

TRAVELLING TO “ZERO COVID” MAINLAND CHINA

Like many others around the world, at the end of 2021, one of our Hong Kong based analysts, Sharon Shuiyin Liu, set off to visit her family for the holidays. However, unlike others, her trip felt like an odyssey with long days of quarantine and health monitoring ahead of her. Her family is based in Shenyang, China.

In the early days of the pandemic, China adopted a “Zero Covid” strategy aimed at eliminating the virus rather than the approach taken by many countries of simply managing it. Controls have ranged from border closures, police manned roadblocks, strict and long quarantines, sporadic lockdowns as well as testing by the millions.

While most countries around the world have gradually loosened restrictions as vaccinations gained momentum, China has shown no signs of abandoning its “Zero Covid” strategy. The Chinese approach has been successful from a public health perspective. As of December 31, 2021, China recorded 4,848 deaths related to Covid, in contrast to 825,536 in the United States¹. However, these restrictions come at a cost.

Sharon’s account of her experience traveling from Hong Kong to China offers a personal perspective of what it feels like to be in China as the country continues to pursue its strict Covid policy, as well as its impact on travel, life and investment research.

VIEWS FROM THE GROUND: AN ACCOUNT OF TRAVEL THROUGH MAINLAND CHINA

Crossing Borders and Quarantine

To travel from Hong Kong to mainland China, you can either fly to Shanghai or drive to Shenzhen/Zhuhai. I chose Shenzhen for a 14-day hotel quarantine plus a 7-day health monitoring period.

Regardless of the mode of transportation, travelers are faced with a quarantine period followed by a health monitoring period. Quarantine periods typically range from 14 to 28 days depending on the end destination’s protocols, while the health monitoring period range from 7 to 28 days. My hometown, Shenyang, for example, requires a 28-day quarantine period plus a 28-day health monitoring period.

The entry process starts with an application for a quota to enter Shenzhen. Only 2,000 people are permitted to enter per day. This quota was recently lowered by the government due to the Omicron variant and lack of hotel vacancies. The process involved the same persistence, patience, and luck required to buy a ticket for a popular concert or event. I found myself continually refreshing the website until I was finally successful.

One day before embarking on my trip I took a Covid test, and then went to the Shenzhen Bay Port to complete the cross-border procedures, including an additional Covid test. After passing the Shenzhen port and waiting 2 hours for the randomly assigned hotel bus to pick me up, the 14 days of hotel quarantine began. Quarantine hotels are randomly assigned and can vary in style. As travelers are only permitted to leave the hotel room to test for Covid and receive food, having a window in my hotel room was as close to the outdoors as I got during my quarantine period.

After the hotel quarantine of 14 days, travelers are required to finish another 7-day health monitoring period. During this monitoring period, people have a yellow Covid tracking code which in itself restricts mobility. More specifically, you are not permitted on public transportation and have limited access to buildings without a green Covid tracking code. While you can go out during this period, you are required to avoid social gatherings and to regularly report on your health conditions. I tested and submitted my temperature two times per day daily, at 10am and 4pm. Finally, travelers in this health monitoring period must receive two negative Covid tests before graduating to a green Covid tracking code and having the freedom to go anywhere in Shenzhen.

At the moment I am still in Shenzhen enjoying the liberties of my green Covid tracking code. In the coming weeks I plan on embarking on the next leg of my trip to Shenyang where I will need to go through another health monitoring period. As Shenyang requires 56

days of restrictions from the date of entry into mainland China for international travelers (28-day quarantine period plus a 28-day health monitoring periods), I will be back to health monitoring period protocols and yellow Covid tracking code shortly.

People waiting for hotels buses at Shenzhen Bay Port



Typical quarantine food



Quarantine hotel room



Red, Yellow and Green: Tracking Apps

In the early days of the pandemic, China took the lead with contact tracing technology to help curb the spread of Covid-19. Chinese citizens are required to provide their national identity number, their telephone number as well as answers to a questionnaire regarding their travel history and symptoms. The app then generates results via a QR code in three colors: green for no-risk, yellow for low-risk and red for high-risk.

For people who have stayed in the areas with confirmed Covid cases, the codes will turn yellow or red depending on the risk levels. As many public places such as public transportation, hospitals, schools, and shopping malls require green codes, people only really feel free once their codes turn green. For visitors from outside the region, the code is red during the hotel quarantine, yellow during the health monitoring and green once both phases are complete.

My green QR code with the Covid test results

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Specialist Research in China

After having completed 14 days of quarantine I was able to meet fund managers in person in Shenzhen. While we have been in close contact with our mainland China-based local specialists throughout the last two years, our interactions have been limited to video meetings and phone calls. Meeting specialists and their teams in person allowed for a differentiated level of insight. This was particularly true of interactions with new fund managers.

Overall, I found that most fund managers and analysts are back to their normal routines, working from their offices and visiting companies throughout China. However, challenges remain for people with international businesses for whom the policies aimed at achieving a "Zero Covid" strategy have been very strict. Travel needs to be planned far in advance and even then, success in crossing borders is not guaranteed. Many onshore fund managers have responded to these hurdles by postponing their overseas product and fund-raising plans. In addition, we have seen offshore fund managers increase their analyst presence in onshore offices in an attempt to be closer to the market.

"Normal" Life in China

In the past 2 years, Covid policies in China have progressed from hard lockdown across the country to a more dynamic and regional strategy. Overall, the local population largely feels like their daily lives are back to normal. There are no socializing restrictions. Most people are no longer working from home and schools are generally open. Mask wearing has become rare, both indoors and outdoors and are now only required on public transportation.

While life is "normal", it is a "new normal" with a handful of behavioral changes. More on-line shopping, more dining at home or takeaway, and less travel. Recently, the government has encouraged people to "stay where they work" during the coming Spring Festivals (from January 31, 2022 to February 6, 2022), when normally there would be around 3 billion people travelling between cities and provinces for these festivities. It is estimated that these strict policies will last at least until the Winter Olympics end (February 20, 2022).

However, normality only lasts as long as neighborhoods are not exposed to Covid cases and personal QR Codes remain green. Whenever a local Covid case is confirmed, close contacts to the case or the case's traces are tracked and quarantined. As the spread of Covid remains unpredictable and elevated, fears of further quarantine and reductions in travel frequency are always looming.



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CONCLUSION

Sharon's experience travelling to mainland China offers an interesting illustration of life in China during the Covid-19 pandemic. With one of the strictest Covid policies in the world, China has limited the spread of the virus within its borders. However, these policies come at a cost. Outbreaks have resulted in disruption to production, a slump in consumption and increased pressure on the economy. The World Bank recently cut GDP growth projections for China in 2021 and 2022, citing an increase in downside risks as the country struggles to manage a housing market downturn and maintaining a "Zero Covid" strategy.

While there are hurdles ahead for the Chinese economy, we continue to see attractive investment opportunities in specific sectors and stocks within China. Indeed, the current backdrop creates fertile ground for active managers. At ABS we remain committed as ever to our local manager research efforts in China and around the world, whether via in-person meetings conducted by Sharon in mainland China, in-person meetings in Hong Kong conducted by Donald Leung or virtual meetings conducted by our team based outside of Asia.

SHARON SHUIYIN LIU

Sharon Shuiyin Liu is a qualitative investment analyst at ABS, based in Hong Kong. She joined the team during the Covid-19 pandemic in July 2021. While our Hong Kong based partner, Donald Leung, was able to interview and meet her in person, most of the process of hiring Sharon involved video meetings with our US based team.

Based in Hong Kong, Sharon has already been a strong addition to our local manager research effort in Asia where she is responsible for sourcing and monitoring Asia equity strategies. Prior to joining ABS in July 2021, she was an equity investment analyst at Haitong International Asset Management, China Alpha Fund Management and Shinhan BNP Paribas Asset Management, where she specialized in Greater China consumer companies. She started her career as a fund of fund analyst at Haitong International Securities Group.

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i Source: Bloomberg. Data measured from January 1, 2020 to December 31, 2021

