

Lapis China Brands 40 Dividend Yield Index

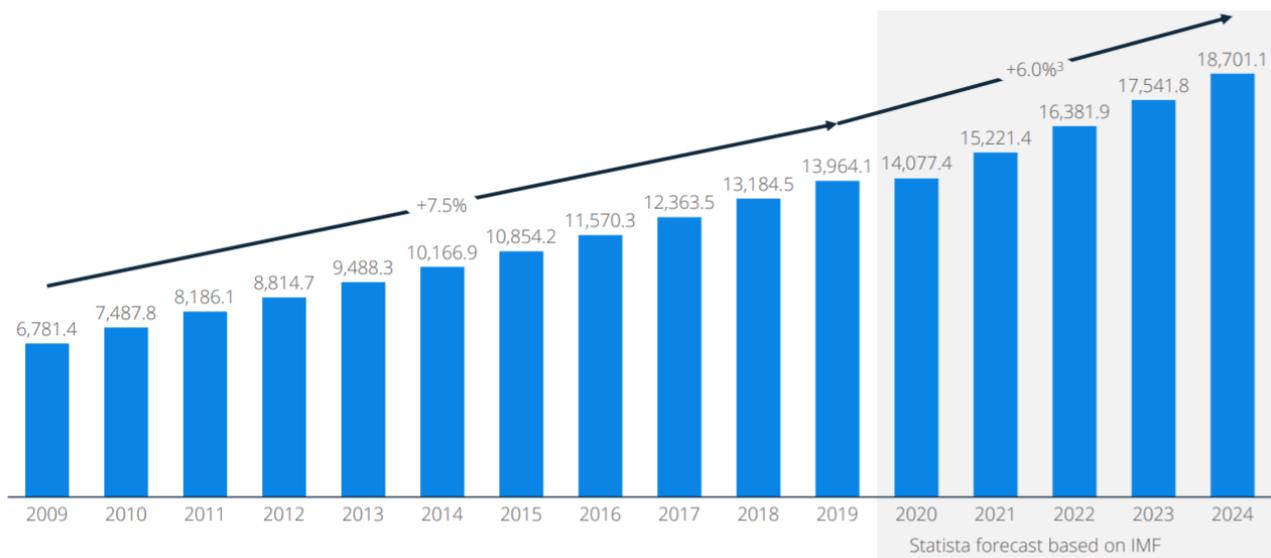


China – The Economic and Technical Superpower

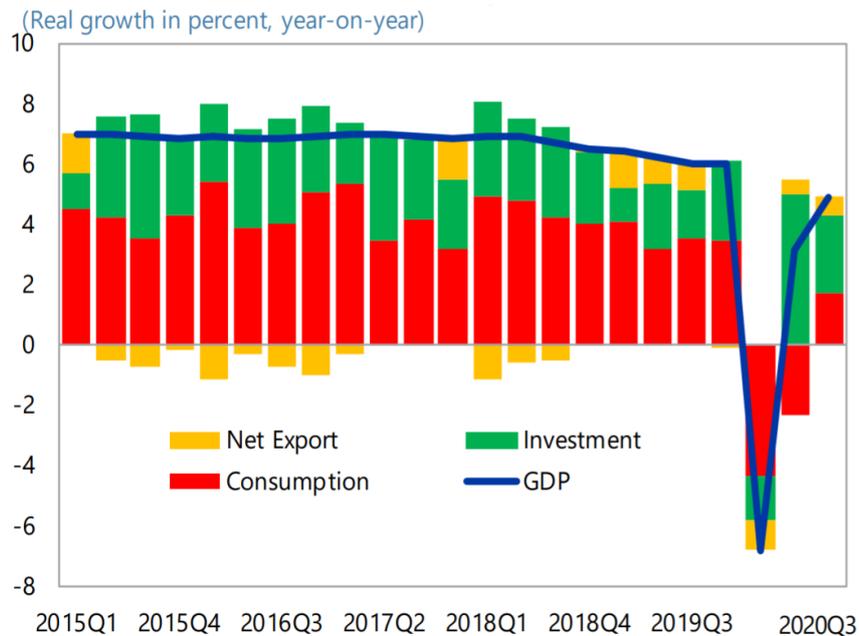
Introduction

The economy of the **People's Republic of China** is a mixed **socialist market economy** which is composed of state-owned enterprises and domestic and foreign private businesses and uses **economic planning**. China achieved substantial growth since the implementation of **market reforms** and the **opening in foreign trade and investments** in **1978**. Today, China became one of the world's **fastest growing economies** with an **average GDP growth rate of 7.5%** between 2009 and 2019. These impressive growth rates will be slightly reduced to an average growth rate of 6% in the coming years due to ongoing economic prosperity. In a few years, China is **expected to replace the United States** as the **world's largest economy**. With **1.4 billion inhabitants**, China is already the **most populous** country in the world, with the **most millionaires and billionaires** apart from the United States. The following chart visualizes **China's GDP** as well as its historical and expected **economic growth rates**:

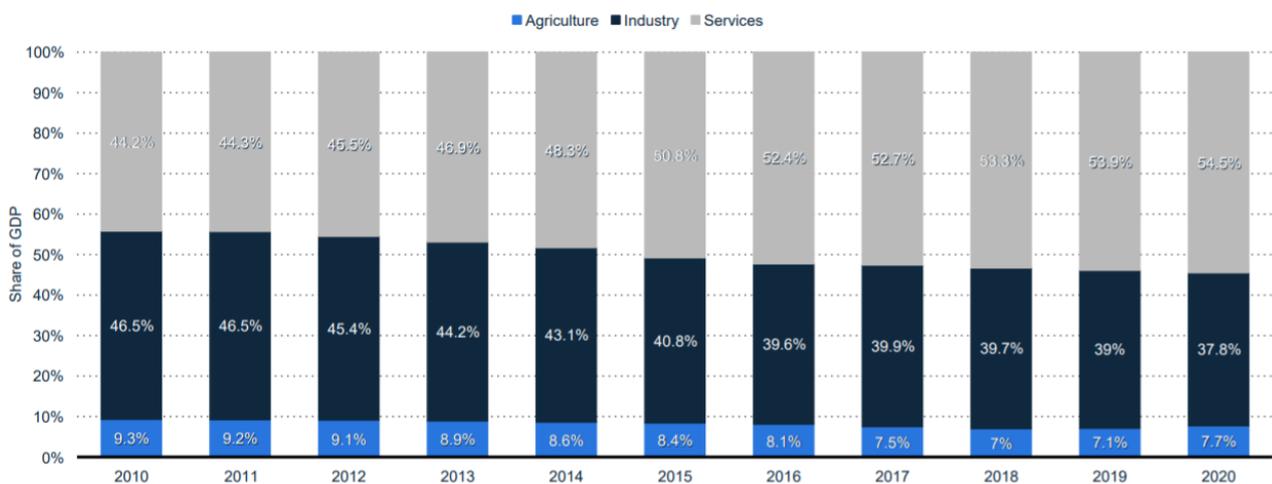
Real GDP¹ in billion US\$²



The Chinese economy, like all countries in the world, was hit hard by the **Covid-19 pandemic**, but has **quickly recovered** and returned to its **previous growth path**. The following chart shows the **economic slump** at the end of Q1 2020 and the development of the relevant **components of GDP** (source: IMF):



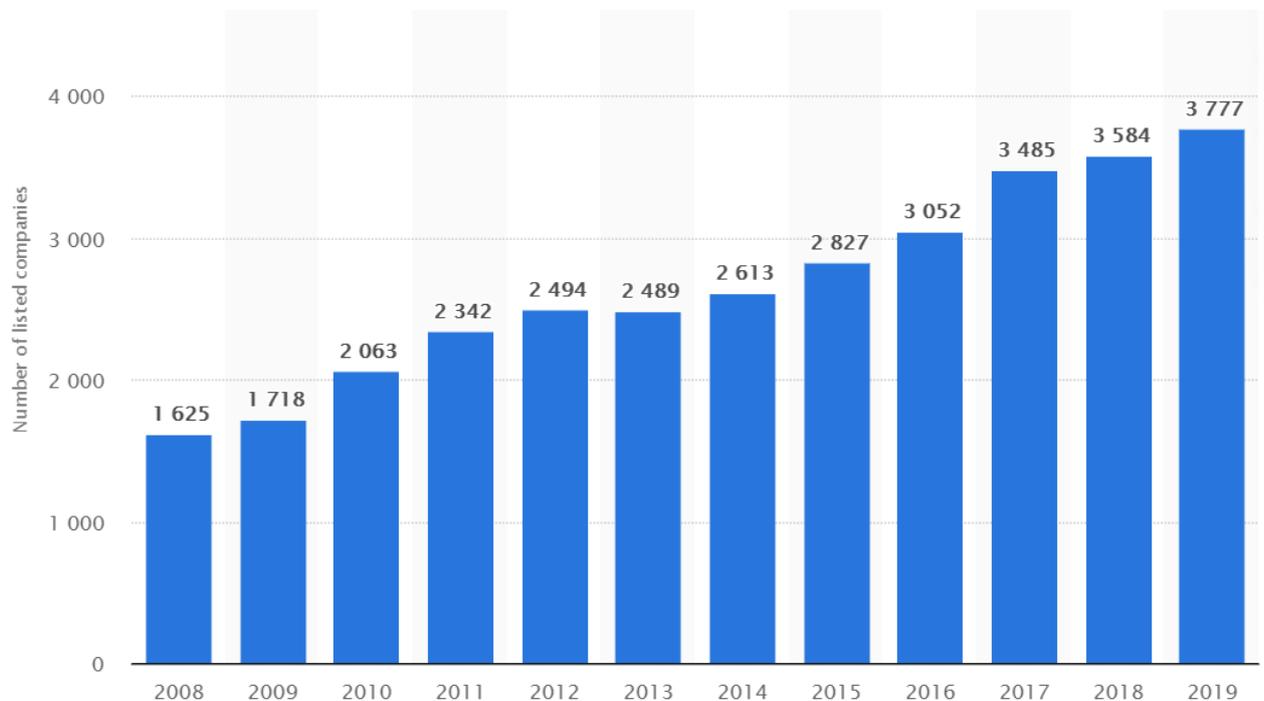
With increasing economic development, there has also been a **shift** from the **primary and secondary sector** (agriculture and industry) to the **tertiary sector** (services). China is more and more moving **away from low-salary production** of clothes and shoes to **increasingly sophisticated production** of computers, mobile phones, pharmaceuticals, and automobiles. **Shenzhen's** economic development, for example, has already led to the city being referred to as the **next Silicon Valley**. China today is reasonably called a great **technical and economic superpower**. The following chart visualizes the **dynamics of the economic sectors** in China over the last few years (source: Statista):



To ensure **economic growth** in the **long term**, China has been bundling various projects in connection with the development and expansion of **intercontinental trade and infrastructure networks** under the title «**Belt and Road Initiative**» (BRI) since 2013. The BRI Initiative is basically a continuation of the **historic Silk Road on a larger scale**. The focus lies on countries in Asia, East Africa, Eastern Europe, the Middle East, and Russia. The associated economic prosperity should ultimately also have a **positive impact** on the **Chinese stock market**.

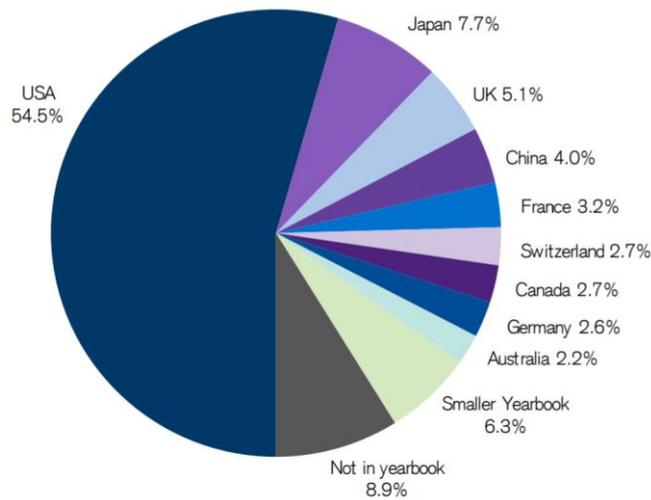
Market Overview

The **Chinese equity market** consists of **about 4000 stocks** which are listed at the **two stock exchanges** (Shanghai Stock Exchange & Shenzhen Stock Exchange). The following chart shows the development of the **number of listed shares** on the two Chinese stock exchanges on the mainland (source: Statista):

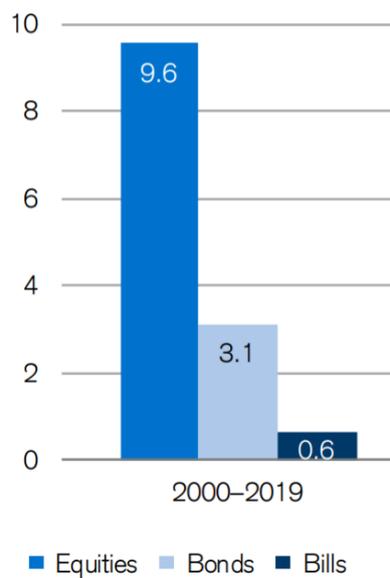


As of the end of 2020, the **market capitalization** on the two exchanges amounted to **around USD 10 trillion**. A-shares and B-shares are traded on these two stock exchanges. The **A-shares** are listed in **local currency** and can only be traded by **Chinese investors** or **professional foreign investors** with a **special license**. In contrast, **B-shares** are traded in **foreign currency** and are **open to anyone** to invest. However, since investment restrictions on A-shares have been relaxed, the B-share class has become increasingly illiquid. In addition, there is the **Hong Kong Stock Exchange**, which provides **international investors** with simplified access to the Chinese stock market. On the Hong Kong Stock Exchange, so-called **H-shares** are traded in **Hong Kong dollars (HKD)** in a **relatively liquid** way.

On a global level, the **Chinese stock market accounts for 4%** of total market capitalization, lagging far behind the United States stock market. The following chart illustrates the **global breakdown of market capitalizations** (source: Credit Suisse, 2020):



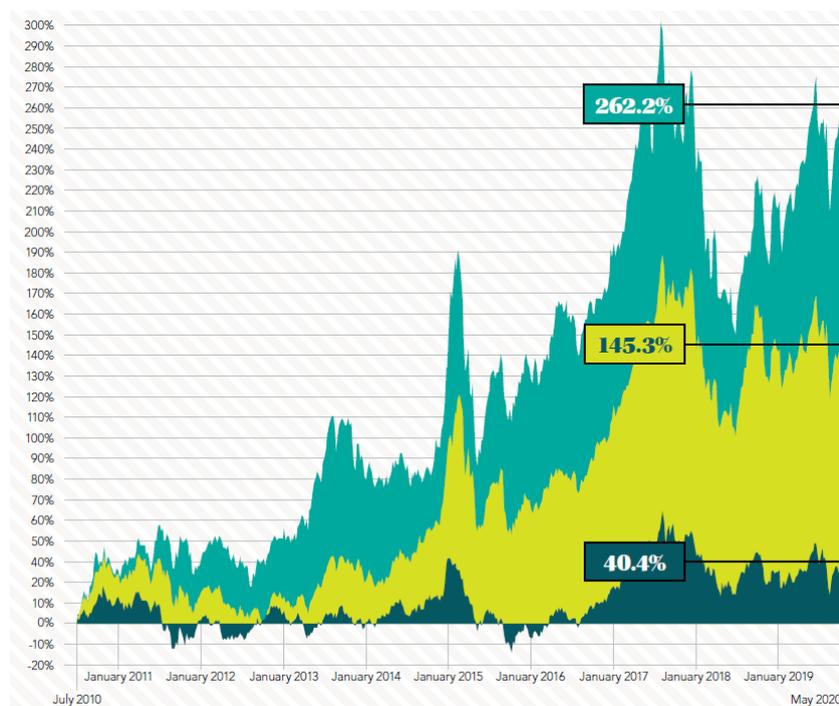
The **average annualized real returns** of various Chinese asset classes for the period from 2000 to 2019 were as follows (source: Credit Suisse, 2020):



Due to the **continued expected economic growth**, the Chinese stock market proves to be an **attractive opportunity** for international investors in the **long term**. This raises the question of **how to select the most promising Chinese stocks**. We believe that focusing on **well-known and successful companies with a high brand value** is a good starting point. When selecting stocks, we rely on a well-known international agency that publishes a list with the **Top 100 Most Valuable Brands in China** every year. In line with our **rule-based approach**, we apply our **proven selection criteria** to determine our unique **Lapis China Brands 40 Dividend Yield Index**. The following chart shows the **top 10 Chinese companies with the highest brand value** (source: BrandZ, 2020):



The chart below compares the **performance of Chinese equity strategies** from July 2010 to May 2020. The following total returns were achieved: Selected Chinese stocks with the **highest brand value contribution** according to the ranking of BrandZ (**262.2%**), all Chinese stocks from the **top 100 brand value ranking** of BrandZ (**145.3%**) and the broad equity index **MSCI China** (**40.4%**).



Lapis China Brands 40 Dividend Yield Index

The **Lapis China Brands 40 Dividend Yield Index** is composed of the **40** best-known **Chinese brands** based on an internationally recognized ranking. 40% of the covered companies have paid **uninterrupted and continuously increasing dividends** over the last 3 years. In contrast, a maximum of 60% of the companies included in our unique equity index do not apply a strict dividend payment policy and have paid their regular dividends for less than 3 years. Our **rule-based criteria** for selecting the most **promising companies** are applied during the **quarterly rebalancing process** (end of January, April, July, and October). The Lapis China Brands 40 Dividend Yield Index allows for a focused investment in **well-established and successful Chinese companies** with the **highest brand values**. These companies will benefit most from the ongoing impressive **economic growth rates of China** on its way to becoming the **world's largest economy**.

We offer our existing customers and prospects the following access to our unique **Lapis China Brands 40 Dividend Yield Index**:

- **Mandates** (segregated accounts)
- **Lapis funds** (not yet available) or **white-label financial products**
- **Certificates** or other **index-based financial products**

We would welcome the opportunity to explain the advantages of our attractive equity indices in a **personal advisory meeting** to determine a **long-term and optimal investment strategy** that matches your risk profile, and which is able to **meet your investment goals**. Additional information on the **performance** and relevant **financial ratios** of our unique equity indices will be provided upon request. For further information please visit our website: **www.lapis.finance**.

Sincerely,

Andreas Wueger, CEO

Disclaimer

This brochure is for general information purposes only and does not constitute, nor is intended to constitute, an offer to buy or an encouragement to sell any financial products or a source of financial, legal or tax advice.