

# A-share Inclusion Update

17 May 2018

Rahul Chadha – Chief Investment Officer, Mirae Asset Global Investments (HK)

MIRAE ASSET Flash

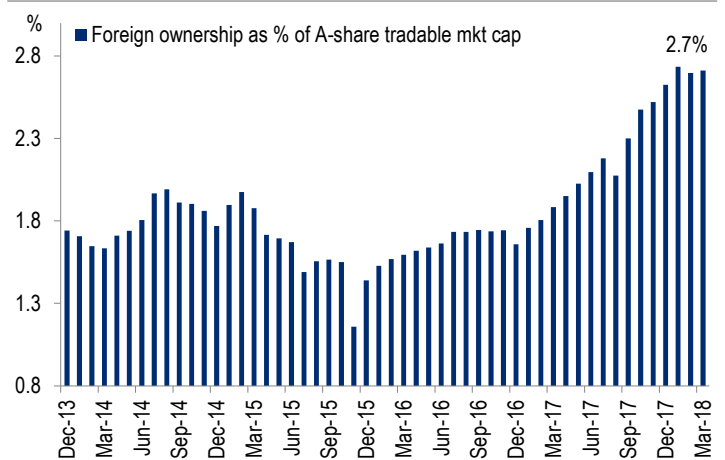
In June 2017, MSCI made the decision that A-shares would be included in the MSCI EM and MSCI ACWI indices from June 2018. Following 3 prior unsuccessful proposals, this ‘yes’ decision marked **an important milestone in the integration of A-shares with global equity markets**. MSCI has just concluded its May semi-annual review and announced the final list of A-shares to be included in MSCI global benchmark indexes on 1 June 2018.

- The 5% partial inclusion plan will be implemented in 2 stages: 2.5% inclusion factor on 1 June and another 2.5% on 3 September.
- There will be 234 large-cap A-shares to be initially included, which cover 45% of the total A-share market cap or 57% of the Stock Connect-accessible market cap.

## Key positives:

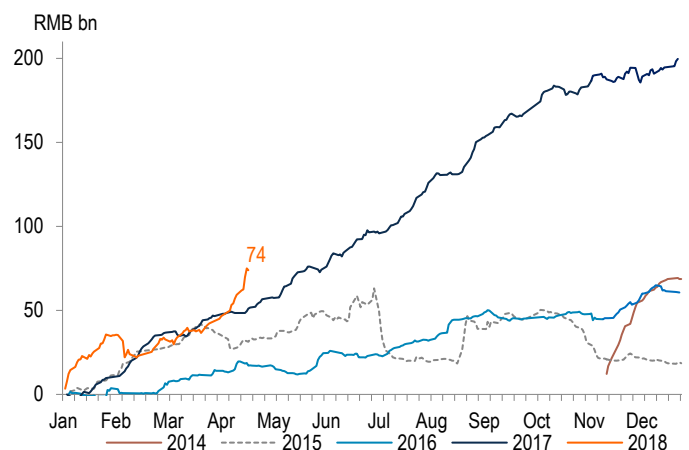
1. With 5% partial inclusion, A-shares will account for 2.6% of the pro forma MSCI China index weight, 0.8% of the MSCI EM index, and 0.1% of the MSCI ACWI index. It is estimated that this will generate moderate flows (approximately US\$18bn), which is not particularly significant for a market that trades US\$50-80 billion per day. But more importantly, this is **a boost to China’s internationalization agenda and the inclusion factor should increase over time**, as was the case for South Korea and Taiwan in the 1990s.

## Foreign ownership of China-A share



Source: CEIC, Citi, Mirae Asset, April 2018

## YTD Northbound net inflow to RMB bn A-share (2014-2018)



Source: CEIC, Citi, Mirae Asset, April 2018



2. Foreign ownership of China onshore equities is low (approximately 2.7% of tradable market cap) compared to other major markets in the region such as Taiwan, Korea and Japan, which are in the range of 20-35%. With China's ongoing opening up of capital markets, we expect there will be **greater foreign participation in the A-share market**. Longer term, greater foreign investor participation should bring about improvement in the A-share's market composition, corporate governance and reporting standards.

### **What this means for our portfolios:**

This inclusion marks an important milestone and is a boost to sentiment, but our investment **strategy in China remains focused on bottom-up opportunities**. Some examples of A-shares in our portfolios include consumer discretionary names in household appliances, high-end liquor as well as leading pharmaceuticals.

We have been seeking out opportunities in China A-share market since the Stock Connect program was launched in November 2014. Our investment teams in Hong Kong and Shanghai will continue to conduct in-depth, on-the-ground research to identify the most attractive opportunities in the Mainland.



## Global Offices

### Mirae Asset Global Investments

12F, Tower 1, 33, Jong-ro, Jongno-gu,  
Seoul, 03159, Republic of Korea  
Tel. +82-2-3774-8200

### Mirae Asset Global Investments (HK)

Level 15, Three Pacific Place, 1 Queen's  
Road East, Hong Kong, HK  
Tel. +852-2295-1500

### Mirae Asset Global Investments (UK)

4-6 Royal Exchange Buildings,  
London, EC3V 3NL, United Kingdom  
Tel. +44-20-7715-9900

### Mirae Asset Global Investments (USA)

1350 Avenue of the Americas,  
33rd Floor, New York, NY, 10019, USA  
Tel. +1-212-205-8300

### Mirae Asset Global Investments (Taiwan)

6F, NO. 42, Sec.2 Zhongshan N. Rd.,  
Taipei City 10445, Taiwan (R.O.C)  
Tel. +886-2-7725-7555

### Mirae Asset Global Investments (India)

Unit No. 606, 6th Floor, Windsor Building  
Off. C.S.T Road, Vidyanagari Marg.  
Kalina, Sanataacruz (East), Mumbai  
400 098, India  
Tel. +91-22-6780-0300

### Mirae Asset Global Investments (Brazil)

Rua Olimpíadas, 194/200,  
12 Andar, CJ 121, Vila Olímpia  
São Paulo, CEP 04551-000, Brazil  
Tel: +55-11-2608-8500

## Disclaimer

This document has been prepared for presentation, illustration and discussion purpose only and is not legally binding. Whilst compiled from sources Mirae Asset Global Investments believes to be accurate, no representation, warranty, assurance or implication to the accuracy, completeness or adequacy from defect of any kind is made. The division, group, subsidiary or affiliate of Mirae Asset Global Investments which produced this document shall not be liable to the recipient or controlling shareholders of the recipient resulting from its use. The views and information discussed or referred in this report are as of the date of publication, are subject to change and may not reflect the current views of the writer(s). The views expressed represent an assessment of market conditions at a specific point in time, are to be treated as opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. In addition, the opinions expressed are those of the writer(s) and may differ from those of other Mirae Asset Global Investments' investment professionals.

The provision of this document shall not be deemed as constituting any offer, acceptance, or promise of any further contract or amendment to any contract which may exist between the parties. It should not be distributed to any other party except with the written consent of Mirae Asset Global Investments. Nothing herein contained shall be construed as granting the recipient whether directly or indirectly or by implication, any license or right, under any copy right or intellectual property rights to use the information herein. This document may include reference data from third-party sources and Mirae Asset Global Investments has not conducted any audit, validation, or verification of such data. Mirae Asset Global Investments accepts no liability for any loss or damage of any kind resulting out of the unauthorized use of this document. Investment involves risk. Past performance figures are not indicative of future performance. Forward-looking statements are not guarantees of performance. The information presented is not intended to provide specific investment advice. Please carefully read through the offering documents and seek independent professional advice before you make any investment decision. Products, services, and information may not be available in your jurisdiction and may be offered by affiliates, subsidiaries, and/or distributors of Mirae Asset Global Investments as stipulated by local laws and regulations. Please consult with your professional adviser for further information on the availability of products and services within your jurisdiction.

United Kingdom: This document does not explain all the risks involved in investing in the Fund and therefore you should ensure that you read the Prospectus and the Key Investor Information Documents ("KIID") which contain further information including the applicable risk warnings. The taxation position affecting UK investors is outlined in the Prospectus. The Prospectus and KIID for the Fund are available free of charge from <http://investments.miraeasset.eu>, or from Mirae Asset Global Investments (UK) Ltd., 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom, telephone +44 (0)20 7715 9900.

This document has been approved for issue in the United Kingdom by Mirae Asset Global Investments (UK) Ltd, a company incorporated in England & Wales with registered number 06044802, and having its registered office at 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom. Mirae Asset Global Investments (UK) Ltd. is authorised and regulated by the Financial Conduct Authority with firm reference number 467535.

United States: An investor should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, contact your financial advisor or call (888) 335-3417. Please read the prospectus carefully before investing.

India: Mutual Fund investments are subject to market risks, read all scheme related documents carefully.