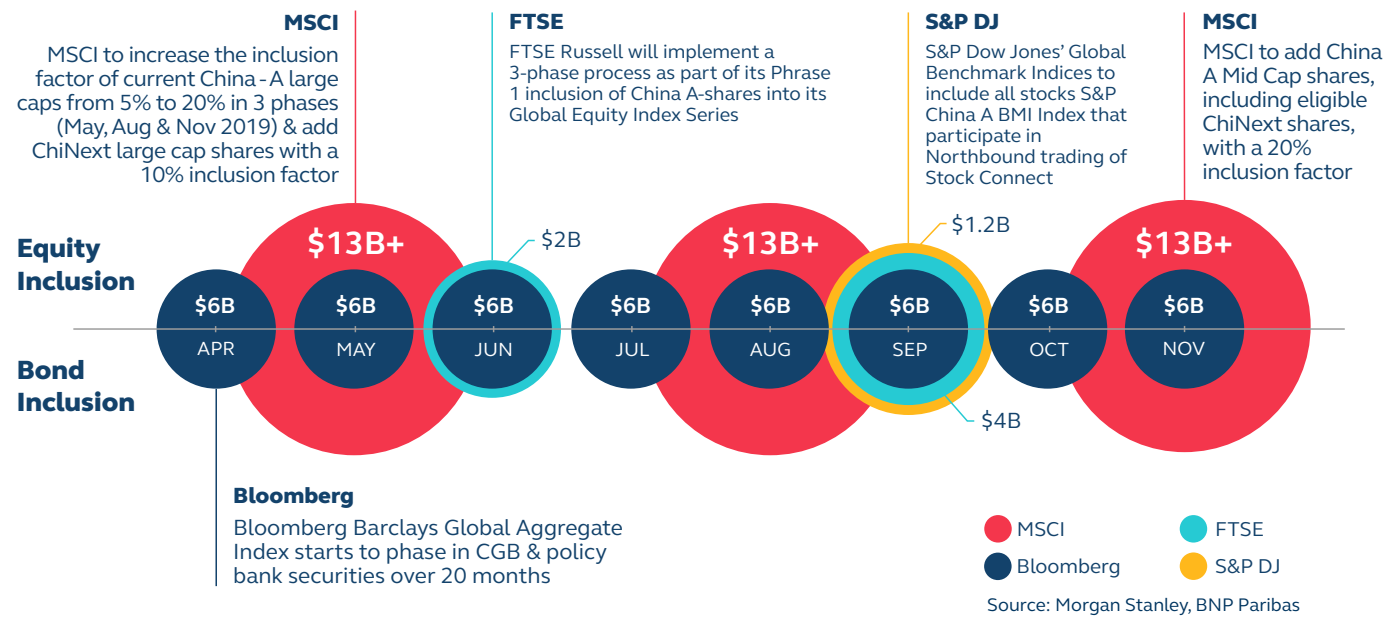


March 2019

CHINA A-SHARE MARKET HIGHLIGHT

2nd Largest Equity Market With a market capitalization of over US\$6.5 trillion¹, China's stock market is the second-largest in the world, representing around 8.2%² of global equity market capitalization. However, A-shares are significantly underrepresented in global portfolios. Currently they account for less than 0.22%² of global equity funds' holdings.

Global Index Inclusion 2019 is a monumental year for A-shares as index providers including MSCI, FTSE Russell and S&P Dow Jones race to add weight to China, potentially giving rise to unprecedented inflows into A-shares.



Low Correlation to Global Equity Markets

China A-shares exhibit low correlations³ to other stock markets in the world, making them ideal candidates for portfolio diversification.

	China A	Global Equity	DM Equity	US Equity	Europe Equity
China A	1	0.37	0.30	0.18	0.33
Global Equity	0.37	1	0.99	0.91	0.64
DM Equity	0.30	0.99	1	0.94	0.62
US Equity	0.18	0.91	0.94	1	0.46
Europe Equity	0.33	0.64	0.62	0.46	1

Policy as Market Stabilizer

Government policies focused on stabilizing the A-share market are proven effective:

- The number of trading suspensions⁵ has dropped to 12 following tighter rules on stock suspensions
- Regulators relaxed share buybacks rules (such as broadening the circumstances under which companies are permitted to repurchase shares) and simplified buybacks procedures to stabilize market

Increasing Institutional Participation

Although the A-share market is dominated by retail investors, who hold around 40% of the A-share free-float market cap⁴, institutional participation has been on the rise since the launch of Stock Connect in 2014.

A-share free-float market cap held by institutional investors⁴

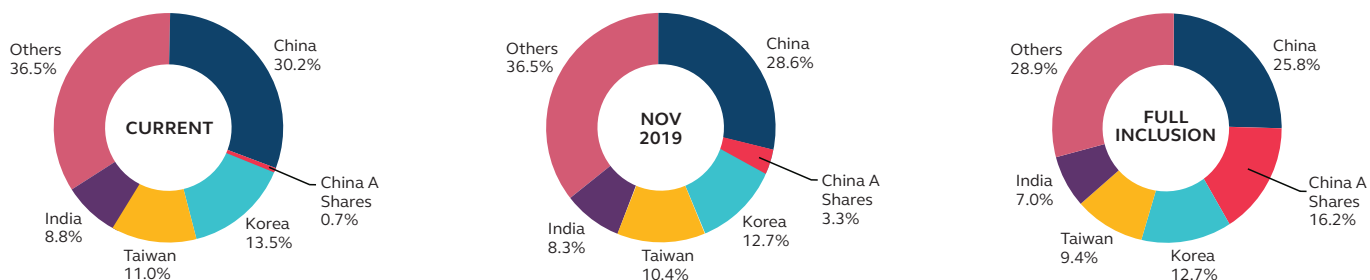
23.8%
2015

31.3%
2018Q2

1. Source: World Federation of Exchanges. Data as of Nov 2018. Retrieved from Stock-ai.com on 7 Mar 2018 2. Source: Morgan Stanley Research, 11 February 2019 3. Source: Bloomberg. China A: MSCI China A Inclusion Index; Global equity: MSCI ACWI; DM Equity: MSCI World Index; US Equity: MSCI USA Index; Europe Equity: MSCI Europe Index 4. Source: Haitong Securities research report "A 股与美股的市场结构对比", 9 November 2018 5. Source: DataYes. Data as of 14 February 2019

MSCI INCLUSION SPOTLIGHTED

MSCI will increase the weight of A-shares in its indices in 3 steps from May to November 2019. On completion, A-shares will represent 3.3% of the pro forma MSCI EM Index, which is tracked by \$1.8 trillion in assets.



Source: MSCI

The number of A-shares in the MSCI EM Index by Nov 2019:

253
Large Cap

168
Mid Cap

27
ChiNext Shares*

*the number of ChiNext shares are included in the Large and Mid caps

MSCI Inclusion Timeline 2019

- MAY**
 - Increase the inclusion factor of China A Large Cap shares from 5% to 10%
 - Add ChiNext Large cap shares with a 10% inclusion factor
- AUG**
 - Increase the inclusion factor of China A Large Cap shares from 10% to 15%
- NOV**
 - Increase the inclusion factor of China A Large Cap shares from 15% to 20%
 - Include China A Mid Cap shares, including eligible ChiNext shares, with a 20% inclusion factor

HKEX - YOUR GATEWAY TO CHINA A-SHARES

China A-share has reached a milestone, so can your trading strategy. HKEX features a range of products to help you gain China exposure:



Equity Index Derivatives
Leveraged, cost effective exposure to China's growth drivers



Stock Connect
The direct investment channel to trade eligible stocks in Shanghai & Shenzhen



A-share ETFs
A growing range of China broad market and thematic ETFs

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