

Wilshire

China Strategic Update

Considerations for Institutional Investors

Today's Agenda

Evolution of China's capital markets

- Market size
- Market returns versus Chinese economic growth/central planning

Index Characteristics

- Capital market access
- Sector/industry concentration

Implementation Considerations

- Top-down decision making in emerging markets
- The case for active management
- Asset allocation

Presenters



Steve Foresti
Senior Advisor, Investments

30+ years of industry experience

Guides and supports Wilshire’s investment and research efforts, including

- strategic asset allocation research
- capital market forecasts
- thought leadership



Maggie Ralbovsky, CFA
Managing Director

26 years of industry experience

Institutional consultant for corporate clients, insurance, non-profit, governmental funds and public institutions specializing in

- customized risk budgeting and policy setting
- customized asset allocation and portfolio management



Michael Rush, CFA
Senior Vice President

28 years of industry experience

Investment research specialist with prior institutional consulting experience, focusing on

- forecasting long-term capital markets’ return and risk, along with tactical opportunities
- identifying economic trends and opportunities



Nick Lamb
Assistant Vice President

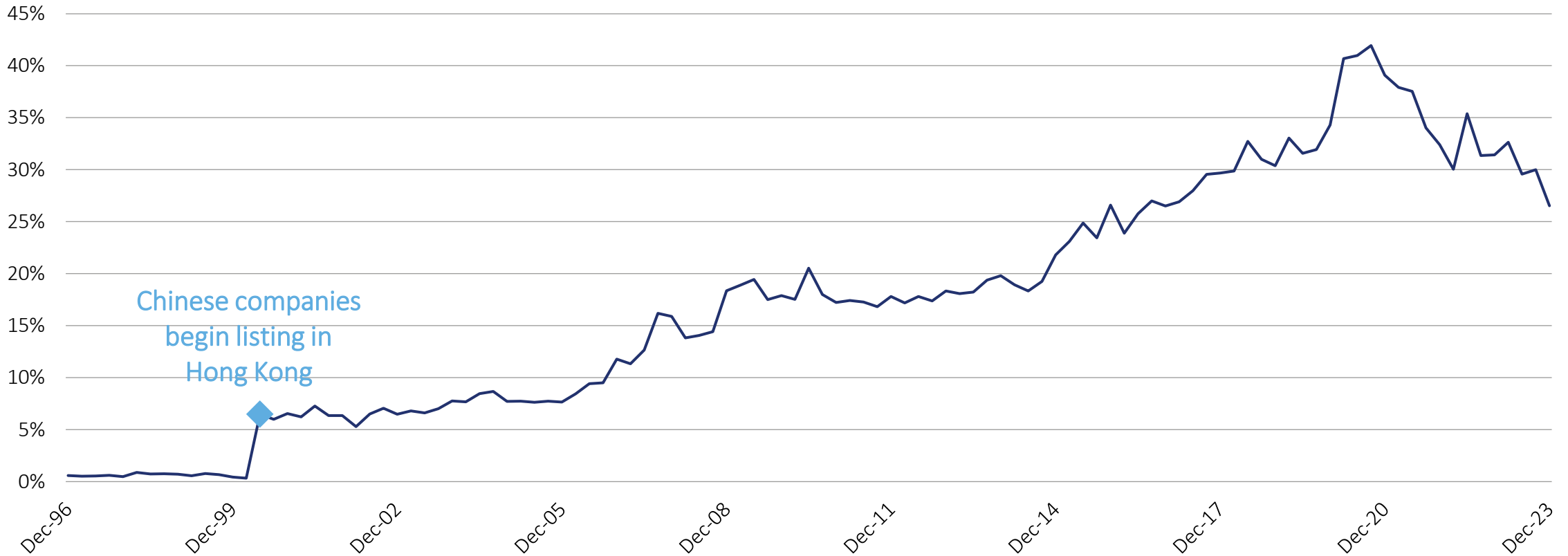
9 years of industry experience

Traditional manager research specialist focused on

- international and emerging market equities
- multi-asset strategies
- multi-manager CITs

China's Growth in EM Benchmarks

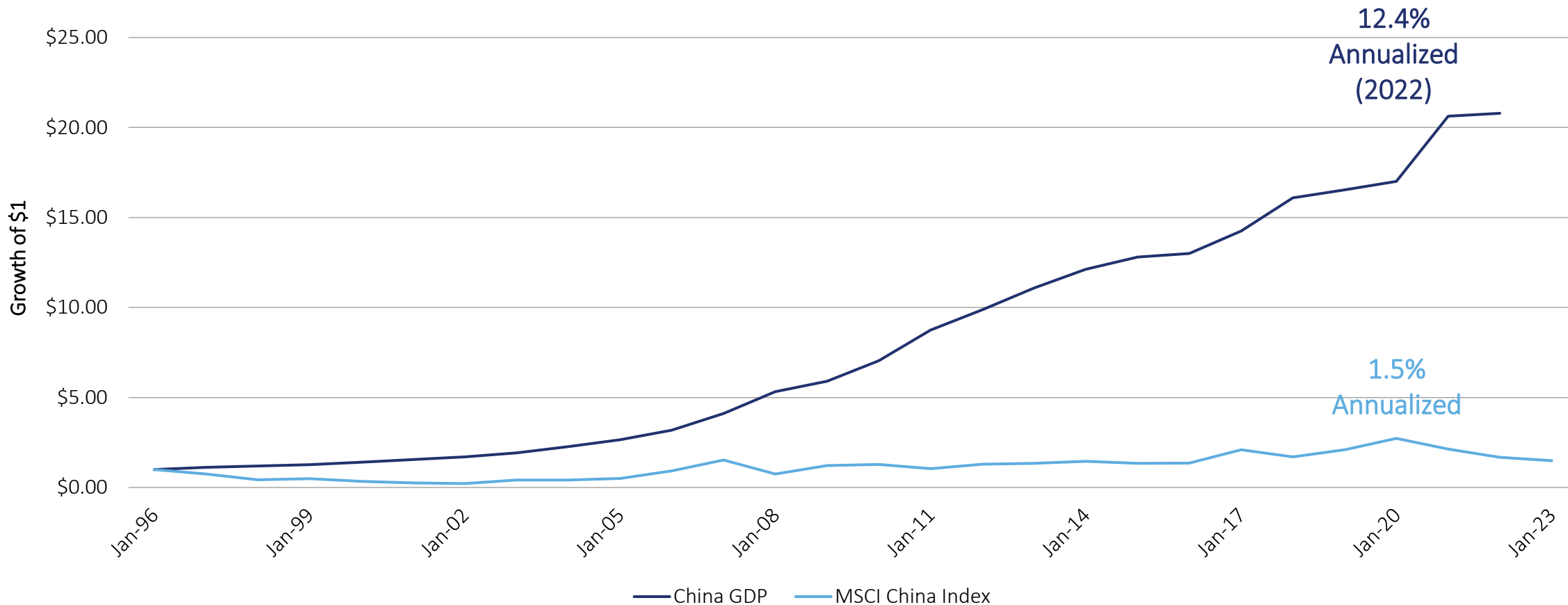
MSCI China/MSCI Emerging Markets



Source: MSCI, Wilshire Atlas through December 2000, Bloomberg thereafter. For illustrative and discussion purposes only.

China GDP versus Chinese Market

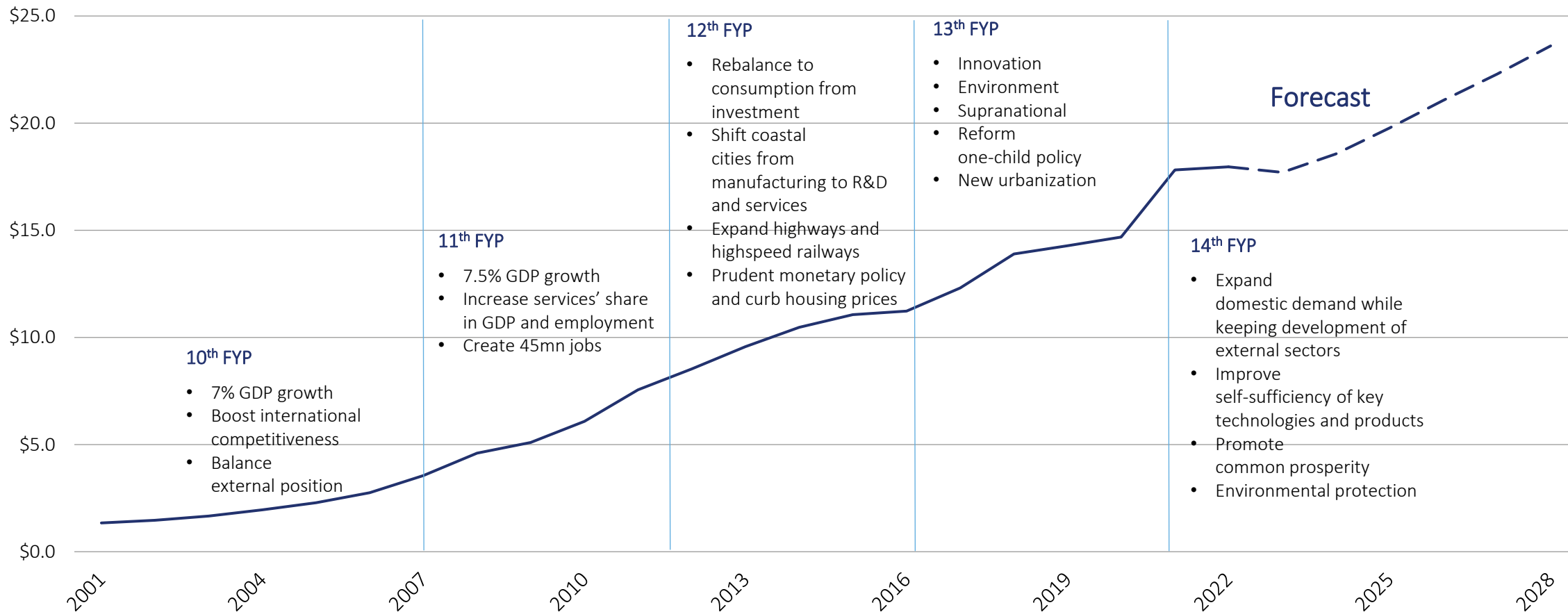
China GDP vs. Equity Market



Source: World Bank, MSCI, Bloomberg. For illustrative and discussion purposes only.

China Central Planning

Nominal China GDP (Trillions US\$)

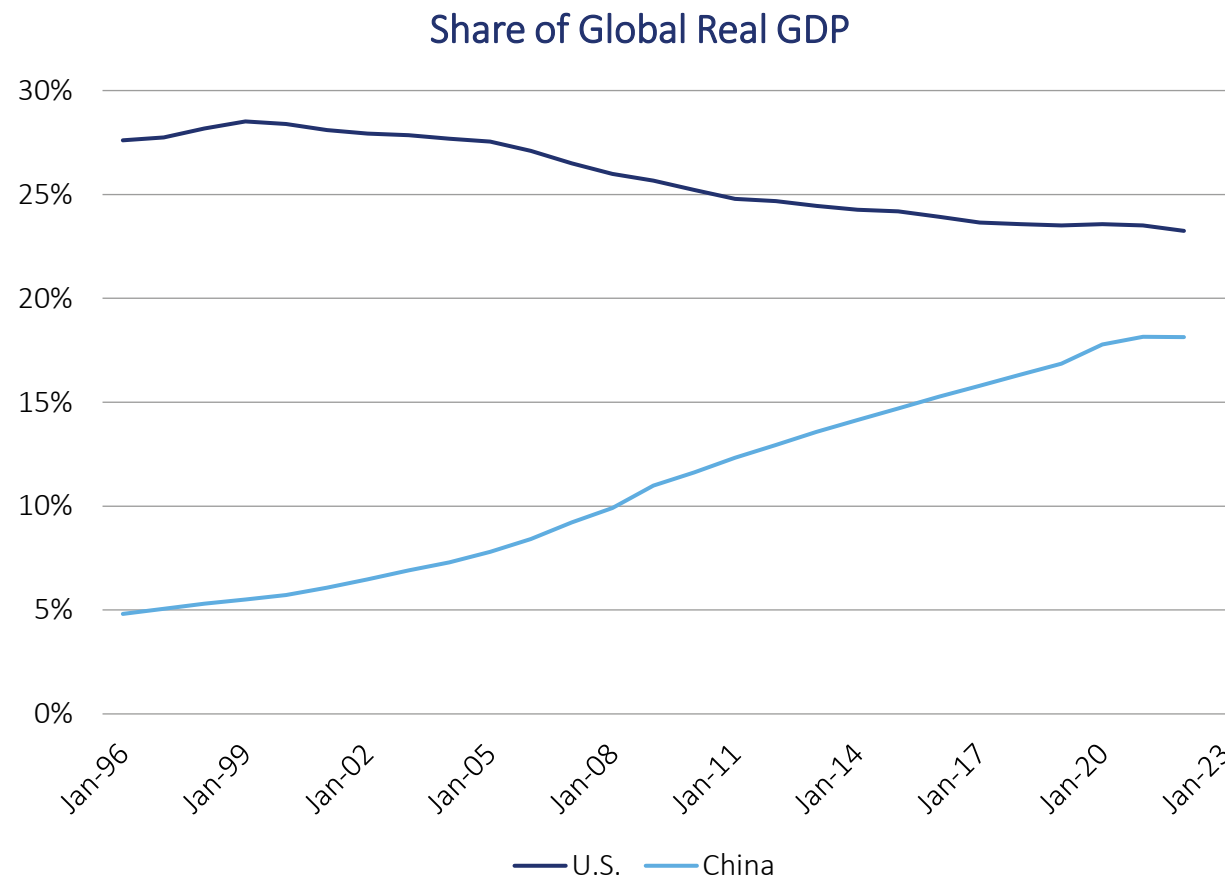


Source: J.P. Morgan, Bloomberg, IMF. For illustrative and discussion purposes only.

China's Capital Market Dynamics

Massive Economic Growth

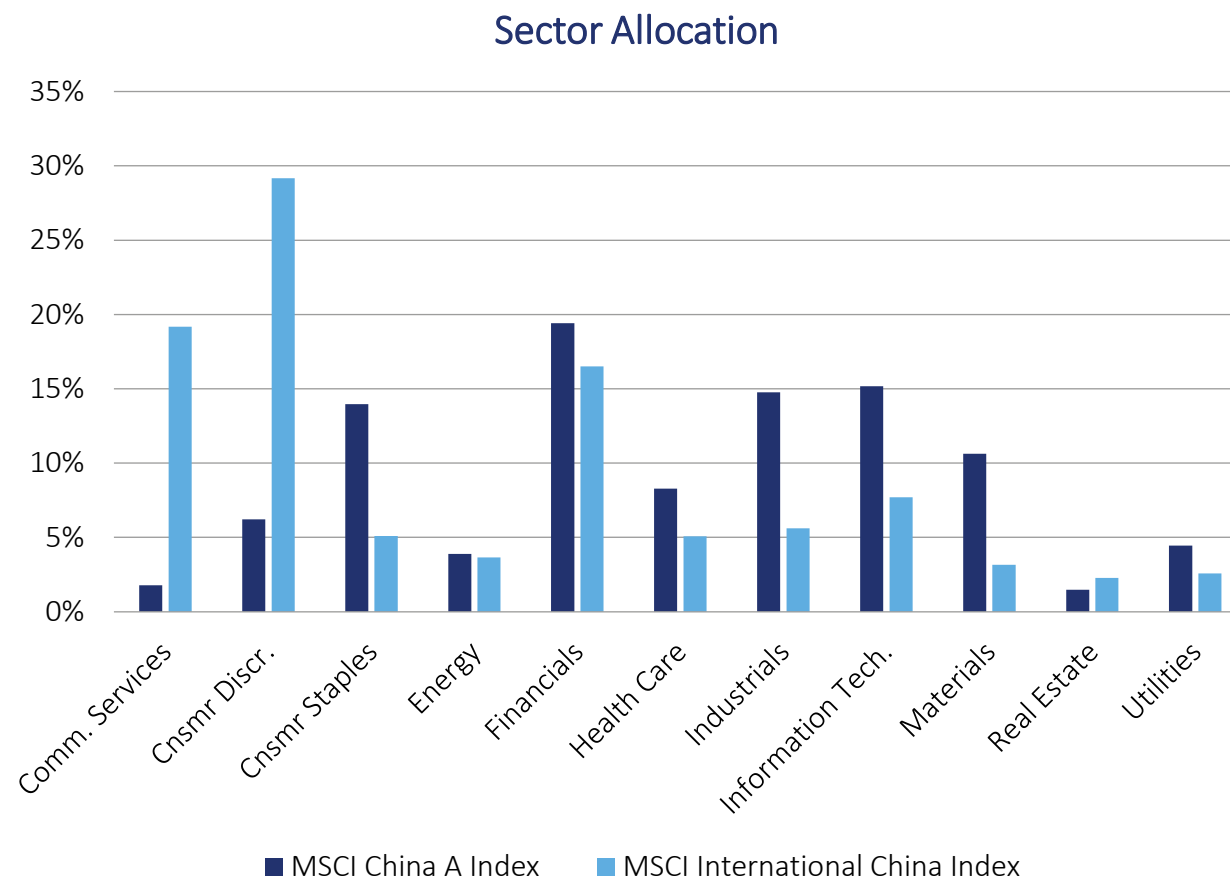
- Since 1996, China’s gross domestic product has grown by 8.4% annualized
- Transformation of approximately 50% of the population living in poverty at the turn of the century to near zero – around 400 million individuals, greater than the U.S. population
- While the public equity market has grown to ~25% of the MSCI EM Index, it is ~7-8% of the Non-U.S. equity market



Source: World Bank, Bloomberg, MSCI. For illustrative and discussion purposes only.

What is the Market Opportunity Set?

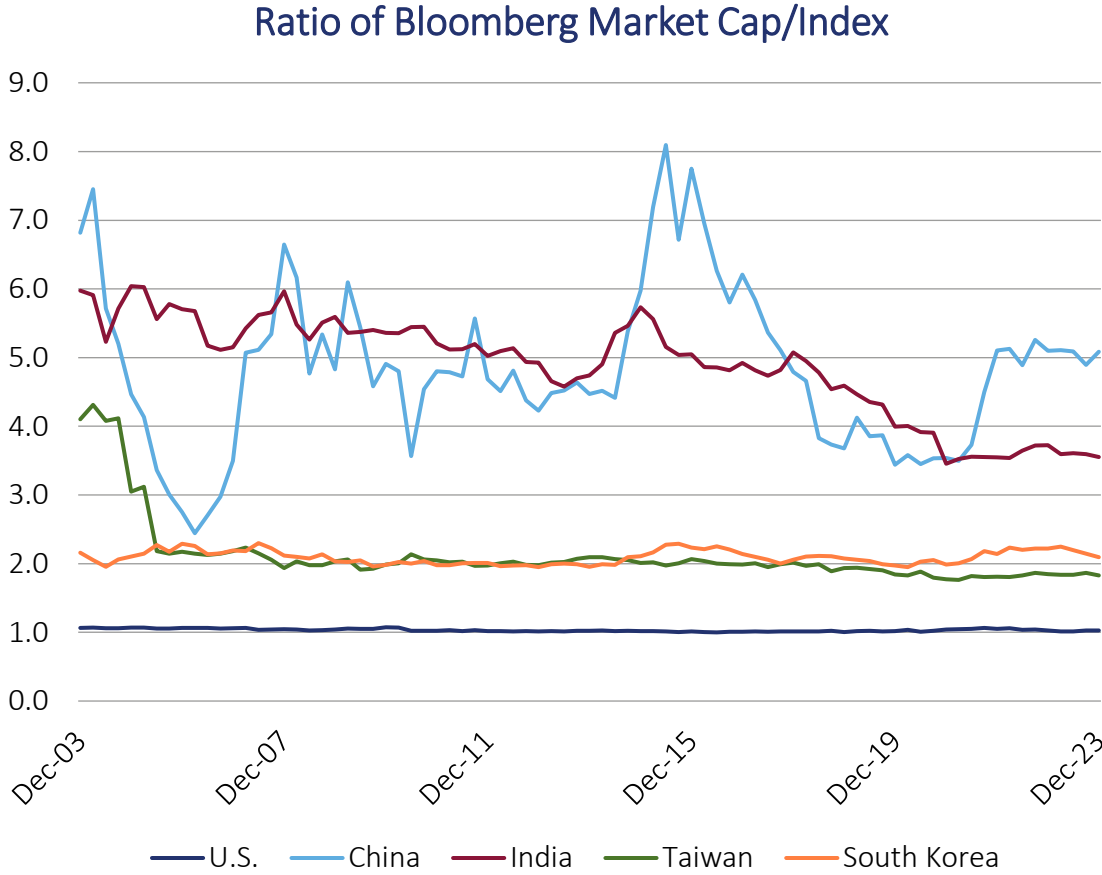
- MSCI China Index is a subset of the MSCI Emerging Markets Index
- MSCI China – despite the inclusion of A shares – is allocated similarly to the MSCI International China Index, which is mainly H shares, B shares, etc. that are available to non-domestic investors
- Allocation for the MSCI China A Index (representing securities listed on the Shanghai and Shenzhen exchanges) is very different



Source: MSCI. For illustrative and discussion purposes only.

Accessing the Opportunities

- Despite China’s overtures towards opening their market, a substantial proportion of their equity market remains outside the index definition
- Other considerations:
 - **Capital/currency controls** – China regulates the flow of foreign exchange in and out of the country and sets exchange rates through a "managed float" system
 - **Custody** – Onerous process to register in China and shares have to physically stay onshore
- **Key Question:** Is China sufficiently complicated to warrant a separate, country-specific investment decision?



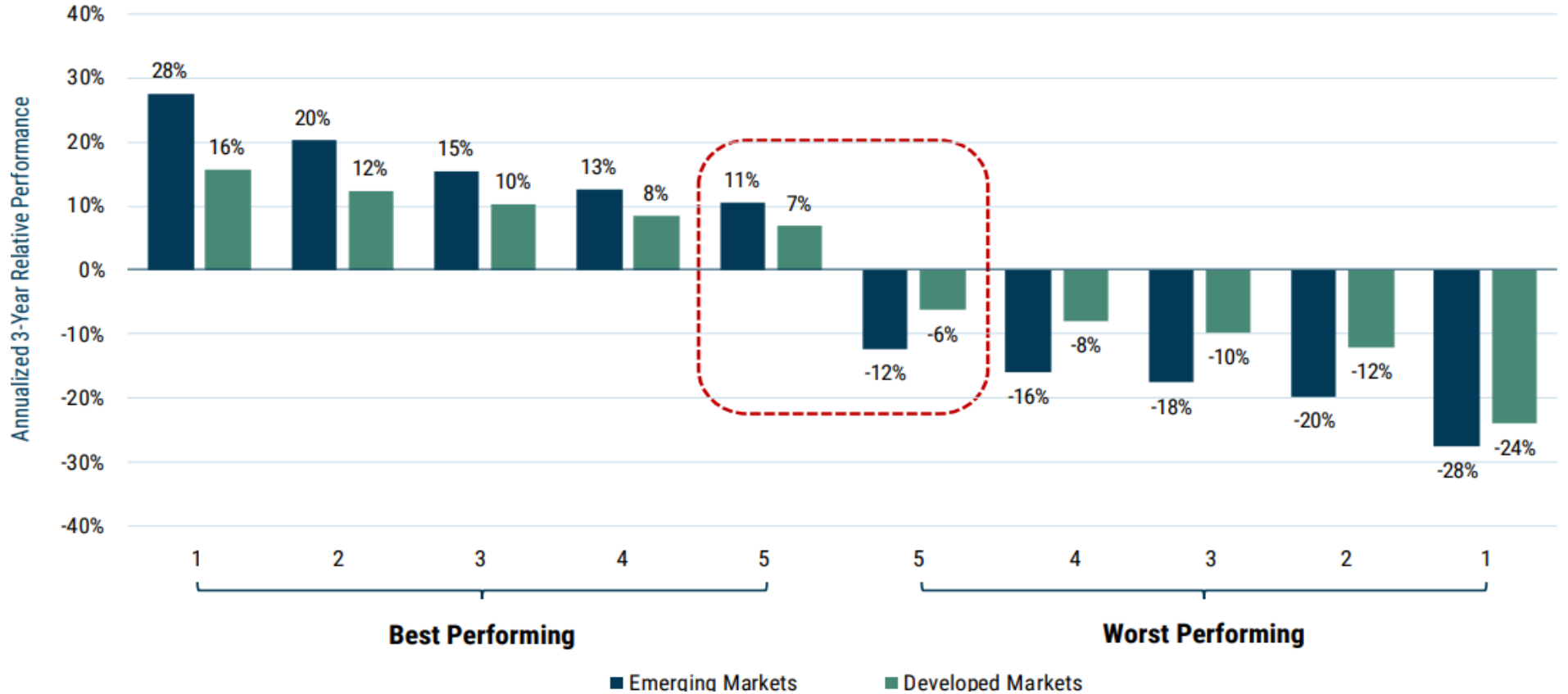
Source: MSCI, Bloomberg. For illustrative and discussion purposes only.

Top-Down Decision Making in Emerging Markets

Why Countries Matter

Top-down has a stronger influence in EM than in DM

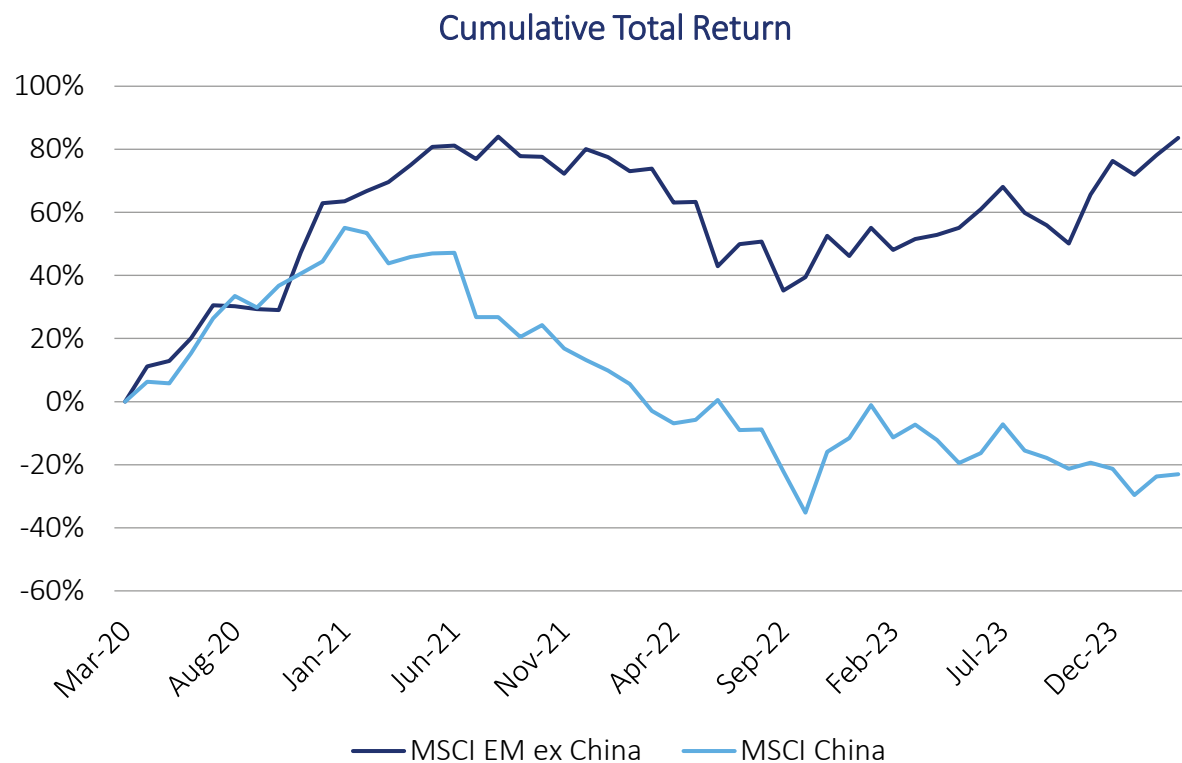
Rolling 3-Year Relative Performance: Top & Bottom Five Countries in EM & DM



Data as of 1/31/01 – 12/31/23. Source: GMO. For illustrative and discussion purposes only.

The Decoupling of China and EM ex-China

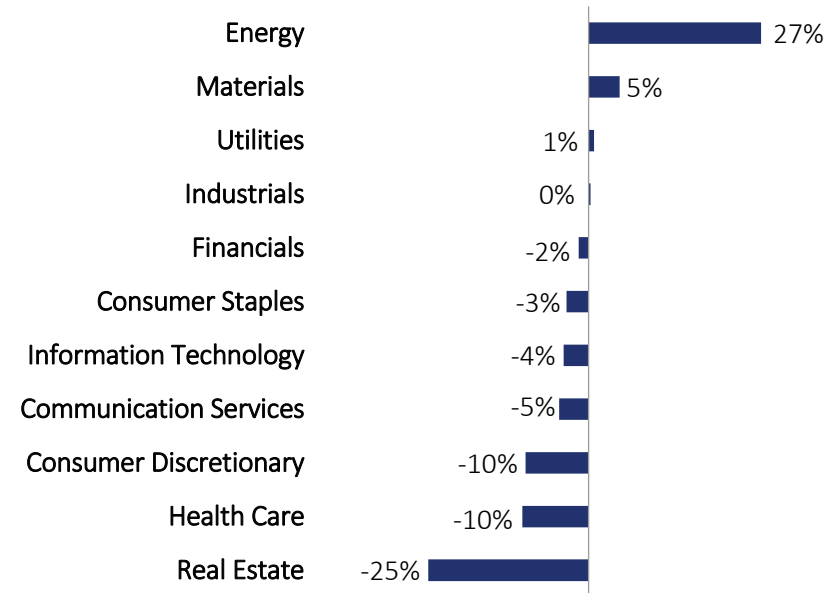
Return Dispersion



Data as of 3/31/20 – 3/29/24. Source: Bloomberg, Wilshire Atlas. For illustrative and discussion purposes only.

Sector View

MSCI China Total Return (4-Year Annualized)



The Decoupling of China and EM ex-China

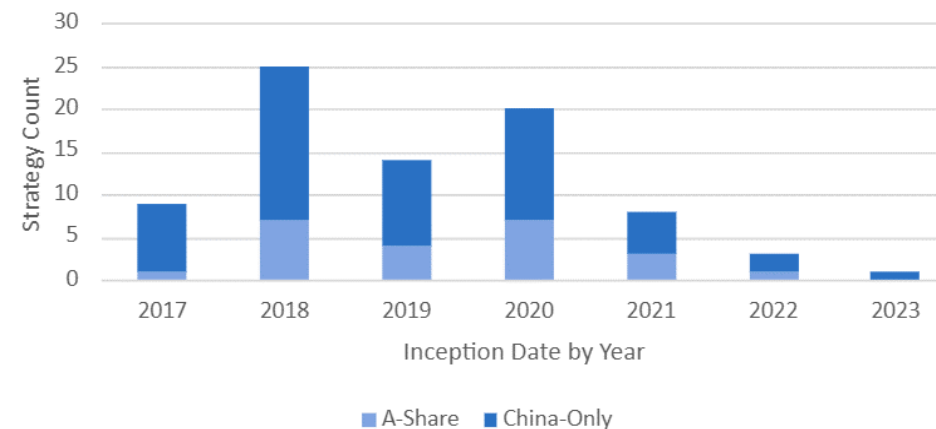
A Shift in the Investible Universe

- Dedicated-China strategies popularity spiked in 2018
- EM ex-China strategies popularity spiked in 2021

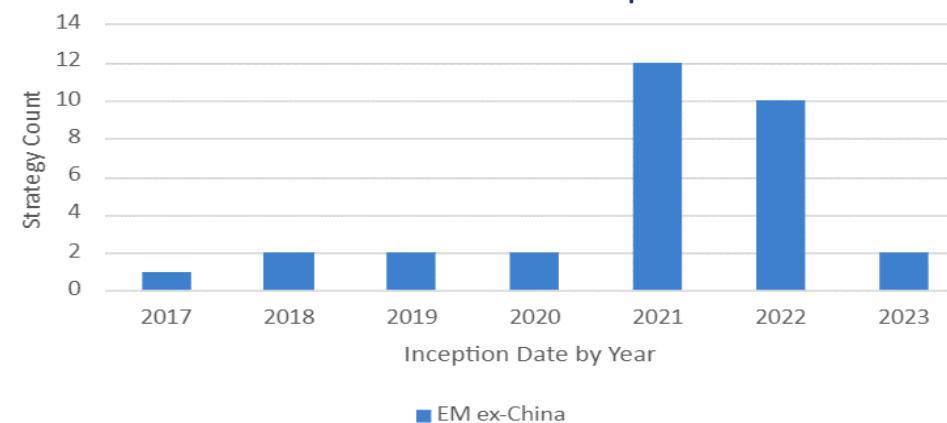
Fund Flows

- EM ex-China strategies
- A lot of talk with little action
- Total strategy AUM grew from \$13.3B to \$18.4B YoY

China: Product Inception Date



EM ex-China: Product Inception Date



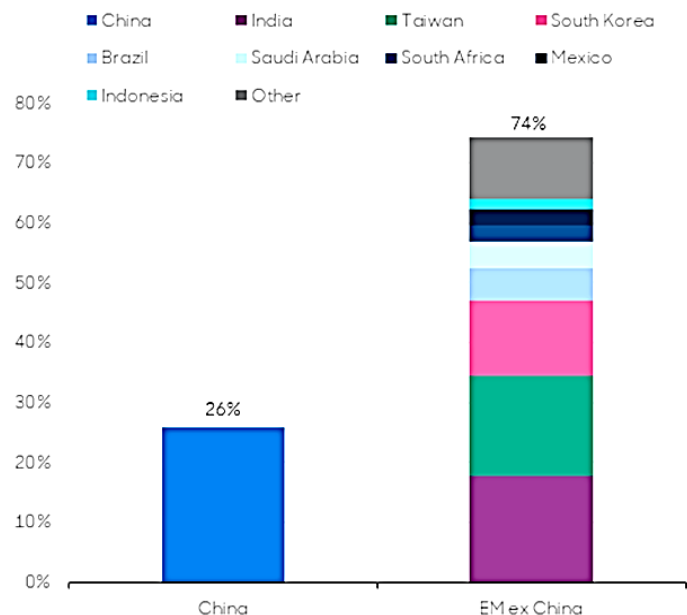
Data as of 12/29/23. Source: eVestment. For illustrative and discussion purposes only.

The Case for Active Management

Breadth Provides Opportunity

Structural Tailwinds Driving an Expansion

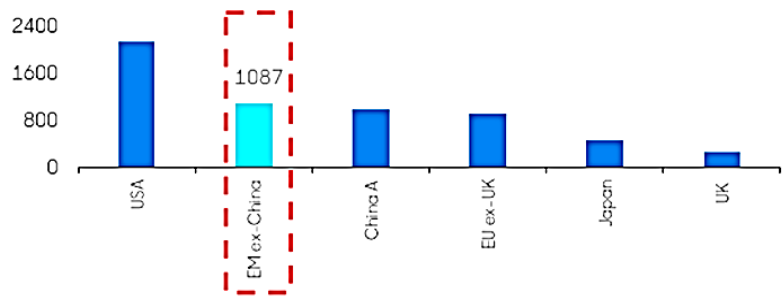
The opportunity set is large, attractive and diverse



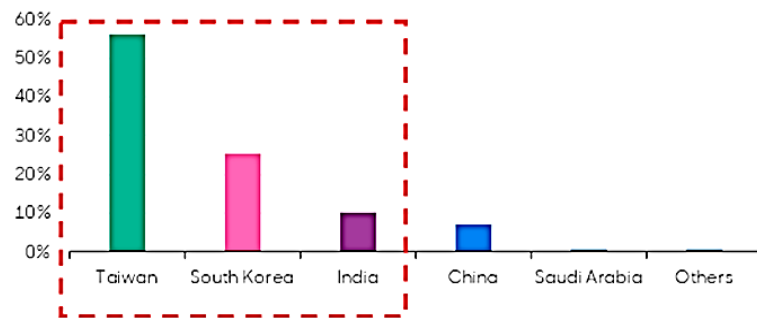
Breadth of companies

Global leaders

EM ex-China c. 1100 listed larger-cap stocks >US\$2bn market cap



MSCI Emerging Markets Information Technology Index (USD)



Structural Shifts

China

- Greying demographic
- Renewables focus
- Consumption-oriented economy shift
- MSCI A-shares inclusion

EM ex-China

- Attractive demographics
- Commodities-oriented
- Digitalization trends
- MSCI Middle East and West Asia inclusions

Data as of February 2024. Source: abrdn, MSCI; Large Cap stocks number sourced from abrdn & Bloomberg. For illustrative and discussion purposes only.

The Case for Active Management

Sell-Side Analyst Coverage

- Historically, weak at finding opportunities in growth
- Unique challenges persist in China A-shares

Liquidity

- Driven by China A-shares
 - Retail-driven market exhibiting high turnover with an average holding period of less than six months

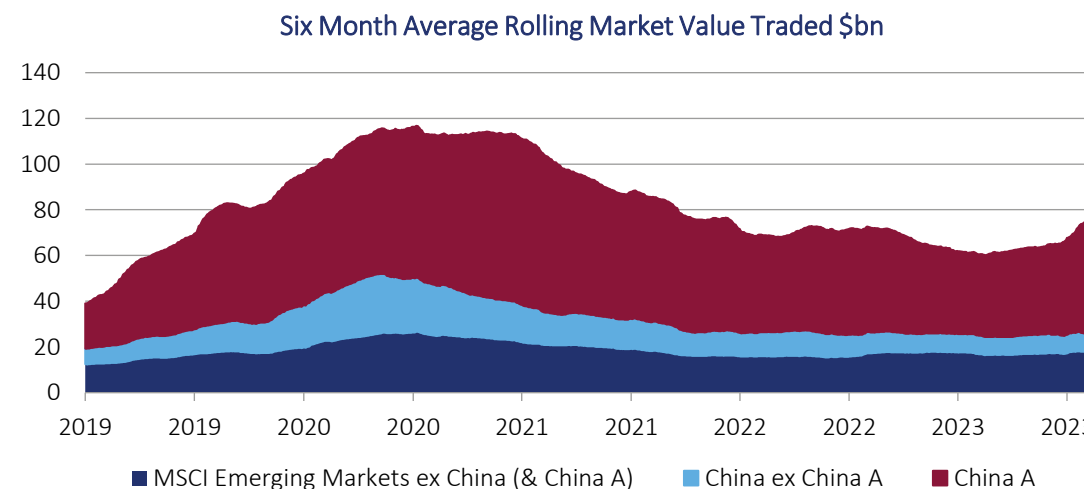
Capacity

- EM ex-China requires added analysis due to shared overlap and liquidity

of Companies Average # of Analysts Companies with < 1 Analyst

S&P 500	503	23	2
MSCI EAFE	768	17	5
MSCI Emerging Markets	1441	18	101
MSCI China A Onshore	690	16	45
MSCI China All Shares	710	19	24
MSCI EM ex-China	672	18	25

Note stats are index only hence lower numbers than Breadth chart which represent broader universe.



Source: abrdn, FactSet (February 2024); abrdn (March 2024). For illustrative and discussion purposes only.

Implementation: Dedicated China and EM ex-China

Implementation

Targeting an Explicit Active Weight in China

Portfolio Allocations	China Active Weight	China	3-Year**		5-Year**		10-Year**	
			Return	Standard Deviation	Return	Standard Deviation	Return	Standard Deviation
2X China Exposure	25%	50.3%	-8.4%	23.6%	0.0%	23.6%	2.7%	20.8%
	15%	40.1%	-6.3%	22.3%	1.3%	23.0%	3.0%	20.2%
	5%	30.1%	-4.2%	21.0%	2.6%	22.3%	3.3%	19.5%
Benchmark Weight	-5%	20.1%	-2.1%	19.7%	3.8%	21.7%	3.6%	18.9%
	-15%	10.1%	0.0%	18.4%	5.1%	21.1%	3.9%	18.3%
	-25%	0.0%	2.2%	17.1%	6.4%	20.5%	4.2%	17.7%

Portfolio Allocations	China Active Weight	China	Next Four*				Super Sectors**			Characteristics**	
			India	Taiwan	South Korea	Brazil	Cyclical	Defensive	Sensitive	Avg. Market Cap	P/E Ratio (TTM)
2X China Exposure	25%	50.3%	11.8%	11.7%	8.5%	3.5%	45.6	12.3	42.1	\$42,899	13.2
	15%	40.1%	14.2%	14.1%	10.2%	4.2%	44.6	12.1	43.3	\$41,767	13.7
	5%	30.1%	16.5%	16.5%	12.0%	4.9%	43.6	12.0	44.5	\$40,649	14.1
Benchmark Weight	-5%	20.1%	18.9%	18.8%	13.7%	5.6%	42.5	11.8	45.7	\$39,531	14.5
	-15%	10.1%	21.2%	21.2%	15.4%	6.3%	41.5	11.7	46.8	\$38,414	15.0
	-25%	0.0%	23.6%	23.6%	17.1%	7.0%	40.5	11.5	48.0	\$37,282	15.4

Source: *MSCI (as of 3/29/24). **Morningstar Direct (as of 3-29-24). Weights based on MSCI China Index and MSCI EM ex-China Index. For illustrative and discussion purposes only.

Wilshire's Three-Pronged Approach to Actively Managing Emerging Markets

Investment Approach	Implementation	Universe	China Exposure
1 "Seismic Shifts" China and EM ex-China	<ul style="list-style-type: none"> • Target an active weight vs. index • China and EM ex-China strategies • Top-down driven, risks apparent 	<p>China: Built out</p> <p>EM ex-China: Building</p>	An explicit target
2 "Curating Countries" EM Small Countries	<ul style="list-style-type: none"> • Set % of portfolio + GEM/index • EM small countries strategies • Leads to frontier markets 	Extremely limited	Inherently underweight
3 "Building Resilience" EM Sleeve Construction	<ul style="list-style-type: none"> • Customizable, objective-led solution • Multi-manager approach • Factor lens – Pair aggressive growth, value, defensive, down cap spectrum managers 	Well built out, Not well identified or utilized	Active manager led

Source: Wilshire. For illustrative and discussion purposes only.

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