

# HSBC MSCI China UCITS ETF

China Unleashed



**HSBC**  
Asset Management

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# Should China be a part of your portfolio?

China has grown over the years to become the world's second largest economy, accounting for around one fifth of the global GDP. Its dominance in the global economic landscape is also reflected in the size of its equity markets: the market capitalisation of China's onshore equities<sup>1</sup> amounts to USD 10.5tn<sup>3</sup>, making it second only to the US in the global pecking order.

Despite its well-recognised growth potential and the significant strides China has made in recent years to open up its markets and become better integrated with the global financial system, its equity markets remain under-represented in key global benchmarks.

In 2018, index providers, such as MSCI and FTSE, began recognising China's deepening capital market reforms by allowing onshore equities into their widely tracked indices, supporting China's efforts to attract foreign investments.

Going forward, we expect a near-constant trickle of incremental market reforms as China continues to internationalise its markets and journey its way to an eventual full inclusion in key equity indices and greater allocation in global investors' portfolios.

The decision to invest in China ultimately depends on investors' conviction on the Chinese economy, reforms and capital markets over the long term. Now that both MSCI and FTSE have started adding China A in their global benchmarks, investors worried about China's investability and future may need to change their strategic asset allocation benchmarks to avoid taking additional exposure to the country. On the other hand, investors who are comfortable with an increased weight of Chinese assets in their benchmarks – or those who want to seize the opportunity to increase their exposures further – should act now and select the right tools to adjust their allocation.

This is why HSBC Asset Management offers the HSBC MSCI China UCITS ETF, giving investors simple and cost-efficient access to these assets.

Chinese economy GDP is **USD 22.5 trillion<sup>1</sup>**

Estimates put Chinese economic growth at **8.9% in 2020<sup>2</sup>**

**Any views expressed were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management UK (Ltd.) accepts no liability for any failure to meet such forecast, projection or target.**

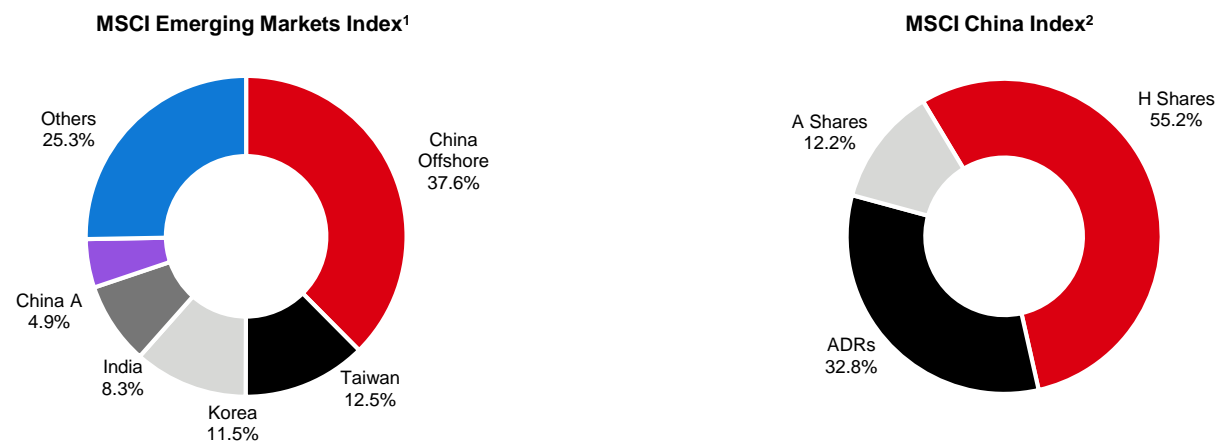
1. Source: Gross domestic product, PPP. World Development Indicators database, World Bank, as of February 2020.
2. Source: IMF forecast for 2021, as of April 2020.
3. Source: Shanghai Stock Exchange, Shenzhen Stock Exchange. Data as of 10/09/2020.

# Chinese equities

## From niche to mainstream

### Growing presence in global indices

Shortly after including China A-shares in some of its most widely-tracked benchmarks for the first time in 2018, MSCI, in February 2019, decided to step on the accelerator and increase China’s weighting in its key indices. They officially increased the index inclusion factor of all China A large-cap shares from 5% to 10% in May 2019 and increased the opportunity set by adding ChiNext Large Cap shares with a 10% inclusion factor. The August 2019 round saw the inclusion factor of more than 200 China A-shares increased to 15% and bumped up the A-share weighting in MSCI Emerging Markets to over 2.1%. The MSCI three-step inclusion eventually increased the weight of China A-shares to 4.0% of the MSCI Emerging Markets Index in November 2019.



FTSE Russell, another major index provider, started incorporating China A-shares in a three-step process that was completed in March 2020. In all, more than a thousand stocks traded on the Shanghai and Shenzhen exchanges were brought into the FTSE indices, with China A-shares representing approximately 6%<sup>3</sup> of the FTSE Emerging Index.

1. Source: MSCI, as at 31 August 2020. Others include Brazil, South Africa, Russia, Mexico, etc.  
2. Source: Bloomberg, as at 31 August 2020.  
3. Source: FTSE Russel, as at June 2020.

### The diversification argument

The A-share market has a relatively low correlation with its developed and emerging market peers, as the domestically-traded market has been largely closed to foreign investors in the past. Chinese equities have also displayed the ability to shrug off negative headlines on the domestic and external front. Markets have advanced despite concerns over the ongoing trade dispute and slowing economic growth.

	MSCI China A Onshore	S&P500	Stoxx 50	Nikkei 225	MSCI AC World	MSCI EM	Hang Seng
MSCI China A Onshore	1.00						
S&P500	0.29	1.00					
Stoxx 50	0.25	0.77	1.00				
Nikkei 225	0.28	0.58	0.60	1.00			
MSCI AC World	0.33	0.95	0.84	0.65	1		
MSCI EM	0.27	0.80	0.99	0.62	0.87	1	
Hang Seng	0.51	0.55	0.54	0.57	0.71	0.56	1

Source: Bloomberg, MSCI and HSBC Global Asset Management UK (Ltd.). Correlation calculated using weekly returns in local currency from January 2010 to January 2020.  
Past performance is not indicative of future performance. For illustrative purposes only.

# Simple solutions to access mainland China

The HSBC MSCI China UCITS ETF is a quick and cost-efficient solution, and can simply be added to existing allocations, meaning investors don't have to reallocate.

## HSBC MSCI China UCITS ETF

Investment objective	The fund seeks to replicate the performance of the MSCI China Index while minimising as far as possible the tracking error between the Fund's performance and that of the Index. The Index is a market-capitalisation weighted index designed to measure the performance of the largest Chinese companies.
Benchmark	MSCI China Index Net Total Return (NDEUCHF)
OCF	0.60%
Registration	BE, CH, DE, DK, ES, FI, FR, IE, IT, LU, NL, PT, SE, SG, UK, MX
Listings / Ticker	HMCDN MM (MXN)
Launch date	26 January 2011
ISIN	IE00B44T3H88
Base currency	USD
Fund domicile	Ireland
UK reporting fund status (UKRS)	Yes
Fund manager	HSBC Global Asset Management (UK) Ltd
Assets under management	USD 651 million
Replication methodology	Physical replication
Dividend treatment	Distribution
Dividend Frequency	Semi-annual

Source: HSBC Global Asset Management UK (Ltd.), as at 29 December 2020.

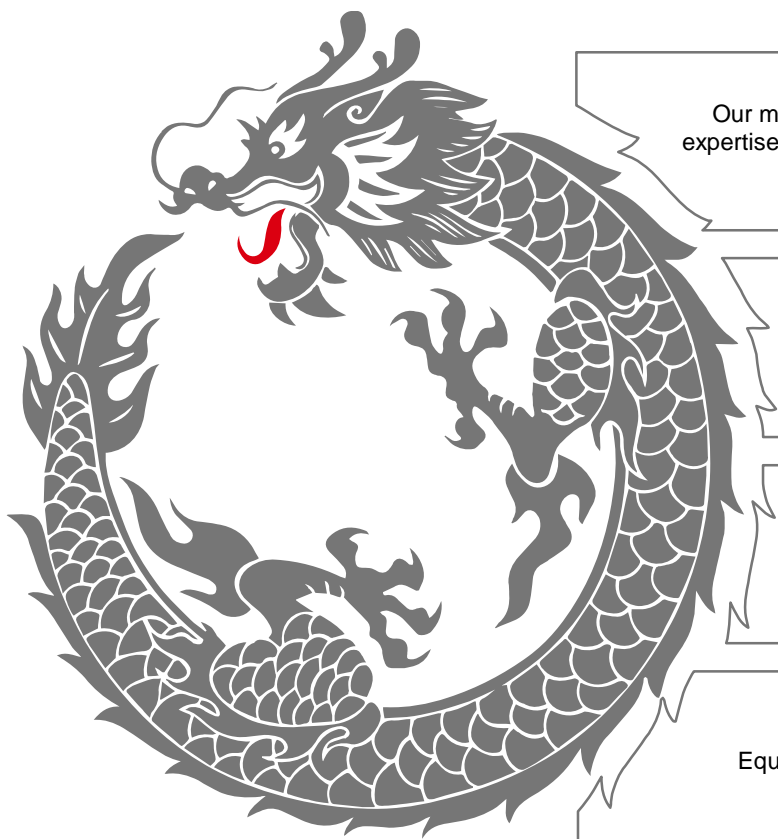
# Our expertise in China

## HSBC for your China exposure

HSBC has the widest and deepest presence in China among all foreign financial institutions, and is the leading foreign bank in China, having been actively participating in free trade zone developments.

HSBC China's knowledge of mainland China and international banking expertise enable it to provide customers with a wide range of specialised services:

- ◆ Comprehensive services and solutions to meet corporate, institutional and commercial banking needs in mainland China
- ◆ Comprehensive RMB and foreign currency services to HSBC retail banking and wealth management clients in mainland China
- ◆ Launched in Beijing, Guangzhou and Shanghai in March 2008, the Private Banking business provides a wide range of services for high net worth individuals and their families



Our mainland Chinese solutions rely on our longstanding expertise in China and Hong Kong – meaning they can take advantage of our intellectual property.

HSBC's footprint and solid expertise in China:  
HSBC Jintrust in Shanghai has been embedded within the China A-share market since 2007 and provides on-the-ground expertise and insight.

HSBC Asset Management in Hong Kong understands and meets the requirements of international institutional investors in terms of investment oversight, risk management and reporting

HSBC has a long heritage of investing in Chinese Equity, and asset management experience with strong relationships with brokers in Asia

**The Asset  
Management  
AWARDS 2020**  
**WINNER**  
PASSIVE MANAGER OF THE YEAR

**The Asset  
Management  
AWARDS 2020**  
**WINNER**  
EMERGING MARKETS MANAGER OF THE YEAR

**BEST OF  
THE BEST  
AWARDS  
2020**  
Asia Asset Management

Any performance information shown refers to the past and should not be seen as an indication of future returns.

# Our expertise in ETFs

## Experience in managing Exchange Traded Funds

HSBC Asset Management's commitment to passive investing goes back to 1988, when we launched its first index tracker fund in the UK. We have been a leader in a number of the key passive trends, including managing exchange-traded funds since 2003, when we launched our first products in Hong Kong. In late 2009, we launched our first UCITS ETFs in Europe. We now have a range of 35 ETFs for a total of USD 9.8bn of assets under management.

## Investing in proprietary technology

We continuously invest in and develop leading technology to support our investment processes and seize opportunities for our clients as they emerge. Our proprietary technology ensures the efficiency and accuracy of information – supporting consistent tracking and fund performance. We integrate technological developments into our investment platform, providing:

- ◆ In-house trade algorithms and portfolio optimisation techniques,
- ◆ Direct feeds of large pools of data,
- ◆ Risk management coded and embedded across the platform at both pre- and post-trade levels.

Our proprietary technology has been designed by our investment teams to meet our rigorous and robust requirements, ensuring cost savings and better performance outcomes for both our funds and our investors.

## Enhanced risk management, control and monitoring

The management and control of a range of risks are key to our investment process – not only during portfolio construction but throughout the life-cycle of the portfolio. Risk management is central to our investment process both before and after investment decisions are made.

Our ongoing risk management covers investment operating parameters, tracking error risk, counterparty risk, exposure risk and the accuracy of our analyses of performance attributions and exposures to different parts of the underlying market.

We also manage and implement the impact of index rebalancing, currency exchange rate exposures and, corporate action events such as mergers and acquisitions, stock splits, rights issues, spin-offs or the receipt of interest and dividends.

As a bank-owned asset manager, we are subject to very robust risk parameters and strict governance rules. Our risk management division also benefits from its alignment and operation within the global framework of HSBC Group – this facilitates the sharing of best practice, controls and ideas while also ensuring the independence of our risk management division.

# 30+

Years

### Robust tracking

All our funds are either physically replicated or physically optimised. Our conscientious and value-added approach to passive management has enabled us to consistently produce returns that closely track that of the index, while remaining within the target tracking tolerances.

### Competitive pricing

The ability to offer competitive TER/OCF across our ETFs

### Well resourced teams

Dedicated ETF Sales and ETF Capital Market teams on hand to help. Team of investment management professionals with a depth of experience in index based investing.

### Transparency

Fully transparent, with physical replication, no securities lending. All constituents online.

### Strong relationship with administrator

Partnership with administrator and custodian. Strong NAV tolerance tools – more accurate valuations. Investment team oversight.





## Contacts

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## Key risks

The value of an investment in the portfolios and any income from them can go down as well as up and as with any investment you may not receive back the amount originally invested.

- ◆ **Concentration Risk:** The Fund may be concentrated in a limited number of securities, economic sectors and/or countries. As a result, it may be more volatile and have a greater risk of loss than more broadly diversified funds.
- ◆ **Counterparty Risk:** The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- ◆ **Derivatives Risk:** Derivatives can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset.
- ◆ **Emerging Markets Risk:** Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- ◆ **Exchange Rate Risk:** Changes in currency exchange rates could reduce or increase investment gains or investment losses, in some cases significantly.
- ◆ **Index Tracking Risk:** To the extent that the Fund seeks to replicate index performance by holding individual securities, there is no guarantee that its composition or performance will exactly match that of the target index at any given time ("tracking error").
- ◆ **Investment Fund Risk:** Investing in other funds involves certain risks an investor would not face if investing in markets directly. Governance of underlying assets can be the responsibility of third-party managers.
- ◆ **Investment Leverage Risk:** Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- ◆ **Liquidity Risk:** Liquidity Risk is the risk that a Fund may encounter difficulties meeting its obligations in respect of financial liabilities that are settled by delivering cash or other financial assets, thereby compromising existing or remaining investors.
- ◆ **Operational Risk:** Operational risks may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things.
- ◆ **Real Estate Investments Risk:** Real estate and related investments can be negatively impacted by any factor that makes an area or individual property less valuable.

## Important information

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The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Where overseas investments are held the rate of currency exchange may also cause the value of such investments to fluctuate. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Stock market investments should be viewed as a medium to long term investment and should be held for at least five years. Any performance information shown refers to the past and should not be seen as an indication of future returns. This sub-fund invests predominantly in one geographic area; therefore any decline in the economy of this area may affect the prices and value of the underlying assets. Markets in some countries are described as 'emerging markets'. Some of these may involve a higher risk than where investment is within a more established market. These risks include the possibility of failed or delayed settlement, registration and custody of securities and the level of investor protection offered.

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XB-1254 EXP: 30/06/2021



