

Meeting of the Political Bureau of the Central Committee of the CPC on 30th July 2020:

What was said and what does it mean to us?

President Xi Jinping reaffirmed commitments on reform and opening-up during July's Central Committee meeting. China's top leadership referred to a 'dual-circulation' growth model, meaning growth should stem from both boosting domestic output and consumption, whilst also securing foreign investment and stabilizing trade. We feel it clearly indicates the government's intention to put China's domestic market first. Domestic demand is the key growth driver both in the short and long-term and its importance is will only increase with the impact of COVID-19 and the on-going tit-for-tat trade / tech / financial conflicts between China and the US.

China's economy fared far better than expected in 2Q and should remain on an upward trend in 2H thus compensating for losses over the first 6 months of the year. We remain relatively upbeat on China's economy for 2020 whilst other major economies are likely to continue to suffer until sometime in 1H 2021. As such, we expect Chinese policy makers to face less easing pressure over the coming months, focusing more on targeted monetary easing and the funding of major investment projects with an emphasis on quality and securing returns on investments.

As long-term investors we were more interested in what was said on the medium-long term issues that will be so crucial in driving growth. COVID-19 and the US-China trade conflict have already had a positive impact on some of our key growth sectors such as Healthcare and TMT, whereby the need for change and development has been fast-tracked due to these unique market conditions, e.g. the accelerated digital transformation in all areas from healthcare apps to food delivery. We noted the following key CPC standpoints expressed in the meeting that are key to spur-on growth and that will benefit our portfolio:

1. Chinese policy makers propose to "gradually form a new development pattern of dual circulation with the domestic side as the main driver along with mutual promotion of the domestic and global economies". In essence this aims to help strengthen China's grip on domestic supply chains and reduce reliance on foreign suppliers, improve the overall domestic business environment to increase competition, R&D and innovation, as well as draw in capital from overseas. Income reform will also see key talent in sectors such as Tech rewarded properly to encourage entrepreneurship and innovation. COVID-19 and US-China trade tensions are acting as catalysts to encourage more domestic-bred products and services that were previously supplied by overseas' suppliers. This said, China knows only too well the need to open-up to ensure sustainable development and will continue to cultivate relationships with foreign nations to increase inward investment and bilateral trade.
2. Marketization: industries, services and companies will be increasingly at the mercy of market forces. Promoting the healthy development of the capital markets will help protect companies

and support entrepreneurs, increase the efficiency of the markets whilst cracking-down on and eliminating illegal activities and unproductive / inefficient businesses. A mature and active capital market is crucial to the success of the China's economic transition to high quality growth and will better serve emerging sectors such as TMT, Healthcare and Consumption.

3. Ensuring people's health and livelihoods in light of COVID-19 and recent floods: maintaining China's social stability is paramount and requires the government to ensure the people's basic livelihoods and step up effort to alleviate poverty. Avoiding social unrest by providing support and welfare reform will also help stabilize and boost consumption over the medium to long-term.

China's current economic situation has improved substantially from Q1 2020 but remains challenging and complicated with many uncertain factors still in play, namely COVID-19 and the escalation in trade tensions. However, the government has presented a clear roadmap to keep increasing domestic output and improving people's livelihoods, whilst also boosting consumption and creating more favourable conditions for consumption upgrading, that we feel is achievable over the short to medium term. These reforms and policy also support our target sectors and companies and will provide ample opportunities for outstanding Chinese quality growth companies to flourish in the years ahead.