



The systemic implications of Evergrande

The repercussions from the demise of Evergrande rumble on and we have very little to add as to where it is going and who else will get dragged down (please see our post from last Friday [Evergrande? Ever thus](#)). It certainly won't be the only Chinese developer to fail. No doubt there will be plenty of pain across the financial sector, especially in smaller banks and the murky world of "shadow banking".

We would rather re-visit the old "systemic risk" chestnut. Potentially, Evergrande is a symptom of the last gasp of one of the greatest property booms known to mankind. The urbanisation of China's vast population has required such a boom, and we have never been a buyer of the "ghost city" rhetoric since the broad inventory statistics and practical experience do not back it up. However, the demographics do not lie: the population is peaking and also ageing rapidly.

Oddly, the real surprise from the latest census was that China's urbanisation rate appears to be re-accelerating, we suspect thanks to the relaxation of the Hukou system, allowing more migrant workers to settle wherever they want. But this is probably a temporary reprieve, another decade perhaps! In any case, Chinese housing has long been more about upgrading, rather than providing a roof over one's head. So China's overall GDP Growth, for what that number is worth, is losing one of its biggest props. That is a major challenge, but can only re-inforce efforts to refocus growth on other areas of consumption.

So what gives, "systemically"? Broader economic growth rates? Yes, likely slower. Broader interest rates? Lower looks more likely, outside the world of property developer bonds. The Renminbi? Maybe lower, but this will only fuel China's already booming exports. Overall debt to GDP? High but plateauing, and mostly domestic (outside the developers!). So overall, we do not see disaster here.

Who knows where Chinese property prices are going, but one would suspect this is not an overly positive development. But the broadening of the Chinese household balance sheet, (which, on aggregate, is under-leveraged) away from its heavy reliance on property and cash, into other wealth management areas (equities, mutual funds perhaps?) is an area of huge potential growth. This can only accelerate this trend.

We strongly believe that the rapid growth of, say, electric vehicles, dairy consumption, athletic wear, mass market cosmetic brands, convenience shopping and food delivery, will continue. And the best companies in these sectors, which are ungeared and cash generative, will continue to thrive. As it happens, valuations of these have just got a lot more attractive.

Performance

Net Performance (USD) as at 31 August 2021	YTD	1 yr	3 yrs	5 yrs	7 yrs	Inception
Aubrey Global Emerging Markets Strategy*	5.1%	20.4%	76.7%	131.6%	120.0%	256.9%
MSCI TR Net Emerging Markets USD (NDUEEGF)	2.8%	21.1%	32.6%	64.0%	41.3%	54.2%

*The above figures have been calculated using a combination of OMGI Fund GBP share class (14Mar12 to 31Mar15) and the AGEM Fund IC2 USD Share Class from 01Apr15 which have been recalculated to simulate USD performance over the same period using GBP to USD FX Daily Spot Rate sourced via Bloomberg. The resultant combined performance is calculated in USD and presented net of management fees and transaction costs. The OMGI Fund GBP performance has been used to simulate the past performance of the AGEM fund because they have both followed the same strategy. However past and simulated performance is not a reliable indicator of future results and you may not get back what you originally invested and investment returns may increase or decrease as a result of currency fluctuations.

Biography

Rob Brewis | Fund Manager



Rob Brewis is one of the three fund managers responsible for the Aubrey Global Emerging Market strategy.

An engineering graduate from Cambridge, Rob began his career in 1988 at Thornton Management in London before moving to Hong Kong in 1989. There he managed the Asian Special Situations Fund for Credit Lyonnais. Having been an early investor in a number of nascent Asian markets during the 1990s he also managed several single country funds investing in India, Pakistan, Indonesia and Thailand as these markets opened to foreign investment and grew in size. Rob co-founded an emerging markets investment boutique, BDT in 2000 before joining Aubrey in 2014.

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