

China in charts series

How consumption and innovation are transforming China

February 2019

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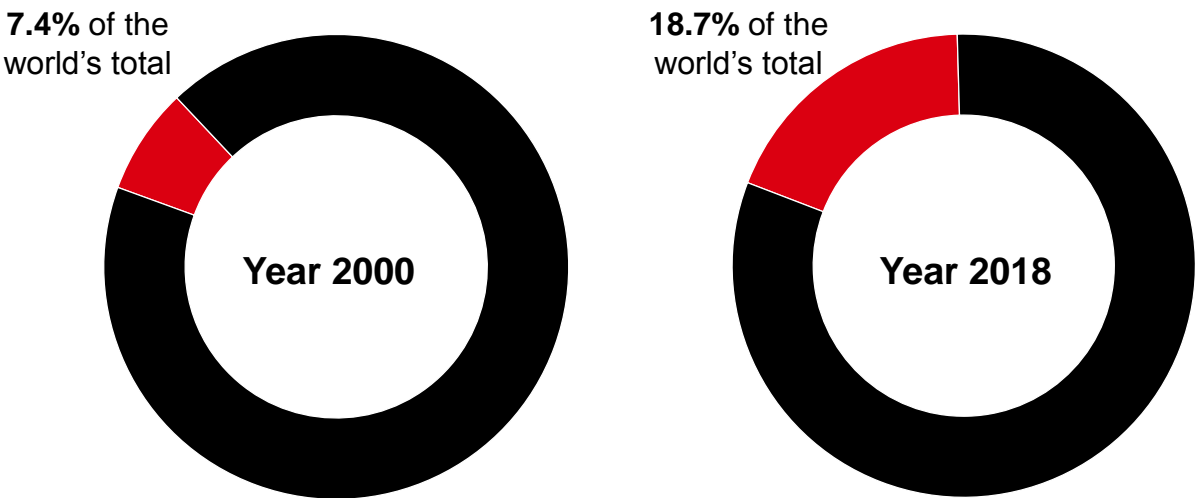
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China's economic development

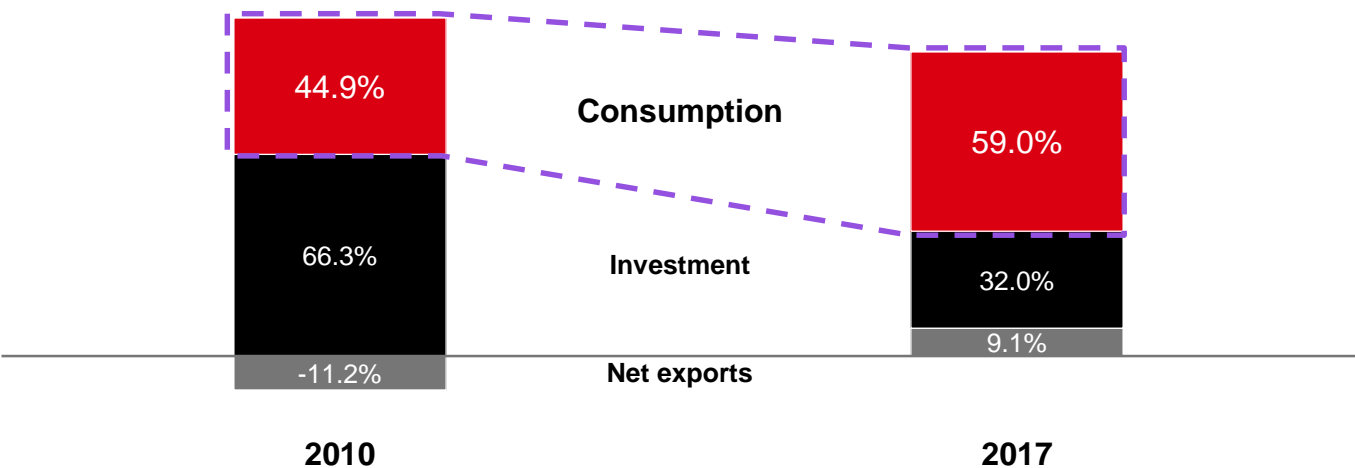
The rise of China: China now makes up 19% of the world's economy

China's GDP as % of world



China is in economic transition as it seeks higher quality economic growth

Share of GDP growth: year 2010 vs. 2017



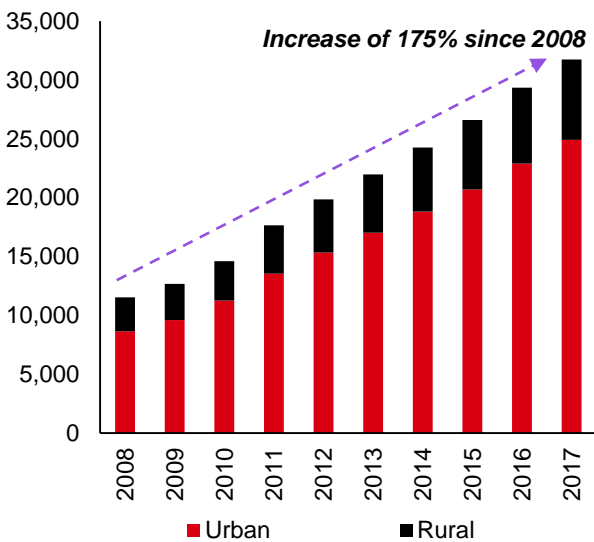
Source:
1. IMF as of October 2018. GDP data is based on purchasing power parity (PPP) share of world total
2. National Bureau of Statistics PRC as of January 2019
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China's consumption empowerment

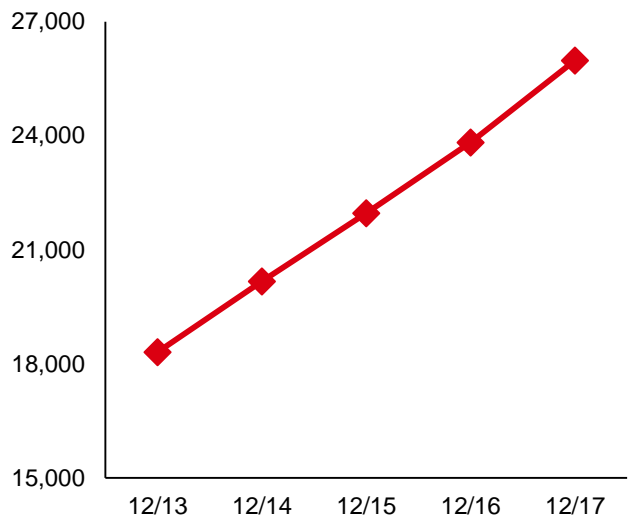
Private consumption is increasing and becoming a powerful force

Household consumption expenditure (RMB billion)



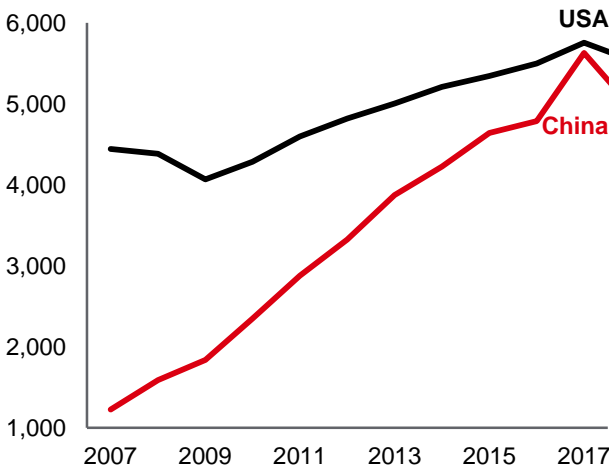
Consumption is empowered by rising disposable incomes

China: Nationwide disposable income per capita (RMB)



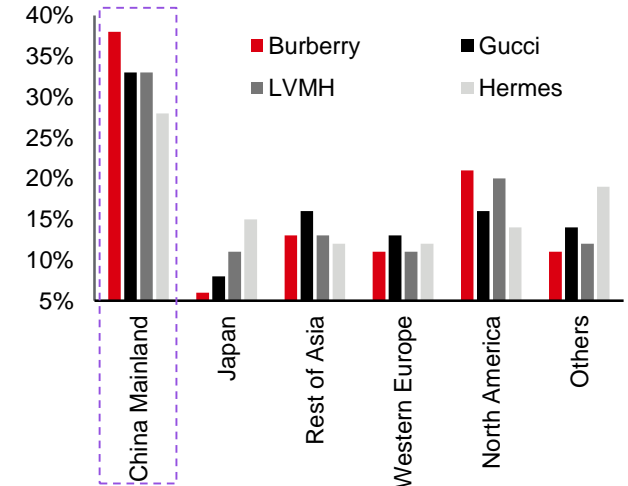
China's retail market is seeing a steady rise

Retail sales (USD billion)



Foreign luxury brands also benefit from deep Chinese pockets

Percentage of sales by consumer nationality



Source:

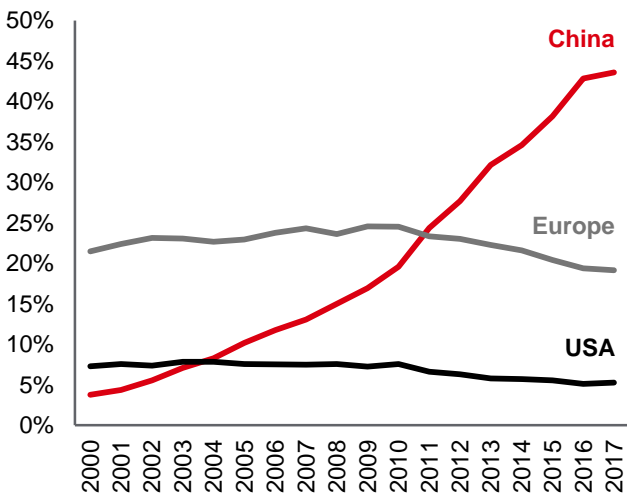
1. National Bureau of Statistics, as of January 2019
2. National Bureau of Statistics, as of January 2019
3. Bloomberg, National Bureau of Statistics, US Census Bureau, as of January 2019
4. HSBC Global Research as of July 2018. Sales are based on FY2018 for Burberry and FY2017 for the rest

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Focusing on innovation

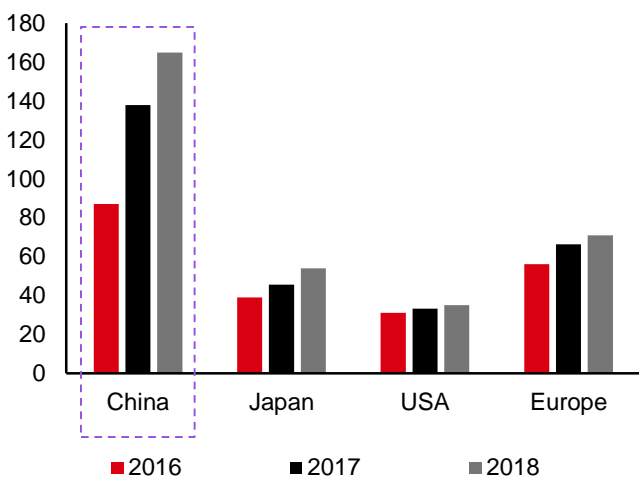
China's share of patent applications is on the rise

Patent applications as % of world



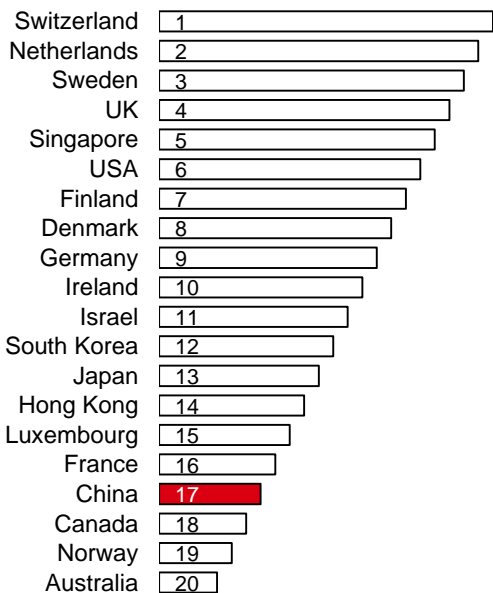
China's companies are heavily invested in automation

Industrial robots purchased in '000 units



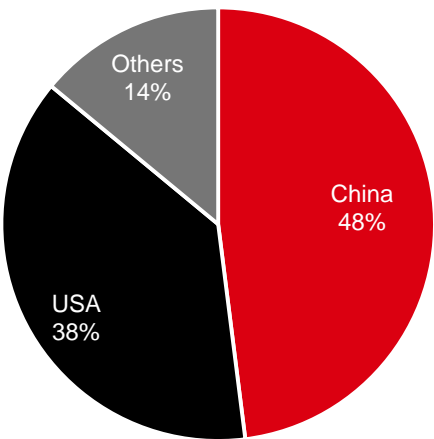
Breaking into the top 20 of the global innovation index

2018 Global innovation index, ranking



China's artificial intelligence startups top equity funding, outpacing the US

2017 total equity funding to AI startups, % of total



Source:

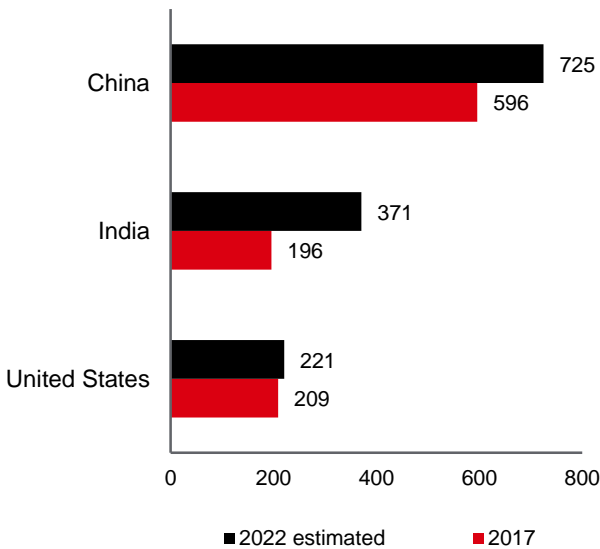
1. WIPO as of December 2018
2. World Robotics report 2018
3. Global Innovation Index 2018
4. CB Insights as of June 2018

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Staying on top of the online game

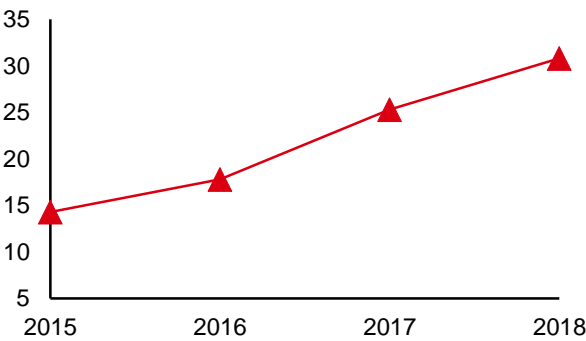
China’s social network users could reach 725 million in 3 years

Number of social network users (millions)



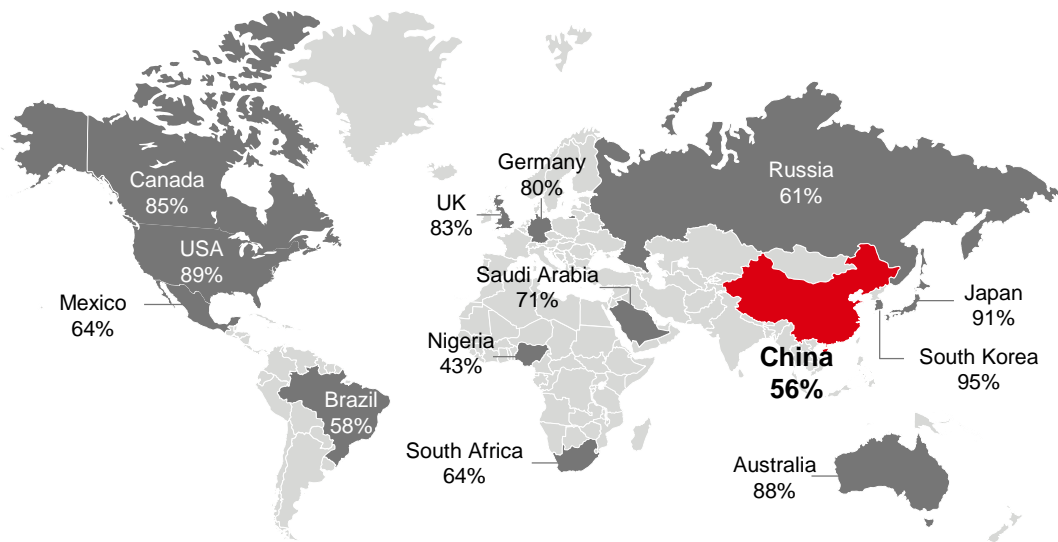
Singles Day – Alibaba earned USD 31 billion of sales in one day

Alibaba’s Singles day (11th November) gross merchandise volume (USD billion)



1 day sales for Alibaba on Singles Day was greater than the United States’ 2018 sales for Black Friday and Cyber Monday combined

Still relatively low internet penetration in China indicating further growth potential



Accessing China opportunities through our investment capabilities


We offer clients fulfillment options via our fund range or, if preferred, a segregated mandate, encompassing Chinese equities, fixed income, multi-asset and passive investing.

Key strategies	Chinese equity	China fixed income	China multi-asset	Passive China-A
Key propositions	<ul style="list-style-type: none"> High-conviction and diversified portfolio focusing on stocks with below average valuation for a given level of profitability 	<ul style="list-style-type: none"> Focusing actively on term structure, duration, sector allocation, product selection and credit rating 	<ul style="list-style-type: none"> Mixed asset with income tilt. Flexible allocation across onshore/offshore equities and bonds within a risk budget 	<ul style="list-style-type: none"> Passive ETF tracking the progressive inclusion of China A-shares into the MSCI EM index
Investment universe	<ul style="list-style-type: none"> H-shares Red chips A- and B-shares 	<ul style="list-style-type: none"> Onshore RMB and offshore RMB/non-RMB denominated fixed income/debt securities 	<ul style="list-style-type: none"> A/B/H-shares, red chips and ADRs Onshore/offshore fixed income in RMB and other currencies 	<ul style="list-style-type: none"> Stocks included in the MSCI China A-share Inclusion Index


Why HSBC Global Asset Management?

HSBC Global Asset Management is a pioneer in Chinese investments, with deep experience in investing in both offshore and onshore Chinese securities.


Strong track record managing Chinese assets since 1992



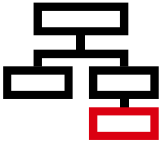
Significant local resources and presence in Hong Kong China



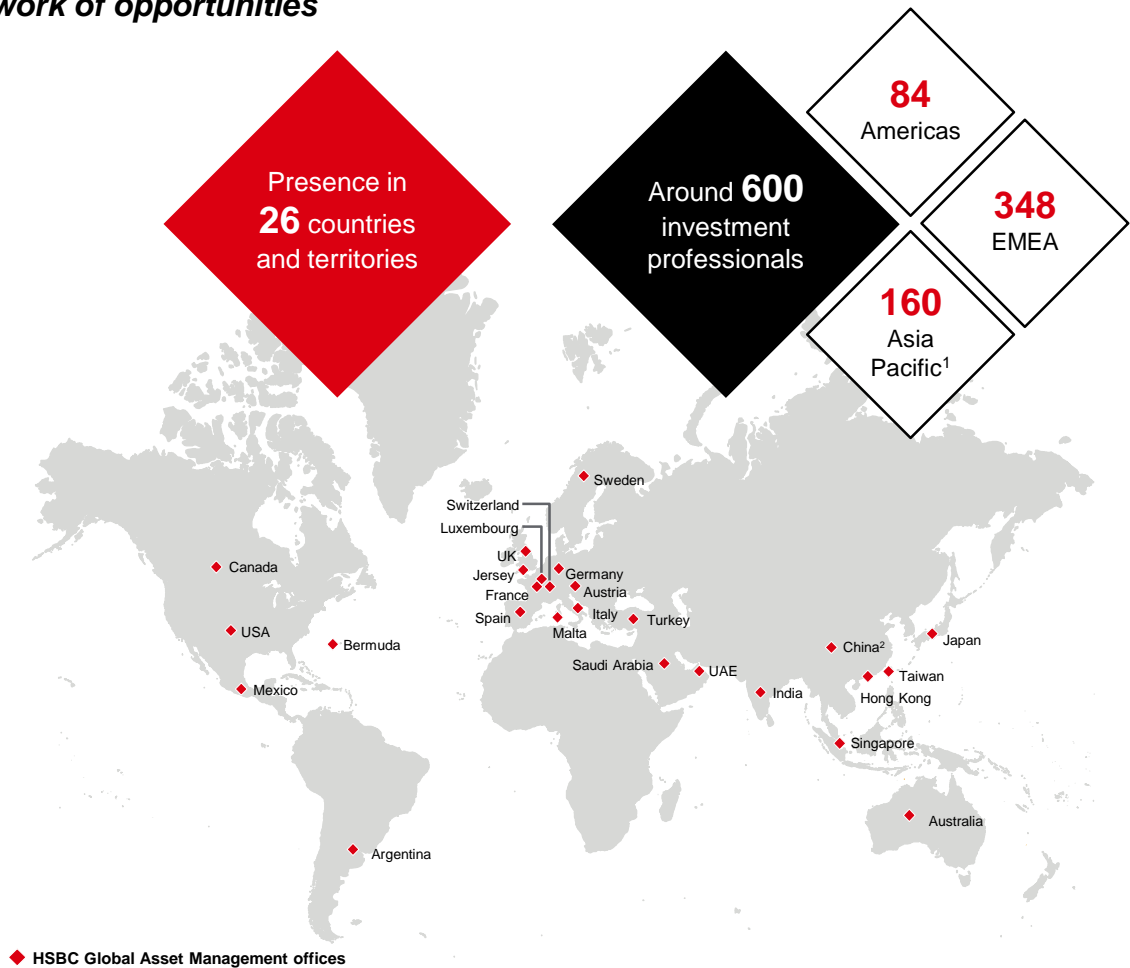
A well resourced, stable and award winning team



A robust investment process built on solid proprietary research



A network of opportunities



Note:
1. Asia-Pacific includes employees and assets of Hang Seng Bank, in which HSBC has a majority holding.
Source: HSBC Global Asset Management as at 30 September 2018. Any differences are due to rounding.

Key Risks

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.

- ◆ Exchange rate risk: Investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment to exchange rate fluctuations
- ◆ Liquidity risk: Liquidity is a measure of how easily an investment can be converted to cash without a loss of capital and/or income in the process. The value of assets may be significantly impacted by liquidity risk during adverse market conditions
- ◆ Emerging market risk: Emerging economies typically exhibit higher levels of investment risk. Markets are not always well regulated or efficient and investments can be affected by reduced liquidity
- ◆ Derivative risk: The use of derivatives instruments can involve risks different from, and in certain cases greater than, the risks associated with more traditional assets. The value of derivative contracts is dependent upon the performance of underlying assets. A small movement in the value of the underlying assets can cause a large movement in the exposure and value of derivatives. Unlike exchange traded derivatives, over-the-counter (OTC) derivatives have credit and legal risk associated with the counterparty or the institution that facilitates the trade
- ◆ Operational risk: The main risks are related to systems and process failures. Investment processes are overseen by independent risk functions which are subject to independent audit and supervised by regulators
- ◆ Concentration risk: Funds with a narrow or concentrated investment strategy may experience higher risk and return fluctuations and lower liquidity than funds with a broader portfolio
- ◆ Interest rate risk: As interest rates rise debt securities will fall in value. The value of debt securities is inversely proportional to interest rate movements
- ◆ Derivative risk (leverage): The value of derivative contracts depends on the performance of an underlying asset. A small movement in the value of the underlying can cause a large movement in the value of the derivative. Over-the-counter (OTC) derivatives have credit risk associated with the counterparty or institution facilitating the trade. Investing in derivatives involves leverage (sometimes known as gearing). High degrees of leverage can present risks to sub-funds by magnifying the impact of asset price or rate movements
- ◆ Emerging market fixed income risk: Emerging economies typically exhibit higher levels of investment risk. Markets are not always well regulated or efficient and investments can be affected by reduced liquidity, a measure of how easily an investment can be converted to cash without a loss of capital, and a higher risk of debt securities failing to meet their repayment obligations, known as default
- ◆ High yield risk: Higher yielding debt securities characteristically bear greater credit risk than investment grade and/or government securities
- ◆ Contingent Convertible Security (CoCo) risk: Hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Under certain circumstances CoCos can be converted into shares of the issuing company, potentially at a discounted price, or the principal amount invested may be lost

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