The Stanley-Laman Group, Ltd.

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Chinese Equities Markets have outperformed U.S. markets for 2020 (SLG China A-Share +65% since launch in April), and are attracting renewed interest for their diversification benefits, particularly as developed economies such as Europe and Japan face secular stagnation.

Covid-19 has changed the traditional view of how to manage risk and has forced investors to look through the impact, relative to the impact on revenues and profits. As such, in many cases stocks are less risky than many assets classes previously considered a risk hedge.

For example, traditional asset allocation models attempt to balance risk through diversification amongst, bonds, equities, real estate, commodities and various sub-sectors within, none of which accounted for an event such as Covid-19.

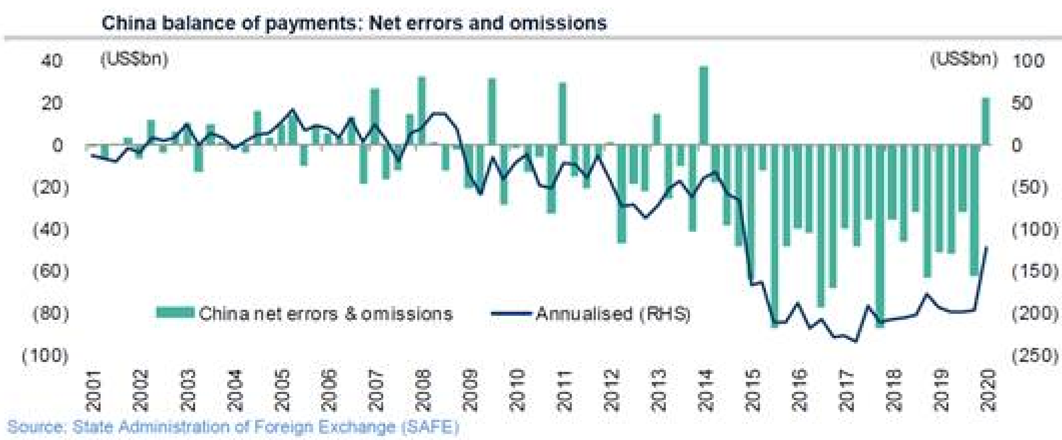
Consequently, a Bond with an Airline or Cruise Ship Company, or Municipal Bond in a state that will lose 30% of its tax revenues due to unemployment of a large base of hospitality workers, may be much riskier than stock in a company less impacted by Covid-19. Likewise, with Real Estate, the risk of owning a Sports Stadium, Mall or Movie Theater looks a bit different now.

Company	12/31/19 Price	Current Price	YTD Gain
Meituan Dianping	101.90	197.10	+93.4%
Joinn Laboratories	41.29	98.59	+139.4%
Tencent Holdings	375.60	525.00	+40.2%
Hangzhou Hikvision	32.74	36.55	+14.5%
Toly Bread Co	42.44	57.94	+39.3%

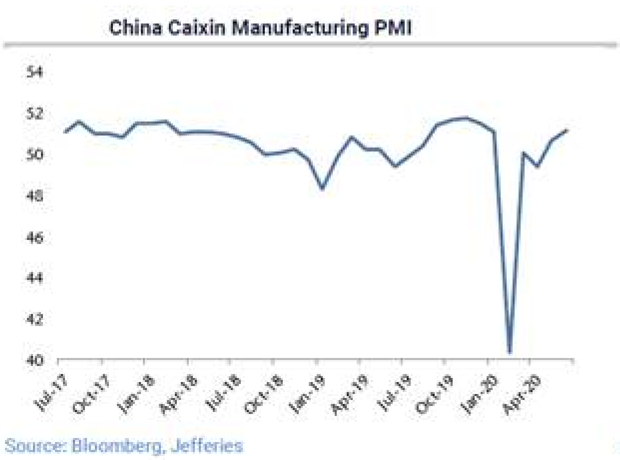
Case for Chinese Equities

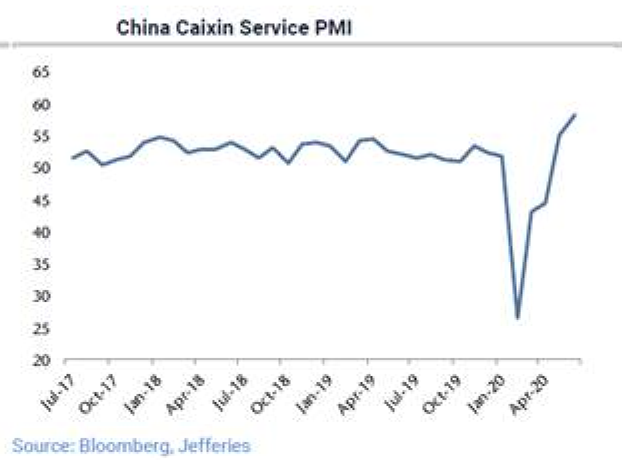
- China's management of Covid-19 has proven to be more effective than that of the U.S., given the ability of their Central Government to institute and effectuate country-wide procedures and regulations.
- Central Government's dedicated effort to move from an export economy to a consumption (U.S. Type) based economy has begun to take hold.
- Government's increasing infrastructure spending has pushed up construction, machinery, cement, and materials stocks.
- Tax breaks, fee cuts and consumption vouchers have been provided to encourage consumption.

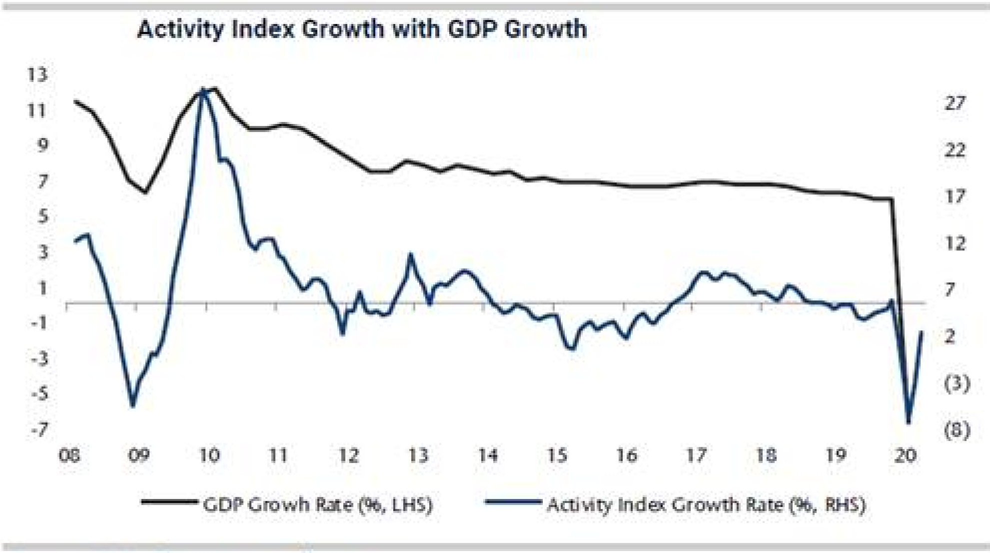
- China’s equity market is deep and dynamic, and is a fertile ground for many emerging industry champions due to its skilled labor, dividend and abundant capital, funded by its high savings rate. Both the government and central bank can implement counter-cyclical economic policies independent of the US while controlling its currency.
- As US scrutiny of Chinese ADR listings increases, the listed companies are going for secondary listings in Hong Kong where they attract much higher valuation multiples, or getting privatized by management/private equity funds, or are acquired by an industrial consolidator at a price premium. The secondary Hong Kong listings will be potentially included in the Shanghai- and Shenzhen-Hong Kong South-Bound through trains, which enable the deep investor money in mainland China to buy these sought-after stocks directly.
- Positive Economic Indicators
    - The net errors and omissions item in China’s balance of payments turned from a US$62.6bn deficit in 4Q19 to a US$22.6bn surplus in 1Q20, the first quarterly surplus since 1Q14.



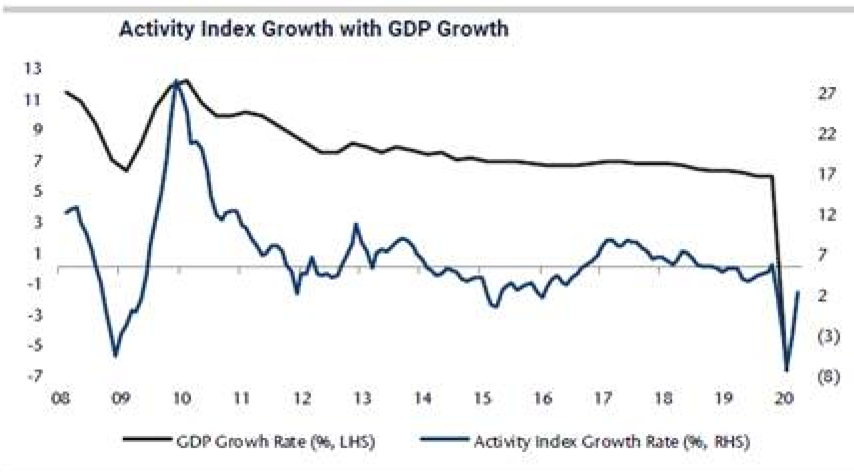
    - Both the Caixin China manufacturing and services purchasing managers indices (PMI) continued to improve, with the June services PMI breaking multi-year trends as GDP resumes growing again







Source: CEIC, Bloomberg, Jefferies



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- China is seemingly repealing its own version of Glass-Steagall, providing that the China Securities Regulatory Commission (CSRC) may grant securities licenses to at least two large commercial banks allowing them entry into the brokerage business as part of a trial program. The participation by the commercial banks would greatly expand the balance sheet available to facilitate the primary listing of China Unicorns and the secondary listing of ADRs and Hong Kong-listed red-chips in the mainland, and will provide more of the vast amount of wealth management products to include equities.

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