

China Everbright Asset Management

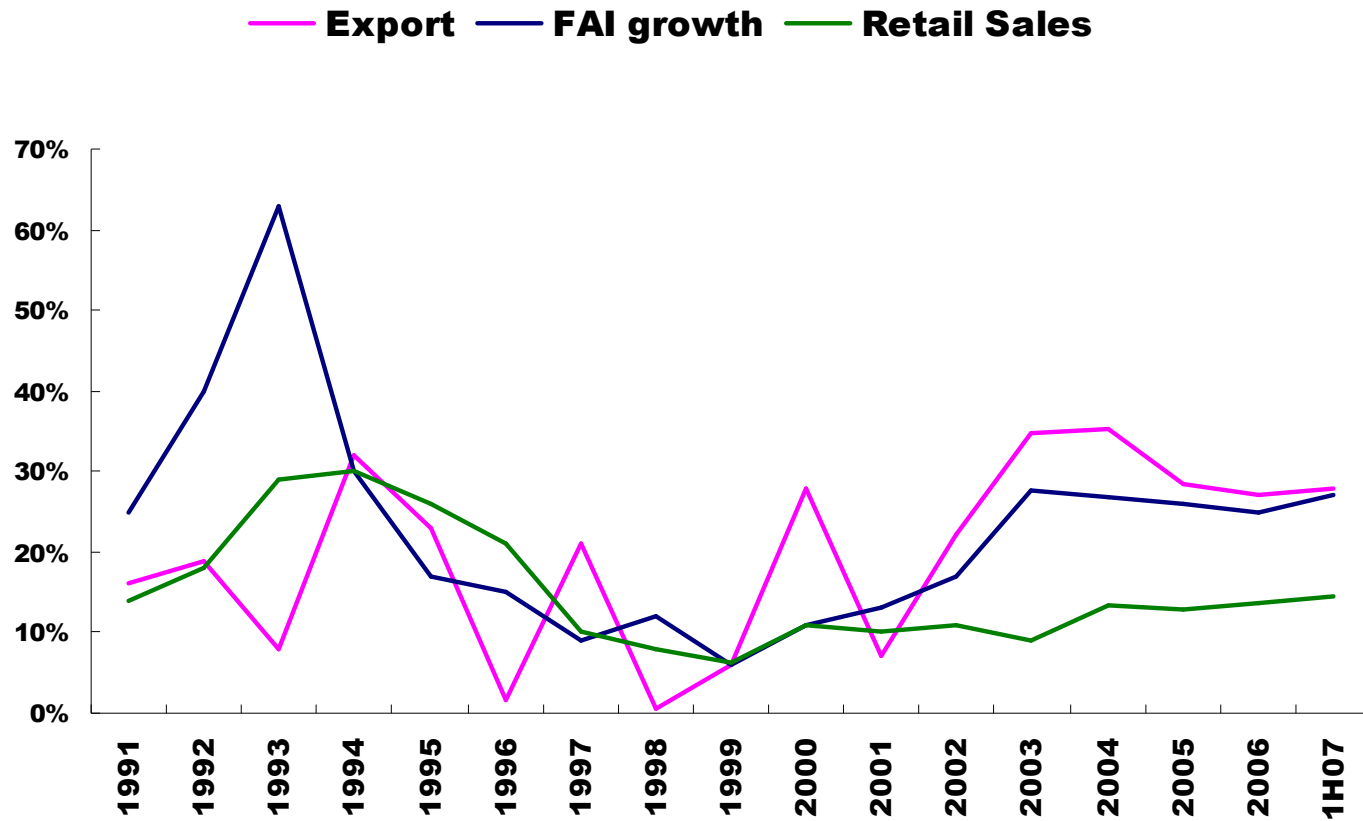
China: The Investment Story of The 21st Century

Frank Ren

中国光大资产管理

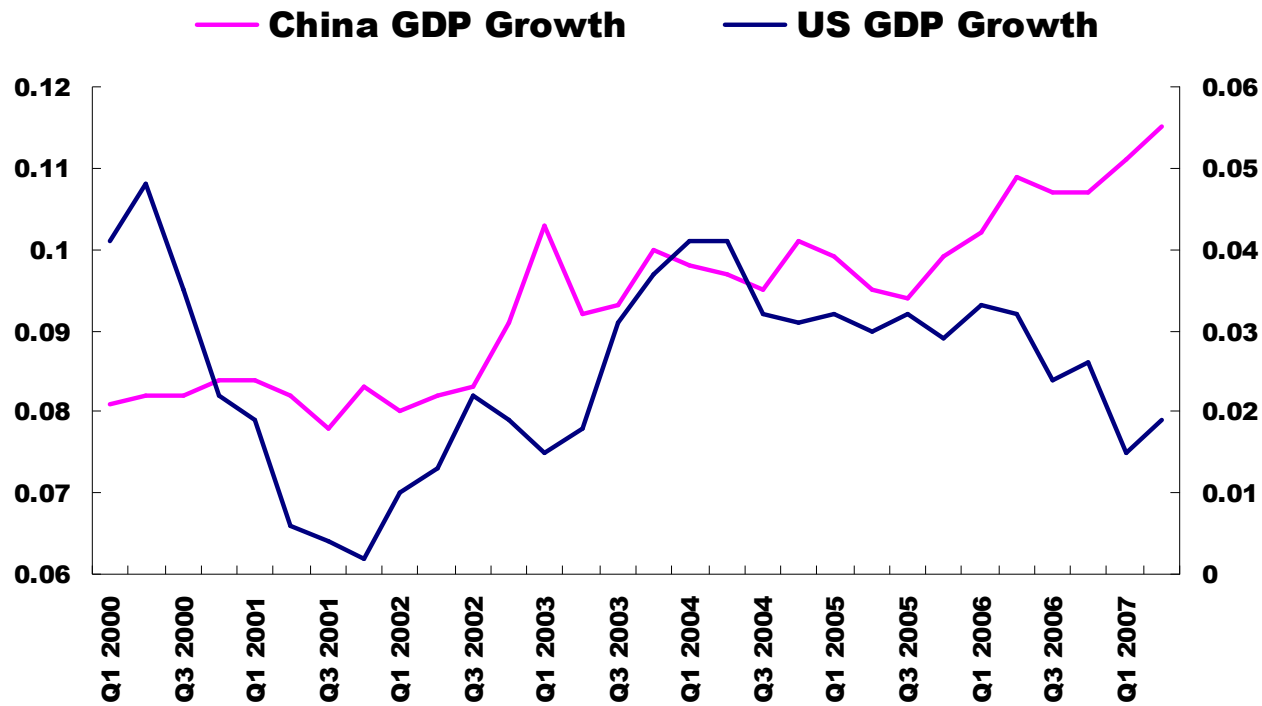
China Everbright Asset
Management

Strong Growth Engine In China



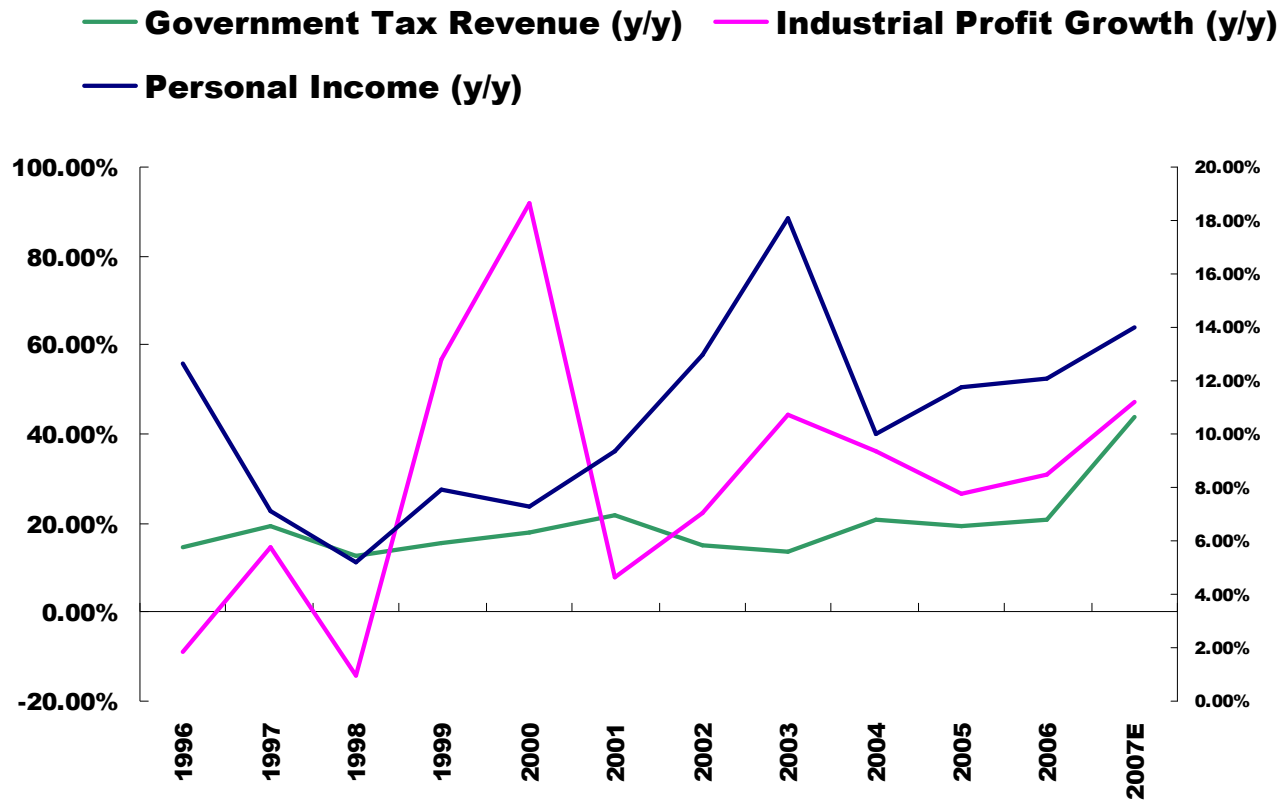
China Everbright Asset
Management

China vs US: Divergence



China Everbright Asset
Management

Growth in Income

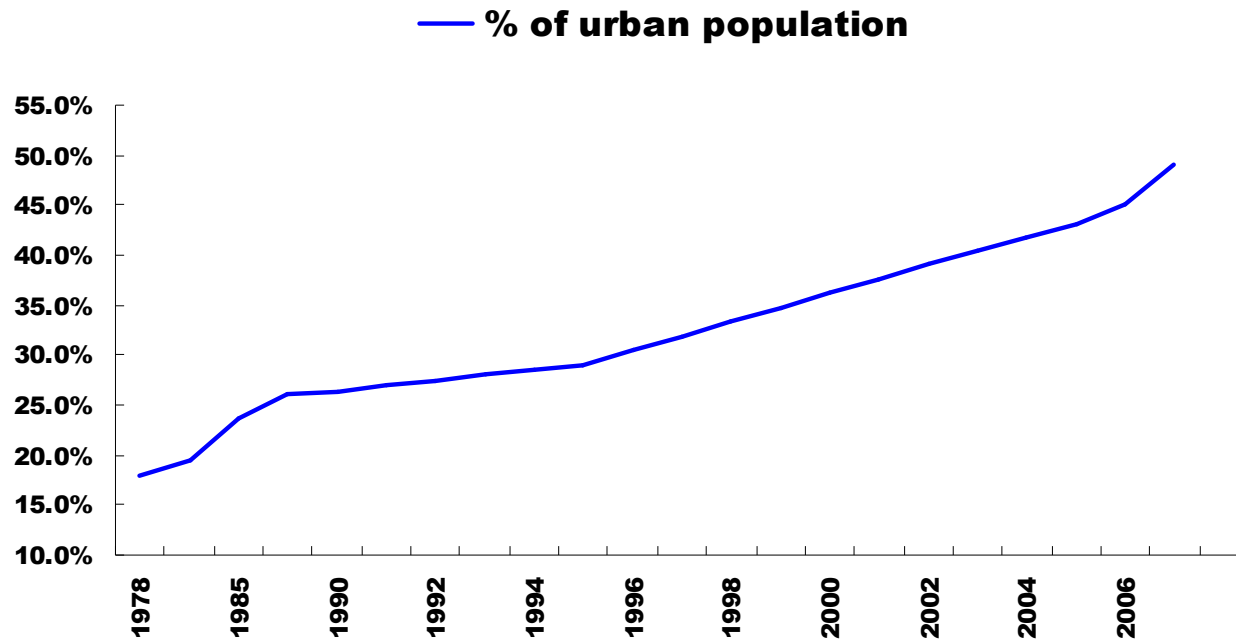


China Everbright Asset
Management

Secular Forces in Chinese Growth

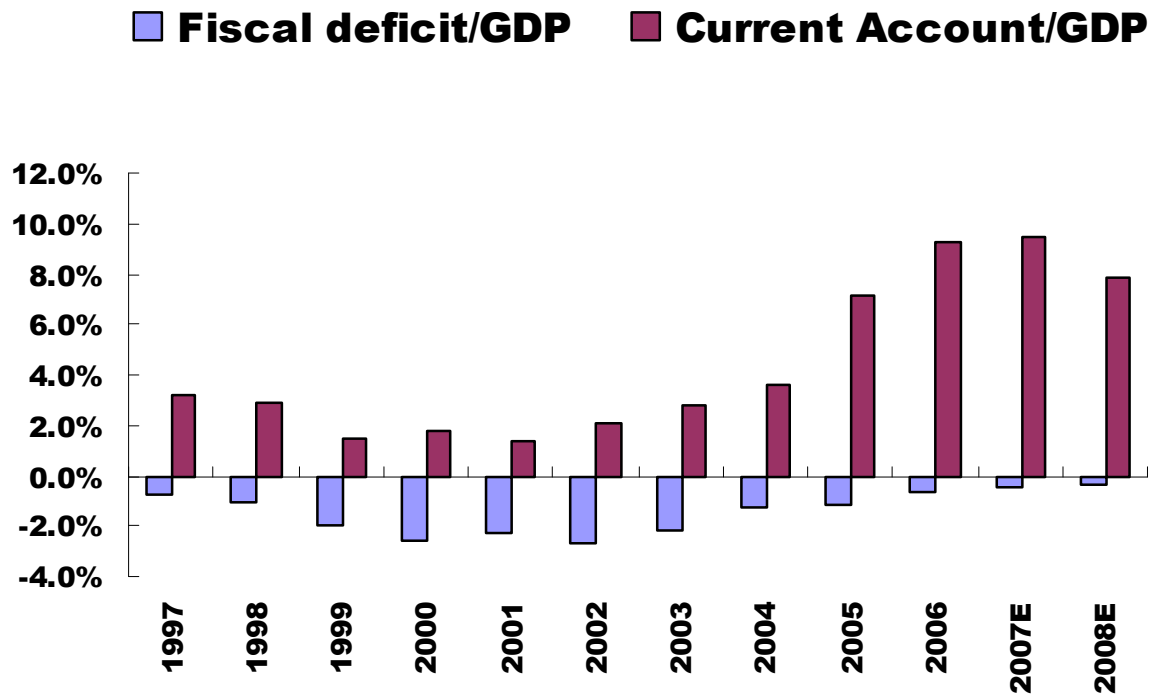
- **Globalization:** China vast cheap labor and economy of scale, world manufacturer
- **Industrialization:** Industrial output has grown at a CAGR of more than 10% in the past two decades. Foreign direct investment has played a major role
- **Urbanization:** China's urbanization ratio has risen from 19% in 1979 to ~50% at present, as a result of increasing demand for jobs, housing, and energy, and a large supply of cheap labor

Secular Forces: Urbanization



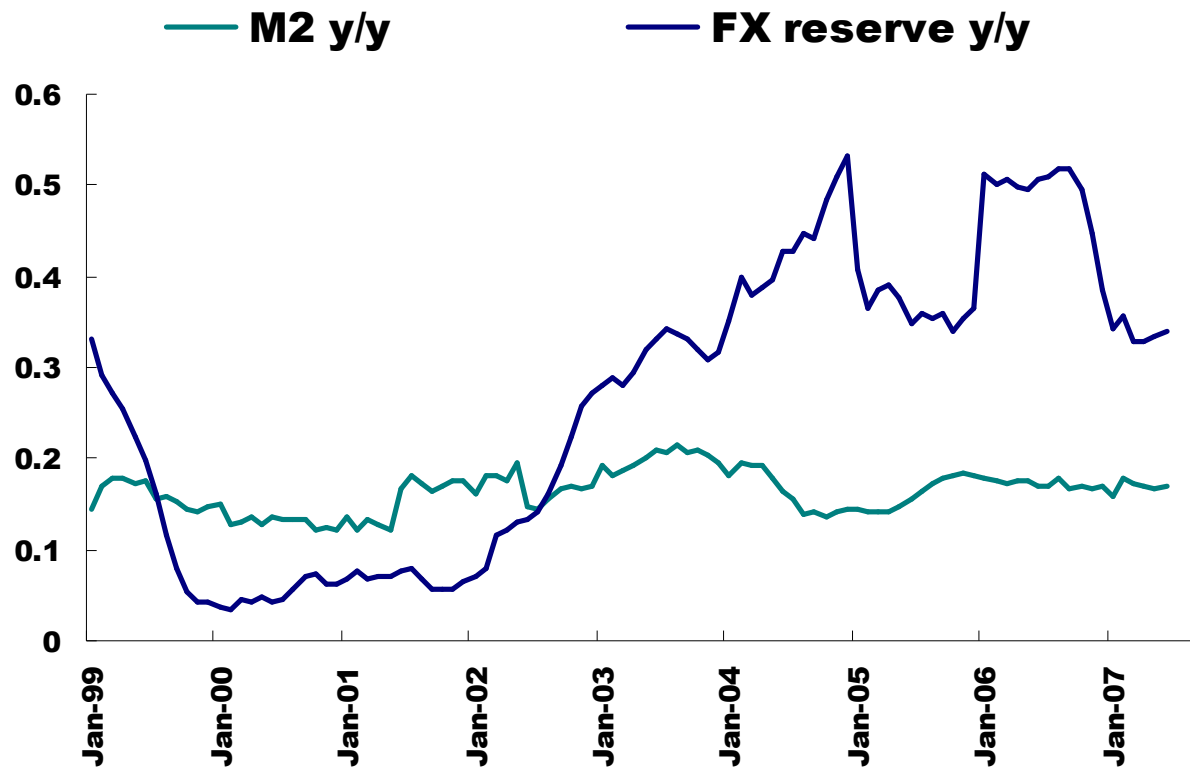
China Everbright Asset
Management

China C/A Surplus



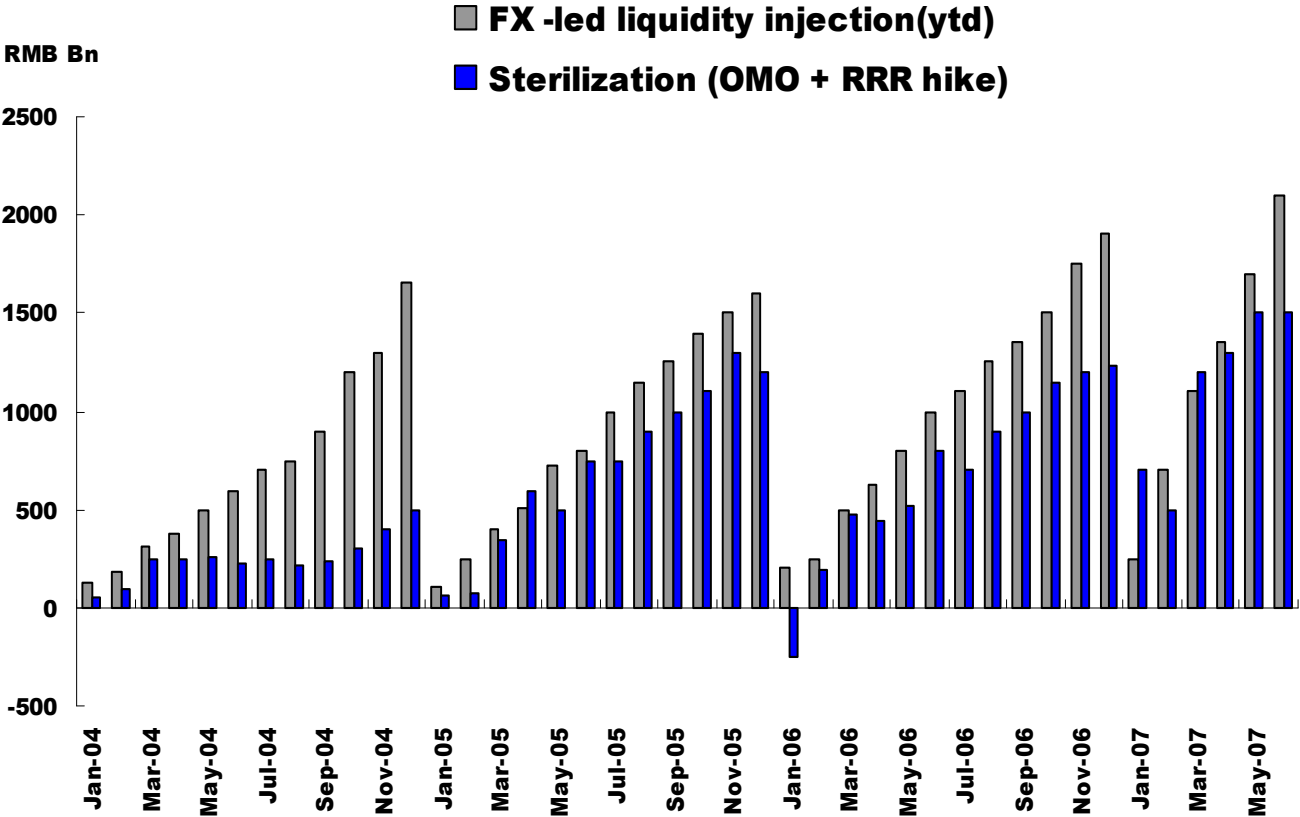
China Everbright Asset
Management

Macro Challenges: Liquidity



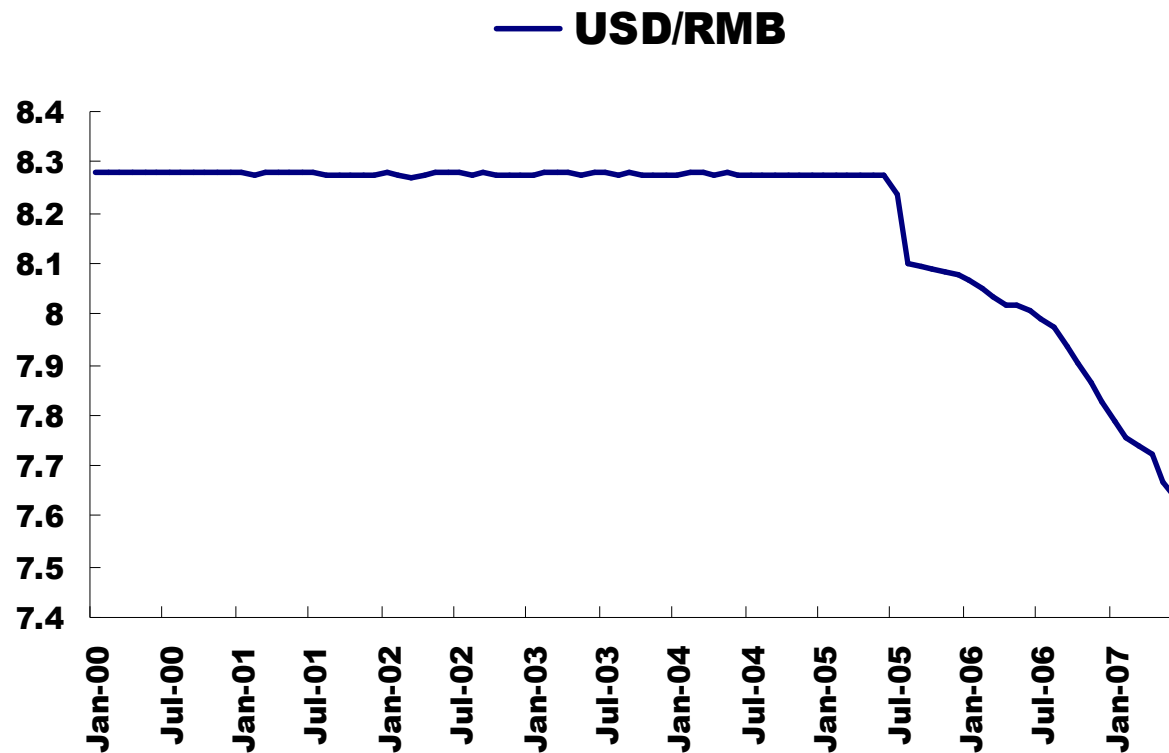
China Everbright Asset
Management

Macro Challenges: Liquidity



China Everbright Asset Management

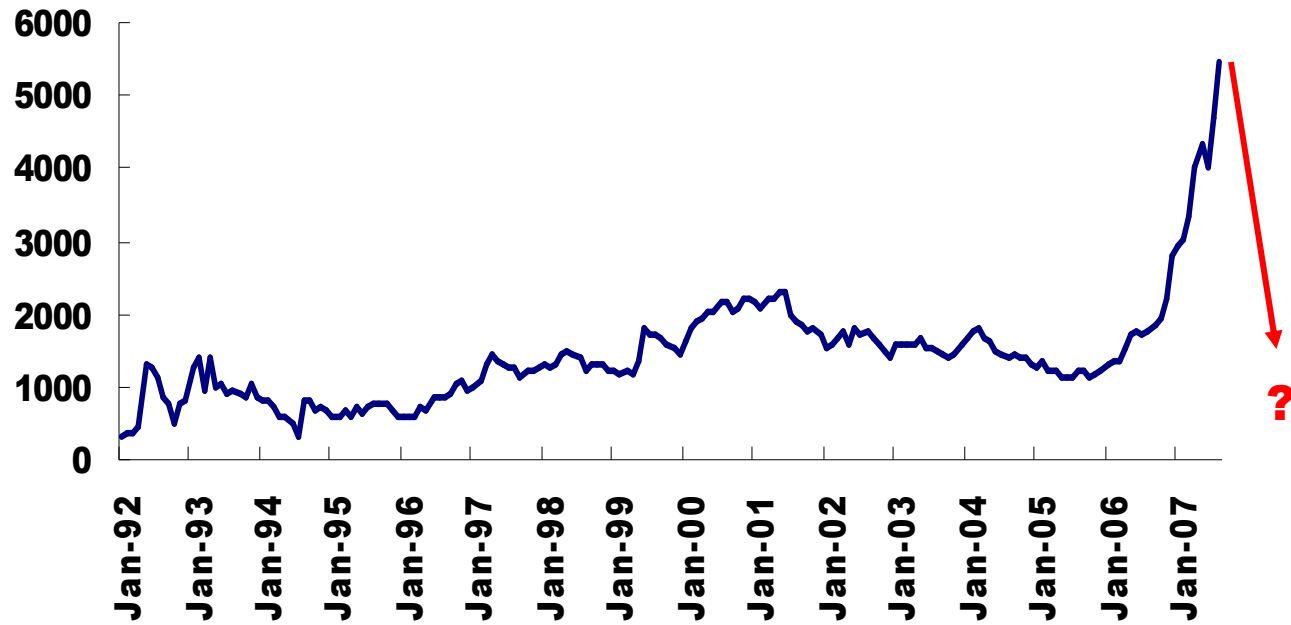
Macro Challenges: RMB Appreciation



China Everbright Asset
Management

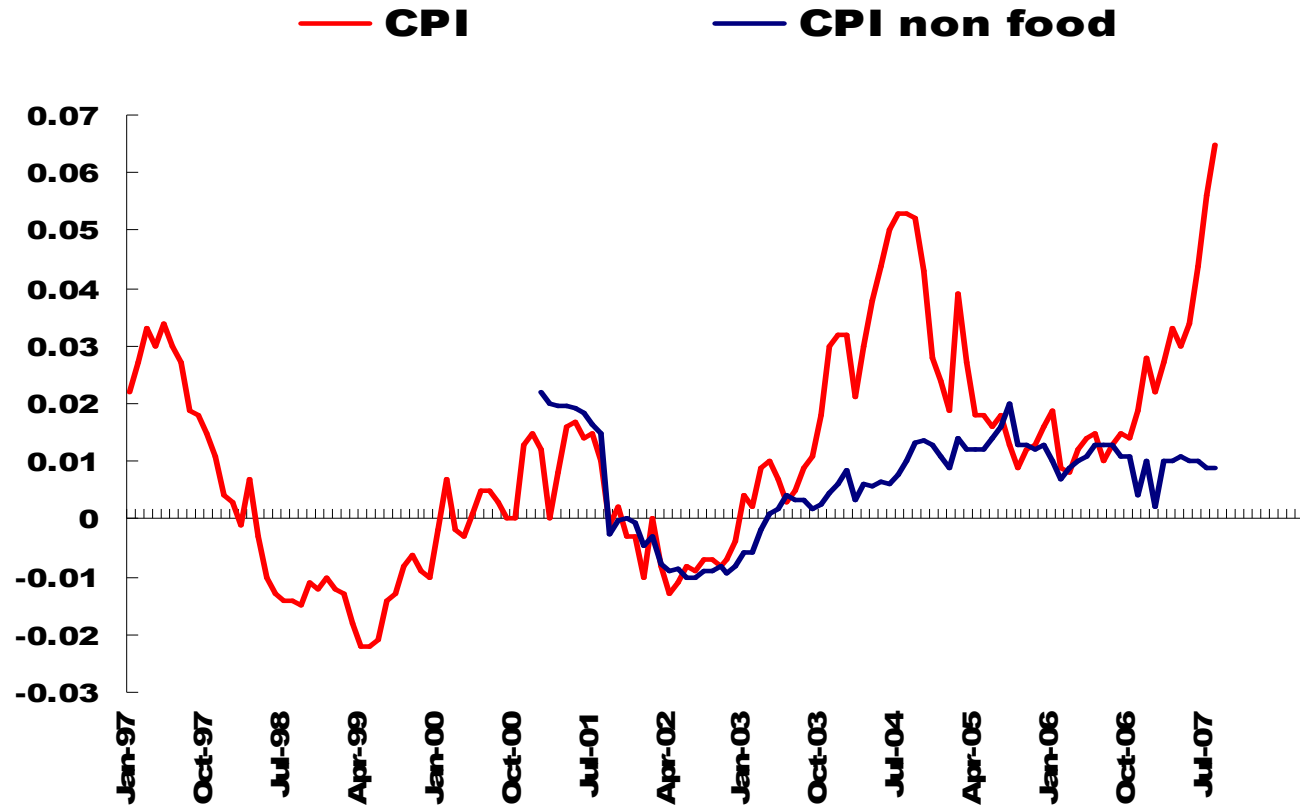
A-share Bubble?

— A-share Index



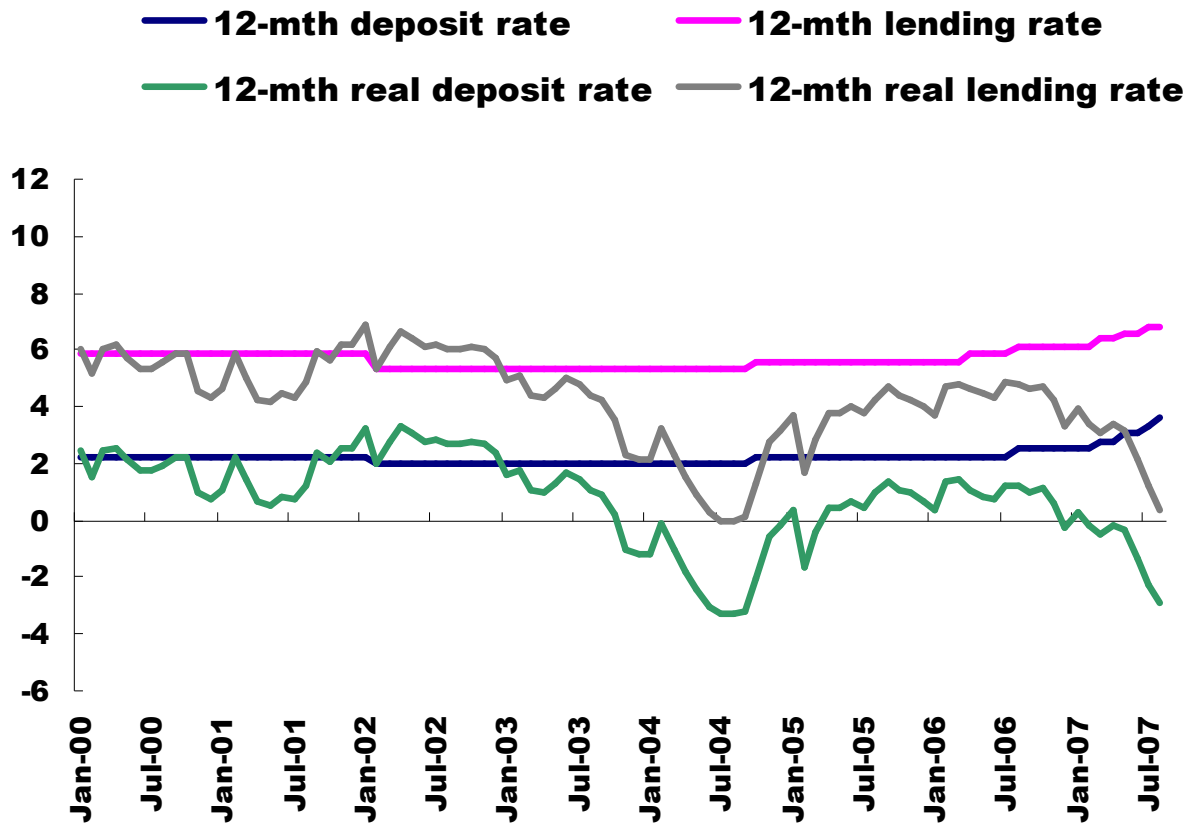
China Everbright Asset
Management

Macro Challenges: CPI



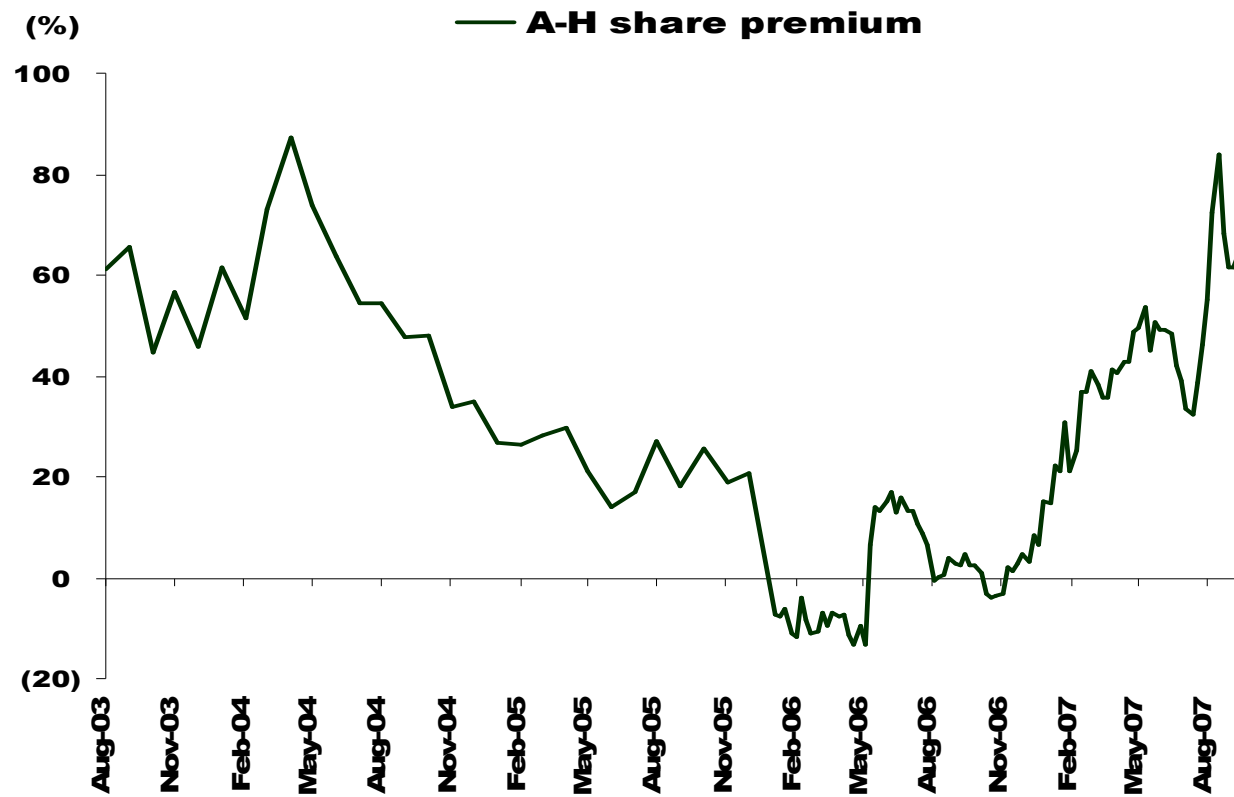
China Everbright Asset
Management

Macro Challenges: Negative Real Rate



China Everbright Asset
Management

A/H shares to converge?



China Everbright Asset
Management

Risks in China Growth Story

- Boom-Bust Cycles (Where are we? Good fundamentals, large capital inflows, inflated asset price, loss of competitiveness, shocks)
- Global growth slowdown led by US (Housing market, twin deficit)
- Global Inflation risk, high interest rate, contraction of global liquidity
- Political uncertainty, Taiwan, US-China Relationship
- Fragile banking system

Forces in Chinese Growth

- **Privatization**
 - The state still controls half the economy. Privatization will likely continue, providing incentives for better corporate governance
- **Rationalization**
 - Most Chinese companies are climbing a steep learning curve. There are many efficiency gains to be made
- **Diversification**

Investment Opportunities in China

- **Corporate tax reform**
 - Substantial tax savings for many companies as standard tax falls from 33% to 25%
- **Strong fund inflow**
 - QFII: expectation of RMB appreciation, increase in allocation to China;
 - QDII : asset allocation and diversification;
- **Completion of A share reform**
 - Reduce barriers for M&A to unlock company value
- **Implementation of Management incentive scheme**
 - Management are incentivized to improve profitability



Investments Opportunities in China

- Hedge Funds
- Private equity Investment (long lock-up and less marked to market volatility)
- Venture capital
- Real Estate Fund

Appendix I: China Focused Hedge Funds

- Long short equity (long only actively managed fund), Macro fund, Convertibles, Special Opportunities, etc..
- Opportunities
- Challenges

Appendix I: Successful Hedge Fund Strategies

- Ability to mitigate the underlying downside volatility
- Lead to Large inflow of capital
- Reduction in Liquidity premium
- Reduction in Risk premium

Appendix I: Successful Asia Hedge Fund Strategies

- **Long Short Equity Strategy**
 - Largest and most liquid asset market in Asia
 - Valuation attractive (large liquidity premium and risk premium)
- **Macro Strategy**
 - Rising of China /Asia
 - Structural Adjustments of Asset Markets
 - Downside protection for long short equity strategy
- **Multi-Strategy Single Fund**
 - Good risk return profile
 - Efficient use of capital

Frank Y.G. Ren, Ph.D.

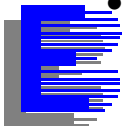
CIO, Dragon Fund

Managing Director

Years of investment industry experience: 13

Education: MBA, Ph.D. Massachusetts Institute of Technology

- Frank Ren is CIO of the China Everbright Dragon Fund, within China Everbright Asset Management.
- Prior to joining China Everbright Asset Management in 2004, Frank was a Senior Portfolio Manager at RHG Capital in New York, a \$1.3Billion macro hedge fund.
- Previously, he was a fund manager at Omega Advisors, a multi-billion dollar hedge fund in New York and also co-started an internal global macro fund at Barclay's Capital.
- He began his career in 1994 at Goldman, Sachs as a government bond trader.



China Everbright Asset
Management

Contact Information

Frank Ren

China Everbright Asset Management Ltd

Email: Frank.Ren@everbright165.com

Phone No.: (852) 2530 8202