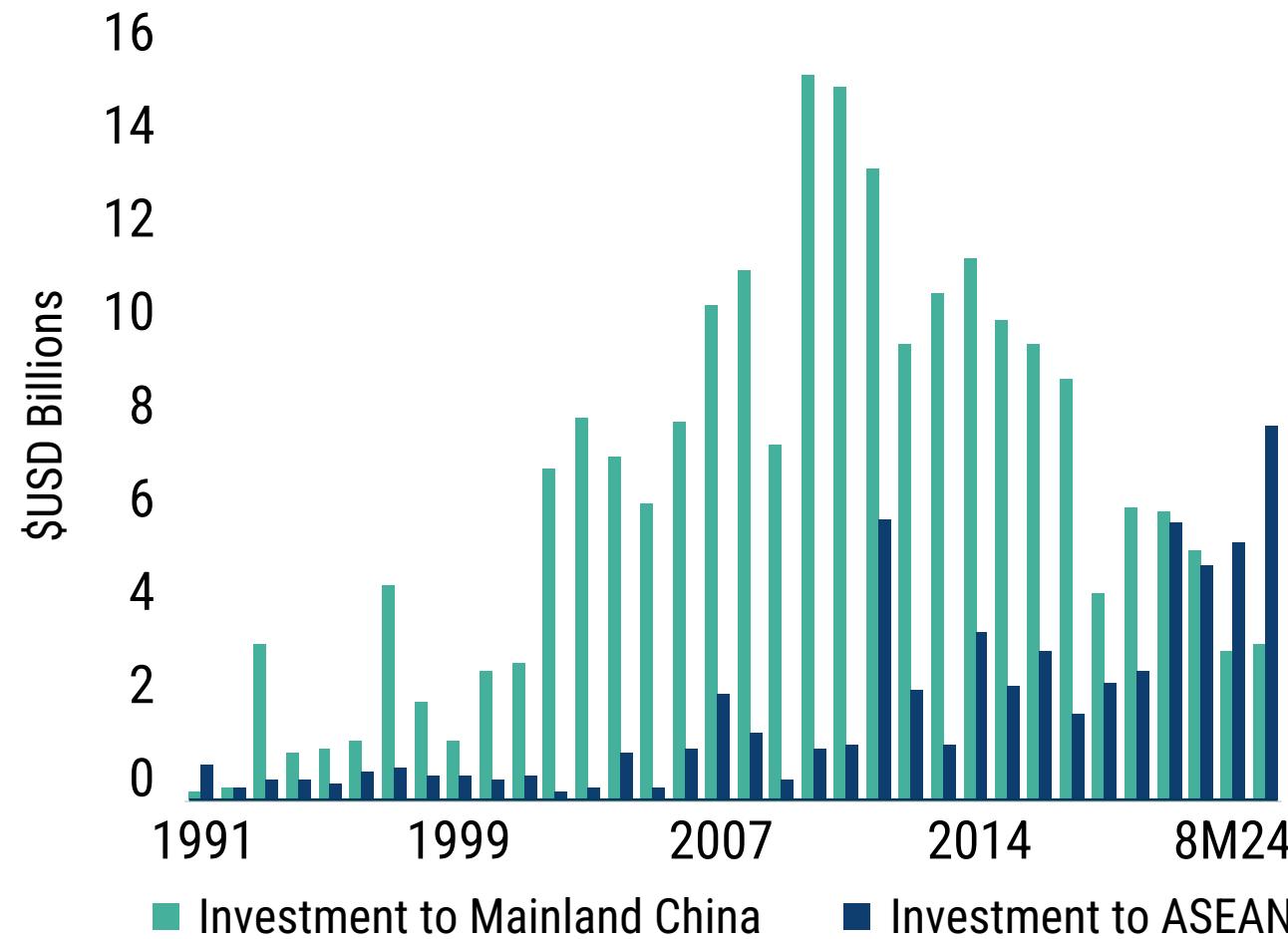
## Institutional Capacity

# SO, WHO'S BENEFITING FROM THIS MOVE?

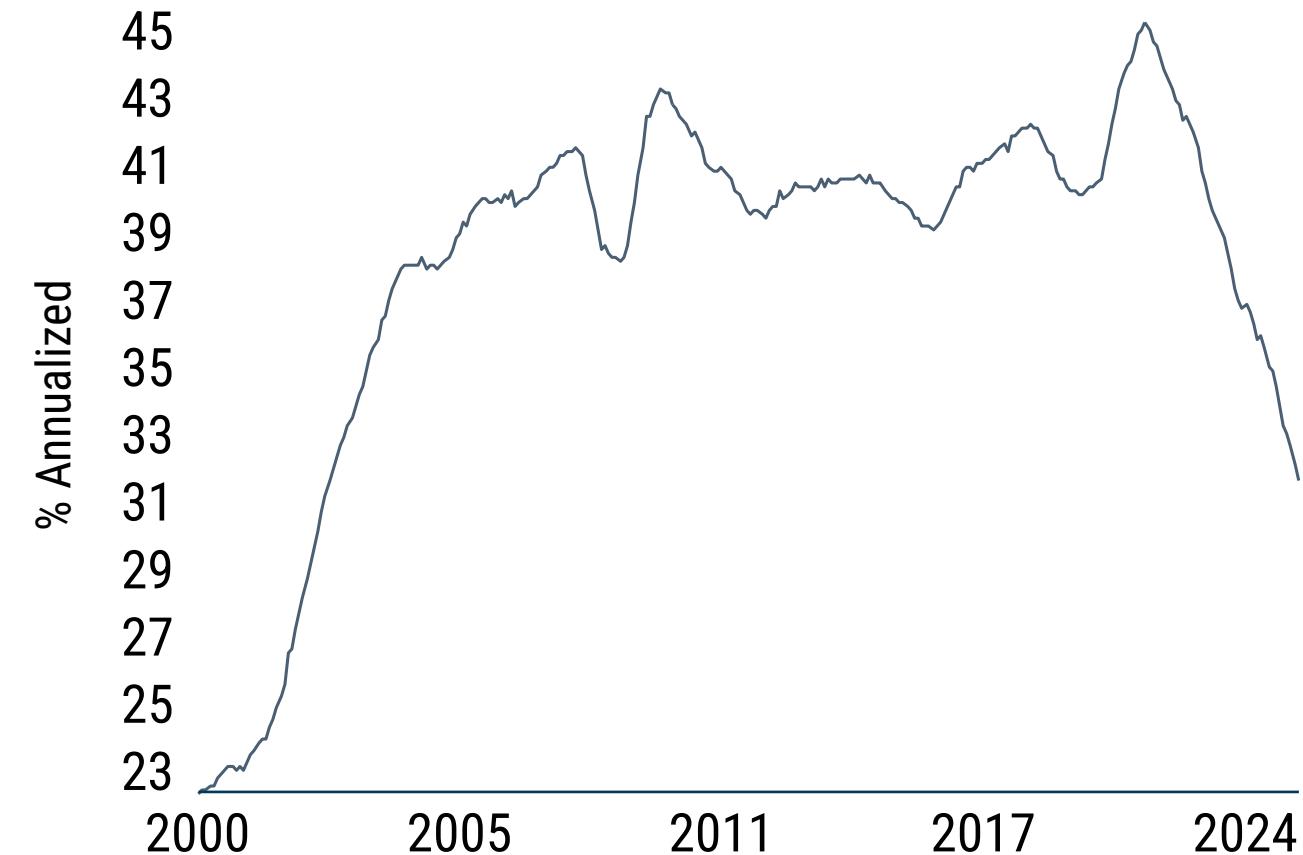


# TAIWAN TECH IS SHIFTING AWAY FROM CHINA

TAIWAN APPROVED OUTWARD INVESTMENTS  
TO MAINLAND CHINA AND ASEAN



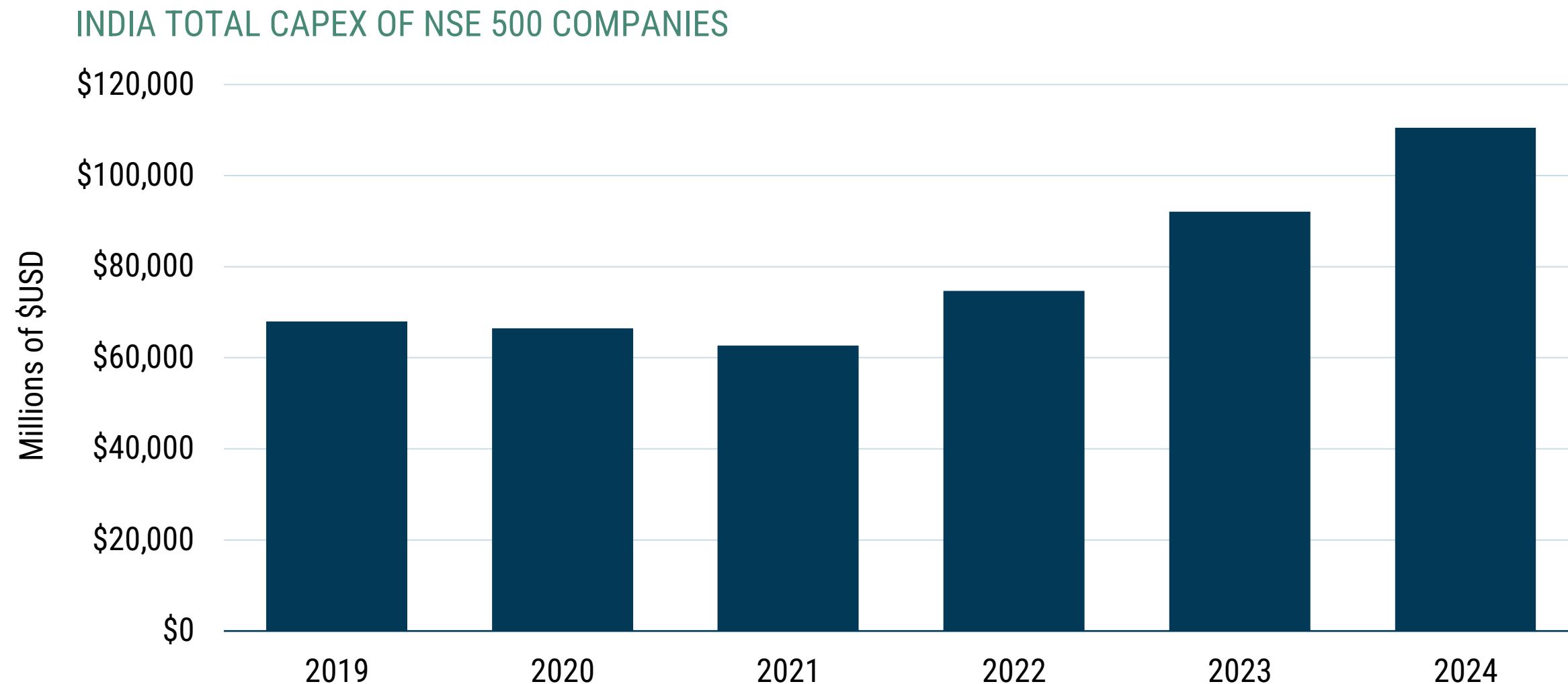
CHINA/HONG KONG AS PERCENTAGE  
OF TAIWAN'S TOTAL EXPORTS



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

# SO, WHO'S BENEFITING FROM THIS MOVE?

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Source: Capitaline

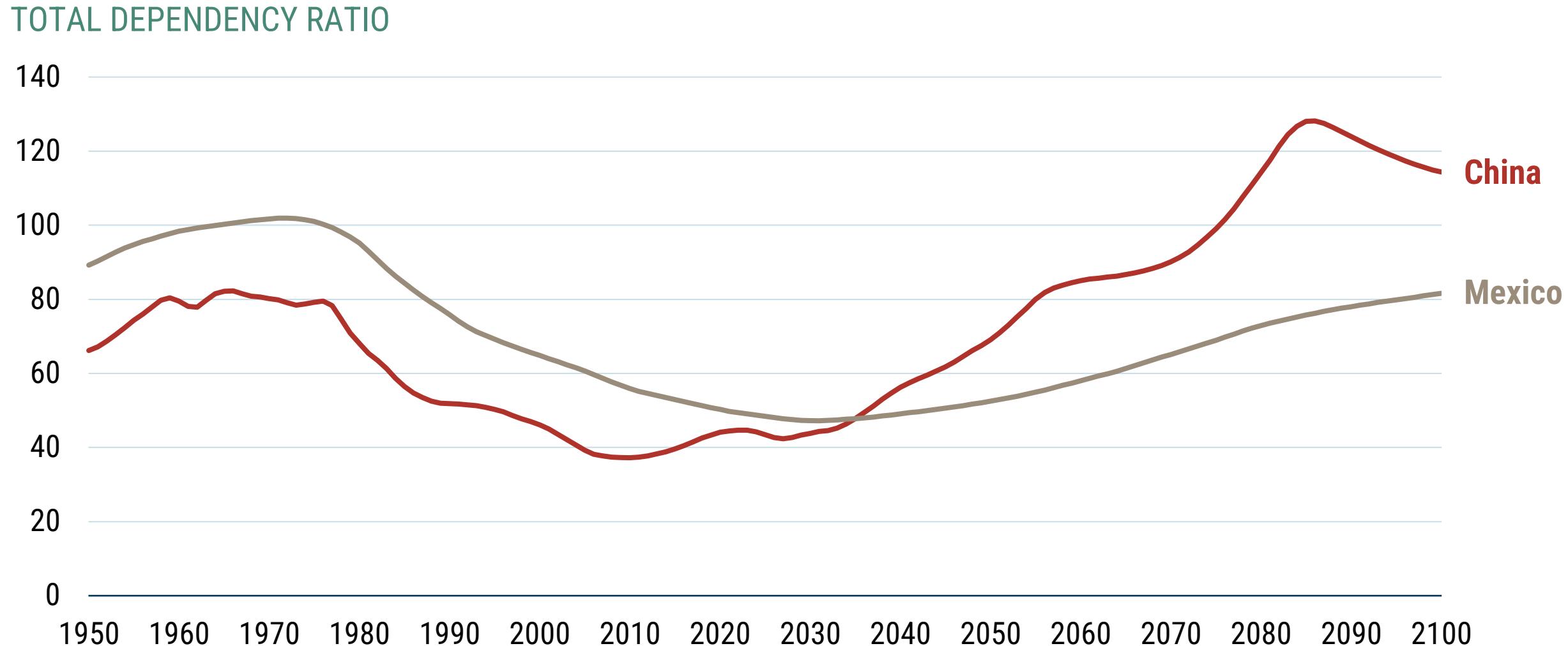
# INDIA IS INVESTING IN INFRASTRUCTURE

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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

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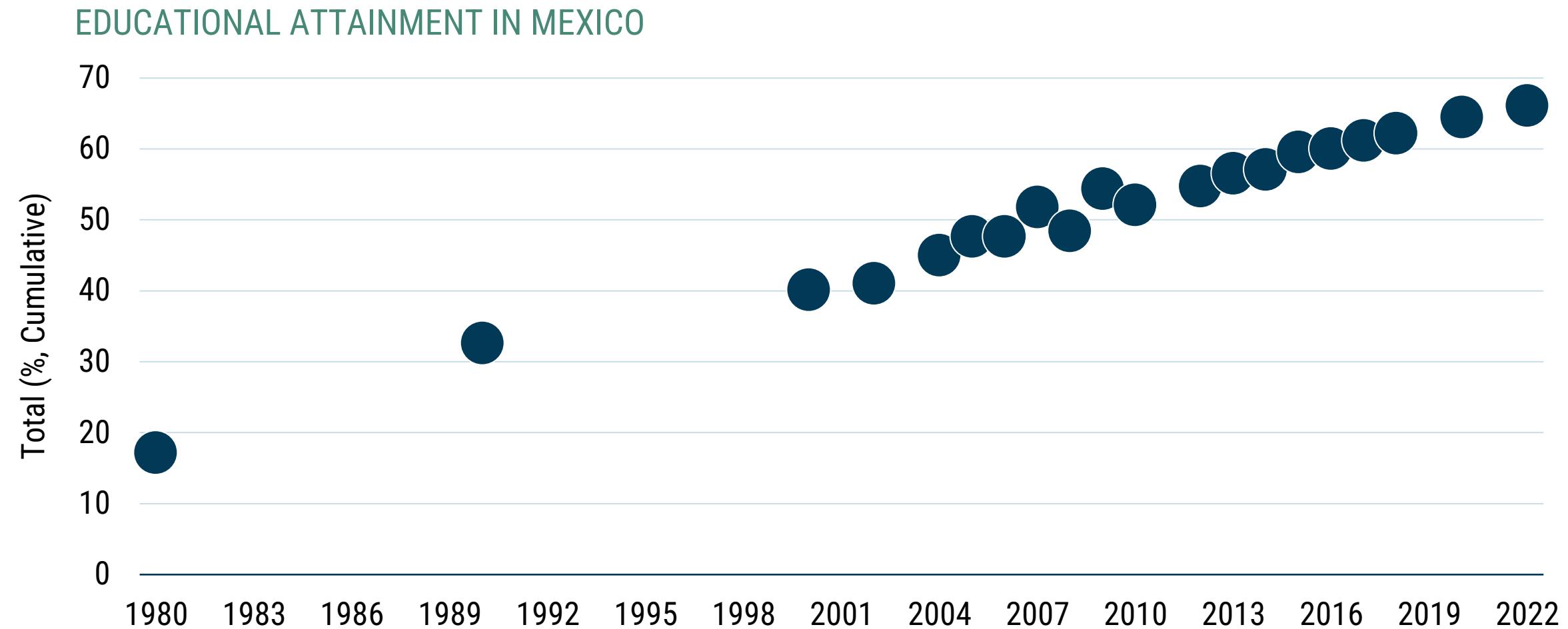


Source: United Nations

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

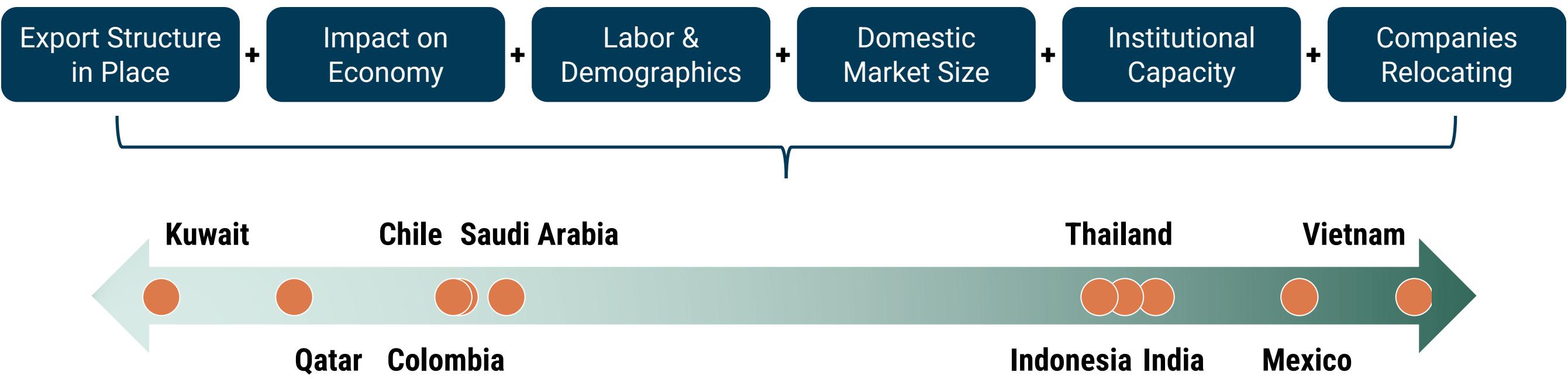


As of 6/30/24 | Source: World Development Indicators

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

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## 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

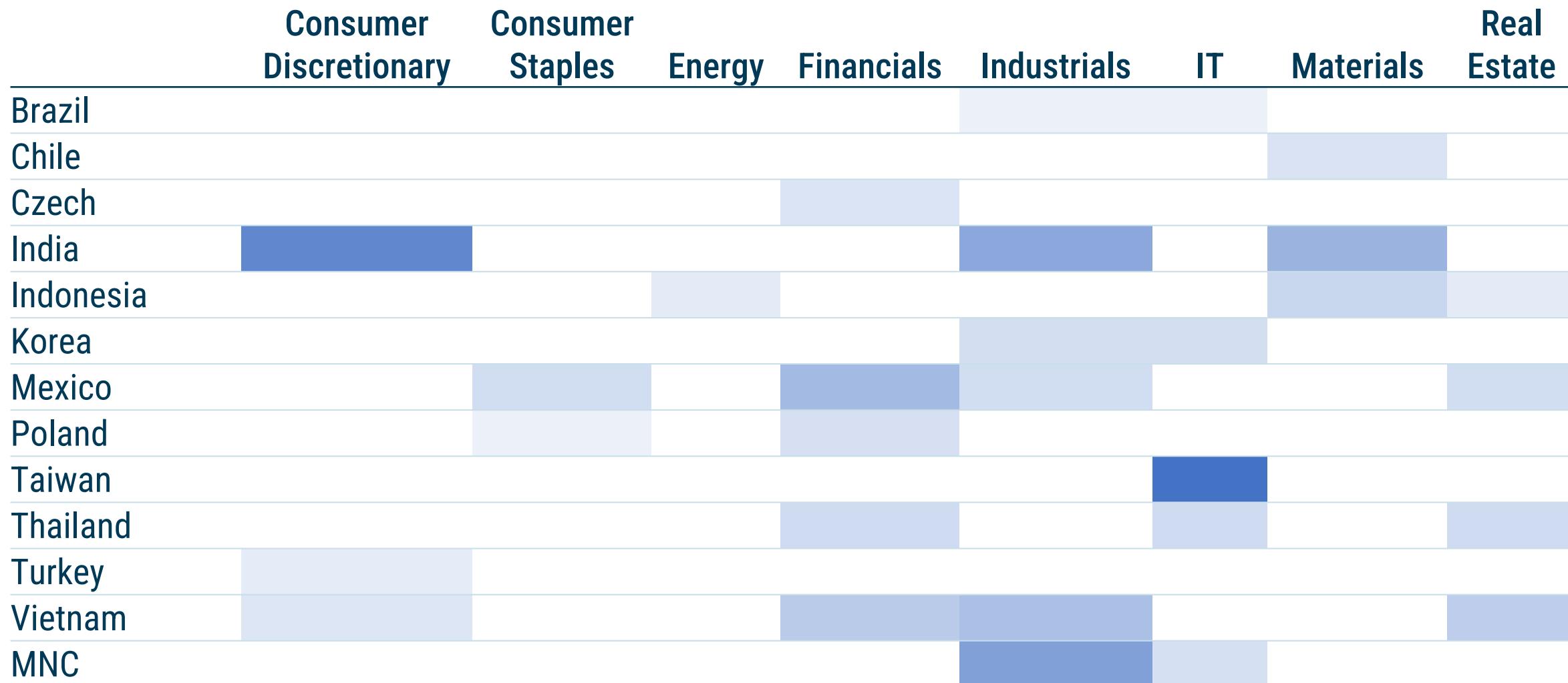
### Shift in Global EV & Renewables Supply Chain

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



As of 3/31/23 | Source: GMO

# GMO BEYOND CHINA INVESTMENT STRATEGY

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- 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

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P/E MULTIPLES HAVE NOT CHANGED

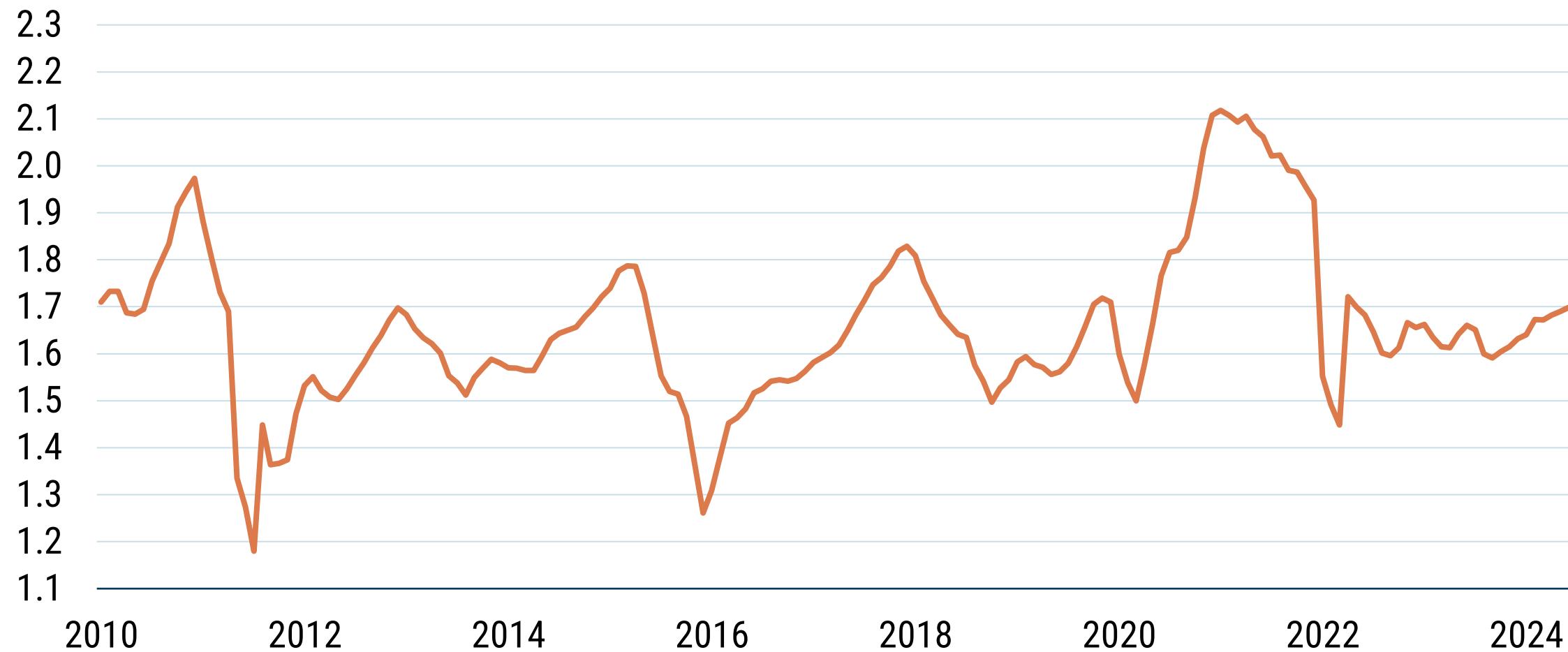


As of 8/31/24 | Source: MSCI, GMO

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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

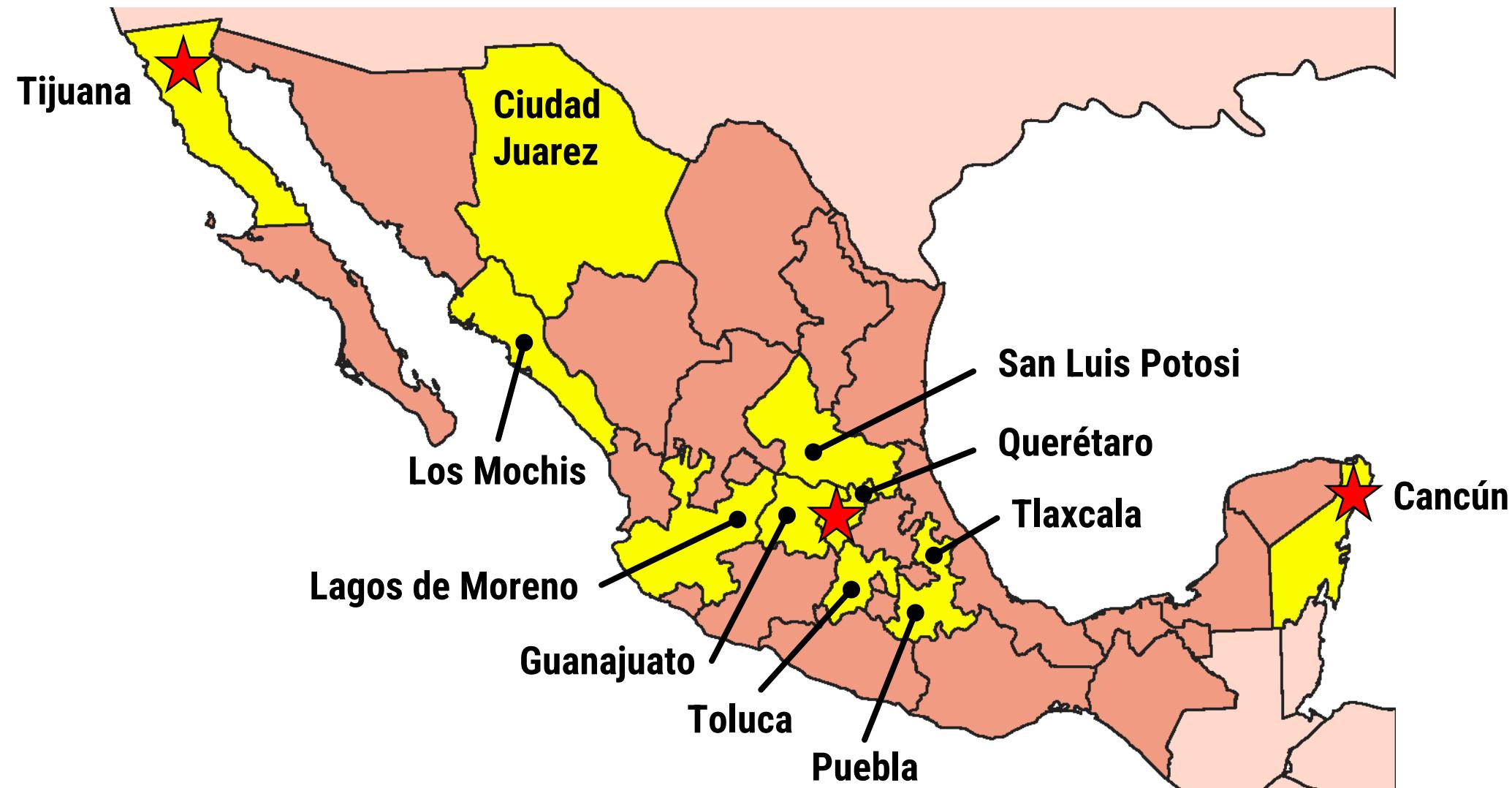
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Vesta is a fully integrated real estate owner, operator, and developer. It has one of the largest and most modern industrial portfolios in Mexico.

# MEXICO REAL ESTATE EXAMPLE: VESTA

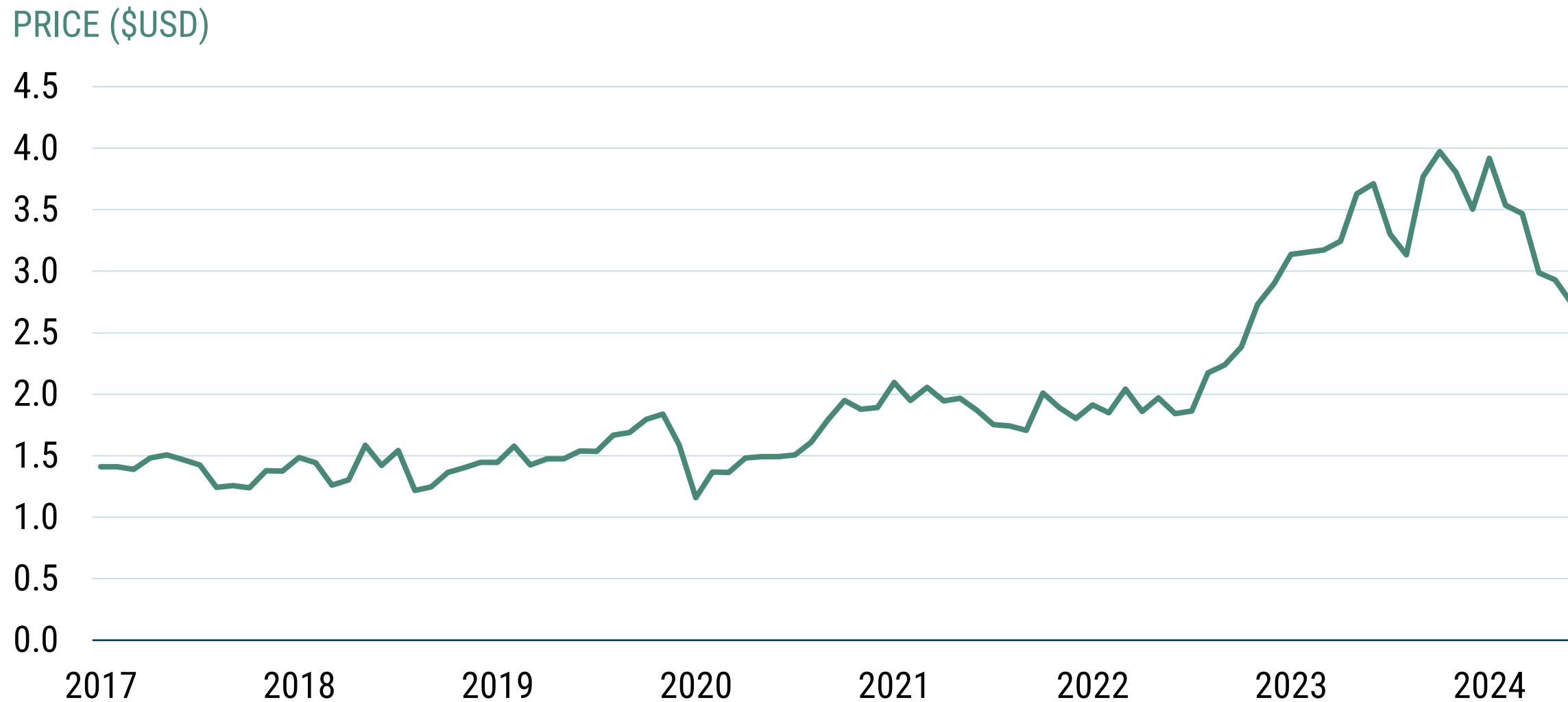
## Selected distribution of Vesta's industrial properties



Source: [vesta.com.mx](http://vesta.com.mx)

# MEXICO REAL ESTATE EXAMPLE: VESTA

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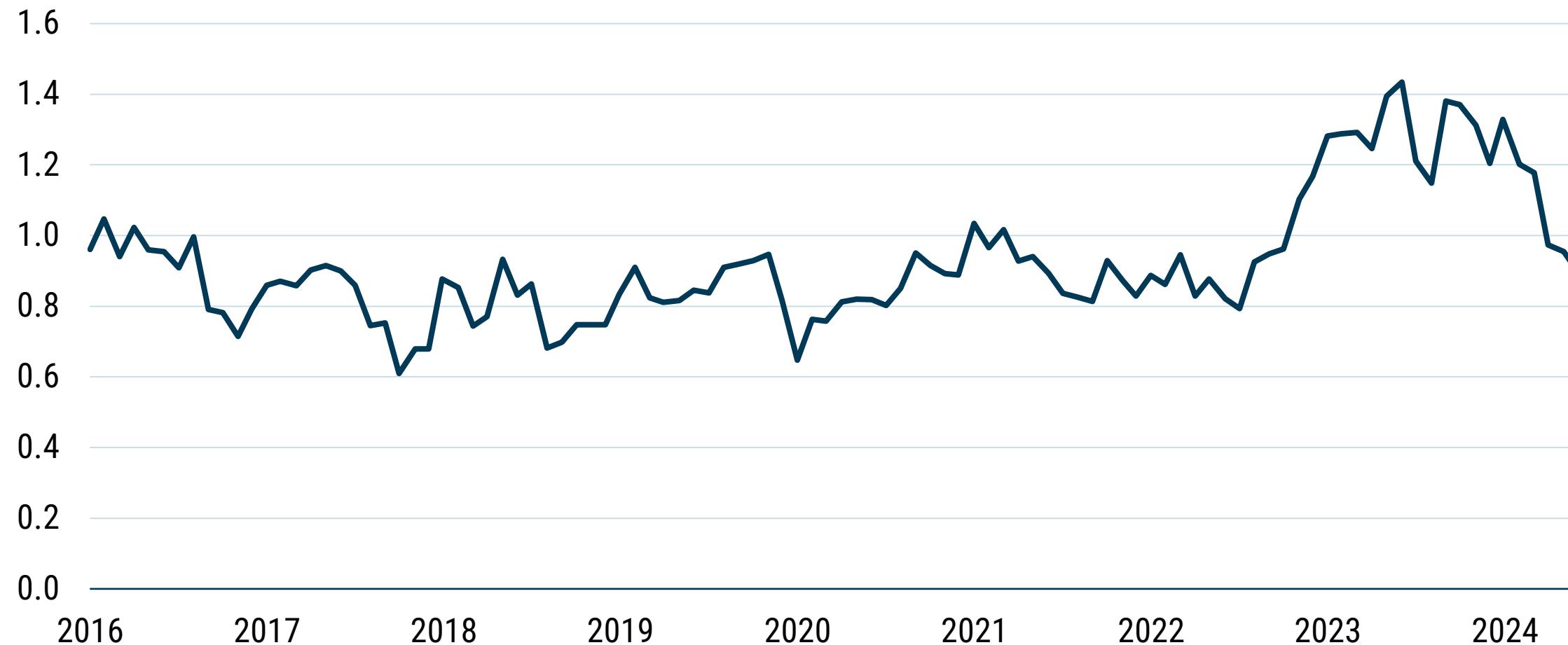


As of 8/31/24 | Source: Bloomberg

# MEXICO REAL ESTATE EXAMPLE: VESTA

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PRICE-TO-NET ASSET VALUE PER SHARE

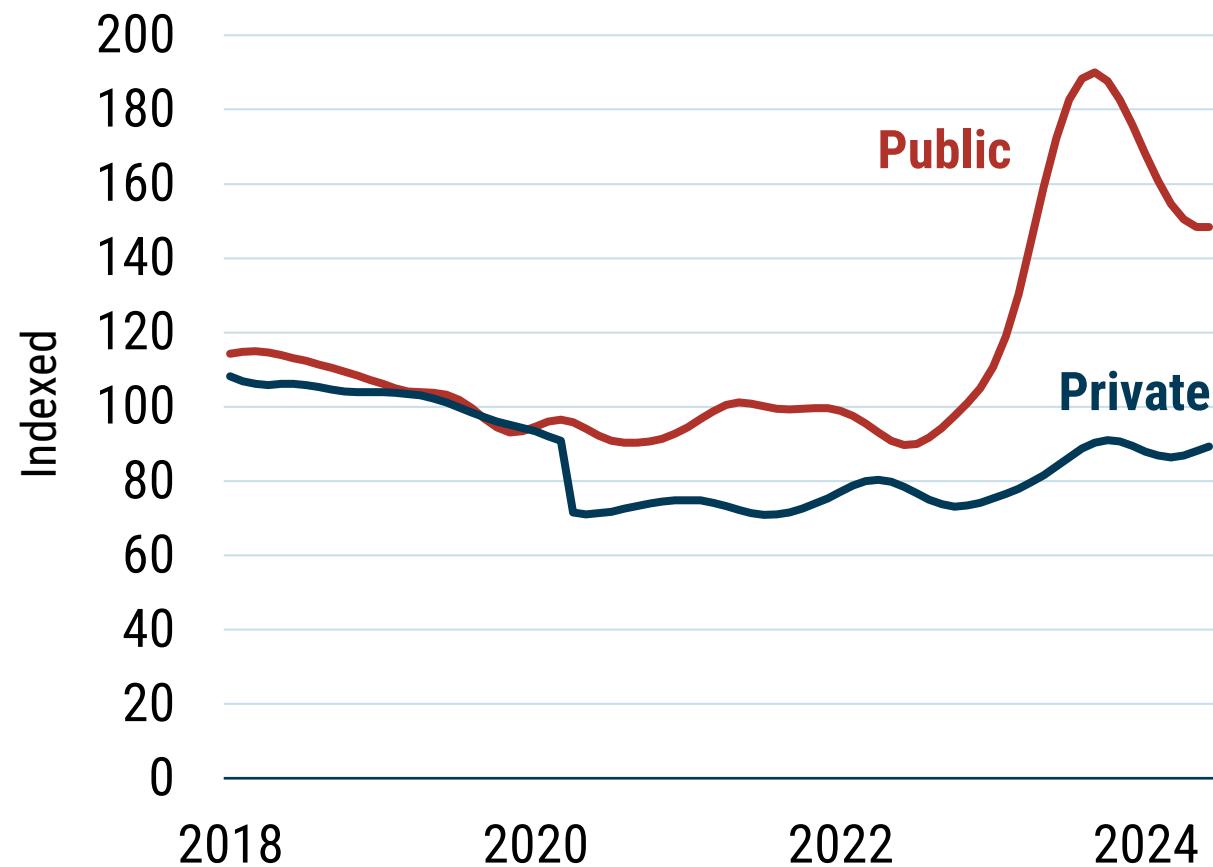


As of 8/31/24 | Source: Bloomberg

# MEXICO IS GEARING UP

Private construction is growing at 20% already

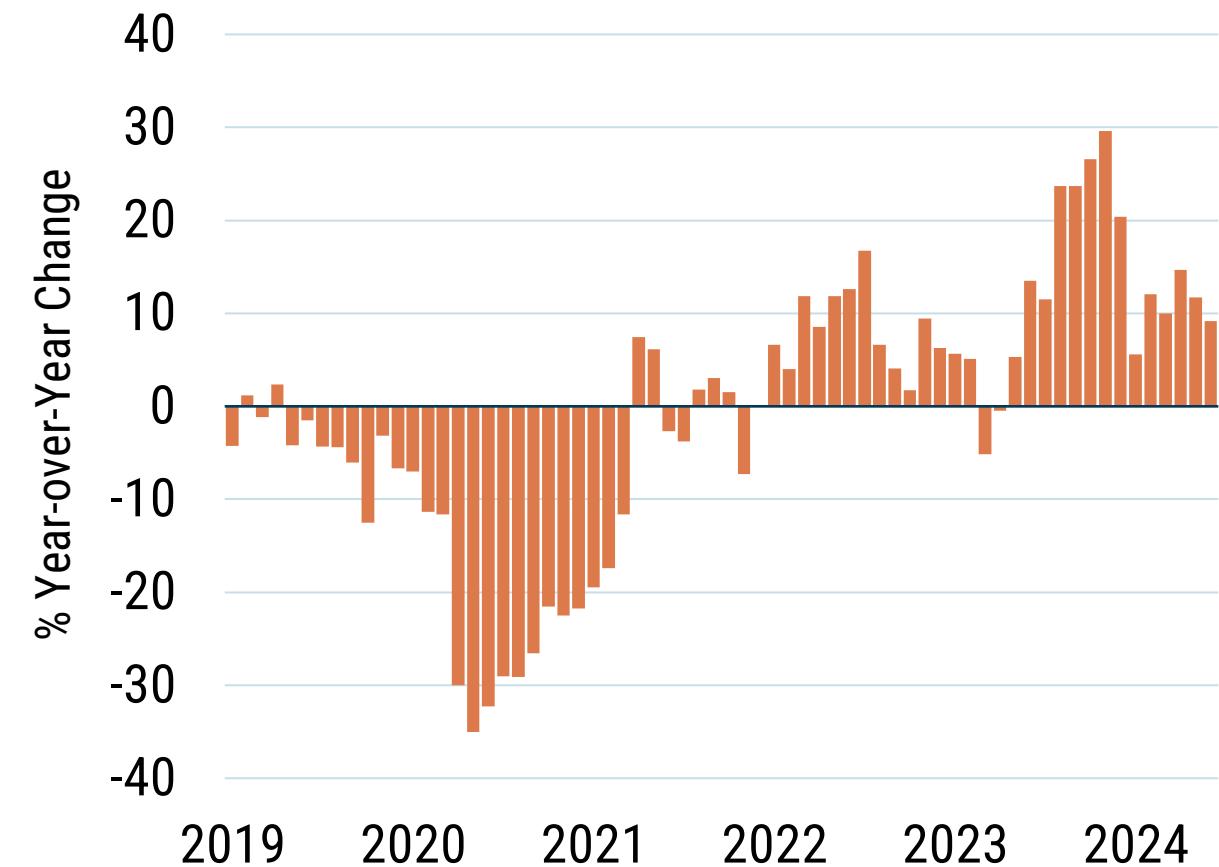
MEXICO INVESTMENT IN CONSTRUCTION



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

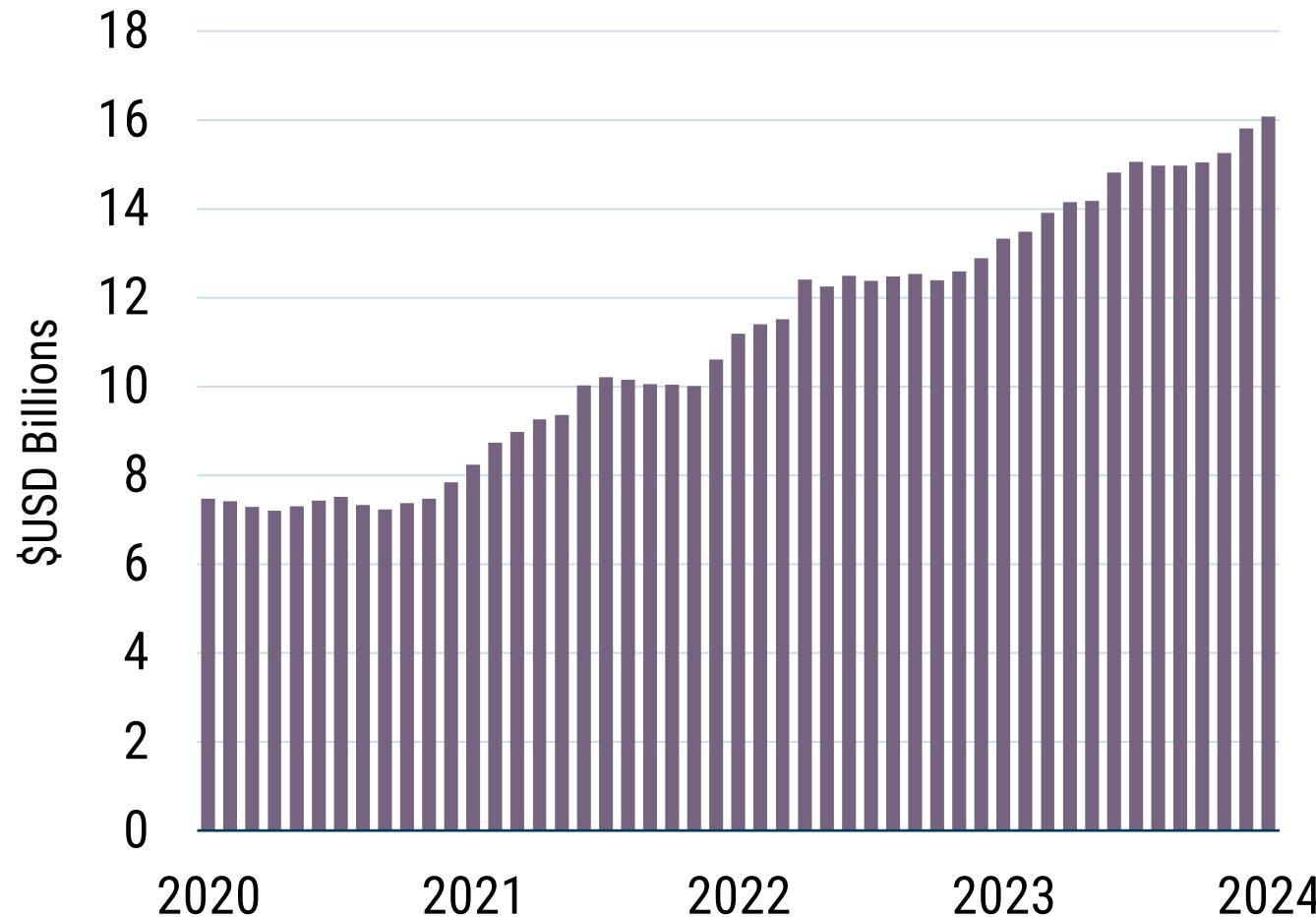
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MEXICO REAL PRODUCTION IN PRIVATE CONSTRUCTION EX-RESIDENTIAL



# 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%

As of 8/31/24 | Source: Company reported

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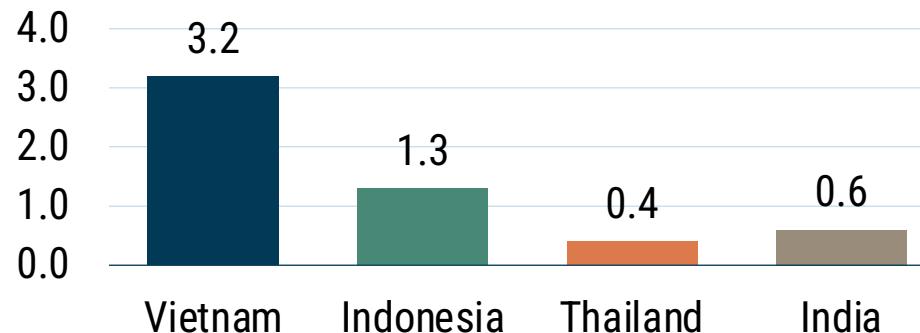
# THE BEYOND CHINA JOURNEY IS IN ITS EARLY STAGES

We've only just begun...

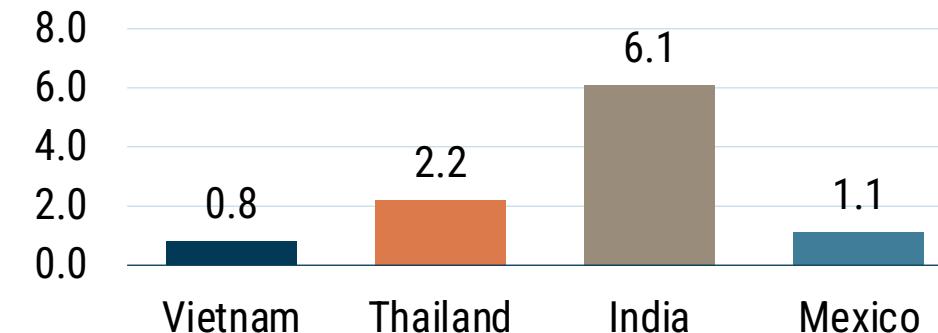


10% of China's industry exports scale to peers' current exports

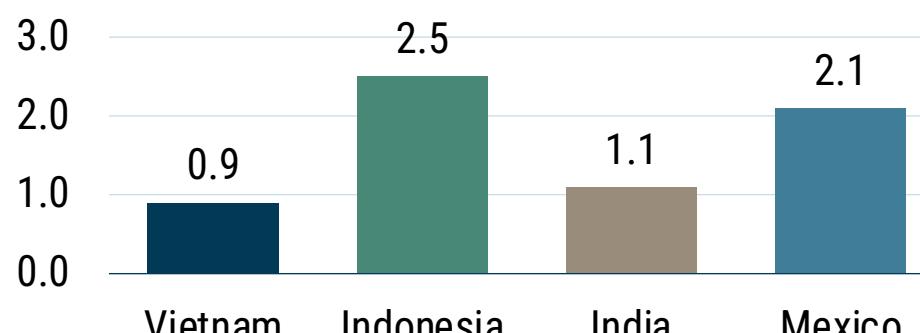
## AUTOMOTIVE



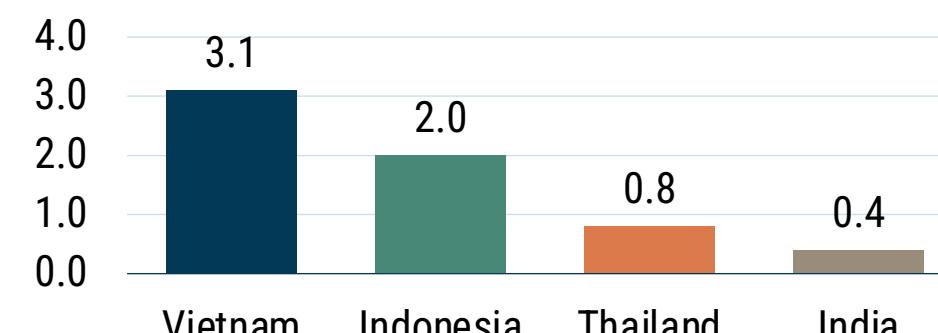
## HIGH TECH ELECTRONICS & ELECTRICAL



## TEXTILES & APPAREL



## CHEMICALS



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

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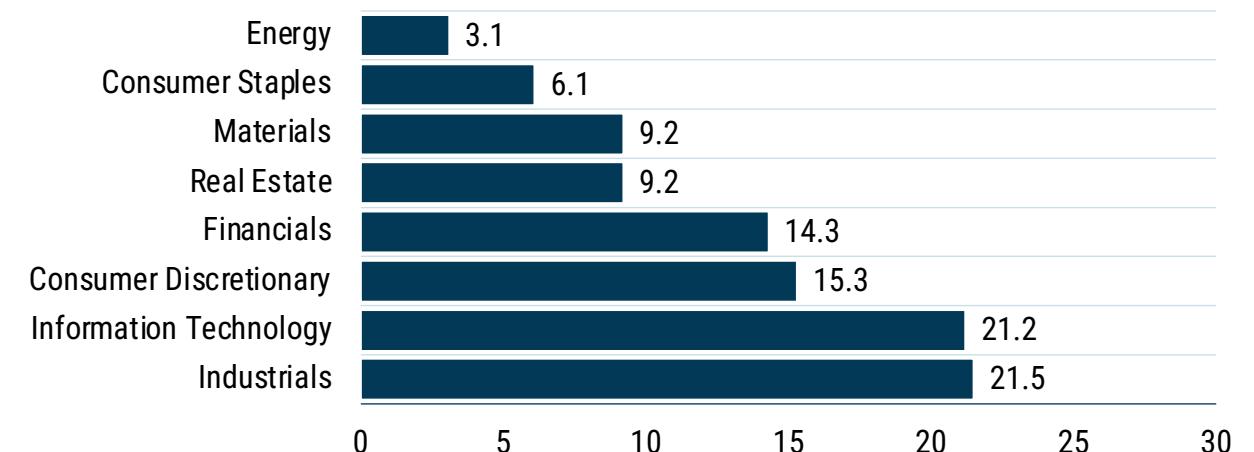
# BEYOND CHINA STRATEGY

## 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 %

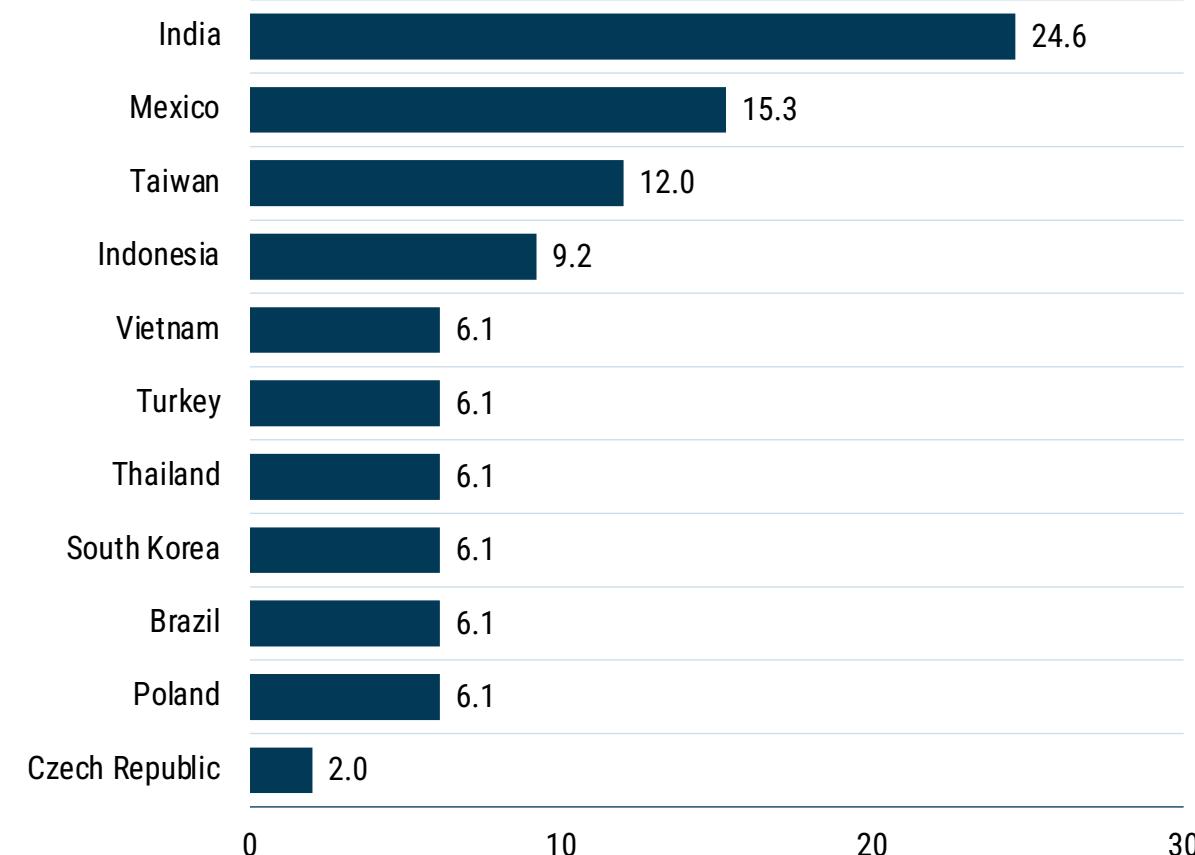
### SECTOR WEIGHTS (%)



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

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### COUNTRY WEIGHTS (%)



# Q & A



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# GMO

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## Boston

53 State Street | Boston, Massachusetts 02109 | **Tel:** +1 617 330 7500

## San Francisco

2150 Shattuck Avenue | Suite 900 | Berkeley, California 94704 | **Tel:** +1 510 649 6030

## Europe

GMO UK Limited  
No.1 London Bridge, London SE1 9BG  
**Tel:** +44 20 7814 7600   **Fax:** +44 20 7814 7605  
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P.O. Box R1817, Royal Exchange, NSW 1225 | Suite 43.02, Grosvenor Place, 225 George Street, Sydney NSW 2000  
**Tel:** +61 2 8274 9900   **Fax:** +61 2 8003 8800  
GMO Australia Limited ABN: 30 071 502 639, ASFL No: 236 656

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