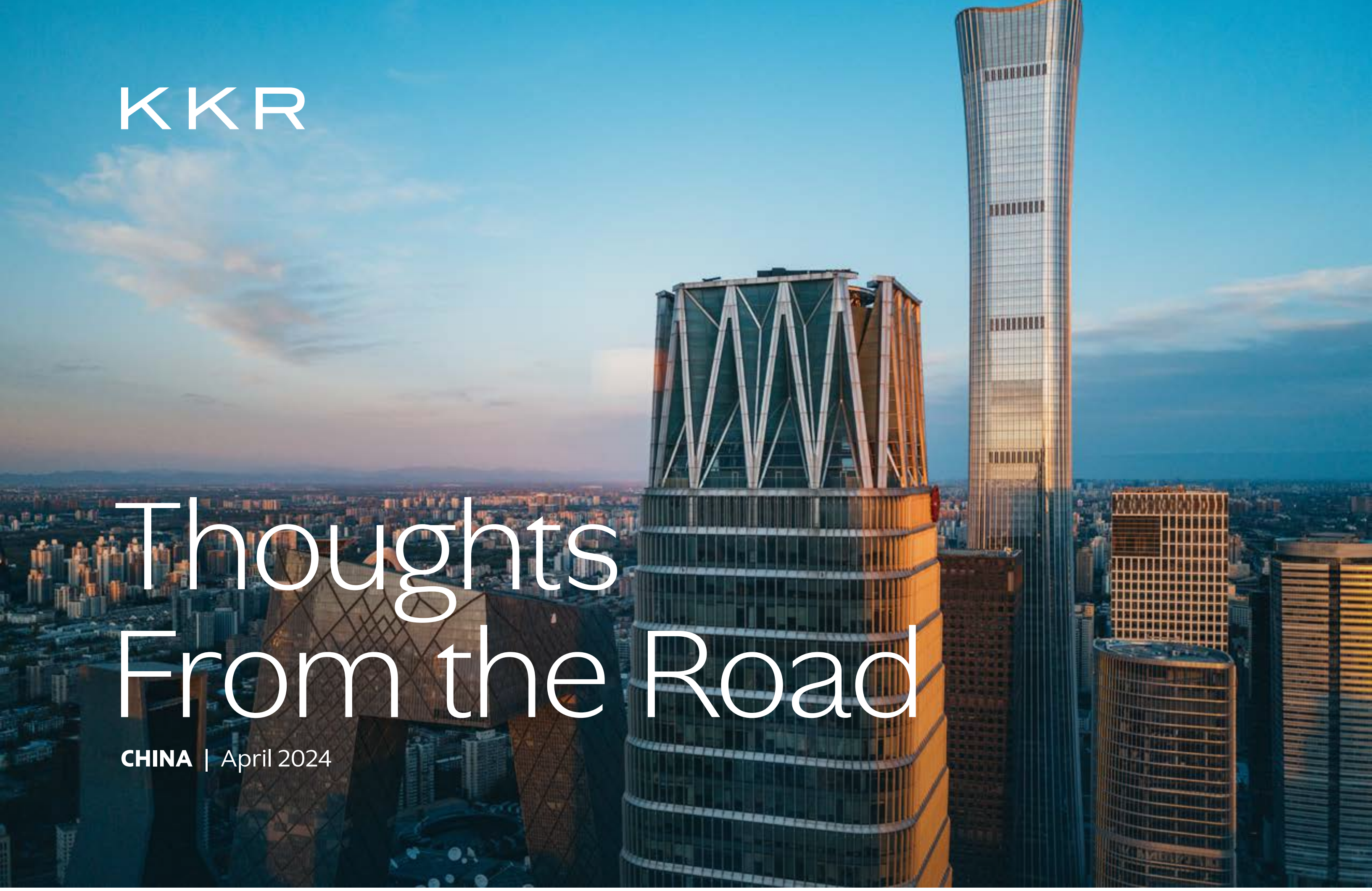

Thoughts From the Road

CHINA | April 2024

I recently traveled to China to visit with CEOs, policymakers, and KKR deal teams. I also spent lots of time with my teammates Changchun Hua, who serves as Chief Economist for Greater China, and Allen Liu. See below for the details, but our conclusions from this most recent visit are as follows:

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1. **China's economy has bottomed**. This visit was my fourth in the past five quarters, but this time felt different. Easier year-over-year comparisons certainly help, but some of the 'scarring effect' from COVID is dissipating too. That's an important development. At the same time, though, our conversations with logistics company executives suggested that the U.S. consumer is rebounding, helping local goods exporters as well. Finally, China is now also benefitting from a greater number of countries transacting more frequently in renminbi these days versus before COVID.
2. **Maybe more importantly, trade within Asia, which we view as a mega theme, continues to gain momentum**. All told, Asia is becoming more Asia centric as trade within the region rises: In 1990, just 46% of Asian trade took place within Asia, but

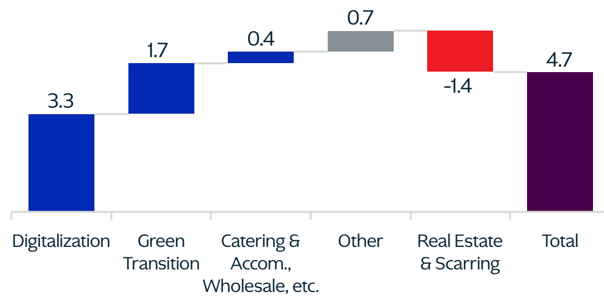
by 2021, that figure had reached 58%. We see this percentage increasing another 10% over the coming years. Importantly, there are growing country rivalries embedded in this growth forecast, but – to date – China has gained share not only through its competitive exports, but also by creating a more local presence in key markets such as Vietnam. For global investors, both Asia infrastructure and Asia Credit (both liquid and private markets) are effective ways to play this theme across the region, we believe.

3. **The rebalancing of the Chinese economy towards automation and the environment is definitely good for GDP growth, but we are not sure that it is as good for global allocators.** The New Economy in China, which we define to include the Green Economy, AI, and the industrial automation/digitalization effort, represents about 20% of the economy, but accounts for 55% of GDP growth, we believe. One can see this in *Exhibit 1*. My colleagues Frances Lim, Changchun Hua, and I wrote about this extensively during our last trip (see *Thoughts from the Road: Asia* dated October 2023). To China's credit, the country pivoted early and hard to these three dynamic sectors. That's the good news. The bad news is that there is a lot of capacity in this area, the cost curve is bending sharply, and we are increasingly worried that – left unchecked – excess capacity and competition could lead to significant margin pressure for the companies that are delivering on these important strategic mandates. These sectors are also increasingly viewed as strategic to national interests, potentially making them subject to export controls, market access restrictions, limits on joint ventures with foreign firms, and investment restrictions. As a result, investors must understand and be attentive to both the opportunities and risks associated with these areas of growth.

There was a lot of discussion about the trajectory of GDP growth, but more and more the discussion is now centered on the capital markets, including both flows and savings.

Exhibit 1: A Misunderstood Economy: Digital and Green Transformation Should Offset Ongoing Drags From Real Estate In 2024

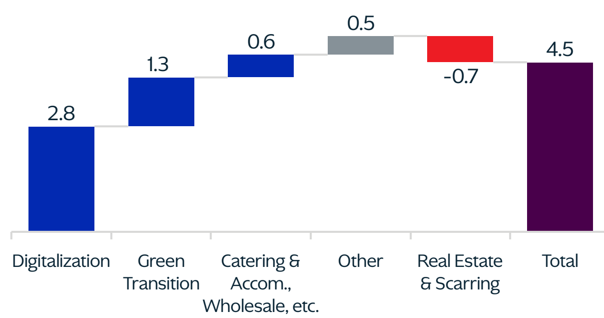
China GDP Breakdown: 2024



Note: 'Green transition' is based on green finance and transition investment studies from the Beijing Institute of Finance and Sustainability as well as reported by BNEF. 'Digital economy' added value is as reported by CAICT, including added value of the information industry and added value that the information industry brings to other industries. The drag of real estate is estimated by the KKR GMAA team with an IO table and includes the real estate industry itself and the industry's impact on upstream and downstream. Data as at March 25, 2024. Source: Beijing Institute of Finance and Sustainability. China National Bureau of Statistics, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

Exhibit 2: The Ongoing Change in China's Economy Will Continue in 2025. Key Variables Include Less Drag From Real Estate and Consumer Confidence

China GDP Breakdown: 2025



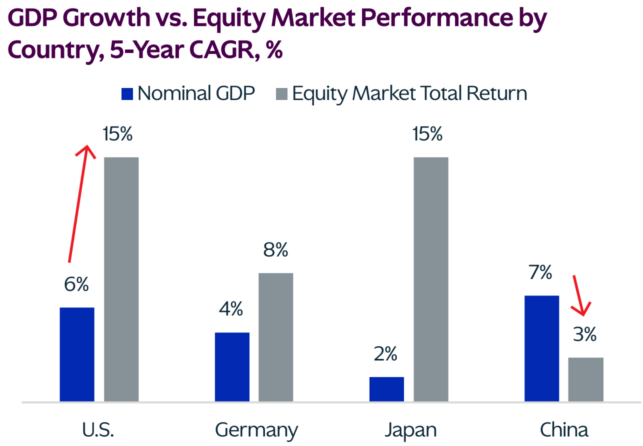
Note: 'Green transition' is based on green finance and transition investment studies from the Beijing Institute of Finance and Sustainability as well as reported by BNEF. 'Digital economy' added value is as reported by CAICT, including added value of the information industry and added value that the information industry brings to other industries. The drag of real estate is estimated by the KKR GMAA team with an IO table and includes the real estate industry itself and the industry's impact on upstream and downstream. Data as at March 25, 2024. Source: Beijing Institute of Finance and Sustainability. China National Bureau of Statistics, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

4. **The most important takeaway from my trip, though, is that no sustainable, structural acceleration in China's GDP growth is likely until two things occur.** First, **a fundamentally overbuilt real estate industry needs to be addressed – and quickly**. No doubt, there are lots of complications, including too many developers, uncertainty around accountability, and excess capacity in non-ideal locations. As we discuss in much greater detail below, our historical analysis of housing corrections shows that both price and volume must come under pressure to finish the cleansing cycle. To date, though, it has largely been a contraction in volume. Moreover, if we compare housing busts like those in Spain and the U.S. to Japan (the latter of which dragged out way too long), speed and boldness of policy usually win the day. Second, **confidence must be restored to drive savings back down** to inspire both consumers and corporations to spend on higher quality upgrades flagged by the Chinese government as opportunities in the consumer and industrial sectors. One relevant measure of risk-taking sentiment, we believe, is that savings as a percentage of household income has ticked up to an average of 32.5%, compared to 29.1% before COVID. Were this to return to prior levels, it could add roughly $200 billion or more of spending each year, we believe. Without question, our suggestion would be not to over-stimulate (which the government has correctly signaled it does not want to do), but rather to use more aggressive supply-side reforms, including greater urbanization incentives, less red tape for entrepreneurial/business efforts, more support for migrant workers in cities (e.g., granting hukou status which provides access to the social welfare network), and improved clarity around housing market reform/support. See below for further details.

5. **There are about to be some important changes in the Chinese financial services system as rates fall further, we believe.** If short rates fall to one percent from 1.8% as we believe may happen on the heels of continued low inflation prints again in 2025 (and we are more focused on core than headline), then domestic financial intermediaries, including banks and insurers, will likely need to shift their portfolios to include higher yielding as well as higher total return vehicles to offset the pinch in net interest margin that we foresee. Bigger picture, there is likely a sizeable opportunity to modernize the savings system in China via upgrading the local asset management industry, especially if we are right about low rates persisting. Indeed, if there are lessons learned from Quantitative Easing in the U.S., Europe, and Japan, it is that low rates not only steal from savers to potentially improve economic growth, but also that they adversely affect the operational capabilities and profitability of traditional financial intermediaries along the way.

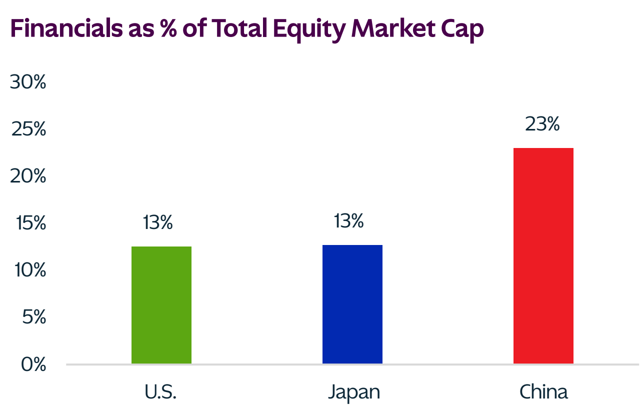
6. **There was a lot of discussion about the trajectory of GDP growth, but more and more the discussion is now centered on the capital markets, including both flows and savings.** Whether China grows four or five percent in the next few years is really not the most important narrative for investors, we believe, as China is already one of the largest and fastest growing mature economies. Rather, we think what matters most at this juncture is whether the country develops a coherent strategy to lower its cost of capital, thus allowing China to be more competitive on the global stage as befitting the size and breadth of its economy. An easy way to achieve this, according to locals with whom we spoke, could be to focus on the health of the local A-share market, including increasing consistent access to public markets for domestic consumer and services companies through IPOs, as well as lowering restraints on foreign investors owning stakes in existing public companies (many of which are quite attractively priced). During our visit we met with executives from high quality companies that 1) cater to consumer upgrades and services; 2) have solid returns on investment; and 3) are valued at attractive levels, especially from a relative global value perspective. Right now, however, these companies are either staying private for longer or listing on the Hong Kong exchange. Were these companies to go public, they would extend the breadth of the public markets and make them more competitive with other leading developing and developed markets (see below for details).

Exhibit 3: Strong Economic Growth Has Not Translated into Strong Gains in China's Equity Market



Data in local currency terms. Equity market total return based on trailing 5 years. U.S. refers to S&P 500, China refers to SHCOMP and Germany/Japan refer to MSCI Indices. Data as at March 26, 2024. Source: Bloomberg.

Exhibit 4: Because of China's Housing Woes, Its Large Representation of Financials Has Impacted the Performance of Its Stock Market



Note: U.S. refers to S&P 500, Japan refers to MSCI Japan and China refers to Shanghai Composite Index (SHCOMP). Data as at March 26, 2024. Source: Bloomberg.

Looking at the big picture, the China story remains a complex one. Strong growth in recent years has not translated into strong stock market performance, and the economy is still undergoing a fundamental repositioning that may not be fully appreciated. Moreover, current geopolitical tensions will likely be amplified in the coming months ahead of the U.S. presidential election. Importantly, though, for anyone who takes a global perspective on asset allocation, these geopolitical tensions could likely be more structural than cyclical in nature.

Not surprisingly, against this backdrop, many investors with whom we speak have expressed uncertainty on China as an investment destination. In fact, according to some of our proprietary survey work, many allocators have considered reducing China exposure to 5-6%, down from 10-12% today at a time that we think fundamentals in the economy are likely bottoming.

Reflecting on the current set-up in China's capital markets (of potentially improving fundamentals at a time of significant investor caution), we think that the possibility for investors to get whipsawed is increasing. In past instances where I have seen sentiment so negative at a time when the supply/demand imbalance of flows could reverse, ongoing stretches of poor equity performance actually end up becoming important catalysts for change. Specifically, it usually has led CEOs and policy makers - facing a surge in their cost of capital relative to other sectors or other parts of the world - to start implementing programs that focused more heavily on return on capital. As a result, both foreign and domestic flows typically came back into the sector or market - often to the surprise of those who had recently trimmed their positions.

What could shift in the domestic economy that might serve as a catalyst for change in investor sentiment? We left Beijing thinking that ongoing mandates to improve the quality of China's housing offering as well as enhance its industrial offering won't occur without a more visible hand from the government as it relates to the domestic real estate market. Were this to occur, however, it could materially shift investor perception. Second, as we also discuss below, there are potentially billions of dollars of supply side reforms, including faster urbanization, expansive migratory reform, and increased corporate privatization strategies, that could not only boost growth but also improve investor sentiment, including lowering the country's cost of capital.

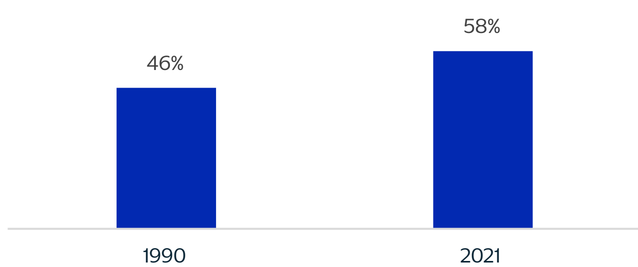
So, while our message is not an all-clear signal to lean in, it is a reminder – using history as our guide – that, if China does adjust its domestic policies to be more investor friendly (especially as it relates to supply side reforms), this market could rebound significantly from current levels.

Details: What did I learn during my visit?

We left Beijing thinking that the economy in China is finally getting a bit better, on a cyclical basis. Easy comparisons certainly matter, but the asynchronous nature of the current global recovery is starting to feel at least a little more synchronized than in prior trips. For example, as mentioned earlier, several logistics companies suggested that demand from the U.S. is picking back up. However, the real structural story on which to focus, in our view, remains the acceleration in intra-Asia trade. As we noted above, Asia is becoming more Asia centric as trade within the region rises – in 1990, just 46% of Asian trade took place within Asia, but by 2021, that figure had reached 58%. Our estimate is that this ratio increases another 10% in the coming years, which would put China and its peers in the region much more in line with Europe and North America.

Exhibit 5: In 1990 Just 46% of Asian Trade Took Place Within Asia; By 2021, That Figure Had Reached 58%

% of Trade Within Asia



ASEAN 5 equals Indonesia, Malaysia, Philippines, Singapore, and Thailand. Data as at September 2023. Source: The Economist.

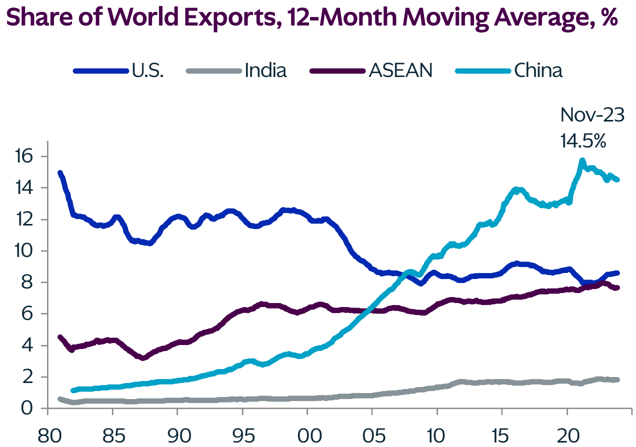
In terms of what is working, the growth of a greener economy remains robust. Though it is only 10% of China's GDP, we estimate this segment is growing around 20% year-over-year. At the manufacturing level in China, there are three areas of focus around decarbonization. First, there is the intention to reduce the carbon footprint of manufacturing. As one example, the recycling of key inputs such as cobalt is seen as critical. Second, there is a focus on the transportation of goods, with a greater emphasis on the efficiency of onboarding and logistics (including tangible stories about companies using AI to improve optimizations). Finally, there is electricity, with renewable energy capacity already reaching 1.45 billion kilowatts in 2023, accounting for more than 50% of the total installed power generation capacity.

There is also a huge focus on 'upgrading', especially as it relates to China's industrial footprint, but also the housing market. On the industrial front, China now boasts over 50% market share in the installed global robot industry and has reported having 10,000 provincial-level digital workshops and 5,600 national-level green factories. Said another way, high quality, lower emissions, and better technology are all a focus. Utilizing ultra-long-term government bonds, China is launching an equipment replacement and upgrade scheme (RMB 5 trillion or $700 billion plus per year), mostly focusing on energy efficiency, automation, and digital transformation.

Exports are also doing fine. In fact, despite rising tariffs and geopolitical tensions, China is still a global market share winner (*Exhibit 6*). The country has both shifted its product mix as well as its customer base. Importantly, though, these numbers do not include output in countries like Vietnam and Mexico, where China is increasingly viewed as a 'local' manufacturer.

To be sure, though, we are optimistic less so because we think that GDP growth is going to snap back quickly. Rather, as our trip confirmed, there is a playbook to both build on existing strengths as well as to tweak policies to create more stability, especially as it relates to Real Estate and consumer confidence.

Exhibit 6: China Has a Sizeable Global Market Share in Exports, Despite Headwinds to Globalization



Data as at November 30, 2023. Source: IMF, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

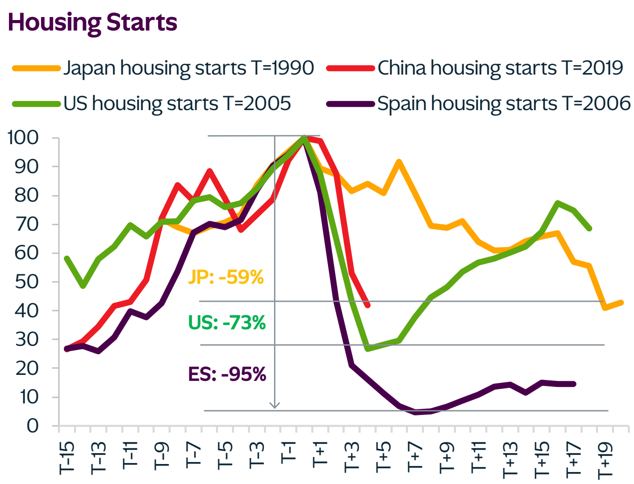
In terms of what is still burdensome to the Chinese economy, three things again bubbled to the surface during our visit. First is Real Estate, which continues to be an ongoing issue. Typically, housing corrections reach a floor when both price and volume collapse. However, thus far, much of the correction in China has centered on volume. One developer told us that not only is the problem still big, but it is also complicated as housing liabilities extend across the private and public sectors as well as across local and central government levels. Thus, there is no quick fix.

As part of our work in this area, I asked my colleagues Changchun Hua and Allen Liu to compare prior housing corrections to the one currently happening in China. Their punch line was that the housing market correction may be just halfway complete. Borrowing other countries' lessons following housing related bubble bursts, we note the following:

- **Housing starts**: Clearly, in China, the sharp decline in developers' confidence has triggered a tumble in housing starts, which have fallen by almost 60% from their peak. One can see this in *Exhibit 7*. China's current drop-off compares to -73% correction in the U.S. and -95% correction in Spain during the first three to five years after the bubble burst. Japan's housing starts correction happened in a more gradual and persistent manner.
- **Housing investment**: As we show in *Exhibit 9*, China's housing investment has fallen 25% from the peak, versus -56% in the U.S. and -68% in Spain over the same period. In Japan, by comparison, the decline happened persistently over the past three decades. This 'slow burn' speaks to the adverse impact of not moving quickly to write-off assets within the banking system as well as to the importance of a strong monetary response aimed at improving confidence.
- **Housing prices:** Despite the significant decline in levels of activity, China's housing prices have barely corrected in absolute terms. We think this may be partly related to statistical issues and partly to regulatory restrictions on the setting of housing prices as well as households' understandable unwillingness to sell at a 'low' price. Against this backdrop (and if history is any guide as per *Exhibit 8*, we think it is likely that we see further correction pressures down the road.
- **Housing inventory:** By the end of 2023, China had built a huge inventory of housing, perhaps in the neighborhood of nearly 25 million units, including three million completed and 22 million units of forward housing to be delivered. One can see this in *Exhibit 10*. And remember that household formation is only 6-8 million per year. This sizeable mismatch, we believe, means that, unless there is more government intervention to upgrade quality and/or write off assets, it will take considerable time to digest the inventories.

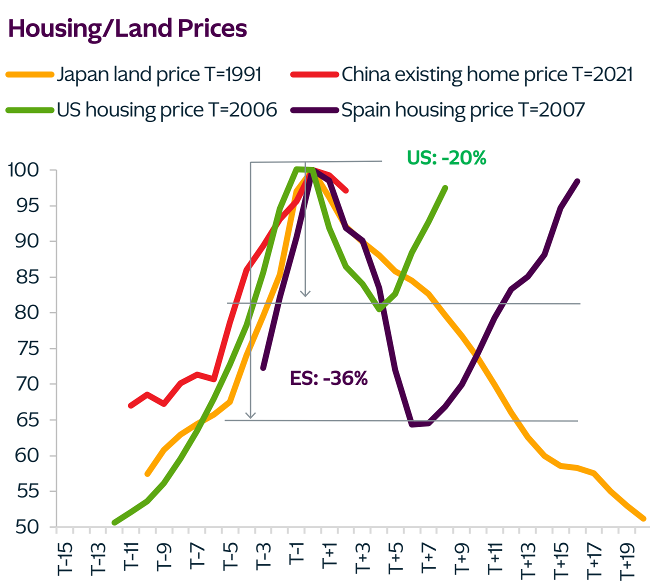
As part of our work in this area, I asked my colleagues Changchun Hua and Allen Liu to compare prior housing corrections to the one currently happening in China. Their punch line was that the housing market correction may be just halfway complete.

Exhibit 7: Housing Starts Correction Comparisons Suggest China Has Taken a Lot of Pain...



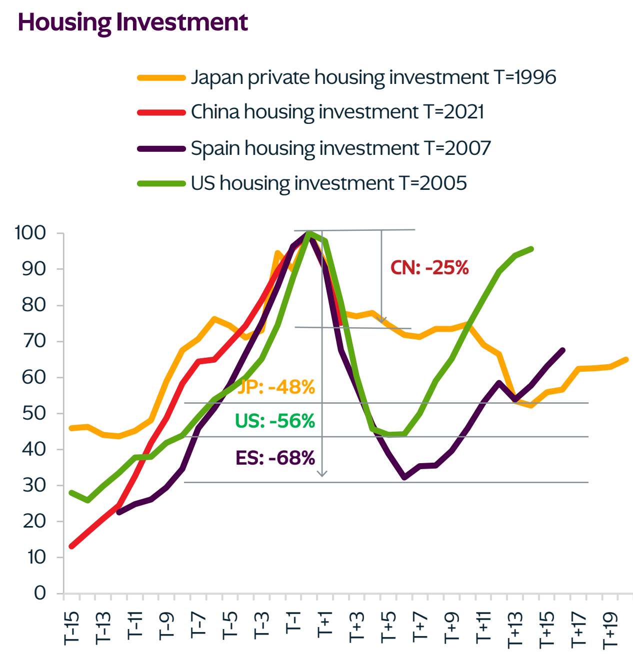
Data as at December 31, 2023. Source: Japan Ministry of Land, Infrastructure and Transport, China National Bureau of Statistics, Federal Housing Finance Agency, Census Bureau, Spanish Statistical Office, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 8: ...But There Is More Work to Be Done on Price



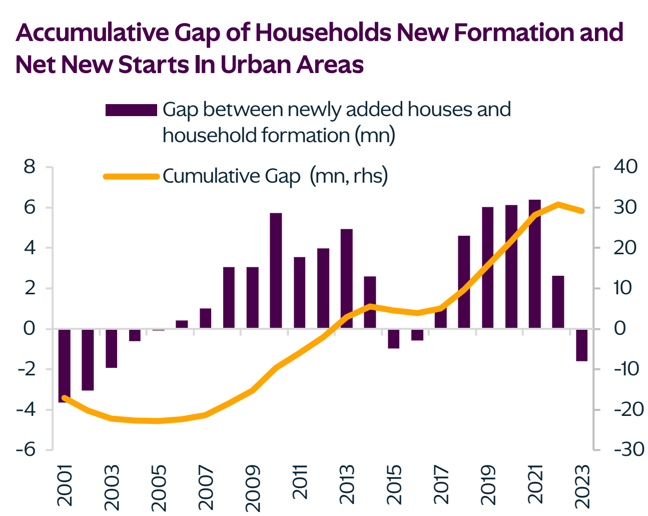
Data as at December 31, 2023. Source: Japan Ministry of Land, Infrastructure and Transport, China National Bureau of Statistics, Federal Housing Finance Agency, Census Bureau, Spanish Statistical Office, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 9: Our Hope Is That China Does Not Follow Japan's Sluggish Approach to Fixing Housing as...



Data as at December 31, 2023. Source: Japan Ministry of Land, Infrastructure and Transport, China National Bureau of Statistics, Federal Housing Finance Agency, Census Bureau, Spanish Statistical Office, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 10: ...Today There Could Still Be Nearly 30 Million Excess Housing Units in China



Data as at December 31, 2023. Source: Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Second, much of the quality upgrade thesis we heard about as it relates to housing, white goods, consumer transportation, etc., is predicated on a rebound in consumption. However, savings rates continue rising, a reflection that there is still a real need for improved confidence before this upgrade cycle can become more self-sustaining, we believe. As a result of the scarring effect from the pandemic, including a postponement of consumer upgrades and large expenditures, as well as an uptick in the youth unemployment rate, consumer confidence fell sharply over the past three years. This reality led to excess savings soaring to 15% of 2023 retail sales. However, were consumer confidence to recover and savings to return to pre-COVID levels of around 29% from its current level of almost 33%, Changchun estimates that it could add RMB 7 trillion (or nearly one trillion U.S. dollars) to the economy over a three-to-five-year period.

Exhibit 11: Amid Tumbling Consumer Confidence, China's Excess Savings Soared to 15% of Consumption

Data as at December 31, 2023. Source: China National Bureau of Statistics, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

There is, however, good news on two-fronts consumption-wise. We note the following:

- *Urbanization is still at 66%, which means, using developed market peers as a guide, that China still has 10-12% more in potential gains*. This translates to 150 million or more Chinese consumers who are poised to see their incomes increase as they move towards urban hubs. At the same time, some local scholars estimate that around 170 million migrant workers who have been living in cities haven't registered in the hukou system, a resident status that grants eligibility to access the urban social welfare system, including things like health care insurance, pension, and public education, among others. They expect that granting hukou to these residents would stimulate additional RMB 1.2 trillion or around $170 billion in consumption[1].
- *Recent government reports show that disposable income per household increased by 6.1% in 2023, which is slightly better than overall economic growth*. While conspicuous consumption is down in China, buying basic goods and services as well as modest lifestyle upgrade activity, especially in the middle to higher income range, remains solid. Indeed, this kind of economic momentum is consistent with what we see in our portfolio companies, the lion's share of which are consumer and services focused. Top line growth is solid, margins are holding, and consumers are spending on less conspicuous items such as 'smart homes', pets, and recreational activities. Domestic travel is also strong. For example, during the Spring Festival holiday in February, domestic tourist trips hit 474 million, a year-over-year increase of 34%. We also think that there could be more appetite for higher end consumers to travel outside China in 2025, including to Japan and Europe.

Third, many locals feel that more can be done to modernize the capital markets so that foreign capital feels more comfortable both entering and exiting the country. China's equity market is cheap by most measures, but it lacks a catalyst to enjoy some of the multiple expansion it probably deserves. At the same time, we believe the potential for domestic market reform should be embraced. Specifically, similar to what we have seen in

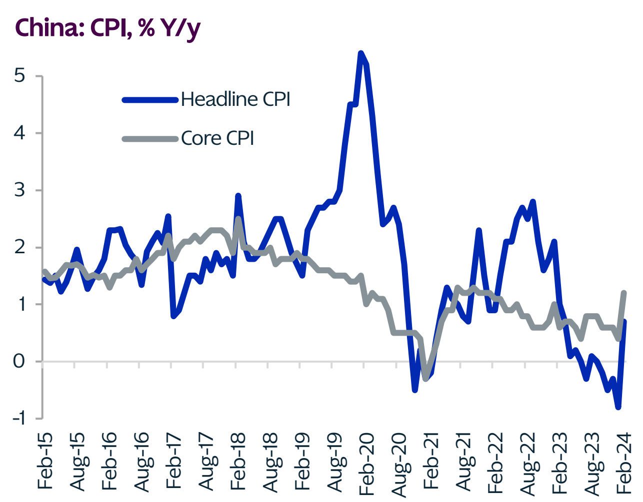
1 Cai Fang (2023), Effect, Direction, and Roadmap of Household Hukou System Reform, Journal of Economic Research, Vol 10 (In Chinese).

Japan and India, we think that there needs to be policies put in place to encourage diversification of domestic savings away from property, deposits, and increasingly gold into other asset classes including local Chinese Equities and Credit. Moreover, if we are right about lower rates at a time of 1) increasing retirement; and 2) heightened geopolitical tensions, now is the time to focus with a sense of urgency on modernizing China's domestic asset management industry.

Where does China go from here? We left China thinking that there are several key areas where the country intends to focus so that it can maintain its recent momentum.

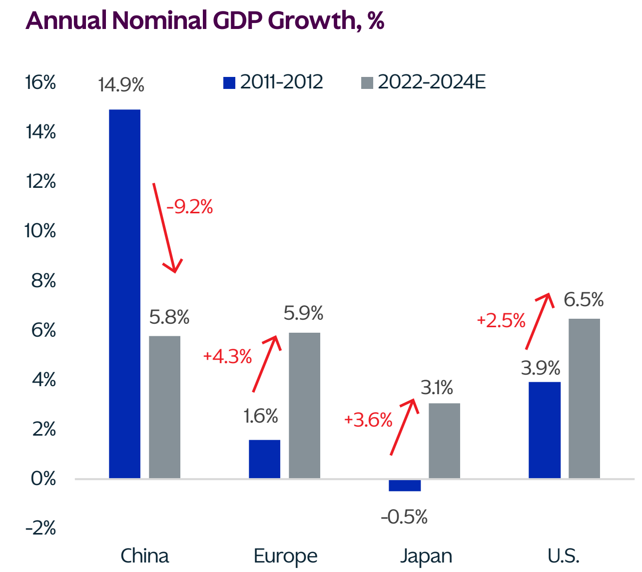
#1: Focus on inflation perceptions. First, policy makers will likely need to work hard to ensure that consumers do not begin to ponder the potential for sustained disinflation. One can see in *Exhibit 12* that inflation is likely too low relative to the government's target of up to three percent. At the moment, there is confidence within the country that inflation will bottom during the second half of the year and begin to rise, but we still think that more could be done in this area to boost expectations. Potential fixes mentioned to us include supply side reforms to monitor excess production across industries as well as moving more swiftly on remedying the housing situation.

Exhibit 12: Against the Backdrop of Lackluster Demand, Deflation Risk Is Real, Despite February's Seasonal Uptick



Data as at February 29, 2024. Source: NBS, Haver Analytics.

Exhibit 13: China is Experiencing Declining Nominal GDP at a Time When its Peers Are Experiencing Rising Nominal GDP

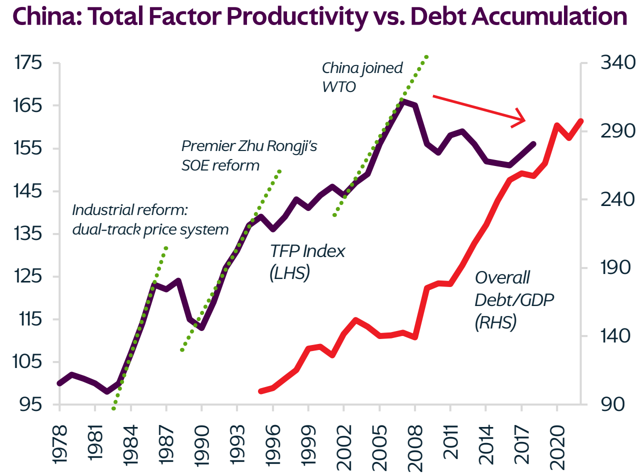


2023 and 2024 are KKR GMAA estimates. Data as at October 31, 2023. Source: China National Bureau of Statistics, Statistical Office of the European Union, Cabinet Office of Japan, Bureau of Economic Analysis, KKR Global Macro & Asset Allocation analysis.

To state the obvious, inflation matters because companies drive their revenues in nominal, not real terms. To put things in perspective, when I first joined KKR in 2011, nominal GDP was 18.4%. In 2023, by comparison, it was 4.6%. One can see a comparison of global trends around nominal GDP growth in *Exhibit 13*.

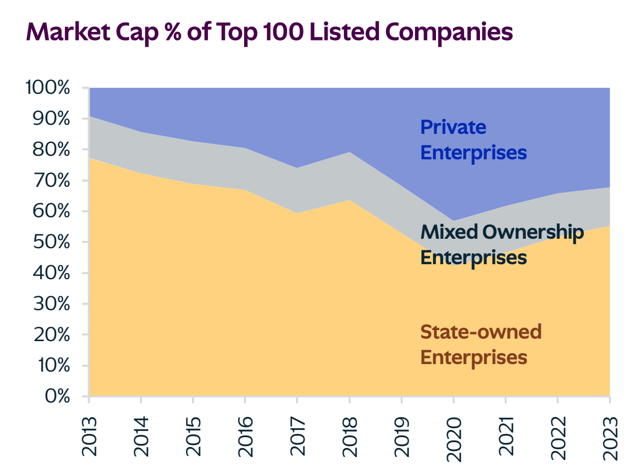
#2: Focus on productivity. China executives acknowledge that the country may need to shift from a dependence on high levels of leverage to productivity enhancements aimed at fueling growth, especially as its demographics turn less favorable and the rate of urbanization slows. As one can see in *Exhibit 14*, the economy today is relying much more heavily on leverage for growth than in the past, which ultimately lowers China's productivity growth. As part of this transition towards a higher level of a more levered state, China's private ownership (of the top 100 listed companies) has also started to decline commensurately since 2020. A potential consideration to reverse this decline would be to shift capital and focus back towards the private sector to help reignite productivity growth. Consistent with this view, there is a growing local contingent that is in favor of more supply side reforms that accelerate permitting, improve processes, and reward employment growth.

Exhibit 14: China's Total Factor Productivity Is Not Rising Amid a Surge in Leverage. We Think That This Backdrop Needs to Change



Total factor productivity is a measure of productive efficiency in that it measures how much output can be produced from a certain number of inputs. It is a measure of operational efficiency. TFP debt as at December 31, 2018; Leverage data as at December 31, 2023. Source: Wu, Harry X. "In Quest of Institutional Interpretation of TFP Change—The Case of China", *Man and the Economy*, Vol. 6, No. 2, 2019; BIS, Haver Analytics.

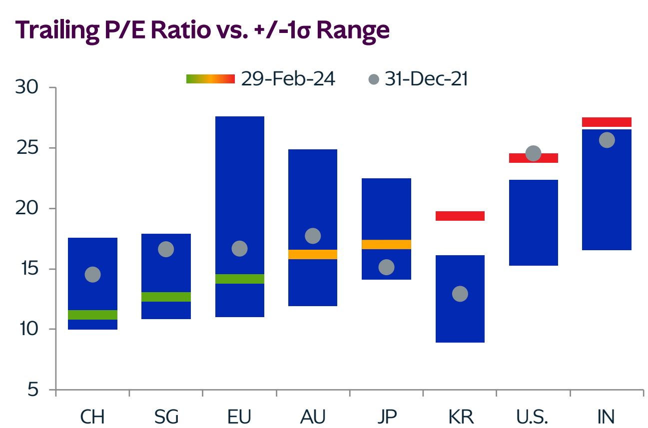
Exhibit 15: Private Ownership Among Top 100 Listed Companies Has Declined Since 2020



Data as at March 19, 2024. Source: WIND; KKR Global Macro & Asset Allocation analysis.

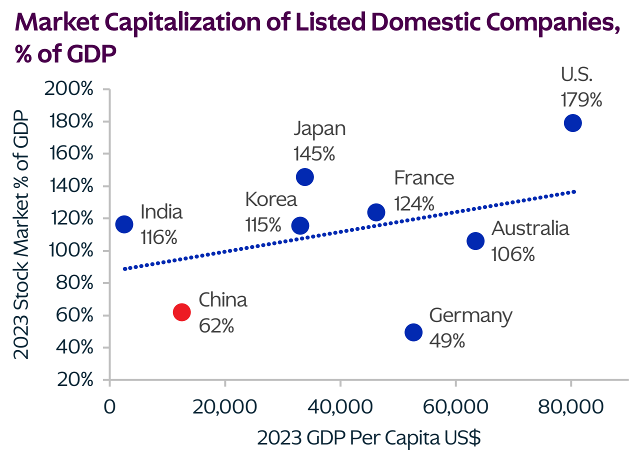
#3: Focus on the perception of the public markets. While China has enjoyed material growth in recent decades, this growth has not translated into strong gains in its equity market. One can see this in *Exhibits 16-18*. Importantly, as geopolitical tensions intensify around the world, the Chinese government has indicated that a strong and robust domestic capital market will be increasingly important. This effort will not be easy under its current construct, given recent uncertainty surrounding policy as well as a heavy weighting in its indexes towards financials and state-owned enterprises. That said, we did hear two potential paths forward in this area to improve the quality of the capital markets/retirement savings in China. First, there is the potential for the country to push harder to allow more companies outside of the digitalization and green sectors to go public. China has numerous world class consumer companies, but many of them are stuck in the hands of private investors who can't yet access the public markets. Second, we heard about a greater desire to create a more sophisticated retirement savings market, including a focus on longer-term investing strategies as well as creating more transparent and higher quality savings vehicles for individuals.

Exhibit 16: China's Equity Market Valuation Is Relatively Low in the Asia-Pacific Region…



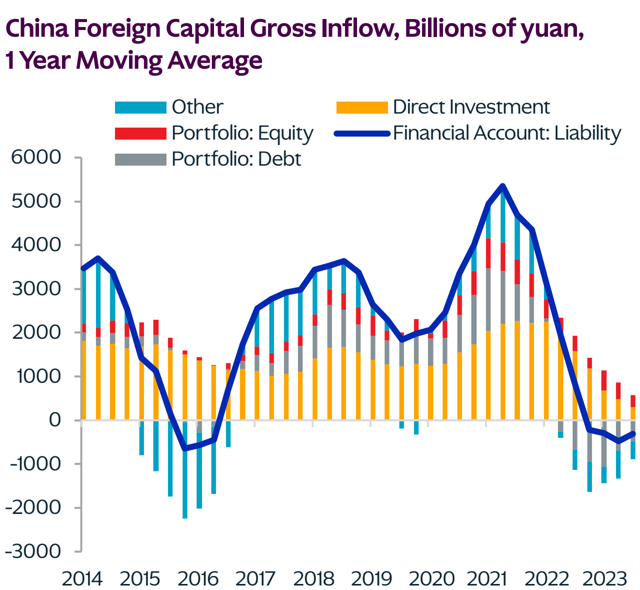
Data as at February 29, 2024. Source: MSCI, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 17: ...and Its Stock Market Is Less Developed as a Percentage of GDP



Data as at December 31, 2023. Source: Bloomberg.

Exhibit 18: Foreign Capital Inflows Have Declined Significantly



Data as at September 30, 2023. Source: MSCI, State Administration of Foreign Exchange, KKR Global Macro & Asset Allocation analysis.

Conclusion

Over the past year, I have spent an increasing amount of my travel time in China, Japan, and India. Without question, this region is undergoing a fundamental repositioning, including both more interconnected trade as well as increased geopolitical rivalry. As an investor, this reality means that more local knowledge is required to invest successfully.

Within China, the story is changing materially, with Green initiatives and Industrial Automation now driving incremental growth in the local economy. By comparison, traditional economic drivers such as Real Estate and consumption are likely to remain challenged in the near-term. Against a more sluggish structural growth backdrop as well as heightened geopolitical concerns. China will likely look to create a strong domestic market that entices both domestic and foreign capital to support its growth in a more consistent manner. Not surprisingly, as geopolitical tensions continue to rise against more challenging demographics, we are seeing this type of framework also being embraced in India, Japan, and even the United States.

Overall, we left Beijing somewhat encouraged. To be sure, though, we are optimistic less so because we think that GDP growth is going to snap back quickly. Rather, as our trip confirmed, there is a playbook to both build on existing strengths as well as tweak policies to create more stability, especially as it relates to Real Estate and consumer confidence. If done properly, these policy shifts could reward investors across the region who have positions in Equities, Credit, and many parts of Real Assets.

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