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Greater China Fund Series
Quarterly Update (2Q15)

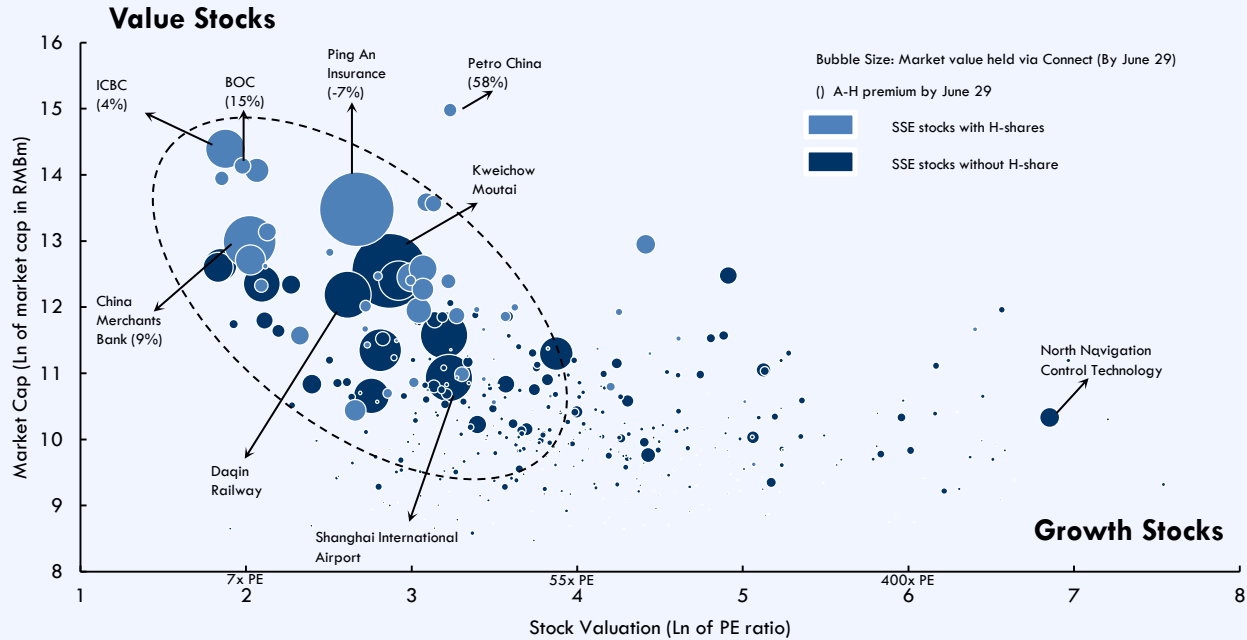
July 2015

Greater China: Quarterly Update 2Q15

Quarterly highlight

Chalk and Cheese (page 30)

Foreign investors utilizing the northbound Connect channel target value stocks: a stark contrast to their mainland investor counterparts who chase growth listings. We believe northbound Connect users are mirroring the investment approach of QFIIs, also pointing to the Connect's use as a supplementary channel.



RQFII

Hedge Funds

Mainland Private Fund Managers (PFMs) are increasingly setting up in Hong Kong and applying for RQFII and QFII quota. These moves may redirect China-focused capital away from traditional managers.

ETFs

Vanguard

To unilaterally include A-shares into Vanguard's FTSE Emerging Market ETF we estimate it would require over RMB23bn RQFII quota in order to complete the adjustment, but they only hold RMB10bn.

RQFII

Korea

Korea has asserted itself as one of the most active RMB-hubs, pushing ahead of both rival Asian and European hubs. RQFII product construction and sub-advisory are flourishing as allocated quota hits 50%

Source: Z-Ben Advisors

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GC funds:

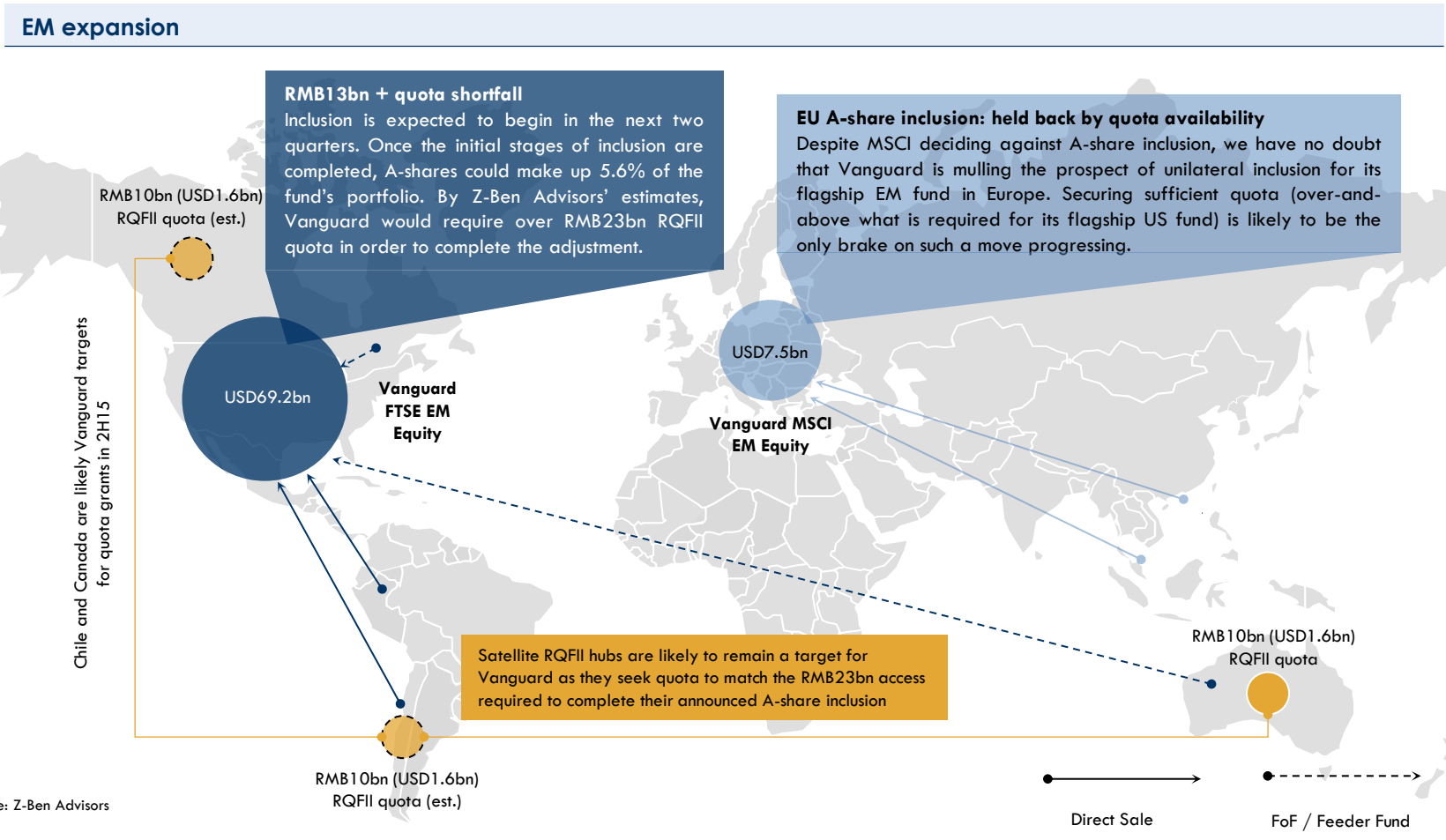
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Case Study: Vanguard pushes forward on A-shares

In early June, **Vanguard** announced that it would be unilaterally including A-shares into its Vanguard FTSE Emerging Markets ETF, a move that will see its primary NYSE-listed EM fund begin to invest into A-shares. Vanguard currently holds RMB10bn Australian RQFII quota – a huge amount by ex-Hong Kong and first grant standards – and will need substantially more quota in order to complete its initial adjustment. Vanguard will be looking high and low for additional RQFII quota. However, the more pressing question may be: when will the firm decide to unilaterally act to include A-shares in its MSCI-based European-listed Emerging Markets ETF.



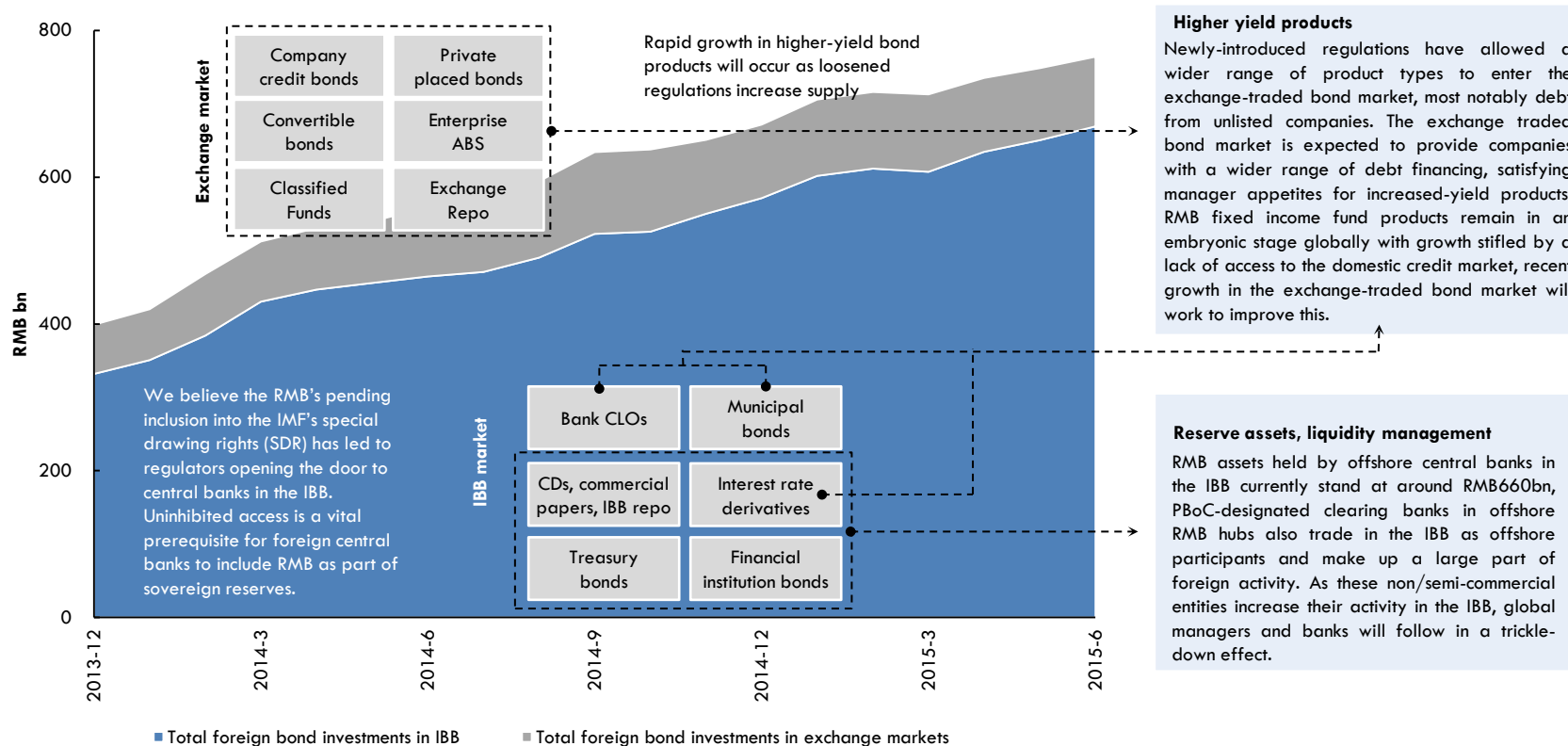
Source: Z-Ben Advisors

Foreign investors in domestic bond markets

RQFII

Foreign participation in the Interbank Bond market (IBB) continues to increase with foreign central banks and sovereign wealth funds driving most of the activity. Managers and investment banks are also increasing their activity as type C participants, but at a slower pace, with the vast majority of their participation still occurring in the smaller and non-licensed exchange-traded bond market. We believe foreign IBB participation will be driven by central banks in the short term, with a larger number of commercial foreign participants joining the market as the range of debt instruments on the IBB (municipal bonds, among others) widens.

Awaiting a trickle-down effect from sovereigns to managers



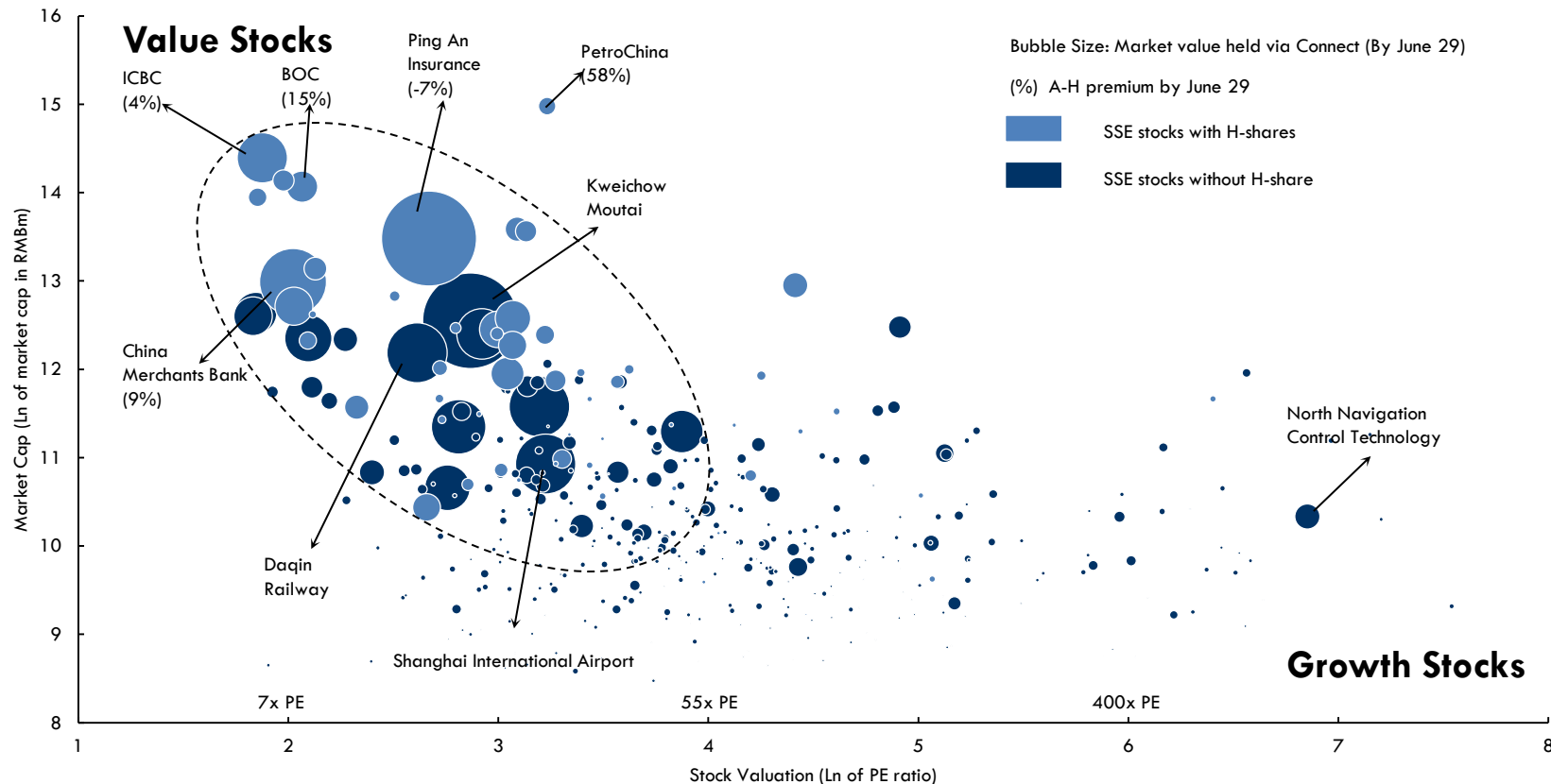
Source: Z-Ben Advisors

Foreign targets: A stark contrast to mainland investors

The Connect

Foreign investors utilizing the northbound Connect channel tend to target value stocks: a stark contrast to their mainland investor counterparts who chase growth listings. We believe northbound Connect users are mimicking the investment approach of QFII, also pointing to the Connect's use as a supplementary channel. Stocks that are rare among H-shares and ADRs tend to draw the most foreign interest, an example would be Kweichow Moutai. Some cross-listed stocks remain popular due to liquidity balancing by foreign investors, most notably large banking stocks.

The northbound Connect's holding pattern



Source: Z-Ben Advisors

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