A postcard from EMO — Shanghai & Changsha

The Emerging Markets Opportunities team was lucky to host a client of ours to visit three vibrant cities in China, Shanghai, Changsha, and Shenzhen. With a 2 full-day packed itinerary, we visited companies in healthcare, automation, tech hardware and others in addition to an insightful dinner with college students.

Observations and perspectives from our clients:

- Efficiency: Public transportation and the highspeed rail network were incredibly efficient. In transiting through Shanghai, we connected via Hongqiao station from Highspeed rail to the airport facilities in minutes (subway also available). All connections were laid out on 1 level in a single airconditioned facility.
- Safety: Our clients felt remarkably safe navigating Shenzhen and transiting in the crowded high speed rail train stations. It was described that China benefited from a safety arbitrage, where low incidence of violence permitted a focus on productivity.
- Optimism: Spending time with students from a local Shenzhen university, we were able to soak in their enthusiasm. Their dreams and aspirations reflect Shenzhen's entrepreneurial spirit with a will to travel overseas and compete globally.

Overall, we came away less concerned about the economic slowdown but captured by the innovation and efficiency of companies honed through intense local competition.

Changsha, an Industrial Powerhouse

Changsha is home to leading companies in manufacturing, automotive, and electronics. The city's commitment to research and development fuels growth and innovation. We visited the sprawling manufacturing facilities of an automation and industrial company, who makes pumps, valves and other key components to leading tractors and heavy equipment companies like Caterpillar.

At the factory, the company's commitment to cleanliness is evident at every turn. The floors largely gleamed, and the few workers that manned the machines moved purposefully. Furthermore, there were little scrap or wasted materials. The air smelled of freshly machined metal and productivity felt high. After production, stringent quality checks were taken and manual labor was required for individuals to finish products. While on the surface this was just another factory visit this company is a critical component in Changsha's industrial ecosystem driving synergy and innovation.

Bottom line: Conviction unchanged, still positive in our Chinese positions

Feeling safe at a distance, Philip will need to await his license before operating the excavators in view.


Changsha's automation facility was spotlessly clean despite machines humming along with activity

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Portfolio risks

PRINCIPAL RISKS

Common Stock Risk – Common stock are subject to many factors, including economic conditions, government regulations, market sentiment, local and international political events, and environmental and technological issues as well as the profitability and viability of the individual company. Equity security prices may decline as a result of adverse changes in these factors, and there is no assurance that a portfolio manager will be able to predict these changes. Some equity markets are more volatile than others and may present higher risks of loss. Common stock represents an equity or ownership interest in an issuer.

Concentration Risk – Concentration risk is the risk of amplified losses that may occur from having a large percentage of your investments in a particular security, issuer, industry, or country. The investments may move in the same direction in reaction to the conditions of the industries, sectors, countries and regions of investment, and a single security or issuer could have a significant impact on the portfolio's risk and returns.

Emerging Markets Risk – Investments in emerging and frontier countries may present risks such as changes in currency exchange rates; less liquid markets and less available information; less government supervision of exchanges, brokers, and issuers; increased social, economic, and political uncertainty; and greater price volatility. These risks are likely greater relative to developed markets.

ADDITIONAL RISKS

Currency Risk – Active investments in currencies are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Active currency risk may be taken in an absolute, or a benchmark relative basis. Currency markets can be volatile, and may fluctuate over short periods of time.

Liquidity Risk – Investments with low liquidity may experience market value volatility because they are thinly traded (such as small cap and private equity or private placement bonds). Since there is no guarantee that these securities could be sold at fair value, sales may occur at a discount. In the event of a full liquidation, these securities may need to be held after liquidation date.

Smaller Capitalization Stock Risk – The share prices of small and mid-cap companies may exhibit greater volatility than the share prices of larger capitalization companies. In addition, shares of small and mid-cap companies are often less liquid than larger capitalization companies

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