

EIGHT THEMES FOR CHINA'S NEAR-TERM GROWTH

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We recently spoke with portfolio manager Jeff Jiangfeng Li from EFG Asset Management on our *China of Tomorrow* podcast.

Jeff currently manages a China equity fund and a global equity fund. Trained as an engineer, his team manages funds as [active](#) fundamental managers, with quantitative guardrails for risk management.

Jeff goes into the details of his investment process, which is consistently applied across his portfolios. The theme is to look for companies where [valuation](#) is still reasonable given expected profitability growth.

As we've also been advocating this past year, Jeff thinks China investors could be rewarded for broadening their investments away from media-focused leaders like Tencent and Alibaba toward less well known [growth](#) companies.

Below are EFG's eight Chinese growth theme company ideas. The [WisdomTree China ex-State-Owned Enterprises Index \(CHXSOE\)](#) has broad exposure to each of these themes.

We maintain our focus on non-state-owned companies as a fundamental theme of investing in China. China's growth rates have been adjusted down. The trend of China's growth rate is much closer to the 4.5%–5.5% range for the near future, and we believe the best indicator of whether the country's growth is on a good trajectory is whether its non-state-owned economy is able to grow amid the complex and state-dominated social environment. Recent news about companies like Didi and Alibaba show the idiosyncratic risk of one company and the benefit of investing in a broad basket of ex-SOE companies.

Theme	Trend	Representative Companies	Weight in CHXSOE
Consumer Technology	World leading innovation benefitting from 900 million smartphone user base	Meituan, Tencent, Bilibili, Pinduoduo, Alibaba	28.00%
Surging Healthcare Demand	Growing elderly population with low penetration of health care services	AIER Eye Hospital, Wuxi Biologics, Mindray	4.30%
China's Innovative Technology	Global pioneers leading in new age tech areas	CATL, Sanhua, Intelligent Controls, LONGi, Suncrow Power	3.40%
Rising Penetration of Services	Increased demand for higher value added services	China Tourism Group Duty Free, CG Services, Huazhu, Hundsun, HK ex, CMB	1.60%
China Consumer Brands	Improving product quality and services, enhancing local brand's advantage	Kweichow Moutai, Wuliangye, Mengniu, C&S Paper, LiNing, Great Wall Motor	1.40%
Hidden Champions	Domestic winners with superior innovation	Liangxin, Bafang, Glodon, Oriental Yuhong, Sanfoor, Techtronic, Meidong	0.60%
Manufacturing Upgrade	China's manufacturing sector is upgrading to high end driven by technology	Shenzhen Inovance	0.50%
Import Substitution	Localisation trend replacing foreign products	Wanhua Chemical, StarPower	0.00%

Sources: EFG Asset Management, WisdomTree, as of 6/30/21. Index holdings are subject to change at any time and should not be considered investment advice.

You can listen to our full conversation below.

Related Blogs

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Active : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Ex-SOEs : ex-state owned enterprises or companies that are neither wholly or partially owned and operated by a government.