In 2018, we released an article talking about the potential tailwinds coming from the announced and implemented inclusion of onshore China equity (A-shares) in the flagship MSCI Emerging Markets Indices. As of August 2018, A-shares have staked out about an 80-bps allocation in the MSCI Emerging Markets Index, with only about 240 large cap A-shares names being included at about 5% of their actual market cap. At that time, it was not clear when the next steps would be taken or how far they would go. In 2019, MSCI is going much further. In a February 28, 2019, press release MSCI announced that it would quadruple the weight of A-shares in MSCI EM in 3 steps throughout 2019:

- May 1 – MSCI will increase the index inclusion factor of all China A Large Cap shares in the MSCI Indexes from 5% to 10% and add ChiNext Large Cap shares with a 10% inclusion factor coinciding with the Semi-Annual Index Review.
- August 1 – MSCI will increase the inclusion factor of all China A Large Cap shares in the MSCI Indexes from 10% to 15% coinciding with the Quarterly Index Review.
- November 1 – MSCI will increase the inclusion factor of all China A Large Cap shares in the MSCI Indexes from 15% to 20% and add China A Mid Cap shares, including eligible ChiNext shares, with a 20% inclusion factor to the MSCI Indexes coinciding with the Semi-Annual Index Review.

We believe the changes are welcome news to passive and active investors alike, as the new inclusion both broadens and deepens the stocks represented in MSCI Indexes. Upon completion, according to the February 2019 release, the MSCI Emerging Markets Index will contain 253 Large Cap and 168 Mid Cap companies and contain about 3.3% China A-shares. As a result of these changes, according to the Wall Street Journal, investors are expected to place USD 80 billion into the USD 6.7 trillion domestic stock market.

1https://www.msci.com/documents/10199/43f3ee8b-5182-68d4-a758-2968b4206e54

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We are long-term bullish on China, so we see MSCI Inclusion of A-shares as unequivocally positive. Strong growth rates, an improving and modernizing economy, and increasing institutional support for the capital markets as a result of increasing transparency, all align well and should give long-run confidence to investors. While the new move is not expected to move markets in a significant way at any individual point, we believe it will provide some tailwinds in the years to come.

China Equity In Global Context – Growth of CAD $10K

While MSCI acknowledges that the announcement for increased inclusion has received strong support from institutional investors, it also notes that those investors would require further improvements in accessibility and availability of trading tools in order to increase the inclusion rate beyond 20%, or increase the number of securities covered in the EM Indexes. MSCI continues to be in contact with Chinese regulators in this regard. If China A-shares were 100% included, China would make up 43% of the MSCI EM Index by market cap\(^2\). (see below)
For investors wishing to gain access to China A-shares Mackenzie has two funds: the Mackenzie All China Equity Fund gives investors exposure to onshore China equity (A-shares) and offshore China equity (H-shares and ADRs), and is actively managed; the Mackenzie China A-Shares CSI 300 Index ETF is a passive A-shares only fund which tracks one of the most popular onshore indices available, the CSI 300 Index.

Please speak to your Mackenzie representative for more information about investing in China equity.

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3 The CSI 300 Index is a capitalization-weighted stock market index designed to replicate the performance of 300 stocks traded in the Shanghai and Shenzhen stock exchanges.