

China's Increasing Importance in Long-term Global Asset Allocation Strategy

"China's growing economic prominence in a global context is phenomenal. Given the vast potential of investment opportunities in China, global investors are looking to increase their allocation to Chinese equities as an important asset class in their long term asset allocation strategies," said Paul Chan, CIO of Asia ex-Japan, at Invesco Hong Kong.

China is the world's most populous country. After three decades of successful reforms and dynamic economic growth, China has become the world's third largest economy with a GDP of US\$4.3 trillion in 2008, just behind Japan's and less than one-third of the US GDP¹. With expansionary fiscal and monetary policies driving domestic demand, China's 2009 GDP growth should achieve 8 percent, by far the fastest growing major economy in the world². With the US, UK and Continental Europe likely to experience a prolonged period of sub-par economic growth due to balance sheet repair, and Japan remaining export dependent, China should be able to maintain relatively strong growth and become an increasingly important global growth engine. Global investors searching for growth should consider increasing their allocation to Chinese equities.

Increasing importance of Chinese equities for global asset allocation purposes

Many global investors make asset allocation decisions based on index weightings and consider China only a very small part of their global portfolio allocation. Although China only represents 2.4 percent of MSCI AC World Index (Figure 1), it accounts for 6.8 percent of nominal global GDP. In contrast, the US and Japan which represent 42.2 percent and 9.6 percent of MSCI AC World Index respectively, appear over-represented as they account for 23 percent and 7.8 percent of nominal global GDP respectively. In Purchasing Power Parity (PPP) terms, China accounts for 11.8 percent of world GDP and is even more under-represented in the MSCI AC World Index.

Chinese equity, in our view, warrants a higher allocation in a global portfolio context.

Vast potential of investment opportunities in China

Many companies are benefiting from domestic demand growth, particularly consumer and infrastructure spending, in China. Abundant investment opportunities can be found, not only in consumption and infrastructure related sectors, but also in financials, properties, energy and material sectors. Many Chinese companies have already become global leaders in their respective industries. Examples include the largest banks by market capitalization³, the largest telecom carrier based on subscribers⁴, one of the world's largest PC

1 World Bank & HKET, based on 2008 GDP figures.

2 Invesco's estimates, as of 30 June 2009.

3 Guangzhou Daily, article 'World's three largest banks in terms of market capitalization are Chinese,' as at 20 July 2009.

4 China Daily, 'China Mobile to cover 98% of villages,' as at 15 July 2009.

5 2008/2009 Annual Report Lenovo Group Ltd.

6 Shanghai Zhenhua Heavy Industry website:

<http://www.zpmc.com/view.php?tid=37&cid=21>

Past performance is not a guarantee of future results.

Figure 1.

Region	GDP - Nominal (% share of world)	GDP - PPP * (% share of world)	% of MSCI AC World Index
China	6.8	11.8	2.4
Japan	7.8	6.4	9.6
US	23.0	20.6	42.2

Source: Morgan Stanley, July 2009. Note: GDP figures from IMF World Economic Outlook Database as of 31 December 2008 *GDP (PPP) – GDP dollar estimates derived from purchasing power parity (PPP) calculations. PPP is the rate that equalizes purchasing power of different currencies in their home countries for a given basket of goods.

manufacturers covering one-third of China's PC market⁵, as well as a port machinery company with 75 percent global market share⁶. Decades of corporate restructuring efforts and successful capital markets reforms have resulted in tremendous investment opportunities in Chinese equity for global investors.

Participating in China's growth opportunities through local knowledge and experience

As the relative bright spot in global growth, we expect Chinese equity to be a magnet attracting global investors who want to participate in its investment opportunities and long-term growth potential. In fact, we are of the view that the influx of cross-border funds buying Hong Kong listed China shares year-to-date and increasing interests in China A shares listed in the domestic Shanghai and Shenzhen stock exchanges reflect global investors' growing optimism for China growth.

We believe Chinese equities will become a more significant component of global portfolios for diversification benefits and enhanced risk/return potential. Local knowledge and experience is paramount to better gauge the risk and reward of investment opportunities in this major developing market.

Invesco, with its strong local presence and comprehensive research platform in Hong Kong and China, has 17 years of experience managing Chinese equity portfolios. Invesco's Chinese equity capability, with a focus on bottom-up stock selection, identifies attractive investment opportunities through our information advantage and local experience.



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