

# A-share Inclusion Update

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MIRAE ASSET Flash

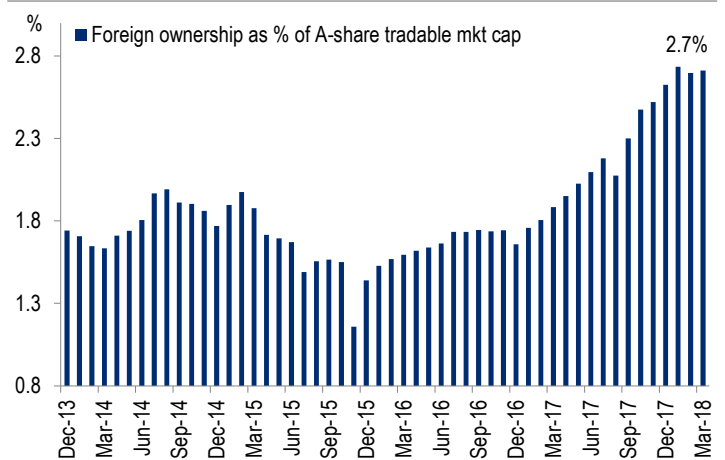
In June 2017, MSCI made the decision that A-shares would be included in the MSCI EM and MSCI ACWI indices from June 2018. Following 3 prior unsuccessful proposals, this ‘yes’ decision marked **an important milestone in the integration of A-shares with global equity markets**. MSCI has just concluded 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:

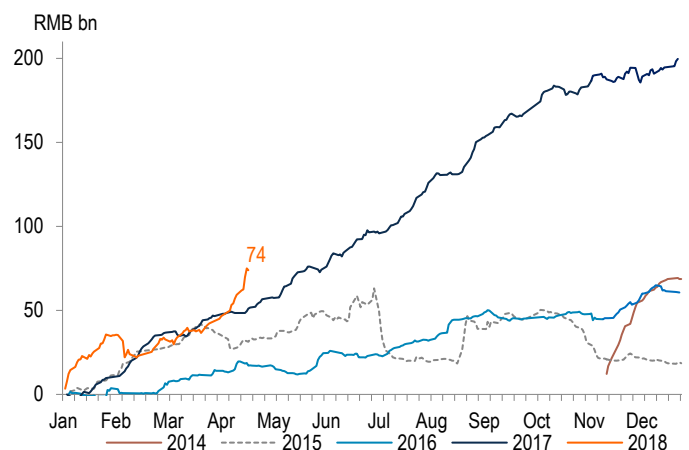
1. With 5% partial inclusion, A-shares will account for 2.6% of the pro forma MSCI China index weight, 0.8% of the MSCI EM index, and 0.1% of the MSCI ACWI index. It is estimated that this will generate moderate flows (approximately US\$18bn), which is not particularly significant for a market that trades 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.



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