

BEYOND CHINA

WHY “BEYOND CHINA”?

First they were emerging markets...

During the early 2000s, all EM countries had strong economic growth and were driven largely by the same global forces

Then they were submerging markets...

After the GFC, quantitative easing in the developed world caused huge problems for most EM countries and they went through a period of poor economic growth as a result.

Now, they are diverging markets...

With de-globalization and China going its own way, there is no underlying theme and so economic and stock markets have diverged.

The new opportunity is “Beyond China”...

Companies and countries moving supply chains away from China create an opportunity for investing in a coherent theme that focuses on countries and companies that benefit from this move out of China.

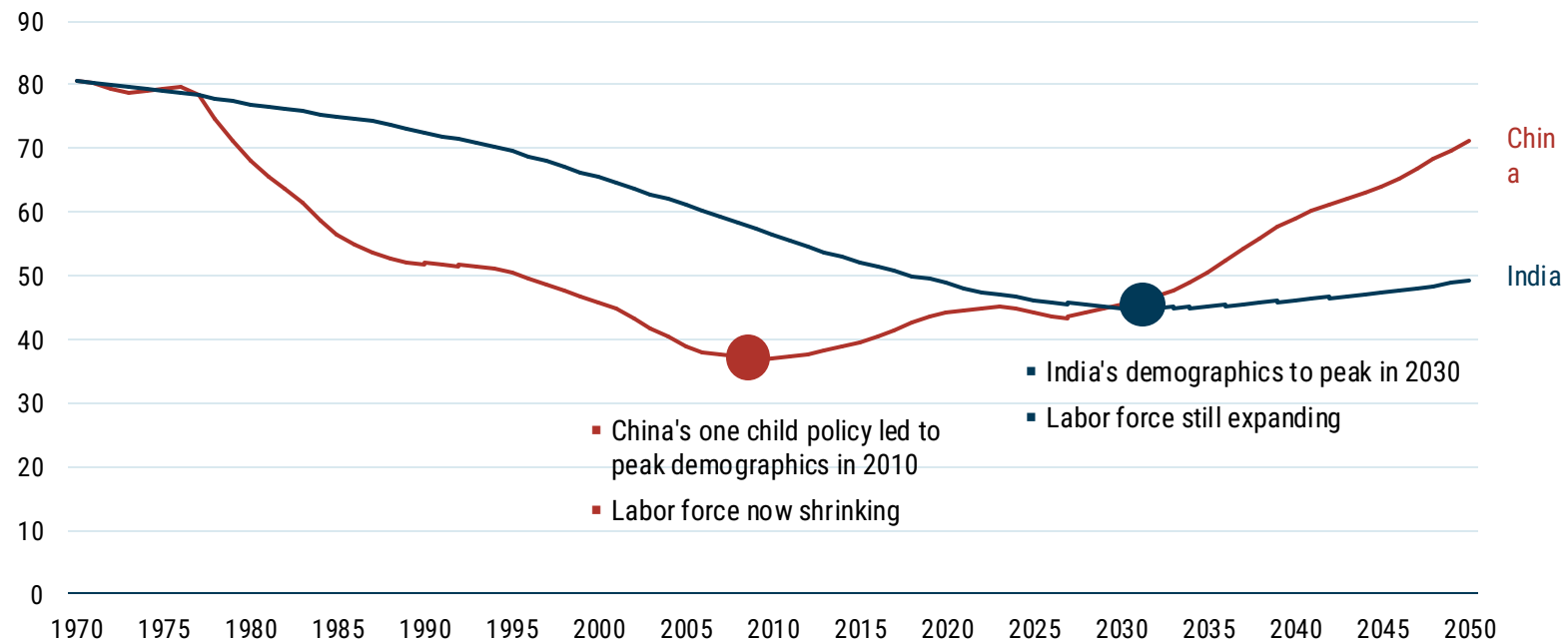
WHY HAS CHINA FALLEN OUT OF FAVOR?

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.

IS DEMOGRAPHICS DESTINY?

CHINA AND INDIA DEMOGRAPHICS OVERALL DEPENDENCY RATIO



WHY HAS CHINA FALLEN OUT OF FAVOR?

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- **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 Mandarinins to Xi.
 - Covid
 - Killing the golden geese (a work in progress)
 - Housing
 - And the biggest failure of all – Hong Kong

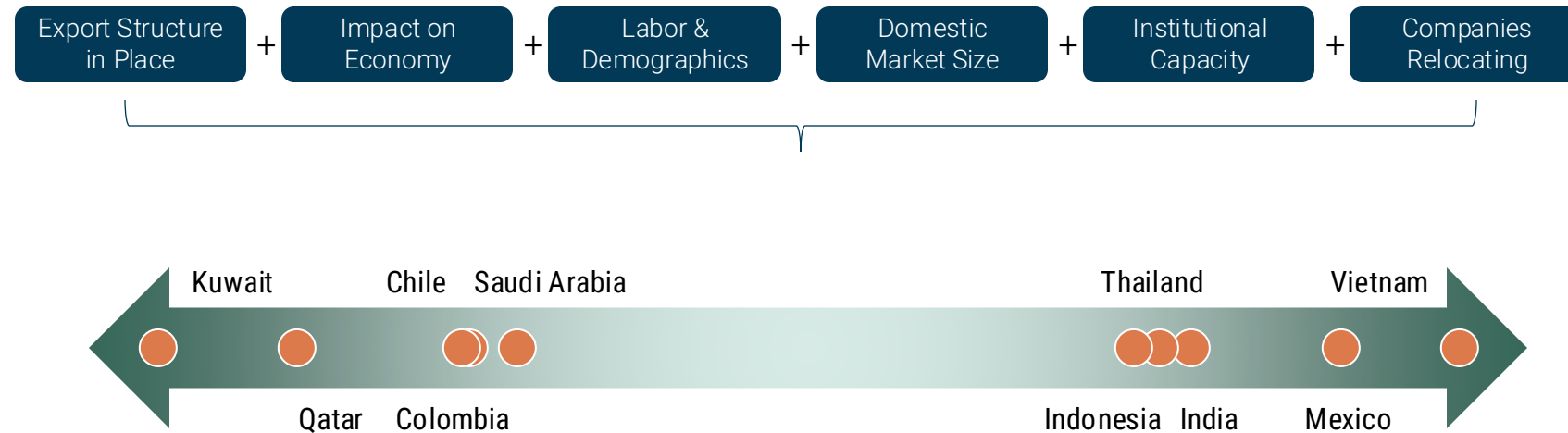
THE MOVE IS ALREADY WELL UNDER WAY

SHARE IN TOTAL U.S. GOODS IMPORTS (%)

	<i>China</i>	<i>Mexico</i>	<i>Vietnam</i>	<i>India</i>	<i>Korea</i>	<i>Taiwan</i>	<i>Thailand</i>	<i>Europe</i>
China Peak, 2018	21.59	13.24	1.98	2.07	2.95	1.8	1.31	18.63
Latest	14.13	14.95	3.62	2.63	3.68	2.76	1.81	18.51
Delta	-7.46	1.71	1.64	0.56	0.73	0.96	0.5	-0.12
Growth	-34.6	12.9	82.8	27.1	24.7	53.3	38.2	0.7

MOST AND LEAST ATTRACTIVE COUNTRIES

Who benefits from a China manufacturing exodus?



THEMES THAT BENEFIT FROM THIS MOVE

Themes

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

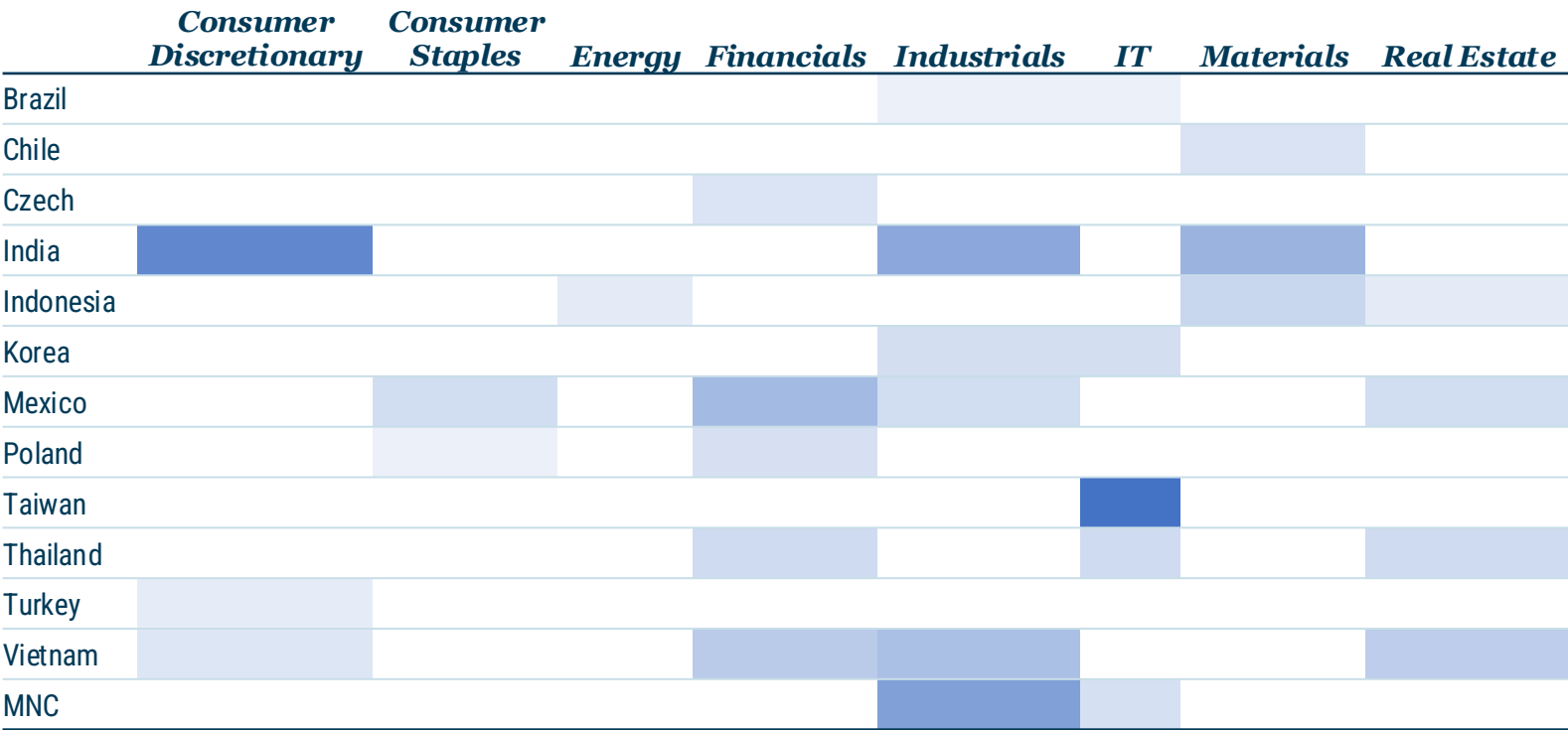
Shift in Global EV & Renewables Supply Chain

As of 3/31/23

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



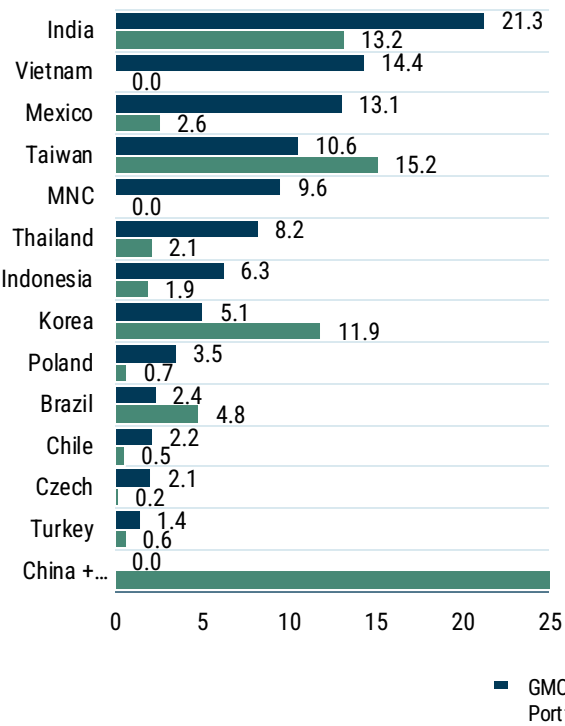
GMO BEYOND CHINA INVESTMENT STRATEGY

- Pick the countries that benefit the most from this move
- Pick the sectors that reflect the themes that are most exposed
- Pick high quality stocks 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

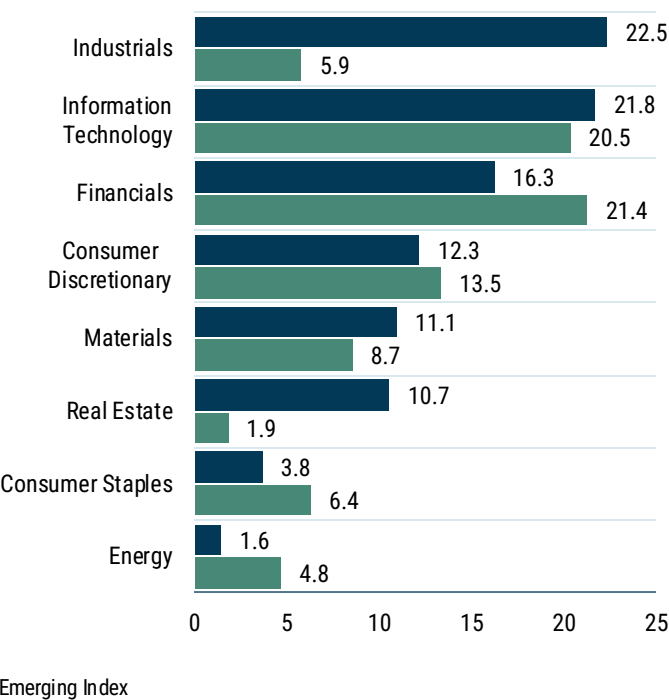
PROPOSED PORTFOLIO CHARACTERISTICS

Well diversified across countries and sectors, benchmark-agnostic

COUNTRY WEIGHTS (%)



SECTOR WEIGHTS (%)



As of 3/31/23 | Source: GICS Sector Report, GMO

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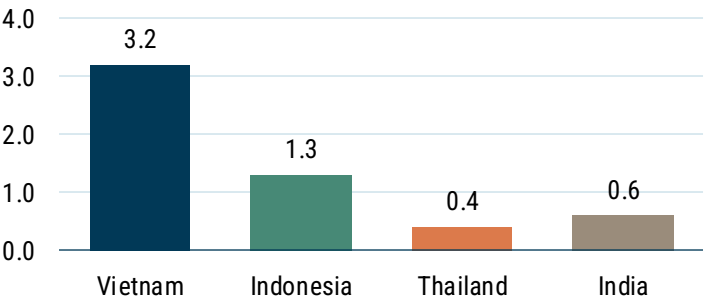
THE BEYOND CHINA JOURNEY IS IN ITS EARLY STAGES

We've only just begun...

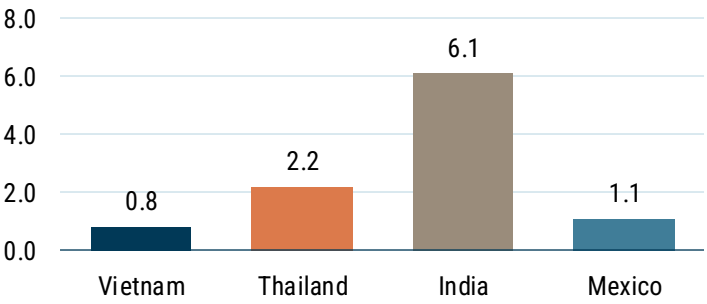


10% of China's industry exports scale to peers' current exports

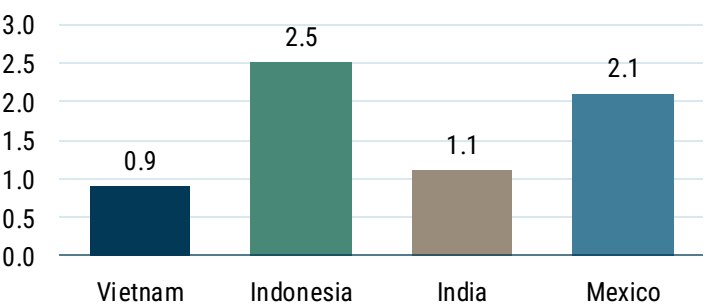
AUTOMOTIVE



HIGH TECH ELECTRONICS & ELECTRICAL



TEXTILES & APPAREL



CHEMICALS

