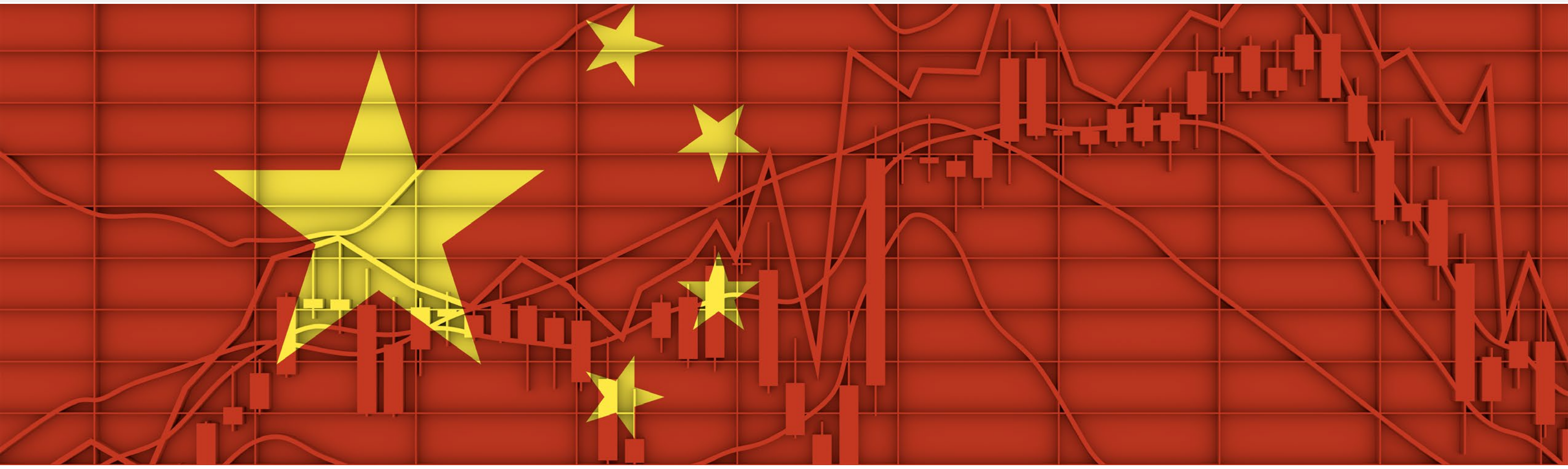

Investment Opportunities in China: The Brandes Perspective

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.