



# Outlook 2025

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## Key points

- **Despite the current cyclical downturn, China remains a strong global economy with quality physical and human capital, making it resilient against various challenges, including geopolitics. This strength, along with China's entrepreneurial mindset, well position it for value investing.**
- **We believe profitability and valuations have corrected for sectors that were once market darlings, creating opportunities for value investors.**
- **We think that the Chinese real estate and consumer sectors, despite being the most unloved areas of the market in recent years, present attractive risk-reward opportunities.**

## What is your outlook for your asset class and how are you looking to position your portfolio against this backdrop?

China is undoubtedly going through a cyclical downturn where profit margins in companies are at 20-year lows. Nonetheless, it is the second largest global economy with very high quality physical and human capital. This high-quality resource allows China to navigate a variety of challenges including geopolitics and find a way forward.

We continue to believe that as a stock market, China is well suited to value investing. Here, any industry that earns abnormal profits in the short term attracts intense competition, given China's entrepreneurial mindset.

As a result, there is less certainty associated with both excess profit margins and premium valuations enduring over time. This aligns with what we have seen over the last few years where both profitability and valuations have corrected for sectors that were once market darlings.

We have seen periods when investor sentiment is the weakest towards any market, robust businesses with reliable long-term fundamentals are available at extremely discounted valuations. Therefore, we tend to search for good quality opportunities in the most unloved areas of the market. It would be fair to say that the Chinese real estate and consumer sectors have by far been the two areas where investors have been the most pessimistic in the last two years. As a result, we have been building positions in leading consumer franchises, where investors overlooked their strong balance sheets and market leadership that can drive

growth from long term structural trends.

We see what we believe to be attractive risk-reward driven opportunities in real estate sector, where good businesses are available with more than sufficient margin of safety. These include asset-light business such as real estate management services businesses that have stable cash flows from maintenance contracts, while their stock prices have corrected sharply as investors paint all real-estate related businesses with the same brush.

All information is current as at 17 January 2025 unless otherwise stated.

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