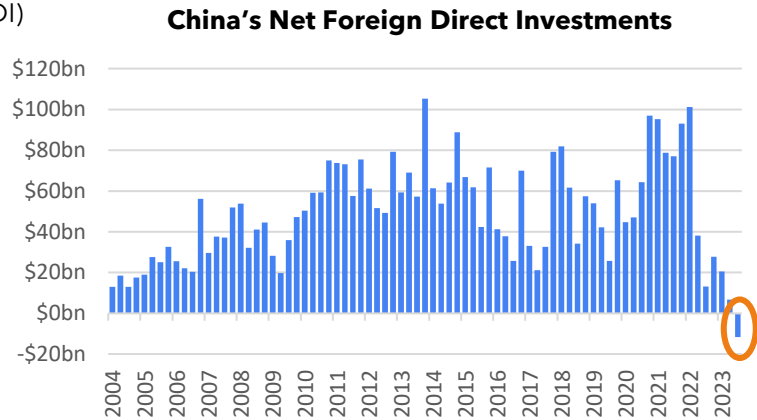


# VIEWPOINT: CHINA AND TOBAM LBRTY®

## FOUR REASONS TO CONSIDER MINIMIZING EXPOSURE TO CHINESE EQUITY

### 1. REASONS WHY CHINA COULD UNDERPERFORM IN THE **SHORT** TERM

1. Net Foreign Direct Investment (FDI) to China turned negative

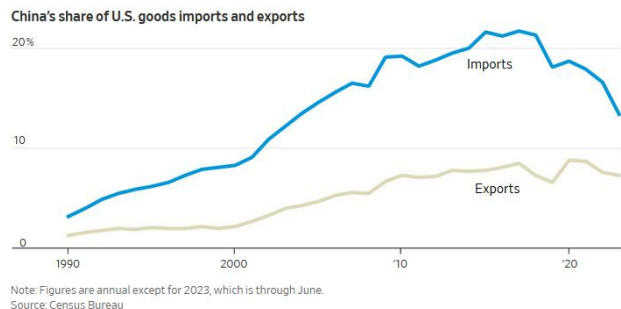


Source: TOBAM and Bloomberg.

2. China share of **US imports** has been **dramatically falling since 2019**

### How U.S. and China Are Breaking Up, in Charts

Americans keep buying less from China, dropping its share of imports to a 20-year low



3. Bipartisan opposition to China's policies is a prevailing stance in current U.S. politics - **this year's elections could further amplify this sentiment**

### 2. CHINESE ECONOMY IS UNDERGOING A LONG-LASTING ECONOMIC SLOW DOWN

1. Real Estate (20% of Chinese GDP) **debt deflation spiral** is still ongoing
2. **Exports struggle** to make up for it: in 2023 Chinese overall exports fell by -4.6% even though trade with the sanctioned Russia increased by +47% - certainly a one off

"How many vacant homes are there now? Each expert gives a very different number, with the most extreme **believing the current number of vacant homes are enough for 3 billion people**"

He Keng, 81, former deputy head of the Chinese statistics bureau

### 3. CHINA HAS THE LOWEST CIVIL AND DEMOCRATIC RIGHTS RATING OF ALL MSCI ACWI COUNTRIES

Blacklisted Countries	TOBAM Civil Liberty and Democracy Index
China	3.21
Saudi Arabia	3.31
Russian Federation	3.55
Egypt	3.74
United Arab Emirates	4.00
Qatar	4.14
Turkey	4.57
Pakistan	4.65
Kuwait	4.66
Mexico	5.34

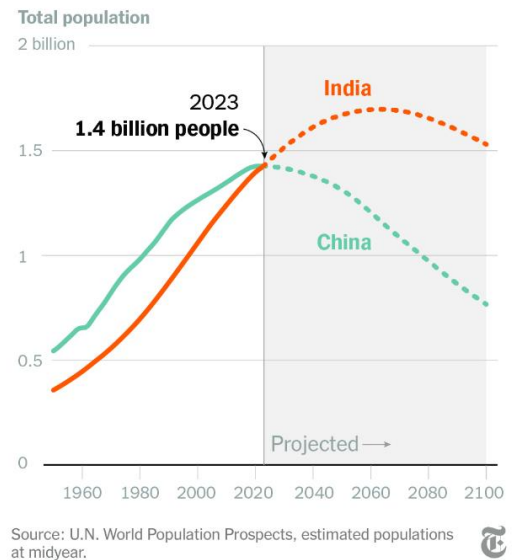
Source: TOBAM

China has the lowest 'TOBAM Civil and Democratic Rights' (CD) rating of all countries that belong to the MSCI ACWI. This rating is unlikely to materially change in the short to medium term. TOBAM's research has established that exposure to low CD rating countries is not rewarded over time.

### 4. CHINA'S POPULATION FACES MEANINGFUL, STRUCTURAL DECLINE



Since 2022, China's population has been declining, despite a more accommodating family policy ending the one-child policy. In contrast, India's demography is growing, surpassing the growth rate China since 2023.



## CONCLUSIONS:

- Investors should think twice about allocating to Chinese equities given these economic and political considerations.
- In addition, they should also take into account China's 'Civil and Democratic Rights' (CD) rating, as there is an ex-post relationship with returns to investors in public equity and a low CD rating.

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## ABOUT TOBAM

TOBAM is an asset management company offering innovative capabilities designed to maximize the benefits of scientific research to build efficient investment exposures.

TOBAM's Maximum Diversification®, TOBAMSolutions®, crypTOBAM® and TOBAM LBRTY® illustrate TOBAM's systematic "out of box" dedication to demanding investors.

TOBAM manages USD 5 billion (as of 30 December 2023). Its team includes 40 finance professionals based in Paris, New York and Dublin. For more information, please visit [www.tobam.fr](http://www.tobam.fr) or contact us at [info@tobam.fr](mailto:info@tobam.fr).

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