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UNDERSTANDING INVESTMENT OPPORTUNITIES IN CHINESE EQUITIES & FIXED INCOME

CHINA HANDBOOK

BNP PARIBAS ASSET MANAGEMENT

The asset manager for a changing world

CONTENTS

INTRODUCTION

With 1.4 billion inhabitants and a GDP growth of USD 14.3 trillion in 2019[1], China is a unique success story in terms of economic development. Chinese equity markets have lagged behind the spectacular growth of the economy, given the large discrepancy between China's share of the global economy and that of investors' equity allocations. In our view, it is inevitable that this margin will close as China continues to open up its capital markets to foreign investment.

BNP Paribas Asset Management (BNPP AM) believes there is a profound investment opportunity in Chinese markets driven by:
1) The gradual acceptance of China equities / fixed income in institutional investors' portfolios;
2) The changing nature of China's economic structure, prompting the emergence of Chinese companies becoming recognised on the global stage.

In this document, we will discuss the developments in both China equities and China fixed income markets that make us believe that the best way for a long-term investor to gain exposure to the modernisation of China's economy is the following - take a long-term investment view on a number of Chinese companies which we anticipate should be future winners in their industries.

The investment opportunities in China today are too big to ignore, but the Chinese markets require local expertise to navigate its waters successfully. While a purely passive approach has limitations, we believe that exposure to the China market could benefit an investor's portfolio over the long term, by enhancing the risk-return profiles of their global portfolios.

Here is a snapshot of some key indicators

- **1.4 BILLION** ▶ China has the largest population in the world.
- **6.1%** ▶ China's GDP growth in 2019 (vs. 6.6% year-on-year [YoY] in 2018).
- **USD 15+ TRILLION** ▶ Market capitalisation of the Chinese equity markets (both China onshore and offshore markets).
- **16.2%** ▶ At 100% inclusion, China A-shares are expected to make up 16.2% of the MSCI Emerging Market Index (vs. 3.33% in 2019).
- **USD 12+ TRILLION** ▶ China onshore rates and credit bond, making China the 3rd largest world's bond market, behind the US and Japan.
- **85%** ▶ What China's bond market represents out of the country's GDP (low relative to most developed markets).
- **64.5%** ▶ Internet penetration rate in 2020 (vs. 22.6% in 2008).
- **40%** ▶ Chinese consumers' spending in global luxury market by 2025.[2]

1 Source: World Bank, United States Census Bureau, as of 2020.
2 Source: McKinsey research, 12 August 2019.

CHINA'S ECONOMIC REBALANCING TOWARDS QUALITY GROWTH

CHINA "NEW NORMAL" ECONOMY

After high-speed economic growth in the past three decades, the Chinese government has embraced slower economic growth, referring to it as the 'new normal', which not only aims at quantitative but also qualitative and sustainable growth.

China's GDP growth in 2019 was 6.1%, in line with the government's initial target between 6%-6.5% growth but slightly lower than the 6.6% growth in 2018.

The government aims at putting China's growth on a more sustainable path than before. The government has opted for an economic rebalancing, increasing focus on the quality of growth, while still maintaining the objective of achieving a 'moderately prosperous society'.

Beijing acknowledges the need for China to embrace a new growth model less reliant on fixed investments and exporting. The objective is for more economic growth to come from private consumption, services and innovation. This also implies structural reforms that China will have to undergo to address challenges arising from the past high-speed growth. The new economy transformation outlined in the 14th Five-Year Plan announcement focuses on:
1) China's tech localization self-sufficiency (dual circulation);
2) Supply chain restructuring;
3) Renminbi internationalization;
4) Urbanization 2.0;
5) Climate change and green finance (carbon neutrality by 2060).

Despite its transition to slower economic growth, China continues to be the largest contributor to world growth since the global financial crisis of 2008.

Exhibit 1: China is set to overtake the US economy by 2030 (Gross domestic product at market exchange rates)

2017	2018	2022 estimates	2032 estimates
US	US	US	China
China	China	China	US
Japan	Japan	Japan	India
Germany	Germany	Germany	Japan
France	UK	India	Germany

Source: Bloomberg, Centre for Economics and Business Research, as of 2019.

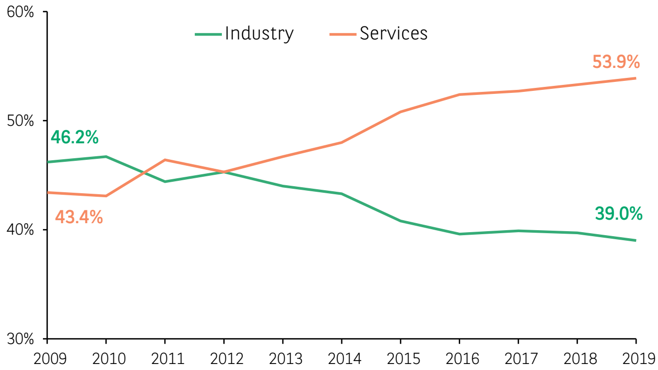
ECONOMIC REBALANCING TOWARDS CONSUMPTION

Slowing growth implies lower corporate profits and greater pressure to improve efficiency. Against this backdrop, the rebalancing of the economy towards consumption is crucial.

In 2019, the value added of the tertiary industry accounted for 53.9% of the total GDP, rising by 0.6 percentage point YoY. Service sector grew even faster with modern service industries gaining momentum. The growth of Services Production Index has reached 6.9% over the past years, faster than the growth of the tertiary industry (Exhibit 2). The role of consumption as the major impetus for the economic growth was further consolidated.

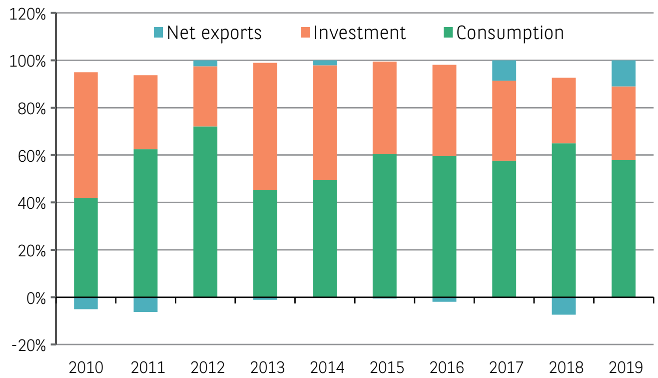
China had switched from export-led to domestic-led growth since the Great Financial Crisis. Within the domestic sector, total consumption contributed to about 60% of GDP growth vs. 45% in 2010 (Exhibit 3).

Exhibit 2: The services sector now represents more than half of China's GDP



Source: Statista, World Development Indicators database, as of February 2020.

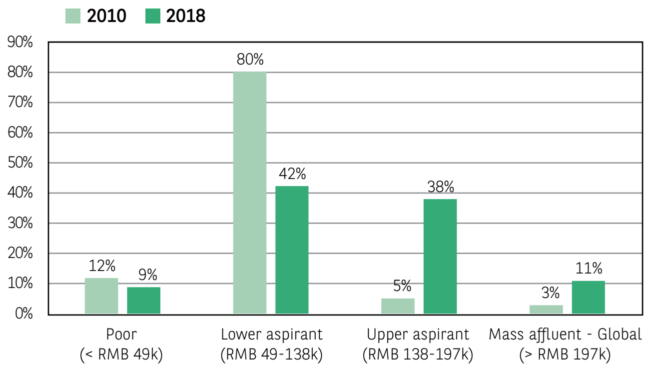
Exhibit 3: Consumption now leads China's economic growth (China's GDP components by expenditure)



Source: Wind, UBS, CEIC data, as of 2020.

With growth slowing only gradually, progress has been made, helped by the fact that China's consumption is supported by stable income growth (Exhibit 4). The wage share of GDP continues to go up, reversing the two-decade declining trend. Such a recovery is also in sharp contrast with the OECD countries where on average the wage share has been flat for several years. Besides, overseas spending by China has increased in recent years as more people joined the ranks of the middle class.

Exhibit 4: The middle class population is rising in China
Annual household disposable income in 2018, real RMB terms (2010 vs. 2018)



Source: McKinsey Research, December 2019.

CHINA'S BELT AND ROAD INITIATIVE (BRI)

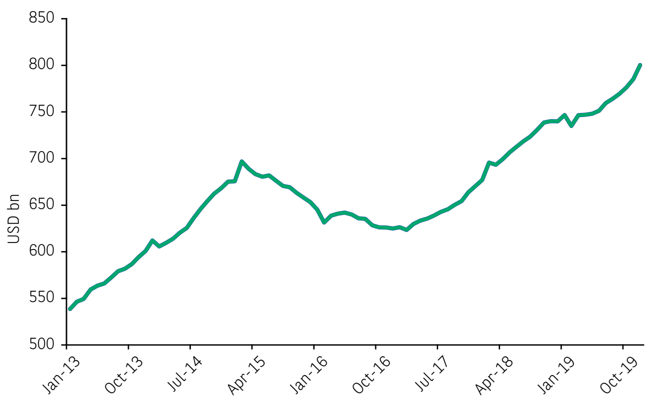
The Belt and Road Initiative (BRI) is a project connecting China's old economy plagued by excess capacity (steel, coal, construction, heavy industries and engineering) to other low- and middle-income developing countries in Central and Southeast Asia, the Middle East, Africa and Eastern Europe. It is designed to enhance the orderly free flow of trade and the efficient allocation of resources. Over land routes, it includes the Silk Road Economic Belt, and for sea routes, the 21st Century Maritime Silk Road.

Since October 2017, BRI embraces various strategic objectives:

- **Ease China economic transformation** by developing new markets for industries in overcapacity while encouraging innovation toward sustainability (Green Belt and Road);
- **Raise the share of Renminbi** in trade, overseas investment, financing by development banks, Chinese policy banks and commercial banks;
- **Reinforce China's role on the geopolitical stage** by promoting political cooperation and rallying countries around a common development project.

BRI is a long-term project which will offer various investment opportunities for corporates. At the initial stage, the main focus is on infrastructure, logistics, energy, commodities, and environment. At a later stage, the focus will be on new industries and consumption markets such as technology, media, telecommunications, real estate, consumer goods brought by improved infrastructures. Chinese exports continue to find new markets, as China's exports to BRI countries continued to accelerate, reaching USD 1.34 trillion in 2019.

Exhibit 5: China's exports to BRI countries continued to rise



Source: CEIC, BNPP AM, as of December 2019. Data includes 62 countries as of 2017, series in 12-mth rolling sum.

CHINA'S "DUAL CIRCULATION" ECONOMIC STRATEGY

BY CHI LO, BNPP AM SENIOR ECONOMIST GREATER CHINA, AS OF 16 SEPTEMBER 2020

- **China's "dual circulation" strategy is a move to counter geopolitical hostility by strengthening the domestic sector while still engaging, but reducing reliance on, the external sector to sustain stable growth and resilient investment in the face of strategic competition with the US.**
- **It reflects China's new worldview of de-globalisation forcing a structural shift in the global supply chains and prompting it to counter de-coupling by industrial upgrading and import substitution. Such an inward policy shift will create disruptions to the global markets.**
- **This new policy is redolent of China's supply-side reform that started in 2015 and is an evolution of Beijing's reform motto of using the market as a strategic tool for making changes under the guidance of the Party. This has far-reaching implications for investing in China**

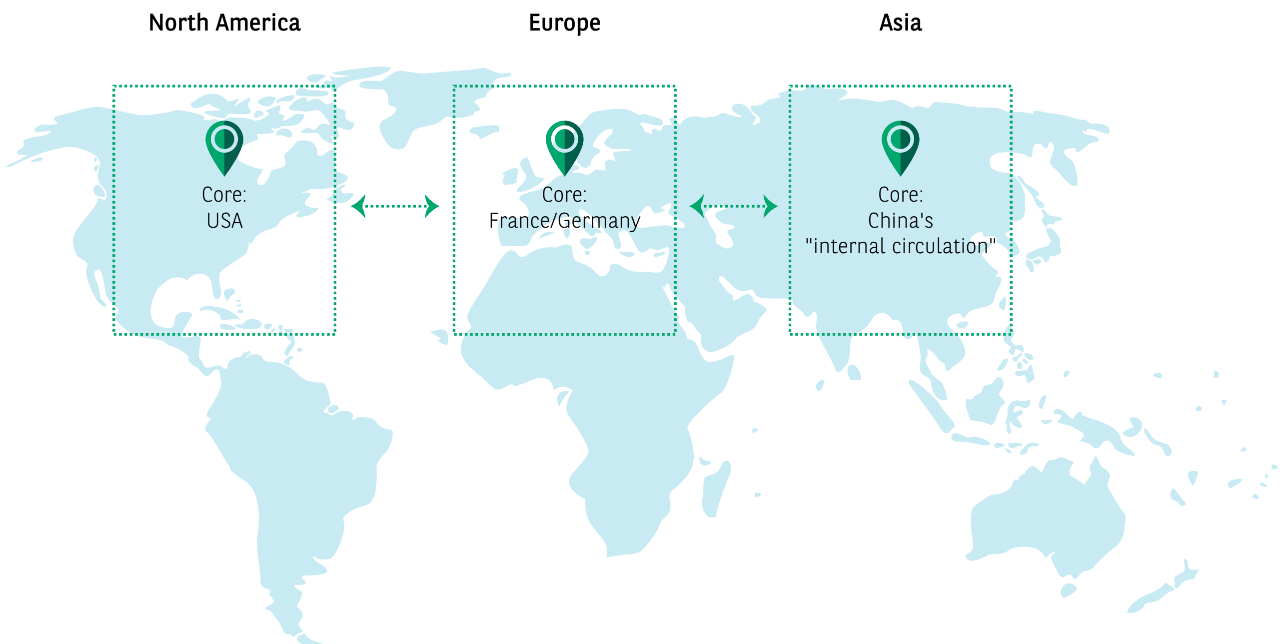
China's "dual circulation" (DC) policy framework, first announced in the May 2020 Politburo meeting and reiterated in the July meeting, is the latest strategy to counter the global volatilities and sustain domestic growth. It reflects Beijing's new belief that China had entered a new paradigm of increasing global uncertainties and geopolitical hostility that, ironically, would create new opportunities for China as the US global leadership flounders.

THE "DUAL CIRCULATION"

The DC framework has two elements: the "external" and "internal" circulations. The external circulation in China's policy thinking is a paradigm focussing on the US as the global demand hub which is built on globalisation and reflects the US's post-World War global leadership and international cooperation. But this model is failing, in China's view, due to the withdrawal of the US from the global stage.

Exhibit 6: "Dual circulation" in China's new worldview

A new paradigm of regionalism: Asia (led by China), North America (led by the US) and Europe (led by Germany/France), with thriving intra-regional trade but weak inter-regional trade; and China's "internal circulation" driving Asia's growth while also engaging "external circulation" for new growth impetus



Source: BNPP AM (Asia), as of September 2020.

This has led China to believe that de-globalisation, leading to economic de-coupling and breaking up of the global supply chains, had become a secular trend that would threaten its long-term stability. Rising geopolitical tensions and exogenous shocks such as Covid-19 have aggravated this global structural change. Hence, it can no longer rely on global integration as a growth driver; it must focus on domestic demand, or the internal circulation, to hedge against external risks.

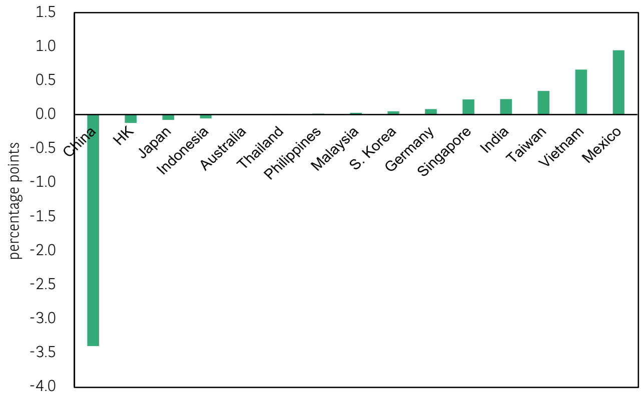
China's new worldview sees itself moving into a new paradigm where the global system would be divided into three main regions, Asia, North America and Europe, with each region led by a super-regional power. This will lead to the rise of regionalism with strong intra-regional economic linkages on the back of de-globalisation with weak inter-regional linkages, in my view. The rest of the world will fit in somewhere among these regions. China also sees its internal circulation sit in the centre of Asia, engaging regional and global capital, financial and technological markets for enhancing domestic growth and driving regional growth, hence, the dual circulation strategy (Exhibit 6).

IMPORT SUBSTITUTION AND SUPPLY-CHAIN STABILISATION

Arguably, the DC policy is Beijing's effort to balance between self-sufficiency and internationalisation to deal with an increasingly volatile world. It strives to engage global forces, including capital and technology, to gain advantages for domestic development while simultaneously boost indigenous capabilities to minimise the impact of global volatility on the domestic system.

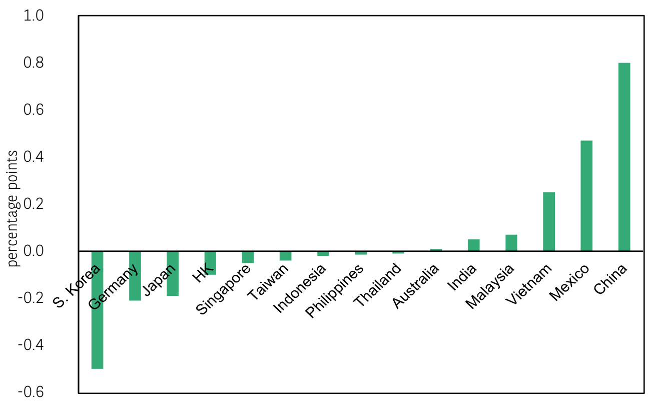
However, reducing reliance on the global economy does not reflect a loss in China's competitiveness. It has still gained global export market share, even though it has lost market share in the US due mainly to the trade war (Exhibits 7 and 8). In recent years, China's changing role in global trade has already prompted changes in the global supply-chain structure and reshuffled country winners and losers[1]. China's move to reduce reliance on global trade will aggravate this disruptive force.

Exhibit 7: Change in US market import shares before and after the trade war (2017-2019)



Sources: CEIC, BNPP AM (Asia), as of September 2020.

Exhibit 8: Change in global market import shares before and after the trade war (2017-2019)



Sources: HSBC, BNPP AM (Asia), as of September 2020.

The external circulation is not just about China's exports. It also encompasses China's imports. And this is linked to the internal circulation through reducing dependence on certain imports and boosting indigenous capabilities to counter export controls by the US and its allies. In the short-term, the policy efforts are focussed on import substitution, especially in the semiconductor industry that is under increasing US sanction pressure, and redirection of Chinese outbound tourist spending back to China.

1 See "Chi on China: Trade War's Benign Disruption on China and the Global Supply Chains", 26 June 2020.

Crucially, stabilisation of supply chains lies in the heart of the internal circulation. Since China's recovery from Covid-19 in April, Beijing has created a "heads of industry value chains" system to supervise local governments to identify the local firms and technologies critical to the industry value chains and boost their development. The local governments are asked to adopt bespoke policies to finance public investment in these industrial value chains. The investment focusses on technologies in integrated circuits, 5G, electric cars, biomedicine, cloud computing and AI.

In this effort, Beijing has asked the state-owned enterprises (SOEs) to take a leading role. President Xi has placed great importance on the SOEs to play a strategic role in China's long-term economic transformation. He has significantly enhanced the Party's control over the state sector since 2013. In my view, this supply-chain stabilisation effort is an evolution of China's structural reform motto that the market is a strategic tool for making changes under the guidance of the Communist Party. Now that the Party has a tight grip on the SOEs, it can mobilise their resources more easily than ever before, including in implementing Beijing's dual circulation strategy.

CHINA'S SUPPLY SIDE REFORM AND DECOUPLING

The DC policy is reminiscent of China's supply side reform that started in 2015[2], which most observers dismissed in the beginning as a set of vague and vacuous policy statements[3] that would lead to nowhere. But these uninformed views were proven wrong. In the following years, Beijing had shown persistent reform efforts to cut excess industrial capacity (notably in steel and cement, which played a major role in creating bottle-neck supply conditions and sent key commodity prices soaring in between late 2016 and 2017) and de-risk the financial sector aggressively[4] even at the cost of slowing GDP growth.

To fortify the inner circulation, the DC seeks to bolster the strengths and correct the weaknesses of the domestic economy to improve economic resiliency and self-sufficiency. That means boosting domestic demand while simultaneously finding ways to reduce reliance on external inputs in key areas, notably food, technology and energy. The policy emphasises on import substitution and high-end manufacturing and industrial upgrading to boost domestic growth impetus.

Arguably, the DC was born out of China's new worldview that decoupling, especially from the US, is not a question of if, but of when and how fast. The policy is, in my view, a proactive strategy for preparing for a divorce on China's own terms rather than reactive to what would be imposed on it by external forces.

THE IMPACT

While China does not want a total withdrawal from global economic integration, even a small policy shift away from the external circulation could significantly shock global trade and investment flows due to China's sheer size. So the DC strategy, if successfully implemented, will have far-reaching effects on the global markets. The internal circulation's emphasis on high-end manufacturing and technology implies that China might seek to replicate the German manufacturing model.

Indeed, in recent years, China has been squeezing developed economies' exporters in other markets outside the US and supplying a third of the world's demand for intermediate goods[5]. This suggests that China is posing an increasing challenge to the industrialised economies, with its production scale beginning to disrupt a range of new market segments, as has happened with solar and lithium batteries in recent years[6].

The strategy of redirecting Chinese consumers' overseas spending (USD250 bn a year just by those outbound Chinese tourists) to the domestic market is clearly positive for domestic retailers. It also implies that preferences of domestic consumers would become more important than foreign consumers in shaping corporate decisions. This makes "investing in China for China" an increasingly important force in affecting FDI decision.

To switch Chinese tourists spending abroad back to China, Beijing has cut import duties for many tourist favorite products to narrow the tax gap, which is a major tourist spending incentive. It has also planned to open up more duty-free stores and duty-free zones, like the Hainan duty-free zone established in June 2020, in China to attract domestic and foreign tourist. The pandemic has enabled China to speed up this expenditure-switching by grinding international travel to a halt. So companies catering for Chinese buyers who previously bought items abroad will benefit. But this will be bad news for companies and other Asian countries whose retail business depends on Chinese tourists.

2 or example, see Boulter, John, "China's Supply-side Structural Reform", Reserve Bank of Australia Bulletin, December 2018.

3 See The Economist (2016), "Reagan's Chinese Echo: The Mystery of Xi Jinping's Supply-side Strategy", 2 January 2016.

4 A notable example is the sharp fall in the number of P2P lending platforms (many of which are Ponzi games) from its peak of more than 3,800 in 2015 to only 340 in 2019 and 15 in August 2020.

5 See reference in footnote 1, and "Chi on China: Global impact of the Covid-19 Shock", 19 February 2020.

6 Since 2015, China has been the largest producer and buyer of solar panels. It is number two in producing the most solar energy, just behind Germany and ahead of Japan, Italy and the US. In 2019, of the world's five largest lithium battery producers, China's CATL and BYD were ranked the second and the third, behind Korea's LGChem and ahead of Japan's Panasonic and the US's Tesla.

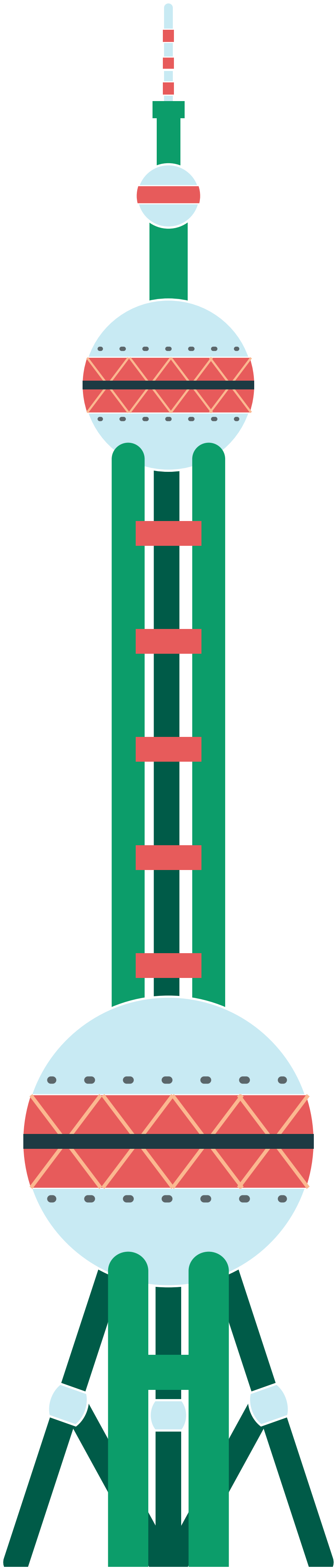
Experience shows that China's top-down policies mean business. So it would be rewarding to follow the government's lead when investing in China. This also argues for an investment strategy to cut exposure to firms that have high overseas exposure, such as consumer electronics, and increase allocation to companies and sectors that are related to state investment in the priority sectors on the DC policy agenda, such as aerospace, defence and domestic high tech industries.

From a macro perspective, the DC strategy could help China's equities better withstand external market volatility and, thus, attract global investors seeking to diversify returns. As China steps up efforts to substitute imports and strengthen self-sufficiency, domestic brands in technological and financial innovation, industrial consolidation and consumer-upgrading should drive the long-term trend of China's equity market.

Investment implications

Our Greater China Equities team, led by David Choa, sees significant growth opportunities mostly in three themes: 1) Technology & Innovation, 2) Consumption upgrading and 3) Industry consolidation. Therefore, we aim to identify the highest quality growth companies mostly in sectors such as industrial automation, domestic high tech industries, healthcare, education, travel, insurance and materials, delivering sustainable earnings growth over the long term and with sound or improving ESG profiles.

A number of these domestic winners are now emerging as multinational corporates. This will likely only accelerate in the next 5 to 10 years. Our current strategy tends to favor more domestic brands and related to state investment in the priority sectors while limiting the position in companies with high overseas exposures. **More details are provided in the next section.**



THREE STRUCTURAL TRENDS ARE DRIVING LONG-TERM INVESTMENT OPPORTUNITIES IN CHINESE EQUITIES

We believe the following investment opportunities will continue over the next few years as the sectors benefitting from the following three structural trends are positioned for sustainable growth:

1. **Technology & innovation:** China has begun to shift from cheap labour-based manufacturing towards medium to high-end manufacturing. This is further supported by the size of the domestic market, higher R&D spending and a vast talent pool. The tech boom is not only benefiting the new economy sectors but also helping traditional industrial and manufacturing sectors. Innovation also go beyond technology (hardware and software etc.) and impacting most sectors across the economy such as consumer, healthcare and other non-tech companies.

2. **Consumption upgrading:** We see significant growth opportunities for leading companies in sectors such as healthcare, education, travel and catering, and a number of these domestic winners are now emerging as multinational corporates, supported by rising household incomes, low household debt and more diversified consumer profiles – and this will likely only accelerate in the next five to 10 years.

3. **Industry consolidation:** Industry consolidation in China has been occurring in recent years driven by regulatory tightening on new capacities, environmental cost pressures, higher financing costs, upgrading of industrial structure and consumption upgrading. As the pace of growth in China moderates after a decade of rapid expansion, companies need to think more about the other side of equation rather than just looking at revenue. They need to focus more on R&D, productivity and costs. Those with progressive mindsets will increasingly pull away from the competition and drive consolidation in the market. This will happen not only in the old industry sectors, but also in the new economy.

Exhibit 9: Portfolio strategy of BNPP AM Greater China equities team over the long term

TECHNOLOGY & INNOVATION	CONSUMPTION UPGRADING	INDUSTRY CONSOLIDATION
Capital goods	Education	Cement
Industrial automation	Healthcare	Property
New industrial (e.g. Electrical vehicles, high-speed trains, environmental protection)	Insurance	Machinery
	Travel	Mining
	Premium consumer brands	Chemicals
Information Technology	Information Technology	

Source: BNPP AM, as of September 2020.

TECHNOLOGY & INNOVATION

China: From an innovation "sponge" to an innovation leader

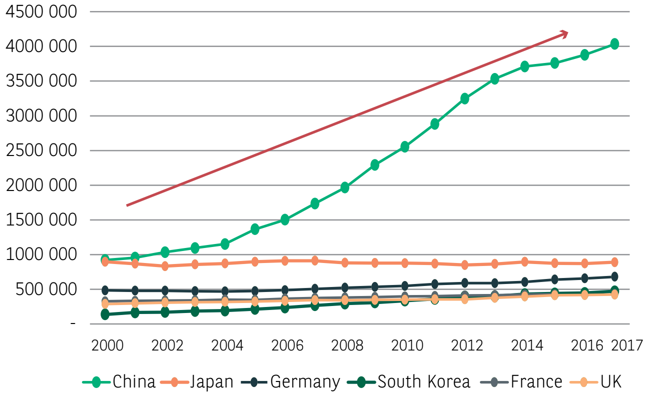
China has emerged as a global driving force in innovation and its innovative capabilities are growing faster than is generally acknowledged.

China is now home to some of the largest Internet companies such as BATX (Baidu, Alibaba, Tencent and Xiaomi). Innovation is an imperative for China, as its labour force is no longer growing and the return on fixed asset investment is declining. While the US market focuses on relatively small number of dominant tech players, the tech sector in China is more diversified:

- There are more leaders in each segment rather than just one winner (e.g. e-commerce)
- Tech development in many sectors is still in its infancy. We have fast growing companies across the whole value chain (from upstream to downstream, from hardware, to software, cloud and infrastructure).
- Historically, China's tech focus has been on consumer applications. It is now shifting to applications for business where there is significant catch-up potential versus global peers.

More importantly, it is not about only tech enablers in China:
- Consumption: Wealth levels have reached an inflection point - China's consumers want a better lifestyle (e.g. education, entertainment) rather than just branded physical goods.
- Traditional sectors: Brands and companies that leverage on digital transformation - to improve brand image, gain new sales channels, improve productivity - are winning market share and are secondary beneficiaries of the tech boom.
- Innovation does not stop with tech: China is moving up the value chain (e.g. medical sector). The quality gap with international peers is narrowing at a much lower cost.

Exhibit 10: China has the highest number of R&D personnel globally (3 times higher than the US)
Overall CAGR for China: 9.1%



Source: UNESCO UIS, as of 22 October 2019

R&D: Research & Development. CAGR: Compound Annual Growth Rate.

Here are some astonishing numbers[7] corroborating the fact that the common perception of China as a follower needs to change:

- **R&D spending:** In 2018, China's total R&D expenditure, combining government, business and academic institutions reached USD 550 billion, ranking the second globally and just behind the United States at USD 580 billion. The total growth in China's R&D spending between 2009-2018 was 199% vs. 43% in the United States. The gap in R&D spending between China and the United States has narrowed substantially over the past two decades, while the gaps between these two countries and the rest of the world have widened. China aims to increase the R&D spending to 2.5% of its GDP by 2020 and to 2.8% by 2030, from 2.1% in 2015.[8]

- **Domestic market:** China has become an innovator that has helped to redefine many markets, particularly in the areas of social pastimes, entertainment and advertising. As of March 2020, Alipay is the largest mobile payment platform among global players, serving 1.3 billion annual active users worldwide.[9]

7 Source: OECD, UBS Research, as of 13 September 2017.
8 Source: Goldman Sachs Research, 4 August 2020.
9 Source: GLOBE NEWSWIRE, as of May 2020.

- **Talent pool:** A rapid increase in China's base of engineering talent[10], and the continued strength of the government's investment commitment to make engineering-based companies effective innovators in the future should accelerate China's advances in innovation. Since 2000, the number of R&D personnel in China has increased by over 9% every year to over 4 million in 2019, which is the world's largest pool of R&D personnel (Exhibit 10). Today, it is estimated that 8 million of science & engineering graduate every year, which represents more than 10 times the level of US graduates in Science, Technology, Engineering and Maths (STEM).

- **Reforms:** Experience shows that China's top down policies mean business. This makes "investing in China for China" a key investment theme for long-term growth. One of the key focuses of the 14th Five-Year Plan is centered on technology, innovation and self-sufficiency (e.g. new infrastructure of AI, cloud computing, 5G networks, digitisation and big data).

As growth in China moderates after a decade of fast growth, companies need to think more about the other side of equation beyond simply revenue: they need to think more about R&D, productivity, cost. Those with progressive mindsets will increasingly pull away from the competition and consolidate the market.

CONSUMPTION UPGRADING

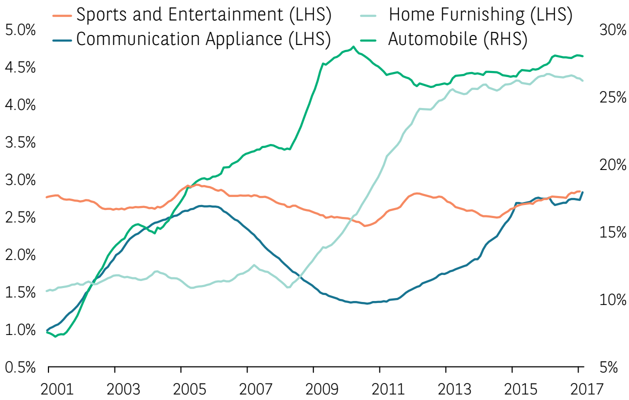
From quantity to quality in consumption upgrading

Robust income growth, a fast-expanding middle class and consumption upgrades are reinforcing strong demand for higher-quality branded products and services. We expect private consumption growth to remain robust, with a gradual shift towards discretionary and services/experience-related consumption, facilitated by a mushrooming e-commerce infrastructure.

Shift in consumption patterns

The consumption upgrading is not only about product premiumisation but also about looking for better life style. China's consumers are already beyond the point of wanting simply western branded products. They now seek a better lifestyle. The sectors of equity markets that stand to benefit from this trend go beyond the traditional retail sectors. Education, health wellness, entertainment, food consumption will all be impacted. It is a vast market with many emerging local brands that are gaining awareness and winning business from consumers. Faster income growth allows for a quicker steepening of the penetration curve in many categories, as well as a shift in consumption patterns that is occurring in three main ways:
1) from mass to premium;
2) from goods to services/experience-related purchases, and;
3) from international brand to emerging local brand.

Exhibit 11: The rising share of discretionary spending



Source: CEIC, Morgan Stanley Research, as of 13 November 2017.

E-commerce: better infrastructure, easier credit

While growth has been impressive, China's total consumption is still one-third that of the US meaning there is considerable further potential for spending, especially on services. China's consumer demand has become steadily more service-orientated over the last 30 years. From 30% of spending in the early 1990s, consumption of services has risen to around 50% (on 2019 data) with growth particularly pronounced in healthcare, education, recreation, travel and tourism.

Several factors explain the impressive online sales in China:

- **Better infrastructure:** more internet access/smartphones, rapid expansion of e-payments and improving logistics network mean households have better access to e-commerce. Internet penetration in China rose from 34.0% in 2010 to 64.5% in March 2020.

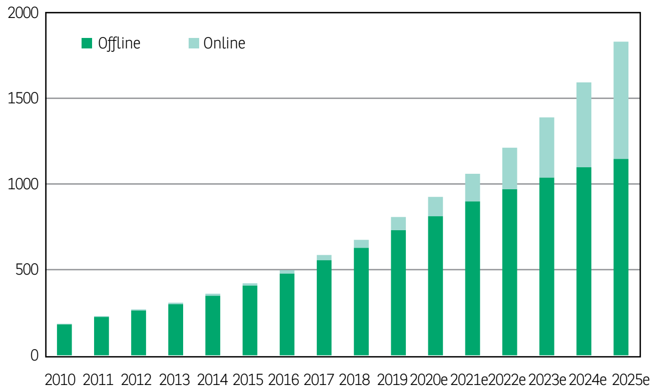
- **Financial innovation:** digital consumer credit has become an alternative to traditional banks.

Rural Chinese represent 43% of the total population. In 2019, the consumption growth rate in the rural areas was one percentage higher than that in urban areas[11]. The proportion of rural consumption in the total retail sales has continued to increase. With the improvement of infrastructures - more stable electricity, faster Internet speed, smoother roads, E-commerce plays a role in rural China's undergoing revolutionary changes by completely changing the consumption landscape where residents mainly relied on going to bigger cities or weekly markets to shop in the past. The latest data shows 96.6% of the villages and towns in China have established express delivery outlets. The infrastructure improvement as a result of developing rural e-commerce has also lowered the threshold for rural residents to promote their agricultural products to a bigger national market, which in return, helped to increase rural residents' income and further supported the future rural consumption.

10 Source: UBS Research, as of 13 September 2017.
11 Source: CGTN research, National Bureau of Statistics, 30 September 2020.

Our Greater China equities investment team expects private consumption growth in real terms to remain strong. The labour market remains relatively tight and household income growth should continue to improve. Consumption in China should become an increasingly important driver of aggregate growth, presenting significant opportunities to invest in the companies driving this trend.

Exhibit 12: China's after-school tutoring market is still growing rapidly (both online and offline)



Source: Ministry of Education, The Chinese Society of Education, China Youth & Children Research Centre, Wind, iResearch, Company data, UBS. As of 24 October 2019.

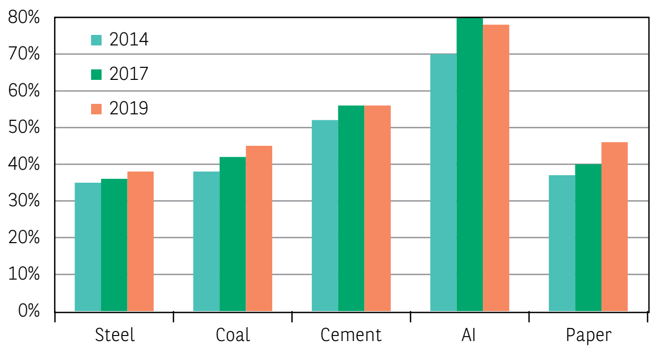
INDUSTRY CONSOLIDATION

Wave of industry consolidation boosting profits in China

Industry consolidation in China has been occurring in recent years both inside and outside overcapacity sectors, as the country's structural economic rebalancing and government supply-side policies continue.

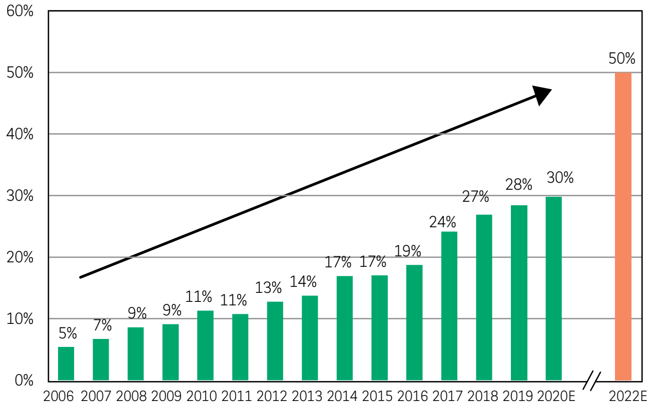
Consolidation is increasing at an accelerating pace, particularly in the overcapacity sectors such as mining and materials. In the cement sector, China National Building Material (CNBM) merged with rival China National Materials (Sinoma) to form the world's largest cement maker and cement plant builder.

Exhibit 13: The increasing consolidation in China's materials sectors (top 4 players' market share)



Sources: Industry association; Goldman Sachs Global Investment Research, October 2020

Exhibit 14: Market share of top 10 property developers



Sources: CRIS, NBS, Goldman Sachs, as of October 2020

The wave of consolidation is now also washing far beyond China's overcapacity sectors into consumer and services industries. Examples include car dealers, paper producers, Chinese liquor companies, brewers, budget hotels, air conditioning manufacturers, e-commerce and insurance.

Three major reasons underpinned the current wave of consolidation:

1. **Government actions to rein in the risk from rising debt:** Moving away from investment-led growth has been one of the factors leading to overcapacity issues. China's materials sectors have been the areas most affected by debt and excess capacity. Beijing is making notable efforts to remove excess capacity in the coal and steel sectors through supply-side reforms initiatives. Consolidation can help companies boost their earnings, regain their pricing power and reduce their debt-servicing burdens.

2. **More stringent environmental protection rules:** Strengthening environmental protection measures have also caused closures / exits of a large number of firms in environmentally-sensitive industries.

3. **With China's economic rebalancing, technology advances have made market leaders increasingly dominant in knowledge-intensive industries.** Clear policy measures to encourage R&D, innovation and promote advanced manufacturing, tend to favour industry leaders that have already acquired a large market share given their existing technological advantages.

This consolidation trend is in line with the government focus to move from quantity of growth to quality of growth. As the pace of growth in China moderates after a decade of rapid expansion, companies need to think more about the other side of equation rather than just looking at revenue. They need to focus more on R&D, productivity and costs. Those with progressive mindsets will increasingly pull away from the competition and drive consolidation in the market.

ACCESSING CHINESE MARKETS

CHINA EQUITY MARKETS

The process of accessing the Chinese equities market remains complex and unclear. It is critical to understand the accessibility constraints so as to make an informed decision when evaluating a potential investment in Chinese equities.

China: one of the world's largest equity markets

The Shanghai and Shenzhen Stock Exchanges opened in December 1990 as part of Chairman Deng Xiaoping's 'Reform and Open Up' initiatives. At the opening, the markets were small, listing only eight names with a market capitalisation of about USD 500 million. Today, about 3800 companies are on these two Chinese exchanges, with a total market capitalisation of USD 10 trillion (as of 14 October 2020). Adding the Hong Kong Stock Exchange, the three exchanges tend to be grouped in the 'Greater China' category, and its total market capitalisation exceeds USD 15 trillion.

Navigating share classes

While there is no restriction in investing in the Chinese offshore equities market (e.g. Hong Kong, American Depositary Receipts (ADRs), Taiwan, Singapore), gaining access to the China A-shares market has historically not been so straightforward.

In the past, Chinese regulators restricted foreigners' access to Mainland equity markets. Before 2002, foreign investors simply could not buy China A-shares.

In recent years, we have seen continuous efforts by China's regulators to liberalise the domestic equity market, as illustrated below:

- 2002: introduction of the QFII[12] programme.
- 2011: introduction of the Renminbi QFII (RQFII) scheme
  For both QFII and RQFII, licensed institutions needed to apply for a quota to invest in China A-shares. These schemes also had lock-up and repatriation restrictions, which is relatively uncommon in developed markets.
- 2019: The QFII quota doubled to USD 300 billion in the first QFII quota expansion v.s. 2013. Note that, as of August 2019, foreign investors have only used USD 111 billion of the USD 300 billion quota (which was doubled in 2019).
- September 2019: China removed the QFII quota, which is seen as a milestone for Chinese financial markets, underscoring the commitment to opening the market.

Some constraints still remain to invest through QFII/RQFII:

- After the QFII quota removal, foreign investors need CSRC license for direct China market access.
- A trading account is set up.
- After an injection of capital, a local broker can be designated.

Exhibit 15: Chinese alphabet of share classes

	SHARE CLASS	INCORPORATION OF COMPANY	EXCHANGE TRADED	QUOTED CURRENCY	ACCESSIBILITY
CHINA ONSHORE	A Shares	Mainland China	Shanghai Stock Exchange (SSE) Shenzhen Stock Exchange (SZSE)	CNY	Available to non-Chinese investors via the Stock Connect program. Registered foreign investors at CSRC are allowed to freely invest in China capital market.
	B Shares	Mainland China	SSE SZSE	USD HKD	All investors may access; highly illiquid
CHINA OFFSHORE	H Shares	Mainland China	Hong Kong Stock Exchange (HKEX)	HKD	All investors
	N Shares	Off-shore	NYSE NASDAQ	USD	
	P Chips	Off-shore, non-state owned	Hong Kong Stock Exchange (HKEX)	HKD	
	Red Chips	Off-shore, state owned	Hong Kong Stock Exchange (HKEX)	HKD	
	S Chips	Off-shore, non-state owned	Singapore Exchange	SGD	

Source: Wind, FactSet, BNPP AM, as of 30 September 2020.

12 QFII: Qualified Foreign Institutional Investor. RQFII: RMB Qualified Foreign Institutional Investor.

Facilitating access to China A-shares

For institutional investors, the big change occurred in November 2014 with the introduction of the Shanghai-Hong Kong Stock Connect scheme, followed in December 2016 by Shenzhen-Hong Kong Stock Connect. This unique collaboration offers international and Mainland Chinese investors the opportunity to trade securities in each other's markets through the trading and clearing facilities of their home exchange. Consequently, this allows international investors direct access to Chinese stocks. These market access schemes mark critical milestones in the opening up of China's equity markets and the internationalisation of the Renminbi.

This year, China released new rules on QFII (effective on 1 November 2020), reducing application hurdle and expanding investment scope. The gradual loosening of these controls resulted in the creation of multiple share classes which offer different privileges, depending on where the investor purchases the stock, where the listed company is incorporated, and the currency in which the stock is denominated.

Exhibit 16: Three main channels to access to Chinese onshore equity markets

	CHINA ONSHORE EQUITIES		
	STOCK CONNECT	QFII	RQFII
START DATE	▪ Nov 2014: Shanghai-HK Connect ▪ Dec 2016: Shenzhen-HK Connect	2002: QFII (Qualified Foreign Institutional Investor)	2011: RQFII (Renminbi QFII)
QUOTA SIZE	No aggregate quota, but subject to a Daily quota limit (Northbound: RMB 52 bn for Shanghai and Shenzhen Connect, respectively)	No quota limit (since Sep 2019)	No quota limit (since Sep 2019)
ELIGIBLE INVESTOR	**All investors** ▪ All Hong Kong and Overseas investors (Northbound) ▪ Eligibility restrictions apply to Mainland Chinese investors (Southbound)	**Only licensed investors** 1 - Register with CSRC to get QFII license 2 - Register with SAFE to apply quota	
QUOTA ALLOCATION	No allocation requirement	QFII / RQFII investors can invest directly after application	
	A Single foreign investor's shareholding in a listed company is not allowed to exceed 10% of the company's total issued shares, while all foreign investors' shareholding in A shares or onshore-listed shares of a company is not allowed to exceed 30% of its total issued shares.		
PRINCIPAL LOCKUP	▪ No requirement ▪ T+0 DVP* available for funds on sell	No requirement	
REPATRIATION SIZE RESTRICTION FOR ALL ACCOUNTS	▪ No restriction ▪ T+0 DVP* on sell arranged by SPSA brokers	No requirement	
ELIGIBLE INVESTMENT	▪ 581 SSE-listed stocks ▪ 802 SZSE-listed stocks (9 Oct 2020)	All securities listed on Shanghai (SSE) & Shenzhen (SZSE) Stock Exchanges	
CURRENCY	CNH (Offshore RMB) or foreign currencies	CNY (Onshore RMB)	CNH (Offshore RMB)

* T+0 settlement, Delivery Versus Payment

Source: HKEX, PBOC, SAFE, CSRC, BNPP AM, Bloomberg, as of 9 October 2020. QFII: Qualified Foreign Institutional Investor RQFII: RMB Qualified Foreign Institutional Investor.

The advantages for long-term investors are six-fold:

1. No need to apply for quotas
2. No lockup or restriction on repatriation. Capital can be deployed quickly and access to the A-shares market has never been easier
3. Ability to use current broker to invest in overseas stocks, with costs comparable to those of investing in other countries
4. Possibility for existing QFII and RQFII investors to increase exposure and for new investors to gain greater exposure of portfolio to Shanghai / Shenzhen listed securities
5. New offshore Renminbi-denominated investment opportunities. Investors can trade Chinese stocks from Hong Kong and the funding is possible through CNH (offshore Renminbi) rather than CNY (onshore Renminbi)
6. Offshore investors protected by Hong Kong law when investing in PRC stocks through the HKEX.

Note that these programmes are not static – each has been refined and expanded since being launched. This is likely to continue as more participants join and as regulators streamline procedures and broaden the scope of the schemes. This easier access has led to a significant increase in overseas investors' interest in the A-shares market.

In summary, offshore investors can access China A-shares in three ways:

1. QFII
2. RQFII
3. Stock Connect

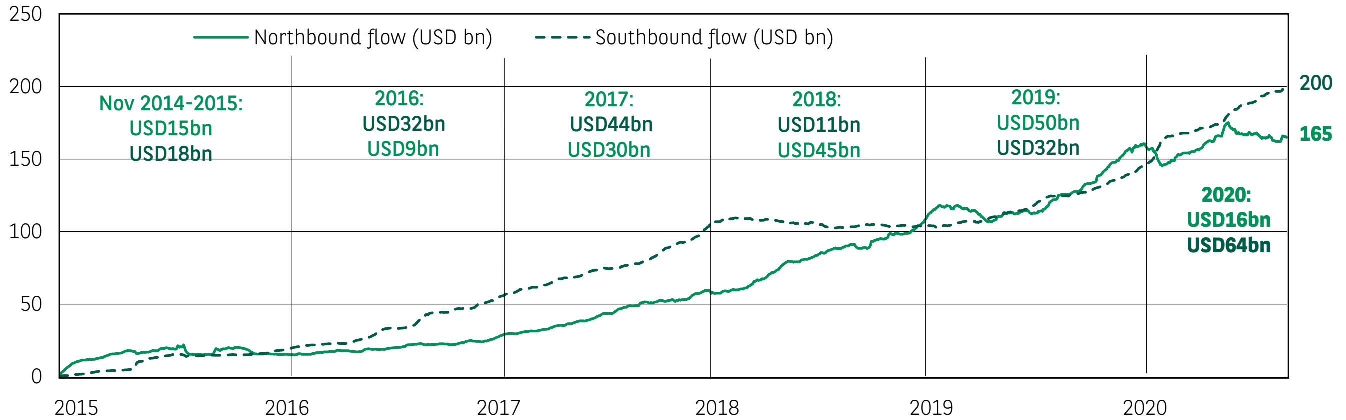
Towards further liberalisation and institutionalization of the financial market

Portfolio managers are starting to add more China exposure to their global portfolios (Exhibit 17). As a result, global investors' participation is changing the structure of the A-shares market gradually, rendering it more mature and more fundamentals-driven, which favours the long-term growth of the A-shares market. As such, Stock Connect represents a key milestone in the globalisation of China's financial market.

Since the announcement of Stock Connect, the inclusion of the Renminbi in the IMF's Special Drawing Rights (SDR) basket and MSCI's inclusion of A-shares, China has continued to accelerate the opening up of its financial sector, announcing that it will ease limits on foreign ownership of banks and securities firms. In our view, this is a milestone event that sends the signal that China's authorities are confident that the country's financial institutions are now strong enough to compete directly with foreign rivals.

Exhibit 17: Flow to Chinese equities is gaining momentum

Cumulative net buying of Southbound/ Northbound Connect since inception (USD billion)



Source: Wind, Goldman Sachs Global Investment Research, as of October 2020.

CHINA FIXED INCOME MARKETS

Quite simply, the scale of the Chinese bond market is vast! Standing at over USD 12 trillion at the end of October 2020 (including both China onshore rates and credit bonds, as shown in Exhibit 18), it is the third largest bond market in the world, behind only the US and Japan.

Despite its size, however, this bond market only accounts for around 100% of the country's GDP while most developed countries bond markets are in excess of 200% of GDP. As China graduates towards developed market status and shifts towards a more consumption-driven economy, we would expect the Chinese bond market to continue to grow in size.

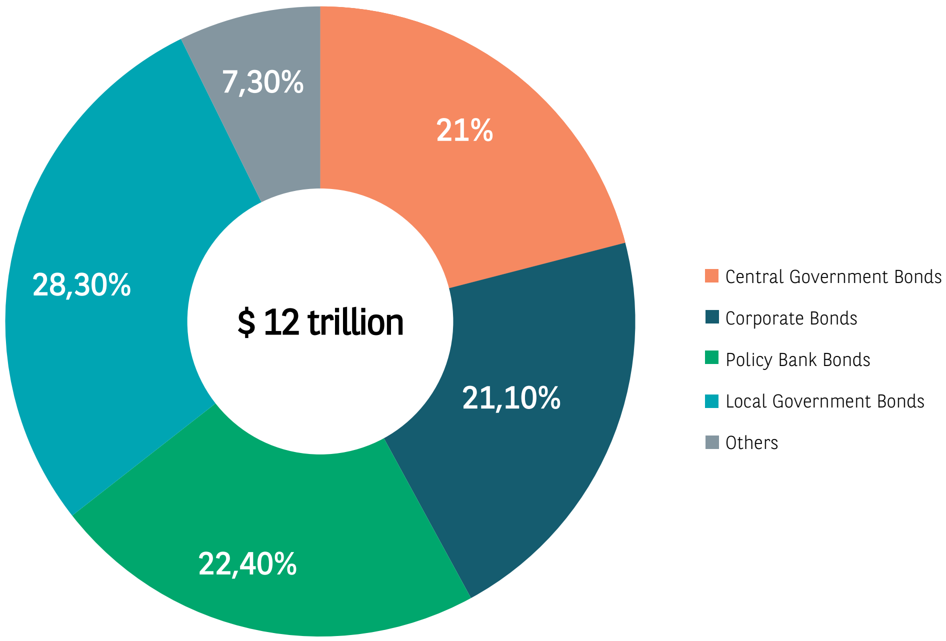
Despite its immense scale, it may be surprising to some that China's bond market is still one of the world's least owned by foreign investors (Exhibit 19), reflecting years of restricted market access, capital controls, regulatory uncertainties, issues around transparency and relative illiquidity.

While these were all legitimate reasons to steer clear of this market in the past, we believe that we are now at an inflection point and that the Chinese bond market is becoming more accessible to foreign investors. Index inclusion has started to lead to sizeable inflows and there has been significant simplification of regulatory and policy layers. Additionally, further clarification on settlement and tax issues have alleviated investor concerns and, last but not least, macroeconomic and currency-related uncertainties have now meaningfully receded. We have already seen the initial effects of this evolution, with foreign net inflows into the onshore Chinese bond market increasing considerably over the past couple of years; however, we are still in the early stages of this global re-allocation of capital.

The regulatory journey so far

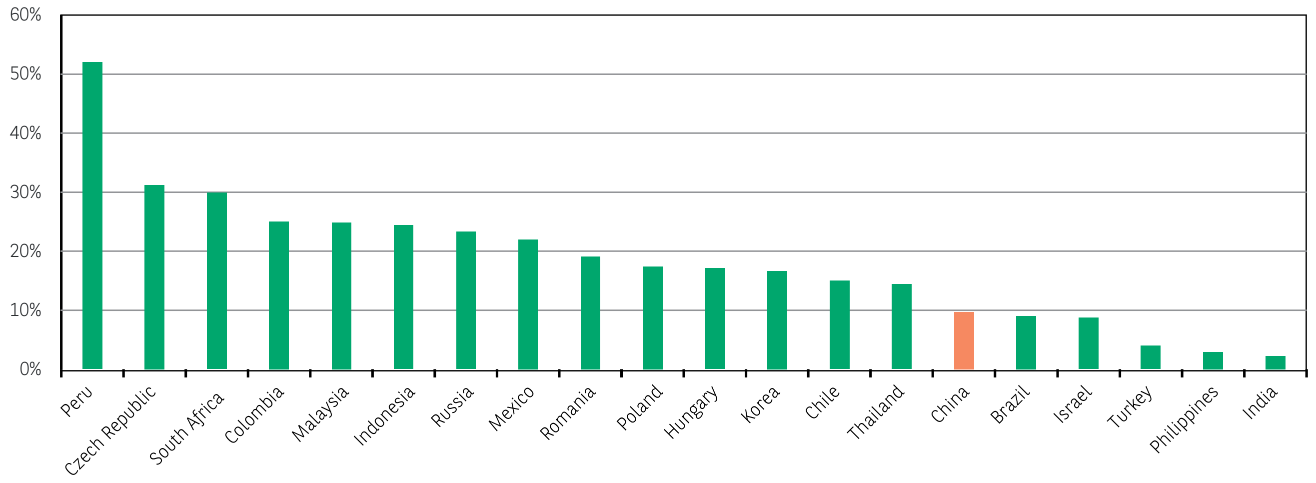
Despite its size and economic prowess, the onshore renminbi market was closed to foreign investors due to a number of regulatory hurdles. However, more recently, there have been significant moves by regulators as they prepare to internationalise the bond market and open it up to foreign investors.

Exhibit 18: Breakdown of the Chinese bond market



Source: China Central Depository & Clearing Co., Ltd., as of 31 October 2020.
Notes: Categories are based on the ChinaBond New Composite Index. Others includes commercial papers and agency bonds.

Exhibit 19: Foreign ownership (%) of local bonds outstanding



Source: JP Morgan, official sources, as of February 2021.

Exhibit 20: Evolution of the China fixed income regulatory moves

Oct. 2016	• Inclusion in the IMF Special Drawing Rights (SDR) basket at a weight of 10.92%. • The next IMF review will take place by September 2021.
Jul. 2017	• Launch of the Bond Connect program for easier access to the onshore bond market by offshore investors.
Nov. 2017	• PBoC issued detailed operational guidance for foreign investors' onshore RMB bond investments, including on account registration, settlements and tax rates.
Aug. 2018	• China State Council announces 3 year tax waiver on China bond investments for foreigners. • Bond Connect offers real time Delivery Versus Payment (DVP) settlement and block trading.
Apr. 2019	• Bloomberg includes onshore Chinese government and policy bank bonds in the Bloomberg Barclays Global Aggregate Bond Index, phased over 20 months.
Jul. 2019	• China State Council, PBoC and multiple regulators jointly announce 11 measures to further open up access to China's financial markets.
Nov. 2019	• SAFE draft Circular enabling foreign institutional investors to utilize RMB-foreign exchange (FX) derivatives in China to manage and to hedge FX risk arising from onshore investments.
Feb. 2020	• JP Morgan adds onshore Chinese government bonds in its GBI-EM GD index over 10 months. • China increases equity ceiling for foreign-invested life insurers from 51% to 100%.
Apr. 2020	• China lifts foreign ownership caps on securities firms in line with US-China phase 1 trade deal.

Sources: BNPP AM, CSRC, PBoC, SAFE, as of end 2020.

China has also overhauled its regulatory framework so as to have better centralised coordination and enforcement among the different regulatory bodies to make central policy initiatives more effective.

This has included:
- Merger of the banking regulator (CBRC) and the insurance regulator (CIRC) into a new body: CBIRC.
- Broadening of the PBoC's remit to include drafting key legislation for banking/insurance and for macro-prudential regulation.

Exhibit 21: Key regulators are now operating in the Chinese bond market space

People's Bank of China (PBoC)	Chinese central bank which controls monetary policy and regulates financial institutions in China. It has a dual mandate around monetary and financial stability.
China Central Depository and Clearing Corporation (CCDC)	Centralised depository and settlement for the interbank bond market
China Foreign Exchange Trade System (CFETS)	Supervises interbank lending, bond and FX markets (a subdivision of PBoC)
China Securities Regulatory Commission (CSRC)	Regulates China's securities markets and in charge of qualification approval of Qualified Foreign Institutional Investor (QFII) and (RMB or RQFII)
State-Owned Assets Supervision and Administration Commission (SASAC)	Performs investors' responsibilities, supervises and manages the assets of the state-owned enterprises under the supervision of Central Government
State Administration of Foreign Exchange (SAFE)	Regulates foreign exchange administration system and manages the country's foreign exchange market. Regulates foreign invested enterprise's RMB fund raising approval and their FX payments and guarantee.

Sources: BNPP AM, CSRC, PBoC, SAFE, as of 2019.

Accessing the Chinese onshore bond market

The scale and diversity of investment options available to the uninitiated could well feel overwhelming given the difficulty of access in the past. It is indeed true that there have been many hurdles, with one of the most serious concerns being that of taxation uncertainty. However, we have now had clarification that foreigners will be exempted from paying taxes until end of 2021. The settlement process has been simplified and trading has been facilitated (Exhibit 22 shows the different routes to accessing the Chinese bond market).

There are now many options to access the market. The main differences between Bond Connect and China Interbank Bond Market (CIBM) are outlined in Exhibit 23. While the universe is basically the same for now and Bond Connect is sometimes seen as easier and quicker, we think that, in time, having genuine onshore access should allow investors access to a broader array of tools including onshore derivatives.

In our view, the political will to continue financial market reforms has been strengthened following the 19th National Congress of the Communist Party of China, at which President Xi Jinping was able to consolidate his power and influence.

Chinese policymakers' commitment to attract foreign capital remains strong. Even with high domestic savings rates, China's large augmented fiscal deficit of c. 8%-9% of GDP (including quasi-sovereign entities and sub-levels of the government) will require significant portfolio inflows to help finance and rebalance the economy. China has traditionally been very slow and cautious in opening up its capital account. However, this time around, we expect its commitment to be strong and irreversible.

Exhibit 22: Four different routes to access onshore Chinese bonds

Investment Scheme	CIBM Direct	Bond Connect	QFII Qualified Foreign Institutional Investor	RQFII RMB Qualified Foreign Institutional Investor
Eligible Investor	• Overseas Central Banks, Supranational, Sovereign Wealth Fund (FOIs) • Asset Managers, Funds, Insurance companies, Securities companies, Commercial bank	• Overseas Central Banks, Supranational, Sovereign Wealth Fund • Asset Managers, Funds, Insurance companies, Securities companies, Commercial bank	• Asset Managers, Funds, Insurance companies, Securities companies, Commercial banks, others (pension funds, government institu-tions...)	• Financial institutions with principal place in approved RQFII jurisdictions with an asset management licence
Eligible Invest-ment Scope	• CIBM • Bonds • Bond lending, Bond forward, interest rate derivatives • FX derivatives • Repo	• CIBM • Bonds • FX derivatives Note: Future investment scope will expand to bond repurchase, bond lending, bond forward and interest rate derivatives	• Fixed income products listed and traded in • CIBM, and • Exchange markets	
Quota	• No quota limitation	• No quota limitation	• Base quota mechanism • SAFE registration/approval for quota	
Access	• Register with PBoC through a Type A Interbank Bond Settlement Bank • FOIs can access directly or entrust PBoC / Type A bank as agent	• Register with Bond Connect Company Ltd. • Rely on existing Global custodian who appoints a CMU member in Hong Kong to be the offshore custodian	• For CIBM Investment: Entrust a Type A Interbank Bond Settlement Bank • For exchange market investment: Entrust onshore custody for cash settlement, and onshore brokerage	

CMU: Central Moneymarkets. Unit Sources: BNP Paribas, CSRC, PBoC, SAFE.

Exhibit 23: Bond Connect vs. CIBM Direct

	Bond Connect (Northbound)	CIBM Direct
Set-up process	• Simpler application process and shorter expected turn-around	• Longer set-up process
Eligibility	• Same as CIBM Direct Access	• Financial institutions; medium to long-term investors
Product scope	• Cash bond and FX derivatives for hedging purposes • No access to onshore repo • FX spot conversion and hedging; FX hedging pending more control/ monitoring details – via the appointed HK Settlement Bank	• Cash Bond, interest rate and FX derivatives for hedging purpose • Onshore repo for commercial banks • FX spot conversion and hedging - via the appointed BSA
Registration	• Registration with PBoC through BCCL • Registration could be at company or product level	• Registration with PBoC through settlement agent bank • Registration needs to be at product level for fund managers
Trading Platform	• International trading platforms Tradeweb and Bloomberg • Additional cost charged for connectivity (1bp on notional) • Unable to negotiate prices on electronic platform	• OTC trading with agent bank who trades on investors' behalf on CFETS or RFQ basis • Able to negotiate prices with counterparties
Quota	• No quota is imposed or needs to be indicated	• No quota is imposed, but investment is subject to registered amount indicated by investors
Settlement/custody	• Rely on existing Global Custodian which has already appointed a local custodian in HK (acting as HK CMU member) • Investor has no contractual relationship with onshore settlement agent. Back to a normal custody and legal framework: (Investor/Global Custodian/Sub Custodian) • Account structure in CMU (segregated at investor level). Account structure in CCDC and SHCH: One omnibus CMU account opened as nominee • Settlement cycle same as CIBM Direct Access	• DVP settlement for CCDC & SHCH • Need to open accounts directly with Settlement agency, CCDC and SHCH. • Settlement cycle : T+0, T+1 and T+2 settlement
Ownership structure	• Nominee structure held via CMU	• Bond held onshore by investor directly
Restrictions	• Same as CIBM Direct Access	• No lock-up period or repatriation restrictions
Tax	• Tax rates clarified • How and when to be collected remain unclear • No capital gain tax • Coupon tax: Waived for Govi and municipal bonds and , 16% on rest of the bonds; • Coupon interest income received by overseas institutional investors in China bond market will temporarily be exempted from corporate income tax (CIT) and value added tax (VAT) for three years.	• Tax rates clarified • How and when to be collected remain unclear • No capital gain tax • Coupon tax: Waived for Govi and municipal bonds, 16% on rest of the bonds; • Coupon interest income received by overseas institutional investors in China bond market will temporarily be exempted from corporate income tax (CIT) and value added tax (VAT) for three years.

Source: PBoC, BNPP AM, PwC China. Invesco, as of 2019. BCCL: Bond Connect Company Limited; BSA: Bond Settlement Agent; RFQ: Request for Quotation; SHCH: Shanghai Clearing House.

CHINA'S INCLUSION WITHIN INDICES AND ITS IMPLICATIONS

CHINA A-SHARES INCLUSION IN THE MSCI INDICES

After the first phase of A-share inclusion, MSCI completed another three-step weight increase of China A-shares in the MSCI Emerging Market Indexes in November 2019. The inclusion factor for 268 existing constituents was increased from 15% to 20%, some 244 China A-shares and another 228 Mid-Caps were added to MSCI China Index. As a result, China A-shares represent 12.1% and 4.1% in the MSCI China and MSCI Emerging Market Indexes, respectively.

Improved market access accelerated MSCI inclusion

The latest MSCI decision followed overwhelming support from international institutional investors. Investors recently welcomed the following commitments by the Chinese authorities:

- **Facilitate the smooth running of Stock Connect** – quadrupling of the Stock Connect daily limit to RMB 52 billion (USD 8 billion) for northbound and RMB 42 billion (USD 6 billion) for southbound trade in September 2020.

- **Accelerate China's QFII / RQFII reform** – In September 2019, China removed the QFII/RQFII quota. After these quota removal, foreign investors will only need a CSRC license for direct China market access.

- **Improve market accessibility** – trading suspension fell to lower than 10 stocks in November 2020, compared to over 300 suspended names in H1 2015.

- **Facilitate foreign investor to invest in to derivatives and futures.**

A further increase in the weight of A-shares beyond 20% would largely depend on the Chinese authorities addressing the remaining market accessibility problems (e.g. the short settlement cycle of China A-shares or trading holidays on Stock Connect).

Exhibit 24: Estimated weighting of A-shares in MSCI indices post-implementation

INDEX	A-SHARE WEIGHTING AT 5% IF	A-SHARE WEIGHTING AT 20% IF	A-SHARE WEIGHTING AT 100% IF
MSCI Emerging Markets	0.7%	3.3%	14.2%
MSCI AC World	0.1%	0.4%	2.0%
MSCI AC Asia ex-Japan	0.8%	4.0%	16.1%
MSCI China	2.3%	10.4%	34.1%

INDEX	MSCI CHINA WEIGHTING AT 5% IF	MSCI CHINA WEIGHTING AT 20% IF	MSCI CHINA WEIGHTING AT 100% IF
MSCI Emerging Markets	30.9%	31.9%	41.7%
MSCI AC World	3.7%	4.0%	n/a
MSCI AC Asia ex-Japan	44.5%	38.0%	47.3%

Source: MSCI, BNPP AM, data as of 1 March 2019. IF: inclusion factor. Data at full inclusion are estimates.

From a longer-term perspective, improved foreign investor access should pave the way for the A-shares weight to rise further. In the case of full inclusion, A-shares (together with China offshore) should take the weight of Chinese equities to about 40% of the index (Exhibit 24). A move towards full inclusion would be a lengthy and gradual process. It took about nine years for Taiwan and six years for South Korea to move from initial partial inclusion to full inclusion.

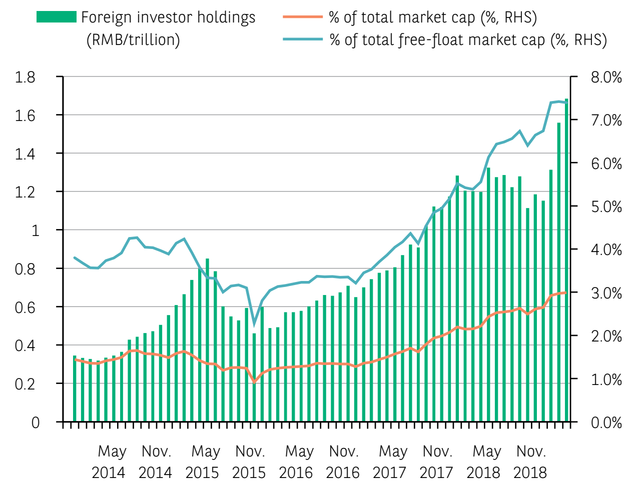
In our view, the latest news concerns more than just a further opening by MSCI – wider inclusion in the indices is a sign of international recognition of China's market liberalisation efforts.

Foreign investors now play a significant role in the A-share market

The expanding share of China A-shares in MSCI global indices should help strengthen global interest in this market and trigger more foreign fund inflows into China. Rising foreign participation should favour the increasing institutionalisation of the market. We believe this would be desirable given that the A-shares market is still mostly retail-driven.

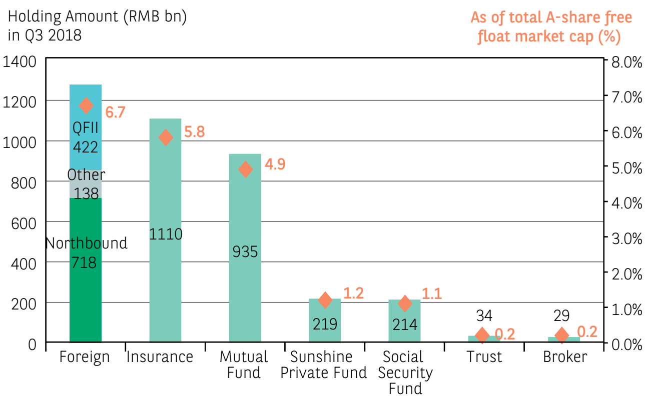
We expect the MSCI inclusion of A-shares to attract USD 400 billion of inflows over the next five to 10 years. According to PBoC, foreign investors hold 3.8% of A-shares total market cap through QFII and Stock Connect as of October 2020 (vs. less than 1.5% in March 2017).

Exhibit 25: Foreign investors' A-shares holding is accelerating



Source: UBS, PBoC, Wind, as of 1 March 2019.

Exhibit 26: Foreign investors as a whole are now the largest institutional players in the A-shares market



Source: Wind, PBoC, HSBC, as of 1 March 2019.

CHINA BONDS INCLUSION IN THE INDICES

Despite China's significant size, economic prowess and high credit rating (A+ by S&P), the onshore renminbi market has, until very recently, been excluded from the mainstream emerging and developed market bond indices due to a failure to meet certain index inclusion criteria as prescribed by the index providers.

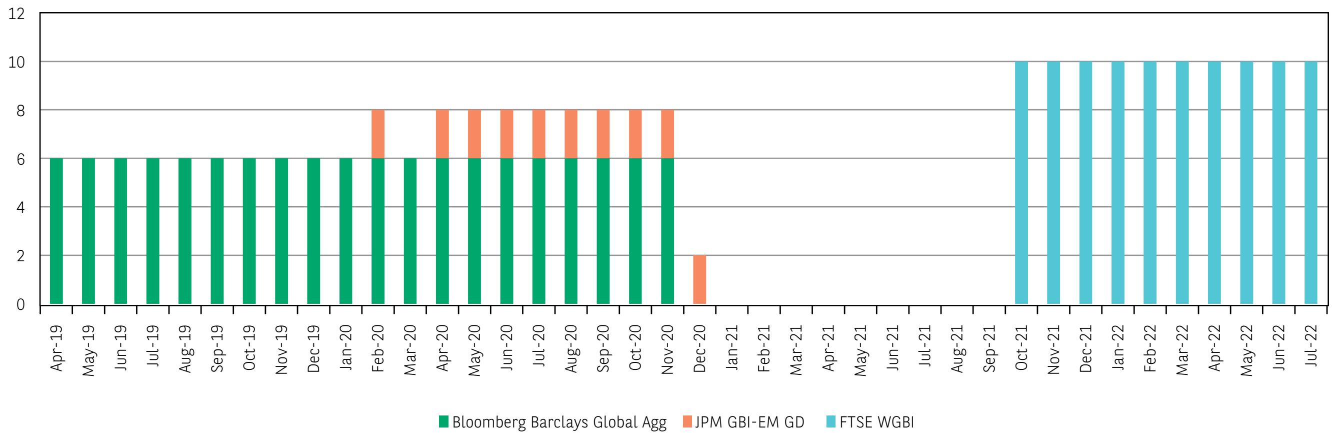
However, this all started to change in 2019, when China was first included in the Bloomberg Barclays Global Aggregate index, followed by inclusion in the JP Morgan GBI EM Global Diversified Index a year later. Furthermore, starting from October this year, China will be gradually included in the FTSE WGBI over a 12-month period.

Index inclusion is a game changer, certifying that Chinese bonds meet the essential criteria required for inclusion and guaranteeing passive index inclusion inflows.

The final index weight of China onshore bonds in these benchmarks will be in the range of 6%–10%. Based on the current assets under management of these benchmarks, the resultant estimated index-related flows into onshore bonds are in the range of US$250 to 300 billion, with US$120bn to US$150bn resulting from FTSE WGBI inclusion alone.

However, these figures only relate to passive index inclusion inflows. They do not include other potential flows, for example via global central banks increasing foreign reserves in the renminbi. In addition, should this market eventually catch up with the levels of foreign ownership seen in mature markets or even in smaller emerging markets, this would translate into several USD trillions of inflows in the years to come.

Exhibit 27: Expected passive inflows from index inclusion

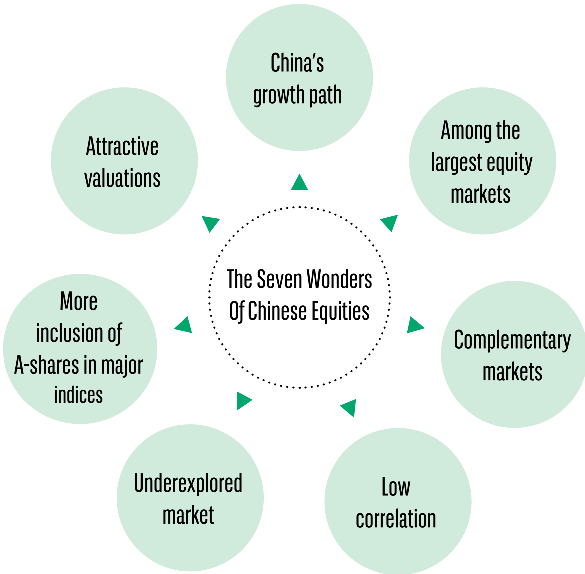


Source: J.P. Morgan estimates as at February 2021.

HOW "ALL-CHINA" EQUITIES CAN ENHANCE A GLOBAL EQUITY PORTFOLIO FOR ACTIVE INVESTORS

As the China onshore equity market opens up to foreign investors and the MSCI inclusion of A-shares accelerates, large amounts of capital are expected to flow into the Chinese equity markets over the long term.

In addition to a tactical investment in China A-shares, we believe there are strong strategic reasons for regarding it as a long-term investment proposition:



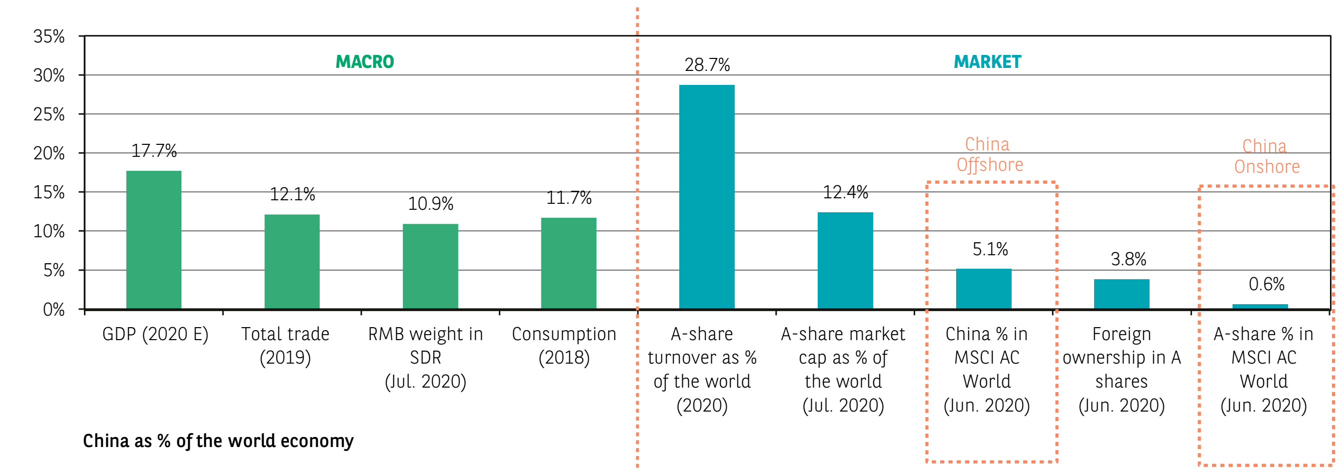
REASON #1: UNTAPPED OPPORTUNITY IN CHINA'S GROWTH PATH

There is every prospect of China continuing its impressive growth path with powerful domestic tailwinds, such as urbanisation and a growing middle class, and much scope for the country to boost its per capita GDP and productivity.

Although China's economic engine is cooling down, it continues to rack up one of the world's fastest rates of economic growth."The International Monetary Fund predicts that if current trends continue, China would overtake the US as the world's largest economy (in nominal USD terms) by 2030", according to Chi Lo, BNPP AM's senior economist dedicated to China. In recent years, "China's growth has contributed about a third of global growth according to the UN[13]".

The major change from the past is that the Chinese government is focused more on high quality, stable growth rather than on achieving the fastest growth possible. Despite its economic contribution in a global context, Chinese equities appear to be under-represented in global indices (Exhibit 28).

Exhibit 28: Chinese equity markets have lagged behind the spectacular growth of the economy



Source: MSCI, FactSet, Wind, Goldman Sachs Global Investment Research, as of 28 October 2020.

13 According to the "World Economic Situation and Prospects 2018" released by the United Nations in January 2019.

REASON #2: CHINA A-SHARES: ONE OF THE WORLD'S LARGEST EQUITY MARKETS

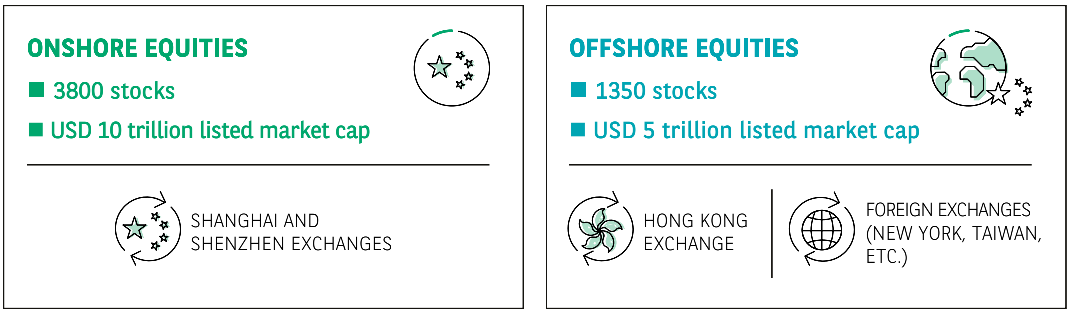
China's equity market has been growing at a dramatic pace since its opening in 1990, both in terms of market capitalisation and breadth of listed companies.

Today, the Shanghai and Shenzhen Stock Exchanges constitute one of the largest equity markets, with total market capitalisation of about USD 10 trillion and more than 3800 stocks (as of October 2020). The market capitalisation of the market is only surpassed by the Nasdaq (USD 17 trillion) and the New York Stock Exchange (USD 29 trillion).

The total market capitalisation of Greater China equity markets (Shanghai, Shenzhen and Hong Kong Stock Exchange) is approximately USD 15 trillion (Exhibit 29).

A large market tends to imply a level of maturity, which is not yet the case with China A-shares. Retail investors, who typically have a short-term approach and are momentum-driven, still dominate a large part of the onshore market, holding about 40% of the A-share listed market cap (vs. about 70% in 2014).

Exhibit 29: Chinese equity markets are large, liquid and among the most active exchanges in the world



Source: Wind, FactSet, UBS, as of October 2020.

REASON #3: COMPLEMENTARY MARKETS, WITH A NUMBER OF UNIQUE OPPORTUNITIES IN LOCAL MARKETS

In addition to the size of the opportunity set, China A-shares provide more diversified access to structural growth opportunities – a complement to the current offshore China exposure.

The reasons are three-fold:

1. China's onshore and offshore equity markets are complementary.
2. The dual listings (stocks listed both as A-shares trading in Shanghai and H-shares trading in Hong Kong) provide trading and financing opportunities.
3. There is a significant difference in sector weights between the different types of shares.

Hong Kong-listed companies historically have been dominated by large state-owned enterprises in the financial and energy sectors.

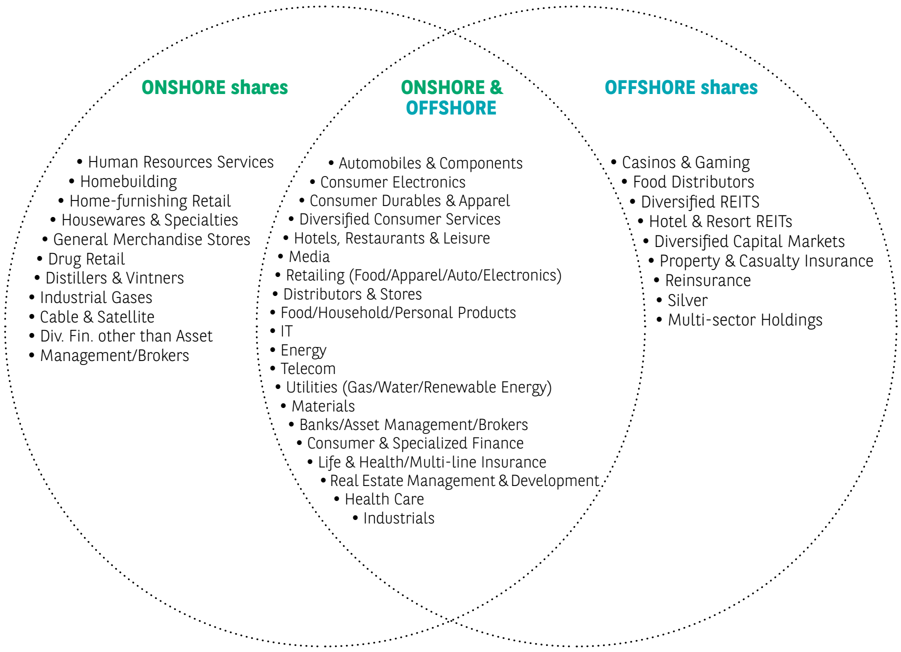
Over the last five years, some Chinese tech giant have listed (re-listed) in Hong Kong amid growing tensions between the US and China.

In constrast, one attractive attribute of A-shares is their higher exposure to non-government-owned companies in consumption- and innovation-driven industries. The Shenzhen exchange, in particular, has a more attractive selection of companies, with about 62% of Shenzhen's market capitalisation in technology, consumer goods and industrials.

Most importantly, a number of these sectors can be unique to A-shares, such as Chinese spirit brands or pharmaceutical companies providing diabetes treatments for the ageing population (Exhibit 30).
By investing in both China's onshore and offshore shares, investors can benefit from:

1. Risk management via sector diversification
2. Broadened opportunity set for alpha generation

Exhibit 30: Chinese onshore and offshore universes are complementary[14]



Source: Wind, FactSet, Goldman Sachs Global Investment Research, as of October 2020.

REASON #4: LOW CORRELATION PROVIDES DIVERSIFICATION

China A-shares have some features that make them different from typical China exposure in a global portfolio.

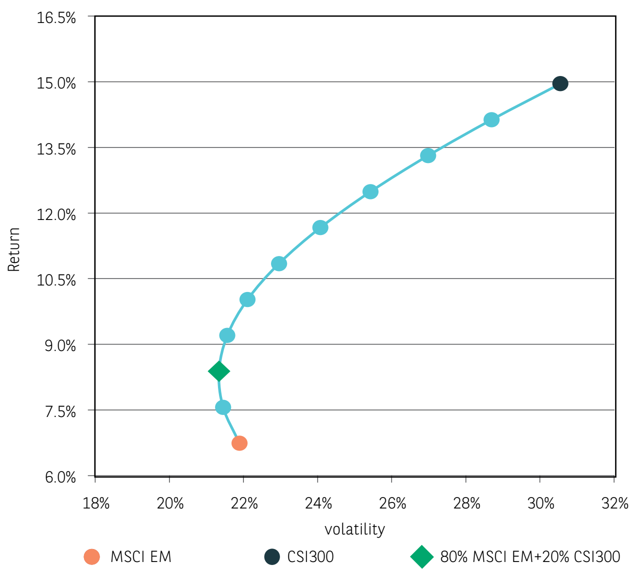
More than 90% of the revenue of China A-share companies is domestically driven, and thus relatively less sensitive to global macroeconomic trends. For decades, the onshore market developed in isolation, with few foreign investors following A-shares, so the A-shares market tends not to transmit global shocks with the same intensity as markets elsewhere.

In addition to a domestic retail investors-focused market, these various elements resulted in a low correlation between China A-shares and other global equities, as indicated by the historical correlation of approximately 0.4 between China A-shares and the MSCI World index.

This low correlation and ample liquidity mean A-shares can provide an effective means for foreign investors to diversify their portfolio.

While exposure to Chinese equity can appear challenging from a risk-return perspective, the diversification in the portfolio mitigates this to some extent, such that risk-adjusted returns may actually improve. As a result, adding China A-shares can potentially enhance the risk-return profile for an emerging market (EM) portfolio (Exhibit 30), as well as a China offshore equity portfolio.

Exhibit 31: Adding China A-shares can potentially enhance the risk/return profile of an emerging market equity portfolio as well as a China offshore equity portfolio
(15-year period, as of 31 July 2020)



Source: BNPP AM, as of 30 July 2020.

14 The above-mentioned securities are for illustrative purpose only, are not intended as solicitation of the purchase of such securities, and does not constitute any investment advice or recommendation.

REASON #5: UNDEREXPLORED MARKET, OFFERING MISPRICING OPPORTUNITIES

Chinese equities markets, particularly the A-shares market, remain highly inefficient and potentially offer skilled investors significant scope to add value.

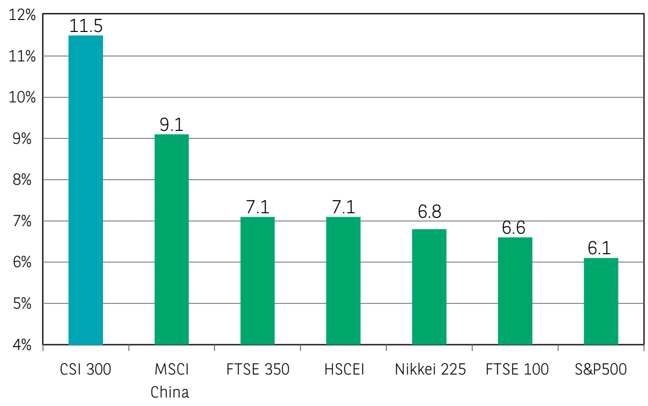
Local retail investors account for more than one-third of the free float and some 86% of transactions. Retail investors in China tend to be on the lookout for rapid capital gains, which explains the popularity in recent years of smaller high-growth companies.

China A-shares are thus prone to contribute to higher volatility driven by investor speculation and sustained by momentum trading (vs. the US and Hong Kong). The China A-shares market is much more volatile, with the average standard deviation of monthly returns around 11.5% (vs. 7% for Hong Kong).

The dispersion of returns in A-shares is also significantly higher compared to those from global markets, which presents a great opportunity for skilled fundamental stock pickers (Exhibit 32).

Exhibit 32: Higher dispersion of returns in China A-shares vs. developed markets

Average standard deviation of constituents' monthly returns over the last 5-years (average)



Source: Thomson Datastream, UBS, as of 14 May 2018.

Most importantly, there is currently a lack of coverage of Chinese stocks by sell-side analysts and the quality of domestic broker coverage in A-shares tends to be relatively weak. Only 7% of onshore stocks are audited by the 'Big 4' global auditing firms, with 57% audited by local tier-1 firms.

A focus on corporate governance risks is also critical when investing in emerging markets, and this is especially true for A-shares. It is encouraging to note that the number of stock suspensions has gone down significantly, from 1 422 suspended stocks in July 2015 to less than 10 names on average in November 2020.

Active managers who have the resources to undertake their own on-the-ground research in China, and who have a long-term investment horizon to benefit from the lower market efficiency, should be well placed to take advantage of the investment opportunity in China A-shares.

REASON #6: FURTHER A-SHARES INCLUSION IN MSCI, FTSE AND S&P INDICES

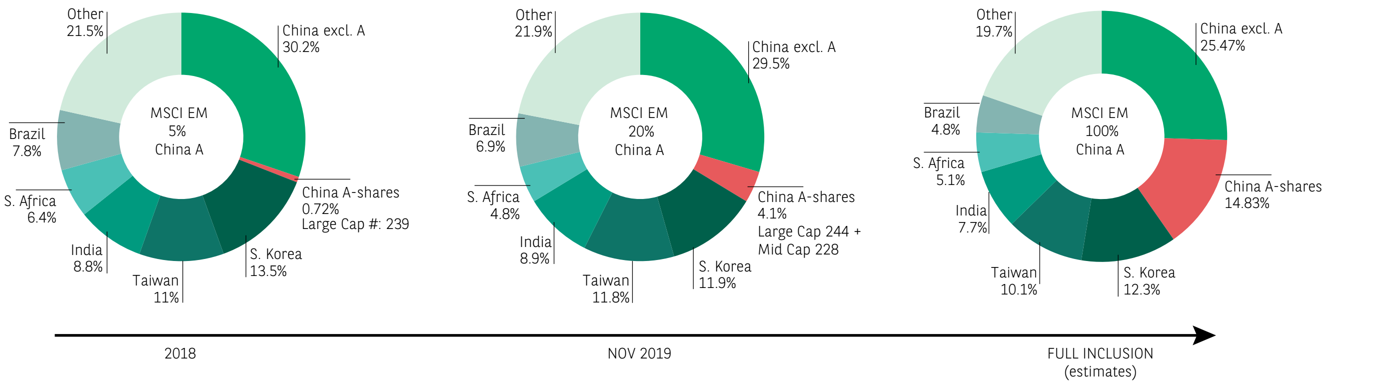
MSCI is quadrupling the weighting of domestically traded Chinese stocks in its emerging market indices, starting from May 2019.

In a three-step plan, the share of large-cap China A-shares increased from a 5% inclusion factor (June 2018) to a 20% inclusion factor (November 2019), as exemplified in Exhibit 33.

The decision of the key global index providers (MSCI, FTSE, S&P) to include some more China onshore companies in their indices was a significant milestone in the mainstream acceptance of Chinese equities in international investors' portfolios.

In our view, this inclusion helps support the Renminbi and improve the China A-shares market's investor structure from being retail-focused to a more balanced mix of institutional and retail investors. We believe that the inclusion will likely improve China's capital market liberalisation as well as regulations.

Exhibit 33: Pro-forma weight increase in the MSCI EM index in three steps



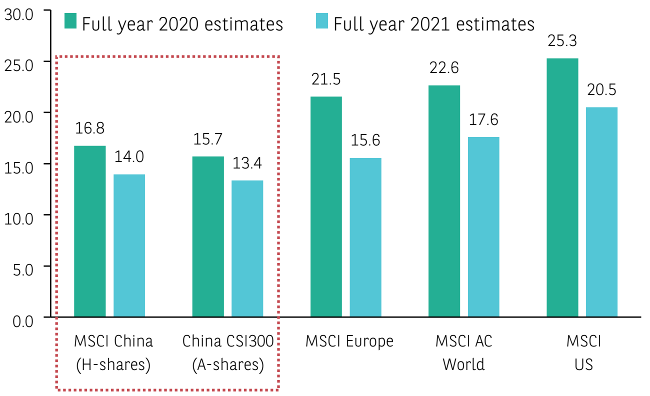
Source: BNPP AM, MSCI, data as of November 2019.

REASON #7: ATTRACTIVE VALUATIONS

Both China A- and H-shares markets are reasonably priced relative to those of developed equity markets and to their historical average.

The MSCI China (offshore) and CSI 300 (onshore) indices are attractively valued at around 16.8x and 15.7x for the FY 2020 P/E, respectively, thus representing a discount compared with MSCI US, MSCI Europe and MSCI World indices, as of 5 October 2020 (Exhibit 34).

Exhibit 34: China equity valuations look moderate vs. developed markets



Source: BNPP AM, Bloomberg, as of 5 October 2020.

Not only does the Chinese equity market benefit from attractive valuations against developed markets, but it also enjoys strong Earnings Per Share (EPS) growth. The MSCI China and CSI 300 indices benefit from consensus EPS growth of 17.6% and 13.1% respectively in 2020 and 19.9% and 17.7% respectively in 2021 estimates (as of 20 October 2020).

CONCLUSION

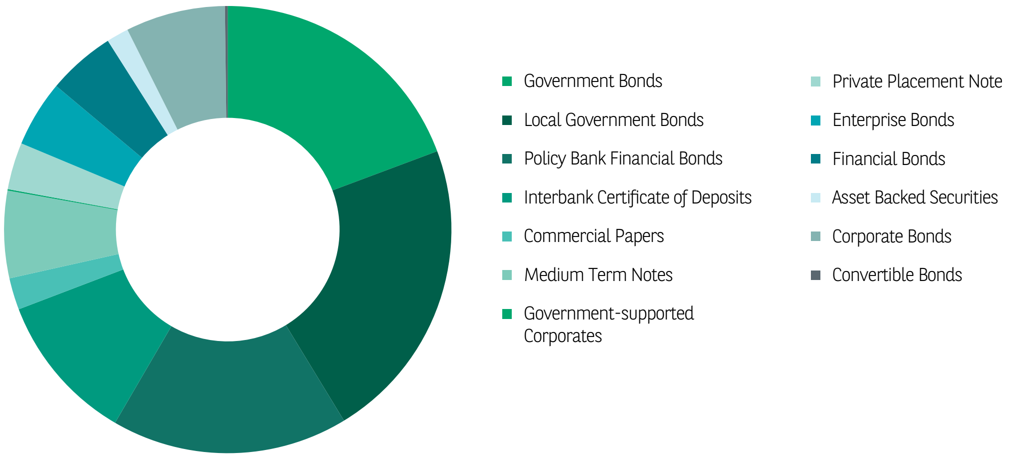
CHINA A-SHARES ARE BECOMING INCREASINGLY IMPORTANT FOR GLOBAL INVESTORS

It is essential to closely monitor the market given its higher volatility (vs. developed markets), and changes in factors such as valuations and earnings may require tactical portfolio adjustments. Although risks when investing in China should not be overlooked, we believe that the opportunities for growth for Chinese companies are broad-based and positive. We believe that Chinese equity markets may present a number of attractive opportunities given the long-term structural trends.

HOW CHINA ONSHORE FIXED INCOME MARKETS CAN BECOME A DOMINANT SOURCE OF ALPHA FOR ACTIVE INVESTORS

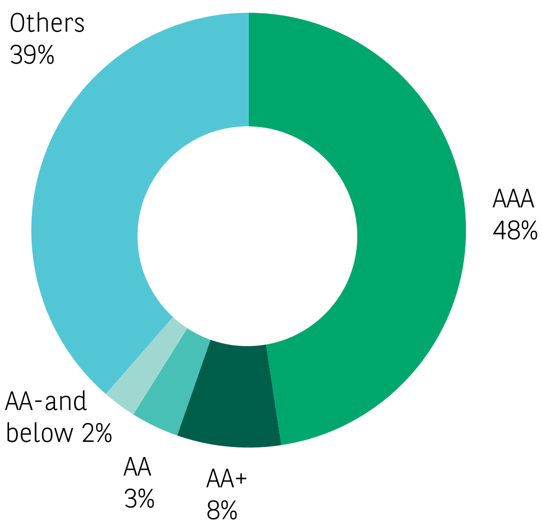
Not only is it huge, but the onshore Chinese fixed income market is also relatively diverse. For those able to navigate it successfully, the market offers investors access to a wide range of instruments. However, the diversity in credit profiles is sometimes hidden by the still early-stage methodology for onshore rating (two-third of the onshore market is rated AAA even though part of this universe carries significant credit risk) and is still predominantly owned by commercial banks (Exhibit 35). The picture is changing, however, as ownership by pension funds, insurance companies and asset management companies has recently grown.

Exhibit 35: Renminbi onshore bonds trading



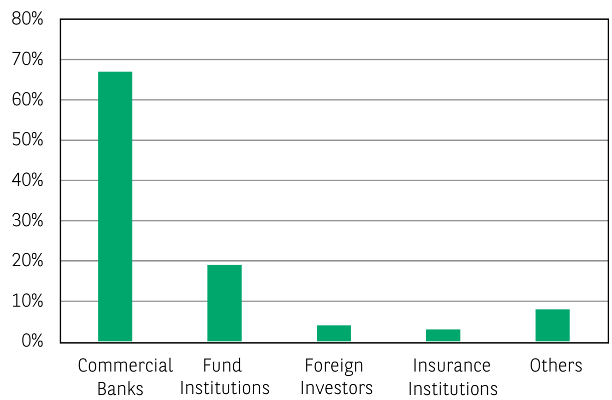
Breakdown of onshore bond market by rating

CGBs and policy bank bonds are not rated and considered risk free. LGBs are almost all AAA rated, currently limited differentiation among provinces.
For credit instruments, see breakdown by rating **below:**



Source: Wind, as of 8 February 2021.

Investor base



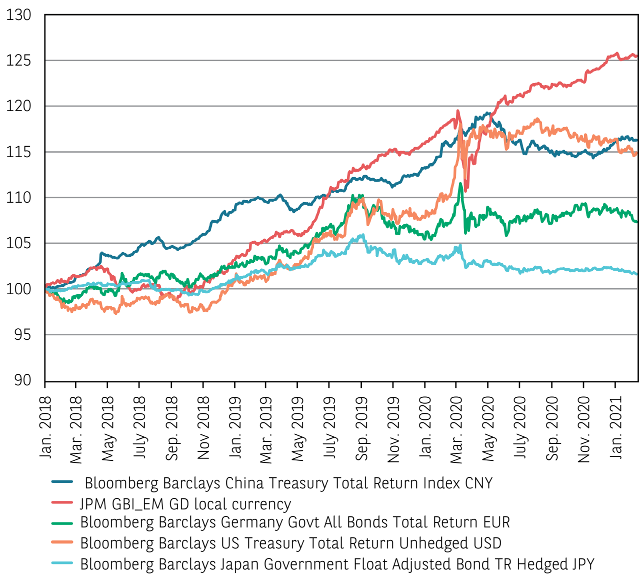
Source: China Central Depository & Clearing Co., Ltd., as of 31 October 2020. Notes: Data reflect the ownership structure of Chinese bonds in the Interbank market. Total may not sum to 100% due to rounding.

Overall, we see the long-term outlook for rates and policy banks as positive. Although we do expect some rising supply at the sub-sovereign level (especially at the provincial level), the combination of contained inflation off the back of only moderate fiscal and monetary stimulus and incremental foreign demand should help keep yields low.

On top of index inclusion as we discussed previously, we think we are only at the beginning of the allocation of central banks' reserves into the onshore Chinese market. The weight of China has recently been increasing and is now approaching 2%, roughly in line with allocations to the Australian and Canadian dollars. Over time, we think the weight of renminbi-denominated assets (CGBs and policy banks) could well be in excess of 5%.

This fundamental mispricing of the onshore market has to do with the demand structure. For onshore investors, Chinese rates (including policy banks bonds) are "risk off", i.e. they represent a risk-free rate. The correlation is usually negative with the A-shares equity market. However, from a foreigner's perspective, adding the China rates risk is seen as "risk on", with a low correlation with other types of global emerging market local currency debt instruments. This divergence in views naturally creates some mispricing and offers an opportunity for alpha generation. Given these atypical features, the Chinese bond market usually displays a relatively low correlation with both developed markets' rates and emerging market local currency debt, as well as relative stable returns (Exhibit 36 and 37). The risk/reward profile is quite distinct from that of other emerging market instruments.

Exhibit 36: Performance of CGBs vs. EM and DM



Source: BNPP AM, Bloomberg, February 2021. DM: Developed Markets.

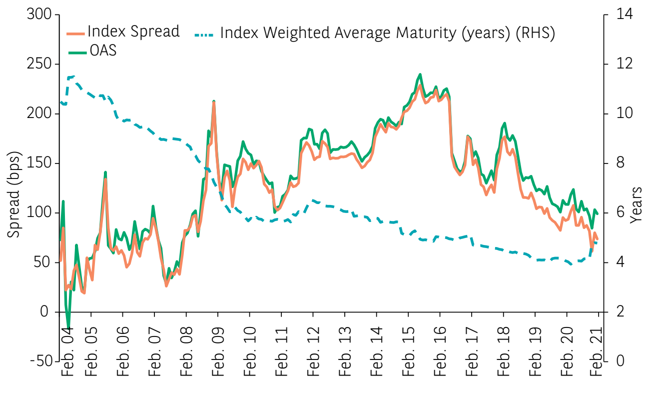
Exhibit 37: Correlation over four years of CGBs vs. EM and DM

	CGB	GBI EM	DBR	UST	JGB
CGB	1,00	0,09	0,28	0,32	0,36
GBI EM		1,00	0,16	0,04	0,43
DBR			1,00	0,62	0,76
UST				1,00	0,48
JGB					1,00

Source: BNPP AM, Bloomberg, monthly returns over four years to February 2021. CGB: China Government Bond; GBI EM: JP Morgan Global Bond Index Emerging Markets; DBR: German government bonds; UST: US Treasury; JGB: Japan Government Bond.

On the other side of the spectrum, onshore credit spreads always had the tendency to be tight in China (Exhibit 38), the main reason being that there was no price discovery mechanism. Credit risk traditionally tended to be priced from a top down perspective (i.e. trying to assess the level of government support) rather than attempting to price standalone credit risk.

Exhibit 38: Bloomberg Barclays China Corporate Total Return Index Unhedged USD and Index Spread



Source: BNPP AM, Bloomberg, January 2021. OAS: Option adjusted spread.

We think we are now at a major inflection point: policymakers are willing to inject more credit risk into the system. In the short term, onshore credit spreads are likely to widen as the credit ratings are reassessed and brought more in line with other global issuers. Until now, Chinese domestic rating agencies have been far too complacent and many AAA rated Chinese corporates actually carried significant credit risk.

However, the gradual opening to foreign rating agencies seems to be encouraging. We would expect higher corporate spreads in the short term and a rise in onshore corporate defaults. This might be painful in the short term but should be seen as a healthy longer-term development.

WHERE ARE THE RISKS?

There are a number of risk factors related to investing in Chinese equities and fixed income markets, specifically onshore markets, that investors should not overlook.

Some of the key risks include:

Debt burden: China has faced significant growth in debt levels since the financial crisis, but the government has started to address this. Despite its manageable debt levels, China's debt reduction and state-reform programmes are directly addressing debt burden issues within the financial system, and while this is very positive long term, we should expect onshore credit default rates to rise from historical low levels as over-indebted and less systemically important companies are allowed to default. We also expect policymakers to continue to resort to counter-cyclical targeted stimulus and liquidity programmes to stablise growth and avoid systemic risks during periods of heightened uncertainty. The government is reviving its deleveraging policy and its gradual retreat from the implicit guarantee policy distortion by allowing bad companies (including local SOEs) to exit the system.

Regulatory & transparency-related risks: Listed companies have the option of suspending trading of their own shares and such suspensions can last for months at a time. During the height of the large market sell-off of mid-2015 and 2016, investors felt the impact of regulatory risks when the Chinese government stepped in in the A-shares market to temper rapid security price increases. This was an unprecedented move amid efforts to avert a market meltdown. Stock suspensions helped stop a share rout from turning into a systematic risk. Concerns around investment quotas and capital controls have also been prevalent in the past. However, as policymakers seek to attract more foreign investor participation, they are making efforts to address these concerns. They are aiming to create a unified regulatory framework to enable the more efficient allocation and acces¬sibility of capital. In addition, transparency related concerns are also being actively addressed, most recently via enabling international rating agencies to rate onshore companies.

Currency risk: The heavy management of the renminbi gives stability and helps dampen volatility. But many economists believe that it is impossible to combine: 1) a fixed and stable exchange rate, 2) independent monetary policy, and 3) free international capital flows. If China has to give up one element of this so-called 'impossible trinity', currency control could be the one. Indeed, we have seen greater exchange rate flexibility employed by Chinese policymakers in recent years (eg. removal of counter-cyclical factor) and should continue to expect further FX liberalisation over time as Chinese capital markets open up to international investors.

Liquidity risks: Given the sticky domestic client base, particularly in the higher quality onshore bond market, trading in size or in the secondary markets can present challenges. Over time, a more diverse investor base, including foreign investors with different risk and return objectives should enhance liquidity conditions. China's equity market has been growing at a dramatic pace both in terms of market capitalisation and breadth of listed companies since 1991, making it one of the most liquid equity markets in the world. However, stock suspensions prevent the normal functioning of the market and cause illiquidity. Starting in November 2018, the China Securities Regulatory Commnission announced a series of guiding principles – companies are required to improve communication and transparency, and avoid long-term trading suspensions. The new guidelines limit the circumstances under which a company can apply for suspension.

ABOUT BNP PARIBAS ASSET MANAGEMENT ASIA LIMITED

BNP Paribas Asset Management (BNPP AM) is the investment management arm of BNP Paribas, one of the world's major financial institutions. Managing EUR 445 billion[15] in assets as at 30 September 2020, we offer a comprehensive range of active, passive and quantitative investment solutions covering a broad spectrum of asset classes and regions. With over 520 investment professionals and 500 client servicing specialists, we serve individual, corporate and institutional investors around the world. Since 2002, we have been a major player in the promotion and implementation of sustainable and responsible investing. We are backed by BNP Paribas, whose scale and A+ rating (by Standard & Poor's, 23 April 2020) gives us and our clients the secure foundations to invest and make a positive difference to people's futures. Both our 'Greater China Equities' and 'Emerging Markets Fixed Income' investment teams benefit from the vast resources of BNPP AM locally and globally.
With over 40 investment professionals on the ground contributing to stock ideas, the two investment teams draw on the support of local and global teams, including:

- **Our Senior Economist dedicated to Greater China:** Chi Lo complements our macroeconomic view for risk mitigation.

- **Our Sustainability Centre:** three members of the 25-strong global Sustainability Centre are based in Hong Kong, supporting the investment team for ESG integration and active engagement.

- **Our Quantitative Research Group:** providing additional quant analysis for enhanced risk controls.

- **Our joint venture HFT Investment Management:** over 40 investment members bring additional onshore equities and fixed income research. This joint venture between BNPP AM and Haitong Securities Co. Ltd was formed in 2003 and was one of the first of its kind to be approved by the Chinese government.

The experienced Greater China Equities team is based in Hong Kong and Shanghai, and manages or advises on assets in excess of USD 2 billion (as of 30 September 2020), for both local and international investors. This award-winning investment team is fully dedicated to China equities expertise. Their local presence and local background provide a strong edge in the interpretation of political, economic and social nuances in China. The investment team follows an active, high conviction, bottom-up investment approach, using a disciplined research process and performing deep fundamental analyses (including ESG assessment) and solid risk management. The team believes that investing in companies delivering sustainable, high quality earnings growth at an attractive price, and presenting sound or improving ESG profiles, drives alpha over the long term.

The Emerging Markets Fixed Income (EMFI) team is responsible for Chinese fixed income investment and has a well-established and successful track record since 2010 of investing in the onshore RMB bond market. The team of 14 investment professionals based in Hong Kong, Singapore and Kuala Lumpur manages a total of USD 5.0 billion (as of 30 June 2020) across a range of emerging markets fixed income strategies. The team allocates dynamically to the most attractive segments of the onshore Chinese bond market and seeks to generate returns through duration and yield curve positioning, sector allocation and security selection. While being largely invested in treasury and policy banks bonds given the current investment outlook and market opportunity, it can and does also invest in the rapidly evolving onshore credit market.

15 Source: BNPP AM, as of 30 September 2020.

ABOUT THE AUTHORS

- DAVID CHOA, CFA -

HEAD OF GREATER CHINA EQUITIES,
LEAD PORTFOLIO MANAGER
HONG KONG - BASED

David is the Head of Greater China Equities and Lead Portfolio Manager for the Greater China Equity capability. Since joining BNPP AM in 2012, he has been serving the Greater China equity strategy for the entire time.

David has been a key architect of the team's philosophy, proprietary "Growth Framework" portfolio allocation, and its team-based approach. David has a generalist coverage in fundamental equity research. With a solid tech-savvy experience background, David has long-standing investment experience and has been working within the financial services industry since 2005.

In 2019 and 2020, the investment team won multiple awards from:

1) Asian Private Banker 2020 – "7th Asset Management Awards for Excellence" – Greater China Equity (Best Fund Provider),
2) Insurance Asia News "Institutional Asset Management Awards 2020" - Equities Manager of the Year (China equities),
3) Insurance Asia News "Institutional Asset Management Awards 2019" - Equities Manager of the Year - Greater China Equities,
4) The Asset's "Triple A Awards 2019" as "Fund Manager of the Year",
5) Benchmark Fund of the Year Awards 2019 - China Equity Manager of the Year in Hong Kong and Singapore,
6) Benchmark Fund of the Year Awards 2019 - House Award Greater China Equity (Best-in-Class) in Singapore.

In 2018, the team also won awards including the Benchmark Fund of the Year Awards 2018, such as:

1) House Award Greater China Equity (Best-in-Class) in Hong Kong,
2) House Award Greater China Equity (Best-in-Class) in Singapore,
3) "Manager of the Year" for Greater China Equity in Singapore.

Prior to joining BNPP AM in 2012, David worked at Fidelity Management & Research (Hong Kong), as an International Equity Analyst specialising in Asia Pacific Telecommunications. In addition to his expertise in investment management, David also brings valuable experience and insight from his prior roles as a Senior Associate in Mergers and Acquisitions Advisory at Deloitte & Touche (Hong Kong), and as a Senior Consultant in Economic Consulting Group at Deloitte Financial Advisory Services (Boston, USA).

Born in Hong Kong, David holds a Master of Business Administration degree from the Wharton School of Business at the University of Pennsylvania (USA). He also holds a Bachelor of Science degree in Economics and Management Science at the Massachusetts Institute of Technology, in Cambridge (USA). David is a CFA® charterholder and a member of the Hong Kong Chartered Financial Analyst society. ■

- JESSICA TEA -

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Jessica works closely with the investment team to market the team's capability to sales and clients globally. Prior to this, Jessica first joined BNPP AM in Paris as a portfolio manager assistant in the Sustainable and Responsible Investment equities investment team. Before joining BNPP AM, she held two different positions in BNP Paribas Wealth Management in Hong Kong in 2012: 1) the Strategy and Business Development team, 2) the Investment Funds Advisory team. Jessica holds a Master's degree in Management and a 'Diplôme des Grandes Écoles' with a major in Finance from the NEOMA Business School in France. ■

- CHI LO -

SENIOR ECONOMIST,
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HONG KONG - BASED

Chi is BNPP AM's Senior Economist for Greater China and is based in Hong Kong. Prior to joining BNPP AM, he was Head of Overseas Investment at Ping An of China Asset Management (HK) Ltd. Chi's other positions in Asia included Asia Research Head for the British private property fund Grosvenor, chief economist and strategist for Asia at Standard Chartered Bank and research director for Greater China at HSBC in Hong Kong. Before working in Asia, Chi was an economic advisor to the Canadian Treasury in Canada. His other experience includes international research firms in North America, regulatory bodies for securities trading in Toronto and London, and blue-chip international investment banks in North America, the UK and Asia. Chi is the author of 11 books on Chinese and Asian economic development and markets. His latest book is "Demystifying China's Mega Trends: The Driving Forces That Will Shake Up China and the World" (2017). Chi did his economics graduate work at the London School of Economics and Political Science (LSE) in England and the University of British Columbia (UBC) in Canada. ■

- JEAN-CHARLES SAMBOR -

HEAD OF EMERGING MARKETS FIXED INCOME,
LONDON - BASED

Jean-Charles is the Head of Emerging Market Fixed Income (EMFI) at BNPP AM. In this role, he is responsible for the management of all EMFI portfolios and developing a unified EMFI investment process. Jean-Charles joined our firm in 2016 and is based in London.

Prior to joining us, Jean-Charles was at the Institute of International Finance (IIF) where he served as Asia-Pacific Regional Director and CEO of IIF APAC Ltd in Singapore. Before that, he was a Senior Portfolio Manager and Head of Emerging Markets Fixed Income for Everest Capital, where he was responsible for the launch and management of an absolute return emerging market debt fund as well as a long only frontier markets fixed income fund. Prior to that, he worked as a Senior Vice President in the EMFI Team at Trust Company of the West (TCW) in Los Angeles.

Jean-Charles has 18 years of investment experience. He is an alumnus of Ecole Normale Supérieure. He holds a BA in Economics and Philosophy and a Master's degree in Epistemology and Philosophy of Economics from Sorbonne University. He also holds a Master's degree in International Economics from UPMF in Grenoble, France. ■

- MICHAEL TAMBUE -

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Michael Tambue has been Investment Specialist at BNPP AM since 2018. Before joining BNPP AM, Michael worked for Architas Investment Management, an AXA Group asset manager, where he held numerous roles over the years, including Proposition Manager, Product Specialist and Client Relationship Manager. Michael began his career at Gartmore Investment Management in 2007, where he worked as an investment writer. Michael holds a BSc in Economics from Bath University. ■

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