Webinar Summary

PGIM

CHINA INVESTMENT SYMPOSIUM - PART III

The China Investment Counterpoint

Keshav Rajagopalan,
Vice Principal,
Institutional Client Director, PGIM

Stephen Joske
Former Senior Treasury Rep.
Australian Embassy in Beijing

As one of the largest and most important economies in the world, China is almost universally viewed by investors through a bullish lens. In the first two sessions of PGIM's China Investment Symposium covering public debt and public equity markets, our experts talked about the upside in China. Part three of our series, featuring Stephen Joske in a fireside chat, focused on some of the less-bullish considerations that institutional investors should give weight to before allocating to China. Mr. Joske, having spent much of his personal and professional life in and around China, brings a unique perspective to the dialogue. He has worked for both the Australian Treasury and Australian Embassy in Beijing, and he served as the head of the Economist Intelligence Unit's China Forecasting Service. Most recently, he advised AustralianSuper on financial market implications of Chinese macroeconomic issues.
Following are a few highlights of the discussion, which can be viewed here.

- **China is still an immature market:** There is a well-established, long-term trend of slowing growth in China, driven in part by demographics, and that trend is likely to continue. Other EM countries such as Vietnam, India and Bangladesh are poised to grow more quickly and may offer better investment returns over time. China's financial sector is also in relatively poor condition, and the possibility of cross-border capital controls tightening is real. While not a reason to ignore China altogether, investors need to be cognizant of the risks.
- **Size doesn't matter:** While China's economy is huge and offers impressive market depth, that size isn't necessarily an indicator of long-term investment returns. India, for example, has a far smaller economy than China but has performed much better for equity investors over the long term. With China's growth easing, better returns may be available elsewhere due to both higher growth rates and more rational financial markets. To be more attractive for the long term, China has to get past its short-term macro risks while steadily developing market maturity.
- **For CIOs, go local:** Institutional investors in China should tread carefully when index investing and when considering strategic partnerships with Chinese companies. Chinese equity indices have not generated sustainable returns and may be more suited for short-term investors who are prepared to act more quickly. Meanwhile, various governance structures among Chinese companies can make them difficult to partner with over time. For equity exposure to China, institutional investors should be deliberate about finding good local managers – or global managers with on-the-ground expertise –and limit the range of companies in which they invest.
- **Does the US election change the outlook?:** The US-China trade war is a symptom of broader geopolitical risks generated by Chinese strategic miscalculation. Many of China's international relationships are driven by a cold war mentality in China and won't be significantly influenced by attitudes in other countries. Relations with the US could also deteriorate as the US tries to build a global coalition against China, and geopolitics could continue to be a negative for investors in China.

The next installment of PGIM's China Investment Symposium, slated for early 2021, will focus on post-US election implications of the US-China relationship and its impact on the investment landscape. In the meantime, to access previous webinars visit our China Investment Symposium page here.

Important Information

For Professional Investor Use Only. All investments involve risks, including possible loss of principal. Past performance is not indicative of future results.

These materials are for informational or educational purposes only. The information is not intended as investment advice and is not a recommendation about managing or investing assets. In providing these materials, PGIM is not acting as your fiduciary.

PGIM, Inc., the principal asset management business of Prudential Financial, Inc. (PFI), and is an investment adviser registered with the US Securities and Exchange Commission (SEC). Registration with the SEC does not imply a certain level of skill or training. PGIM is a trading name of PGIM, Inc and its global subsidiaries.

In the United Kingdom and various other European jurisdictions information is issued by PGIM Limited, an indirect subsidiary of PGIM, Inc. PGIM Limited (registered office: Grand Buildings, 1-3 Strand, Trafalgar Square, London, WC2N 5HR) is authorised and regulated by the Financial Conduct Authority of the United Kingdom (registration number 193418) and duly passported in various jurisdictions in the EEA. These materials are issued to persons who are professional clients or eligible counterparties as defined in Directive 2014/65/EU (MIFIDII), investing for their own account, for funds of funds or discretionary clients. In Singapore, information is issued by PGIM (Singapore) Pte. Ltd. (PGIM Singapore), a Singapore investment manager that is licensed as a capital markets service license holder by the Monetary Authority of Singapore and an exempt financial adviser (registration number: 199404146N). These materials are issued by PGIM Singapore for the general information of "institutional investors" pursuant to Section 304 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") and "accredited investors" and other relevant persons in accordance with the conditions specified in Section 305 of the SFA. In Japan, information is presented by PGIM Japan, Co. Ltd., ("PGIM Japan"), a registered Financial Instruments Business Operator with the Financial Services Agency of Japan. In South Korea, information is issued by PGIM, Inc., which is licensed to provide discretionary investment management services directly to South Korean qualified institutional investors on a cross-border basis. In Hong Kong, information is presented by representatives of PGIM (Hong Kong) Limited, a regulated entity with the Securities and Futures Commission in Hong Kong to professional investors as defined in Part 1 of Schedule 1 (paragraph (a) to (i) of the Securities and Futures Ordinance (Cap.571). PGIM, Inc. is exempt from the requirement to hold an Australian Financial Services License under the Corporations Act 2001 in respect of financial services. PGIM, Inc. is exempt by virtue of its regulation by the Securities and Exchange Commission under the laws of the United States of America, including applicable state laws and the application of ASIC Class Order 03/1100. The laws of the United States of America differ from Australian laws.

These materials represent the views, opinions and recommendations of the author(s) regarding the economic conditions, asset classes, securities, issuers or financial instruments referenced herein. Distribution of this information to any person other than the person to whom it was originally delivered and to such person's advisers is unauthorized, and any reproduction of these materials, in whole or in part, or the divulgence of any of the contents hereof, without prior consent of PGIM is prohibited. Certain information contained herein has been obtained from sources that PGIM believes to be reliable as of the date presented; however, PGIM cannot guarantee the accuracy of such information, assure its completeness, or warrant such information will not be changed. The information contained herein is current as of the date of issuance (or such earlier date as referenced herein) and is subject to change without notice. PGIM has no obligation to update any or all of such information; nor do we make any express or implied warranties or representations as to the completeness or accuracy or accept responsibility for errors. These materials are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or any investment management services and should not be used as the basis for any investment decision. No liability whatsoever is accepted for any loss (whether direct, indirect, or consequential) that may arise from any use of the information contained in or derived from this report. PGIM and its affiliates may make investment decisions that are inconsistent with the recommendations or views expressed herein, including for proprietary accounts of PGIM or its affiliates. Any projections or forecasts presented herein are as of the date of this presentation and are subject to change without notice. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients or prospects. No determination has been made regarding the suitability of any securities, financial instruments or strategies for particular clients or prospects. For any securities or financial instruments mentioned herein, the recipient(s) of this report must make its own independent decisions.

Conflicts of Interest: PGIM and its affiliates may have investment advisory or other business relationships with the issuers of securities referenced herein. PGIM and its affiliates, officers, directors and employees may from time to time have long or short positions in and buy or sell securities or financial instruments referenced herein. PGIM and its affiliates may develop and publish research that is independent of, and different than, the recommendations contained herein. PGIM 's personnel other than the author(s), such as sales, marketing and trading personnel, may provide oral or written market commentary or ideas to PGIM 's clients or prospects or proprietary investment ideas that differ from the views expressed herein.

Prudential Financial Inc. (PFI) of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom. The PGIM logo and the Rock design are service marks of PFI and its related entities, registered in many jurisdictions worldwide.

© 2020 PFI and its related entities.

20/11 – 1693