

# How US public pension investors can harness China's fast-growing "new economy"

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# Today's presentation will discuss...

Why the China A-shares opportunity is transformational

Why institutions should invest in China now

How institutions should allocate to China

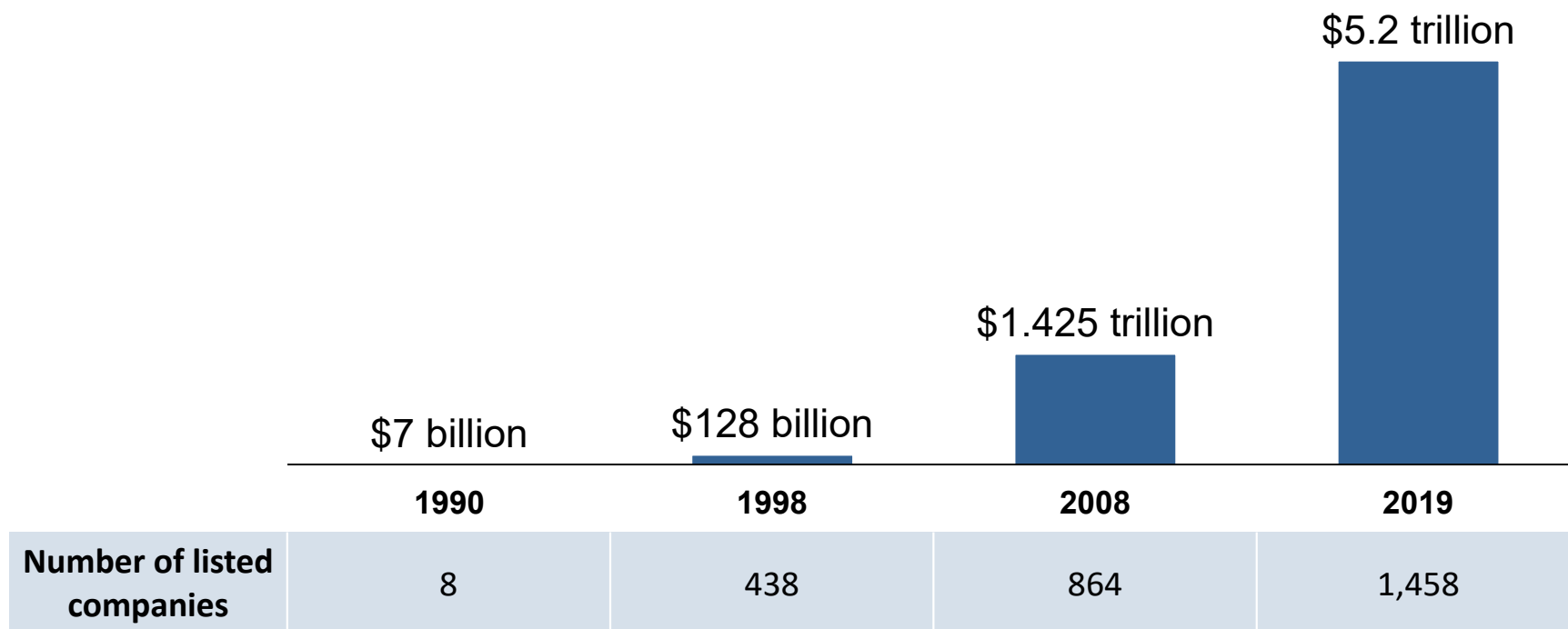


# Chinese equity markets are evolving



# Growth of the China A-shares market

The market cap of Shanghai-listed A-shares has grown exponentially



Source: <http://english.sse.com.cn/indices/statistics/historical/>  
 RMB/USD\$ Rate as of 12/31/1990, 12/31/1998, 12/31/2008 and 3/31/2019

# China now offers foreign investors a larger opportunity than Europe

	Shenzhen A-shares	Shanghai A-shares	China stocks listed in HK	US-listed ADRs	Total	<i>Euro Area</i>
<b>Market cap (USD tn)</b>	3.6	5.0	2.8	0.8	<b>12.2</b>	<b>7.9</b>
<b>Number of stocks</b>	2,123	1,434	737	186	4,480	4,750



Source: Nasdaq, Bloomberg, Allianz Global Investors, as of December 31, 2017. Only the market cap of the listed share class by exchange is included. Offshore China stocks are defined based on companies with ultimate parent domiciled in China. Suspended stocks are excluded. Euro Area Data is sourced from World Bank.

# WHY CHINA?



# A-shares can add diversification due to low correlations with major equity markets

	<b>China A-shares</b>
US equities	0.30
European equities	0.29
World equities	0.32
Global Emerging Markets equities	0.41
HK-listed China stocks	0.58



As of March 31, 2019

Correlation data is calculated based on historical return of respective MSCI indices for the past 10 years, using weekly USD return. US equities is S&P 500 index, European equities is MSCI Europe Index, World equities is MSCI World Index, Global Emerging Markets equities is MSCI Emerging Markets Index, HK-list China stocks is MSCI China Index.

Source: Bloomberg, Allianz Global Investors, eVestment

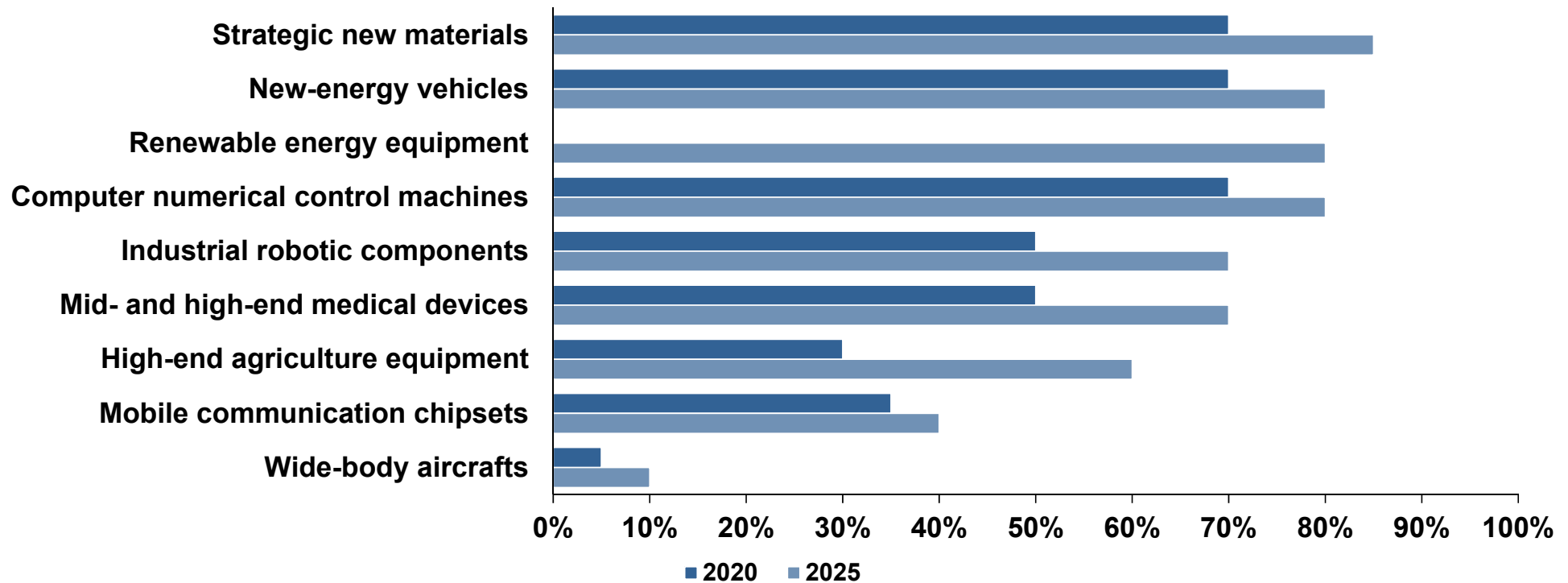
# Regulators restrain foreign competition



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# Beijing's China 2025 Plan is moving toward domestic domination of critical high-tech industries

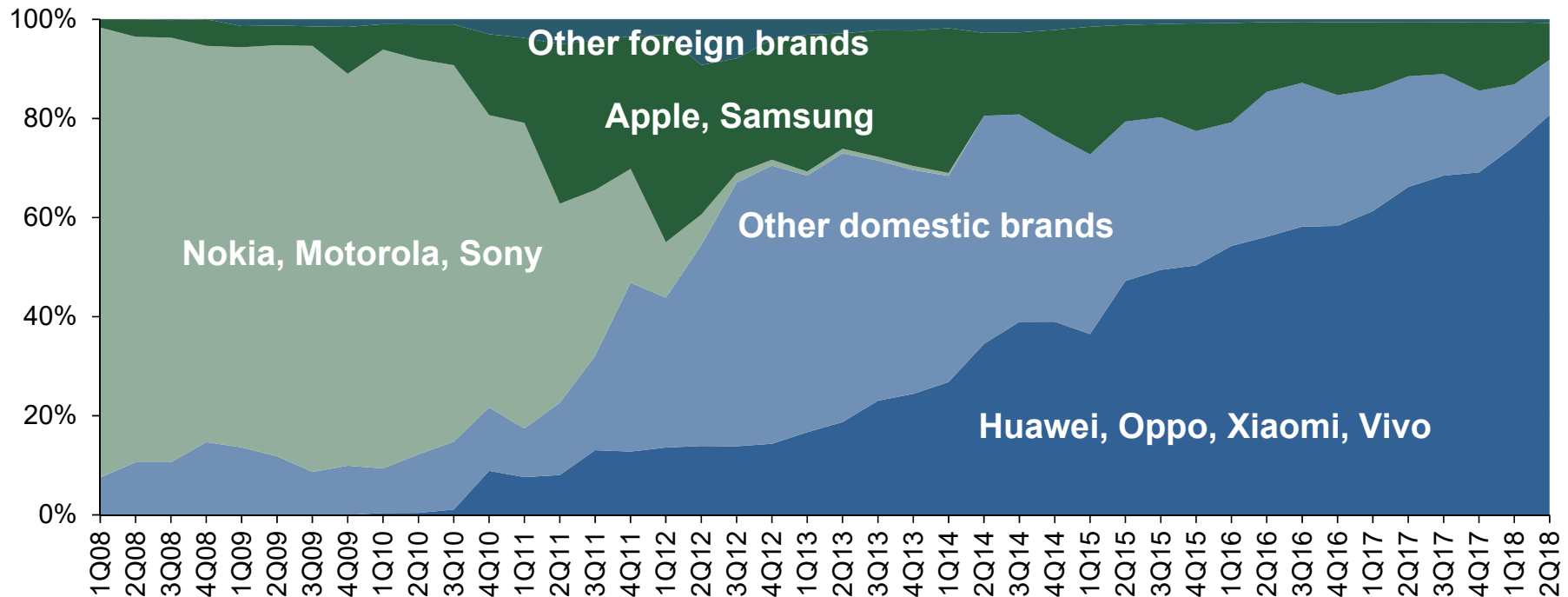


Source: US Chamber of Commerce, Made in China 2025 Plan (2017)



# Chinese firms already dominate the local smartphone market, displacing foreign brands

Smartphones made by Chinese makers are squeezing out foreign brand names



As of June 30, 2018

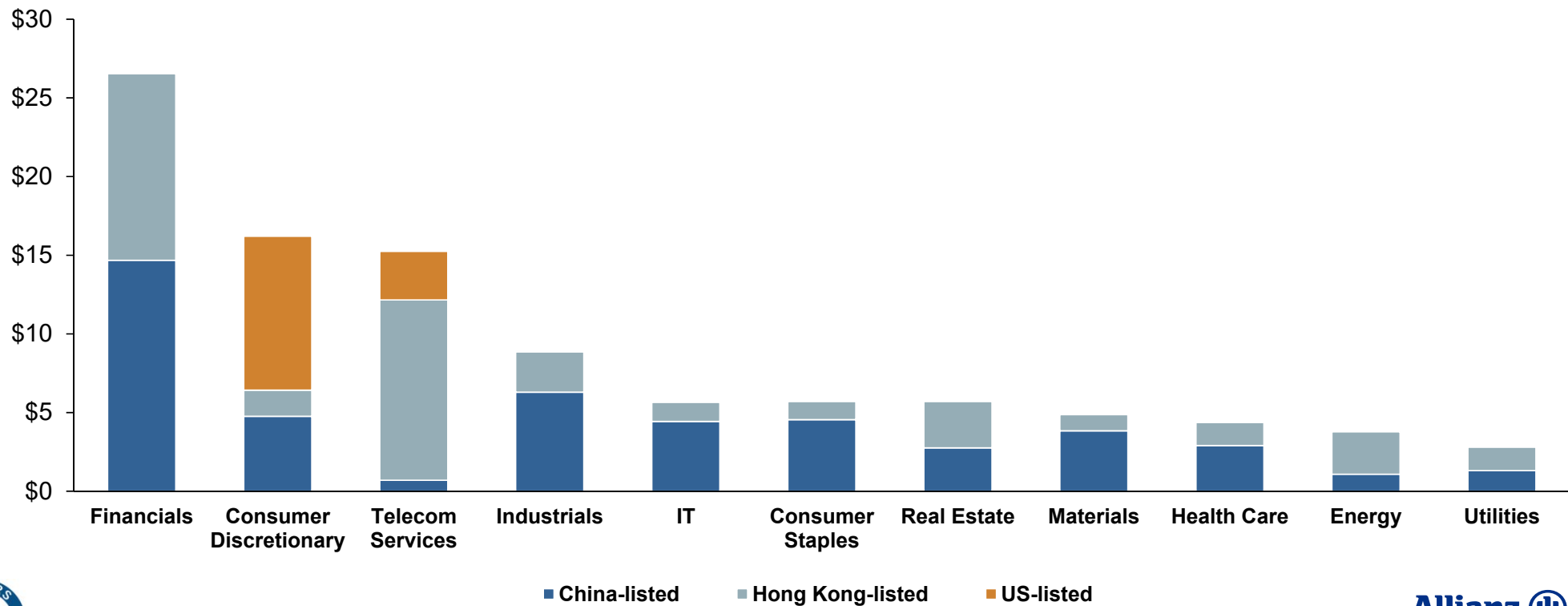
Source: Allianz Global Investors

Securities named above were listed since they were the top sellers (as of 6/30/18) of smartphones in China. Some or all the securities identified and described may represent securities purchased in client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. Securities or companies identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Actual holdings will vary for each client.



# A-shares reflect faster-growing “new economy” sectors

Market capitalization of Chinese companies by sector, in USD trillion



As of June 30, 2018  
 Data analysis based on the MSCI All China Index (broken down by sector and stock exchange).  
 Source: Citi, Allianz Global Investors



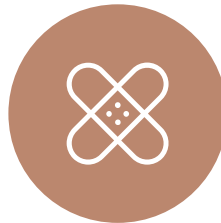
# Evolving consumer trends among Millennials especially favors domestic Chinese firms

**Tourism and leisure is growing rapidly**



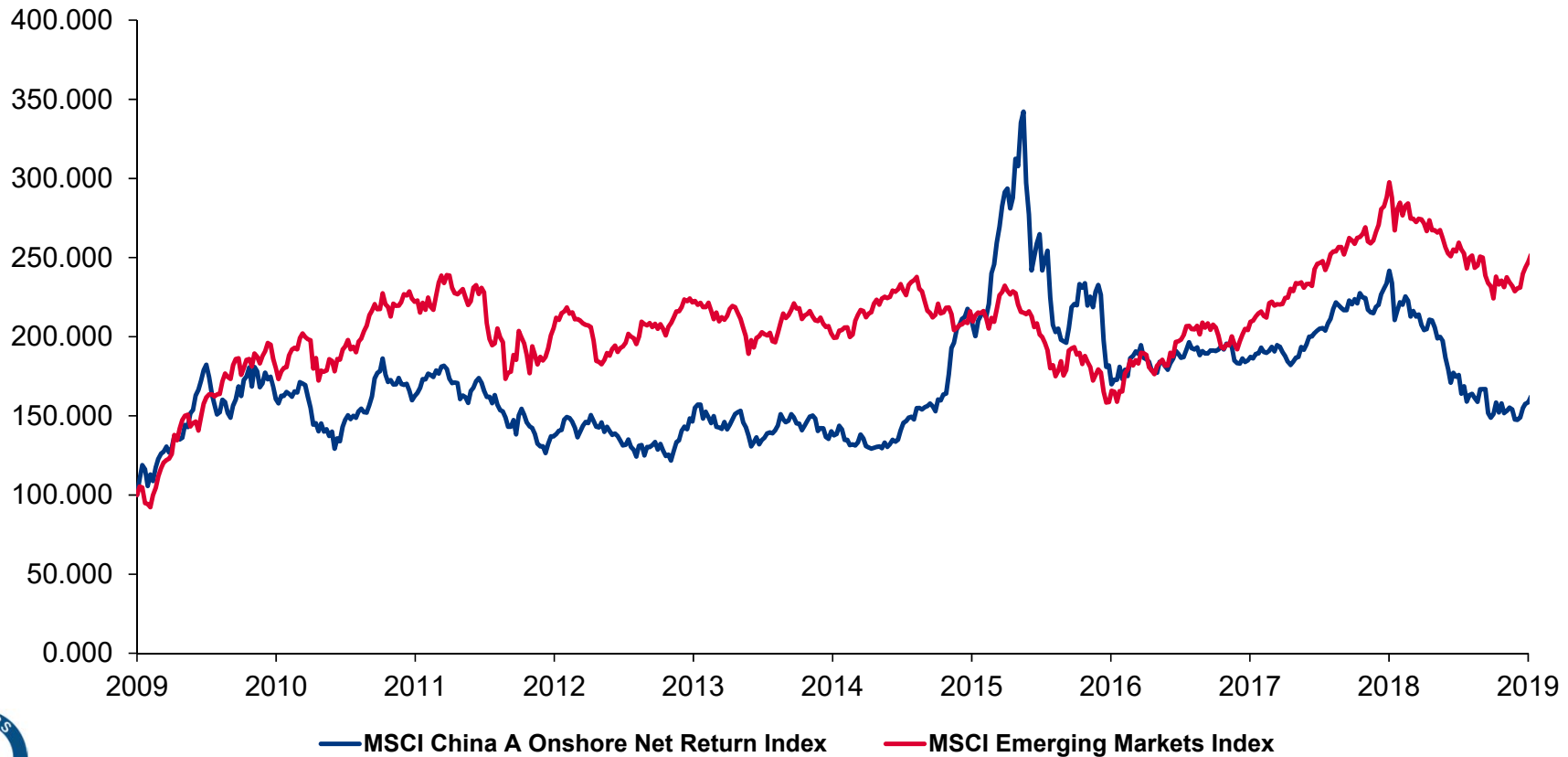
**Retailers are adding disruptive online capabilities**

**Healthcare spending should soar**



**Consumers are ditching foreign products for domestic ones**

# The valuation gap between A-Shares and MSCI's Emerging Market index highlights the opportunity



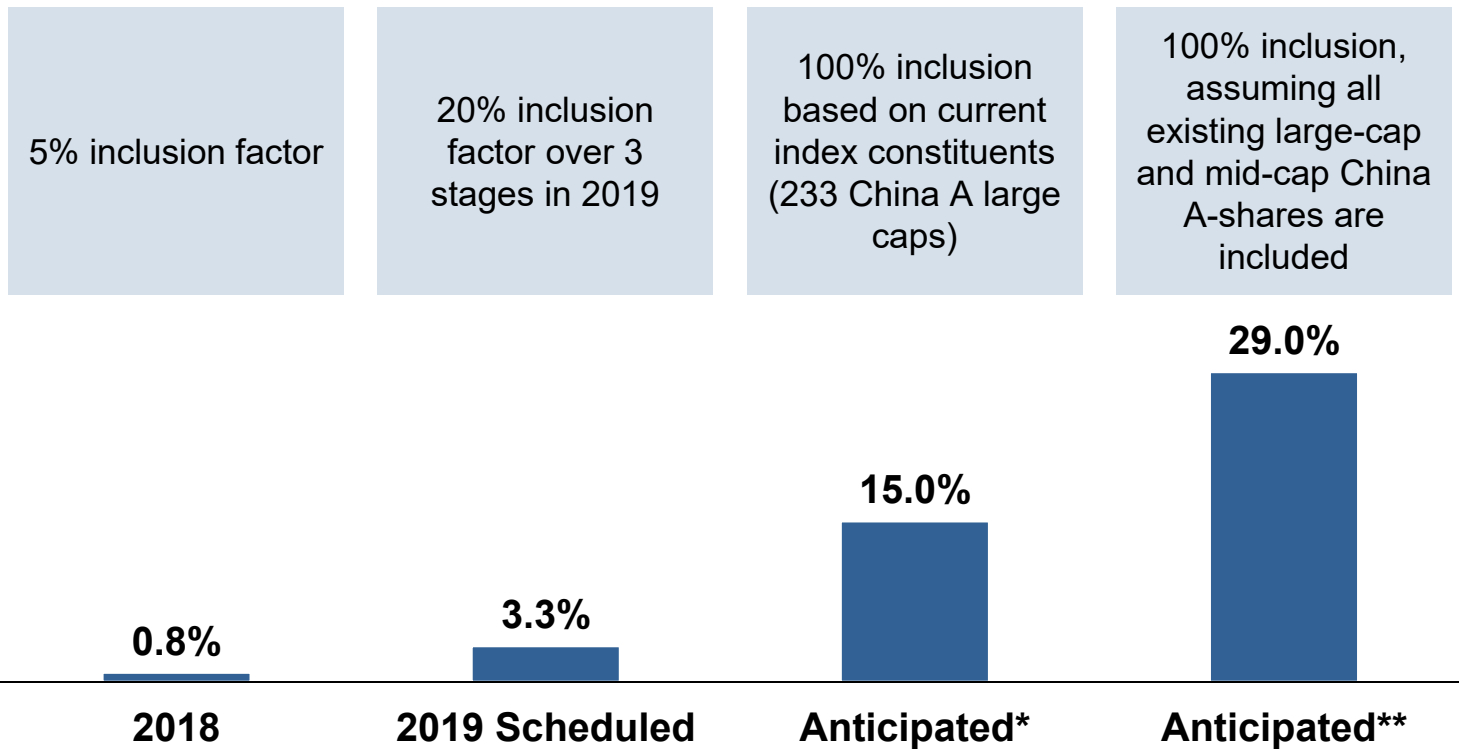
Source: Bloomberg as of March 31, 2019



# HOW TO INVEST IN CHINA A-SHARES



# China A-shares are substantially under-represented in the MSCI Emerging Market index



As of March 2019

2019 is scheduled to happen in May, August and November 2019, with China A-share mid caps included from November 2019.

\*Middle chart is based on MSCI's proposal in May 2018 to include 233 large-cap China A-shares stocks into MSCI Emerging Market index. \*\*Right chart is based on the assumption that all China stocks are available to be included in MSCI Emerging Market index. A 85% discount factor was utilized which should approximately represent the large- and mid-cap universe within China A-shares.

Source: MSCI, Bank of America Merrill Lynch, Allianz Global Investors

# Adding A-shares to EM allocations can enhance the risk/return profile of a portfolio

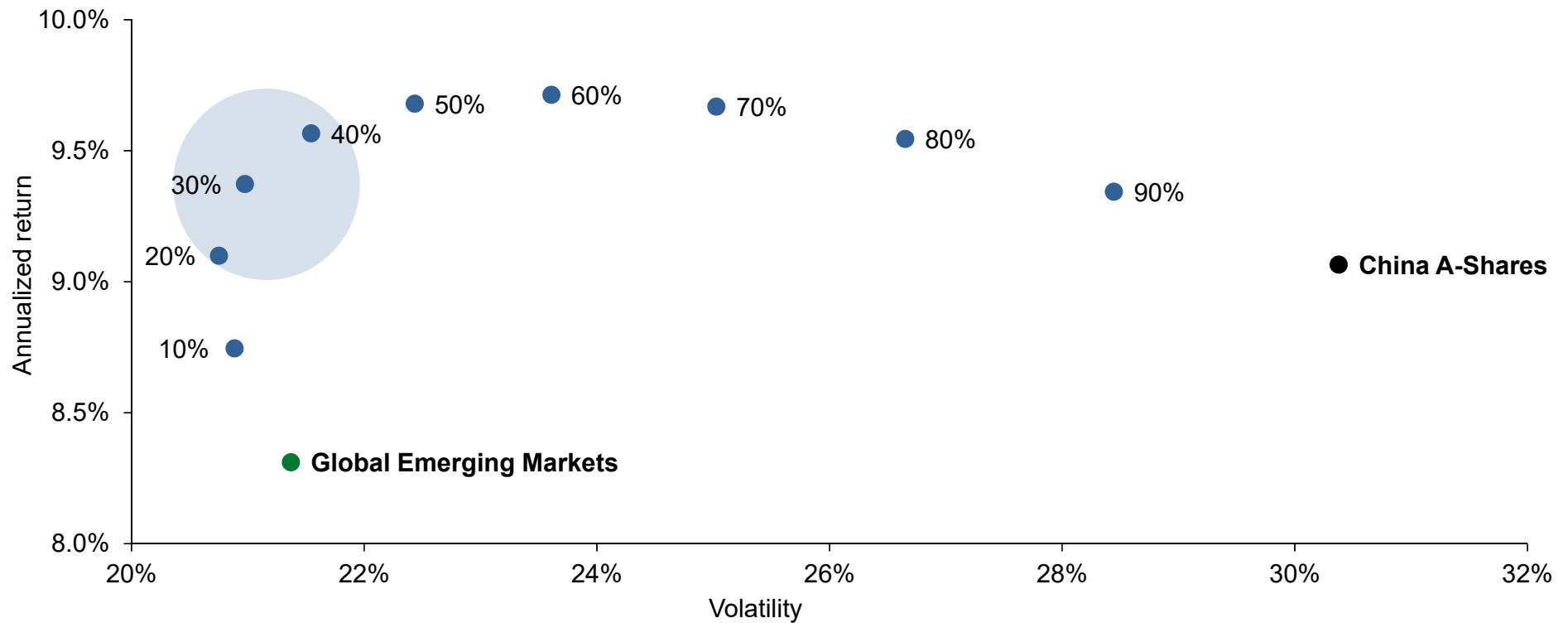


Chart shows analysis of returns for the MSCI Emerging Market index (used as proxy for global emerging markets) and MSCI China A Onshore index (used as proxy for the China A-share market) indices from February 29, 2004 to February 28, 2019. Percentages shown on the chart represent portion of portfolio allocated to China A-shares. Allocations shown of the MSCI Emerging Markets Index and the MSCI China A Shares Index represents hypothetical non-investable portfolios. The chart is provided for illustrative purposes only to analyze the various allocations of the two indexes, does not represent actual performance, and is not indicative of future results. Source: Allianz Global Investors





# Active matters in China A-shares

eVestment RDFQII/QFII China A Shares Universe	1 Year Return	3 Year Return	5 Year Return	10 Year Return
Median Manager In Universe	-4.18%	14.45%	17.55%	10.94%
MSCI China A Onshore Index	-9.23%	0.95%	8.44%	4.75%
<b>Alpha of Median Manager</b>	<b>5.05%</b>	<b>13.50%</b>	<b>9.11%</b>	<b>6.19%</b>
<b>MSCI China A Onshore Percentile Rank (1 best, 100 worst)</b>	<b>88</b>	<b>99</b>	<b>100</b>	<b>99</b>



Source: eVestment, MSCI China A Onshore-ND Index vs the eVestment RDFQII/QFII China A Shares Universe, returns as of 3/31/19. Past performance is not indicative of future results.

# Market environment: disclosure

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