

HSBC Qianhai Securities – Opportunities for international investors



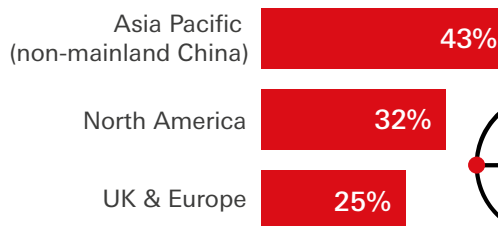
There is growing interest among the international financial community for Chinese securities, with more global capital flowing into the world's second largest economy. The level of foreign holdings remains low, which means that there is a large scope for future growth.

To help understand the behaviours of China's offshore investors, HSBC recently commissioned a survey examining their needs, preferences, and expectations. 935 global institutional investors and large corporates were interviewed in August to September 2020 – all with existing exposure to or plans to participate in mainland China's capital market.

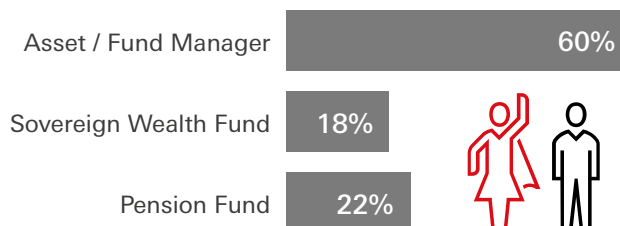
Survey participants



Their geographic distribution



Investor type



Demand for Chinese assets

Portfolio balancing towards mainland China is continuing at a rapid pace.

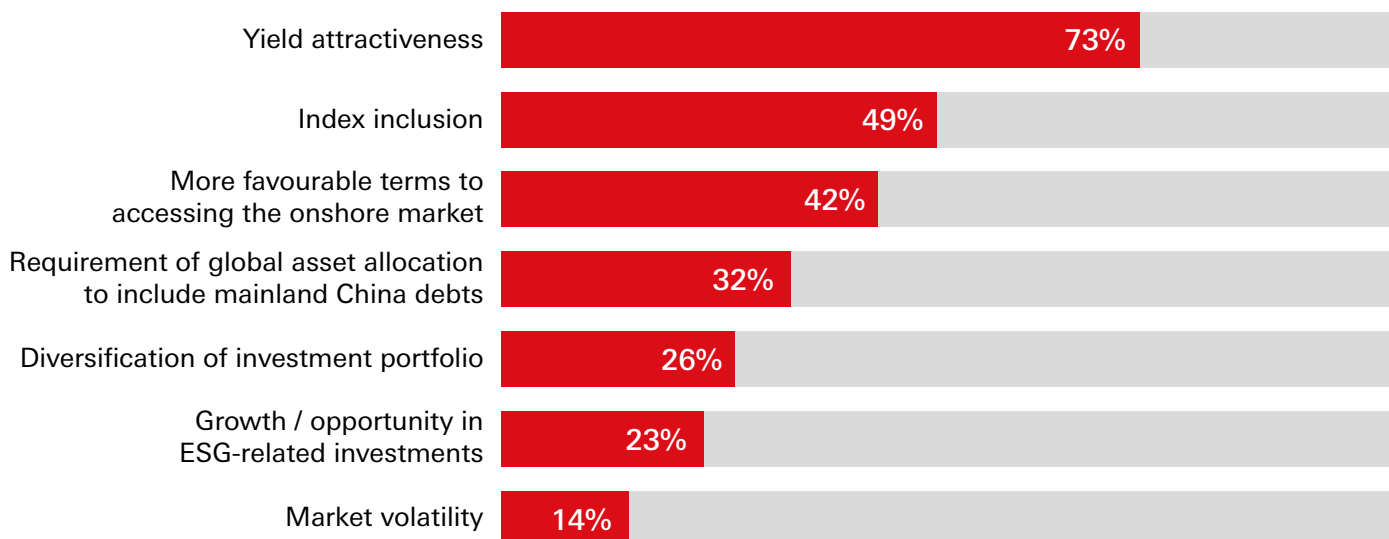


There are differences however between asset classes.

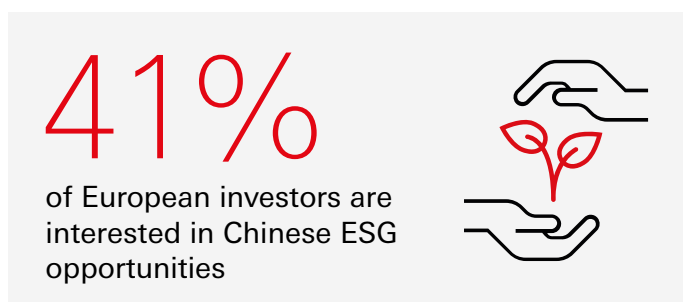
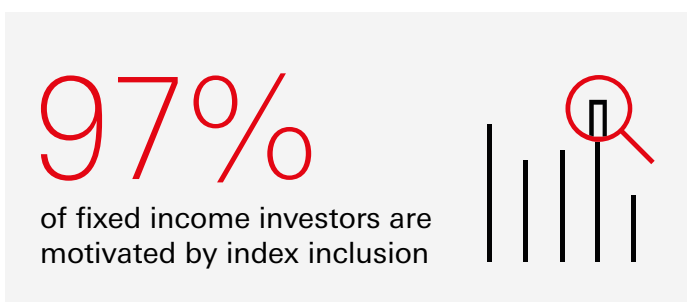


A variety of factors are driving investors towards Chinese investment opportunities. The search for **yield is the dominant driver, highlighting the attractiveness of Chinese yields against a global backdrop of extremely low interest rates.** Recent improvements to market access and mainland China’s growing presence in international indices are other motivations.

The full list of drivers behind investing in mainland China are the following:



A deeper dive reveals nuances within the results:

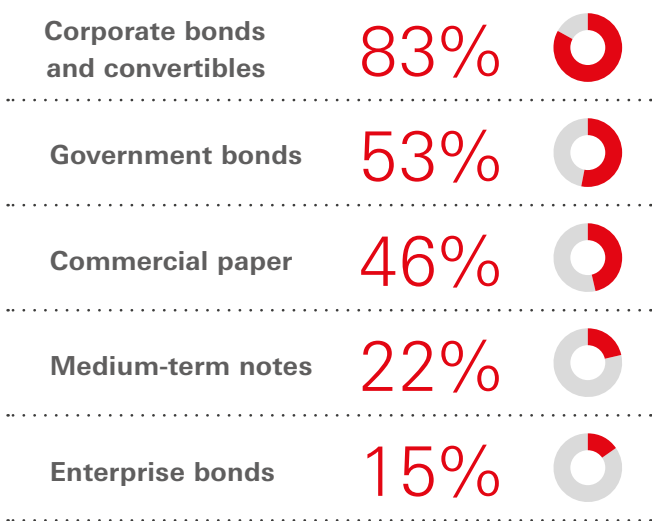


What are foreign investors buying?

Fixed income

The typical fixed income investor trades **2.2 asset classes on average**.

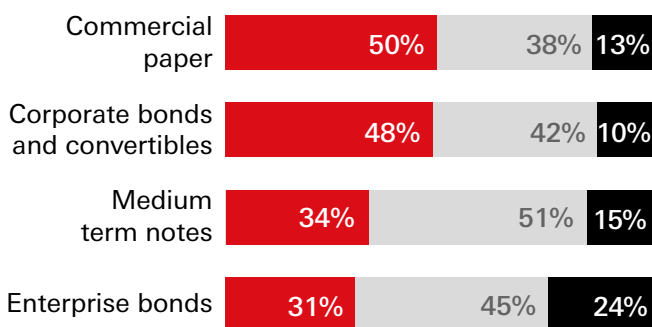
The most popular assets among fixed income investors are:



Future changes in investment by fixed-income investors

% of total

Key: ■ Add ■ Maintain ■ Decrease



Regional variation:

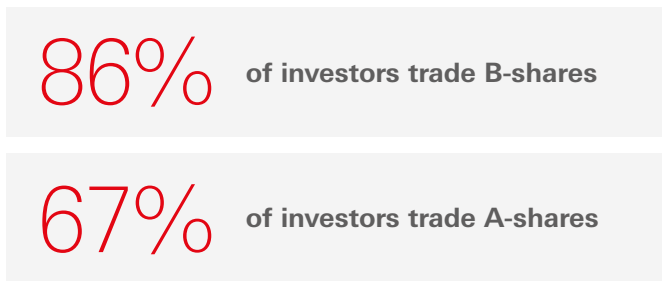


North America investors are the only geography that is only maintaining its corporate bonds and commercial paper, rather than increasing exposure in mainland China.

Equity investors

The typical equity investor is **more likely to buy in both mainland China A-shares and mainland China B-shares, with the average investor trading 1.5 markets**. That said, four fifths of investors have no preference between the two kinds of shares.

B-shares remain a popular asset class, despite the small range of stocks available:



Investors cited different reasons behind their preferences:

A-shares

- Deeper liquidity
- Indexation
- Better research coverage
- Better voting rights

B-shares

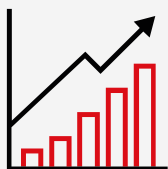
- Higher spreads/volatility
- Currency denomination
- Higher yields
- Regulatory constraints on A-shares

A-shares the focus over the next 12 months:



Access channels

There is a growing range of routes for international investors to access China markets.

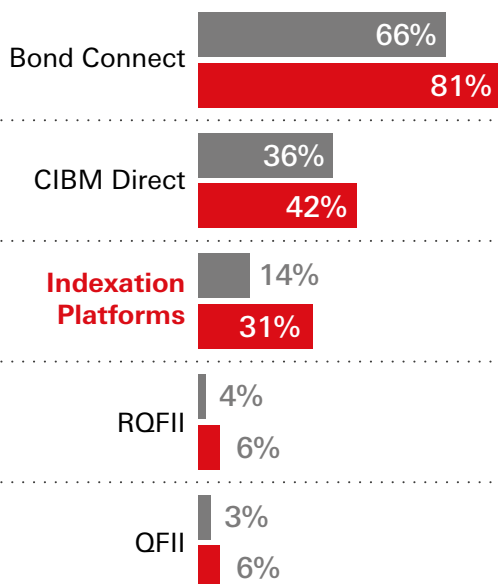


The average foreign institution uses 1.7 channels, with the most popular route across all investors is **indexation platforms**, used by:

55%

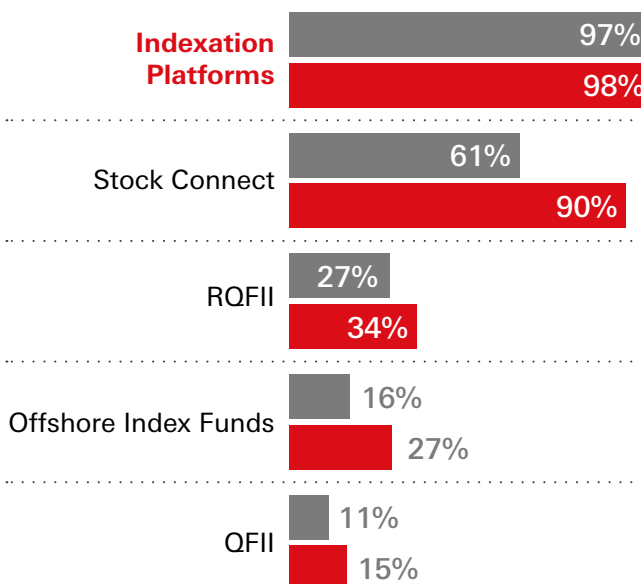
Fixed income investors

Key: Now 12 months time

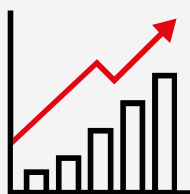


Equity investors

Key: Now 12 months time



Key trends over the next 12 months:



Stock Connect

- A **top three investment** channel across all investors.
- **More strong growth over the next 12 months**, giving a user base that accounts for 45% of investors.

QFII

- **Expected to pick up in participation** over the coming year.
- New regulations of RQFII in November will expand investment scope and facilitate transactions, which **could encourage investments by foreign investors**.

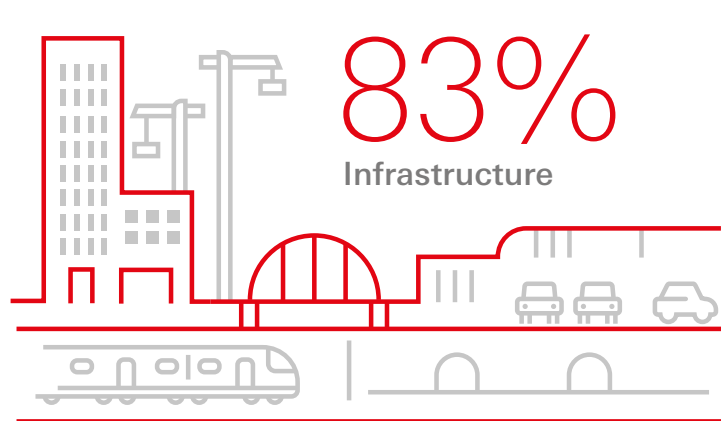


Investment styles

Sectoral preferences

Bullish on infrastructure

More than four fifths of the survey’s respondents saying that infrastructure will contribute the most to investment performance. This is true across all geographies and investor types.



47%	Logistics / Transport
43%	Technology
43%	Property
33%	Industrials
31%	Financials
28%	Consumer
19%	Health
11%	Diversified

There was however much variation on the second-most promising sectors.



Research support

Global investors value **high-quality research to support informed decision making**. When investing in China, investors are looking for insight in the following areas:

89%	Individual issuer risk
83%	External risks (e.g. political or regulatory)
77%	Macro-credit risks
77%	Currency outlooks
72%	Futures forecasting / analyses

Investor concerns

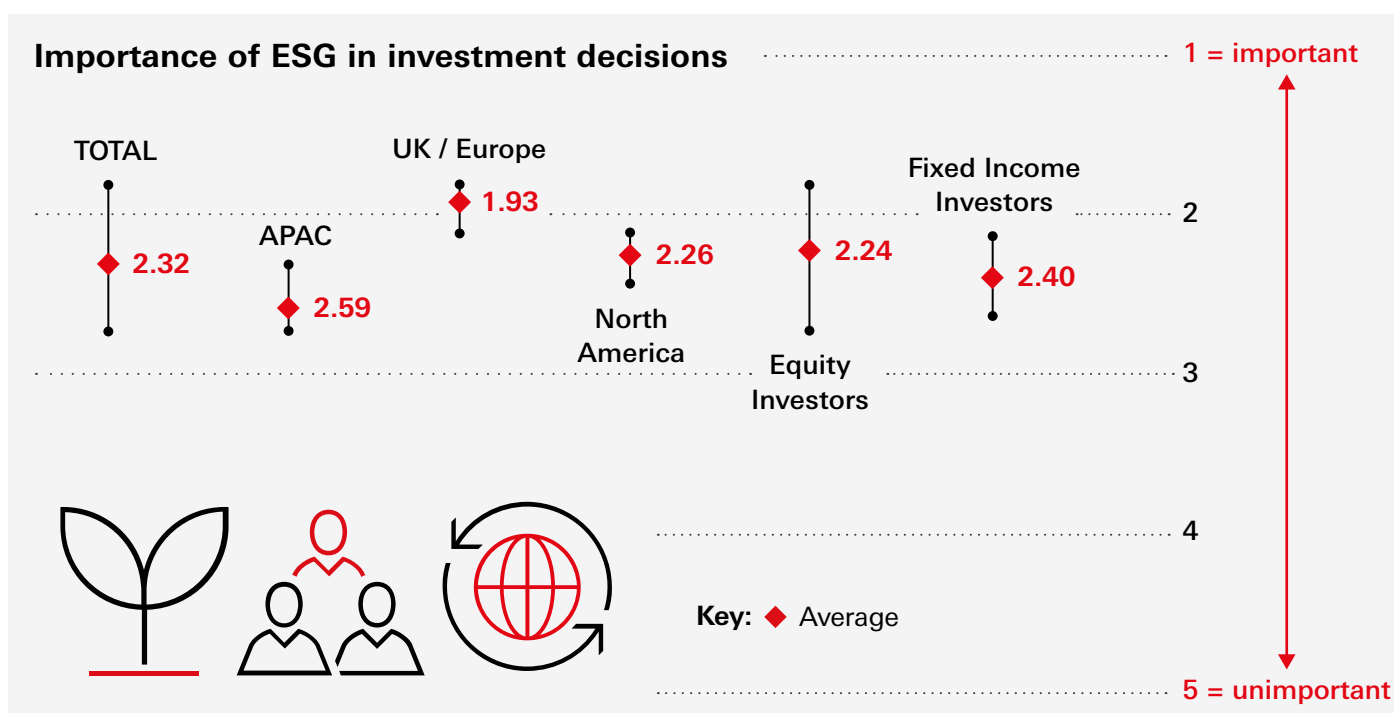
The **major concerns among foreign investors** towards China are local rating system and outward remittance of funds system. The full range of issues are:

81%	Local rating system
80%	Outward remittance of funds system
72%	FX and interest rate hedging tools
63%	Geopolitical matter

Sustainability in focus

Environmental, Social and Governance

ESG is a critical factor when screening investments, especially among European investors, who rate it as a more significant factor than their peers in North America and Asia Pacific. This reflects the different stages that these markets are on in their sustainability journey, as sustainability is a major theme in Europe.



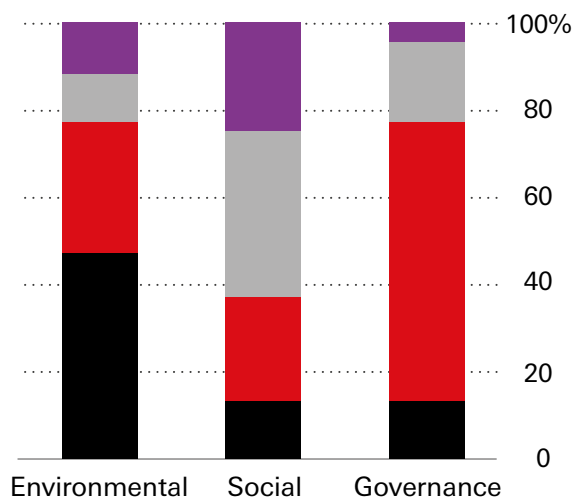
Investors are still focused on the “E” in ESG, with **environmental policies incorporated into nearly half of global investors’ investment screening.**

But the situation is changing quickly, and in two years time, the proportion of investors adopting governance policies will surpass environmental. Social policies will still lag behind the other two factors.

Projected ESG policies adoption by global investors

% of investors

Key:
 ■ Not in near future / don't know / no view
 ■ Within 5 years
 ■ Within 2 years
 ■ Already factored in



Source:

East & Partners conducted the survey in September 2020, and interviewed 935 global fixed income investors, global equity investors and issuers. They represented Asia (44%), North America (31%) and UK and Europe (25%).

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