MONTHLY UPDATE AND COMMENTARY
JUNE 2017

CHINDIA

Dear Investor,

With the explosive move in emerging markets this year I thought it would be appropriate to take a closer look at the two most important ones; China & India. While we are not advocating an immediate increase in our emerging market exposure, the long term macro factors remain compelling albeit with a significant dose of risk as well.

Combined they will total more than 3 billion consumers by 2022. According to a recent Price Waterhouse study, in just over ten years their GDP will be more than double that of the United States. If their consumption levels rise to even half that of the US, global demand for food, energy, and "things" will explode. As investors, we realize this elephant in the room needs to be watched very closely, and more importantly we want to help our clients make money from this macro trend while being mindful of the risks.

On the ground in Beijing last year, we witnessed the sheer size and scale of what China has accomplished over the last two decades. Sitting next to Ja Jiang of Postal Savings Bank of China made this abundantly clear. His bank has 42,000 branches and 550 million customers. By way of comparison, Union Bank has 118 branches and 340,000 customers. Can we imagine if twenty percent of Ja's customers bought a $100 CD? That's an increase in deposits for PSBC of $15 billion.

As with China, India stokes our investing appetite for growth and opportunity. We will be on the ground in Delhi in September, which promises to give us an enhanced perspective on the country. Once again viewing it in a banking context, the numbers are staggering. Between 2012 and 2016, 275 million new bank accounts have been set up in India as part of Prime Minister Narendra Modi's plan to digitize the economy. While about half of those accounts are dormant (compared to 5% for the developed world), Modi has a plan to change that dramatically. Imagine the increase in bank deposits that will come with 275 million new checking accounts. If some banks are like Union and offer free checking, their growth numbers could be astounding.

While the opportunities are profound, our analysis wouldn't be complete without examining the risks. With growth comes pain, and both countries have seen their share. China's colossal expansion has been directed by an autocratic ruling party with the help of massive sums of debt. This leverage has been possible because it was built on the back of Chinese savers. Should there be a crisis of confidence in the system, we could see a fairly severe China "heart attack" that could require a period of rehabilitation.

India on the other hand has had a decentralized power structure, with state governments often overriding national interests. Finally with Modi there is an effort to grow India on a national level, and his more rigid central government is moving with a heavy hand to force the changes necessary to push the country forward. While these changes will not happen overnight, we believe catalysts are in place that will result in an era of growth and opportunity.

Volatility will be impossible to avoid, but as both of these countries adapt and move forward the investment opportunities will be profound. We look forward to capturing some of those gains for our clients through carefully selected investments that leverage the knowledge of our local contacts.

We hope you found this update to be interesting. Please call me direct with any questions at 804-774-2087 or email me at jesse.ellington@bankatunion.com.

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