



Decoding China's Common Prosperity Drive

November 2021

- Anindya Chatterjee

CIO

This document is for informational purposes and should not be considered a solicitation to buy, or to sell any security. This document is not intended to serve as an investment advice. The strategy presented here does not take into account investment objectives of any typical investor, investment horizon preferences, cashflow needs or any specific tax planning. This document is confidential and may not be copied or forwarded, in whole or in part (except to individuals within the recipient's organization), without the prior written consent of Sunbridge Capital Partners, LLC. Please refer to Important Disclosures at the end of this presentation.

President Xi's Goal on "Common Prosperity Drive"

Xi's urgency to address inequality in China is understandable

President Xi Jinping recently announced the goal to achieve "Common Prosperity" in China*. While China's meteoric economic rise since Deng Xiaoping's 1978 liberalization initiative has been unprecedented, the stark rise in China's inequality (wealth and income) can potentially threaten social stability.

The concept of "Common Prosperity" was first mentioned in the 1950s by Mao Zedong. Deng Xiaoping repeated it in the 1980s. However, the reality shows that inequality worsened considerably over the past four decades, and especially in this millennium.

Social stability is of paramount importance to Communist Party, and we would expect a slew of measures from the Chinese authorities in the coming month and years to address the problem of gaping economic inequality.

Xi pledged to make solid progress towards Common Prosperity by 2035 and to achieve the goal by 2050.

* In an August 17, 2021, speech to the CCP's Central Committee for Financial and Economic Affairs, President Xi announced his goals on "Common Prosperity drive"

Investing Amid China's "Common Prosperity Drive"

We believe that China's common prosperity drive has the potential to usher a multi-decade investment theme favoring mass consumption.

In our view, consumer staples, mass and mid-end consumer discretionary companies, restaurants, travel, consumer durables, affordable and mid-end housing are some of the sectors that can provide a universe for bottom-up stock picking in China in the years ahead.

The MSCI China Index is down 16.6% YTD as of end-October. Regulatory headwinds have made investing a challenging task for investors. Education, gaming, social media, internet/ecommerce, real estate etc. have come under pressure with adverse regulatory actions especially since June/July. Many have questioned whether China is becoming uninvestable!**

Indeed, there are regulatory and policy misstep risks to President Xi's agenda of achieving Common Prosperity.

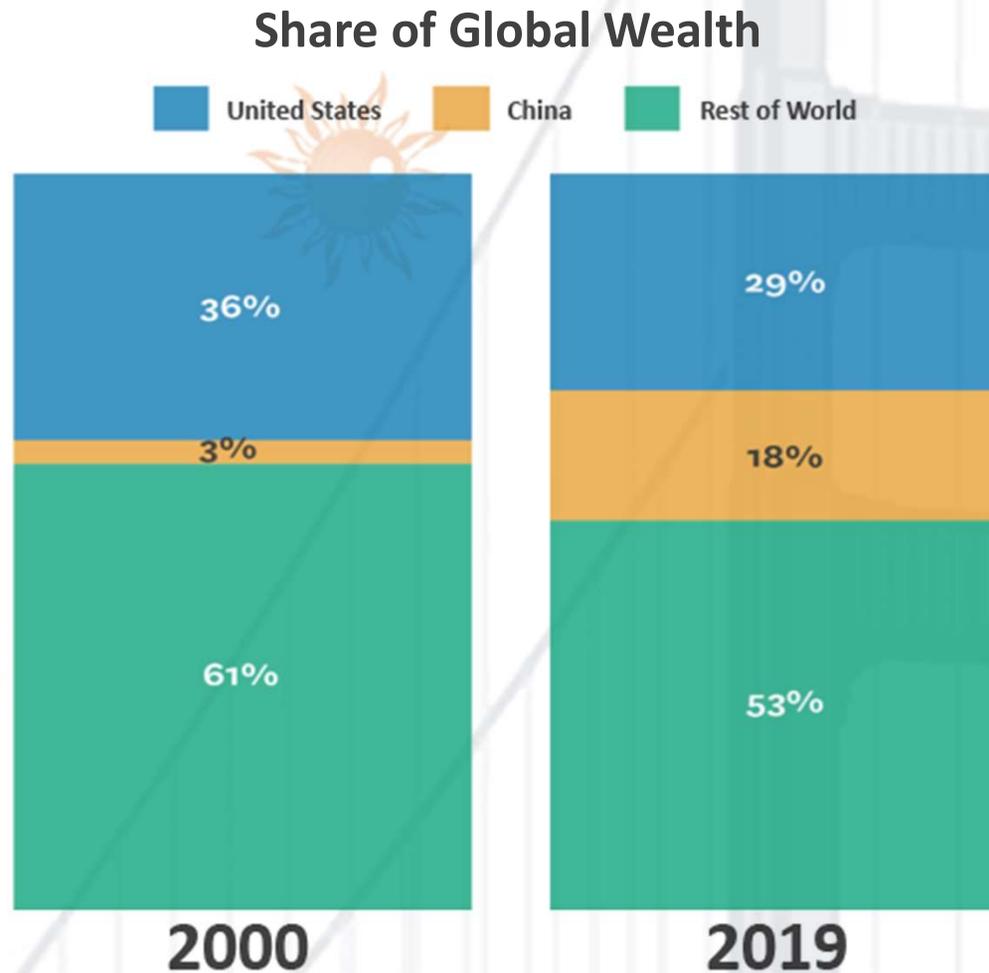
Regulatory headwinds will keep revisiting the markets as the Common Prosperity drive will invariably involve redistribution of wealth by taxing the wealthy and the profitable large corporates, and with a slew of indirect taxes on the consumption of the affluent – like luxury goods, gaming, real estate etc.

** Please refer to the Sunbridge Capital Partners 3Q2021 Quarterly Review Presentation.*

The Rise of China in this Millennium!

China is a formidable economic power.

The wealth accumulation by China far outstrips that by any other nation through this millennium. Hundreds of millions were lifted out of poverty in that process. However, social stability remains questionable as the wealth accumulation did not 'trickle down'...

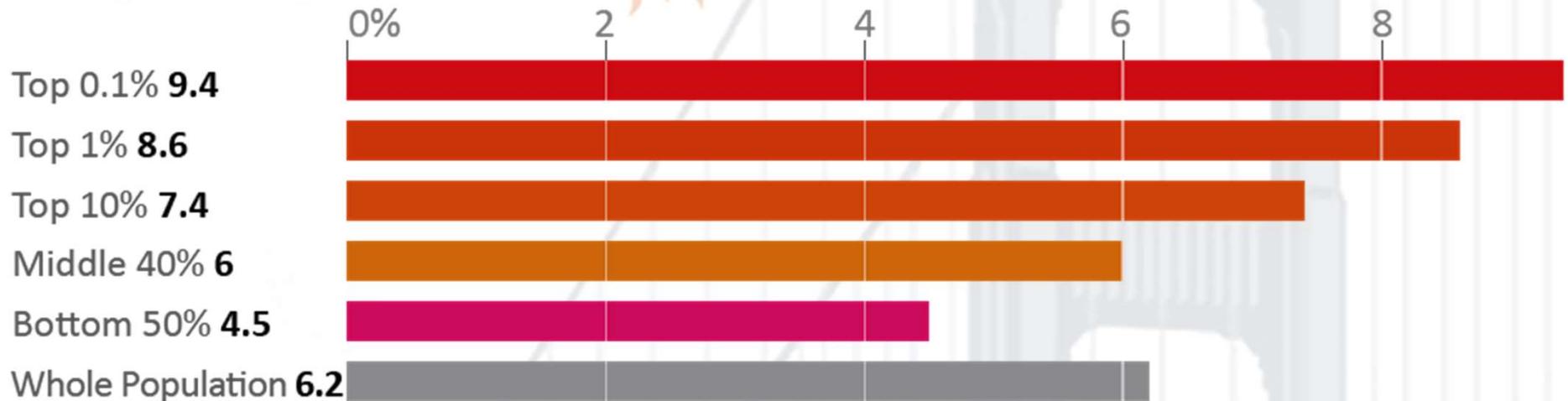


The Rich Got Richer in China ...

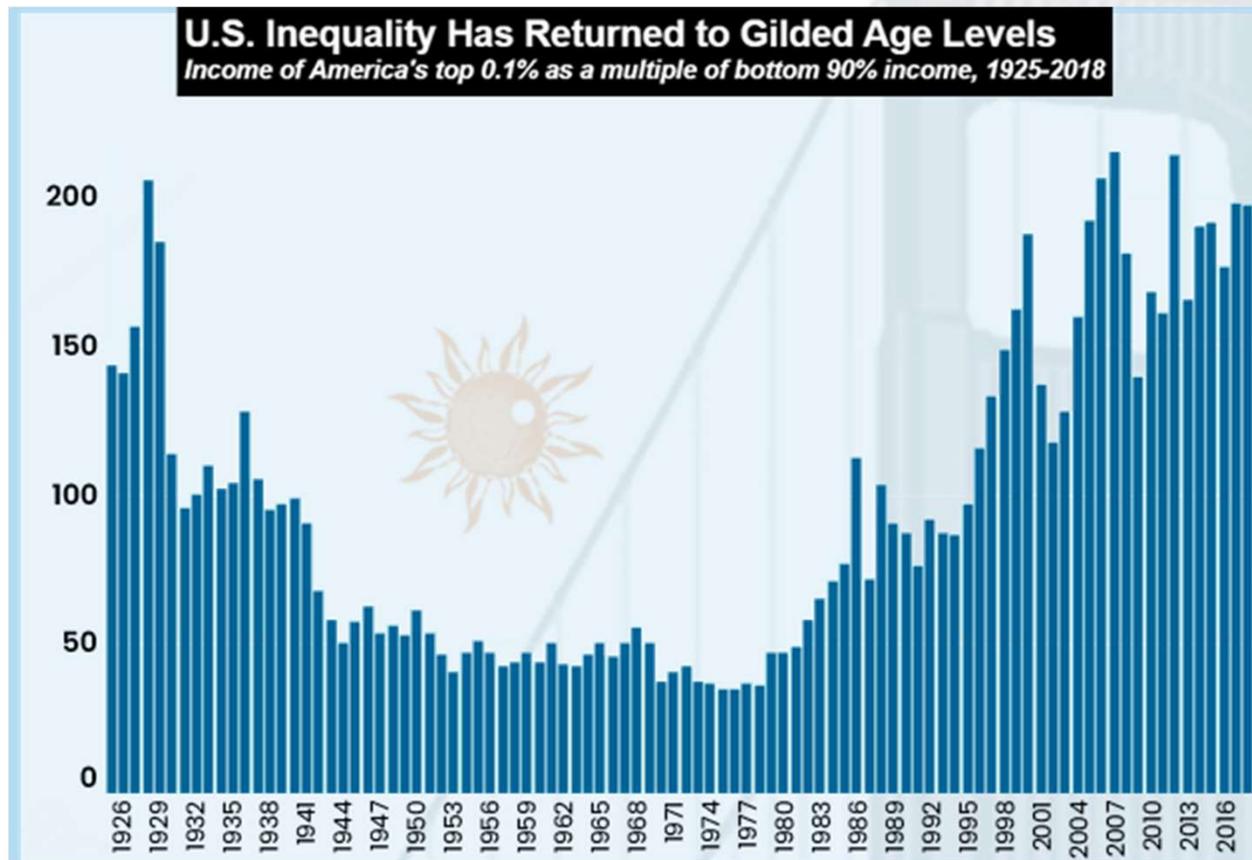
Our views are deeply influenced by an eye-opening research by Dr. Piketty et al [Capital Accumulation, Private Property, and Rising Inequality in China, 1978–2015; American Economic Review, 2019]. We believe this, and similar studies, and recent local surveys have raised the alarm bells at leadership of the Chinese Communist Party.

China's wealth gap has grown hugely over the past 40 years

Average annual growth rate 1978-2015



US Inequality is around its All Time High!

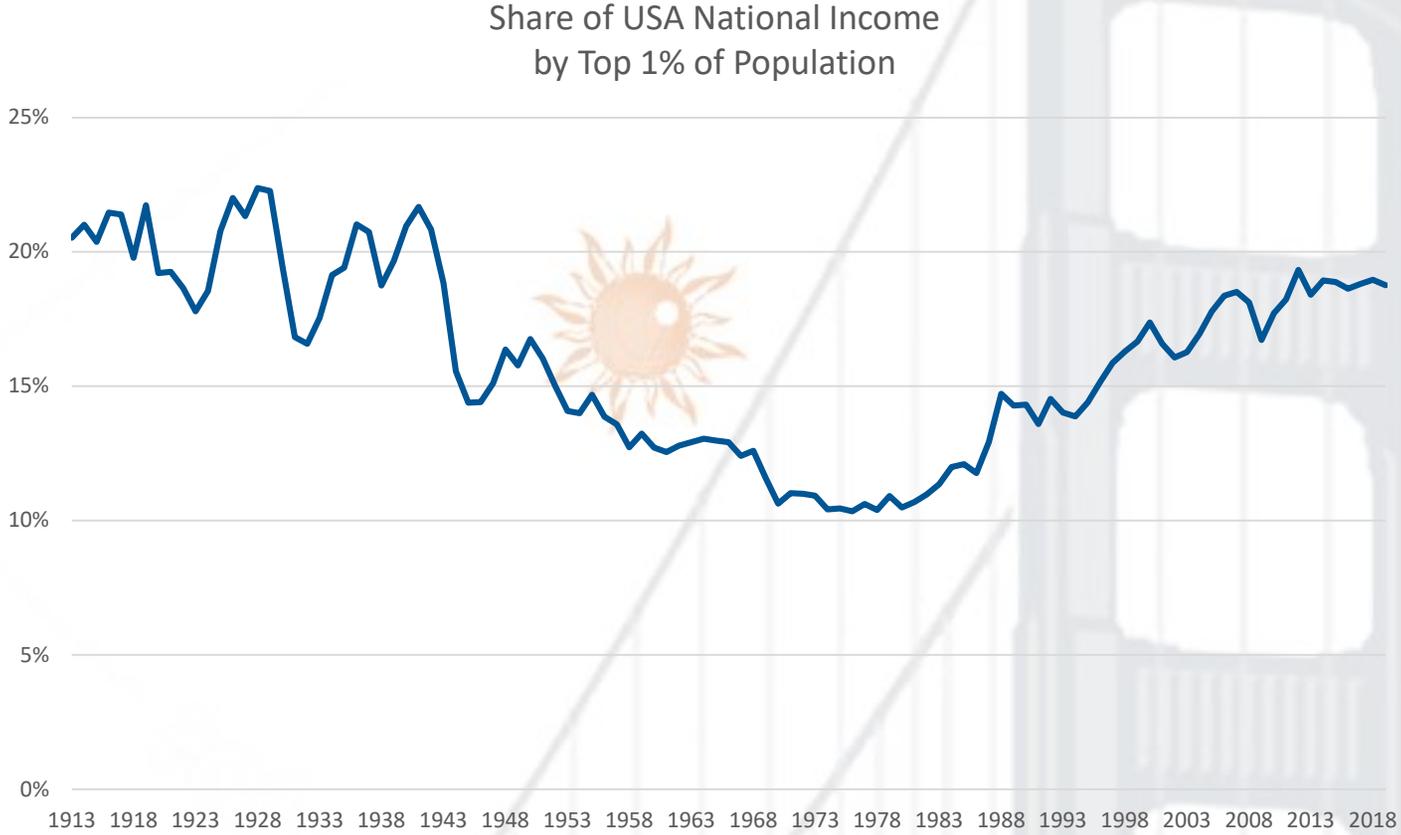


Source: UC Berkley Study

Policy initiatives aimed at reducing inequity are expected in the US as well.

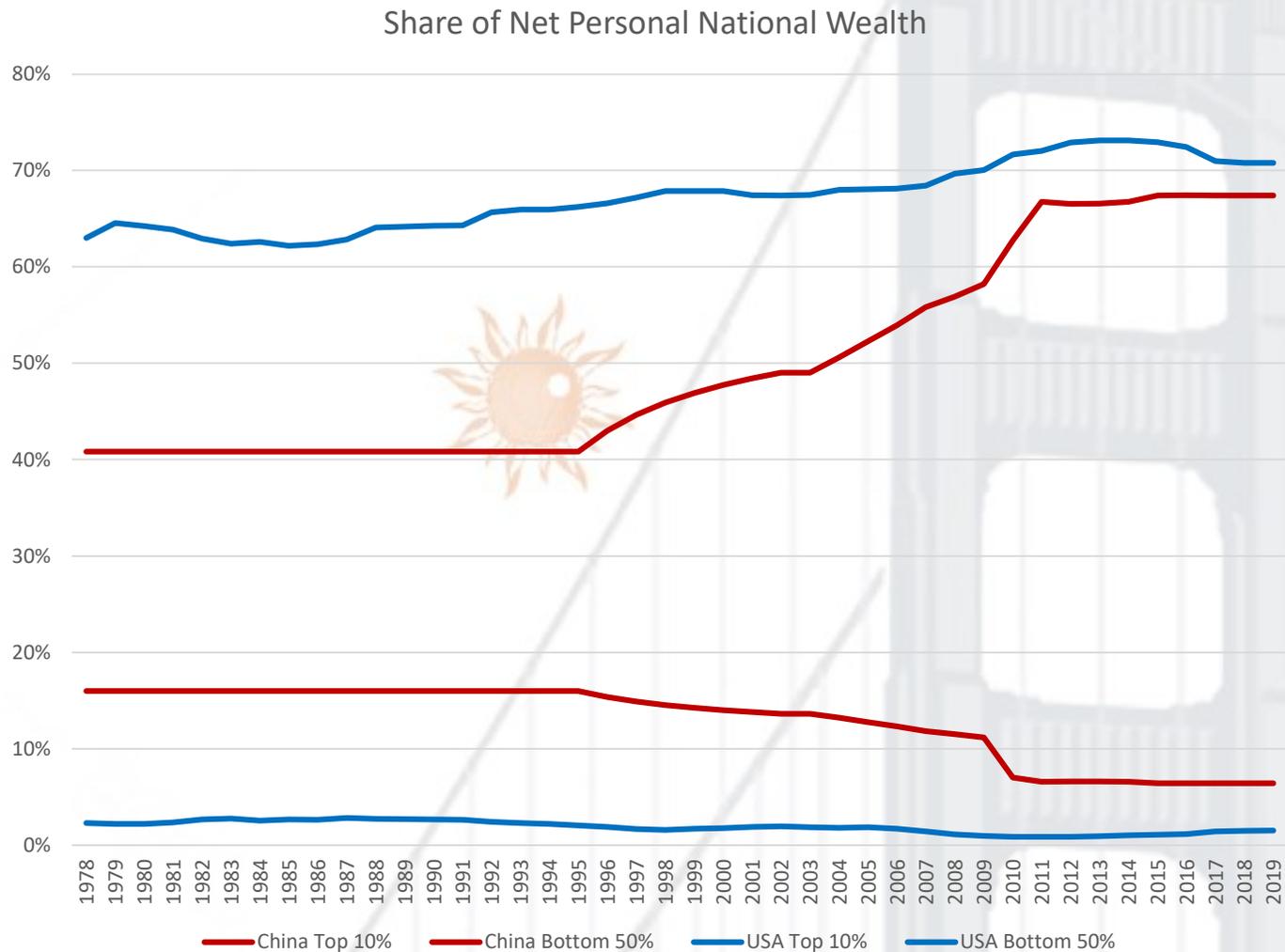
Increase in the income tax rates of high-income individuals, raise in the minimum tax rates of corporates and other income redistribution policy initiatives in the US are no surprise. The stark rise in inequality threatens social stability in the US as well.

The Rising Income Inequality in US ...



Source: World Inequality Database, 2021 (data up to end of 2019)

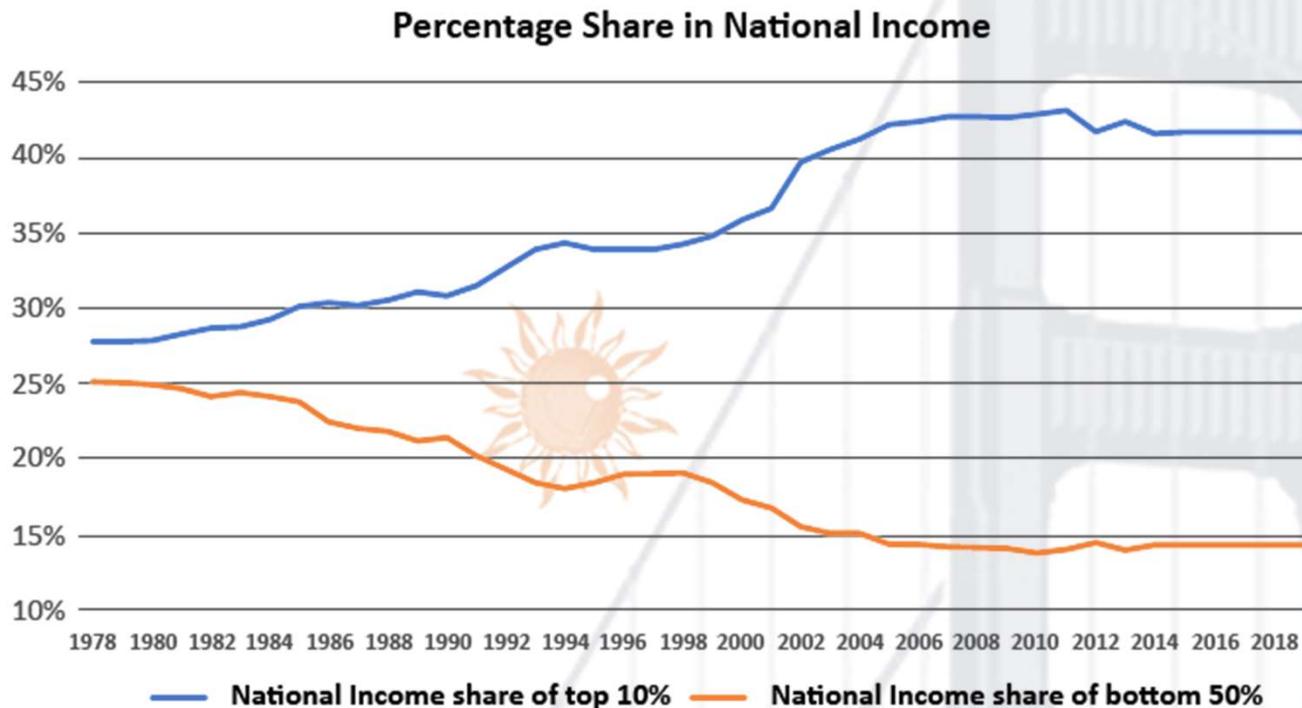
China is NO DIFFERENT!



Source: World Inequality Database, 2021 (data up to end of 2019)

The spread of wealth inequality in China is equally striking in China as in the US.

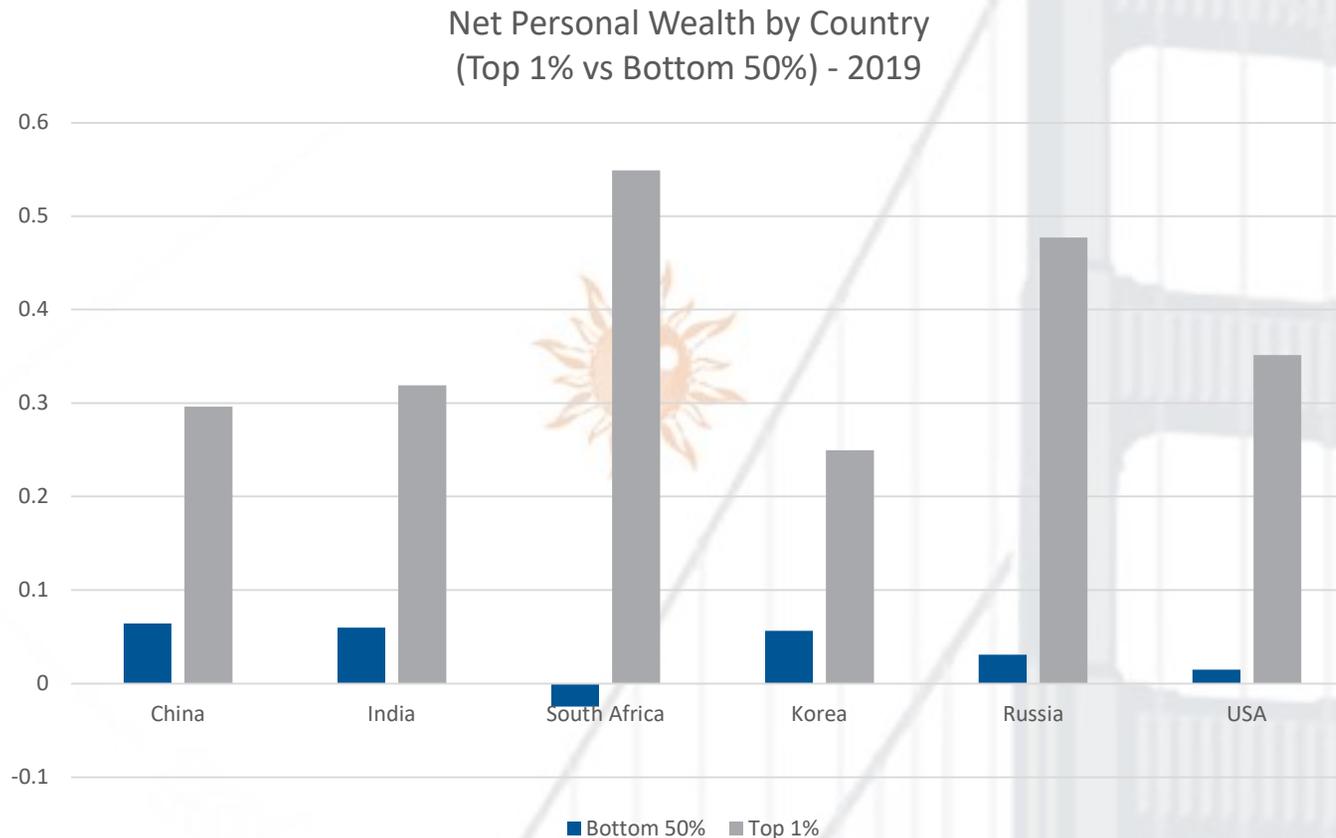
China's Widening Wedge of Inequality Threatens Social Stability



We believe income inequality in China has further worsened through Covid-19.

The policy narrative from President Xi should not come as a surprise. We believe reversing this inequality trend is at the top of the agenda of the Communist Party.

Amid Global Inequality ...



Source: World Inequality Database, 2021 (data ends in year 2019)

West or the East – Inequality is global!

Although not as extreme as the US, the bottom half of the population in China is similarly deprived of wealth accumulation.

Diminishing Transgenerational Mobility – the Poverty Trap!

The Great Gatsby Curve : high inequality tends to mean low mobility
More inequality is associated with less mobility across generations



Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," *Journal of Economic Perspectives* 27 [3]: 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> [last accessed 9/28/2018]

The need of the hour: lowering cost of living and the cost of raising a child, upward mobility. The Great Gatsby Curve indicates that China's socio-economic barriers to move up the economic ladder and high inequality combination comes as no surprise. Policy initiatives are needed to reverse the trend in inequality and to facilitate transgenerational earnings mobility.

Recent Regulatory Moves in China

Chronology of Recent Policy Initiatives

While regulations in China related to Technology, Internet platforms and Education received most attention; there are a broad range of sectors impacted by these regulatory changes.

Date	Policy summary	Sectors Impacted
Aug-20	Three red lines regulation for property developers	Real Estate
Sep-20	President Xi Jinping announced a pledge to make China carbon neutral in 40 years.	Energy
Jul-21	China allows third child and provides incentives for childcare.	All Sectors
Jul-21	Strict regulation on after school tutoring industry that effectively turns them into non-profits.	Education
Jul-21	Regulation to change incentive algorithms and provide minimum wages + insurance to gig workers.	Restaurants, Online
Jul-21	New laws on data privacy and data safety.	Online operation for various
Jul-21	Control land premium in centralized land auction	Real Estate
Aug-21	State Media's Comments of online gaming as "Mental Opium"	Online Gaming
Aug-21	President Xi Jinping makes Zhijiang a testbed for common prosperity. Announces quantitative policy targets that include GDP/capita, urban-rural wage gap etc.	Consumer
Sep-21	Macau government launched a public consultation from September 15 to October 29 on a proposed amendment to the current gaming law	Macau Gaming
Sep-21	Tighter controls on coal mining and industries consuming high energy.	Energy
Oct-21	National People's Congress, China's parliament, announced it approved the rollout of a pilot property tax in certain regions of the country.	Multiple Sectors

Source: Jefferies, Chinese government websites, Chinese government media including Xinhua and People's Daily

References

https://wid.world/world/#sptinc_p90p100_z/US;FR;DE;CN;ZA;GB;WO/last/eu/k/p/yearly/s/false/23.469/80/curve/false/country

[Capital Accumulation, Private Property, and Rising Inequality in China, 1978–2015 - American Economic Association \(aeaweb.org\)](#)

[Income Inequality, Equality of Opportunity, and Intergenerational Mobility \(aeaweb.org\)](#)

<https://www.newstatesman.com/world/2021/08/china-s-income-inequality-among-world-s-worst>

<https://www.bloomberg.com/news/features/2019-05-23/the-wealth-detective-who-finds-the-hidden-money-of-the-super-rich>

https://www.scmp.com/economy/global-economy/article/3123891/chinas-two-sessions-wealth-inequality-poses-threat-beijings?module=perpetual_scroll&pgtype=article&campaign=3123891

<https://www.reuters.com/world/china/what-is-chinas-common-prosperity-drive-why-does-it-matter-2021-09-02/>

<https://china.usc.edu/wealth-inequality-us-and-china>

<https://www.theguardian.com/world/2021/jul/01/xi-jinping-gap-between-rich-and-poor-poses-biggest-threat-to-china>

<https://time.com/6095560/china-common-prosperity/>

<https://nymag.com/intelligencer/2018/07/oecd-study-labor-conditions-confirms-that-u-s-workers-are-getting-ripped-off.html>

Important Disclosures

GENERAL DISCLOSURES

This presentation is privileged and confidential and it is intended solely for the use of the person to whom it has been delivered (or persons within the recipient's organization) for the purpose of evaluating Sunbridge Capital Partners, LLC's business and is not to be reproduced or distributed to any other persons (other than persons in the recipient's organization) without the prior written consent of Sunbridge Capital Partners, LLC ("Sunbridge Capital"). This presentation is not a complete summary of the terms of the investment management services offered by Sunbridge Capital and is qualified in its entirety by, and must be read in conjunction with, more detailed information regarding Sunbridge Capital, including Part 1 of its Form ADV and the prospectus of the Sunbridge Capital Emerging Markets Fund (the "Fund").

Any opinions expressed in this presentation may be subject to change without notice. Although statements of fact and data contained in this presentation have been obtained from, and are based upon, sources that Sunbridge Capital believes to be reliable, Sunbridge Capital does not guarantee their accuracy, and any such information may be incomplete or condensed. No representation is made that the information contained herein is accurate or complete, and it may not be relied upon as such.

This presentation does not constitute tax, accounting, or legal advice and that the audience should retain their own tax, accounting, or legal adviser regarding such contexts.

Investments in emerging markets securities should be made only by informed and qualified investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such securities, and have the financial resources necessary to bear the substantial risk of loss of investment in such instruments.

The Sunbridge Capital Emerging Markets Fund is distributed by IMST Distributors, LLC.. Sunbridge Capital Partners is the advisor to the Sunbridge Capital Emerging Markets Fund.

PERFORMANCE AND FEES

Past performance is not indicative of future results. Inherent in any investment is the potential for loss. Charts and graphs herein are provided as illustrations only and are not meant to be guarantees of any return.

ABOUT SUNBRIDGE CAPITAL PARTNERS, LLC

Sunbridge Capital is a Registered investment Adviser with the U.S. Securities and Exchange Commission (the "SEC").*

*Registration with the SEC does not imply a certain level of skill or training.

Important Disclosures

FORWARD-LOOKING STATEMENTS

Certain information contained in this document may constitute “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend” “continue,” or “believe” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Fund may differ materially from those reflected or contemplated in such forward- looking statements.

These statements may include statements regarding the intent, belief or current expectations of Sunbridge Capital Partners with respect to, among other things: (i) the diversification of the portfolio; (ii) the ability to identify investment opportunities; and (iii) the performance of various investments.

FUND RISK DISCLOSURE

Mutual Fund Investing involves risk; Principal loss is possible. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. Investments in or exposure to foreign securities involve certain risks not associated with investments in or exposure to securities of U.S. companies. Foreign securities subject the Fund to the risks associated with investing in the country of an issuer, including the political, regulator, economic, social, diplomatic and other conditions or events occurring in the country or region, as well as risks associated with less developed custody and settlement practices. Foreign securities may be ore volatile and less liquid than securities of U.S. companies and are subject to the risks associated with potential imposition of economic and other sanctions against a particular foreign country, its nationals, or industries or businesses within the country. Because the Fund may invest in a limited number of companies, the Fund as a while is subject to greater risk of loss if any of those securities decline in price. The Fund is non-diversified, which generally means that it will invest a greater percentage of its total assets in the securities of fewer issuers than a “diversified” fund. This increases the risk that a change in the value of any one investment held by the Fund could affect the overall value of the Fund more than it would affect that of a diversified fund holding a greater number of investments. Accordingly, the Fund’s value will likely be more volatile than the value of a more diversified fund.

The Fund’s investment objectives, risk, chargers, and expenses must be considered carefully before investing. The prospectus contains this and other important information and by be obtained by visiting www.sunbridgecapitalpartners.com or by calling +1 (877) 771-7721. Read it carefully before investing.