Media Alert

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Further Increase of Weightage of China A-Shares in the MSCI Indices

Following the announcement of the further weight increase of China A shares in the MSCI Indexes, Harvest Global Investments made the following comments.

**Yannan Chenye, Head of China Equity Research, Portfolio Manager,
Harvest Global Investments comments:**

"The MSCI weightings increase should result in significant flows into A-shares, as we witnessed last year with China A going to 0.71%; a move to 2.82% in August 2019, followed by 3.36% in May 2020 (with the addition of China A Mid Cap securities) is bound to be even more impactful.

As a result of this, as well as other China opening-up policies, such as foreign ownership via QFII expansion, we believe it will be a record year for potential inflows into the A-share market this year. Up to $100bn of foreign inflow is expected, up from $45bn in 2018. This represents over 3.5% of the total free float market cap.

Global investors are still very underweight China and, if the market continues to perform well, they will all have to rush to increase their exposure at the same time. We expect international capital to have a major effect on the A-share market and its valuation metrics over the years ahead. Foreign investors' capital size and strength is significant and, when mobilized, it will have a major influence on domestic funds.

International capital is likely to focus on the stocks with longer-term potential and this focus will drive up valuations of the better-quality companies, leading to improvements in corporate governance and efficiency amongst Chinese firms.

Despite the dominance of retail investors (>80% of turnover), policy support can provide longer-term, structural benefits, especially with the development of a commercial pension scheme and further initiatives to open up to overseas investors.

MSCI inclusion merely marks the start of A-share globalisation, with overseas investors gradually becoming as influential as domestic ones. It takes around 10 years for an Emerging Market to be fully included into MSCI EM index, so the flows will continue. By 2027 foreign ownership may reach 15-20% (vs approx. 2.5% currently).

While we anticipate passive flows to continue to be strong, active funds should benefit greatly too, with over 75% of active China A funds having outperformed the market in 2018 (against only 30% of 'Greater China', ie offshore China funds outperforming MSCI China).

Harvest, as China's largest institutional asset management firm, manages its funds with a GARP approach and, with a long and successful track record investing in China equities as well as global product availability. Harvest is uniquely positioned to cater to global investor demand."

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