



The China Effect

How Government Policy Impacts Investors

2016



NSBO China Policy & Investment

1. CHINA'S IMPACT ON THE WORLD

Major concerns for the global economy due to the rise in China

2. GOVERNMENT INFLUENCE: Decisive factor for investment

Government owns the major companies in strategic sectors and controls economy and industry targets and performance.

3. KEY STRENGTHS: Chinese focus and expertise

Experienced executive team with growing pool of Chinese analysts and industry advisors.

4. NSBO'S BEIJING BUILD-OUT: Five-year development

Beijing office provides on-the-ground insights

5. RESEARCH PRODUCT: From policy to investment

Outline of daily, monthly and bespoke research capabilities.

6. MEET & GREET: Insight from the horse's mouth

Meeting analysts and advisors in Beijing, Shanghai, London, Hong Kong.

7. OUR POLICY CALLS: When policy makes a difference

Turnaround in sector performance based government policy.

8. CHINESE DEBATES: Hard or soft landing?

Key positions on property, banks, consumer and capital account opening.



NSBO CHINA: Providing insight into China

NSBO CHINA:

- **We track China's government policy and economy, providing a unique insight and read-across for investment and sector strategy.**
- **This comes from our office of analysts and advisors in Beijing, giving investors insights into key policy strategy and thinking.**

CHINA TODAY:

- China has risen from being No.7 in the global economy to No.2 over the past ten years and is projected to catch up with the US over the next ten.
- To date, this has provided the world with cheap capital, cheap labour and cheap goods, benefitting manufacturers, the US Treasury and Western consumers.

CHINA OVER THE NEXT TEN YEARS:

1. **Capital is going to become more expensive** as financial reforms are implemented.
2. **The RMB will move from being a managed, closed currency to a major Asian trading currency** and its increased volatility may destabilise both global and domestic markets.
3. **Chinese consumers will have more money to spend**, but are not necessarily buying Western goods or becoming Western consumers.
4. **Greater domestic technology and development will challenge global manufacturers** and undermine their investment in China as well as sales to the global market.
5. **China will continue to buy strategic and resource assets**, particularly energy, leading to greater global competition and international tension.
6. **Current faults in the political system are beginning to be felt** and may lead to greater reform or, more dangerously, a bigger crack-down, affecting both China, regional development and international relations.

Few markets will remain unaffected and Western multinationals and resource companies face an increasingly difficult time negotiating with a rising giant.



GOVERNMENT INFLUENCE: Decisive factor for investment

Overall policy

- Government has major role in corporate decisions through policy and ownership
- SASAC owns 120 of the largest companies in China and governs their development
- Answering to shareholders comes secondary to national interest for key sectors
- Central and local government policy can differ and ongoing battles between the two

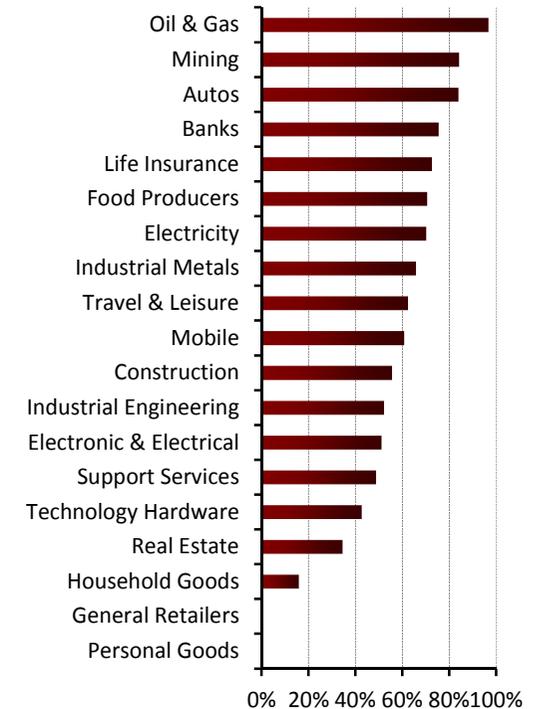
Sector plans

- Overall sector development governed by Five Year Plan targets – currently being set
- Governs foreign investment in key sectors – eg restricted in telecoms and power, but encouraged in advanced manufacturing
- Acquisitions and management changes governed by central decision-making

Government shareholdings of major banks

Bank	Central Huijin	Ministry of Finance
ICBC	47%	47%
Bank of China	96%	
ABC	44%	43%
CCB	2%	

Government ownership by sector



Examples

- **Telcos** – China Mobile the largest mobile operator in the world (>500m customers) but telco sector was divided up between its main competitors, China Telecom and China Unicom, to its cost
- **Property** – purchase restrictions put in place by central government are causing 15-20% drop in house prices in major cities. Now policy needs to ease in order to restimulate economy.
- **Rare earths** – sector policy is forcing consolidation and limiting production by smaller producers, leading to trade war and higher prices



NSBO'S KEY STRENGTHS: Chinese focus and expertise

Executive Team

- Co Chairmen: Bob Benton and Derek Han
- Chief Executive: Richard Abrahams

Beijing Office

- **Based in Beijing**, not Hong Kong or Shanghai, giving better access to government thinking and experienced advisors
- **Chinese staff and research**, not a Western institution or interpretation
- **Growing pool of academic/think-tank advisors** to give policy insight & direction
- **Relationship with GAPP and Xinhua** gives status and security onshore

London Office

- **Provides sales and regular client contact**, feeding investment ideas and recommendations to clients in London, Europe, Hong Kong and New York

Joint Venture Partner with Sun Hung Kai in Hong Kong

- **Provides enhanced Asian-hours trading capabilities and deeper research team, access to IPO flow**

Bob Benton is the president of Bob & Co, has played a pivotal role in various aspects of the media industry for over 20 years in both advisory roles and the market itself. Bob recently served as Chairman of HandMade Films overseeing the necessary restructuring and the sale of the Company. He is also on the board of both Talent Group, the parent company of independent production companies Talent Television and Talent Films, and SUMS Media, a digital media development and production company.

His career includes many years' experience in investment banking and stockbroking; positions held include Managing Director and Head of Media at Canaccord Adams as well as Chief Executive of Ingenious Securities. Prior to that he was Chairman of Bridgewell Group, the stockbroker that he founded in 2002 and floated on the AIM in 2007. Bob Benton has also held office as Chairman and CEO of Charterhouse Securities, Global Head of Sales at ABN Amro and Managing Director of HSBC Securities Services (formerly HSBC James Capel) before becoming Chief Executive of the Company aged 34.

Derek Han, Chairman

Derek is a former Chairman of PG Partner Bank in Zurich and has been a foreign exchange advisor at Fema Invest, a board member of Ineo, and of Banque SCS Alliance. Derek is also a world-renowned concert pianist, he graduated from the Juilliard School, one of the most prestigious performing arts college of the world, at age 18.

Richard Abrahams, CEO

Before founding North Square Capital in 2008, Richard was CEO and Head of Trading at Pali International, where over his tenure the firm established itself as a leader in event-driven equity research and execution. Prior Pali, Richard was head of equity of HSBC in the US.

Duncan Wrigley, Head of China Research

Duncan has worked at NSBO since joining in 2013 as a Macro and Property specialist. Prior to NSBO Duncan worked for seven years at Shui On Land in Shanghai, where he managed economic and real estate analysis and provided inputs into management's strategic and investment decision-making. Before that, he was the China Economist for the Economist Intelligence Unit in Hong Kong/London. In recent years Duncan has presented NSBO's views on China frequently on various news platforms including CNBC, the BBC, Bloomberg TV and the Wall Street Journal. He has an MA in International Relations and International Economics from Johns Hopkins University School of Advanced International Studies, a BA in Philosophy, Politics and Economics from Oxford University, and is fluent in Mandarin.



NSBO's BEIJING BUILD-OUT: 9 Year Development

NSBO Research network

- Beijing office provides **research, insights and policy interpretation**.
- Feeds through **into sector and company analysis** from policy perspective.
- Investment idea generation** and trading calls in London based on policy and industry analysis.

NSBO Beijing Office

- **Team of analysts** in major policy sectors
 - Financials
 - Energy
 - Trade/Currency
 - Property
 - Metals
- **Advisory network** in research/academic institutions
 - Economics
 - Financials
 - Property
 - Autos
 - Agriculture
 - Telcos
 - Ad-hoc advisors on specific sectors/topics

NSBO's Chinese Research Time line

2007

Set up office in Beijing – research development and advisory network

2008

Launched Chinese government policy research from London

2009

Merger with North Square in London to build up sales representation and capacity

2010

Built up team in Beijing with greater number of analysts and advisors

2011

Widened client focus to Hong Kong and New York, as well as Europe

2012

Launched international product to focus on China's impact on global stocks and commodities

2015

Joint Venture with Hong Kong based firm Sun Hung Kai to offer enhanced Asia-execution capabilities and deepen research team



RESEARCH PRODUCT: From policy to investment

Daily Research

Chinese policy round-up

CHINA POLICY WATCH,

CURRENCY: RMB REFORM PROMOTED
TRADE: CHINA MAY RELEASE MEASURE TO SUPPORT EXPORT IN APRIL
ECONOMY: SASAC PLANS CAPITAL INJECTION TO SOME CENTRAL SOES
OIL & GAS: PETROL PRICES ADJUSTED, OIL PRICE BENCHMARK TO BE CHANGED AND BENCHMARK PRICE TO FALL
PROPERTY: MORE BANKS OFFER DISCOUNTS ON FIRST HOME MORTGAGES

International impact round-up

INTERNATIONAL EDITION CHINA POLICY WATCH

CURRENCY: RMB REFORM PROMOTED
Stocks affected: HSBC, Standard Chartered, Major trading partners
TRADE: CHINA MAY RELEASE MEASURE TO SUPPORT EXPORT IN APRIL
Stocks affected: Consumer goods sector
OIL & GAS: PETROL PRICES ADJUSTED, OIL PRICE BENCHMARK TO BE CHANGED AND BENCHMARK PRICE TO FALL
Stocks affected: Maersk

China Policy Focus

CHINA POLICY FOCUS
SHALE GAS SET TO REACH 20-30% OF GAS SUPPLY
Gas
Policy: Positive
Outlook: Positive

China's annual output of shale gas is expected to go from virtually nothing to 6.5bn cu m and at least 10 times that amount in just five years, helping China reduce its reliance on dirtier coal and cut its carbon emissions. MLR forecasts that the total investment in shale gas will reach 400- 600bn yuan over the next ten years....

Sector Reports

Monthly Economic Policy

- Including sector performance

Financials

- Monetary policy
- Banks
- Insurance

Property Report

- Property prices & investment
- Affordable housing construction

Trade

- Exports & imports
- RMB and CNH market

Energy Sector

- Oil & gas
- Renewables
- Nuclear

Metals Sector

- Steel
- Copper
- Aluminium



MEET & GREET: Insight from the horse's mouth

Meeting advisors and analysts

- A key part of understanding China is **speaking directly to those on the ground**
- With the office in Beijing and contacts throughout China, we can provide insight to clients on key sectors and subjects
- **Regular dialogues** have been established with clients on agriculture, energy and financial market developments

Bespoke research

- **Quick answers to provide interpretation** or insight of particular topics are provided on a regular basis
- **More in-depth reports and queries** are answered through contact with key industry and government individuals and NSBO's analyst team

Previous client questions

- Who are the main beneficiaries of the shale gas development in China? What is the government's plan for gas infrastructure and distribution?
- Do you expect asymmetric interest rate increase/decrease or will the main policy focus on reserve requirement ratios?
- Is the Ministry of Railways going to be broken up and private/foreign capital allowed into the railway sector?

Conference calls

Analysts and advisors in Beijing and London

Meeting in Beijing, China, Hong Kong and London

1-1s meetings with in-house analysts and key advisors

Previous events

CIC Supervisory Board Chairman, Mr Jin Liquan

Talk in London and meetings with clients

Director General NDRC Energy Research Institute

Talk in London and meetings with clients

Director General CBRC

Seminar in Hong Kong and meetings with clients



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