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Mainland Chinese shares could lift on MSCI moves

Sydney, March 7 2018 – The decision by global index provider MSCI to add more China A-shares to its indices will power the Chinese share market as institutional investors scramble to boost their holdings in line with the MSCI increased index holdings.

MSCI announced last week that it will increase the weight of mainland Chinese shares, known as China A-shares, in its indexes by increasing the inclusion factor to 20% from 5% by November this year in three steps.

In step one, MSCI will double the index inclusion factor of all China A large-cap shares in the MSCI indexes to 10% from 5% in May 2019. In step two, MSCI will increase the inclusion factor of all China A large-cap shares in the MSCI indexes to 15% in August 2019. In step three, MSCI will increase the inclusion factor of all China A large-cap shares in the MSCI indexes to 20%.

On completion of these three steps, there will be 253 large and 168 mid-cap China A-shares in the MSCI Emerging Markets Index, representing a weight of 3.3%, according to MSCI. The index provider says its decision recognises greater institutional appetite for exposure to mainland China's equity market and follows last year's addition of China A-shares to MSCI indexes.

Arian Neiron, VanEck Managing Director and Head of Asia Pacific, said: "MSCI's decision goes a long way to improving the mismatch between China's economic contribution to the global economy and its under representation in indexes, and therefore portfolios. China is the world's second largest economy and its share market is the second biggest after the US. MSCI's moves will trigger flows into mainland China's equity market as fund managers boost their exposures to China A-shares to replicate MSCI indices.

"This will help to uplift A-shares' valuations, which have rallied this year given the easing of US and Chinese trade tensions. Goldman Sachs has estimated that at least US$70 billion in inflows from active and passive managed funds is expected moving forward. VanEck's own A-share exchange traded funds (ETFs) are seeing increased flows.

"VanEck Vectors China New Economy ETF (ASX: CNEW) leverages VanEck's Renminbi Qualified Foreign Institutional Investor (RQFII) license and a state-of-the-art smart beta strategy - the CSI MarketGrader China New Economy Index - giving investors easy access to the enormous potential growth opportunities in China's new economy," said Neiron.

The CSI Market Grader index tracks 120 of the most fundamentally sound companies domiciled and traded in China that belong to the technology, healthcare, consumer discretionary and consumer staples sectors.

Separately, VanEck Vectors ChinaAMC CSI 300 ETF (ASX: CETF) provides pure China A-shares exposure, giving investors the opportunity to access the 300 largest and most liquid A-shares in a single trade on ASX.

“China will continue to grow faster than developed economies, including Australia’s, and this is being driven by China’s increasing urbanising population which is living longer and spending more. The Chinese economy is increasingly being powered by “new economy” sectors such as technology and health care.

“For Australian investors, this represents an opportunity to invest in China’s growth story. Most Australians are not invested in China, but VanEck’s ETFs provide easy access at a low cost. While China is an important market, it is still in its infancy compared to developed markets and growing quickly. Early investors could reap some of the greatest returns,” said Neiron.

ENDS

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