

The Window on China – The Future of ETFs in Hong Kong

With Barclays Global Investors (“BGI”) launching the first ever exchange-traded fund to track China’s A-Shares, the future of ETFs in Hong Kong is taking a new direction.

One year ago *Hong Kong Securities* examined the future of the local exchange traded fund, or the ETF market. One year on, we focus on investor motivations, and see a marked new trend in Hong Kong based ETFs, and the movement is towards Chinese securities.

Recapping – What is an ETF?

Let’s refresh our memories. An ETF is normally an index-tracking mutual fund or a unit trust traded on an exchange. Its principal objective is to track, replicate or correspond to an index on equities, debts or other securities, by investing in all or substantially all of its assets in the constituent securities of the underlying index. ETFs are priced continuously and can be bought or sold throughout the trading day on the stock exchange. ETFs are attractive to individual and institutional investors alike as they provide cost efficient exposure to a broad range of asset classes. ETFs are also widely used in the international market as arbitraging tools in conjunction with other strategies in trading equities, index futures or other derivatives. One very obvious advantage of ETFs is the ease of buying and selling of these funds.

Regional Hub or Window on China?

“Hong Kong is not, and will never be a regional ETF hub in the strict sense,” according to Mr Joseph Ho, Regional Director for North Asia of Barclays Global Investors (BGI). “It will never be attractive for a Singapore based fund manager to invest in Hong Kong in a Singapore ETF or any other country ETF other than ETFs based on the Hong Kong or the Chinese

markets. The fund manager is better staying closer to home or going to the individual markets respectively.” The Hong Kong based ETF market has however recently shouldered another much more important function, as a safe window from which to bank upon in the Mainland market. Today, there are three Chinese ETFs trading on the Hong Kong Stock Exchange including the latest offering, the iShare FTSE/Xinhua A50 China Tracker (2823), an A-Shares ETF, from BGI.

The Role of ETFs in HK

Not surprisingly, institutional and retail participation in ETFs, which are primarily indexed funds, in the United States is significantly higher than in the Hong Kong market. According to Mr Ho, of every \$10 invested in the US equity market by institutional investors, \$4 goes into indexed funds. Retail participation in indexed funds in the US is lower with indexed mutual funds accounting for roughly 10% of all US equity mutual funds. In contrast, the concept of indexing is still not popular in many Asian markets including Hong Kong.

The successful product infiltration of ETFs into US retail and institutional investors is partially due to the product variety of ETFs available in the US which allows them to build a portfolio of investments based around ETFs. Mr Ho says in metaphorical terms, “one investor might want to build a temple while another might want to build a church”, to indicate that the way different ETFs can be stacked up enables this type of complexity. Tax issues have also played an important part of the success of the product in the US – these issues are of course of less

Feature

特寫

importance in the making of investment decisions in Hong Kong.

Due to the small size of the local market, the lack of local ETF product diversity is likely to continue in Hong Kong. Mr Ho suggests that with the HK Tracker Fund already in place to cover general Hong Kong stocks, the local exchange is likely to play host to ETFs that cover other niche markets or segments of markets. However, the fact that there are already three ETFs based on Chinese securities is a hopeful sign as it exploits Hong Kong's real and perceived strength as the window into the Chinese market.

The New ETF Based on China A-Shares

In addition to the HK Tracker Fund, Mr Ho anticipates strong growth opportunities from the newly launched A-Shares ETF in the coming years. This ETF tracks the FTSE/Xinhua China A50 Index, which captures the top 50 A-shares that trade on the Shanghai and the Shenzhen stock exchanges.

The new A-Shares ETF is an innovative product in that it allows ordinary investors to gain access to the A-Shares markets in spite of the strict requirements and qualifications of the existing QFII program. Investors simply place orders with brokers to buy and sell the ETF on the local exchange. Behind the scenes, BGI has teamed up with Citigroup Global Markets, a QFII, which also acts as the participating dealer and market maker for the ETF to facilitate the process.

When the fund makes an investment in the A-Shares market, Citigroup will buy the underlying shares in Shanghai or Shenzhen. Then it will issue and list what are called CAAPs ("Chinese A-Shares Access Products"), which are primarily zero-strike warrants that replicate the economic benefits of the underlying A-Shares in Luxembourg. The A-Shares ETF holds these CAAPs as opposed to the underlying A-Shares directly.

As the first ETF to offer trading on the A-Shares and fully capitalize on China's economic growth (in the region of 8 percent for 2004), Mr Ho believes that the new ETF is fulfilling an

untapped demand. The other China-related ETFs primarily revolve around investments in H-Shares and Red Chips listed in Hong Kong. The A50 China Tracker is appealing to overseas investors who want to buy A-Shares and fully capitalize on China's economic growth. If a balanced portfolio has exposure to H-Shares, Red Chips, and A-Shares, we can expect to see this continued flow into the A-Shares, Mr Ho believes.

Whilst the structure is appealing, a number of institutional investors comment that the short term volumes of the A-Shares ETF will be limited due to the high underlying price of the A-Shares market in comparison to Hong Kong listed H-Shares.

Commentators suggest that many investors will continue to take on China related exposure through the Hong Kong listed H-Shares as they are still currently cheaper on a price-to-earnings basis and investors are also more comfortable with the regulatory requirements applicable to Hong Kong listed China companies and the resulting transparency.

Investment Risks

As with all China investments, the A-Shares ETF does not come without its own list of risk issues. For one, A-Shares companies may not be as transparent as H-Shares companies. And as a result, they may be more expensive on a real price-to-earnings basis. However, some risk aspects of A-Shares investment are reduced significantly by the ETF structure as retail and institutional investors have a liquid exit point guaranteed by market makers.

Liquidity in secondary market trading is being provided by Citigroup Global Markets which acts as both a participating dealer and market maker. In the former role, Citigroup Global Markets will create or redeem units in the ETF depending on the supply and demand situation. In its latter role, it ensures liquidity by actively providing quotes on both the bid and offer side to make sure investors can get out of the market whenever they wish.

ETFs – Outlook Ahead in Hong Kong

"Human nature is a killer," suggests Mr Ho. "People will always still like to pick a good fund

manager and pick stocks. Actually with all the major banks offering traditional mutual funds, they will never be a substitute for an ETF.” But it is human nature to take long-odds and to believe you can beat the market. An ETF is more likely to give you a long-term return. “We buy the mark-six even although we cannot logically justify this. The trend towards ETFs acknowledges that

people are beginning to realize they are fallible,” Mr Ho explains. ETFs are by definition not actively managed, and this can be viewed either positively or negatively given the degree of your belief in your own knowledge or your fund manager’s knowledge.

Looking ahead, ETFs based in Hong Kong will provide the dual benefit of tapping into an emerging market without the usual element of human error of a traditional mutual fund. Only time will tell whether this is especially true of the new A-Shares offering.

iShare MSCI China Tracker Fund (Stock Code: 2801)

This product began trading in November 2001 and includes H-Shares and red chip shares that are listed in Hong Kong; B-Shares which are incorporated in the Mainland and trade on either the Shanghai or Shenzhen Stock Exchanges, which are quoted in US dollars on the Shanghai Stock Exchange and HK dollars on the Shenzhen Stock Exchange, and can be traded by non-residents with appropriate foreign currency dealing accounts; and N-Shares that are listed in New York.

Hang Seng H-Share Index ETF (Stock Code: 2828)

This H-Shares product is based on the Hang Seng China Enterprises Index, which was launched in 1994 to benchmark the performance of Mainland enterprises listed in Hong Kong – companies among the top 200 companies in terms of market capitalisation in Hong Kong.

中國之窗 – 交易所買賣基金在香港的發展

隨著巴克萊國際管理推出首隻追蹤中國 A 股表現的交易所買賣基金，這一類基金在香港的發展正在走上新的道路。

—— 年前，《香港證券》探討了本地交易所買賣基金（ETF）的市場前景。一年後，我們關注投資者的動態，留意到以香港為基地的交易所買賣基金出現了矚目的新趨勢，顯示它們開始轉向內地證券。

何謂「交易所買賣基金」

讓我們先來溫習一下。「交易所買賣基金」通常是指在交易所買賣的，追蹤指數的互惠基金或單位信託。其主要目的是將大部份或者所有資產投資於相關指數的成份證券中，從而追蹤、複製或對應基於股票、債券或其他證券的該指數之表現。交易所買賣基金的定價不斷變化，並可在股票交易所的整個交易日進行買賣。交易所買賣基金對個人及機構投資者同樣具有吸引力，因為資金分散投資於範圍廣泛的資產類別，而且具有成

本效益。在國際市場上，交易所買賣基金還廣泛用作套戩工具，在股票、指數期貨或其他衍生工具買賣中與其他策略結合使用。交易所買賣基金最明顯的好處是易於買賣。

是地區中心，還是中國之窗戶？

「嚴格來說，香港不是，也永遠不會成為交易所買賣基金的地區中心。」巴克萊國際投資管理北亞區董事何文略先生認為：「駐新加坡的基金經理永遠不會在香港投資新加坡或其他市場交易所買賣基金；他只會投資於以香港或中國內地市場為基地的交易所買賣基金。基金經理最好是靠近本國經營，或分赴個別國家市場。」然而，以香港為基地的交易所買賣基金市場近來承擔起另一項更為重要的職能，即作為投資內地市場的安全門戶。目前，有三隻中國內地交易所買賣基金

Feature 特寫

在香港交易所買賣，包括最近由巴克萊國際投資管理發行的A股交易所買賣基金：i股新華富時A50中國指數基金(股份代號：2823)。

交易所買賣基金在香港的角色

在美國，機構與散戶投資交易所買賣基金，主要為指數基金，參與程度遠遠超過香港市場，這一點並不奇怪。據何先生所說，機構投資者投資於美國股票市場每十美元，就有四美元投向指數基金。美國散戶對指數基金的參與程度較低，指數互惠基金僅佔所有美國股票互惠基金約百分之十。相對而言，與指數掛鈎的投資概念在香港及許多亞洲市場仍未普及。

交易所買賣基金產品成功滲透美國的散戶與機構投資者，部分原因是由於美國的交易所買賣基金產品種類繁多，讓投資者可利用交易所買賣基金建立投資組合。何先生以「有人想建廟宇，有人想建教堂」來比喻，說明不同的交易所買賣基金能以各種方式配搭成為複雜的組合。這種產品在美國的成功，稅務安排也是關鍵。反觀香港，稅務問題在投資決策中的重要性顯然較為次要。

由於本地市場規模較小，不易改變交易所買賣基金產品單調的情況。何先生指出，由於香港現有的盈富基金已經涵蓋普通的香港股票，本地交易所所有可能接納覆蓋其他小眾市場或專門市場的交易所買賣基金。但是，現在已經有三隻以中國內地證券為本的交易所買賣基金，這是令人鼓舞的，顯示了香港為人所識為人所知的實力，作為進入內地市場的門戶。

追蹤中國A股的最新交易所買賣基金

除了香港盈富基金，何先生預計新推出的A股交易所買賣基金將在今後幾年帶來強勁增長機會。該交易所買賣基金追蹤新華富時A50中國指數，而指數涵蓋在上海及深圳證券交易所交易的五十隻規模最大的A股。

新的A股交易所買賣基金是一項創新產品，因為它讓普通投資者突破現有合格境外機構投資者方案的嚴格要求與資格條件，獲取進入A股市場的路徑。投資者只須透過經紀行便可在本地交易所買賣交易所買賣基金。巴克萊國際投資管理已與一家合格境外機構投資者—Citigroup Global Markets—聯手，後者將擔當交易所買賣基金交易的參與交易商和莊家，以利交易的流程。

當基金對A股市場投入資金時，Citigroup Global Markets將在上海或深圳購買相關股票。隨後，Citigroup Global Markets會發行並上市所謂CAAP。CAAP為一種與一隻A股掛鈎的證券，它們是從盧森堡發行的，主要用作複製相關

A股經濟收益的零行使價認股權證。A股交易所買賣基金持有這些CAAP，而非直接持有相關A股。

何先生認為，作為提供以A股為交易的基礎，並充分受惠於中國經濟增長(二零零四年約為百分之八左右)的首隻交易所買賣基金，新產品正好滿足了一項具增長潛力的需求。其他跟中國有關的交易所買賣基金，投資主要圍繞在香港上市的H股與紅籌股。而A50中國指數基金對希望購買A股並欲於中國經濟增長分一杯羹的海外投資者具有吸引力。何先生認為，如果平衡投資組合涉足H股、紅籌股和A股，人們可望看到資金繼續投向A股。

雖然這種投資結構甚為吸引，但某些機構投資者認為，由於跟香港上市的H股相比，A股市場的基礎價位高企，A股交易所買賣基金的短期交易額將較為有限。

有評論指出，許多投資者仍將透過香港上市的H股來承受跟中國有關的投資收益波動，因為從市盈率角度看，H股當前仍較為便宜。投資者對適用於香港上市的內地企業的規管要求及隨之而來的透明度更為滿意。

投資風險

跟所有中國投資一樣，A股交易所買賣基金亦存在風險問題。譬如，A股公司可能不如H股公司那樣具透明度。因此，從真實市盈率角度來看，它們的價位可能更為高昂。但是，交易所買賣基金的結構，可將散戶和機構投資者A股投資某些方面的風險大大降低，因為流通量及退出機制均有莊家保證。

二級市場交易上的流動性，目前由Citigroup Global Markets提供，該機構既參與交易，又擔當莊家。在前者的角色中，Citigroup Global Markets將視乎供求情形，發行或贖回交易所買賣基金單位。在其後者的角色中，它將積極為買賣雙方提供報價，確保投資者能夠隨時如其所願退出市場，從而保證流動性。

交易所買賣基金在香港的前景展望

何先生指出：「人性難改—人們總是喜歡選個好的基金經理、選擇股票。事實上，由於所有主要銀行都出售傳統的互惠基金，它們永遠不會取代交易所買賣基金。」但人性使然，人們總想抓住極為偶然的機會，並相信自己可以跑贏大市。交易所買賣基金更有可能為投資者帶來長期回報。「即便在邏輯上缺乏依據，我們還是會買六合彩。現在投資者趨向於購買交易所買賣基金，說明人們開始意識到自己難免犯錯。」何先生解

釋道。交易所買賣基金實際上不需積極管理，這可以看作好事，也可以看作壞事，取決於個人信賴自身的知識及基金經理的知識的程度。

展望未來，以香港為基地的交易所買賣基金可提供兩方面的利益，既可進軍新興市場，又可避免

傳統互惠基金通常所帶有的人為失誤因素。隨著時間的推移便可知道這上述論點對新的A股產品是否準確。

恒生 H 股指數上市基金 (股份代號：2828)

該 H 股產品基於恒生中國企業指數。該項指數於一九九四年推出，用以衡量在香港上市的內地企業的業績，該等內地企業是在香港市場資本金額排名前兩百位的公司。

i 股 MSCI 中國指數基金 (股份代號：2801)

該產品自二零零一年十一月起開始交易，包含香港上市的 H 股和紅籌股；在內地設立並在上海或深圳證券交易所交易的 B 股（B 股在上海證券交易所所以美元報價，在深圳證券交易所則以港元報價，擁有相應外匯交易帳戶的非中國居民可以參與交易）；以及在紐約上市的 N 股。