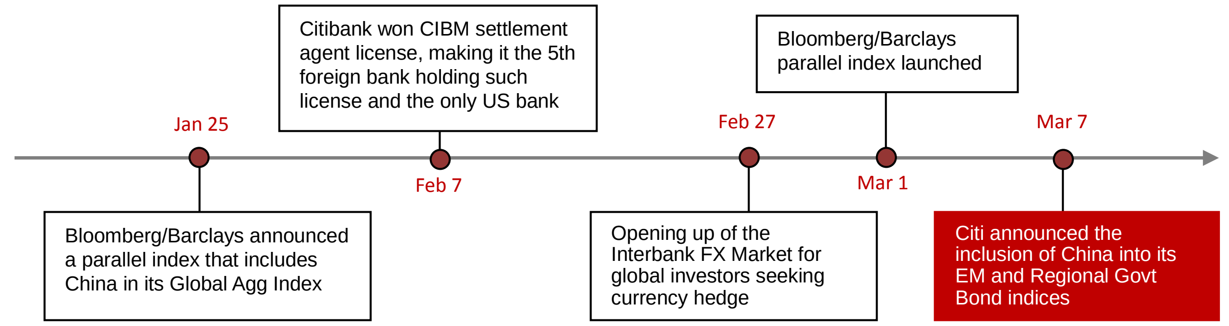
March 8, 2017

Index Inclusion:

One small step for Citi, one giant leap for China bond market

CIBM opening up accelerated in 1Q2017

Exhit1: Key events in CIBM since beginning of 2017



Source: ChinaAMC

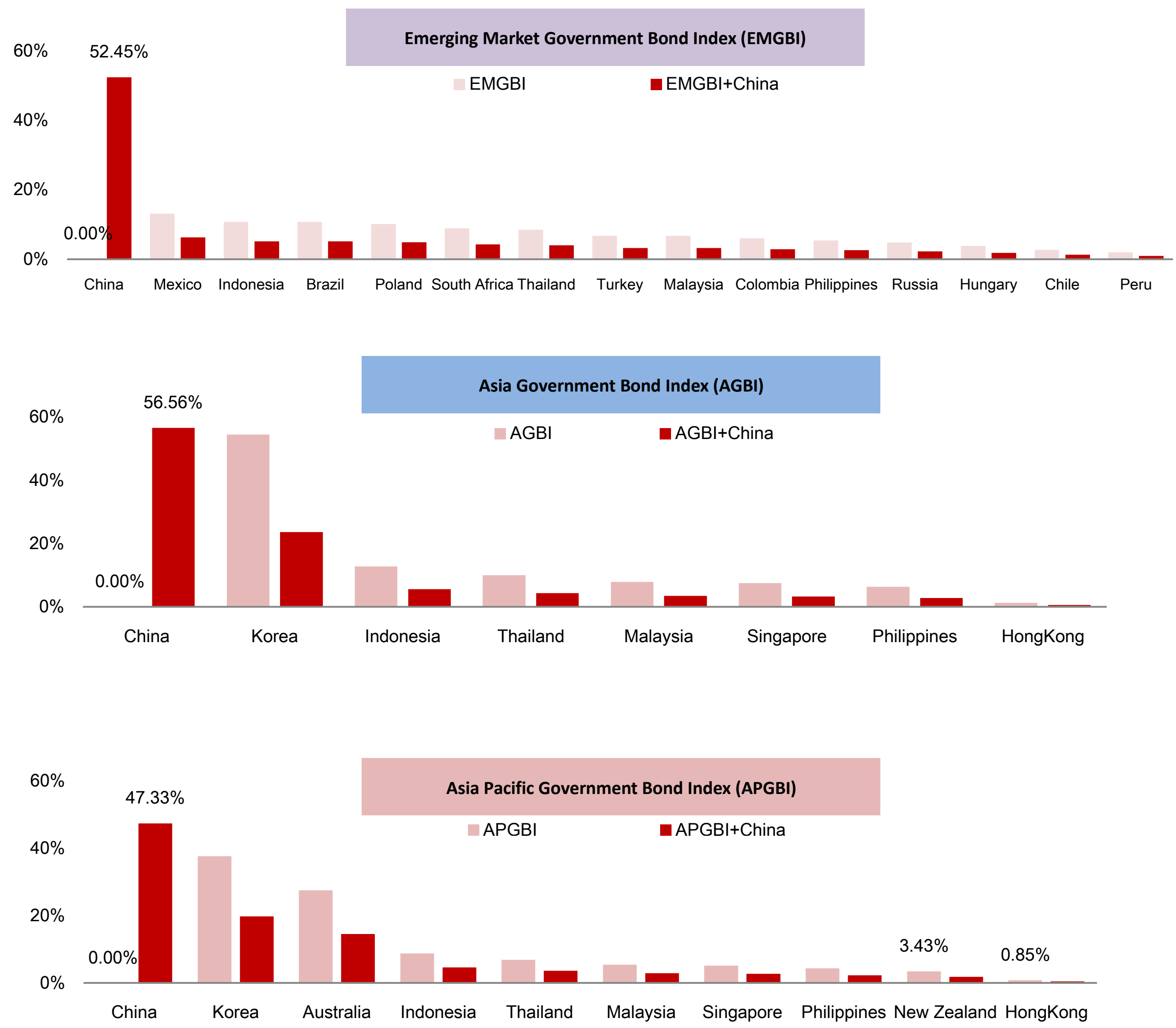
Citi Bond Indices to Include China Government Bonds

Citi said China bonds will be included in its three government bond indices - the Emerging Markets Government Bond Index (EMGBI), Asian Government Bond Index (AGBI), and the Asia Pacific Government Bond Index (APGBI).

For a country to meet the eligibility requirement into the EMGBI, the outstanding amount of a market's eligible issues must total at lease US$ 10 billion. Accessibility of markets and replicability of returns are additional requirements. At this moment, China has met the entry criteria of the EMGBI, if it continues to meet these requirements for three consecutive months, it will join the EMGBI in February 2018. We foresee these inflows should begin in the second half of this year and will shift up a gear in early 2018.

Citi said that it has been monitoring China's eligibility since February 2016, when China opened its interbank bond market to foreign participants, and had now decided to include China bonds in its indices after an extensive review. Once included, China's weighting in these indices will jump from nil to almost 50%.

Exhibit 2: Pro-forma Index Weight after China Inclusion



Source: Citi Yieldbook as of March 7,2017

Citi has taken a somewhat different route from Bloomberg/Barclays, who announced in January that it would create a parallel index that combines the Global Aggregate Index and the government and policy bank component of the China Aggregate Index. The index was launched on March 1st.

The investors are now eyeing at J.P. Morgan, who owns the widely tracked GBI-EM Diversified Index for its next move to counter its index business competitors. J.P. Morgan also has been closely following the development in CIBM, and concluded inclusion of China Bonds “Likely” in a research note in May 2016.

By estimate, total inflow after China’s onshore bond market been fully included could reach US$ 250 Billion.

Exhibit 3: Estimate of inflows from full inclusion in Global Indices

Index	Estimated AUM (US$ Billion)	Estimated China's Weight	Estimated Inflow (US$ Billion)
JPM GBI-EM Global Diversified	250	10%	20
Citi WGBI	2000	5-6%	100-120
Bloomberg Barclays Global Aggregate	2000	5.9%	100
Others (ie, Iboxx)			10+
TOTAL			**Approximately 250**

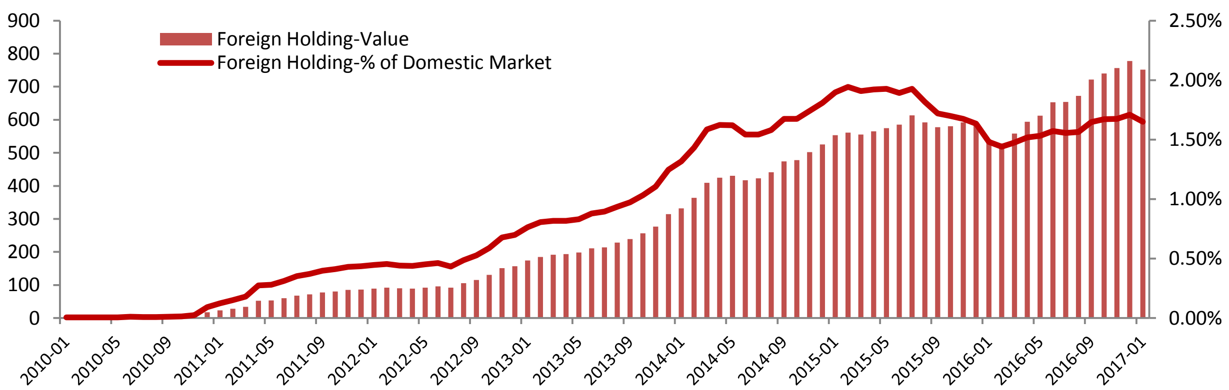
Source: Goldman Sachs Research

China Bond was significantly under owned, rebalance in due course

1. Foreign holding less than 2% of domestic market

As of end of Jan 2017, China's bond market totaled 64 trillion RMB (US$9.25 trillion), making it the third largest bond market in the world, after US and Japan. Yet, global investors merely own a small piece of the domestic bond market, less than 2%.

Exhibit 4: Foreign holdings represents only a fraction of the CIBM

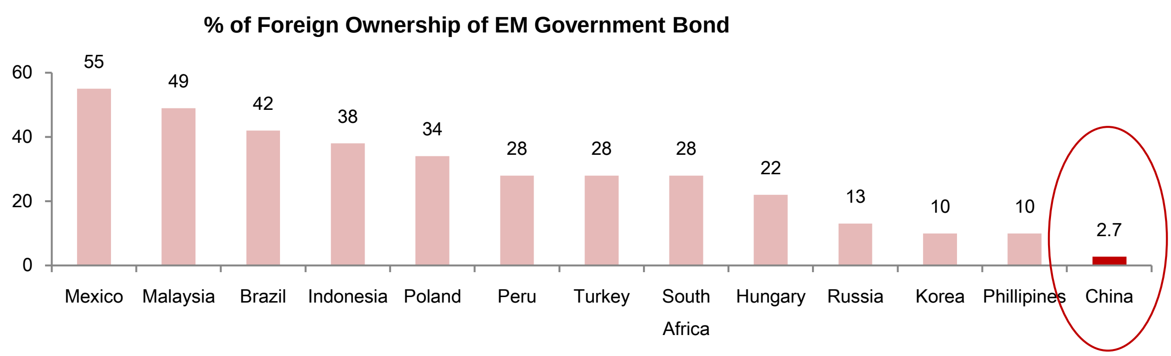


Source: Wind, ChinaAMC as of Jan 31, 2017

2. One of the lowest foreign ownership in emerging market

Even comparing to other emerging economies, China's government issued bonds are far less owned by global investors. However, we foresee the inclusion into global bond indices will create rebalance by global investors.

Exhibit 5: China government bond has one of the lowest foreign ownership among EM countries



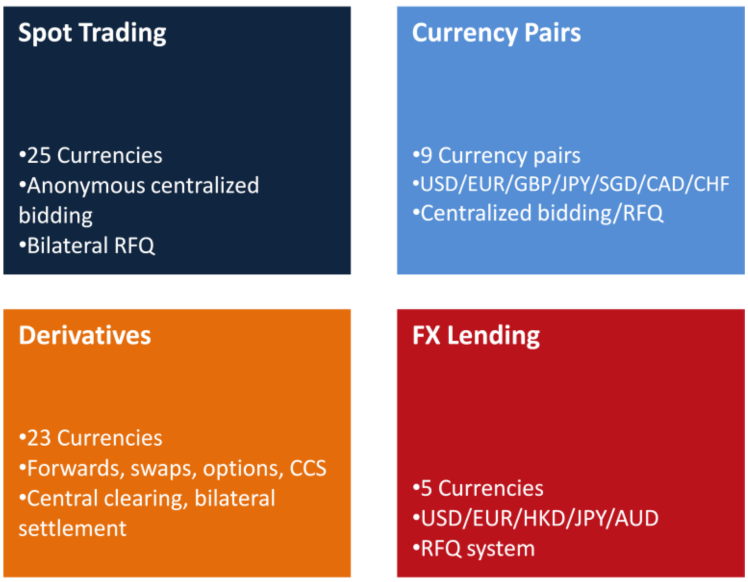
Source: Standard Chartered Research as of May 2016

Currency Hedge: One less thing to worry about

One of the shared concerns among global investors sitting on the sidelines is the lack of hedging instruments. Just before 2017, the onshore interbank FX market was only accessible by domestic institutional investors and foreign reserve managers (Central banks, SWFs, Monetary Authorities)

On Feb 27, The State Administration of Foreign Exchanges (SAFE) announced that Foreign Institutional Investors are now allowed to enter Foreign Exchange Derivatives Market. Instead of being a member of the interbank market, foreign investors seeking FX hedge can do so via their settlement agent banks. The permitted foreign exchange derivatives transactions are forward, swap, cross currency swap (CCS) and FX options.

Exhibit 6: Interbank FX market overview



Source :CFETS, ChinaAMC

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

Our Performance Your Trust