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### Highlights

- As China grows richer, the waistlines of adults in the country are also expanding. Dietary changes and an increasingly urban lifestyle has altered the health profile of the Chinese population.
- We believe that cancer screening is a paradigm shifting event with significant outperformance potential in the Emerging Markets space, particularly in China.

**August 2021**

## Emerging Markets Discoveries

Trends and Innovations

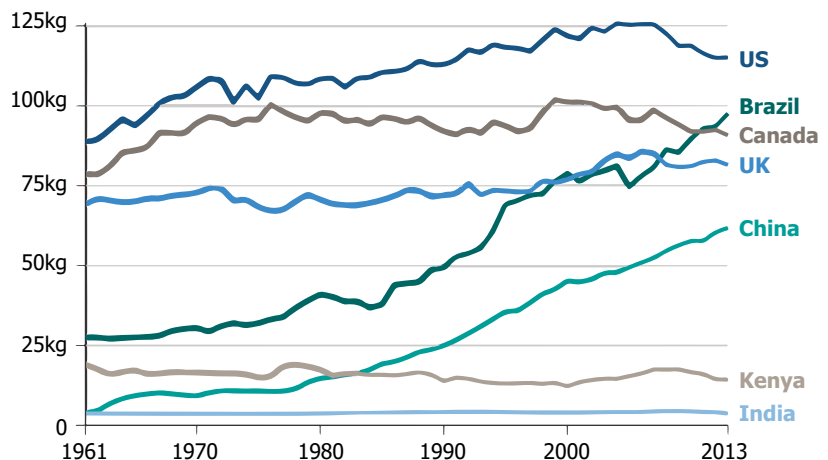
The JOHCM Emerging Markets Small Mid Cap strategy focuses on identifying companies in emerging industries, with pioneering business models, or with innovative technologies that are disrupting the status quo. Through the strategy's process-centric approach, the team seeks to deliver to investors long-term market-beating performance over equity cycles.

### The Conundrum of Wealth and Health

After growing consistently in the high single digits annually over the past decades, the Chinese economy has morphed into the second largest economy in the world after that of the US. When compared on the basis of purchasing power parity, China is already the largest economy with a GDP of US\$27.3 trillion.<sup>1</sup> For Chinese consumers, this economic growth has dramatically altered the ways they live. In particular, the area of food consumption, provides one of the best examples of the shift in wealth. Chinese consumption of meat, especially red meat, has seen a spike in the past several decades. In the 1960s, the average Chinese person consumed less than 5 kg (12 pounds) of meat annually. However, as incomes soared following Deng Xiaoping's market-driven "reform and opening" of the late 1970s, consumption rose to 20 kg (44 pounds) per capita by the late 1980s and has now reached 63 kg (140 pounds). Today, China consumes 28% of the world's meat, including half of all pork.<sup>2</sup>

### Meat consumption by selected country

Average annual consumption per person

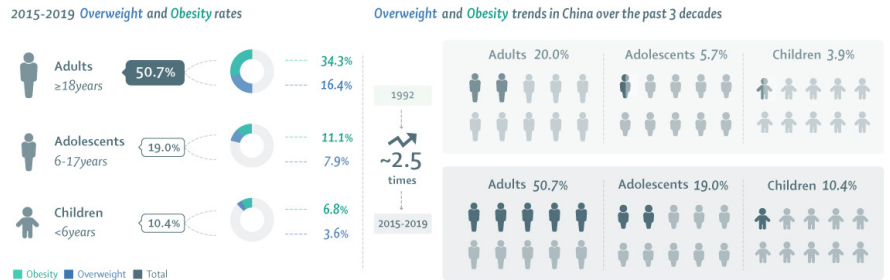


Source: UN Food and Agriculture Organization / Our World in Data  
Data as of February 4, 2019



As China grows richer, the waistlines of adults in the country are also expanding. People's change in diet notwithstanding, an increasingly urban living environment and associated sedentary lifestyle have caused obesity to skyrocket. More than half of Chinese adults are now considered overweight, a study conducted by the country's National Health Commission revealed.<sup>3</sup> Obesity rates among Chinese adults have also more than doubled in less than two decades, from 7.1% in 2002 to 16.4% currently. According to the report, 50.7% of Chinese adults are overweight, including those who are obese. In a country of 1.4 billion, that amounts to more than half a billion people -- more than the entire US population.<sup>4</sup>

### More than half of Chinese adults have either overweight or obesity



\*Source: Epidemiology and determinants of obesity in China, The Lancet Diabetes & Endocrinology; Clinical management and treatment of obesity in China, The Lancet Diabetes & Endocrinology

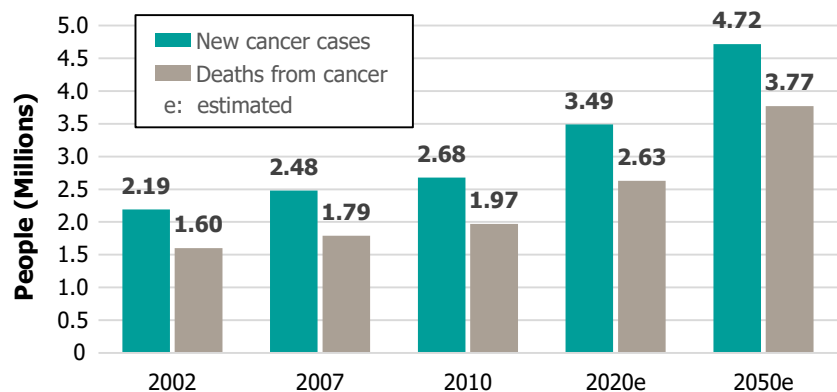
THE LANCET Diabetes & Endocrinology

The best science for better lives

Data as of May 24, 2021

It is not hard to extrapolate from these statistics that the health profile of the Chinese population is changing, and not for the better. China National Cancer Center released the latest national report on the incidence and mortality rate of cancer on April 6. It is estimated that there were 3.8 million (equivalent to the population of Los Angeles) new cases of malignant tumors and 2.3 million deaths in 2016. That is, on average, 7 people were diagnosed with cancer while 4 people died of cancer every minute in China.<sup>5</sup> Understandably, without an aggressive approach to arrest the increase in cancer incidence, the economic burden on the society longer-term can be astronomical. Not only would that impact the general health profile of the population, but it may also erode the long-term growth potential of the Chinese economy. As a result, the Chinese government has been ramping up its efforts at screening and preventing incidents of cancer.

### Rising Cases of Cancer in China



Source: Economic Research Institute of CITIC Securities  
Data as of May 8, 2018

ZHANGYE / CHINA DAILY

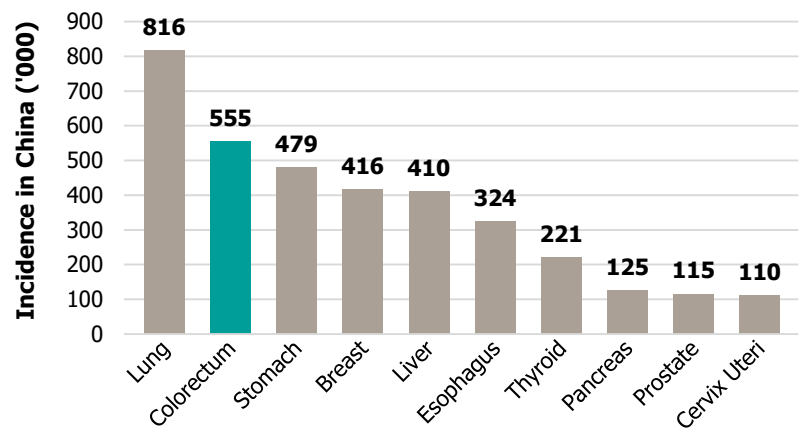
## Portfolio Holding Case Study

### Identifying the Paradigm Shift

We believe that cancer screening is a paradigm shifting event with significant outperformance potential in the Emerging Markets space, particularly in China. The market structures of colorectal cancer screening tests in the US and China differ significantly. The penetration rate of colorectal cancer screening remains significantly lower in China at 16.4% vs. at over 60% in the US.<sup>6</sup> The Chinese government, in an attempt to lower the future cancer burden on society, is aggressively focusing on increasing access to early cancer screening.

### Colorectal cancer is China's 2nd largest cancer

Globocan 2020 estimated cancer incidence in China (Top 10)



Source: Globocan 2020 (as of 2020)

### The Investment Case

One of our holdings is a testing and diagnosis firm focused on cancer screening and early detection. Its key product, is a non-invasive fecal immunochemical test (DNA test for colorectal cancer screening) and currently China's first and only molecular cancer screening test approved by the National Medical Products Administration (China's equivalent of the US FDA). As a home-based colorectal cancer screening test, it enables users to collect stool samples in their homes using a specially designed sample collection kit. Then the sample is sent central laboratories where the company uses colorectal in vitro diagnostics as well as a risk assessment algorithm to analyze the stool sample and determine a test result.

We believe this company is at the forefront of addressing the demand for cancer screening in China. According to Frost and Sullivan, China's gastric cancer screening market is expected to increase from CNY2.1 billion (\$323.1 million) in 2019 to CNY15.7 billion (\$2.4 billion) in 2030, an increase of approximately 650%. The company's test has proven to be the most effective colorectal cancer screening solution on the market with 95.5% sensitivity for colorectal cancer and 63.5% for advanced adenoma.<sup>7</sup> We expect this company to benefit from an expanding cancer screening market in China and gain market share in the colorectal cancer screening market due to strong clinical-trial results and its inclusion in China's cancer guidelines.

Sources:

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Investors should note that investments in foreign securities involve additional risks due to currency fluctuations, economic and political conditions, and differences in financial reporting standards. Smaller company stocks are more volatile and less liquid than larger, more established company securities. The small and mid-cap companies the Fund may invest in may be more vulnerable to adverse business or economic events than larger companies and may be more volatile; the price movements of the Fund's shares may reflect that volatility. Fixed income securities will increase or decrease in value based on changes in interest rates. If rates increase, the value of the Fund's fixed income securities generally declines. Other risks may include and not limited to hedging strategies, derivatives and commodities.

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