



Is China Driving Emerging Markets?

Emerging Markets: Shaping the World of Tomorrow

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Over the years, China has become a leading emerging market player, a global powerhouse and, above all, a must for equity investors in search of growth.

China, which had a 0% weighting in global indices 25 years ago, has now grown to be the biggest weighing (43%) in the MSCI Emerging Markets index¹. It is also the biggest market (\$19Tn market capitalisation) after the United States and contributes to 17% of the global GDP².

The structural transformation of its economy and the long-term ambitious reform plan of the Communist Party offer attractive long-term investment opportunities. Here are four key investment themes that we have identified, and to which we are exposed through a number of companies.

Digitalisation & Tech Innovation



The goal is clear: China looks to be technologically independent in the next five to fifteen years. How? By creating its own tech giants to be able to compete with their western counterparts. Is it succeeding? The Chinese BATX – tech giants Baidu, Alibaba, Tencent and Xiaomi – are beginning to overshadow the well-known US FAANMG³.

In order to meet its objective, we believe China will **increase research and development (R&D) investments into the new high-tech manufacturing industries** such as semiconductors (including chip design and equipment); 5G, data centres and software, as well as the photovoltaic and alternative energy.

In Carmignac Emergents⁸, we try to position ourselves on companies which, we believe, will be the leading players within each sub-industry, such as:

Data centres: GDS Holdings, Ming Yuan Cloud

Tech components: Lenovo Group



Consumption upgrade



With a 1.4 bn population and a GDP per capita exceeding \$10,000, China is one of the world's largest consumer markets and plays a major role in global trade. Its objective? Expand its domestic market to enhance internal circulation and stimulate consumption, on the back of increasing purchasing power and rising living standards.

We believe China will continue to be an increasingly consumer-driven economy, influenced by the online shopping frenzy witnessed during the COVID pandemic. Yet, in the same way as it seeks to become technologically independent, China looks to rely less on external demand to avoid obstacles to its growth ambitions.

In Carmignac Emergents⁸, we focus on the Chinese New Economy sectors, which mainly address the needs of the growing domestic demand and capitalise on long-term demographic trends, such as:

eCommerce, Internet and Social Media: JD.com, VIP shop

Online Entertainment: JOYY

Education: China East Education

Connected Consumers: Haier Smart Home



The Green Revolution



Anti-pollution campaigns have been a major focus for China in the last five years. It continues to implement new policies to fight pollution with the aim of being carbon neutral by 2060⁵, increasing wind power capacity to 3bn kW by 2060⁶, and ensuring all new vehicles sold by 2035 are "eco-friendly"⁷. The goal is to progressively stop manufacturing and selling of conventional gasoline cars.

We believe this trend will further accelerate with Chinese government planning to go fast and big on green developments, and to improve environmental quality and resource utilisation efficiency. It sees it not only as a necessity but also as an opportunity to be seized in the race for clean energy and electric vehicles leadership, and surf the green revolution wave.

In Carmignac Emergents⁸, we focus on sub-sectors that we believe will get support from the Chinese government such as:

Clean Energy: ENN Energy, Flat Glass Group

Green mobility: Ehang



Healthcare & Medical Innovation



In order to meet the needs of an ageing population, China has been an innovator in the healthcare and medical sectors. Within the space of a few years, it has made spectacular progress in this area, justifying references to “China Care”. Next steps? To accelerate its innovation capacity with the aim of lowering medical costs and improving healthcare efficiency.

Biotechnology is developing very quickly, and Chinese pharmaceutical companies are accelerating their R&D investments. Some Chinese companies have become champions in outsourcing clinical research and medicine production. Others, such as private telemedicine platforms, have grown rapidly during the pandemic and demonstrated their effectiveness by freeing up space in public hospitals.

In Carmignac Emergents⁸, we are exposed to medical and pharmaceutical companies including:

Vaccine: Chongqing Zhifei Biological

Biotech: Wuxi Biologics

How can investors take advantage of this growth?

(re)Discover Carmignac Emergents



- (1) Source: MSCI, as of 30/10/2020, <https://www.msci.com/documents/10199/c0db0a48-01f2-4ba9-ad01-226fd5678111>
- (2) All listed Chinese equities including those listed in Singapore (S-chips), in the US (ADRs), in Hong-Kong (H-shares) and in the domestic market (A and B-shares). Sources: Carmignac, Bloomberg, MSCI, World Bank, CEIC, CICC, 31/12/2020.
- (3) FAANMG: Facebook, Amazon, Apple, Netflix, Microsoft, Google.
- (4) Source: World Bank, 2020 data, <https://www.worldometers.info/world-population/china-population/>
- (5) Source: Press, President Xi Jinping speech during the 75th UN General Assembly; Chinese Governments 2021-2035 New Energy Development Plan, March 2021.
- (6) Source: China Wind Power 2020 declaration signed by over 400 companies.
- (7) Roadmap announced by the organization of automobile experts on 02/11/2020, based on report created under the guidance of the Chinese Ministry of Industry and Information Technology.
- (8) Source: Carmignac Emergents' portfolio as at 31/05/2021. The portfolio may vary over time and without previous notice. The analysis of financial instruments in this presentation was not prepared in accordance with applicable regulatory provisions regarding the independence of financial analysts. The Management Company is not subject to the prohibition of entering into transactions in connection with the relevant instruments before the presentation of this material. This material is presented for illustrative purposes only to point out certain instruments which are (or which were) in the portfolios of certain Carmignac Funds and it does not aim to promote a direct investment in the instrument mentioned herein.

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Recommended
minimum
investment horizon



Main risks of the Fund

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

CURRENCY: Currency risk is linked to exposure to a currency other than the Fund's valuation currency, either through direct investment or the use of forward financial instruments.

DISCRETIONARY MANAGEMENT: Anticipations of financial market changes made by the Management Company have a direct effect on the Fund's performance, which depends on the stocks selected.

The Fund presents a risk of loss of capital.

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