



Investment Opportunities in China: The Brandes Perspective

Louis Lau, CFA, Director of Investments at Brandes Investment Partners, recently shared his thoughts on US-China relations and investment opportunities within China:

Summary

- **US-China relations:** The Biden Administration is taking what we consider a rational, comprehensive approach to position the US to compete with China, sharpen its technological advantage and secure a greater degree of supply chain independence over the long term. **The strategic competition between the US and China shows no sign of easing with the Biden Administration.**
- China is trying to balance two things: It wants to be seen as a global leader and as being able to compete and stand up to the US, but it's also sensitive to being isolated.
- **The implication of these views: we build our portfolios with the mindset of minimizing their vulnerability to geopolitical risks. One of the big themes across the China companies we own is exposure to the long-term consumption spending and growth of the Chinese consumer.**

Opportunities in China

- **Consumption:** With its aging population, China is very concerned about the dependency ratio (the number of non-workers versus the working-age population). Brandes holdings seek to provide exposure to China's long-term consumption spending and growth. We expect China's gross domestic product growth to continue slowing to closer to 5%. In that environment, we are looking for areas where long-term demand will go hand-in-hand with an aging population and consumption upgrades. These areas might include ecommerce and its associated logistics, life insurance, healthcare, household appliances, higher education and travel.
- **Insurance:** There is a huge gap between the retirement and medical needs of China's population and what the government provides. Probable solutions for making up the difference include private savings or insurance policies, and several leading life insurance companies are in a good position to capture this secular growth opportunity.

- Higher education: The strong demand for higher education in China and its limited supply necessitates active participation by the private sector and makes the segment a potentially lucrative and growing market, in our view. Unlike the K-12 segment, where profitability is restricted due to government concerns about unequal access to basic education, China's regulations allow higher educational institutions to be for-profit entities. We believe companies in this space with attributes like strong management, transparent access to investors, and the potential to add value over time will make compelling opportunities for us.
- Household appliances and travel: With the government being supportive of domestic consumption in both volume and quality, we are also positive on some consumer discretionary sectors.
- With regard to ESG (environmental, social and governance issues), I believe China has been very quick to embrace it. But within China, there might be a different perspective. If a company is seen as fulfilling national goals, for example in areas such as technological advancement, national security and the promotion of certain priority industries, that may potentially be seen as good ESG within China. In our opinion, the political, economic and investment landscape demands company-specific analysis—not an index. And that is why we firmly believe a bottom-up research process will serve investors well over the long term.

International and emerging markets investing is subject to certain risks such as currency fluctuation and social and political changes; such risks may result in greater share price volatility.

The information provided in this material should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. Strategies discussed are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities. The Brandes investment approach tends to result in portfolios that are materially different than their benchmarks with regard to characteristics such as risk, volatility, diversification, and concentration. No investment strategy can assure a profit or protect against loss.

The foregoing reflects the thoughts and opinions of Brandes Investment Partners® exclusively and is subject to change without notice. Brandes Investment Partners® is a registered trademark of Brandes Investment Partners, L.P. in the United States and Canada.

United States: Issued by Brandes Investment Partners, L.P., 11988 El Camino Real, Suite 600, San Diego, CA 92130.

Singapore/Asia: FOR INSTITUTIONAL/ACCREDITED INVESTOR USE ONLY. Issued by Brandes Investment Partners (Asia) Pte Ltd., The Gateway West, 150 Beach Road, #35-51, Singapore 189720. Company Registration Number 201212812M. ABRN:164 952 710. This document is for "institutional investors" or "accredited investors" as defined under the Securities and Futures Act, Chapter 289 of Singapore and may not be distributed to any other person. This document is being provided for information purposes only. Incorporated in Singapore in 2012, Brandes Investment Partners (Asia) Pte Ltd (Brandes Asia) provides portfolio management services to clients in Asia (as permitted under local law). Brandes Investment Partners, L.P., a U.S. registered investment adviser and a sister entity to Brandes Asia, provides research, portfolio construction and other support to Brandes Asia.

Canada: Distributed by Brandes Investment Partners & Co., 33 Yonge Street, Suite 300, Toronto, ON, M5E 1G4. This communication is for information purposes only and should not be regarded as a sales communication or as advice regarding any financial product or service.

Ireland/Europe: FOR PROFESSIONAL INVESTOR USE ONLY. Issued by Brandes Investment Partners (Europe) Limited (Brandes Europe), 36 LowerBaggot Street, Dublin 2, Ireland. Registered in Ireland Number 510203. Authorised and regulated by the Central Bank of Ireland. This report is being provided for information purposes only, no representation or warranty is made, whether express or implied as to the accuracy or completeness of the information provided. To the fullest extent permitted by law Brandes Europe shall not be liable for any loss or damage suffered by any person as a result of the receipt of this report. Recipients of this report should obtain their own professional advice. The distribution of this report may be restricted by law. No action has been or will be taken by Brandes Europe to permit the possession or distribution of this report in any jurisdiction where action for that purpose may be required. Accordingly, this report may not be used in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons to whom this report is communicated should inform themselves about and observe any such restrictions. This information is being issued only to, and/or is directed only at (i) persons who have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or to whom it may otherwise lawfully be communicated (all such persons together being referred to as "Relevant Persons"). This communication must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this communication relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. This report is a confidential communication to, and solely for the use of, the persons to whom it is distributed to by Brandes Europe.