PICTET

PICTET WEALTH MANAGEMENT

China: Fear of systemic risks and equity outlook

Near-term risk is overblown, but equities are weighed down by growth concerns

04 SEPTEMBER 2023, CIO OFFICE & MACRO RESEARCH

AUTHORS

DONG CHEN
dochen@pictet.com

LING CHEN
lichen@pictet.com

JULIEN HOLTZ
jholtz@pictet.com

FLASH NOTE

SUMMARY

- In recent weeks, missed debt repayments by another major property developer and one of the largest shadow-banking institutions have triggered fears of systemic financial risks in China.
- In our view, however, such concerns are overblown due to the Chinese banking sector's limited direct exposure to property developers and the relatively small (and shrinking) size of shadow banking activities.
- In response, the authorities have taken action to alleviate the acute liquidity stress in parts of the private sector and at some local governments.
- While we do not expect a financial meltdown, the property slump will likely cost the Chinese economy in terms of long-term growth potential, primarily because of a sharp slowdown in investment.
- Sentiment towards Chinese equities is undoubtedly depressed. Despite low valuations (10x and 11.7x forward P/Es respectively for offshore and onshore stocks), which look even more stretched on a sector-adjusted basis, investors are clearly not queuing to pile into Chinese stocks.
- The earnings picture, too, remains unappealing, as expectations for profit growth this year of almost 20% remain too high, and revisions steadily negative, particularly in USD terms.
- While the overall picture is grim, bearishness around Chinese equities may have reached a local peak and we therefore are refraining from cutting our exposure. But we have adjusted downward our year-end target for the MSCI China to HKD65, expecting a slight re-rating of forward earnings (12-month P/E ratio at 10.5x from 11.0x previously) and high single-digit earnings growth.

For illustrative purposes. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. There can be no assurance that these projections, forecasts or expected returns will be achieved. The projection is not based on simulated past performance.

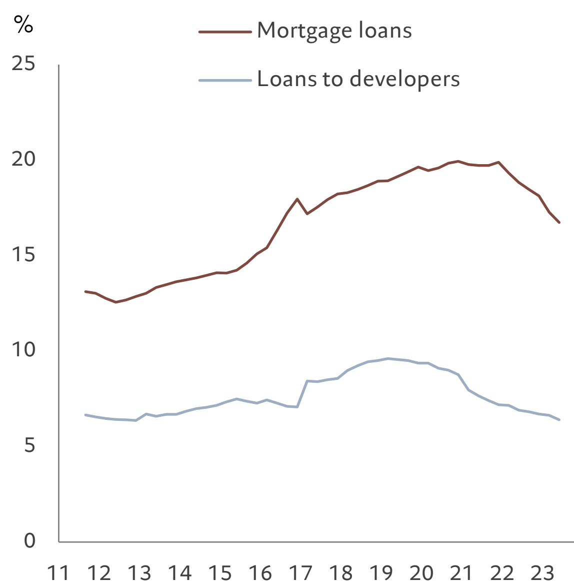
THE PROPERTY SLUMP IS UNLIKELY TO DRAG DOWN THE BANKING SECTOR

After a short-lived rebound in the property sales earlier this year, the housing downturn in China continues. The sharp fall in housing sales and their growing difficulty in accessing credit have pushed many privately-owned developers into deep financial distress. In H1 2023, funds available to private developers contracted by 9.8%, following a contraction of 29.5% in 2022. The combination of weak sales revenues and the loss of refinancing capabilities has led many property firms to default or negotiate repayment extensions since the start of 2022.

On 6 August, Country Garden, which used to be the largest property developer in China, missed two offshore bond repayments. Only days after, Zhongrong Trust (ZRT), a shadow-banking institution owned by Zhongzhi Enterprise Group—one of the largest private wealth management companies in China with more than RMB1trn (USD137 bn) of assets under management—reportedly missed payments to its investors due to its products' wide exposure to property developers. These events raised the fear of systemic financial risks in China.

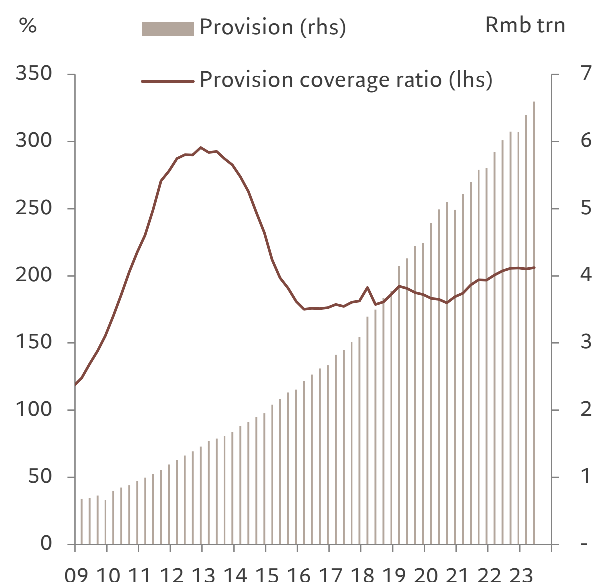
The ongoing property woes certainly pose a major challenge to Chinese growth. However, we believe the current market concerns of a near-term financial meltdown likely are overblown, as China's formal banking sector, which accounts for the bulk of the financial system, is still fairly sound, despite the property slump.

Chart 1A: Property loans as % of Chinese banks' loan book (by type)



Source: Pictet Wealth Management, PBoC, Wind, August 2023.

Chart 1B: Non-performing loans provisions and provision coverage ratio of Chinese commercial banks



Source: Pictet Wealth Management, PBoC, Wind, August 2023.

This may sound counterintuitive given Chinese banks' significant exposure to the property sector. The Chinese banking sector's total property loans (mortgages plus development loans) amounted to RMB54 trn in Q2 2023, accounting for 23% of the sector's total loan book. But 72% of such loans (RMB39 trn) are mortgages, which are still considered high-quality assets with an average non-performing loan (NPL)

For illustrative purposes. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. There can be no assurance that these projections, forecasts or expected returns will be achieved. The projection is not based on simulated past performance.

ratio below 0.8% in Q2, thanks to the very high down-payment requirement in China (typically 30% for first-time buyers and over 50% for purchases of more than one property).[1] While the NPL ratio for mortgages will likely edge up given softness in the jobs market, the high down-payment buffer will limit the damage.

What is riskier is banks' exposure to property developers, which amounted to RMB15 trn as of 30 June, 2023. But this represents only 6.4% of the banking sector's total loan book (Chart 1A). In addition, the asset quality of banks' developer loans arguably is much higher than the average of all developer credit due to tightened regulations in recent years aimed at limiting banks' risk exposure to this sector. Only the most solid developers with high-quality collaterals are eligible for bank credit. According to our bank analyst's estimate, the total potential credit loss by Chinese banks related to property developers could amount to around RMB1.8 trn over the coming years. If we also include construction loans (which accounts for another 2% of banks' loan book), the total credit loss could amount to RMB2 trn and could push banks' overall NPL ratio higher by 1.0 percentage point. While this could impact banks' future profits, commercial banks' total NPL provisions of about RMB6.6 trn mean such losses should not be a major concern for banks' balance sheet.

CONTAINED SYSTEMIC RISKS FROM THE SHADOW BANKING SECTOR

As the liquidity strains faced by the property developers spread across the economy, the shadow banking sector was also hit hard (mainly the trust companies), with a rising number missing payment to their investors (including the aforementioned ZRT case). At an aggregate level, however, we see limited systemic financial risk related to the shadow banking sector for two main reasons.

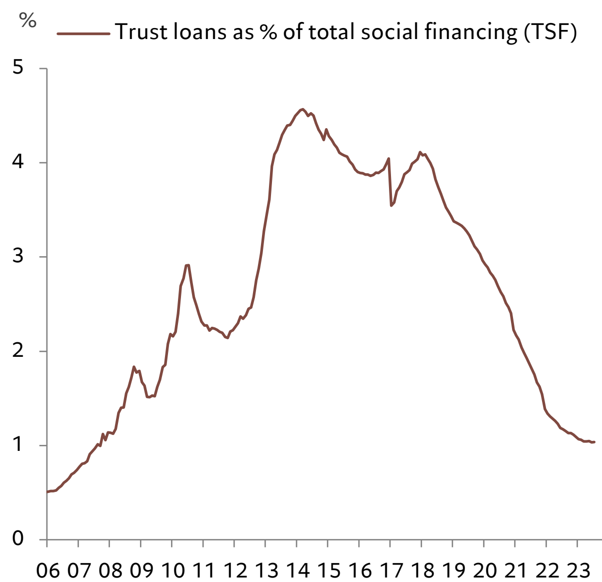
(1) Relative to the overall financial system in China, the shadow banking sector is small and has been shrinking. According to the China Trustee Association, the total assets under management (AUM) by trust companies in China declined from the peak of RMB26 trn in 2017 to RMB21trn in 2022. Outstanding loans extended by trust companies dropped from a peak of RMB8.5 trn in early 2018 to RMB3.8 trn in July 2023, representing only 1.0% of China's aggregate credit (Chart 2A).

(2) More importantly, following years of tightened regulations, the connections between the formal banking sector and shadow banking are limited. The absolute amount of trust loans started to decline in 2017 as the authorities cracked down on shadow-banking activities and forced banks to cut back their exposure to non-bank financial institutions (Chart 2B). In addition, a new set of regulations on asset management was introduced in 2018 and fully phased in by 2022 that helped limit the complexity and leverage of asset management products offered by both banks and shadow banking institutions. These regulations have helped reduce potential contagion risks.

[1] On 1 September, the Chinese authorities lowered the down payment ratio for first-time buyers to 20% from 30% in order to boost property demand. Existing mortgage loans are not affected by this policy change.

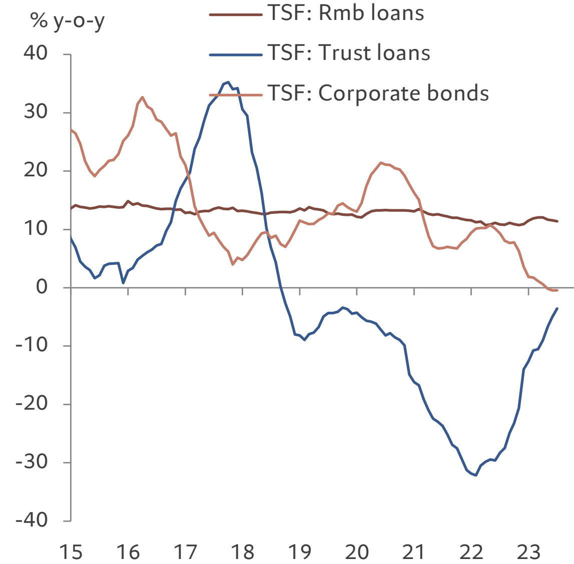
For illustrative purposes. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. There can be no assurance that these projections, forecasts or expected returns will be achieved. The projection is not based on simulated past performance.

Chart 2A: Trust loans as a % of TSF balance



Source: Pictet Wealth Management, PBoC, Wind, August 2023

Chart 2B: Growth in TSF by selected category



Source: Pictet Wealth Management, PBoC, Wind, August 2023

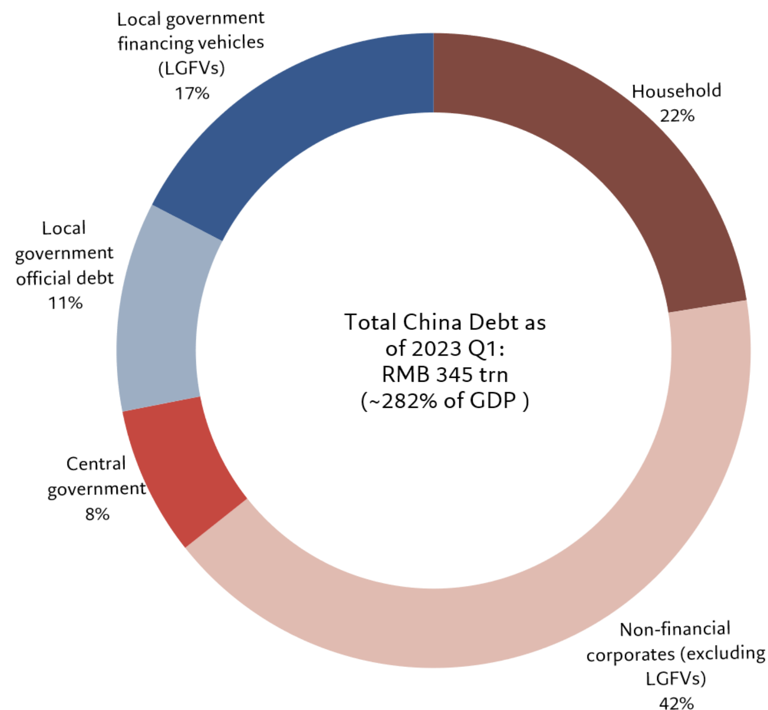
LOCAL GOVERNMENT DEBT RESTRUCTURING HAS STARTED

The current property slump has also caused considerable damage to local governments' finances, especially as land sales have plummeted. The loss in revenue, combined with extraordinary government expenditures during the pandemic, means local government debt has ballooned even further. According to our estimate, in Q1 2023, local governments' total debt amounted to RMB96.8 trn, up from around RMB61.3 trn in 2019. This is equivalent to 79.1% of China' GDP, up from 62.1%. According to our estimates, of the total amount, 38% (RMB36.8 trn) was in the form of local government bonds, while the rest 62% (RMB60 trn) is linked to so-called local government financing vehicles (LGFVs), companies created by local governments to obtain financing.

While no LGFV has defaulted on its debt so far, last-minute debt payments by some of them in recent months demonstrated the financial distress faced their local government owners. Given the mounting debt repayment pressures, the central government has taken increasingly decisive actions. Following the call for a comprehensive debt restructuring plan at the July Politburo meeting, the central government is reported to have approved RMB1.5 trn of special financing bonds to address the most acute liquidity stress at some local governments, according to a Caixin report. We believe this marks the beginning of a multi-year debt restructuring process. In our view, the central government ultimately will have to use its own balance sheet to help absorb part of the local government debt, given that it alone still has ample room for additional leverage (Chart 3).

For illustrative purposes. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. There can be no assurance that these projections, forecasts or expected returns will be achieved. The projection is not based on simulated past performance.

Chart 3: Breakdown of Chinese debt by sector



Source: Pictet Wealth Management, Wind, PBoC, as of 29.08.2023

NEAR-TERM RISK IS OVERBLOWN, BUT LONG-TERM GROWTH MAY SUFFER

Although we argue that near-term *systemic risks* in the Chinese financial system are low, this does not mean the on-going property slump is not causing pain.

For now, the brunt of the financial fallout is being borne by offshore property bond holders, onshore investors who purchased trust products that missed repayment, tens of thousands of suppliers for property developers but didn't get paid, and home buyers who have pre-paid for an apartment but are still waiting for the completion and actual delivery of their home. All these factors are dragging on economic activity, both production and consumption, and weighing on people's confidence about the future.

On a longer time horizon, the cost will likely accelerate the decline in China's growth potential. The property sector's hard landing means that a two-decade long construction boom likely is over. Looking forward, not only will property investment likely stay at a much lower level than before, various public spending and infrastructure investments that have usually gone hand-in-hand with the property boom probably will slow down as well.

The expected deceleration in fixed-asset investment, combined with other headwinds such as deteriorating demographics and de-globalisation, have led us to revise down our long-term growth expectations for China earlier this year (see the 2023 edition of our *Horizon* publication). After the post-covid rebound, we now expect China to grow by about 4% in the next few years (80-90bps lower than our

For illustrative purposes. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. There can be no assurance that these projections, forecasts or expected returns will be achieved. The projection is not based on simulated past performance.

previous forecast in 2022) and we believe China's annual growth potential may decline to 3.7% in 10 years' time.

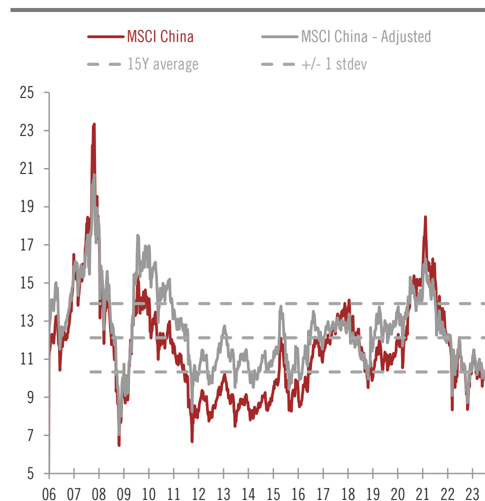
NO SHORTAGE OF WORRIES FOR EQUITY INVESTORS

As often in the past few years, making a call on Chinese equities feels more like divination than prediction. As market direction hinges on policy decisions taken behind closed doors and through circumvoluted decision processes, it has become ever harder to predict where the Chinese market will go next. From the US/China trade war and threats of US delistings for US-listed Chinese firms, to a two-year crackdown on the local tech industry and China's zero-covid policy, there has been no shortage of politically induced corrections in recent years.

In addition, a number of domestic issues, including the real estate crisis, are depressing sentiment towards Chinese assets, and equities in particular. In the first eight months of 2023, the MSCI China index returned -5% in USD terms (0% in CNY), compared to +5% for the MSCI EM index, and +16% for the MSCI World index (which, as its name does not suggest, only includes developed markets).

At 10.3x and 12.1x respectively, current 12-month forward price-earnings (P/E) ratios for offshore and onshore stocks are low compared to history, especially in the case of offshore shares. In addition, adjusting for sectorial changes over time shows current P/E ratios are actually one full standard deviation cheaper than their long-term average (Chart 4A & 4B). Declining domestic bond yields (which are already low compared to those available in other emerging markets) should provide an additional incentive to buy equities relative to bonds, at least for captive domestic investors.

Chart 4A: MSCI China – Sector-adjusted P/E



Source: Factset, as of 31.08.2023

Chart 4B: MSCI China A – Sector-adjusted P/E

Source: Factset, as of 31.08.2023

And yet investors are clearly not queuing up to buy Chinese stocks. Data from the northbound Stock Connect scheme, which track international investors' trading of local A-shares, unequivocally point to cautiousness: August saw the largest net selling activity since the scheme's inception in 2015. And while the CSI 300 index

For illustrative purposes. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. There can be no assurance that these projections, forecasts or expected returns will be achieved. The projection is not based on simulated past performance.

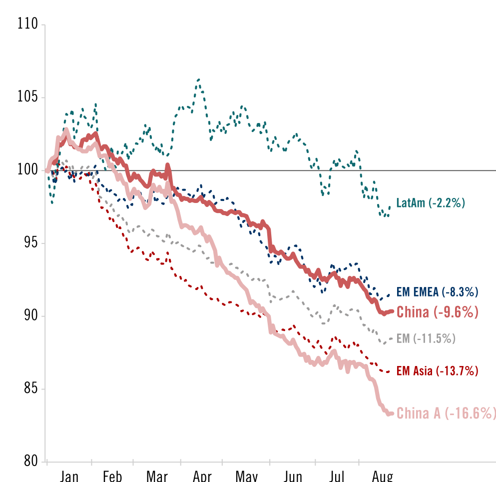
rebounded initially by as much as 5.5% in late August when the Chinese authorities halved the stamp duty levied on stock transactions and pledged to slow the pace of initial public offerings in Shanghai and Shenzhen, these gains were quickly pared back to only 1.2% on the same day. Of note, northbound flows were strongly negative on that same day.

The investor community is clearly concerned that the Chinese authorities are less able or willing to reverse the current economic slump than in the past. Thus, even concrete measures have been deemed underwhelming and have failed to engineer any sustained uptrend in stock prices.

LOFTY EARNINGS EXPECTATIONS STILL NEED TO COME DOWN

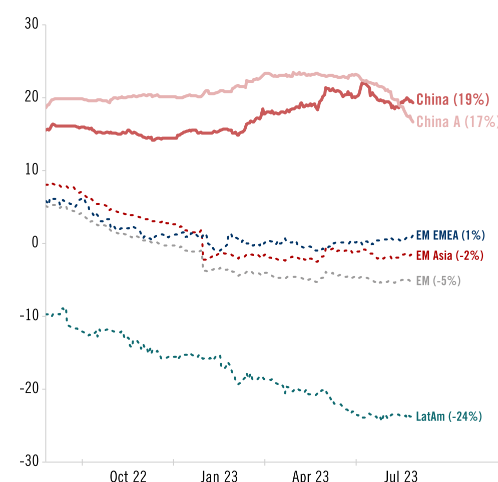
The earnings picture, too, remains unappealing. Analysts' earnings growth expectations for this year remain high, at 19% and 17% for offshore and onshore stocks respectively. While defensive and tech sectors are expected to lead in terms of earnings growth, the financial sector is expected to contribute 30% of the additional earnings. This looks challenging given the macroeconomic environment of low(er) rates, low loan growth and slowing investment, as well as the risks of cascading defaults linked to the real estate sector. Our preferred indicator for future earnings, trends in Chinese imports, actually points to flat earnings this year. And so does the credit impulse, which has historically correlated rather well with earnings rebounds.

2023 earnings revisions (USD, rebased)



Source: Factset, as of 31.08.23

2023 earnings growth expectations (%)



Source: Factset, as of 31.08.23

So far, revisions have tended to confirm our prediction of further earnings downgrades down the line. Earnings expectations for offshore and onshore stocks in 2023 have come down by 10% and 17% respectively year-to-date (in USD terms), with the latter currently showing the worst momentum. While the ongoing Q2 earnings season may look resilient in aggregate (earnings are 6% higher than expected so far), the difficulties of real estate-related sectors are evident.

For illustrative purposes. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. There can be no assurance that these projections, forecasts or expected returns will be achieved. The projection is not based on simulated past performance.

PEAK BEARISHNESS MAY BE NIGH

Although the overall picture looks grim, the prevailing bearishness around Chinese equities makes them ripe for a rebound at some point. While valuations are rarely a reliable indicator in the short term, positioning can be. EM fund managers currently hold an average 4% underweight on Chinese equities versus their benchmark, which is high by historical standards. And, as mentioned, outflows from Chinese equities have been very high recently.

It is also clear that Chinese authorities have been trying to engineer a market rebound—or, as the declaration from July's Politburo meeting puts it, to *"enliven capital markets and restore investor confidence"*. Recent market policy measures (cuts to stamp duty and minimum margin ratio, reduced share disposal and IPO restrictions, etc.) may have a short-term impact, but they do not address the fundamental issues China is facing. Whether investors will return to Chinese equities in any sustainable way remains to be seen. As the saying goes, you can lead a horse to water, but you can't make it drink.

All things considered, we have decided to maintain our exposure to Chinese equities and our overall neutral stance on EM Asian equities. While we would refrain from betting on government stimulus having a lasting impact, the latest salvo of policy measures combined with weak positioning and low valuations hold out the possibility of some upside potential.

We have revised down our target for the MSCI China to HKD65 (from HKD76 set at the beginning of the year), driven by a slight re-rating (P/E ratio at 10.5x vs 11.0x previously) and high single-digit earnings growth.

For illustrative purposes. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. There can be no assurance that these projections, forecasts or expected returns will be achieved. The projection is not based on simulated past performance.

DISCLAIMERS

Distributors: Banque Pictet & Cie SA, Route des Acacias 60, 1211 Geneva 73, Switzerland and Bank Pictet & Cie (Europe) AG, Neue Mainzer Str. 1 60311 Frankfurt am Main Germany.

Banque Pictet & Cie SA is established in Switzerland, exclusively licensed under Swiss Law and therefore subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA).

Bank Pictet & Cie (Europe) AG is established in Germany, authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, the German Federal Financial Supervisory Authority (Bafin).

This marketing communication is not intended for persons who are citizens of, domiciled or resident in, or entities registered in a country or a jurisdiction in which its distribution, publication, provision or use would violate current laws and regulations.

The information, data and analysis furnished in this document are disclosed for information purposes only. They do not amount to any type of recommendation, either general or tailored to the personal circumstances of any person. Unless specifically stated otherwise, all price information is indicative only. No entity of the Pictet Group may be held liable for them, nor do they constitute an offer or an invitation to buy, sell or subscribe to securities or other financial instruments. The information contained herein is the result neither of financial analysis within the meaning of the Swiss Bankers Association's Directives on the Independence of Financial Research, nor of investment research for the purposes of the relevant EU MiFID provisions. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness.

Except for any obligations that any entity of the Pictet Group might have towards the addressee, the addressee should consider the suitability of the transaction to individual objectives and independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences.

Furthermore, the information, opinions and estimates in this document reflect an evaluation as of the date of initial publication and may be changed without notice. The Pictet Group is not under any obligation to update or keep current the information contained herein. In case this document refers to the value and income of one or more securities or financial instruments, it is based on rates from the customary sources of financial information that may fluctuate. The market value of financial instruments may vary on the basis of economic, financial or political changes, currency fluctuations, the remaining term, market conditions, the volatility and solvency of the issuer or the benchmark issuer. Some investments may not be readily realizable since the market in the securities can be illiquid. Moreover, exchange rates may have a positive or negative effect on the value, the price or the income of the securities or the related investments mentioned in this document. When investing in emerging countries, please note that the political and economic situation in those countries is significantly less stable than in industrialized countries. They are much more exposed to the risks of rapid political change and economic setbacks.

Past performance must not be considered an indicator or guarantee of future performance, and the addressees of this document are fully responsible for any investments they make. No express or implied warranty is given as to future performance. Moreover, forecasts are not a reliable indicator of future performance. The content of this document can only be read and/or used by its addressee. The Pictet Group is not liable for the use, transmission or exploitation of the content of this document. Therefore, any form of reproduction, copying, disclosure, modification and/or publication of the content is under the sole liability of the addressee of this document, and no liability whatsoever will be incurred by the Pictet Group. The addressee of this document agrees to comply with the applicable laws and regulations in the jurisdictions where they use the information reproduced in this document.

This marketing publication is issued by Banque Pictet & Cie SA. This marketing publication and its content may be cited provided that the source is indicated. All rights reserved. Copyright 2023.

Distributor: Bank Pictet & Cie (Europe) AG, London branch ("Pictet London Branch")

This is a marketing communication distributed by Pictet London Branch.

This document sets forth neither a personal recommendation tailored to the needs, objectives and financial situation of any individual or company (investment advice as defined in the Financial Conduct Authority's Handbook of rules and guidance (the "FCA Handbook")), nor the results of investment research within the meaning of the FCA Handbook. Moreover, it does not constitute an offer, or an invitation to buy, sell or subscribe to securities or other financial instruments, nor is it meant as a proposal for the conclusion of any type of agreement. Furthermore, this document should not be considered a suitability report as Pictet London Branch has not received all the necessary information on the recipient to complete its suitability assessment that covers the recipient's knowledge and experience, tolerance to risk, sustainability preferences, if any, investment needs and the recipient's ability to absorb financial risk. Should its addressee decide to proceed to any transaction in relation to a financial product referred to herein, this will be in his sole responsibility, and the suitability/appropriateness of the transaction and other financial, legal and tax aspects should be assessed by an expert.

Any information contained in this document is disclosed for information purposes only, and neither the producer nor the distributor can be held liable for any fluctuation of the price of the securities. No express or implied warranty is given as to future performance. The opinions expressed reflect an objective evaluation of information available to the general public, such as rates from customary sources of financial information. The market value of securities mentioned may vary on the basis of economic, financial or political changes, the remaining term, market conditions, the volatility and solvency of the issuer or the benchmark issuer. Moreover, exchange rates may have a positive or negative effect on the value, the price or the income of the securities or the related investments mentioned in this document. It is also expressly noted that forecasts are not a reliable indicator of future performance, while past performance is not a reliable indicator of future results.

You shall only take investment decisions when you fully understand the relevant financial product and the involved risks. In particular, the relevant product documentation (such as the issuance program, final terms, prospectus, simplified prospectus and key (investor) information document), as well as Appendix 4: Risk Warnings Relating to Trading in Financial Instruments of the Terms and Conditions of Pictet London Branch, shall be read. Structured products are complex financial products and involve a high degree of risk. The value of structured products depends not only on the performance of the underlying asset(s), but also on the credit rating of the issuer. Furthermore, the investor is exposed to the risk of default of the issuer/guarantor.

In respect of any product documentation, including key information documents of

Packaged Retail and Insurance-based Investment Products ("KIDs"), please note that these may change without notice. You should therefore ensure that you review the latest version of them prior to confirming to Pictet London your decision to invest. If you have been provided with a link to access the respective KID/other product document, you should therefore click on the link immediately before confirming to Pictet London Branch your decision to invest, in order to review the most recent version of the respective KID/other product document. If you have not been provided with a link to access the relevant document, or if you are in any doubt as to what the latest version of the respective KID/other product document is, or where it can be found, please ask your usual Pictet London Branch contact.

Pictet London Branch is not the manufacturer of the product(s) and the KID/other product document is provided by a third party. The KID/other product document is obtained from sources believed to be reliable. Pictet London Branch does not make any guarantee or warranty as to the correctness and accuracy of the data contained in the KID/other product document. Pictet London Branch may not be held liable for an investment decision or other transaction made based on reliance on, or use of, the data contained in the KID/other product document.

By subscribing to the product(s) proposed herein, you acknowledge that you have (i) received, in good time, read and understood any relevant documentation linked to the product(s), including, as the case may be, the respective KID/other product document; (ii) taken note of the product(s) restrictions; and (iii) meet the applicable subjective and objective eligibility conditions to invest in the product(s).

Pictet London Branch may, if necessary, rely on these acknowledgements and receive your orders, to transmit them to another professional, or to execute them, according to the relevant clauses of your mandate, as well as the Terms and Conditions of Pictet London Branch.

The content of this document shall only be read and/or used by its addressee. Any form of reproduction, copying, disclosure, modification and/or publication in any form or by any means whatsoever is not permitted without the prior written consent of Pictet London Branch and no liability whatsoever will be incurred by Pictet London Branch. The addressee of this document agrees to comply with the applicable laws and regulations in the jurisdictions where they use the information provided in this document.

Pictet London Branch is a branch of Bank Pictet & Cie (Europe) AG. Bank Pictet & Cie (Europe) AG is a credit institution incorporated in Germany and registered with the Handelsregister, the German Commercial Register under the no. HRB 131080. Its head office is at Neue Mainzer Str. 1, 60311 Frankfurt am Main, Germany. Bank Pictet & Cie (Europe) AG is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, the German Federal Financial Supervisory Authority (BaFIN)

Pictet London Branch is registered as a UK establishment with Companies House (establishment number BR016925) and its UK establishment office address is Stratton House, 6th Floor, 5 Stratton Street, London W1J 8LA. Authorised by the Prudential Regulation Authority (PRA) and subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Distributors: Bank Pictet & Cie (Asia) Ltd ("BPCAL") in Singapore and/or Banque Pictet & Cie SA, Hong Kong Branch ("Pictet HK Branch") in Hong Kong.

The information, tools and material presented in this document are provided for information purposes only and are not to be used or considered as an offer, an invitation to offer or solicitation to buy, sell or subscribe for any securities, commodities, derivatives, (in respect of Singapore only) futures, or other financial instruments (collectively referred to as "Investments") or to enter into any legal relations, nor as advice or recommendation with respect to any Investments. This document is intended for general circulation and it is not directed at any particular person. This document does not have regard to the specific investment objectives, financial situation and/or the particular needs of any recipient of this document. Investors should seek independent financial advice regarding the appropriateness of investing in any Investments or adopting any strategies discussed in this document, taking into account the specific investment objectives, financial situation or particular needs of the investor, before making a commitment to invest.

BPCAL/Pictet HK Branch has not taken any steps to ensure that the Investments referred to in this document are suitable for any particular investor, and accepts no fiduciary duties to any investor in this regard, except as required by applicable laws and regulations. Furthermore, BPCAL/Pictet HK Branch makes no representations and gives no advice concerning the appropriate accounting treatment or possible tax consequences of any Investment. Any investor interested in buying or making any Investment should conduct its own investigation and analysis of the Investment and consult with its own professional adviser(s) as to any Investment including the risks involved.

This document is not to be relied upon in substitution for the exercise of independent judgment. The value and income of any Investment mentioned in this document may fall as well rise. The market value may be affected by, amongst other things, changes in economic, financial, political factors, time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Furthermore, foreign currency rates of exchange may have a positive or adverse effect on the value, price or income of any Investment mentioned in this document. Accordingly, investors must be willing and able to assume all risks and may receive back less than originally invested.

Past performance should not be taken as an indication or guarantee of future performance and no representation or warranty, expressed or implied, is made by BPCAL/Pictet HK Branch regarding future performance.

This document does not constitute the investment policy of BPCAL/Pictet HK Branch, or an investment recommendation, and merely contains the different assumptions, views and analytical methods of the analysts who prepared them. Furthermore, the information, opinions and estimates expressed herein reflect a judgment at its original date of publication and are subject to change without notice and without any obligation on BPCAL/Pictet HK Branch to update any of them. BPCAL/Pictet HK Branch may have issued or distributed other reports or documents that are inconsistent with, and reach different conclusions from, the information presented in this document.

While the information and opinions presented herein are from sources believed to be reliable, BPCAL/Pictet HK Branch is not able to, and do not make any representation or warranty as to its accuracy or completeness. Accordingly, BPCAL/Pictet HK Branch accepts no liability for loss arising from the use of or reliance on this document presented for information purposes only. BPCAL/Pictet HK Branch reserves the right to act upon or use any of the information in this document at any time, including before its publication herein.

BPCAL/Pictet HK Branch and its affiliates (or employees thereof) may or may not have long or short positions in, and buy or sell, or otherwise have

interest in, any of the Investments mentioned herein, and may or may not have relationships with the issuers of or entities connected with Investments mentioned in this document. BPCAL/Pictet HK Branch and their affiliates (or employees thereof) may act inconsistently with the information and/or opinions presented in this document.

The information used to prepare this document and/or any part of such information, may have been provided or circulated to employees and/or one or more clients of BPCAL/Pictet HK Branch before this document was received by you and such information may have been acted upon by such recipients or by BPCAL/Pictet HK Branch.

This document is provided solely for the information of the intended recipient only and should not be reproduced, published, circulated or disclosed in whole or in part to any other person without the prior written consent of BPCAL/Pictet HK Branch.

Singapore

This document is not directed to, or intended for distribution, publication to or use by, persons who are not accredited investors, expert investors or institutional investors as defined in section 4A of the Securities and Futures Act 2001 ("SFA") or any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject BPCAL and any of its affiliates or related corporations to any prospectus or registration requirements.

BPCAL is a wholesale bank regulated by the Monetary Authority of Singapore ("MAS") under the Banking Act 1970 of Singapore, an exempt financial adviser under the Financial Advisers Act 2001 of Singapore ("FAA") and an exempt capital markets licence holder under the SFA. Please contact BPCAL in Singapore in respect of any matters arising from, or in connection with this document.

Hong Kong

This document is not directed to, or intended for distribution, publication to or use by, persons who are not "professional investors" within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and any rules made thereunder (the "SFO") or any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject Pictet HK Branch and any of its affiliates or related corporations to any prospectus or registration requirements. If you do not want Pictet HK Branch to use your personal information for marketing purposes, you can request Pictet HK Branch to stop doing so without incurring any charge to you.

In distributing an investment product as agent for a third party service provider, Pictet HK Branch distributes the product for the third party service provider and the product is a product of the third party service provider but not Pictet HK Branch. In respect of an eligible dispute (as defined in the Terms of Reference for the Financial Dispute Resolution Centre in relation to the Financial Dispute Resolution Scheme) arising between Pictet HK Branch and you out of the selling process or processing of the related transaction, Pictet HK Branch is required to enter into a Financial Dispute Resolution Scheme process with you; however any dispute over the contractual terms of the product should be resolved directly between the third party service provider and you.

Banque Pictet & Cie SA is a limited liability company incorporated in Switzerland. It is an authorized institution within the meaning of the Banking Ordinance and a registered institution (CE No.: BMG891) under the SFO carrying on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. The registered address of Pictet HK Branch is 9/F., Chater House, 8 Connaught Road Central, Hong Kong.

Warning: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. Please contact Pictet HK Branch in Hong Kong in respect of any matters arising from, or in connection with this document.