

# Outsized Opportunities in a Decoupling World

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Tiffany Hsiao, Portfolio Manager | Artisan China Post-Venture Strategy



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# Agenda

- China's Edge in a De-globalized World
- The Decoupling Playbook
  - ❑ Taiwan: the Bilateral Winner
  - ❑ Energy: a Race to Self-Sufficiency
  - ❑ Mitigating Risk: Avoiding Politically Sensitive Industries
- Q&A

# 1. Expanding Economy

China remains the second-largest economy and continues to grow 2X faster than the US

## Country Rank by GDP

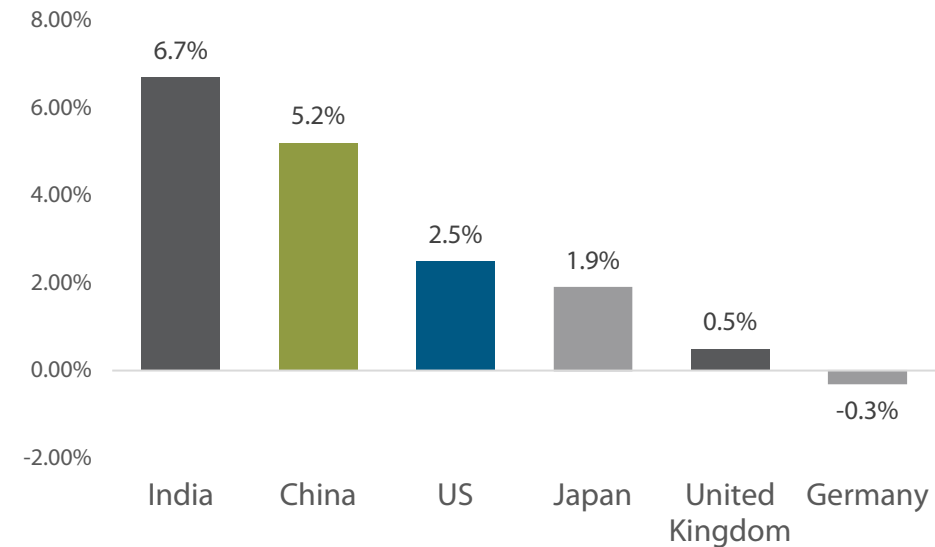
US Trillions



Countries by GDP	US Trillions
US	28.2
China	17.7
Germany	4.4
Japan	4.2
India	3.7
United Kingdom	3.3

## Country Rank by GDP Growth

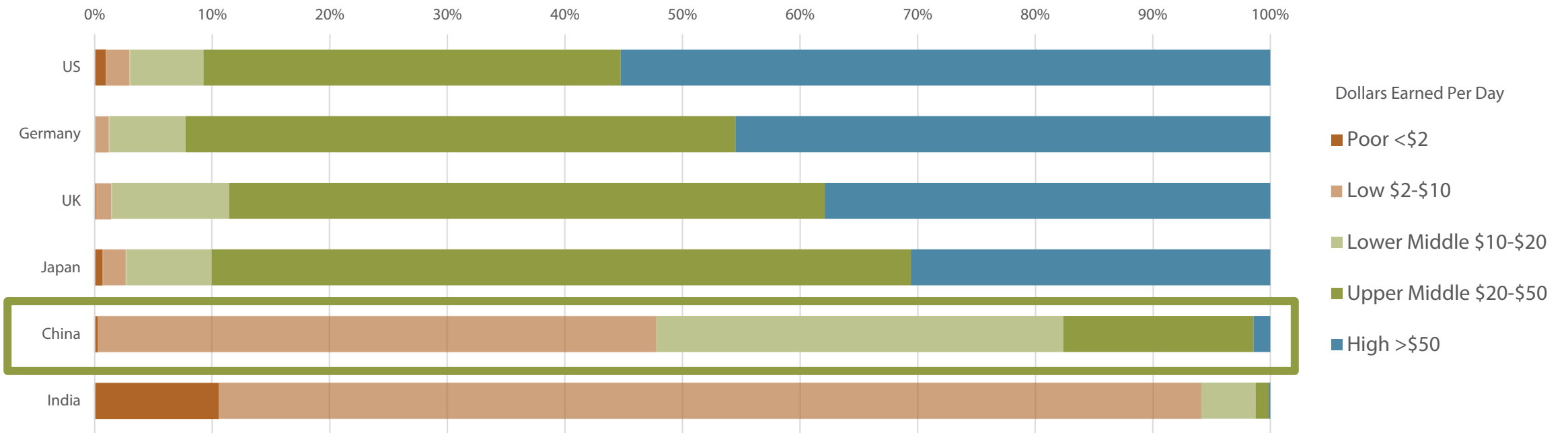
YoY %



## 2. Large Domestic Consumer Base

China's economy has multiple growth engines, including its 1.4 billion consumers

Income Bands by % of Population

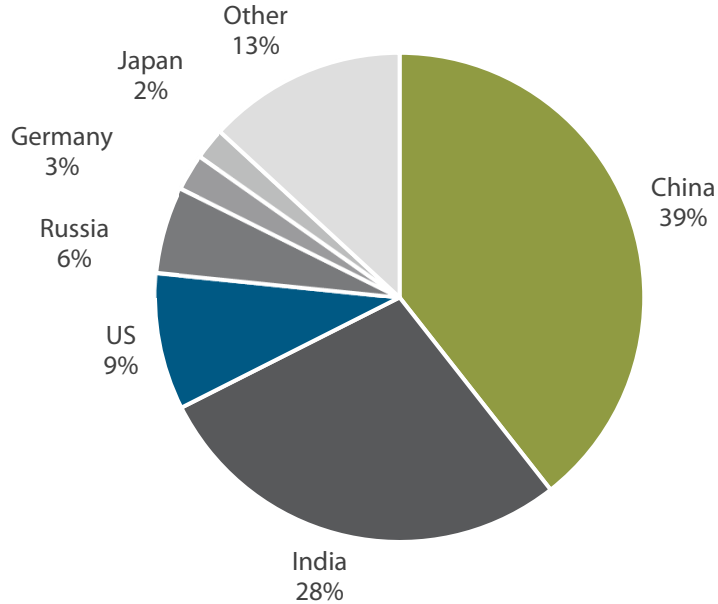


### 3. Oversupply of Talent

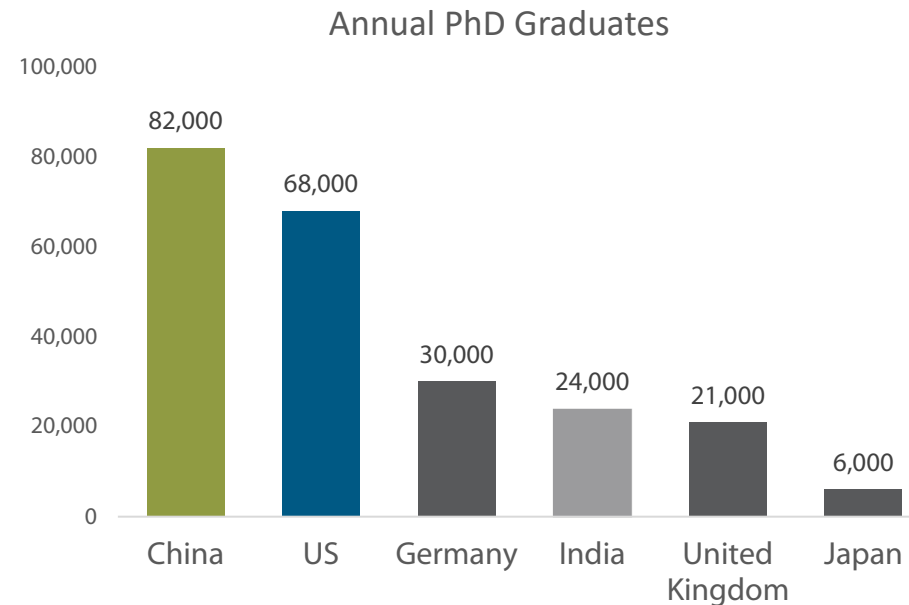
China produces 4X more STEM graduates than the US, a notable advantage in the tech arms race

- International patents filed in China surpassed applications received from the US in 2021

Annual STEM Graduates Worldwide  
By Country



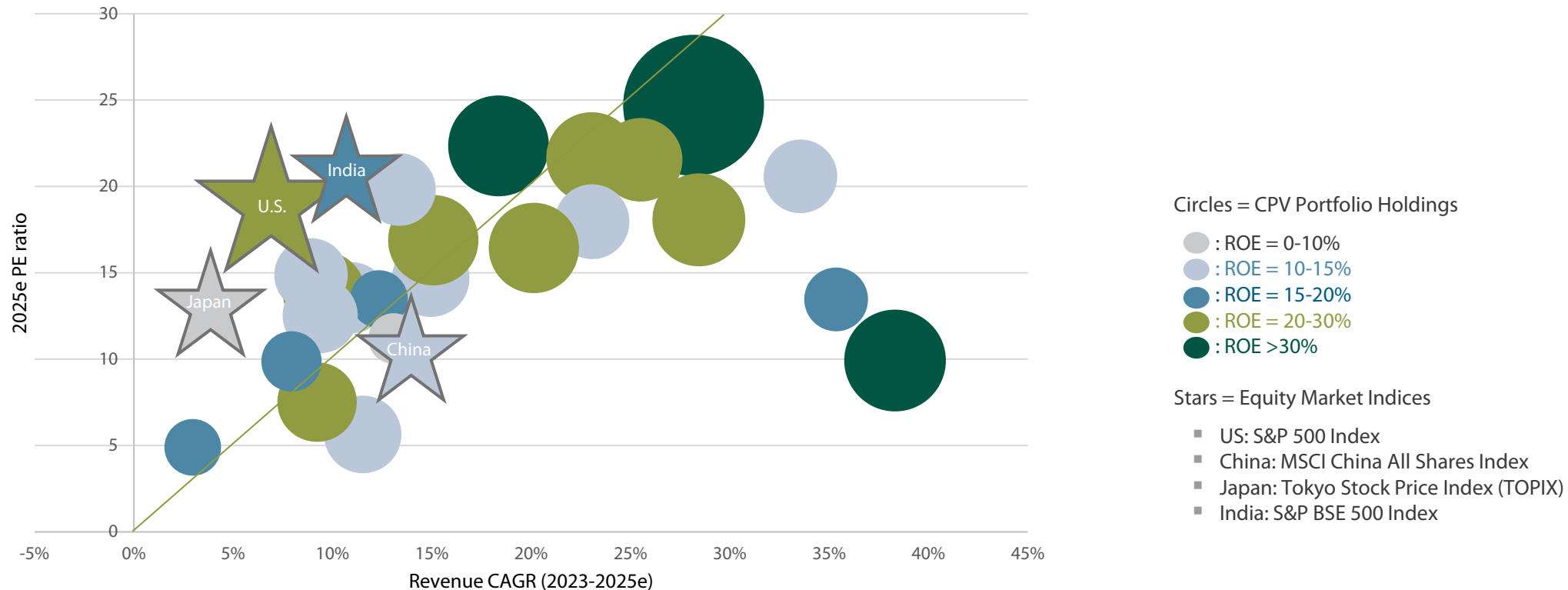
Annual Ph.D. Graduates Worldwide  
By Country



Source: OECD. As of 31 Dec 2020, the most recent data available.

# 4. Outsized Upside for Innovative Companies

China Post-Venture Strategy's estimated 2025 ROE is 20.0% compared to 14.3% for the MSCI China All Shares Index



Source: Bloomberg, Artisan Partners. P/E and revenue estimates are based on a representative account in the Artisan China Post-Venture Composite and are subject to change. Graph is for illustrative purposes only and may not include all underlying portfolio holdings.

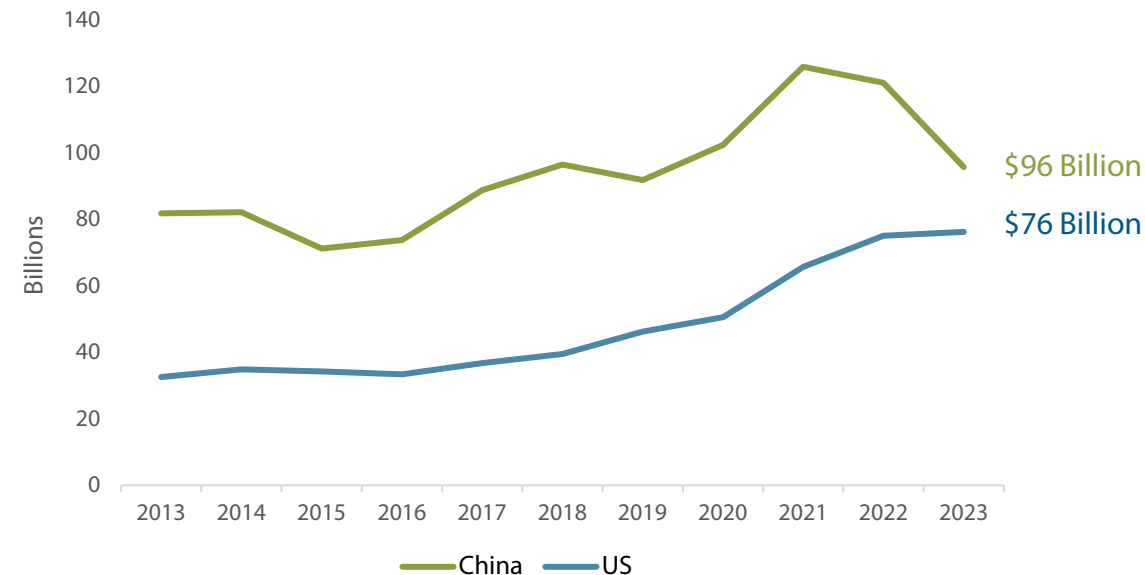
# Decoupling Play #1: Taiwan

# Taiwan: A Key Beneficiary of Decoupling

## Decoupling Trends Expand the Taiwanese Tech Industry's Addressable Market

- 92% of advanced semiconductors are made in Taiwan
- Taiwan's largest trading partners are China and the US, accounting for 22% and 17% of total trade respectively

**Taiwan's Exports to China and the US**  
10 Years Ending December 2023



Source: Taiwan International Trade Administration. As of 31 Dec 2023.



# Taiwan's Equity Market Re-Rates with AI Demand

## AI Growth Drove Record Highs for Taiwan's Stock Market

- ChatGPT's launch spurred AI tech spending of \$20 billion in 2023
- AI tech demand is expected to increase 3X in 2024

**Cumulative Total Return**  
2 Years Ending March 2024



Source: Bloomberg. Past performance does not guarantee and is not a reliable indicator of future results. For illustrative purposes only. Taiwan Semiconductor Manufacturing Co represented 8.1% of total net assets of a representative account managed within the strategy's composite as of 31 March 2024. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

Taiwan

Stock Idea:

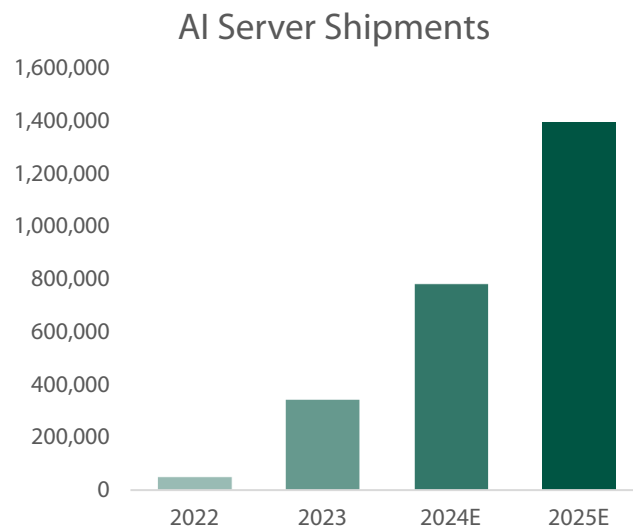
Asia Vital

Components  
(AVC)

## Critical Components for Semiconductors: Cooling Solutions

AVC is an industry leader with a vertically-integrated total solution

- **High performance computing** → > **power consumption** → > **heat generation** = > **cooling needs**
- The market for server cooling solutions is expected to grow to +\$750 million by 2025
- AVC's new product, a next-generation cooling sub-system, is expected to generate a ~4X increase in total content per rack



AVC's Tech Evolution:  
From Fans to Next Generation Liquid Cooling



Source for AI server shipments: Artisan Partners, Morgan Stanley, as of 31 Dec 2023. Asia Vital Components represented 2.1% in total net assets of a representative account managed within the strategy's composite as of 31 March 2024. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

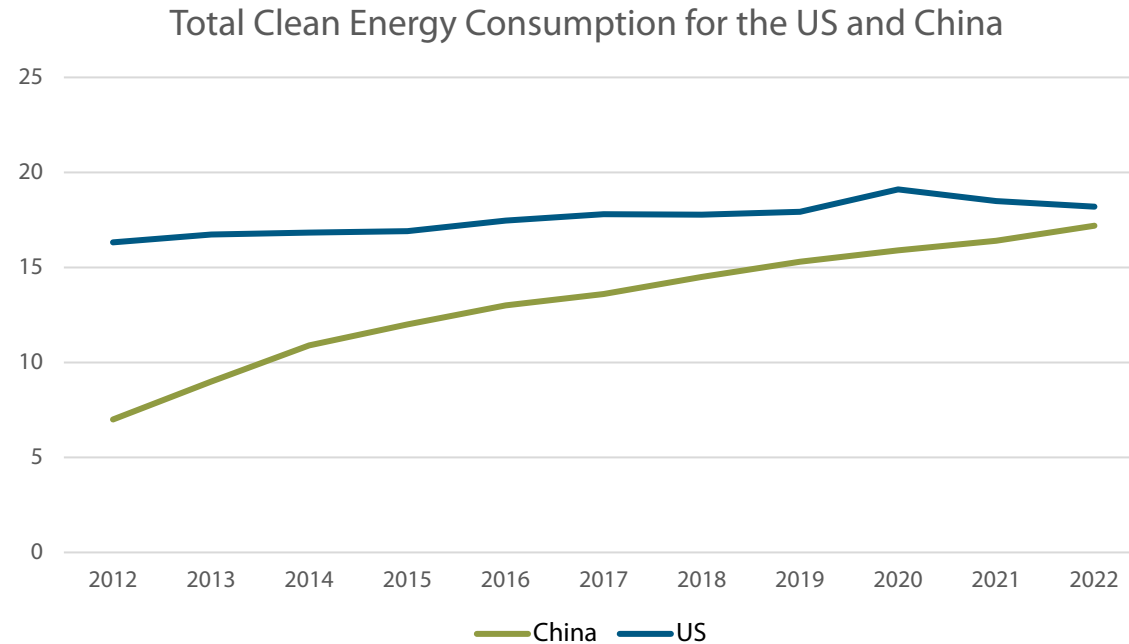
The background features a complex, abstract geometric pattern. It consists of various overlapping shapes, including triangles and polygons, in shades of blue, green, and yellow. The colors transition from dark blue on the left to light green and yellow on the right. A prominent feature is a large, semi-transparent yellow circle or arc in the lower right quadrant. The overall effect is a modern, layered, and textured background.

# Decoupling Play #2: Energy Self-Sufficiency

# The Race to Create a Self-Sufficient Energy Ecosystem

## China's Renewable Efforts are Accelerating

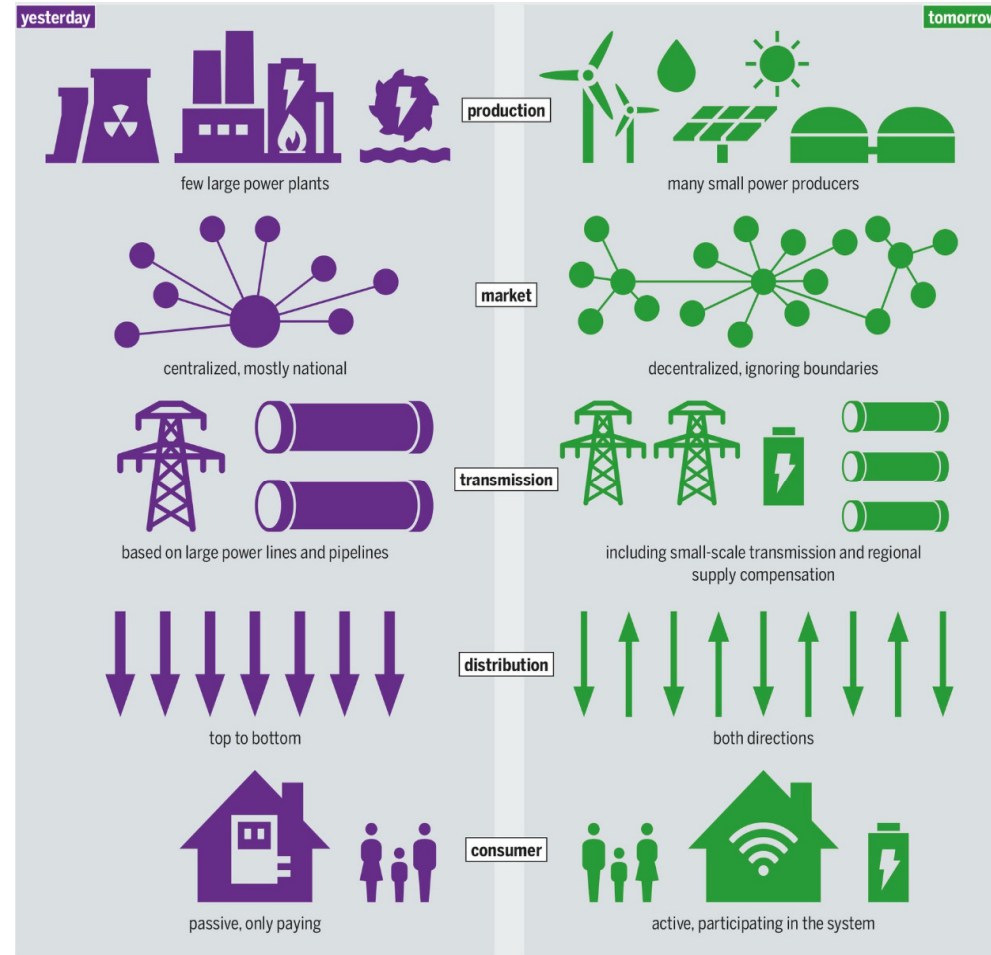
- In less than a decade clean energy usage has more than doubled in China and is now on par with the US



# A Smart and Resilient Grid is Critical for Renewable Adoption

## Transferring and Disseminating Clean Energy is Complex

- Smart grids are required to balance the intermittent power generation across decentralized geographies and across different sources of energy

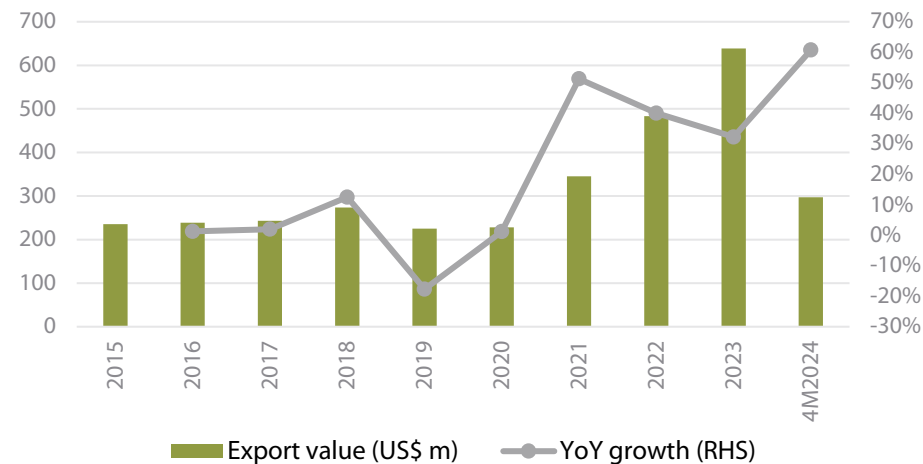


# Power Grid Capex Will Accelerate

## Global Spend on the Power Grid Market is ~\$290B; China Accounts for 31% of that Capex

- 2023 jumpstarted a multi-year upcycle for the power grid industry with growth expectations of 8% for 2023-2025
- The acceleration is driven by:
  - 1) power grid upgrade necessity amid a renewable energy penetration hike; and
  - 2) incremental demand brought on by faster electrification (EVs etc.) and the AI data center built out

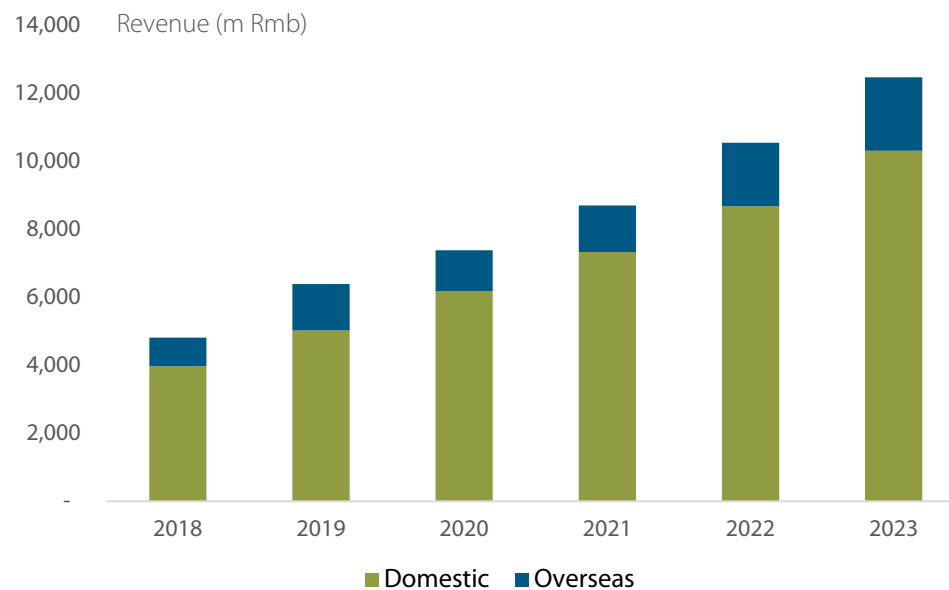
China Transformer Exports to EU have grown significantly in the past 3 years



# Energy Self- Sufficiency Stock Pick: Sieyuan Electric

## Sieyuan leads the market in smart power grid solutions

- The Company provides hardware and software solutions to power grid sub-stations
- It is the largest privately-owned grid equipment manufacturer in China and operates in over 80 countries
- >40% earnings CAGR, versus the peer group at ~5% CAGR over the same time frame
- They have expanded their product mix to cover all voltage ranges
- With plans for expansion to overseas markets, we expect Sieyuan to be a major beneficiary of the global grid's capex upcycle.



Source: Wind. Data as of 31 Dec 2023. Sieyuan Electric Co, Ltd represented 3.7% of total net assets of a representative account managed within the strategy's composite as of 31 March 2024. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

# Decoupling Play #3: Mitigating Risks









# Certain Industries Are Less Exposed to Political Risk

## Corrosive Foreign and Domestic Policy has Disrupted Chinese Industries Certain Sectors, However, Remain Relatively Insulated

- In the past 5 years, the US has taken action against over 1,000 Chinese companies in an effort to stymie their competitive progress
- The Chinese government has issued a number of far sweeping measures aimed at rooting out industry corruption

US Legislative Actions Targeting China (Total: #) Last 5 Years	
Entity List	603
SDN List	398
Non-SDN List	67
Trade Tensions & Restrictions	21
Executive Orders	6

GICS Sectors with Elevated Business Risks Due to US and China Policy Actions			
Communication Services	 	Financials	 Materials
Consumer Discretionary		Health Care	  Real Estate 
Consumer Staples		Industrials	Utilities 
Energy		Information Technology	 

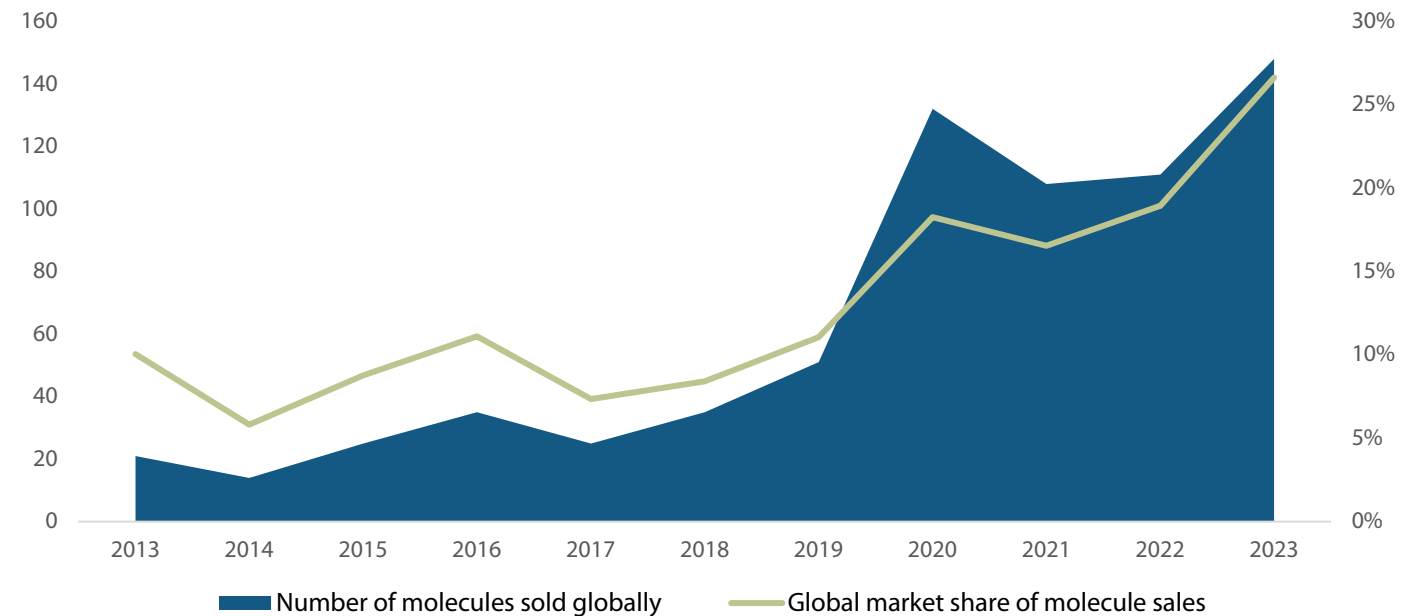
## Risk

## Mitigation by Industry: Biopharma

### Demand for World-Class Drugs Is Agnostic to Global Politics

- In 2023, Chinese biopharma companies lead deal activity globally at \$43 billion
- China's share of the biopharmaceutical market has expanded from 10% to 27% in the last 10 years

**Molecules Sold by Chinese Companies to Global Buyers**  
10 Years Ending December 2023



# Biopharma Stock Idea: Innovent Biologics

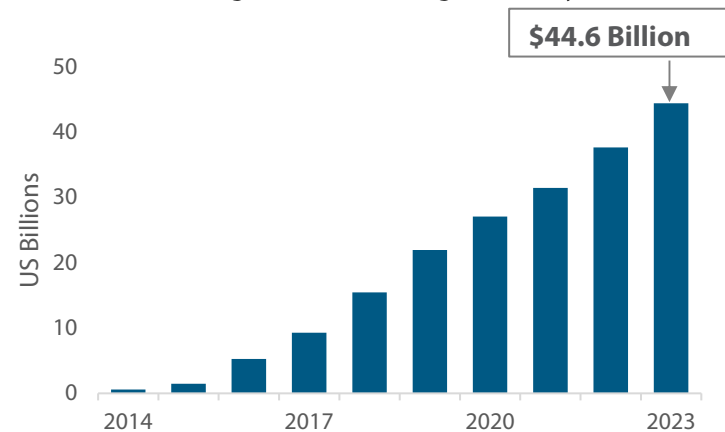
## Strong Arsenal of Proven Drugs in Diverse Product Lines

Innovent is well-positioned to Capture the GLP-1 Craze

- 2<sup>nd</sup> largest Chinese biopharma company with deep R&D and a robust pipeline
- The company's market-leading blockbuster PD-1 now generates ~\$400 million annually in China
- GLP-1 drug for weight loss and diabetes is an \$11 b market, a major anticipated catalyst for Innovent's growth

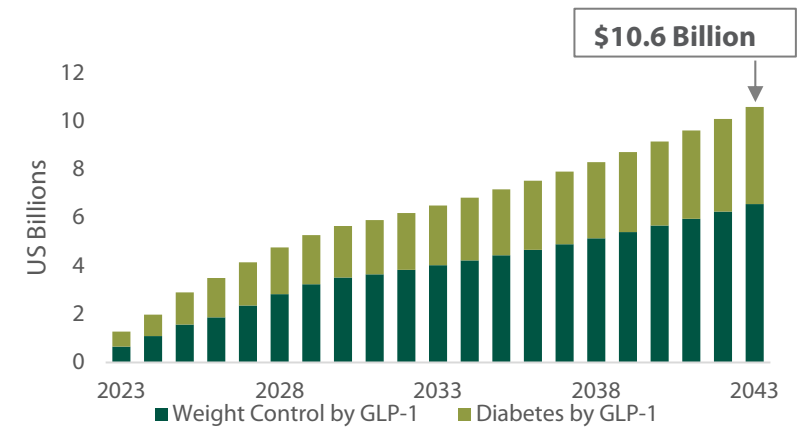
### Global PD1/L1 Market

Innovative Drugs Have a Long Runway for Growth



### China GLP-1 Market Size

China's Market Will Increase 9X in 20 Years



Source: Artisan Partners, PharmCube, as of 31 Dec 2023. Innovent Biologics represented 3.7% of total net assets of a representative account managed within the strategy's composite as of 31 March 2024. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

# Outsized Opportunities in a Decoupling World

- China's Edge in a De-globalized World
  1. Expanding Economy
  2. Large Consumer Base
  3. Oversupply of Talent
- The US-China Decoupling Playbook
  - ❑ Taiwan Stock Idea → **Asia Vital Components** || 3017 TT || \$6.3 bn market cap
  - ❑ Self-Sufficiency Stock Idea → **Sieyuan Electric** || 002028 CH || \$8.1 bn market cap
  - ❑ Mitigating Risk Stock Idea → **Innovent Biologics** || 1801 HK || \$7.5 bn market cap



Questions?

## Learn more

We invite you to learn more Tiffany Hsiao and the China Post-Venture Strategy at Artisan Partners.



Please contact us by e-mail at:  
[CPVinfo@artisanpartners.com](mailto:CPVinfo@artisanpartners.com)

# Investment Results (USD)

Average Annual Total Returns (% as of 31 Mar 2024)	YTD	1 Yr	3 Yr	Inception
Artisan China Post-Venture Composite: Gross	-1.93	-10.73	-14.90	-14.90
Artisan China Post-Venture Composite: Net	-2.42	-12.52	-16.61	-16.61
Hybrid Portfolio (up to 15% Privates): Net	-2.72	-12.28	-16.35	-16.68
Public Portfolio (0% Privates): Net	-2.35	-12.88	-16.77	-17.09
MSCI China SMID Cap Index	-5.08	-20.68	-19.17	-19.17

## Annual Returns

(%) Trailing 12 Months Ended 31 Mar	2020	2021	2022	2023	2024
Artisan China Post-Venture Composite: Net	—	—	-24.88	-11.81	-12.52

Source: Artisan Partners/MSCI. Past performance does not guarantee and is not a reliable indicator of future results. Important information on the performance calculation is described in the Notes and Disclosures section. Gross- and net-of-fees performance shown for the Composite. Returns for periods less than one year are not annualized. Investment returns and principal values will fluctuate so that an investment, when redeemed, may be worth more or less than its original cost. Each investor has the ability to opt into private investments exposure. Hybrid Portfolio and Public Portfolio illustrate a representative account's returns, allocating up to 15% or 0%, respectively, of capital to Private Investments since inception. Composite and Benchmark return inception: 1 Apr 2021.

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The MSCI China SMID Cap Index includes mid- and small-cap representation across China H shares, B shares, Red chips and P chips. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

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