



# **CB Greater China Portfolio**

December 2022



## **Greater China Economic Region**

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# Greater China Economic Region

- China and Japan are the second and third largest economies. China has the most companies in the Fortune Global 500
- Supply chains are de-globalizing: “Asia for Asia”
- In various sectors, Asia is leapfrogging classic development steps through innovation
- The service sector is growing strongly, driven by rising purchasing power of the middle class
- About half of the world's internet users live in Asia

## Fortune Global 500

**Breakdown by country**

Rank ↕	Country ↕	Companies ↕
1	 China	145
2	 United States	124
3	 Japan	47
4	 Germany	28
5	 France	25
6	 United Kingdom	18
7	 South Korea	16
8	 Switzerland	14
9	 Canada	12
10	 Netherlands	11

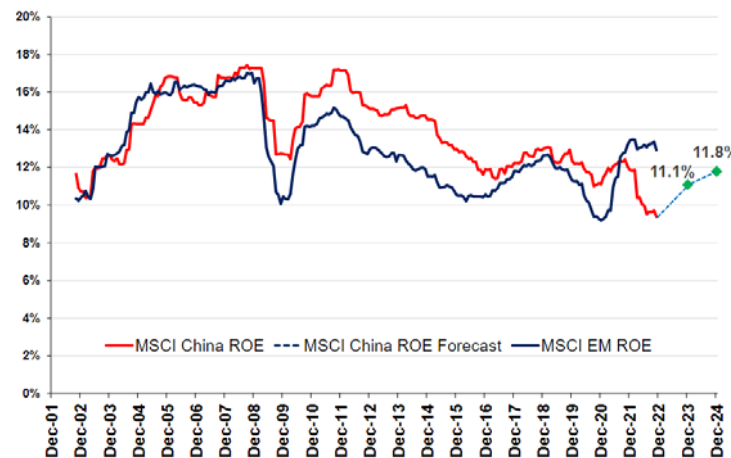
## Top 10 Countries by Nominal GDP at Current U.S. Dollar Exchange Rates

Country	Nominal GDP (in trillions)	PPP Adjusted GDP (in trillions)	Annual Growth (%)	GDP Per Capita
United States	\$23.0	\$23.0	5.7%	\$69,287
China	\$17.7	\$27.3	8.1%	\$12,556
Japan	\$4.9	\$5.4	1.6%	\$39,285
Germany	\$4.2	\$4.8	2.9%	\$50,801
United Kingdom	\$3.2	\$3.3	7.4%	\$47,334
India	\$3.2	\$10.2	8.9%	\$2,277
France	\$2.9	\$3.4	7.0%	\$43,518
Italy	\$2.1	\$2.7	6.6%	\$35,551
Canada	\$2.0	\$2.0	4.6%	\$52,051
South Korea	\$1.8	\$2.4	4.0%	\$34,757

Source: Fortune, Bloomberg

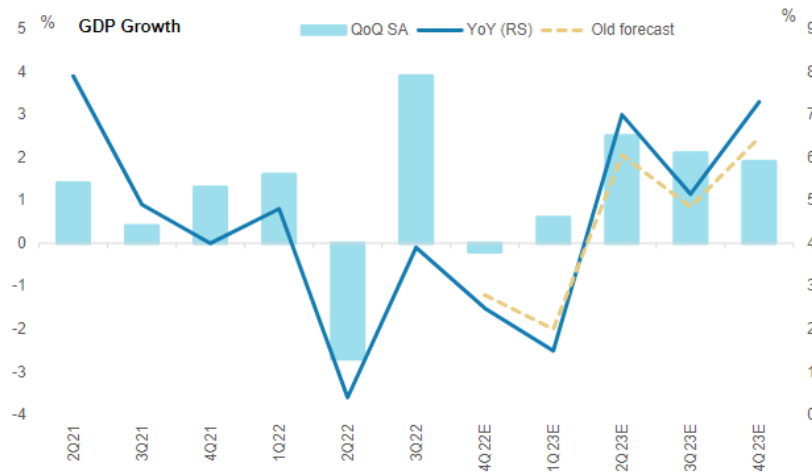
# China: Multiple Positive Developments

- China is reopening faster than expected
  - The market has not fully priced in the post-Covid reopening yet
  - China's faster reopening will mean it's domestic demand will support in Asia in general
- Chinese policymakers are taking concerted action to lift growth across all fronts
  - The December 2022 Politburo meeting was one of the most pro-business in a while
  - Programs in infrastructure spending, monetary policy and regulatory policies
- An improving economy and greater consumption will help the recovery of financial institutions
  - Pick up in credit issuance and economic activity of banks
  - A 16-point real estate plan was jointly announced in November 2022
- Easing of US – China tensions
  - Expected visit of US Secretary of State Blinken to China early 2023



# Forecasts For The Region Are Improving

- China is expected to lead the global recovery
  - China's economy is predicted to grow by 3.3% this year, and expected to increase in 2023
  - By contrast, the United States is expected to grow by just 1.8% in 2022 and 0.5% in 2023
  - Growth across the 19 EU countries that use the euro is also expected to decline steeply over the next two years, from 3.3% in 2022, to 0.5% in 2023



Source: Morgan Stanley, Bloomberg

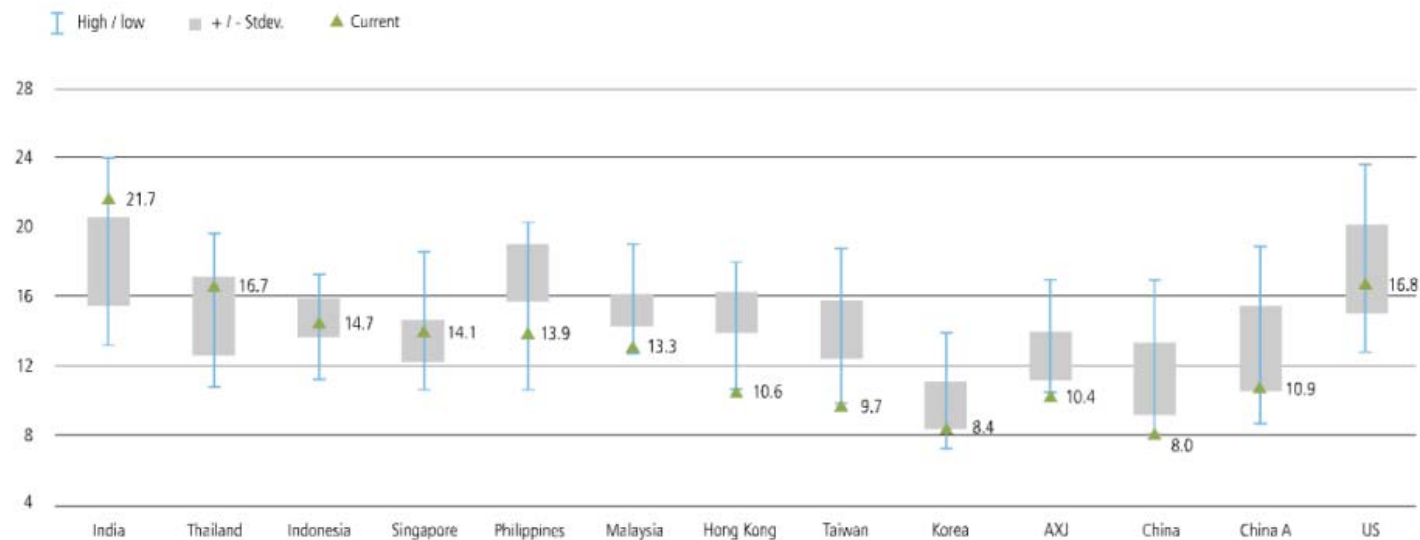
	Index	Current Price	MS Target Price Dec-23	MS Top-Down EPS YoY %		Consensus EPS Forecast YoY %		MS Target Fwd P/E Dec-23	Consensus 12m Fwd P/E Current
				Dec-23	Dec-24	Dec-23	Dec-24		
Base Case	Hang Seng	19,464	21,200 9%	1,900 8%	2,130 12%	2,068 14%	2,275 10%	9.9x	9.4x
	HSCEI	6,628	7,400 12%	735 10%	815 11%	799 11%	891 11%	9.1x	8.3x
	MSCI China	64	70 10%	5.7 13%	6.4 13%	6.0 14%	6.8 14%	11.0x	10.7x
	CSI300	3,953	4,350 10%	330 10%	364 10%	391 14%	367 -6%	12.0x	11.6x
Bull Case	Hang Seng	19,464	24,500 26%	1,976 11%	2,237 13%	2,068 14%	2,275 10%	11.0x	9.4x
	HSCEI	6,628	8,200 24%	746 10%	841 13%	799 11%	891 11%	9.8x	8.3x
	MSCI China	64	80 25%	5.8 15%	6.7 15%	6.0 14%	6.8 14%	11.8x	10.7x
	CSI300	3,953	5,000 26%	350 14%	397 13%	391 14%	367 -6%	12.6x	11.6x
Bear Case	Hang Seng	19,464	13,900 -29%	1,767 2%	1,853 5%	2,068 14%	2,275 10%	7.5x	9.4x
	HSCEI	6,628	4,800 -28%	698 4%	742 6%	799 11%	891 11%	6.5x	8.3x
	MSCI China	64	46 -28%	5.3 7%	5.8 8%	6.0 14%	6.8 14%	8.0x	10.7x
	CSI300	3,953	3,070 -22%	304 4%	319 5%	391 14%	367 -6%	9.7x	11.6x

Source: MSCI, IBES, RIMES, Morgan Stanley Research. Data as of December 12, 2022.

# Sectors to Benefit

- Despite the recent rebound in China markets, valuations remain very low
- Policy support for sectors producing more 'tangible' goods and services such as manufacturing and technology
- Property sector and financials likely to remain out of favor
- These forces make China one of the largest opportunities for active management
  - Long/Short Equity is the most straight-forward and least complex ways to capture this opportunity set

12M forward price-to-earnings ratio (P/E)



Source: UBS, Factset, Bloomberg

Greater China Economic Region



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## Objective

- Generate attractive risk-adjusted returns by capitalizing on the reopening of China and the growth of the Greater China economic region

## Concept

- Implemented through actively managed Long/Short Equity strategies managed by local managers with proven track records
- Crossbow's disciplined fund selection and monitoring process identifies managers generating superior risk-adjusted performance on a consistent basis
- Robust portfolio construction seeking diversification across geographies, sub-strategies and investment styles



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## ➤ Go long attractive valuations in Asia

- The restrictive Covid measures have hurt the economy in China and driven valuations in Asia to multi-year lows

## ➤ Long opportunities in China: the engine of the fastest growing region of the world

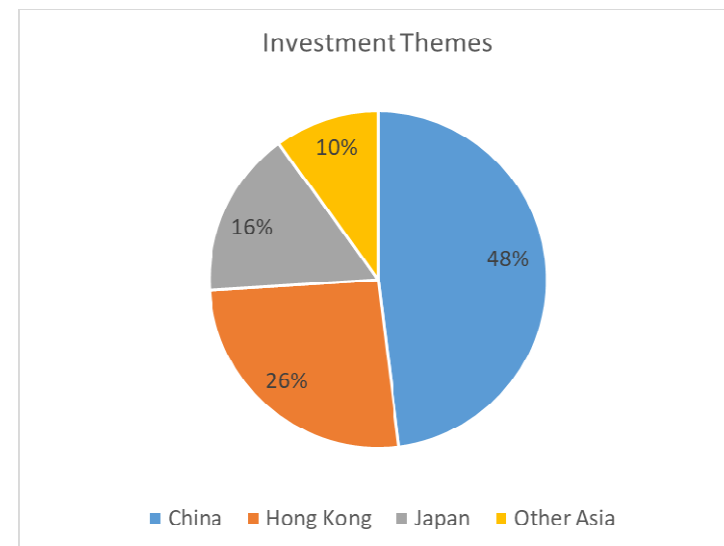
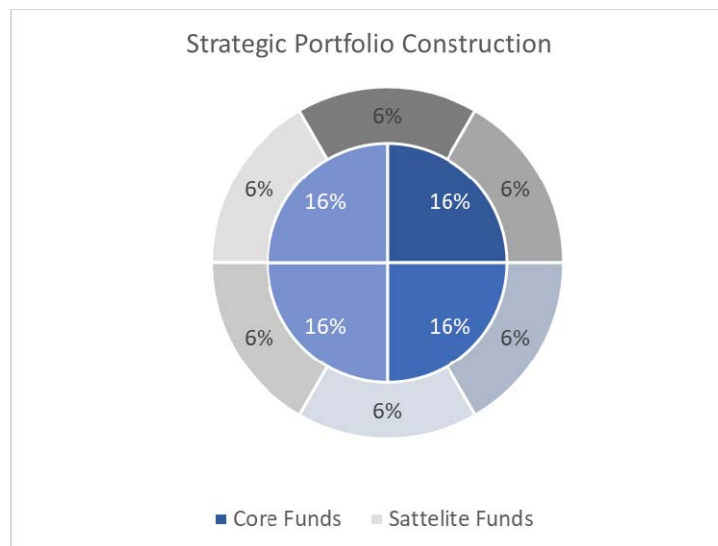
- Historically hesitant to enter China's green industries due to advantages enjoyed by domestic companies, preferential government procurement practices, and inconsistent levels of transparency
- Emerging countries like India, Vietnam and Indonesia will eventually have to adapt to export and obtain financing in a global world

## ➤ Short out-of-favor companies: Real estate sector and financials

- The real estate sector has weighed on consumption and sentiment. The government has introduced a 16 point plan to alleviate pressures on private individuals and stop contagion, but likely to remain out of favor

# Implementation

- Focus on active Long/Short Equity managers in China, Hong Kong, Singapore and Japan
  - Local specialists with language skills and knowledge of local customs and cultures
- Core allocations to Chinese managers
  - China as the regional engine
- Complemented with regional or sector specialists to provide additional diversification and returns. Example: Vietnam



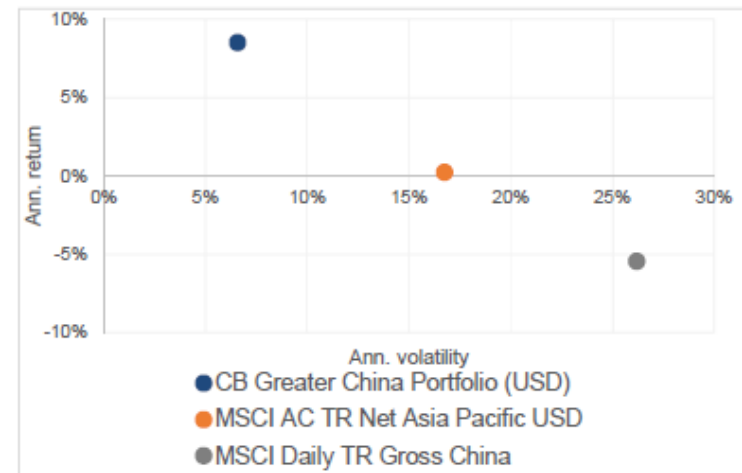
Source: Crossbow Partners

# Statistics CB Greater China Portfolio

## Key statistics since January 2018

	CB Greater China Portfolio (USD)	MSCI AC TR Net Asia Pacific USD	MSCI Daily TR Gross China
Annualized return	8.52%	0.21%	-5.46%
Annualized volatility	6.57%	16.75%	26.19%
Maximum monthly gain	6.09%	14.98%	29.72%
Maximum monthly loss	-5.01%	-11.88%	-16.81%
Maximum drawdown	-6.72%	-32.48%	-58.18%
Correlation to benchmarks	-	0.71	0.67

## Risk vs. return since January 2018



## Monthly returns

BM1: MSCI AC TR Net Asia Pacific USD | BM2: MSCI Daily TR Gross China

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM1	BM2
2022	-0.40%	-0.68%	-1.42%	0.08%	-0.31%	-0.49%	-1.11%	0.67%	-1.64%	-0.97%	2.25%		-4.00%	-17.02%	-25.67%
2021	4.03%	2.22%	0.15%	2.46%	1.60%	0.64%	-0.51%	1.35%	0.01%	0.73%	1.62%	-0.65%	14.43%	-1.46%	-21.64%
2020	0.05%	-1.23%	-5.01%	3.87%	1.46%	4.61%	6.09%	3.48%	-1.01%	0.74%	2.44%	2.67%	19.18%	19.71%	29.66%
2019	2.46%	3.13%	2.28%	-0.02%	-2.43%	1.33%	0.76%	0.81%	-0.26%	0.54%	0.39%	2.74%	12.23%	19.36%	23.66%
2018	3.47%	-0.91%	0.47%	-0.31%	1.63%	-1.18%	-0.64%	-0.47%	0.24%	-1.28%	1.31%	-0.50%	1.73%	-13.52%	-18.75%

Source: Crossbow Partners

# Disclaimer

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