Zevin Asset Management

China Divestment Policy

July 2022

The horrific impacts of Russia's invasion of Ukraine have been a wake-up call for Zevin Asset Management's investments in China. Investments in authoritarian governments can be a big risk for investors because of the associated lack of checks and balances, antidemocratic tactics, financial coercion, and physical intimidation of citizens. Needless to say, the rule of law does not exist in a conventional way in authoritarian regimes and investors can become victims as easily as dissidents; take the recent de-listing of Chinese ADRs and clamping down on Variable Interest Entity (VIE) structures, for example. Even before Russia's war, we had never invested directly in Russian companies because of the business risks associated with Putin's rule, but we had not followed the same approach with China, despite its increasingly repressive regime, because its economic importance presented a different picture than Russia. China is a manufacturing juggernaut, accounting for 28% of all goods produced worldwide, and by the end of the decade, China is expected to have as many upper-middle- and higher income households as the U.S. and Europe combined.

Nevertheless, we have watched China's human rights track record deteriorate considerably as Xi Jinping has solidified his power in the past decade, as detailed in the Freedom House rankings, and we have become increasingly concerned about our exposure to such abuses. From a social perspective, the crushing of Hong Kong democracy activists in 2018, continued horrendous abuses of the Uyghur population, and dystopian social engineering leave us deeply uneasy about investing in China. From an investment perspective, the political crackdown on various companies and industries deemed not submissive enough to Chinese government goals does not fit with our low-risk investment philosophy.

We have always had a policy not to invest in Chinese companies that were majority owned or controlled by the Chinese government, but we feel that this doesn't go far enough. Therefore, we have decided to divest from our direct Chinese and Hong Kong holdings for the time being. We often engage policy makers and companies to advance issues such as human rights but believe that China's repressive regime poses a unique problem that inhibits us from deploying the usual tactics. We also do not profess to fully understand why certain businesses are targets of heavy-handed Chinese regulations or have the ability to anticipate which may be next; this increasingly constitutes an unquantifiable risk that we are not willing to assume in client portfolios.

We understand that our decision to divest from Chinese companies is not a panacea and that multinational supply chains that we are invested in still leave our clients exposed to risks from China. While these networks are much more difficult to disentangle, complicity in human rights abuses by Western companies can be easier to research and advocate against. However, we also understand that it is exceedingly difficult for multinationals to avoid being complicit without incurring the wrath of both the Chinese government and by extension the Chinese people, given the power of their closed media. Similar to our approach to Russia, we also aim to not invest in companies that are key enablers of human rights abuses by the Chinese government. We acknowledge that our approach to China is imperfect, but we find continued direct investment in China to be untenable, both from a financial and social perspective. We hope that this policy is temporary and that we will be able to invest in Chinese companies when the country finds itself on a more sustainable path in the future.