



# China Long Term Trend

Investment Idea :  
20 January 2021

## Structuration : Outperformance Certificate

Maturity: **5Y**

Underlying's:

- **iShares China Large Cap  
ETF**

Strike: **100%**

Participation Level: **345%**

Underlying Cap: **115%**

Capital Barrier: **72%** European

Currency: **USD**

## Overview

We believe that timing is very interesting to invest in China.

We have designed a conservative structuring with a outperformance certificate.

**China is still underrepresented in indices** and is a land of fundamental opportunities.

**The country is the engine of the global economy** and has promising capacity for further growth, creating potential opportunities for discerning investors.

**China's economy is diversifying:** and continues to transition from a manufacturing-heavy economic model to one that is services and consumption-led.

**Is now as a tech-driven giant and** has the second highest rate of investment in research and development, worldwide.

**“China is now a tech  
giant”**

## Why Now ?

### The short-term drivers of China equity outperformance in 2021:

1. **China is still underrepresented in indices** and is a land of fundamental opportunities: Despite the fact that China has the second largest economy on the planet, it is clearly under-represented in global equity indices, which presents a potentially attractive landscape for active stock-picking. An examination of world market capitalization, when divided along geographies, shows that China accounts for 15%, which is almost equivalent to all European market capitalization. However, the MSCI AC World index, a key global reference index, still allocates China a 5% weighting.

### The long-term drivers of China equity outperformance are well known:

3. **China is the engine of the global economy** and has promising capacity for further growth, creating potential opportunities for discerning investors. It is the world's second largest economy and has embarked on a series of structural reforms designed to strengthen its position on the global stage and transform it into a service-oriented and technology-driven giant.
4. **China is relentlessly catching up and the quality of growth is improving.** The economy of China is a dominant global force. China alone accounts for almost 20% of the entire global Gross Domestic Product (GDP) and, while the economy has suffered as a consequence of the COVID-19 pandemic, the outlook remains promising. The rapid growth of millennials and the middle class are transforming China's society and consumption patterns. Both demographics are associated with an increase in spending power due to a greater level of disposable income. This has enormous implications for consumption patterns for a number of reasons. A [recent survey](#) found approximately 70% of millennials indicated they were planning to increase their consumption of luxury goods and services in future, for example. Around 45% indicated it is essential to own at least one designer item. Overall domestic **expenditure on luxury products was up by 13% between 2016 to 2018, compared to a 7% rise recorded between 2014 to 2016, according to [PwC](#).**
5. **China's economy is diversifying:** China continues to transition from a manufacturing-heavy economic model to one that is services and consumption-led. Consumption remains the largest driver of growth in China and accounted for nearly 60% of GDP growth in 2019.
6. **China as a tech-driven giant:** China now has the second highest rate of investment in research and development, worldwide. The country is already cementing its position as the world's leading tech giant. Today, China is host to 8 of the world's 20 largest internet companies – narrowly behind the US with 12. In terms of [start-up investment](#), it ranks second only to the US.

**“China is the engine of the global economy and has promising capacity for further growth, creating potential”**

## Which investment vehicles?

We have decided to select the iShare China Large Cap ETF.

- **The iShares China Large-Cap ETF** seeks to track the investment results of an index composed of large-capitalization Chinese equities that trade on the Hong Kong Stock Exchange.

This ETF provides an exposure to 50 of the largest Chinese stocks in a single fund and use to express a single country view.



### TOP HOLDINGS (%)

ALIBABA GROUP HOLDING LTD	9.11
TENCENT HOLDINGS LTD	8.77
MEITUAN	8.38
CHINA CONSTRUCTION BANK CORP H	5.81
JD.COM CLASS A INC	5.39
PING AN INSURANCE (GROUP) CO OF CH	4.45
INDUSTRIAL AND COMMERCIAL BANK OF	4.30
WUXI BIOLOGICS CAYMAN INC	4.01
NETEASE INC	3.66
BANK OF CHINA LTD H	3.45
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	57.33

Holdings are subject to change.

## Which Structuration?

In order to capture the long-term trend we decided to design an Outperformance Certificate with a 3.45x leverage and capped to 115%, whose parameters are the following:

### Protected Tracker

- Maturity: **5Y**
- Underlying's:
  - **iShares China Large Cap ETF (FXI UP)**
- Strike: **100,00%**
- Participation Level: **345%**
- Underlying Cap: **115%**
- Capital Barrier: **72% European**