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Investing for a
world of change

Notes from the road: visible champions and invisible leaders



The graphic is a postcard with a light beige background. On the left, there is a faint map of East Asia. A red dot on the map is labeled "People's Republic of China" in red text. To the right of the map, the word "POSTCARD" is written in large, black, uppercase letters. Further right, there is a circular postmark and a postage stamp depicting a traditional Chinese pagoda. Below the map and postmark, there is a list of three bullet points. At the bottom right, the name "Deirdre Cooper" is written in a cursive script, with her title "Head of Sustainable Equity" in a smaller, sans-serif font below it.

POSTCARD

People's Republic of China ●

- A research trip to China has reinforced that the energy transition and intelligent economy are accelerating and investable.
- Market leaders are getting stronger, with scale, innovation and improving industry dynamics supporting returns.
- Relatively unknown companies control value-chain bottlenecks, offering underappreciated exposure to electrification and automation.

Deirdre Cooper
Head of Sustainable Equity



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Deirdre is the Head of Sustainable Equity at Ninety One. Deirdre is a leading voice in understanding and committing to sustainable investing, particularly investment to address and combat climate change. Ninety

One's Global Environment Strategy, which she co-manages, invests in companies enabling the transition to a low-carbon economy to capture the structural growth driven by decarbonization.

I have just returned from two weeks in southern China — one week at a conference in Hong Kong meeting companies, and one travelling by high-speed rail from Shenzhen through Ningde to Xiamen, visiting showrooms, factories and the companies at the heart of China's electric and intelligent economy.

The high-speed train from Hong Kong to Shenzhen takes 15 minutes. My colleague and I ordered food from Meituan, the 'super-app' retail platform, to be delivered to a train stop, and it arrived at our seats without a hitch. You step off the train and into an autonomous car. Your coffee is delivered by drone.

Almost every car on the road is a Chinese-made electric vehicle (EV); imported combustion-engine vehicles are an endangered species. In hotels in tier three and four cities, lobby robots deliver room service, taking in deliveries from riders on electric two-wheelers.

If arriving in Shenzhen 10 years ago felt like entering the workshop of the world, today it feels like a visit to the future.

The visible champions

During our trip, we spent time with companies that have become global household names in the autonomous electric value chain. You could call these the 'visible champions' of China's electric revolution.

BYD

BYD ("Build Your Dreams") is the world's largest manufacturer of plug-in EVs, among other products. We were impressed by its product line-up, which included a car with a drone embedded in the roof, and another with a refrigerator and a bottle warmer built in.

The EV sector in China continues to be a tough environment. Markets have tended to dismiss as slow-moving or ineffective China's anti-involution policy (government attempts to reduce destructive price competition in strategic sectors). We challenge that view. The anti-involution mechanism is not dramatic and the timeline is not immediate. But the policy is working, just at its own pace. In automotive, BYD is not cutting prices, and payment terms across the supply chain are improving.

For investors in Chinese industrials and technology, this matters, because the anti-involution policy is changing the competitive dynamics, margin trajectories and capital returns of companies that survive the consolidation. Almost by definition, these are the strongest operators with the deepest technological moats.

Contemporary Ampere Technology Co. (CATL)

CATL produces batteries for EVs and energy storage systems. If BYD impressed us with the breadth of its product line, CATL blew us away with the depth of its competitive advantage. Battery production lines that produced 2-3 GWh five years ago now produce about 20 GWh. Yet capital expenditure and headcount per line have decreased significantly, while the energy density of CATL's products has continued to climb. The driving range on a CATL-powered EV is now more than 1,000km.

Today, the most powerful structural growth driver for the company is energy storage, driven by the world's increasing demand for power. Energy-hungry AI datacentres are the headline story, but electrification more broadly and persistent grid weakness in many markets are generating a large portion of energy-storage demand. Power shortages in some parts of the world are acute. As we sat at breakfast one morning, someone approached our table to offer us a diesel generator — apparently assuming that any foreign visitor in that part of China must be in the market for power equipment.

Further in the future, the higher-margin opportunity may be robotics. Humanoid robots are still mostly performative, but this market is developing rapidly, partly by leveraging the 'world models' — AI systems trained to understand physics — that autonomous vehicle companies have developed at enormous cost. The energy-dense, high-quality batteries robots require play directly to CATL's strengths, and the company expects to capture over 60% of the market for batteries for humanoid robots. CATL supplied the batteries for the eight fastest robots in the Beijing robot half-marathon, footage of which appeared on news screens in every city we visited.

The invisible leaders

Alongside the household names, we visited companies that almost nobody outside China has heard of, yet which hold market shares often well above 50% in their niches. These ‘invisible leaders’ are quietly supplying the infrastructure of the electric and intelligent economy.

Fuyao Glass is the dominant supplier of automotive glass globally, with a manufacturing scale and quality consistency that has proven very difficult to replicate.

Xiamen Faratronic is the leading producer of thin-film capacitors, a critical component in any power-electronics system, from EVs to grid storage to industrial drives.

Hongfa Technology is a world leader in relays, the humble switching components without which no electrical system functions. China controls much of this supply chain, and Hongfa is at its core.

These companies do not feature in most international equity portfolios, but they sit at chokepoints in value chains that the world increasingly depends on.

Looking ahead

Two weeks in southern China left us more convinced than ever that the energy transition and the intelligent economy are real, accelerating and creating compelling investment opportunities. Some of them are in the companies everyone knows. But others lie among the quiet leaders that most international investors are yet to discover.

As we saw in Shenzhen, an electrified, intelligent future is arriving at pace. It is just not evenly distributed yet.

General risks. The value of investments, and any income generated from them, can fall as well as rise. Costs and charges will reduce the current and future value of investments. Where charges are taken from capital, this may constrain future growth. Past performance does not predict future returns. If any currency differs from the investor’s home currency, returns may increase or decrease as a result of currency fluctuations. Investment objectives may not necessarily be achieved; losses may be made. Target returns are hypothetical returns and do not represent actual performance. Actual returns may differ significantly. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

Specific risks. **Equity investment:** The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. **Emerging market (inc. China):** These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

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