September 30, 2016

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.

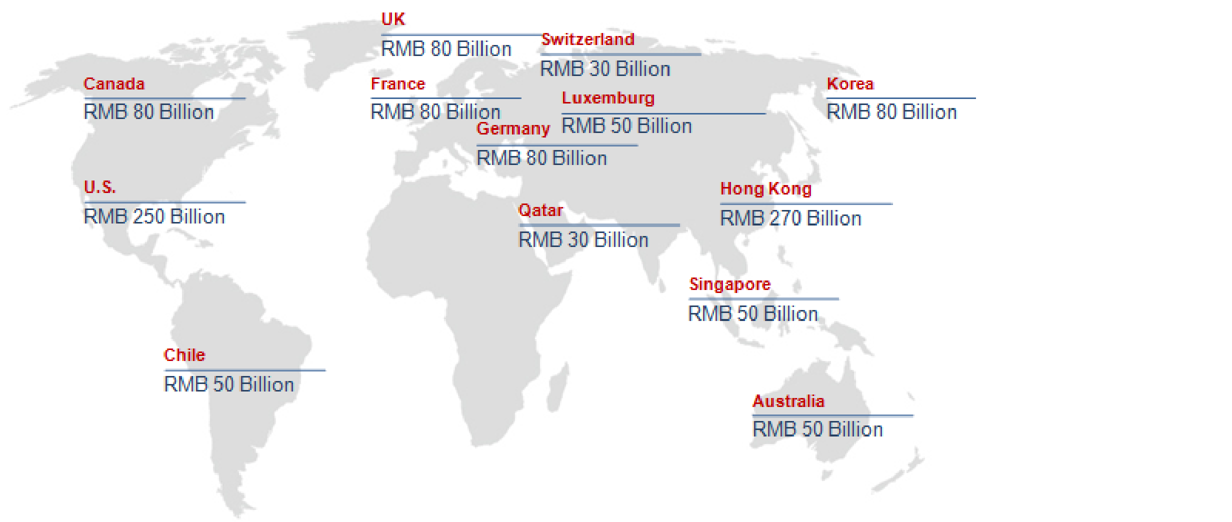
RQFII Restrictions Relaxed

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



Source: ChinaAMC，SAFE

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 i 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 13th, 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

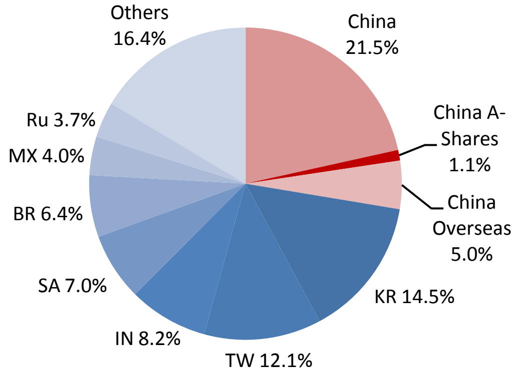


Exhibit 3: List of New MSCI Indices

- 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

Source: MSCI

About ChinaAMC

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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.

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