

## Another Milestone in Chinese Financial Market Reform

### - Improved market access and flexibility

#### Chinese Regulators Continues to Implement Financial Market Reforms

September saw additional measures from the Chinese regulator as they continue to implement financial market reforms in anticipation for MSCI inclusion in June 2017. These reforms directly address some of the concerns raised by MSCI for the delay. Their successful implementation would further enhance the likelihood of inclusion next year. On the other hand, MSCI has announced that a series of 20 new reference indices. These reference indices assume the 5% inclusion of the China A-Shares market into existing MSCI Emerging Market indices to provide investors with a transitional reference. It is evident that the Chinese regulators are working closely with MSCI towards a successful inclusion.

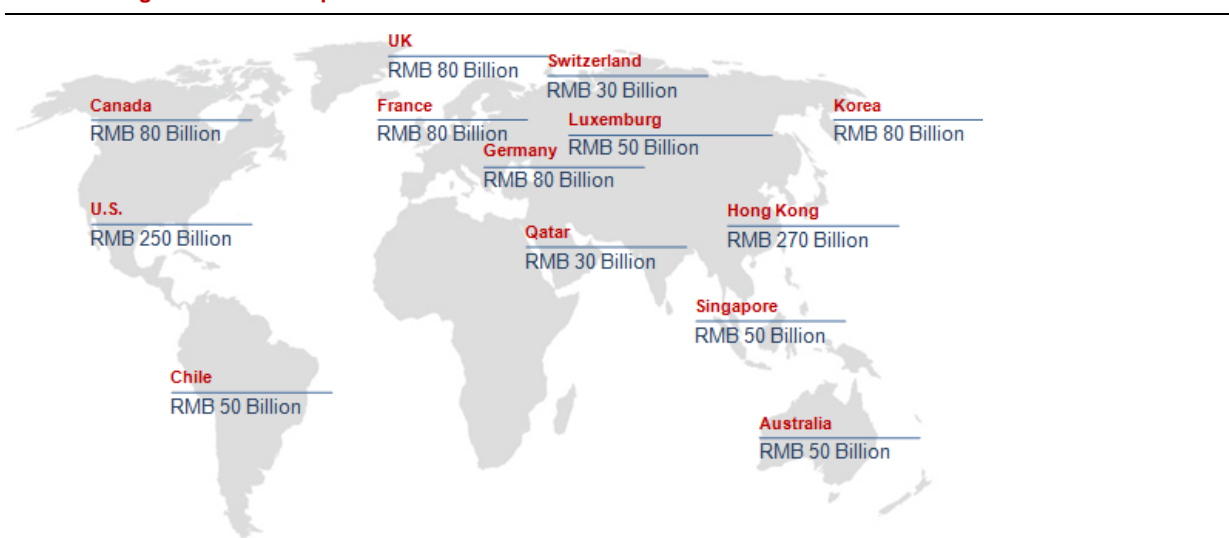
#### RQFII Restrictions Relaxed

On Sep 5th, the People's Bank of China ("PBOC") and the State Administration of Foreign Exchange ("SAFE") jointly issued a Circular on Issues concerning Administration on the Investment in Domestic Securities by the RMB Qualified Foreign Institutional Investor ("the Circular"). The Circular provided guidance on further relaxation of RQFII restrictions for foreign investors investing in the Chinese market. A summary of the Circular is provided here:

- A basic quota will be automatically granted to each RQFII based on the size of securities asset or AUM of each RQFII investor. Any additional quota application will need to be approved by the SAFE.
- The net inbound remittances shall be within the investment quota. This will apply to both "open-ended funds" and "other assets or products".
- For "other assets or products", the lock-up period for investment principal will be shortened from one year to three months. No lock-up period for "open-ended funds".
- No restriction is imposed on the repatriation frequency of "Other assets or products" in the Circular.

**Compared with the QFII, monthly aggregated net repatriated funds (including principal and profits) of RQFII are not restricted to the 20% limit of a QFII's total assets in China at the end of the preceding year.**

**Exhibit 1: Regions with RQFII quota**



## CSRC Lifts Restrictions on the Investment Proportion of QFII/RQFII

On Sep 23rd, CSRC gave notice to a few custodian banks through its window guidance that QFII/RQFII managers will have the freedom to dictate the asset allocation of their QFII/RQFII portfolio. Investment proportion restrictions such as minimum allocation of 50% in equities are lifted. These restrictions were originally installed back in 2010.

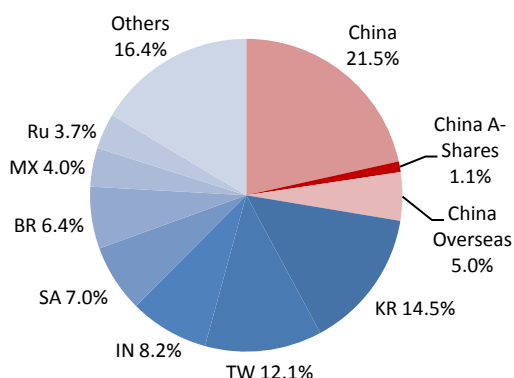
In the short term, some market participants may become concerned about investors may shiting away from equities to other asset classes. However, we tend to hold a very positive stance toward this new development as the discretion for making asset allocation decisions are a prerequisite of any free market. The librazaltion will only serve to draw in investors in the medium to long term as they start to recognize the eminent needs to allocate to China. In fact, QFIIs remain committed to China A-shares. According to Chinaclear, it is for the 56th straight month seen QFII/RQFII new account openings. As of Aug31 2016, QFII and RQFII securities accounts totaled to 1046 and 1034, respectively, increased 6.6% and 9.8% year to date.

## New MSCI Indices Expected in September 2016

On Sep 13<sup>th</sup>, MSCI has announced the launch of 20 new indices this month. The set of new indices aims to reflect the implications of the 5% inclusion of China's A-Shares in the MSCI Emerging Market Index. MSCI's inclusion of China's A-Share market is expected to significantly impact global investments in emerging markets. Although this will not incur immediate capital flows into the China market, the new indices may offer a reference for existing investments tracking related indices.

MSCI's announcement signals a positive tone to provide global investors with transitional references in anticipation of a China A-Share inclusion. The arrangement is similar to that of FTSE's transitional approach in May 2015 to include 5% of China's A-Share market in its two emerging market indices. Once foreign investors can freely enter the China A-Share market, the FTSE's inclusion factor will increase to 32%.

**Exhibit 2: Post-Inclusion Constituents of MSCI EM Index**



**Exhibit 3: List of New MSCI Indices**

- MSCI China with partial A Shares Index
- MSCI China IMI with partial A Shares Index
- MSCI Golden Dragon with partial A Shares Index
- MSCI Golden Dragon IMI with partial A Shares Index
- MSCI ZhongHua with partial A Shares Index
- MSCI ZhongHua IMI with partial A Shares Index
- MSCI AC Asia ex Japan with partial A Shares Index
- MSCI AC Asia ex Japan IMI with partial A Shares Index
- MSCI AC Asia with partial A Shares Index
- MSCI AC Asia IMI with partial A Shares Index
- MSCI AC Asia Pacific with partial A Shares Index
- MSCI AC Asia Pacific IMI with partial A Shares Index
- MSCI AC Asia Pacific ex Japan with partial A Shares Index
- MSCI AC Asia Pacific ex Japan IMI with partial A Shares Index
- MSCI EM with partial A Shares Index
- MSCI EM IMI with partial A Shares Index
- MSCI EM Asia with partial A Shares Index
- MSCI EM Asia IMI with partial A Shares Index
- MSCI ACWI with partial A Shares Index
- MSCI ACWI IMI with partial A Shares Index

---

## About ChinaAMC

Founded in 1998 as one of the first fund management companies in China, China Asset Management (ChinaAMC) has maintained its leading position in China's asset management industry with total AUM of approximately US\$ 165.8 billion (2016Q2). The company currently serves over 400 institutional mandates and 40 million retail investors.

ChinaAMC boasts one of the industry's strongest investment team with over 200 dedicated investment professionals. The company has been highly regarded for its excellence in investment research and risk management by clients both domestic and abroad.

Recognized by global institutional investors as one of the top managers in China, ChinaAMC offers top notch investment management services over a full spectrum of market access schemes including QFII, RQFII and Stock Connect. The company currently manages assets for central banks, SWFs, public pensions and asset managers from United States, Canada, Korea, Japan, Malaysia, Germany, Hong Kong, Macau and Taiwan, etc.

## Disclaimer

### Important Information

This report is intended only for the use of our clients and prospects. Neither this report nor any of its contents may be reproduced or published for any other purpose without the prior written consent of China Asset Management Co. Ltd ("ChinaAMC"). All the investment strategy illustrated in this report was made on a preliminary basis only, no representation or warranty is made as to the efficacy of any particular strategy or the actual returns that may be achieved.

The information in this report reflects prevailing market conditions and our judgment as of this date, which are subject to change. In preparing this report, we have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources. We consider the information in this report to be reliable, but we do not represent that it is complete or accurate. ChinaAMC, its affiliates, directors, officers or employees accept no liability for any errors or omissions relating to information available in this report, and will not be liable for any damages or costs arising out of or in any way connected with the use of the information provided in this report.

Any information given or representation made by any dealer, salesman or other person and (in either case) not contained herein should be regarded as unauthorized and, accordingly, should not be relied upon. Accordingly, no person receiving a copy of this report in any territory may treat the same as constituting an invitation to him to purchase or subscribe for the participating shares of the Fund nor should he in any event use the Fund's subscription agreement unless in the relevant jurisdiction such invitation and distribution is lawfully made.

---

### Contact Information

China Asset Management Co. Ltd.

8F, Tower 7, One Yuetan Street South, Xicheng District, Beijing 100045, China

Email: IB@ChinaAMC.com

Tel: +86 10 8806 6688 / Fax: +86 10 8806 6330

---

