



# China Revisited

September 22, 2022

# A Four-Week Quarantine

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Wenting with a flight attendant wearing a Hazmat suit.



Two weeks in Room 919. Food delivery came 3 times a day.



Doorway seal at Wenting's family's house in Xi'an – another two-week quarantine.

# We Met With a Broad Range of Companies



# Difficult Period for Chinese Equities

Market sentiment has weakened since 2H21

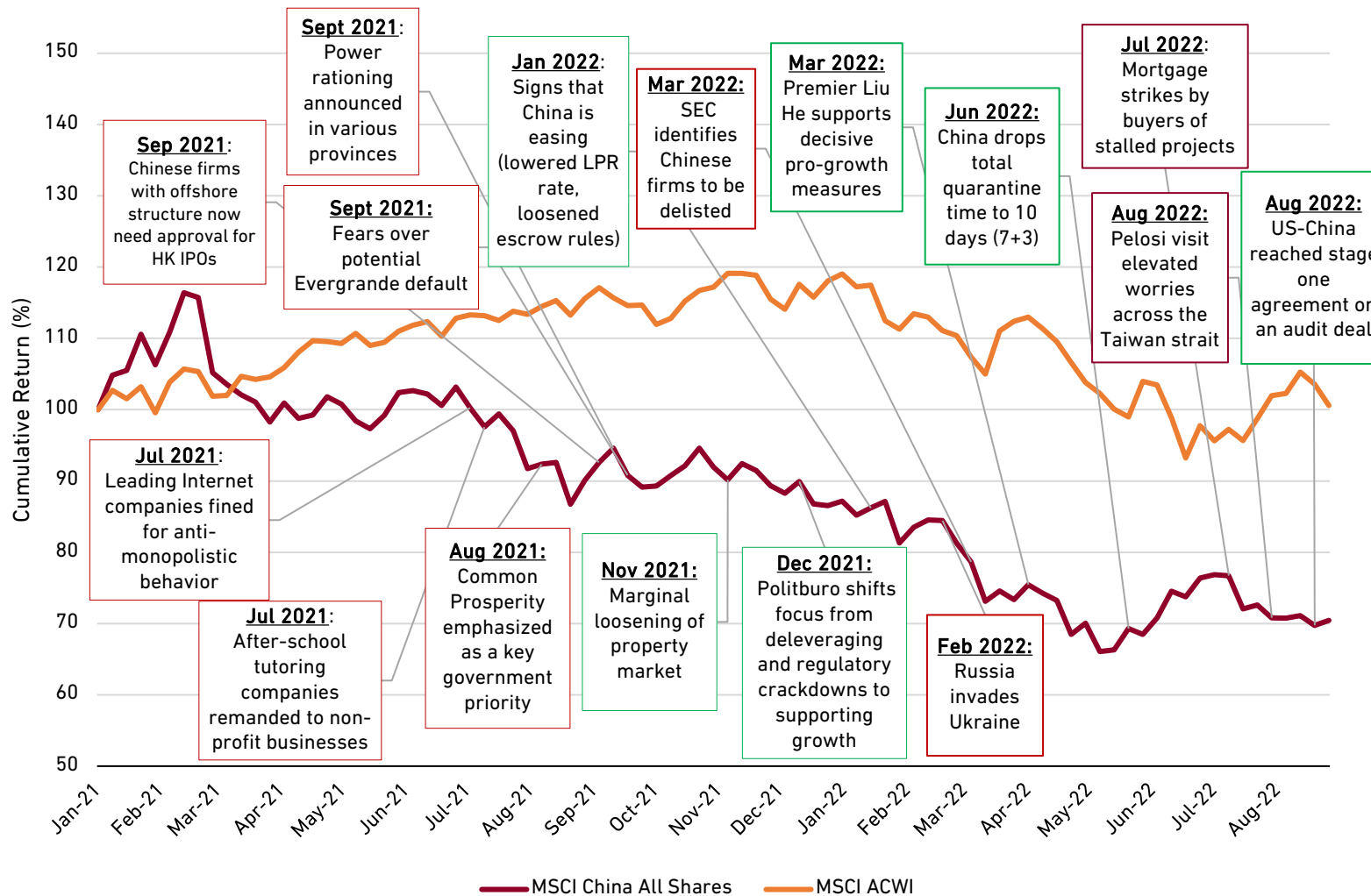
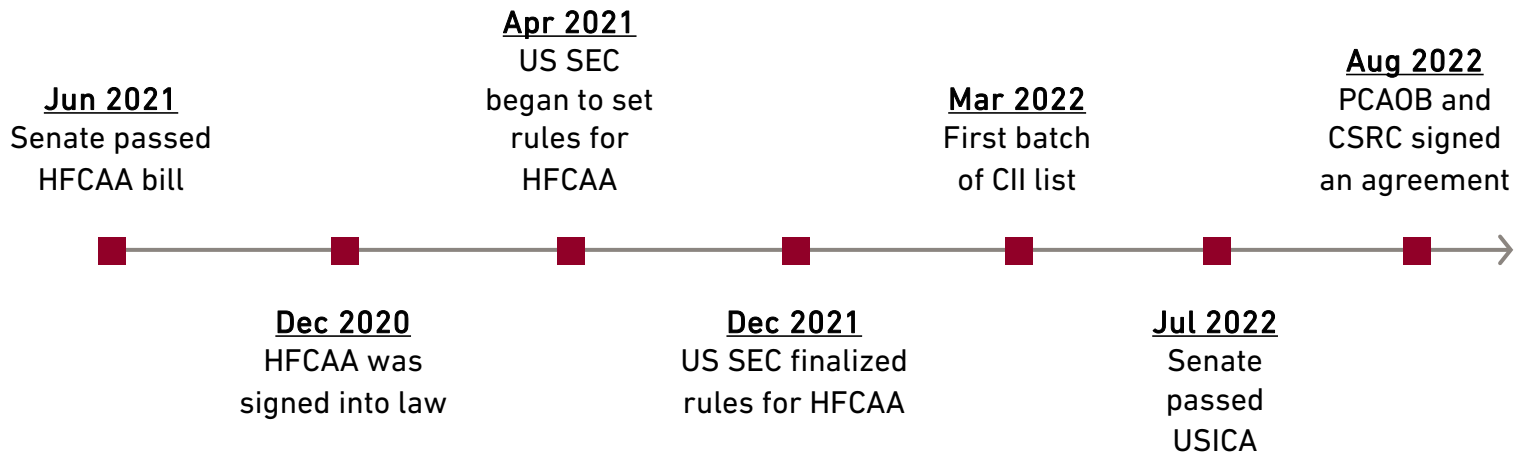


Chart shows performance of MSCI China All Shares Index and MSCI All Country World Index. Source: FactSet, MSCI Inc., and Harding Loevner. Data as of August 2022. Please read the disclosures, which are an integral part of this presentation.

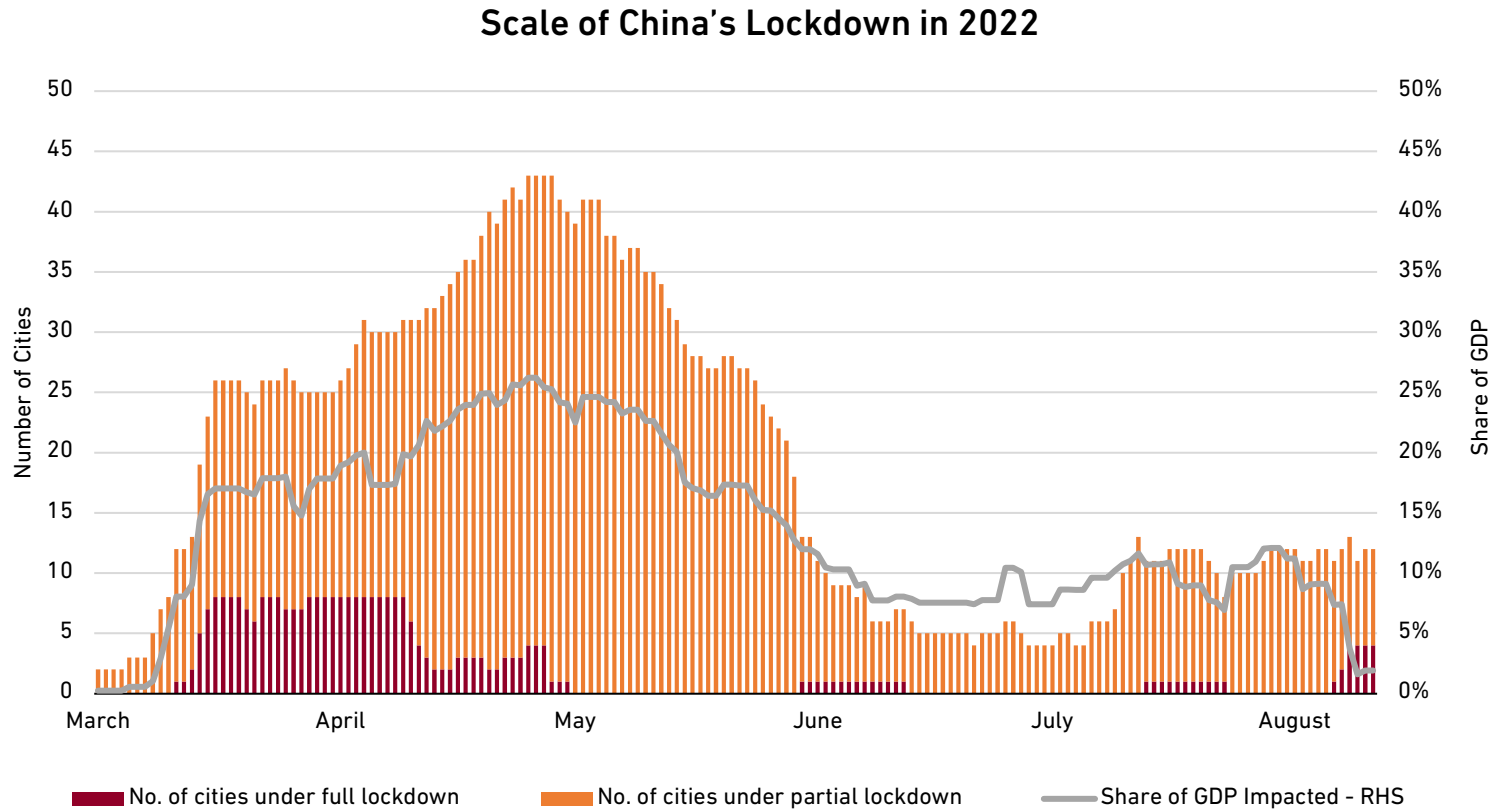
# Risks: ADR Delistings

Phase 1 audit deal has been reached but implementation remains the key



# Risks: Zero-COVID Policy Pressures Growth

China's open-up would be a step-by-step process

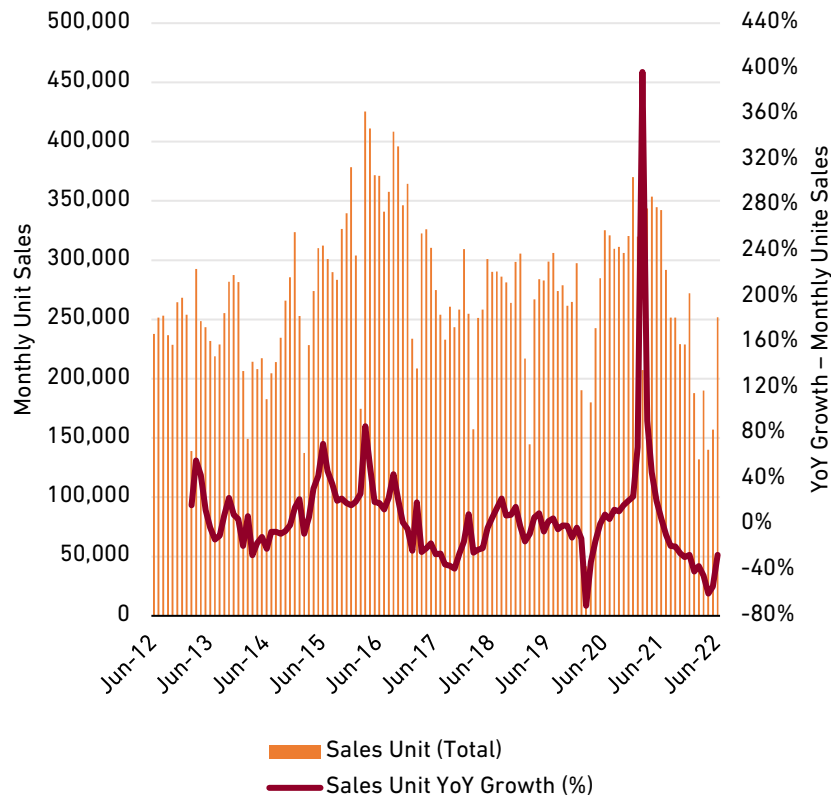


Left Chart: Source: Local Media, VariFlight, Morgan Stanley Research as of August 11, 2022. Right Chart: Source: NBS, Morgan Stanley Research. Data as of June, 2022.

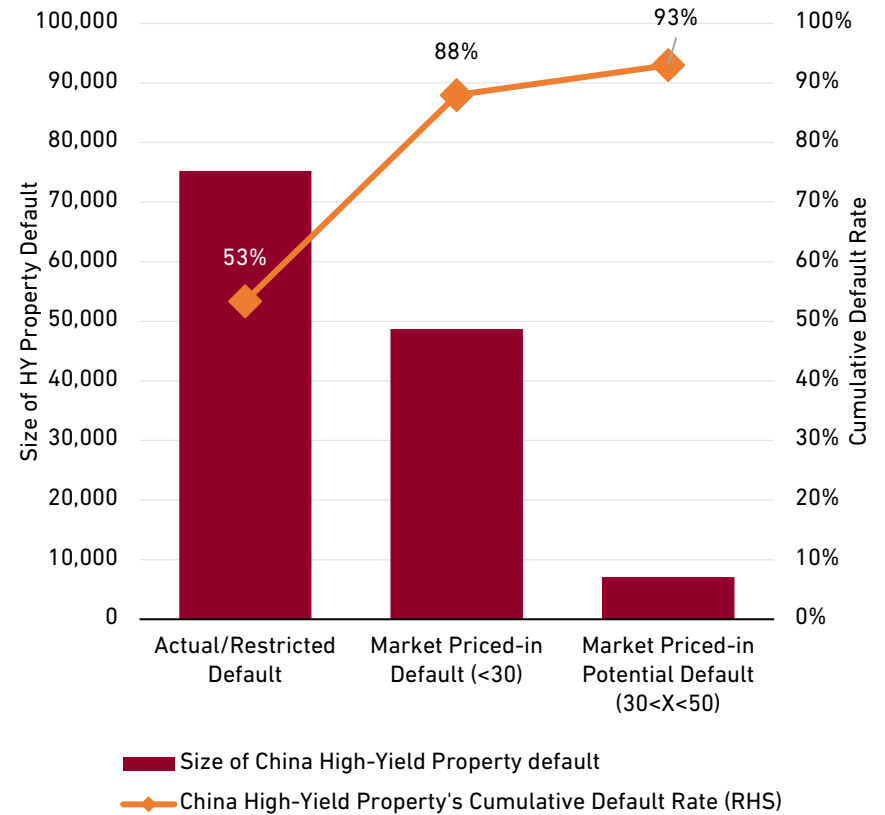
# Risks: Property Market Meltdown

Expect uneven impact on property companies

## China Property Primary Market Monthly Unit Sales



## China High-Yield Property Credit Default Rate



Left Chart: Source: CREIS, Morgan Stanley Research. Sales for 56 cities in China are shown, including 4 Tier 1 cities, 24 Tier 2 cities, and 28 Tier 3 cities. Data as of end June 2022.  
 Right Chart: Source: Bloomberg, Morgan Stanley Research. Data as of August 10, 2022.

# Opportunities in China – Looking Beyond Near-Term Risks

Longer term opportunities remain attractive, while valuations have corrected from COVID-driven highs

## Industries Aligned to Government's Goals

### Carbon-Neutrality

- Transition from coal
- Electric vehicle supply chain
- ENN Energy
- Sanhua Intelligent Controls, Fuyao Glass

### Data Security

- Cybersecurity software
- Sangfor

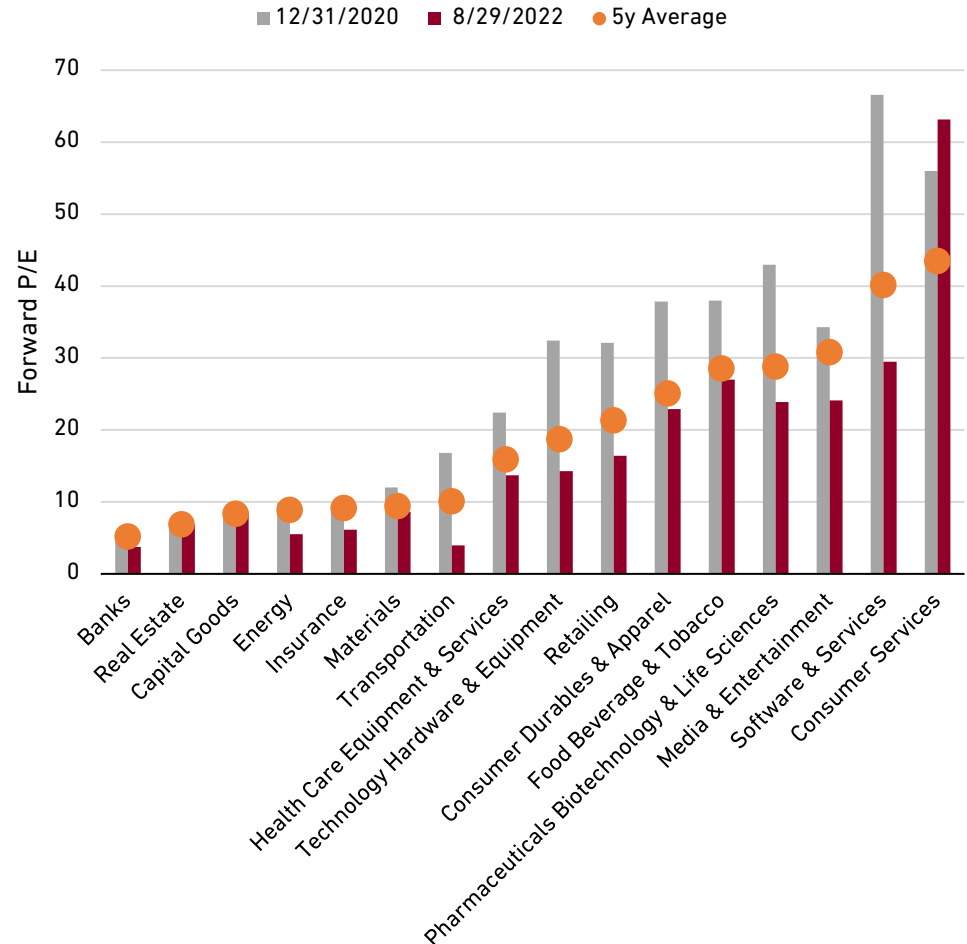
### Innovation

- Industrial automation & robotics
- Novel drug development
- AirTAC
- WuXi Biologics

### Middle-Class Growth

- More purchasing power
- Financial services
- Midea Group, Shenzhou International
- AIA Group, Ping An Insurance

## Forward P/E by Select Industry Group

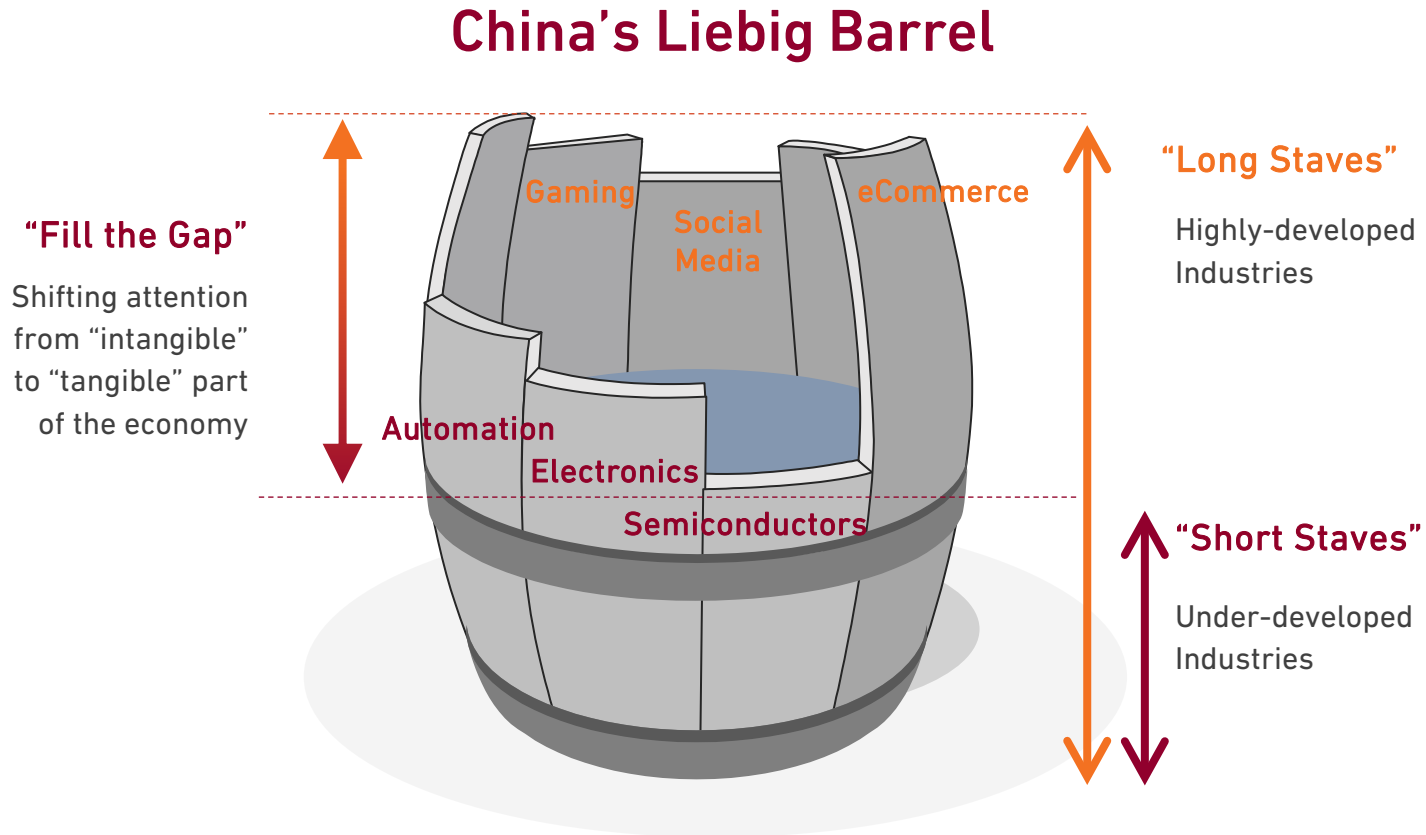


Source: FactSet, MSCI Inc. Data as of August 29, 2022. The portfolio holdings identified above do not represent all of the securities held in the portfolio. It should not be assumed that investment in the securities identified has been or will be profitable.



# China's Policy Shifting to "Fill the Gap"

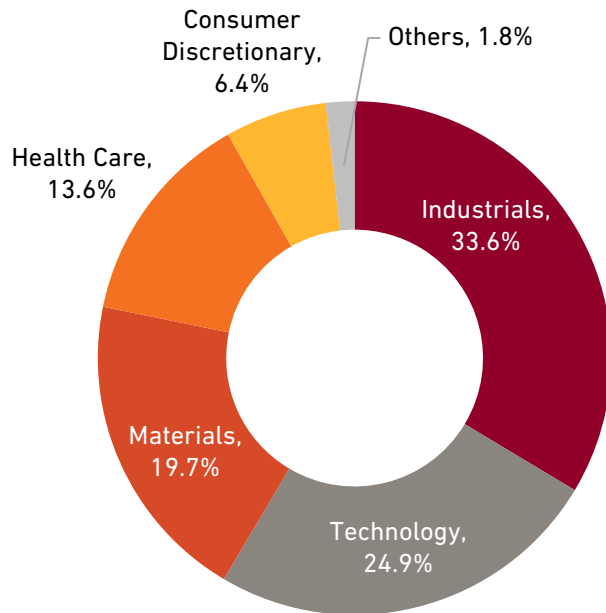
Chinese government is seeking to focus on increasing growth in under-developed industries



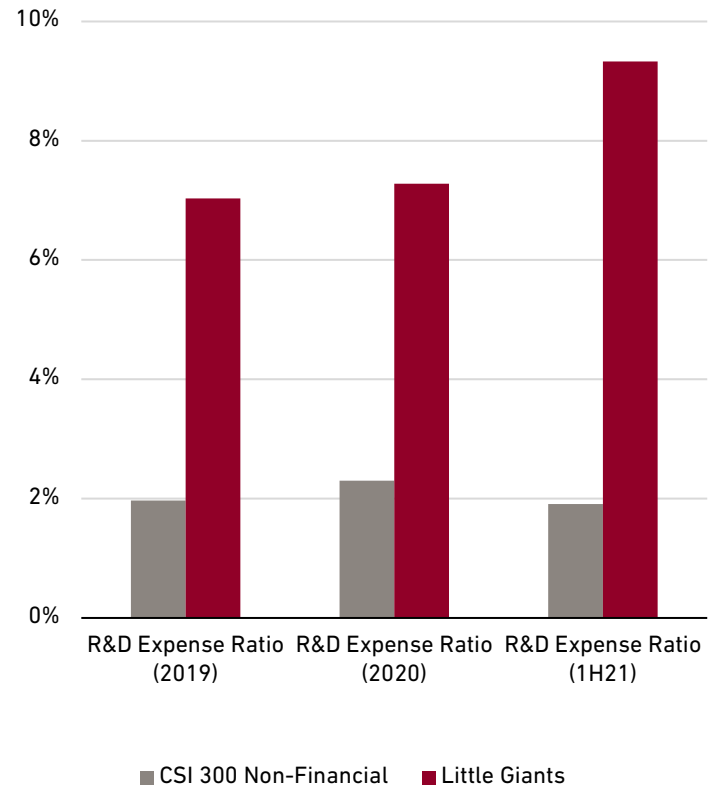
# “Created in China *for* China” – a Strong Localization Trend

Supported by “Little Giants”

### Little Giants - Sector Distribution



### R&D Expense Ratio



# Disclosures

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Any discussion of specific securities is not a recommendation to purchase or sell a security. It should not be assumed that investment in the securities identified has been or will be profitable. To request a complete list of holdings for the past year, please contact Harding Loevner.

The portfolios invest in foreign securities, which involve greater volatility and political, economic and currency risks and differences in accounting methods. They also invest in emerging markets, which involve unique risks, such as exposure to economies less diverse and mature than the US or other more established foreign markets. The portfolios may invest in smaller companies which involve additional risks such as limited liquidity and greater volatility. Economic and political instability may cause larger price changes in emerging markets securities than other foreign securities.

Investing in Chinese companies entails risks associated with investing in China and Hong Kong.

There is no guarantee that any investment strategy will meet its objective. Past performance does not guarantee future results. Investing involves risk.