

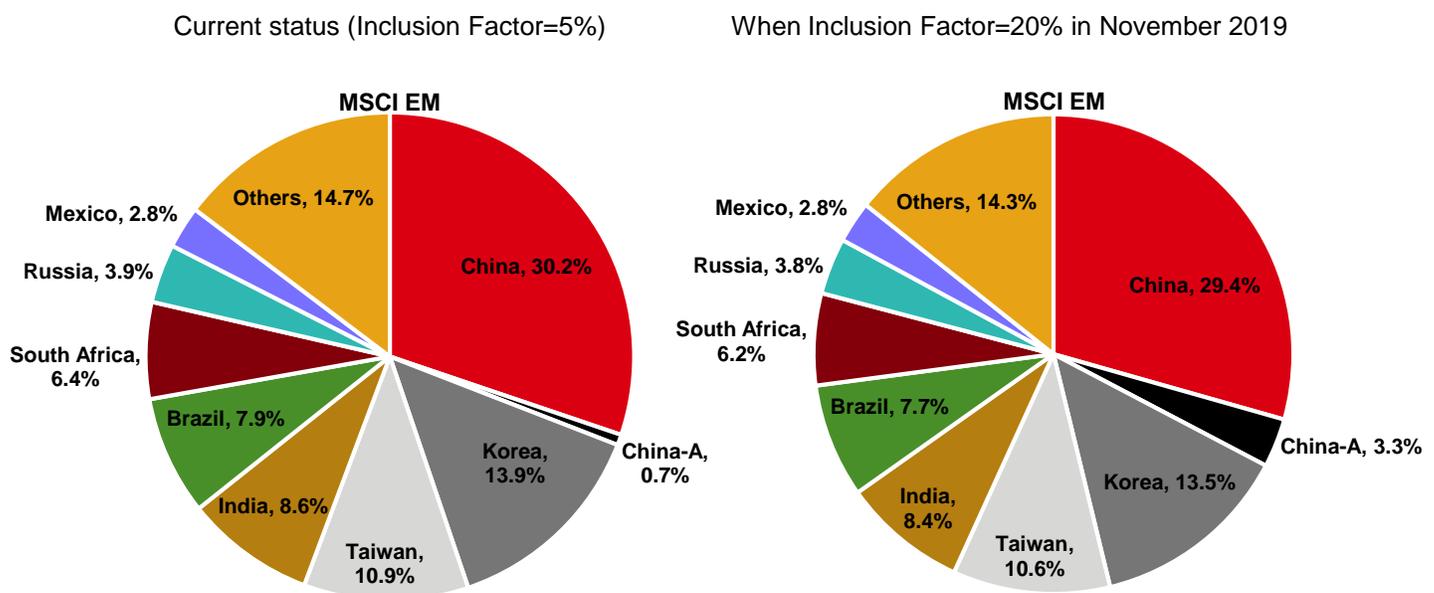
# Onwards and upwards - MSCI A-share inclusion

## *The Weight of A-shares will rise to 3.3% of the MSCI Emerging Markets Index in November*

March 2019

- ◆ On February 28, 2019, MSCI announced a three-step weight increase for China A-shares in its global indexes, raising the inclusion factor from 5% to 20% this year
- ◆ As step one, in May, MSCI will increase the index inclusion factor of all China A large-capitalization (large-cap) shares in the MSCI indexes from 5% to 10% and add ChiNext large-cap stocks with a 10% inclusion factor. Next, MSCI will increase the inclusion factor of all China A large-cap shares from 10% to 15% in August. And finally, MSCI will lift the inclusion factor of all China A large-cap shares to 20% and add China A mid-capitalization (mid-cap) shares, including eligible ChiNext shares, with a 20% inclusion factor (see Figure 1)
- ◆ On a pro-forma basis, the weight of China A-shares will rise to 3.3% of in the MSCI Emerging Markets Index (MSCI EM) in November, up from its current level of 0.7%. Upon completion of the three-step implementation, there will be 253 large-cap and 168 mid-cap China A shares, including 27 ChiNext shares
- ◆ These changes could lead to USD73 billion in inflows to the A-shares market this year from funds benchmarked to various related indexes according to HSBC Global Research's estimates. The MSCI EM is tracked by USD1.84 trillion of global assets, with the passive funds representing about 22%
- ◆ MSCI attributed the smooth running of the Stock Connect programs and improvements in market accessibility – quadrupling the Stock Connect daily limit and implementing a major reduction in trading suspension – as the main justifications for lifting the inclusion factor
- ◆ Though the short-term impact will be limited, the weight increase is a step in the right direction toward reflecting China's rightful position in the global investment universe as the world's second-largest stock market. This symbolic confirmation will likely give global investors something to consider when making their allocations
- ◆ MSCI also said the weight of A-shares may increase in the future if China continues to promote further opening and development of the market (for example, allowing the listing of index futures and other hedging tools)

**Figure 1: China A-shares weight in MSCI EM set to change**



Source: MSCI, HSBC Global Asset Management as of February 28, 2019.

## What does this mean for investors?

### ◆ Exploring a broader opportunity set

The timeline for increasing the weighting of mid-caps is set to happen sooner-than-expected – by November 2019 instead of May 2020. Following the changes, the Index will provide a better representation of the broader market with less weight on a few heavily-weighted sectors. Therefore, it could attract more fund flows and help uncover investment opportunities throughout the economic cycle

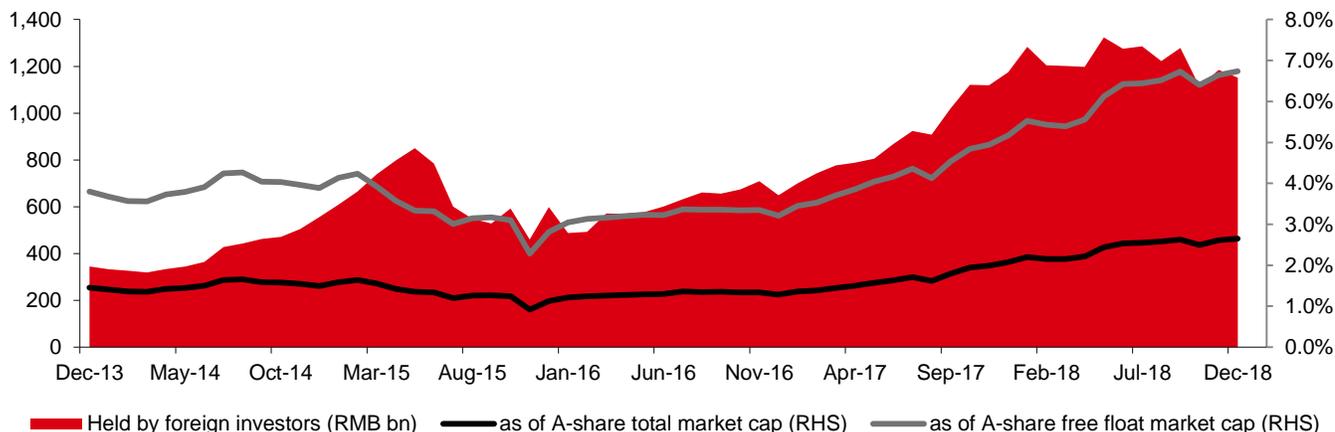
### ◆ Foreign investors now a growing presence in the Chinese market

Foreign investors held over RMB1.15 trillion of A-shares at the end of 2018, surpassing the ownership of local insurers and rivalling domestic mutual funds. They now represent 2.6% and 6.7% of the total and free-float market capitalization of the onshore Chinese equity market, respectively, up from 0.9% and 2.3% in November 2015 (see Figure 2). The latest move from MSCI will further reinforce this trend with more than USD600 billion of foreign inflows expected over the next five to ten years

### ◆ China's capital markets will continue to evolve

China will continue to make incremental changes to open up its markets and its efforts will be recognized through greater inclusion in due course. Most recently, the Qualified Foreign Institutional Investors (QFII) quota was doubled to USD300 billion in January 2019, and QFII and its renminbi sibling, RQFII, will be combined soon, removing the red tape for foreign investors looking to increase their allocation into the domestic markets

**Figure 2: Foreign participation in the A-share market continues to increase**



Source: Bloomberg, HSBC Global Asset Management as of January 31, 2019. Past performance is no guarantee of future results.

## Important information

This document is for information only and does not constitute investment advice, a solicitation or a recommendation to buy, sell or subscribe to any investment. It is not intended to provide and should not be relied upon for accounting, legal or tax advice.

HSBC Global Asset Management is the marketing name for the asset management businesses of HSBC Holdings Plc. HSBC Global Asset Management (USA) Inc. is an investment adviser registered with the US Securities and Exchange Commission.

**In Chile:** Operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations nor are covered by warranty of the Chilean state. Further information may be obtained about the state guarantee to deposits at your bank or on [www.sbif.cl](http://www.sbif.cl)

**In Colombia:** HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution.

**In Peru:** HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution.

HSBC Global Asset Management has based this material on information obtained from sources it believes to be reliable but which it has not independently verified. HSBC Global Asset Management and HSBC Group accept no responsibility as to its accuracy or completeness. The views expressed were held at the time of preparation and are subject to change without notice. Forecasts, projections or targets are indicative only and are not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecasts, projections or targets. Past performance is no guarantee of future results. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. You cannot invest directly in an index.

There is no assurance that a portfolio will achieve its investment objective or will work under all market conditions. The value of investments may go down as well as up and you may not get back the amount originally invested. Portfolios may be subject to certain additional risks, which should be considered carefully along with their investment objectives and fees. Equity investments fluctuate in value based on changes to an individual company's financial condition and overall market conditions.

US persons (both entities and individuals) are subject to US taxation on their worldwide income and may be subject to tax and other filing obligations with respect to their US and non-US accounts. [The Foreign Account Tax Compliance Act \(FATCA\)](#) is a US law designed to prevent the use of non-US accounts or non-US entities to avoid US taxation of income and assets. To meet this objective, FATCA imposes on US and non-US entities certain documentation, due diligence, withholding and reporting requirements with respect to accounts and certain payments. Investors should consult their independent tax advisors about investment tax implications.

The contents of this document are confidential and may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose without prior written permission.

© Copyright 2019. HSBC Global Asset Management. All rights reserved.

### Investment products:

<b>ARE NOT A BANK DEPOSIT OR OBLIGATION OF THE BANK OR ANY OF ITS AFFILIATES</b>	<b>ARE NOT FDIC INSURED</b>	<b>ARE NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY</b>	<b>ARE NOT GUARANTEED BY THE BANK OR ANY OF ITS AFFILIATES</b>	<b>MAY LOSE VALUE</b>
--	-----------------------------	---	--	-----------------------

All decisions regarding the tax implications of your investment(s) should be made in connection with your independent tax advisor.