

Morningstar's Guide to Investing in Chinese Equities via ETFs

Authors:

Jackie Choy, CFA, ETF Strategist

Ben Johnson, Director, Global Passive Fund Research

Hortense Bioy, CFA, Director, European Passive Fund Research

Patricia Oey, Senior Fund Analyst

John Gabriel, ETF Strategist



Contents

Executive Summary	3
The ABC's (and H's and P's) of Chinese Equity Investing	4
Accessing China around the World via ETFs	10
Putting Chinese Equity ETFs to Use	16
Don't Forget the Risks	19
10 Frequently Asked Questions Regarding Chinese Equity ETFs	21
Appendix: Roster of Chinese Equity ETFs by Region/Country of Listing	23

Executive Summary

In June 2012, when we first launched our research reports on Asian ETFs, we published a note entitled “[Picking the Right Chinese Dishes from the ETF Menu](#)”, where we discussed the importance of understanding an ETF’s underlying exposure and the relevant fundamentals. In this guide, we build upon our original work and look at what’s on offer on the global menu of ETFs offering exposure to Chinese equities as well as what investors should watch out for before making an investment decision.

- ▶ Why do I need to know about China or should I care about investing Chinese equities? - China’s representation in major equity indices ranges from 2% in the MSCI ACWI Index to 18% in the MSCI Emerging Markets Index. In June 2013, MSCI announced it had initiated a review of China A-Shares for potential inclusion in the MSCI Emerging Markets Index. If China A-Shares were hypothetically included, China would make up close to 30% of the MSCI Emerging Markets Index. However, in our view, this is unlikely to transpire in the near term as there are still hurdles to inclusion namely (according to MSCI): “(1) capital mobility, (2) the lack of alignment of the size of individual QFII quota and the size and investment process of investors and (3) the lack of clarity on taxation rules”.
- ▶ The further opening up of China’s capital market and the internationalisation of the RMB are a trend that investors and ETF providers should watch closely. In particular, in July 2013, the CSRC announced it would expand the RQFII scheme, which allows qualified institutional investors to invest directly in Chinese securities, to London and Singapore. We expect that this will lead to the launch of RQFII ETFs in additional countries outside of Hong Kong.
- ▶ Chinese companies listed in different markets are classified under different share types/names. They could be classified as onshore or offshore Chinese equities; and then further subdivided into A-Shares, B-Shares, H-Shares, Red Chips, and P Chips, etc.
- ▶ As of today, there are over 50 country, sector, and strategy indices tracked by approximately 100 Chinese

equity ETFs listed on various exchanges outside China, with a combined USD 28 billion in assets under management (AUM).

- ▶ Indices tracking Chinese equities are constructed quite differently from one another and as such have very different historical risk/return profiles. These distinctions are particularly pronounced, between onshore and offshore Chinese equity indices. These differences are especially evident amongst the offshore indices. Hence it is crucial that investors closely scrutinise these indices to ensure that they choose the one that best matches their investment thesis.
- ▶ Distribution of Chinese equity ETFs around the world:
 - ▶ Asia Pacific: Hong Kong alone houses 55% of global AUM in Chinese equity ETFs.
 - ▶ Europe: Most of the Chinese equity ETFs in Europe are synthetically replicated.
 - ▶ Americas: With the exception of one ETF, all Chinese equity ETFs listed in North America provide exposure to offshore-listed Chinese equities.
- ▶ There are numerous ways in which investors might choose to use Chinese equity ETFs – (1) As a buy and hold investment; (2) To arbitrage the AH premium; (3) Sector rotation; etc.
- ▶ It is important that investors assess and understand the risks associated with these ETFs at all times. These risks include ETF-specific structural risks, market risks and currency risks as well as A-Share specific considerations regarding taxation and the potential for quota-related premiums and discounts.
- ▶ At the end of the report, we include 10 frequently asked questions that we believe every investor should be able to answer before investing in Chinese equity ETFs, including: “What should be my thought process when I am deciding amongst Chinese equity ETF(s)?” We provide an illustration outlining our recommended thought process in answering this question.

The ABC's (and H's and P's) of Chinese Equity Investing

Defined in very general terms, Chinese equities are issued by companies doing business in the People's Republic of China (PRC). More granularly, Chinese companies listed in different markets are classified under different share types/names, depending primarily on whether they are incorporated inside or outside of China. Namely, these classifications include A-Shares, B-Shares, H-Shares, Red Chips, and P Chips.

1. Total Market Capitalisation of China and Hong Kong Markets

China (Shanghai & Shenzhen)		A-Shares	B-Shares	A-Shares + B-Shares
(in RMB, billions)		21,122	159	21,281
(in USD, billions)		3,441	26	3,467

Hong Kong		H-Shares	Red Chips	Mainland Private Enterprises	H-Shares + Red Chips + Mainland Private Enterprises	Total Hong Kong
(in HKD, billions)	4,219	4,441	2,916	11,575	20,707	
(in USD, billions)	544	573	376	1,492	2,670	

Source: Stock Exchange of Hong Kong, Morningstar Research (Data as of end-June 2013)

A summary of each of these classifications is as follows:

A-Shares (onshore): Issued by companies incorporated in China which trade on the Shanghai and Shenzhen stock exchanges. They are quoted in Renminbi (RMB) and only domestic Chinese investors and Qualified Foreign Institutional Investors (QFIs) and RQFIs (the "R" stands for Renminbi) are able to invest directly in the A-Share market.

B-Shares (onshore but open to foreign investors): Issued by companies incorporated in China which trade on the Shanghai and Shenzhen stock exchanges. They are quoted in foreign currencies (Shanghai: USD; Shenzhen: HKD) and are open to foreign investors. However the size of this market is relatively small.

H-Shares (offshore): Issued by companies incorporated in China which trade on the Hong Kong Stock Exchange.

They are quoted in HKD and open to international investors. Note that many companies with H-Share listings also have A-Share listings.

Red Chips (offshore): Issued by companies incorporated outside of China which trade on the Hong Kong Stock Exchange, controlled by organisations or enterprises that are owned by the state, provinces, or municipalities of the PRC.

P Chips (offshore): Issued by companies incorporated outside of China which trade on the Hong Kong Stock Exchange and satisfy the following criteria:

- ▶ The company is controlled by PRC individuals
- ▶ The company derives more than 80% of its revenue from PRC
- ▶ The company allocates more than 60% of its assets in PRC

Note that the above are MSCI classifications which serve as general guidelines. Investors may also encounter references to L-Shares (Chinese securities with listings on the London Stock Exchange), N-Shares (Chinese securities with listings on the NYSE or NASDAQ) and S-Shares (Chinese securities listed in Singapore). Different index providers may classify these slightly differently. For example:

- ▶ FTSE defines red chips and P Chips as stocks issued by those companies with over 50% of their revenue or assets derived from or located within the PRC. (Note that FTSE began including P Chips in their Chinese equity indices effective from 18 March 2013.)
- ▶ S&P considers criteria including the location of the firms' headquarters, primary stock exchange listing, opinions of security analysts and investors, geographic sources of revenues, and the location of fixed assets or employees.

All these differences, among other specifics of the underlying index methodologies, lead to slight differences in the composition of these providers' benchmarks.

Investing in A-Shares

Only domestic Chinese investors, QFIs and RQFIs are eligible to invest directly in the domestic Chinese A-Share market. Here is a brief background on these schemes and an update on the latest developments in the space.

Qualified Foreign Institutional Investor (QFII)

The QFII programme was launched in 2002 and allows licensed investors to make investments in the Chinese capital market. In April 2012, the programme's total investment quota was increased from USD 30 billion to USD 80 billion and further to USD 150 billion in July 2013. As of late-June 2013, 229 foreign institutions had obtained QFII licenses from the China Securities Regulatory Commission (CSRC), and the State Administration of Foreign Exchange (SAFE) had approved USD 43.5 billion in total quota to 207 institutions.

While the QFII scheme provides a channel for foreign investors to invest in the Chinese onshore capital market, the associated rules and regulations stipulate a principal lock-up period of 3 months to 1 year depending on the type of QFII. After the lock-up period, open-ended Chinese funds can remit funds on a weekly basis. Any other remittances by QFIIs would require SAFE's approval. These rules appear to discourage the formation of ETFs utilising physical replication as the quota limits, lock-up period and remittance restrictions would interfere with the creation and redemption process. To get around this problem, first-generation ETFs offering A-Share exposure utilise synthetic replication. This technique employs access products (derivatives which track the performance of individual A-Share securities or indices) issued by a variety of counterparties (access product issuers, usually investment banks which hold a QFII license, which are also subject to quota limits) to indirectly invest in the domestic A-Share market. In Taiwan and Korea, ETF providers have also launched some QFII-based "physical" A-Share ETFs, which utilise the ETF providers' QFII quota to hold A-Shares directly along with employing futures and/or holding other A-Share ETFs in order to overcome some of the technical issues around repatriation and quota restrictions under the QFII scheme.

RMB Qualified Foreign Institutional Investor (RQFII)

In December 2011, the Chinese government launched the RQFII pilot programme to allow qualified RQFII holders to channel RMB raised in Hong Kong into the Mainland securities market. The initial RQFII quota was RMB 20

billion and allowed funds to invest primarily in the Chinese bond market (at least 80% in Chinese bonds) at that time.

Subsequently, in April 2012, the RQFII quota was increased to RMB 70 billion and the associated rules were adjusted to allow financial institutions to issue RMB-denominated ETFs investing in China A-Shares to be listed in Hong Kong. In November 2012, the total quota was further increased to RMB 270 billion.

Currently only financial institutions in Hong Kong are eligible to apply with the CSRC as a RQFII. In addition to the expansion of the size of the RQFII scheme, the geographic coverage of the scheme has also expanded. In January 2013, the CSRC responded favourably to Taiwan's request for a RMB 100 billion quota in the RQFII scheme and in July 2013, the CSRC announced it would expand the RQFII scheme to London and Singapore.

The RQFII scheme made the formation of a "truly physical" A-Share ETF feasible, given that the RQFII programme does not have the lock-up period and remittance restrictions that are part of the QFII scheme. Under this scheme, eligible RQFIIs can apply for RQFII quota on behalf of their ETFs, which have become widely referred to as RQFII ETFs. Once the quota is used up, the ETF provider must apply for additional quota with the CSRC. This could result in there being periods of time during which the creation of the ETF units could be disrupted, which in turn could cause the ETF's market price to stray from its net asset value (NAV).

As of 8 June 2013, RMB 51 billion in quota had been granted to 6 RQFII ETFs managed by 5 China-based ETF providers. In March 2013, the RQFII programme was expanded to allow Hong Kong subsidiaries of Mainland commercial banks and insurance companies, and other Hong Kong incorporated financial institutions with their operations based in Hong Kong to be eligible to become RQFIIs. Previously, only Hong Kong units of Chinese fund managers and brokerage firms could be RQFIIs. We expect more eligible ETF providers will ultimately enter the market. Our hope is that this will result in increased competition which will serve to drive fees lower and result in a more diverse local product offering.

Chinese Equity Indices

There are over 50 country, sector, and strategy indices tracked by the approximately 100 Chinese equity ETFs listed on various exchanges outside China. This is a diverse group of indices, with different selection criteria, weighting methodologies, free-float adjustments, and more. Without going into the granular details of each of these indices' methodologies, here we would like to help

investors to distill these differences and examine the key aspects of index construction they should be aware of and their resultant effects on the index portfolios. Here, we offer a summary of the top 10 Chinese equity indices—as ranked by aggregate assets under management in the ETFs tracking them.

2. Chinese Equity Indices Summary

China Onshore Equity Indices

	FTSE China A50		SSE 50		CSI 100		SSE 180		CSI 300		MSCI China A	
Universe	A-Shares listed on the Shanghai and Shenzhen stock exchanges		A-Shares listed on the Shanghai Stock Exchange		A-Shares listed on the Shanghai and Shenzhen stock exchanges		A-Shares listed on the Shanghai Stock Exchange		A-Shares listed on the Shanghai and Shenzhen stock exchanges		A-Shares listed on the Shanghai and Shenzhen stock exchanges	
Number of Constituents	50 (fixed at 50)		50 (fixed at 50)		100 (fixed at 100)		180 (fixed at 180)		300 (fixed at 300)		463	
Onshore or Offshore China Exposure	Onshore		Onshore		Onshore		Onshore		Onshore		Onshore	
Index Reviews (Effective Date)	Quarterly (close of 3rd Friday of Mar, Jun, Sep, Dec)		Semi-Annually (1st trading day of Jan, Jul)		Semi-Annually (1st trading day of Jan, Jul)		Semi-Annually (1st trading day of Jan, Jul)		Semi-Annually (1st trading day of Jan, Jul)		Quarterly (close of last business day of Feb, May, Aug, Nov)	
Top 3 Sectors	Financial Services	61.5%	Financial Services	61.3%	Financial Services	47.2%	Financial Services	44.2%	Financial Services	33.4%	Financial Services	28.1%
	Industrials	7.6%	Basic Materials	11.9%	Industrials	11.0%	Basic Materials	11.3%	Basic Materials	12.1%	Industrials	13.7%
	Consumer Defensive	7.4%	Industrials	10.0%	Basic Materials	10.9%	Industrials	10.8%	Industrials	12.0%	Basic Materials	12.4%
Top 5 Holdings	Ping An Insurance (601318)	7.4%	China Minsheng Bking (600016)	9.2%	China Minsheng Bking (600016)	6.4%	China Minsheng Bking (600016)	6.0%	China Minsheng Bking (600016)	4.2%	China Minsheng Bking (600016)	3.1%
	China Minsheng Bking (600016)	7.4%	China Merchants Bank (600036)	7.6%	China Merchants Bank (600036)	5.3%	China Merchants Bank (600036)	5.0%	China Merchants Bank (600036)	3.5%	China Merchants Bank (600036)	2.9%
	China Merchants Bank (600036)	6.7%	Ping An Insurance (601318)	5.5%	Ping An Insurance (601318)	3.8%	Ping An Insurance (601318)	3.6%	Ping An Insurance (601318)	2.5%	Ping An Insurance (601318)	2.1%
	Industrial Bank (601166)	4.6%	Industrial Bank (601166)	5.3%	Industrial Bank (601166)	3.7%	Industrial Bank (601166)	3.5%	Industrial Bank (601166)	2.4%	Industrial Bank (601166)	2.0%
	China Vanke (000002)	4.2%	SH Pudong Dev Bank (600000)	4.3%	China Vanke (000002)	3.1%	SH Pudong Dev Bank (600000)	2.8%	China Vanke (000002)	2.1%	SH Pudong Dev Bank (600000)	1.8%
Top 10 Total Weightings	48.7%		48.8%		34.8%		31.9%		22.8%		19.6%	
Annualised Price Return (in US\$)												
1 year	-8.0%		-6.0%		-8.6%		-6.1%		-7.5%		-6.9%	
3 years	-3.3%		-1.9%		-1.9%		-1.7%		-1.7%		-1.5%	
Standard Deviation (in US\$)												
1 year	30.9%		30.8%		29.7%		29.9%		29.7%		29.7%	
3 years	23.9%		24.4%		24.2%		24.3%		24.4%		24.4%	

China Offshore Equity Indices

	FTSE China 25		Hang Seng China Enterprise Index (HSCEL H-Share Index)		MSCI China		S&P China BMI	
Universe	H-Shares, Red Chips & P Chips listed on the Hong Kong Stock Exchange		H-Shares listed in Hong Kong		H-Shares, Red Chips & P Chips listed in Hong Kong and B-Shares listed in China		All listed Chinese companies legally available to foreign investors	
Number of Constituents	25 (fixed at 25)		40 (capped at 40)		137		458	
Onshore or Offshore China Exposure	Offshore		Offshore (H-Shares)		Mainly offshore (including B shares)		Mainly offshore (including B shares)	
Index Reviews (Effective Date)	Quarterly (close of 3rd Friday of Mar, Jun, Sep, Dec)		Quarterly (next trading day of 1st Friday of Mar, Jun, Sep, Dec)		Quarterly (close of last business day of Feb, May, Aug, Nov)		Ann. reconstitution (close of 3rd Fri of Sep) Quarterly rebal. (close of 3rd Fri of Mar, Jun, Sep, Dec)	
Top 3 Sectors	Financial Services	53.9%	Financial Services	61.0%	Financial Services	35.7%	Financial Services	29.9%
	Communication Services	17.3%	Energy	16.3%	Energy	12.9%	Technology	13.6%
	Energy	12.3%	Basic Materials	8.1%	Communication Services	12.1%	Energy	10.6%
Top 5 Holdings	China Mobile Ltd. (00941)	10.9%	Bank of China (03988)	10.5%	China Mobile (00941)	9.9%	CCB (00939)	7.3%
	CCB (00939)	9.2%	ICBC (01398)	10.1%	CCB (00939)	8.0%	China Mobile (00941)	6.9%
	ICBC (01398)	7.9%	CCB (00939)	9.7%	ICBC (01398)	7.3%	ICBC (01398)	6.5%
	Tencent (00700)	7.2%	PetroChina (00857)	8.5%	Tencent (00700)	6.3%	Tencent (00700)	5.1%
	Bank of China (03988)	6.2%	Sinopec Corp (00386)	6.8%	Bank of China (03988)	4.8%	Bank of China (03988)	3.5%
Top 10 Total Weightings	61.7%		67.0%		52.0%		43.2%	
Annualised Price Return (in US\$)								
1 year	-1.2%		-2.7%		1.9%		4.2%	
3 years	-6.3%		-6.6%		-3.0%		-1.8%	
Standard Deviation (in US\$)								
1 year	19.1%		21.4%		16.2%		15.8%	
3 years	23.9%		26.7%		22.4%		23.3%	

Note: We use Morningstar's sector classifications

Source: Index Providers, Morningstar Direct, Morningstar Research (Data as of end-June 2013; SSE 50, CSI 100, SSE 180, CSI 300 as of 1 July 2013 to reflect results of index review)

Key Findings from the Index Summary

- ▶ Indices tracking Chinese equities are composed quite differently and have very different historical risk/return profiles. These differences are especially pronounced amongst the offshore indices. For example, some offshore indices also include Chinese equities (or ADRs thereof) listed in the U.S. and Singapore. In the case of the S&P China BMI Index these listings account for 7.4% of the benchmark's value.
- ▶ Onshore Chinese indices have shown similar levels of volatility and returns over the trailing 3-year period compared to the offshore Chinese indices. However, over the past year they have exhibited higher volatility and lower returns.
- ▶ All of these indices have a large concentration in the financial services sector, with the majority of this exposure being comprised of the shares of Chinese banks. Exposure to this sector ranges from 30-60% amongst these indices.
- ▶ Onshore Chinese indices have similar key constituents, but place different weights on them depending on each index's construction methodology. The same applies to the offshore Chinese indices

In light of all these differences, it is important that investors closely scrutinise these indices to ensure that they choose the one that best matches their investment thesis.

Role in Portfolio

Modern portfolio theory tells us that diversification helps to improve risk-adjusted returns. When building a diversified portfolio, it is important to assess the incremental benefit that results from including an

additional investment in a portfolio. This can be done by examining the correlations between the various investments in the portfolio. The exhibit below shows the correlations between the various Chinese equity indices and other global asset class benchmarks.

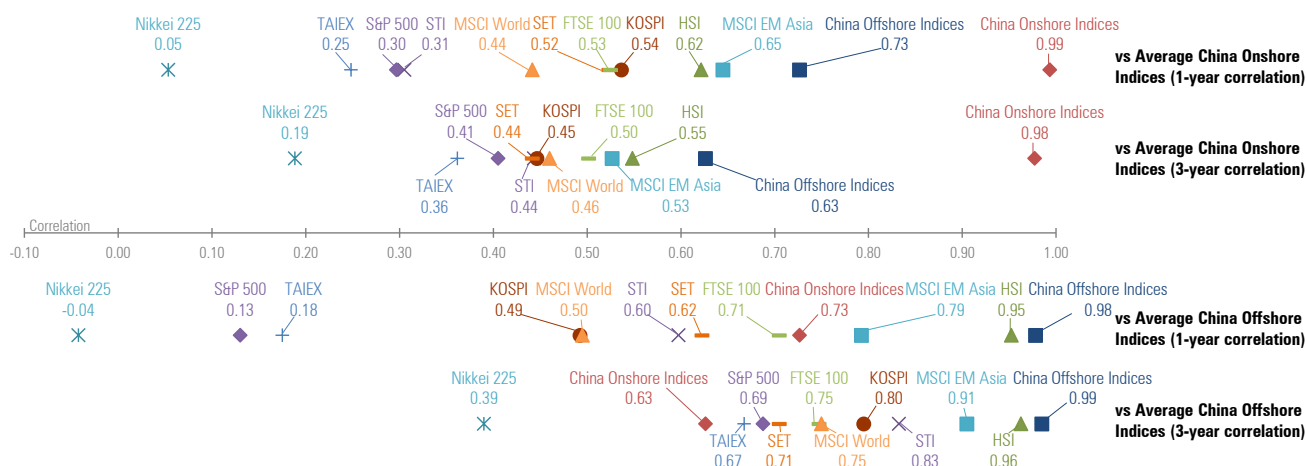
3. Correlation between China Indices and World Indices

1-Year Correlation

	China Onshore Indices										China Offshore Indices			
	FTSE China A50	SSE 50	CSI 100	SSE 180	CSI 300	MSCI China A	FTSE China 25	HSCEI	MSCI China	S&P China BMI	FTSE China 25	HSCEI	MSCI China	S&P China BMI
China Onshore Indices	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
China Offshore Indices	0.72	0.71	0.71	0.67	0.65	0.62	1.00	1.00	1.00	0.98	1.00	1.00	1.00	1.00
Other Major Indices	0.35	0.34	0.34	0.29	0.28	0.23	0.68	0.60	0.60	0.51	0.15	0.11	0.21	0.23
Hang Seng Index	0.65	0.65	0.65	0.61	0.60	0.57	0.95	0.94	0.97	0.95	0.49	0.46	0.52	0.50
Straits Times Index	0.35	0.34	0.34	0.29	0.28	0.23	0.68	0.60	0.60	0.51	0.15	0.11	0.21	0.23
Nikkei 225	0.07	0.08	0.06	0.06	0.03	0.02	-0.03	-0.02	-0.06	-0.06	0.07	0.08	0.06	0.03
KOSPI	0.54	0.55	0.55	0.54	0.53	0.51	0.49	0.46	0.52	0.50	0.49	0.46	0.52	0.50
TAIEX	0.26	0.28	0.26	0.25	0.23	0.21	0.15	0.11	0.21	0.23	0.15	0.11	0.21	0.23
SET	0.54	0.55	0.54	0.51	0.51	0.49	0.61	0.65	0.62	0.61	0.61	0.65	0.62	0.61
FTSE 100	0.54	0.55	0.54	0.52	0.51	0.49	0.69	0.71	0.70	0.72	0.69	0.71	0.70	0.72
S&P 500	0.27	0.28	0.29	0.29	0.32	0.33	0.08	0.14	0.11	0.19	0.08	0.14	0.11	0.19
MSCI EM Asia	0.67	0.67	0.67	0.64	0.63	0.59	0.79	0.76	0.82	0.80	0.79	0.76	0.82	0.80
MSCI World	0.46	0.46	0.45	0.43	0.43	0.42	0.47	0.51	0.48	0.52	0.47	0.51	0.48	0.52

3-Year Correlation

	China Onshore Indices										China Offshore Indices			
	FTSE China A50	SSE 50	CSI 100	SSE 180	CSI 300	MSCI China A	FTSE China 25	HSCEI	MSCI China	S&P China BMI	FTSE China 25	HSCEI	MSCI China	S&P China BMI
China Onshore Indices	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
China Offshore Indices	0.65	0.66	0.62	0.61	0.57	0.54	1.00	1.00	1.00	0.99	1.00	1.00	1.00	1.00
Other Major Indices	0.47	0.47	0.46	0.44	0.42	0.40	0.83	0.80	0.85	0.85	0.47	0.47	0.46	0.45
Hang Seng Index	0.58	0.58	0.56	0.55	0.52	0.50	0.96	0.95	0.97	0.97	0.47	0.47	0.46	0.45
Straits Times Index	0.47	0.47	0.46	0.44	0.42	0.40	0.83	0.80	0.85	0.85	0.47	0.47	0.46	0.45
Nikkei 225	0.19	0.18	0.19	0.19	0.19	0.19	0.38	0.37	0.40	0.41	0.19	0.18	0.19	0.19
KOSPI	0.47	0.48	0.46	0.45	0.42	0.40	0.78	0.76	0.81	0.83	0.47	0.47	0.46	0.45
TAIEX	0.38	0.39	0.37	0.37	0.34	0.32	0.64	0.63	0.69	0.71	0.38	0.39	0.37	0.37
SET	0.43	0.43	0.43	0.44	0.45	0.47	0.69	0.68	0.72	0.73	0.43	0.43	0.43	0.44
FTSE 100	0.52	0.51	0.52	0.50	0.49	0.47	0.73	0.72	0.76	0.78	0.52	0.51	0.52	0.50
S&P 500	0.42	0.42	0.41	0.41	0.39	0.38	0.66	0.66	0.70	0.73	0.42	0.42	0.41	0.41
MSCI EM Asia	0.55	0.56	0.54	0.53	0.50	0.48	0.89	0.88	0.92	0.93	0.55	0.56	0.54	0.53
MSCI World	0.48	0.47	0.47	0.46	0.45	0.43	0.73	0.72	0.76	0.79	0.48	0.47	0.47	0.46



Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013)

Key Findings from the Correlation Data:

- ▶ Correlations are very high (>0.9 over the trailing 1 and 3 year periods) amongst the onshore indices and the offshore indices.
- ▶ Onshore and offshore Chinese equity indices have shown a moderate level of correlation to each other (ranging from 0.5 to 0.8 over the trailing 1 and 3 year periods). As a result, an investor with a concentrated offshore Chinese equity portfolio might consider adding some onshore Chinese equity exposure for diversification purposes.
- ▶ Onshore Chinese equity indices have lower correlations to other global asset class benchmarks than the

offshore Chinese equity indices – more pronounced over the trailing 3-year period than the 1-year period.

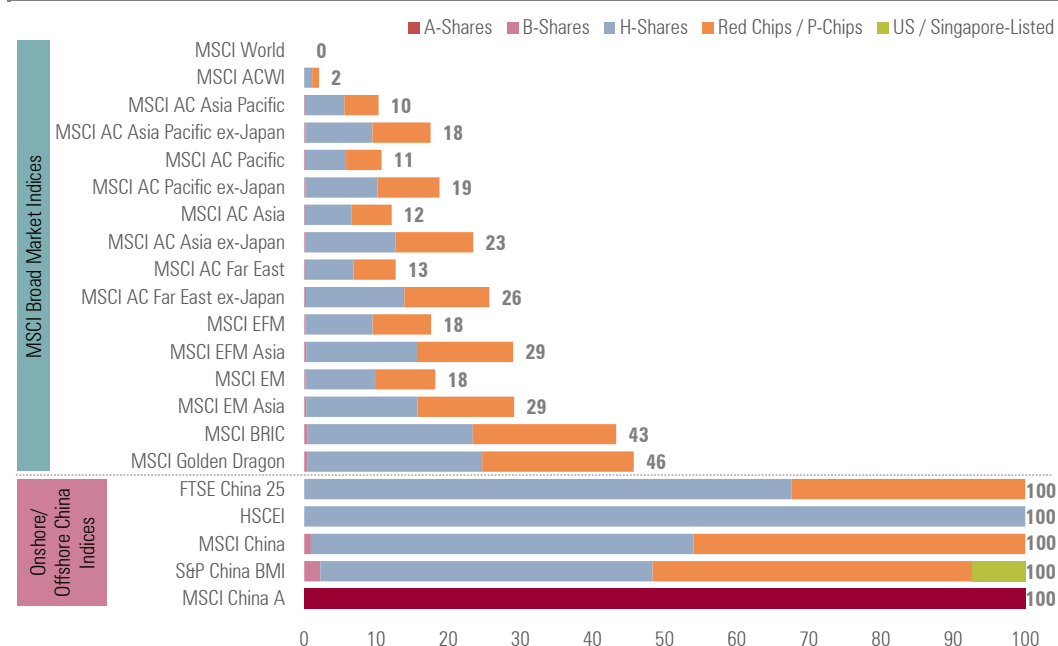
- ▶ Japanese and Taiwanese equities have lower correlations with onshore and offshore Chinese equity exposures over the trailing 1- and 3-year periods as compared to their correlations with other Asian equity markets.
- ▶ The US and UK equity markets have exhibited a moderate level of correlation with both onshore and offshore China exposures. This suggests some diversification benefit results from adding exposure to Chinese equities for investors in these markets.

The importance of “China” can be further illustrated by its weighting in various major broad market indices. As of end-June 2013, China’s representation in major equity indices ranged from 2% in the MSCI ACWI Index to 18% in the MSCI Emerging Markets Index and 46% in the MSCI Golden Dragon Index. In June 2013, MSCI announced it had initiated a review of China A-Shares for potential inclusion in the MSCI Emerging Markets Index. If China A-

Shares were hypothetically included, China would make up close to 30% of the MSCI Emerging Markets Index.

As China is gaining increasing importance in various indices, we would also urge investors to examine their current exposure to China before and after adding a new investment to avoid excessive concentration in Chinese equities.

4. China’s Weighting (in %) in Major Broad Market Indices



Source: MSCI, FTSE, S&P, Morningstar Direct, Morningstar Research (Data as of end-June 2013)

Accessing China around the World via ETFs

What's On the Menu?

As of 30 June 2013, there were 98 ETFs listed outside of China offering pure Chinese equity exposure, with a

combined USD 28 billion in assets under management (AUM). The asset split between ETFs offering Chinese onshore/offshore equity exposure is around 53/47. This compares to a total of 61 equity ETFs domiciled in Mainland China, which are only available to domestic Chinese investors. These funds have a combined USD 23 billion in AUM, and mostly invest in the onshore Chinese market (A-Shares).

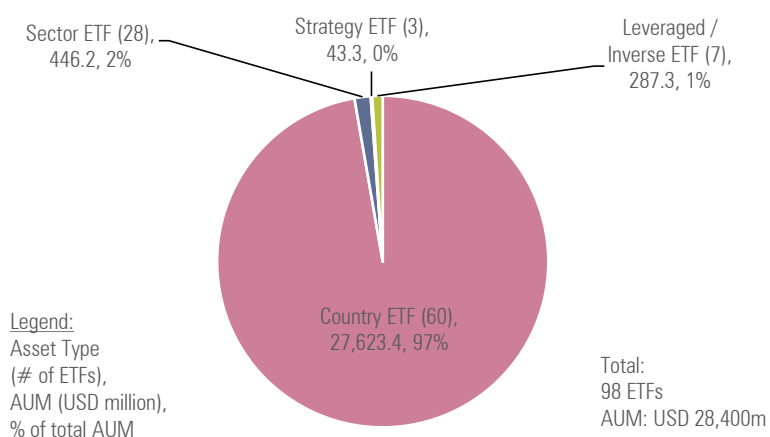
5. Chinese Equity ETFs around the World

	Listing Country / Region	Pure Chinese Equity Exposure				Onshore Chinese Equity Exposure				Offshore Chinese Equity Exposure			
		# of Listings	# of ETFs	Fund Size (USD m)	Market Share	# of Listings	# of ETFs	Fund Size (USD m)	Market Share	# of Listings	# of ETFs	Fund Size (USD m)	Market Share
Asia Pacific	Australia	1	0	0.0	0%	0	0	0.0	0%	1	0	0.0	0%
	Hong Kong	46	28	15,617.2	55%	33	17	12,473.6	44%	13	11	3,143.6	11%
	Japan	7	5	155.0	1%	4	2	139.4	0%	3	3	15.5	0%
	Malaysia	1	1	8.5	0%	0	0	0.0	0%	1	1	8.5	0%
	Singapore	5	1	38.0	0%	2	1	38.0	0%	3	0	0.0	0%
	South Korea	5	5	342.7	1%	3	3	269.3	1%	2	2	73.4	0%
	Taiwan	6	4	1,208.8	4%	5	4	1,208.8	4%	1	0	0.0	0%
	Thailand	1	1	7.9	0%	1	1	7.9	0%	0	0	0.0	0%
	Total - Asia Pacific	72	45	17,378.0	61%	48	28	14,137.0	50%	24	17	3,241.0	11%
Europe	Belgium	1	0	0.0	0%	0	0	0.0	0%	1	0	0.0	0%
	France	8	3	1,224.4	4%	1	0	0.0	0%	7	3	1,224.4	4%
	Germany	15	4	313.9	1%	7	0	0.0	0%	8	4	313.9	1%
	Italy	6	0	0.0	0%	2	0	0.0	0%	4	0	0.0	0%
	Luxembourg	13	12	885.6	3%	12	11	755.7	3%	1	1	129.9	0%
	Netherlands	1	0	0.0	0%	0	0	0.0	0%	1	0	0.0	0%
	Spain	2	0	0.0	0%	0	0	0.0	0%	2	0	0.0	0%
	Sweden	2	1	5.4	0%	0	0	0.0	0%	2	1	5.4	0%
	Switzerland	8	1	136.2	0%	1	1	136.2	0%	7	0	0.0	0%
	United Kingdom	14	2	55.2	0%	3	0	0.0	0%	11	2	55.2	0%
	Total - Europe	70	23	2,620.8	9%	26	12	891.9	3%	44	11	1,728.9	6%
Americas	Canada	4	3	43.0	0%	0	0	0.0	0%	4	3	43.0	0%
	Chile	4	0	0.0	0%	1	0	0.0	0%	3	0	0.0	0%
	Mexico	8	1	83.3	0%	0	0	0.0	0%	8	1	83.3	0%
	United States	26	26	8,275.2	29%	1	1	33.6	0%	25	25	8,241.6	29%
	Total - Americas	42	30	8,401.5	30%	2	1	33.6	0%	40	29	8,367.8	29%
Grand Total (excluding China domiciled ETFs)	184	98	28,400.2	100%	76	41	15,062.5	53%	108	57	13,337.7	47%	
China domiciled ETFs	61	61	23,452.9	100%	60	60	23,428.2	100%	1	1	24.8	0%	

Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013. Fund sizes are attributed to country of domicile followed by country of primary listing)

Amongst the different types of Chinese equity ETFs, country ETFs comprise of the majority of the assets. Meanwhile, sector ETFs, strategy ETFs and leveraged/inverse ETFs together account for less than 3% of total assets.

6. ETFs with Pure Chinese Equity Exposure by Type



Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013)

Trading Hours

Apart from the actual differences between ETFs (e.g. structure, fees, underlying index, tax consequences, etc.), differences in trading hours (and public holidays) across different markets around the world will affect these ETFs' pricing and trading. These effects will be important to measure and consider when trading these funds. However, from a long term perspective, these time differences will not be as critical an issue for a buy-and-hold investor as they might be for a short-term trader.

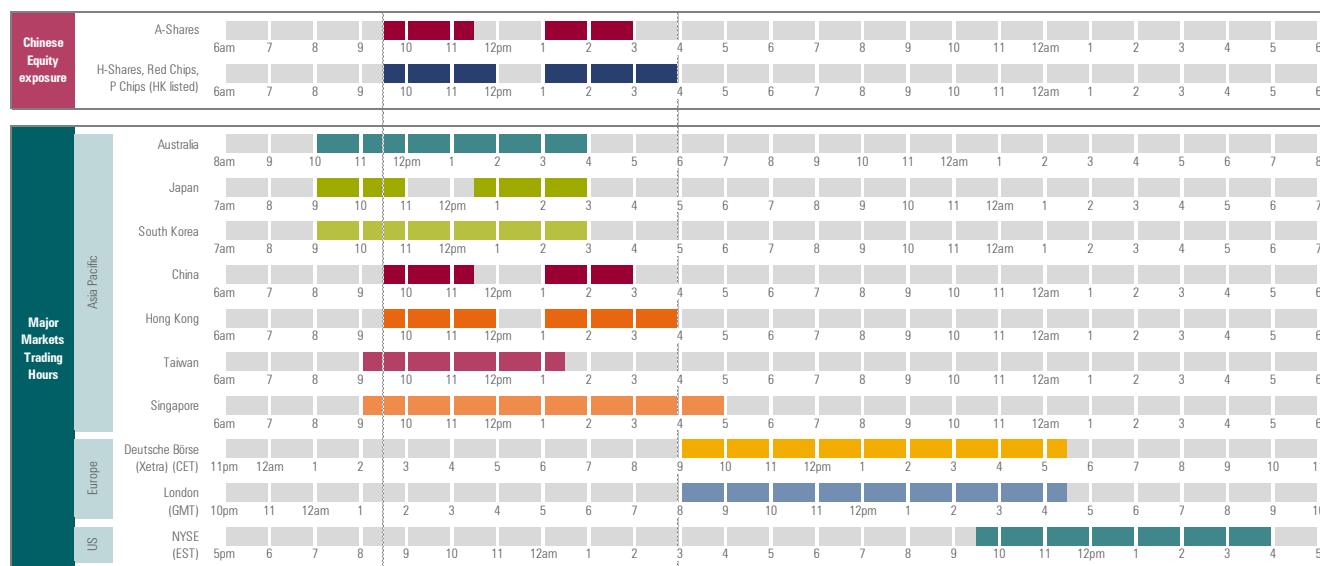
Asia – Trading hours for the Hong Kong market have the greatest degree of overlap with the A-Share and H-Share markets, hence ETFs trading in Hong Kong should accurately reflect the live market values of the underlying securities.

Europe – European markets have a small degree of overlap with the trading hours for the A-Share and H-Share markets (e.g. during Eurex and floor hours), so

investors can transact in European listed Chinese equity ETFs during normal trading hours for Chinese equity markets. During non-overlapping hours, the China equity ETFs trading on the European markets will reflect the expected effect of US and European market news on Chinese equities.

US/Canada – There is no overlap in trading hours between U.S./Canada-listed Chinese equity ETFs and the A- and H-shares markets. As such, U.S./Canada-listed Chinese equity ETFs act as price discovery vehicles for Chinese equities during U.S. market hours. Most Chinese equity ETFs' benchmarks only reflect market movements during the Asian trading day, so U.S./Canada-listed Chinese equity ETFs can trade at wide spreads during U.S. market hours, and close at a premium or discount to NAV, especially if there is a major market event or high levels of volatility.

7. Different Trading Hours



Source: Websites of various exchanges, Morningstar Research

Asia Pacific

8. Chinese Equity ETFs in Asia Pacific

Listing Country / Region	Onshore Chinese Equity Exposure				Offshore Chinese Equity Exposure			
	# of Listings	# of ETFs	Fund Size (USD m)	Market Share	# of Listings	# of ETFs	Fund Size (USD m)	Market Share
Australia	0	0	0.0	0%	1	0	0.0	0%
Hong Kong	33	17	12,473.6	44%	13	11	3,143.6	11%
Japan	4	2	139.4	0%	3	3	15.5	0%
Malaysia	0	0	0.0	0%	1	1	8.5	0%
Singapore	2	1	38.0	0%	3	0	0.0	0%
South Korea	3	3	269.3	1%	2	2	73.4	0%
Taiwan	5	4	1,208.8	4%	1	0	0.0	0%
Thailand	1	1	7.9	0%	0	0	0.0	0%
Total - Asia Pacific	48	28	14,137.0	50%	24	17	3,241.0	11%

Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013)

Asia Pacific exchanges are home to most of the world's Chinese equity ETFs as measured in terms of both raw numbers and AUM (61% of global assets). Hong Kong accounts for the majority of them, thanks to its geographic proximity and its growing role as a gateway to China's capital markets.

Hong Kong

Hong Kong alone houses 55% of global AUM in Chinese equity ETFs. These funds have an onshore Chinese equity focus. Hong Kong is home to 83% of the world's onshore Chinese equity ETF assets, thanks to the RQFII scheme which allows ETFs to directly invest in the A-Share market and the QFII scheme which allows ETFs to utilise access products (derivatives which track the performance of individual A-Share securities or indices) to provide A-share exposure. Some of these A-Share ETFs are amongst the largest and most heavily traded ETFs in the Hong Kong market.

Hong Kong has the largest menu of onshore ETFs for international investors to choose from. However, as we discuss in the section "Don't Forget the Risks", investment in A-Shares is subject to quota requirements which could result in sustained premiums to NAV if the quota limits are reached. Investors have plenty of choices when it comes to onshore/offshore ETFs tracking most of the well-known Chinese indices. Total expense ratios (TERs) are generally higher for the onshore Chinese equity ETFs than their offshore counterparts. Amongst onshore funds, TERs for physical replication ETFs range from 0.80% to 1.15% while TERs for synthetic replication ETFs range from 0.50% to 1.49%. Meanwhile, TERs for onshore physical replication ETFs range from 0.25% to 0.89% and from 0.60% to 0.65% for synthetic replication ETFs. In both cases, it is important to be aware of other costs not included in the TER, such as swap fees or "index replication costs".

We expect the importance of the Hong Kong ETF market as a channel to access the Chinese debt and equity market will grow as China's capital markets open further along with additional relaxation of the QFII / RQFII rules.

9. Top 5 Most Traded ETFs in Hong Kong

Ticker	Name of ETF	Exposure	AUM (USD m)	YTD Avg Daily T/O (USD m)	% of total ETF T/O
02823	iShares FTSE A50 China Index ETF	Equity - China Onshore	6,153	252.9	43%
82822 & 02822	CSOP FTSE China A50 ETF	Equity - China Onshore	2,493	108.4	18%
02800	Tracker Fund of Hong Kong	Equity - Hong Kong	7,268	94.8	16%
83188 & 03188	ChinaAMC CSI 300 Index ETF	Equity - China Onshore	1,748	52.5	9%
02828	Hang Seng H-Share Index ETF	Equity - China Offshore	2,826	41.5	7%

Source: HKEx, Morningstar Research (Data as of end-June 2013)

Taiwan

There are a number of onshore China ETFs available for investors on the Taiwan Stock Exchange. They utilise the managers' QFII quotas to invest directly in the A-Share market. However, due to repatriation and quota constraints, some of these ETFs very often have high cash levels and/or utilise derivatives (such as futures), which could result in greater tracking error. In addition, there are also two ETFs which are cross-listed from the Hong Kong

market. Trading volume has been light for these two listings. Despite its currently small size, we believe that the market for Chinese equity ETFs trading in Taiwan will develop further as the RQFIL scheme expands to Taiwan.

Given the shorter trading hours of the Taiwan Stock Exchange (which closes at 1:30pm local time) as compared to the A-Share or H-Share markets, investors should be aware of the potential for regular premiums or discounts and carefully monitor bid-offer spreads for these ETFs.

Singapore

There are a number of onshore and offshore Chinese equity ETFs available on the Singapore Exchange which

are cross-listed from other exchanges. There is also one ETF domiciled in Singapore which utilises synthetic replication to track an A-Share index.

South Korea

The first onshore Chinese equity ETF listed on the Korea Exchange began trading in November 2012. The fund is sponsored by Korea Investment, and it tracks the CSI 300 Index. Subsequently, in December 2012 and June 2013, Samsung listed an ETF tracking the FTSE China A50 Index and KB Asset Management listed an ETF tracing the CSI 100 Index, respectively, on the Korea exchange. Currently there are 3 onshore and 2 offshore Chinese equity ETFs available in the Korea market.

Europe

10. Chinese Equity ETFs in Europe

Listing Country / Region	Onshore Chinese Equity Exposure				Offshore Chinese Equity Exposure			
	# of Listings	# of ETFs	Fund Size (USD m)	Market Share	# of Listings	# of ETFs	Fund Size (USD m)	Market Share
Belgium	0	0	0.0	0%	1	0	0.0	0%
France	1	0	0.0	0%	7	3	1,224.4	4%
Germany	7	0	0.0	0%	8	4	313.9	1%
Italy	2	0	0.0	0%	4	0	0.0	0%
Luxembourg	12	11	755.7	3%	1	1	129.9	0%
Netherlands	0	0	0.0	0%	1	0	0.0	0%
Spain	0	0	0.0	0%	2	0	0.0	0%
Sweden	0	0	0.0	0%	2	1	5.4	0%
Switzerland	1	1	136.2	0%	7	0	0.0	0%
United Kingdom	3	0	0.0	0%	11	2	55.2	0%
Total - Europe	26	12	891.9	3%	44	11	1,728.9	6%

Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013)

Europe offers an array of China-focused equity ETFs tracking a number of different indices, including MSCI China, Hang Seng China Enterprises, FTSE China 25, CSI 300, and Dow Jones China Offshore 50.

While these benchmarks look similar on the surface, there are important distinctions from one to the next. All of them except the CSI index provide exposure to Hong Kong-listed securities of Chinese companies. So for European ETF investors looking for shares listed on the mainland the only choices are iShares CSI 300 UCITS ETF (Swap), or the db X-trackers funds that track the CSI 300 Index and its individual sectors.

There are also meaningful differences in the degree of diversification at the individual security level. At one end, the FTSE China 25 Index is concentrated within just 25 names, with the top three constituents making up close to 30% of the total. By contrast, the MSCI China Index, with 137 constituents, or the CSI index with 300, are much more diversified at the individual constituent level. The FTSE index is also more concentrated at the sector level, with Financials making up close to 60% of the index.

At the time of writing, the biggest China-focused exchange-traded fund was Lyxor ETF China Enterprise (HSCEI), with assets of roughly USD 1.1 billion. That fund is also among the oldest in the group, with an inception

July 2013

date of July 2005. The other largest funds in the group were db x-trackers CSI300 UCITS ETF with assets of USD 673 million, and the iShares China Large Cap UCITS ETF with assets of USD 845 million. The iShares fund, dating back to October 2004, is also the oldest in the group.

Most of the Chinese equity ETFs in Europe are synthetically replicated. The only ones employing full physical replication are iShares China Large Cap UCITS ETF, iShares DJ China Offshore 50 (DE), and ETFlab MSCI

China. HSBC MSCI China ETF is physically replicated as well but it uses optimised sampling techniques.

TERs for the group range from 0.50% to 0.74% per year. For the synthetic products, this figure may not include swap fees. The db X-trackers funds on the CSI 300, for example, levy an "index replication" fee of 2.65% on top of their so-called "all-in" fee, which put those funds at the very high end of their respective ranges in terms of explicit costs. iShares CSI 300 UCITS ETF (Swap) charges a swap fee of 1.22% on top of its TER of 0.50%. Source MSCI China has a swap fee of 0.30% on top of its TER of 0.65%.

Americas

11. Chinese Equity ETFs in the Americas

Listing Country / Region	Onshore Chinese Equity Exposure				Offshore Chinese Equity Exposure			
	# of Listings	# of ETFs	Fund Size (USD m)	Market Share	# of Listings	# of ETFs	Fund Size (USD m)	Market Share
Canada	0	0	0.0	0%	4	3	43.0	0%
Chile	1	0	0.0	0%	3	0	0.0	0%
Mexico	0	0	0.0	0%	8	1	83.3	0%
United States	1	1	33.6	0%	25	25	8,241.6	29%
Total - Americas	2	1	33.6	0%	40	29	8,367.8	29%

Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013)

United States

With the exception of one ETF, all Chinese equity ETFs listed in North America provide exposure to offshore-listed Chinese equities. Some, such as iShares China Large-Cap (FXI), only hold Hong Kong-listed securities, whereas others, such as SPDR S&P China (GXC), hold both Hong Kong-listed and U.S.-listed securities. All of the Chinese equity ETFs listed in the Americas are unhedged, and will therefore reflect the performance of the underlying holdings, as well as currency effects. Most of the ETFs listed in Chile and Mexico are cross listings of U.S.-domiciled Chinese equity ETFs.

Canada

The oldest Chinese equity ETF in Canada, BMO China Equity Index ETF (ZCH) was launched on January 19, 2010. Two days later came the launch of iShares China Index Fund (XCH), which is a feeder fund that holds the U.S.-listed iShares China Large-Cap (FXI). The other Chinese equity ETF in Canada launched later the same year on August 3, 2010; iShares China All-Cap Index Fund (CHI) is also a feeder fund that holds the U.S.-listed Guggenheim

China All-Cap ETF (YAO). CHI has two separate share classes, the common units trade with the ticker CHI, while the advisor series units trade with the ticker CHI.A and pay advisors an ongoing service fee (or trailing commission) of 0.75% per annum. Canadian investors have access to U.S.-listed ETFs and can therefore also consider those options. While a U.S. alternative will have a lower expense ratio, investors should consider that they may be subject to a currency conversion fee to translate Canadian dollars to U.S. dollars upon purchase, and another conversion fee to repatriate funds back into Canadian dollars from U.S. dollars upon sale. The cost of currency conversion will likely negate the benefit of the lower expense ratio for the U.S.-listed ETF relative to the Canadian-listed ETF. Therefore, U.S.-listed Chinese equity ETFs may only be appropriate for Canadian investors who maintain U.S. dollar-denominated brokerage accounts and can avoid paying cost prohibitive currency conversion fees. Another point to keep in mind when considering a U.S.-listed China equity ETF is that the U.S.-listed ETF will be treated as U.S. property, meaning Canadian investors will be subject to U.S. estate taxes upon death.

Putting Chinese Equity ETFs to Use

There are numerous ways in which investors could use ETFs tracking Chinese equities.

Buy and Hold

For investors with a positive long-term view on Chinese equity market, ETFs are good tools to achieve inexpensive and stable beta exposure.

When utilising these funds as part of a buy and hold strategy, investors should carefully consider the fees charged by the ETFs offering their desired exposure. Hypothetically, for ETFs offering the same exposure, the ETF with the lower total cost will generate better long-term returns.

AH Premium Arbitrage

In short, this is a long-short strategy that seeks to exploit price differences between A-Shares and the H-Shares.

By way of background, there are companies that have both A-Share and H-Share listings. There are fundamental factors driving the differences between the prices for A-Shares and H-Shares. These differences include, but are not limited to, differences in regulations due to their different listing locations, different return expectations and/or risk appetites amongst different groups of investors (H-Shares are available to international investors while A-Shares are available only to domestic investors and QFIIs/RQFIIs), and different market trading hours, amongst others. As long as China continues to have tight capital controls, there will probably always be differences in the share prices between the two markets. This phenomenon differentiates the markets for Chinese A- and H-shares from the other markets where there can be purer arbitrage between dual listed stocks.

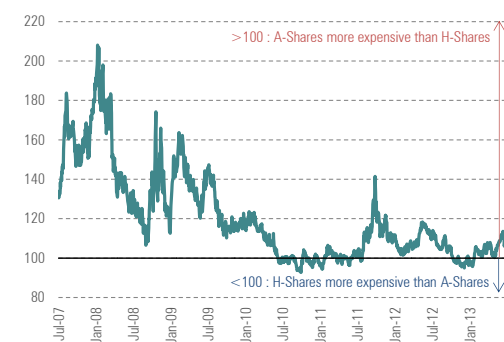
However, given that A-Shares and H-Shares are issued by the same company and as such the underlying earnings are subject to the same fundamental factors, shouldn't they trade at par? In order for A-Shares and H-Shares to trade at absolute parity there would need to be further alignment in regulations between the A-Share and H-Share markets and an unwinding of China's capital controls in order for pure arbitrage to occur—which may

take some time. If these events ultimately transpire, we are of the view that any significant price gaps between A-Shares and H-Shares should narrow. But until that day arrives, if there are times when the price gaps between A-Shares and H-Shares widen out to abnormally large levels, we believe that ETFs can be used to exploit these price differentials.

If, on average, A-Shares are trading at a premium to H-Shares (e.g. at a value of > 100 from the Hang Seng China AH Premium Index, which tracks the average price difference of A-Shares over H-Shares for the largest and most liquid Chinese companies with both A-Share and H-Share listings), which has clearly happened in the past as evidenced by the volatility in the Hang Seng China AH Premium Index, then an investor can short an appropriate A-Share ETF and go long an appropriate H-Share ETF under the expectation that A-Shares and H-Shares will ultimately trade at parity.

In order for this AH premium arbitrage strategy to work, investors should pick ETFs that have market prices which are trading at or near their NAV (i.e. small premium/discount to NAV), if they want to perform all trades on the exchange.

12. Hang Seng China AH Premium Index



Source: Hang Seng Indexes Company Limited

Sector Rotation

For investors looking to implement economic cycle or momentum-driven sector rotation strategies, equity sector ETFs are a natural choice. In Hong Kong, Europe and the US, there are a number of listed ETFs that could be used to implement a sector rotation strategy. In many cases, each region's ETFs only offer sector exposure to either the

onshore or the offshore Chinese market (e.g. Hong Kong – mainly onshore; Europe – only onshore; U.S. – only offshore).

However, due to the small size and limited liquidity of the available sector ETFs, this strategy may not be suitable for the time being, especially for investors looking to put large amounts of capital to work in implementing it.

13. China Sector ETFs Listed in Asia

Listing Country	Name	Ticker	Domicile	ETF Provider	Underlying Index	Onshore / Offshore China Exposure	Replication Method	AUM (USD m)	TER (%)
Hong Kong	Da Cheng CSI China Mainland Consumer Tracker	03071	Hong Kong	Da Cheng	CSI China Mainland Consumer	Onshore	Synthetic	1.6	1.49
	db x-trackers CSI300 Banks UCITS ETF	03061	Luxembourg	db X-trackers	CSI 300 Banks	Onshore	Synthetic	14.7	0.50
	db x-trackers CSI300 Consumer Discretionary UCITS ETF	03025	Luxembourg	db X-trackers	CSI 300 Consumer Discretionary	Onshore	Synthetic	22.3	0.50
	db x-trackers CSI300 Energy UCITS ETF	03017	Luxembourg	db X-trackers	CSI 300 Energy	Onshore	Synthetic	3.0	0.50
	db x-trackers CSI300 Financials UCITS ETF	02844	Luxembourg	db X-trackers	CSI 300 Financials	Onshore	Synthetic	10.9	0.50
	db x-trackers CSI300 Health Care UCITS ETF	03057	Luxembourg	db X-trackers	CSI 300 Health Care	Onshore	Synthetic	12.8	0.50
	db x-trackers CSI300 Industrials UCITS ETF	03005	Luxembourg	db X-trackers	CSI 300 Industrials	Onshore	Synthetic	3.2	0.50
	db x-trackers CSI300 Materials UCITS ETF	03062	Luxembourg	db X-trackers	CSI 300 Materials	Onshore	Synthetic	2.6	0.50
	db x-trackers CSI300 Real Estate UCITS ETF	02816	Luxembourg	db X-trackers	CSI 300 Real Estate	Onshore	Synthetic	10.7	0.50
	db x-trackers CSI300 Transportation UCITS ETF	03063	Luxembourg	db X-trackers	CSI 300 Transportation	Onshore	Synthetic	1.4	0.50
	db x-trackers CSI300 Utilities UCITS ETF	03052	Luxembourg	db X-trackers	CSI 300 Utilities	Onshore	Synthetic	1.4	0.50
	iShares CSI A-Share Consumer Discretionary Index ETF	03001	Hong Kong	iShares	CSI 300 Consumer Discretionary	Onshore	Synthetic	18.4	1.39
	iShares CSI A-Share Consumer Staples Index ETF	02841	Hong Kong	iShares	CSI 300 Consumer Staples	Onshore	Synthetic	23.2	1.39
	iShares CSI A-Share Energy Index ETF	03050	Hong Kong	iShares	CSI 300 Energy	Onshore	Synthetic	10.4	1.39
	iShares CSI A-Share Financials Index ETF	02829	Hong Kong	iShares	CSI 300 Financials	Onshore	Synthetic	30.3	1.39
	iShares CSI A-Share Infrastructure Index ETF	03006	Hong Kong	iShares	CSI 300 Infrastructure	Onshore	Synthetic	15.5	1.39
	iShares CSI A-Share Materials Index ETF	03039	Hong Kong	iShares	CSI 300 Materials	Onshore	Synthetic	11.1	1.39
W.I.S.E. - CSI HK Listed Mainland Consumption Tracker	02817	Hong Kong	BOCI-Prudential	CSI HK Listed Tradable Mainland Consumption	Offshore	Physical	1.5	0.89	
W.I.S.E. - CSI HK Listed Mainland Real Estate Tracker	02839	Hong Kong	BOCI-Prudential	CSI HK Listed Tradable Mainland Real Estate	Offshore	Physical	3.9	0.89	

Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013)

14. China Sector ETFs Listed in Europe

Listing Country	Name	Ticker	Domicile	ETF Provider	Underlying Index	Onshore / Offshore China Exposure	Replication Method	AUM (USD m)	TER (%)
Germany	db x-trackers CSI300 Banks UCITS ETF	XCHB	Luxembourg	db X-trackers	CSI 300 Banks	Onshore	Synthetic	14.7	0.50
	db x-trackers CSI300 Consumer Discretionary UCITS ETF	XCHD	Luxembourg	db X-trackers	CSI 300 Consumer Discretionary	Onshore	Synthetic	22.3	0.50
	db x-trackers CSI300 Energy UCITS ETF	XCHE	Luxembourg	db X-trackers	CSI 300 Energy	Onshore	Synthetic	3.0	0.50
	db x-trackers CSI300 Health Care UCITS ETF	XCHC	Luxembourg	db X-trackers	CSI 300 Health Care	Onshore	Synthetic	12.8	0.50
	db x-trackers CSI300 Real Estate UCITS ETF	XCHR	Luxembourg	db X-trackers	CSI 300 Real Estate	Onshore	Synthetic	10.7	0.50
Luxembourg	db x-trackers CSI300 Banks UCITS ETF	159879	Luxembourg	db X-trackers	CSI 300 Banks	Onshore	Synthetic	14.7	0.50
	db x-trackers CSI300 Consumer Discretionary UCITS ETF	159882	Luxembourg	db X-trackers	CSI 300 Consumer Discretionary	Onshore	Synthetic	22.3	0.50
	db x-trackers CSI300 Energy UCITS ETF	159900	Luxembourg	db X-trackers	CSI 300 Energy	Onshore	Synthetic	3.0	0.50
	db x-trackers CSI300 Financials Index UCITS ETF	159903	Luxembourg	db X-trackers	CSI 300 Financials	Onshore	Synthetic	10.9	0.50
	db x-trackers CSI300 Health Care UCITS ETF	159891	Luxembourg	db X-trackers	CSI 300 Health Care	Onshore	Synthetic	12.8	0.50
	db x-trackers CSI300 Industrials Index UCITS ETF	159906	Luxembourg	db X-trackers	CSI 300 Industrials	Onshore	Synthetic	3.2	0.50
	db x-trackers CSI300 Materials Index UCITS ETF	159885	Luxembourg	db X-trackers	CSI 300 Materials	Onshore	Synthetic	2.6	0.50
	db x-trackers CSI300 Real Estate Index UCITS ETF	159888	Luxembourg	db X-trackers	CSI 300 Real Estate	Onshore	Synthetic	10.7	0.50
	db x-trackers CSI300 Transportation Index UCITS ETF	159894	Luxembourg	db X-trackers	CSI 300 Transportation	Onshore	Synthetic	1.4	0.50
	db x-trackers CSI300 Utilities Index UCITS ETF	159897	Luxembourg	db X-trackers	CSI 300 Utilities	Onshore	Synthetic	1.4	0.50

Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013)

15. China Sector ETFs Listed in the Americas

Listing Country	Name	Ticker	Domicile	ETF Provider	Underlying Index	Onshore / Offshore China Exposure	Replication Method	AUM (USD m)	TER (%)
US	EGShares China Infrastructure	CHXX	United States	Emerging Global Advisors	INDXX China Infrastructure	Offshore	Physical	9.4	0.85
	Global X China Consumer ETF	CHIQ	United States	Global X	Solactive China Consumer	Offshore	Physical	165.8	0.65
	Global X China Energy ETF	CHIE	United States	Global X	Solactive China Energy	Offshore	Physical	4.0	0.65
	Global X China Financials ETF	CHIX	United States	Global X	Solactive China Financials	Offshore	Physical	5.2	0.65
	Global X China Industrials ETF	CHII	United States	Global X	Solactive China Industrials	Offshore	Physical	3.5	0.65
	Global X China Materials ETF	CHIM	United States	Global X	Solactive China Materials	Offshore	Physical	2.0	0.65
	Global X NASDAQ China Technology ETF	COQC	United States	Global X	NASDAQ OMX China Technology	Offshore	Physical	3.2	0.65
	Guggenheim China Real Estate	TAO	United States	Guggenheim	AlphaShares China Real Estate	Offshore	Physical	35.2	0.70
	Guggenheim China Technology	COQQ	United States	Guggenheim	AlphaShares China Technology	Offshore	Physical	19.2	0.70

Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013)

Don't Forget the Risks

General ETF Risks

Differences in exchange trading hours: The A-Share markets close at 3pm (China/HK local time) while the Stock Exchange of Hong Kong closes at 4pm (China/HK local time) and there are also differences in public holidays to consider. These differences will inherently result in premiums and discounts between ETFs' market price and their NAV. However, as we've seen elsewhere in the world, in these instances, ETFs can act as a type of price-discovery mechanism.

When transacting in ETFs listed outside the Asia-Pacific region, say in Europe and the US, investors should exercise caution when analysing these funds' "premiums/discounts" due to the difference in the trading hours between the ETFs and their underlying portfolio securities. Investors should also keep a close eye on bid-offer spreads, which will tend to be wider for those ETFs whose underlying securities are not being actively traded concurrently with the ETF shares.

Sector concentration: As demonstrated in the earlier summary of the broad market Chinese equity indices, sector concentration can present a significant risk. For example, the financial services sector represents between 30% and 60% of broad market Chinese equity indices. Investors should also be mindful of any unintended sector concentration that may result from including Chinese equity ETFs in an existing portfolio.

Market Specific Risks

China: China is an emerging market, and as such investing in Chinese stocks could involve a greater risk of loss than investing in developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks. Investors are advised to understand the fundamentals of the Chinese equity markets before investing.

Trading band limits in A-Shares: The A-Share market is subject to a 10% intraday trading band for ordinary stocks (5% for some specific types of stocks), while stocks traded on the Stock Exchange of Hong Kong—including the RQFII A-Share ETFs—are not subject to such a limit. If and

when the A-Shares that are constituents of these ETFs' benchmark indices reach these limits, it will likely result in premiums or discounts between an ETF's market price and its NAV. This is another instance where the ETF may function as a sort of price-discovery mechanism.

Currency Risks

A-Shares are denominated in Renminbi (RMB). And while offshore Chinese stocks are quoted in Hong Kong dollars or other currencies, given that the underlying businesses are in China, the prices of these firms' shares are still fundamentally exposed to fluctuations in the RMB.

16. RMB against USD



Source: Morningstar Direct

Tax (A-Shares specific considerations)

Under Chinese corporate tax rules, a 10% withholding tax may be charged on the gains derived from the sale of A-Shares by QFIIs. However, this withholding tax has only ever been enforced on dividend and interest payments from PRC listed securities. The State Administration of Taxation has not collected and has not expressed its intent to collect the tax that applies to sale of A-Shares held by QFIIs. Different ETFs tracking domestic Chinese equity indices have different accounting policies, where only some have provided for the withholding tax (i.e. deducted the tax from the ETF's NAV). Investors should be aware that (1) if tax is to be collected: the NAV of those ETFs which have made a provision for the tax would not be affected while the NAV of those ETFs which have not made a provision for the tax would be reduced; and (2) if the tax is not ultimately collected: the NAV of those ETFs which have made a provision for the tax would increase while the NAV for those ETFs which have not made a provision for the tax would not be affected.

Investors are encouraged to read the A-Share ETFs' annual reports and prospectuses to assess and better understand the impacts of any potential changes in tax treatment. ETF providers should also clearly disclose their accounting

policies and the amount of realised and unrealised gains stemming from their chosen tax treatment.

17. A-Share ETFs Tracking Broad Indices Listed in Selected Countries

Listing country	Ticker	ETF	Provisions Made for Potential Capital Gains Tax? (Accounting policy)	Provisions Already Made as % of AUM	Potential Capital Gains Tax % of AUM (net of amounts already provided for)	Data as of
Hong Kong	02823	iShares FTSE A50 China Index ETF	Some access products withheld the tax	1.1%	6.2%	31-Dec-12
Hong Kong	02827	W.I.S.E. - CSI 300 China Tracker	Yes	3.0%	N/A	31-Dec-12
Hong Kong	02846	iShares CSI 300 A-Share Index ETF	Some access product issuers withheld the tax	0.4%	1.5%	31-Dec-12
Hong Kong	03024	W.I.S.E. - SSE 50 China Tracker	Yes	3.7%	N/A	31-Dec-12
Hong Kong	03049	db x-trackers CSI300 UCITS ETF	No	0.0%	1.8%	31-Dec-12
Hong Kong	83188 / 03188	ChinaAMC CSI 300 Index ETF	Yes	1.0%	N/A	31-Dec-12
Hong Kong	83100 / 03100	E Fund CSI 100 A-Share ETF	Yes	0.9%	N/A	31-Dec-12
Hong Kong	82822 / 02822	CSOP FTSE China A50 ETF	Yes	1.3%	N/A	31-Dec-12
Hong Kong	83118 / 03118	Harvest MSCI China A Index ETF	Yes	0.9%	N/A	31-Dec-12
Hong Kong	83136 / 03136	Harvest MSCI China A 50 Index ETF	Yes	Recently listed	N/A	N/A
Hong Kong	83008 / 03008	C-Shares CSI 300 Index ETF	Yes	Recently listed	N/A	N/A
Singapore	KT4	db x-trackers CSI300 UCITS ETF	No	0.0%	1.6%	31-Dec-12
Singapore	JK8	United SSE 50 China ETF	Deducted by P-Notes issuer	Not disclosed	N/A	N/A
Taiwan	006205	Fubon SSE180 ETF	Only for realised gains	Not disclosed	N/A	N/A
Taiwan	006207	Fuh Hwa CSI 300 A ETF	Not disclosed	Not disclosed	N/A	N/A
Taiwan	008201	W.I.S.E. - SSE 50 China Tracker	Yes	3.7%	N/A	31-Dec-12
Taiwan	0061	W.I.S.E. Yuanta/P-shares CSI 300 ETF	Deducted at Mother Fund level	N/A	N/A	N/A
Taiwan	6206	Yuanta/P-shares SSE50 ETF	Only for realised gains	Not disclosed	N/A	N/A
Europe	XCHA	db x-trackers CSI300 UCITS ETF	No	0.0%	1.1%	31-Dec-12
Europe	CCSI	iShares CSI 300 UCITS ETF (Swap)	No	Not disclosed	N/A	N/A
US	PEK	Market Vectors China ETF	Not disclosed	Not disclosed	N/A	N/A

Source: ETF Annual Reports, ETF Prospectuses, Morningstar Research

Premiums (The A-Share Case)

QFII counterparties for synthetic ETFs and the managers of RQFII ETFs are subject to QFII/RQFII quotas. In the case that the counterparty's or manager's quota is reached and additional quota is either not granted or not granted in time, unit creations could be disrupted and the ETF could trade at a premium. In addition, QFII/RQFII rules could be changed without prior notice and therefore any sudden increase in quota could lead to abrupt narrowing of the ETF's premium. Investors should be on the lookout for premiums and discounts and try to understand the specific circumstances that may be driving them.

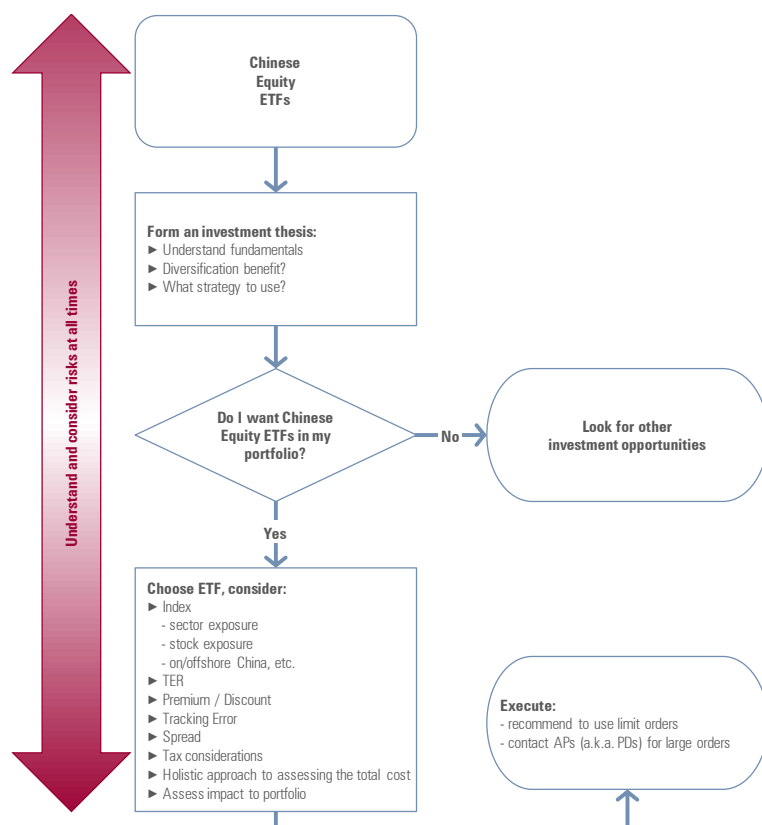
10 Frequently Asked Questions Regarding Chinese Equity ETFs

We have often received from a wide variety of investors on a host of topics pertaining to Chinese equity ETFs. Here, we have chosen the 10 most important questions that we believe every investor should be able to answer before investing in Chinese equity ETFs.

Q: What should be my thought process when I am deciding amongst Chinese equity ETF(s)?

A: We illustrate our recommended decision making process in the following flow chart.

18. Thought process when Choosing Chinese Equity ETFs



Source: Morningstar Research

Q: Do I need Chinese equity ETF(s) in my portfolio?

A: It depends. If an investor has a positive view on Chinese equities, Chinese equity ETFs are certainly good tools for gaining exposure. From a broader portfolio perspective, Chinese equities generally have a moderate degree of correlation to other equity markets, including Chinese equity ETFs in a portfolio will likely have diversification benefits for international investors.

Q: If I wish to obtain exposure to Chinese equities, does listing location matter?

A: The listing location of an ETF has a number of important implications, including but not limited to trading hours, liquidity and tax treatment. Trading hours may be a more important consideration for retail investors, given that they will most likely execute trades on local exchanges. In our view, for long term investors considering two otherwise identical ETFs trading on different exchanges, choosing between the two will hinge on the relative cost of transacting in their shares, while accounting for differences in trading rules and regulations. As for tax implications, we would advise investors to consult their tax advisers, especially when choosing ETFs listed on foreign exchanges.

Other factors, such as the underlying index, liquidity, and bid-offer spreads should also be considered when choosing an ETF, irrespective of where the ETF is listed.

Q: Should I choose an ETF with A-Share (onshore) exposure or non-A-Share (offshore) exposure?

A: Theoretically, Chinese stocks with both onshore and offshore listings should trade at the same price and should perform similarly over the long term. However, seemingly similar indices could have markedly different compositions based on the availability (or lack thereof) of different stocks in the onshore and offshore markets (not all stocks, in fact very few, are dual-listed), which then will result in different risk/return profiles for these indices. Taking this another step further, at the ETF level, A-Share ETFs are exposed to capital gains tax uncertainty (please refer to section "Don't Forget the Risks"), which will also have noticeable effects on the relative performance of funds tracking similar indices.

Q: Does the choice of index matter?

A: In general, yes. The index dictates the exposure of the ETF including specific stock exposure, sector exposure and on/offshore China exposure. It is these factors that translate into the different risk/return profiles of ETFs. We advise investors to understand how these factors affect an ETF's exposures before investing.

Q: If an ETF is trading at a premium to its NAV is it an indication that the market price of the ETF will continue to rise?

A: During regular trading hours, in normal market conditions, when the creation/redemption process is operating smoothly, an ETF usually trades very closely to its NAV. However, for A-Share ETFs, when a counterparty's QFII quota or its own RQFII quota limits are reached, additional demand for the ETF units will push the ETF's share price to a premium to its NAV. The level of the premium will reflect the level of additional demand. If additional demand remains constant, the market price of the ETF will move along with the underlying index at a stable premium.

For Chinese equity ETFs trading when the underlying market is closed, premiums and discounts will reflect overnight market movements in Asia, as well as any market moving news during U.S. and non-overlapping European market hours.

Overall, ETF premiums and discounts should be analysed according to the specific circumstances facing the investor and fund in consideration.

Q: Very often I see persistent premiums in A-Share ETFs, what are the reasons/drivers behind this?

A: Quota-related issues tend to be the key factor underlying persistent premiums. QFII counterparties for synthetic ETFs and the managers of RQFII ETFs are subject to QFII/RQFII quotas. In the case that the counterparty's or manager's quota is reached and additional quota is either not granted or not granted in time, unit creations could be disrupted and the ETF could trade at a premium.

Q: Is low TER a comprehensive measure of the cost of owning ETFs?

A: In short, no. When analysing ETFs, investors should take a holistic approach to assessing the total cost of ownership. Beyond the TER, there are other costs to consider, including, but not limited to, brokerage

commissions, bid-offer spreads, market impact and tracking error.

Q: Does ETF liquidity matter?

A: Yes. When it comes to sizing up ETFs, more liquidity (at the level of both the ETFs shares as well as its underlying securities) is better. This is because liquidity tends to be negatively correlated with transaction costs.

When referring to ETF liquidity, most investors tend to refer to the amount of "on-screen" trading that takes place on a given exchange. "On screen" liquidity refers to the public quotes and subsequent trade data that are centrally collected, published and widely disseminated by most major exchanges. These metrics are particularly popular amongst retail investors.

It is vital to note that there are market makers for ETFs who provide liquidity for investors on the exchanges. Though it is fair to say that it would be easier to gauge an investor's potential ability to execute a trade by looking at "on-screen" liquidity, larger investors are also able to directly engage the help of market makers to execute their (typically larger) trades.

Q: Should I hedge my RMB exposure? And if so, how?

A: It depends. This answer to this question ultimately depends on the investor's view on the currency and the amount of risk that they are willing to take. For investors with a positive view on the RMB, hedging their RMB exposure will be counterproductive.

The Chinese Equity ETFs currently available in the marketplace are mostly unhedged. Investors wishing to hedge their RMB exposure could consider utilising derivatives such as the USD/CNH futures available through the HKEx. As a general note of caution, investors should understand how these instruments work before making any investment decisions.

Appendix: Roster of Chinese Equity ETFs* by Region/Country of Listing

*Listed outside of China

Asia Pacific

Listing Country	Name	Ticker	Domicile	ETF Provider	Underlying Index	Type	Onshore / Offshore China Exposure	Replication Method	AUM (USD m)	TER * (%)
Australia	iShares China Large-Cap ETF	IZZ	Australia	iShares	FTSE China 25	Country	Offshore	Physical	5,222.4	0.74
Hong Kong	ChinaAMC CSI 300 Index ETF (HKD Counter)	03188	Hong Kong	ChinaAMC	CSI 300	Country	Onshore	Physical	1,747.8	0.85
	ChinaAMC CSI 300 Index ETF (RMB Counter)	83188	Hong Kong	ChinaAMC	CSI 300	Country	Onshore	Physical	1,747.8	0.85
	CMS CSI Overseas Mainland Enterprises	02842	Hong Kong	CMS AM	CSI Overseas Mainland Enterprises	Country	Offshore	Physical	2.8	0.80
	CSOP FTSE China A50 ETF (HKD Counter)	02822	Hong Kong	CSOP	FTSE China A50	Country	Onshore	Physical	2,492.7	1.15
	CSOP FTSE China A50 ETF (RMB Counter)	82822	Hong Kong	CSOP	FTSE China A50	Country	Onshore	Physical	2,492.7	1.15
	Da Cheng CSI China Mainland Consumer Tracker	03071	Hong Kong	Da Cheng	CSI China Mainland Consumer	Sector	Onshore	Synthetic	1.6	1.49
	Da Cheng CSI HK Private-owned Mainland Enterprises Tracker	03022	Hong Kong	Da Cheng	CSI HK Private-owned Mainland Enterprises	Country	Offshore	Physical	0.9	0.80
	Da Cheng CSI HK State-owned Mainland Enterprises Tracker	03077	Hong Kong	Da Cheng	CSI HK State-owned Mainland Enterprises	Country	Offshore	Physical	1.4	0.80
	db x-trackers CSI300 Banks UCITS ETF	03061	Luxembourg	db X-trackers	CSI 300 Banks	Sector	Onshore	Synthetic	14.7	0.50
	db x-trackers CSI300 Consumer Discretionary UCITS ETF	03025	Luxembourg	db X-trackers	CSI 300 Consumer Discretionary	Sector	Onshore	Synthetic	22.3	0.50
	db x-trackers CSI300 Energy UCITS ETF	03017	Luxembourg	db X-trackers	CSI 300 Energy	Sector	Onshore	Synthetic	3.0	0.50
	db x-trackers CSI300 Financials UCITS ETF	02844	Luxembourg	db X-trackers	CSI 300 Financials	Sector	Onshore	Synthetic	10.9	0.50
	db x-trackers CSI300 Health Care UCITS ETF	03057	Luxembourg	db X-trackers	CSI 300 Health Care	Sector	Onshore	Synthetic	12.8	0.50
	db x-trackers CSI300 UCITS ETF	03049	Luxembourg	db X-trackers	CSI 300	Country	Onshore	Synthetic	672.8	0.50
	db x-trackers CSI300 Industrials UCITS ETF	03005	Luxembourg	db X-trackers	CSI 300 Industrials	Sector	Onshore	Synthetic	3.2	0.50
	db x-trackers CSI300 Materials UCITS ETF	03062	Luxembourg	db X-trackers	CSI 300 Materials	Sector	Onshore	Synthetic	2.6	0.50
	db x-trackers CSI300 Real Estate UCITS ETF	02816	Luxembourg	db X-trackers	CSI 300 Real Estate	Sector	Onshore	Synthetic	10.7	0.50
	db x-trackers CSI300 Transportation UCITS ETF	03063	Luxembourg	db X-trackers	CSI 300 Transportation	Sector	Onshore	Synthetic	1.4	0.50
	db x-trackers CSI300 Utilities UCITS ETF	03052	Luxembourg	db X-trackers	CSI 300 Utilities	Sector	Onshore	Synthetic	1.4	0.50
	db x-trackers FTSE China 25 UCITS ETF	03007	Luxembourg	db X-trackers	FTSE China 25	Country	Offshore	Synthetic	204.9	0.60
	db x-trackers MSCI China Index UCITS ETF	03055	Luxembourg	db X-trackers	MSCI China	Country	Offshore	Synthetic	129.9	0.65
	E Fund CSI 100 A-Share Index ETF (HKD Counter)	03100	Hong Kong	E Fund	CSI 100	Country	Onshore	Physical	442.5	0.99
	E Fund CSI 100 A-Share Index ETF (RMB Counter)	83100	Hong Kong	E Fund	CSI 100	Country	Onshore	Physical	442.5	0.99
	Hang Seng FTSE China 25 Index ETF	02838	Hong Kong	Hang Seng	FTSE China 25	Country	Offshore	Physical	22.5	0.89
	Hang Seng H-Share Index ETF	02828	Hong Kong	Hang Seng	HSCEI	Country	Offshore	Physical	2,826.4	0.65
	Harvest MSCI China A 50 Index ETF (HKD Counter)	03136	Hong Kong	Harvest Fund	MSCI China A 50	Country	Onshore	Physical	207.3	0.80
	Harvest MSCI China A 50 Index ETF (RMB Counter)	83136	Hong Kong	Harvest Fund	MSCI China A 50	Country	Onshore	Physical	207.3	0.80
	Harvest MSCI China A Index ETF (HKD Counter)	03118	Hong Kong	Harvest Fund	MSCI China A	Country	Onshore	Physical	170.1	0.88
	Harvest MSCI China A Index ETF (RMB Counter)	83118	Hong Kong	Harvest Fund	MSCI China A	Country	Onshore	Physical	170.1	0.88
	Horizons MSCI China ETF	03040	Hong Kong	Mirae Asset	MSCI China	Country	Offshore	Physical	23.1	0.25
	HSBC MSCI China ETF	03033	Hong Kong	HSBC	MSCI China	Country	Offshore	Physical	28.1	0.50
	iShares CSI 300 A-Share Index ETF	02846	Hong Kong	iShares	CSI 300	Country	Onshore	Synthetic	62.0	1.39
	iShares CSI A-Share Consumer Discretionary Index ETF	03001	Hong Kong	iShares	CSI 300 Consumer Discretionary	Sector	Onshore	Synthetic	18.4	1.39
	iShares CSI A-Share Consumer Staples Index ETF	02841	Hong Kong	iShares	CSI 300 Consumer Staples	Sector	Onshore	Synthetic	23.2	1.39
	iShares CSI A-Share Energy Index ETF	03050	Hong Kong	iShares	CSI 300 Energy	Sector	Onshore	Synthetic	10.4	1.39
	iShares CSI A-Share Financials Index ETF	02829	Hong Kong	iShares	CSI 300 Financials	Sector	Onshore	Synthetic	30.3	1.39
	iShares CSI A-Share Infrastructure Index ETF	03006	Hong Kong	iShares	CSI 300 Infrastructure	Sector	Onshore	Synthetic	15.5	1.39
	iShares CSI A-Share Materials Index ETF	03039	Hong Kong	iShares	CSI 300 Materials	Sector	Onshore	Synthetic	11.1	1.39
	iShares FTSE A50 China Index ETF	02823	Hong Kong	iShares	FTSE China A50	Country	Onshore	Synthetic	6,153.4	1.39
	iShares MSCI China Index ETF	02801	Hong Kong	iShares	MSCI China	Country	Offshore	Physical	213.0	0.59

Asia Pacific (cont'd)

Listing Country	Name	Ticker	Domicile	ETF Provider	Underlying Index	Type	Onshore / Offshore China Exposure	Replication Method	AUM (USD m)	TER * (%)
Hong Kong (cont'd)	Ping An of China CSI RAFI A-Share 50 ETF	02818	Hong Kong	Ping An of China	CSI RAFI 50	Strategy	Onshore	Synthetic	19.4	1.91
	Value China ETF	03046	Hong Kong	Sensible AM (Value Partners)	FTSE Value-Stocks China	Strategy	Offshore	Physical	20.0	0.99
	W.I.S.E. - CSI 300 China Tracker	02827	Hong Kong	BOCI-Prudential	CSI 300	Country	Onshore	Synthetic	1,049.6	1.39
	W.I.S.E. - SSE 50 China Tracker	03024	Hong Kong	BOCI-Prudential	SSE 50	Country	Onshore	Synthetic	18.3	1.39
	W.I.S.E. - CSI HK Listed Mainland Consumption Tracker	02817	Hong Kong	BOCI-Prudential	CSI HK Listed Tradable Mainland Consumption	Sector	Offshore	Physical	1.5	0.89
	W.I.S.E. - CSI HK Listed Mainland Real Estate Tracker	02839	Hong Kong	BOCI-Prudential	CSI HK Listed Tradable Mainland Real Estate	Sector	Offshore	Physical	3.9	0.89
Japan	China H-share Bear -1x ETF	1573	Japan	Simplex	HSCEI	Leveraged / Inverse	Offshore	Derivative-Based	6.8	0.85
	China H-share Bull 2x ETF	1572	Japan	Simplex	HSCEI	Leveraged / Inverse	Offshore	Derivative-Based	5.2	0.85
	ChinaAMC CSI 300 Index ETF (JDR)	1575	Hong Kong	China AMC	CSI 300	Country	Onshore	Physical	1,747.8	0.85
	CSOP FTSE China A50 ETF (JDR)	1576	Hong Kong	CSOP	FTSE China A50	Country	Onshore	Physical	2,492.7	1.15
	Listed Index Fund China A Share (Panda) CSI300	1322	Japan	Nikko AM	CSI 300	Country	Onshore	Feeder Fund	40.6	0.95
	Listed Index Fund China H-share (Hang Seng China Enterprises)	1548	Japan	Nikko AM	HSCEI	Country	Offshore	Feeder Fund	3.5	0.55
Nomura SSE50 Index Link ETF	1309	Japan	Nomura	SSE 50	Country	Onshore	Feeder Fund	98.8	0.95	
Malaysia	CIMB FTSE China 25	0823EA	Malaysia	CIMB-Principal	FTSE China 25	Country	Offshore	Physical	8.5	1.17
	db x-trackers CSI300 UCITS ETF	KT4	Luxembourg	db X-trackers	CSI 300	Country	Onshore	Synthetic	672.8	0.50
Singapore	db x-trackers FTSE China 25 UCITS ETF	HD8	Luxembourg	db X-trackers	FTSE China 25	Country	Offshore	Synthetic	204.9	0.60
	db x-trackers MSCI China Index UCITS ETF	LG9	Luxembourg	db X-trackers	MSCI China	Country	Offshore	Synthetic	129.9	0.65
	Lyxor ETF China Enterprise (HSCEI) \$ A/I	P58	France	Lyxor	HSCEI	Country	Offshore	Synthetic	1,068.5	0.65
	United SSE 50 China ETF	JK8	Singapore	UOB	SSE 50	Country	Onshore	Synthetic	38.0	0.85
	KINDEX China A CSI300 ETF	A168580	South Korea	KIM	CSI 300	Country	Onshore	Physical	107.0	0.70
South Korea	KODEX China H ETF	A099140	South Korea	Samsung	HSCEI	Country	Offshore	Physical	62.8	0.37
	KODEX FTSE China A50 ETF	A169950	South Korea	Samsung	FTSE China A50	Country	Onshore	Physical	119.7	0.99
	KStar China A CSI100	A174360	South Korea	KB AM	CSI 100	Country	Onshore	Physical	42.5	0.65
	TIGER China ETF	A117690	South Korea	Mirae Asset	Hang Seng Mainland 25	Country	Offshore	Physical	10.5	0.49
	Fubon SSE180 ETF	006205	Taiwan	Fubon	SSE 180	Country	Onshore	Physical	254.6	1.09
Taiwan	Fuh Hwa CSI 300 A ETF	006207	Taiwan	Fuh-Hwa	CSI 300	Country	Onshore	Physical	70.8	0.85
	Hang Seng H-Share Index ETF	0080	Hong Kong	Hang Seng	HSCEI	Country	Offshore	Physical	2,826.4	0.55
	W.I.S.E. - SSE 50 China Tracker	008201	Hong Kong	BOCI-Prudential	SSE 50	Country	Onshore	Synthetic	18.3	1.39
	W.I.S.E. Yuanta/P-shares CSI 300 ETF	0061	Taiwan	Yuanta	CSI 300	Country	Onshore	Feeder Fund	784.2	0.40
	Yuanta/P-shares SSE50 ETF	006206	Taiwan	Yuanta	SSE 50	Country	Onshore	Physical	99.2	1.30
Thailand	W.I.S.E. KTM CSI 300 China Tracker	CHINA	Thailand	Krung Thai	CSI 300	Country	Onshore	Feeder Fund	7.9	1.50

Europe

Listing Country	Name	Ticker	Domicile	ETF Provider	Underlying Index	Type	Onshore / Offshore China Exposure	Replication Method	AUM (USD m)	TER * (%)
Belgium	Lyxor ETF China Enterprise (HSCEI) C-EUR	ASI	France	Lyxor	HSCEI	Country	Offshore	Synthetic	1,068.5	0.65
France	Amundi ETF MSCI China UCITS ETF EUR	CC1	France	Amundi	MSCI China H	Country	Offshore	Synthetic	134.8	0.55
	Amundi ETF MSCI China UCITS ETF USD	CC1U	France	Amundi	MSCI China H	Country	Offshore	Synthetic	134.8	0.55
	db x-trackers FTSE China 25 UCITS ETF	X25	Luxembourg	db X-trackers	FTSE China 25	Country	Offshore	Synthetic	204.9	0.60
	EasyETF FTSE China 25 EUR	EXC	France	BNP Paribas	FTSE China 25	Country	Offshore	Synthetic	21.1	0.60
	HSBC MSCI China ETF	CNY	Ireland	HSBC	MSCI China	Country	Offshore	Physical	47.6	0.60
	iShares China Large Cap UCITS ETF	FXC	Ireland	iShares	FTSE China 25	Country	Offshore	Physical	845.0	0.74
	iShares CSI 300 UCITS ETF (Swap)	CCSI	Ireland	iShares	CSI 300	Country	Onshore	Synthetic	136.2	0.50
	Lyxor ETF China Enterprise (HSCEI) C-EUR	ASI	France	Lyxor	HSCEI	Country	Offshore	Synthetic	1,068.5	0.65
	Amundi ETF MSCI China UCITS ETF EUR	18MG	France	Amundi	MSCI China H	Country	Offshore	Synthetic	134.8	0.55
	ComStage ETF HSCEI I Cap	C023	Luxembourg	Commerzbank	HSCEI	Country	Offshore	Synthetic	17.8	0.55
Germany	db x-trackers CSI300 Banks UCITS ETF	XCHB	Luxembourg	db X-trackers	CSI 300 Banks	Sector	Onshore	Synthetic	14.7	0.50
	db x-trackers CSI300 Consumer Discretionary UCITS ETF	XCHD	Luxembourg	db X-trackers	CSI 300 Consumer Discretionary	Sector	Onshore	Synthetic	22.3	0.50
	db x-trackers CSI300 Energy UCITS ETF	XCHE	Luxembourg	db X-trackers	CSI 300 Energy	Sector	Onshore	Synthetic	3.0	0.50
	db x-trackers CSI300 Health Care UCITS ETF	XCHC	Luxembourg	db X-trackers	CSI 300 Health Care	Sector	Onshore	Synthetic	12.8	0.50
	db x-trackers CSI300 Real Estate UCITS ETF	XCHR	Luxembourg	db X-trackers	CSI 300 Real Estate	Sector	Onshore	Synthetic	10.7	0.50
	db x-trackers CSI300 UCITS ETF	XCHA	Luxembourg	db X-trackers	CSI 300	Country	Onshore	Synthetic	672.8	0.50
	db x-trackers FTSE China 25 UCITS ETF	DBX9	Luxembourg	db X-trackers	FTSE China 25	Country	Offshore	Synthetic	204.9	0.60
	db x-trackers MSCI China Index UCITS ETF	XCS6	Luxembourg	db X-trackers	MSCI China	Country	Offshore	Synthetic	129.9	0.65
	ETFlab MSCI China	EL46	Germany	ETFlab	MSCI China	Country	Offshore	Physical	28.3	0.65

Europe (cont'd)

Listing Country	Name	Ticker	Domicile	ETF Provider	Underlying Index	Type	Onshore / Offshore China Exposure	Replication Method	AUM (USD m)	TER * (%)
Germany (cont'd)	iShares China Large Cap UCITS ETF	IQOC	Ireland	iShares	FTSE China 25	Country	Offshore	Physical	845.0	0.74
	iShares CSI 300 UCITS ETF (Swap)	CEBH	Ireland	iShares	CSI 300	Country	Onshore	Synthetic	136.2	0.50
	iShares DJ China Offshore 50 (DE)	EXXU	Germany	iShares	Dow Jones China Offshore 50	Country	Offshore	Physical	63.0	0.61
	Lyxor ETF China Enterprise (HSCEI) C-EUR	L811	France	Lyxor	HSCEI	Country	Offshore	Synthetic	1,068.5	0.65
Italy	Amundi ETF MSCI China UCITS ETF EUR	CC1	France	Amundi	MSCI China H	Country	Offshore	Synthetic	134.8	0.55
	db x-trackers CSI300 UCITS ETF	XCHA	Luxembourg	db X-trackers	CSI 300	Country	Onshore	Synthetic	672.8	0.50
	db x-trackers FTSE China 25 UCITS ETF	XX25	Luxembourg	db X-trackers	FTSE China 25	Country	Offshore	Synthetic	204.9	0.60
	iShares China Large Cap UCITS ETF	FXC	Ireland	iShares	FTSE China 25	Country	Offshore	Physical	845.0	0.74
	iShares CSI 300 UCITS ETF (Swap)	CSCS13	Ireland	iShares	CSI 300	Country	Onshore	Synthetic	136.2	0.50
	Lyxor ETF China Enterprise (HSCEI) C-EUR	CINA	France	Lyxor	HSCEI	Country	Offshore	Synthetic	1,068.5	0.65
Luxembourg	db x-trackers CSI300 Banks UCITS ETF	159879	Luxembourg	db X-trackers	CSI 300 Banks	Sector	Onshore	Synthetic	14.7	0.50
	db x-trackers CSI300 Consumer Discretionary UCITS ETF	159882	Luxembourg	db X-trackers	CSI 300 Consumer Discretionary	Sector	Onshore	Synthetic	22.3	0.50
	db x-trackers CSI300 Energy UCITS ETF	159900	Luxembourg	db X-trackers	CSI 300 Energy	Sector	Onshore	Synthetic	3.0	0.50
	db x-trackers CSI300 Financials Index UCITS ETF	159903	Luxembourg	db X-trackers	CSI 300 Financials	Sector	Onshore	Synthetic	10.9	0.50
	db x-trackers CSI300 Health Care UCITS ETF	159891	Luxembourg	db X-trackers	CSI 300 Health Care	Sector	Onshore	Synthetic	12.8	0.50
	db x-trackers CSI300 Industrials Index UCITS ETF	159906	Luxembourg	db X-trackers	CSI 300 Industrials	Sector	Onshore	Synthetic	3.2	0.50
	db x-trackers CSI300 Materials Index UCITS ETF	159885	Luxembourg	db X-trackers	CSI 300 Materials	Sector	Onshore	Synthetic	2.6	0.50
	db x-trackers CSI300 Real Estate Index UCITS ETF	159888	Luxembourg	db X-trackers	CSI 300 Real Estate	Sector	Onshore	Synthetic	10.7	0.50
	db x-trackers CSI300 Transportation Index UCITS ETF	159894	Luxembourg	db X-trackers	CSI 300 Transportation	Sector	Onshore	Synthetic	1.4	0.50
	db x-trackers CSI300 UCITS ETF 1D	155651	Luxembourg	db X-trackers	CSI 300	Country	Onshore	Synthetic	672.8	0.50
	db x-trackers CSI300 UCITS ETF 2D	155654	Luxembourg	db X-trackers	CSI 300	Country	Onshore	Synthetic	672.8	0.50
	db x-trackers CSI300 Utilities Index UCITS ETF	159897	Luxembourg	db X-trackers	CSI 300 Utilities	Sector	Onshore	Synthetic	1.4	0.50
	db x-trackers MSCI China Index UCITS ETF	163350	Luxembourg	db X-trackers	MSCI China	Country	Offshore	Synthetic	129.9	0.65
		iShares China Large Cap UCITS ETF	FXC	Ireland	iShares	FTSE China 25	Country	Offshore	Physical	845.0
Netherlands										
Spain	db x-trackers FTSE China 25 UCITS ETF	DX25	Luxembourg	db X-trackers	FTSE China 25	Country	Offshore	Synthetic	204.9	0.60
	Lyxor ETF China Enterprise (HSCEI) C-EUR	ASI	France	Lyxor	HSCEI	Country	Offshore	Synthetic	1,068.5	0.65
Sweden	db x-trackers FTSE China 25 UCITS ETF	XX25	Luxembourg	db X-trackers	FTSE China 25	Country	Offshore	Synthetic	204.9	0.60
	XACT Kina ETF	XACT/KINA	Luxembourg	Handelsbanken	HSCEI	Country	Offshore	Synthetic	5.4	0.60
Switzerland	Amundi ETF MSCI China UCITS ETF USD	CC1USD	France	Amundi	MSCI China H	Country	Offshore	Synthetic	134.8	0.55
	ComStage ETF HSCEI I Cap	CBHSCE	Luxembourg	Commerzbank	HSCEI	Country	Offshore	Synthetic	17.8	0.55
	db x-trackers FTSE China 25 UCITS ETF	XX25	Luxembourg	db X-trackers	FTSE China 25	Country	Offshore	Synthetic	204.9	0.60
	db x-trackers MSCI China Index UCITS ETF	XMCH	Luxembourg	db X-trackers	MSCI China	Country	Offshore	Synthetic	129.9	0.65
	HSBC MSCI China ETF	HMCH	Ireland	HSBC	MSCI China	Country	Offshore	Physical	47.6	0.60
	iShares China Large Cap UCITS ETF	FXC	Ireland	iShares	FTSE China 25	Country	Offshore	Physical	845.0	0.74
	iShares CSI 300 UCITS ETF (Swap)	CSCS13	Ireland	iShares	CSI 300	Country	Onshore	Synthetic	136.2	0.50
	Lyxor ETF China Enterprise (HSCEI) C-USD	LYASI	France	Lyxor	HSCEI	Country	Offshore	Synthetic	1,068.5	0.65
	Amundi ETF MSCI China UCITS ETF EUR	CC1	France	Amundi	MSCI China H	Country	Offshore	Synthetic	134.8	0.55
	Amundi ETF MSCI China UCITS ETF USD	CC1U	France	Amundi	MSCI China H	Country	Offshore	Synthetic	134.8	0.55
	db x-trackers CSI300 UCITS ETF	XCHA	Luxembourg	db X-trackers	CSI 300	Country	Onshore	Synthetic	672.8	0.50
	db x-trackers FTSE China 25 UCITS ETF	XX2D	Luxembourg	db X-trackers	FTSE China 25	Country	Offshore	Synthetic	204.9	0.60
	db x-trackers MSCI China Index UCITS ETF	XCX6	Luxembourg	db X-trackers	MSCI China	Country	Offshore	Synthetic	129.9	0.65
	db x-trackers MSCI China Index UCITS ETF	XCS6	Luxembourg	db X-trackers	MSCI China	Country	Offshore	Synthetic	129.9	0.65
	HSBC MSCI China ETF	HMCD	Ireland	HSBC	MSCI China	Country	Offshore	Physical	47.6	0.60
	HSBC MSCI China ETF	HMCH	Ireland	HSBC	MSCI China	Country	Offshore	Physical	47.6	0.60
	iShares China Large Cap UCITS ETF	IDFX	Ireland	iShares	FTSE China 25	Country	Offshore	Physical	845.0	0.74
	iShares CSI 300 UCITS ETF (Swap)	CCS1	Ireland	iShares	CSI 300	Country	Onshore	Synthetic	136.2	0.50
	iShares CSI 300 UCITS ETF (Swap)	CCS1	Ireland	iShares	CSI 300	Country	Onshore	Synthetic	136.2	0.50
	Lyxor ETF China Enterprise (HSCEI) C-USD	ASIL	France	Lyxor	HSCEI	Country	Offshore	Synthetic	1,068.5	0.65
	Lyxor ETF China Enterprise (HSCEI) C-USD	ASIU	France	Lyxor	HSCEI	Country	Offshore	Synthetic	1,068.5	0.65
	Source MSCI China ETF	MXCS	Ireland	Source	MSCI China	Country	Offshore	Synthetic	7.6	0.65

Americas

Listing Country	Name	Ticker	Domicile	ETF Provider	Underlying Index	Type	Onshore / Offshore China Exposure	Replication Method	AUM (USD m)	TER * (%)
Canada	BMO China Equity Index ETF	ZCH	Canada	BMO	BNY Mellon China Select ADR	Country	Offshore	Physical	10.2	0.65
	iShares China All-Cap Index (Advisor Series)	CHI.A	Canada	iShares	AlphaShares China All Cap	Country	Offshore	Feeder Fund	8.3	1.49
	iShares China All-Cap Index (Common Shares)	CHI	Canada	iShares	AlphaShares China All Cap	Country	Offshore	Feeder Fund	8.3	0.70
Chile	iShares China Index	XCH	Canada	iShares	FTSE China 25	Country	Offshore	Feeder Fund	24.4	0.86
	iShares China Large-Cap	FXI	United States	iShares	FTSE China 25	Country	Offshore	Physical	5,222.4	0.74
	iShares MSCI China Index	MCHI	United States	iShares	MSCI China	Country	Offshore	Physical	1,114.1	0.61
	iShares MSCI China Small Cap Index	ECNS	United States	iShares	MSCI China Small Cap	Country	Offshore	Physical	30.3	0.61
Mexico	Market Vectors China ETF	PEK	United States	Van Eck	CSI 300	Country	Onshore	Synthetic	33.6	0.72
	CHNTRAC 11	CHNTRAC/11	Mexico	BBVA	BMW China SX20	Country	Offshore	Physical	83.3	0.50
	Global X China Consumer ETF	CHIQ	United States	Global X Management	Solactive China Consumer	Country	Offshore	Physical	165.8	0.65
	iShares China Large-Cap	FXI	United States	iShares	FTSE China 25	Country	Offshore	Physical	5,222.4	0.74
	iShares FTSE China	FCHI	United States	iShares	FTSE China (HK Listed)	Country	Offshore	Physical	29.5	0.74
	iShares MSCI China Index	MCHI	United States	iShares	MSCI China	Country	Offshore	Physical	1,114.1	0.61
	iShares MSCI China Small Cap Index	ECNS	United States	iShares	MSCI China Small Cap	Country	Offshore	Physical	30.3	0.61
	PowerShares Golden Dragon China	PGJ	United States	PowerShares	NASDAQ Halter USX China	Country	Offshore	Physical	182.3	0.69
	SPDR S&P China	GXC	United States	State Street	S&P China BMI	Country	Offshore	Physical	862.4	0.59
	US	Direxion Daily China Bear 3X Shares	YANG	United States	Direxion	BNY Mellon China Select ADR	Leveraged / Inverse	Offshore	Derivative-Based	8.5
Direxion Daily China Bull 3X Shares		YINN	United States	Direxion	BNY Mellon China Select ADR	Leveraged / Inverse	Offshore	Derivative-Based	66.4	1.00
EGShares China Infrastructure		CHXX	United States	Emerging Global Advisors	INDXX China Infrastructure	Sector	Offshore	Physical	9.4	0.85
First Trust China AlphaDEX		FCA	United States	First Trust	Defined China	Strategy	Offshore	Physical	3.9	0.80
Global X China Consumer ETF		CHIQ	United States	Global X	Solactive China Consumer	Sector	Offshore	Physical	165.8	0.65
Global X China Energy ETF		CHIE	United States	Global X	Solactive China Energy	Sector	Offshore	Physical	4.0	0.65
Global X China Financials ETF		CHIX	United States	Global X	Solactive China Financials	Sector	Offshore	Physical	5.2	0.65
Global X China Industrials ETF		CHII	United States	Global X	Solactive China Industrials	Sector	Offshore	Physical	3.5	0.65
Global X China Materials ETF		CHIM	United States	Global X	Solactive China Materials	Sector	Offshore	Physical	2.0	0.65
Global X NASDAQ China Technology ETF		QQQC	United States	Global X	NASDAQ OMX China Technology	Sector	Offshore	Physical	3.2	0.65
Guggenheim China All-Cap		YAO	United States	Guggenheim	Alphashares China All Cap	Country	Offshore	Physical	47.7	0.70
Guggenheim China Real Estate		TAO	United States	Guggenheim	AlphaShares China Real Estate	Sector	Offshore	Physical	35.2	0.70
Guggenheim China Small Cap		HAO	United States	Guggenheim	AlphaShares China Small Cap	Country	Offshore	Physical	191.1	0.75
Guggenheim China Technology		CQQQ	United States	Guggenheim	AlphaShares China Technology	Sector	Offshore	Physical	19.2	0.70
iShares China Large-Cap		FXI	United States	iShares	FTSE China 25	Country	Offshore	Physical	5,222.4	0.74
iShares FTSE China		FCHI	United States	iShares	FTSE China (HK Listed)	Country	Offshore	Physical	29.5	0.74
iShares MSCI China Index		MCHI	United States	iShares	MSCI China	Country	Offshore	Physical	1,114.1	0.61
iShares MSCI China Small Cap Index		ECNS	United States	iShares	MSCI China Small Cap	Country	Offshore	Physical	30.3	0.61
Market Vectors China ETF		PEK	United States	Van Eck	CSI 300	Country	Onshore	Synthetic	33.6	0.72
PowerShares Golden Dragon China		PGJ	United States	PowerShares	NASDAQ Halter USX China	Country	Offshore	Physical	182.3	0.69
ProShares Short FTSE China 25		YXI	United States	ProShares	FTSE China 25	Leveraged / Inverse	Offshore	Derivative-Based	6.2	0.95
ProShares Ultra FTSE China 25		XPP	United States	ProShares	FTSE China 25	Leveraged / Inverse	Offshore	Derivative-Based	33.6	0.95
ProShares UltraShort FTSE China 25		FXP	United States	ProShares	FTSE China 25	Leveraged / Inverse	Offshore	Derivative-Based	160.7	0.95
RBS China Trendpilot ETN		TCHI	United States	RBS	RBS China Trendpilot Index	Country	Offshore	Derivative-Based	9.8	1.10
SPDR S&P China		GXC	United States	State Street	S&P China BMI	Country	Offshore	Physical	862.4	0.59
WisdomTree China Dividend ex-Fincls		CHXF	United States	WisdomTree	WisdomTree China Dividend ex-Financials	Country	Offshore	Physical	25.3	0.63

*The stated TER for the ETF (excluding: CIMB FTSE China 25 being its Management Expense Ratio, W.I.S.E. Yuanta/P-shares CSI 300 ETF being the sum of management fee and trustee fee)
Source: Morningstar Direct, Morningstar Research (Data as of end-June 2013)

Contacts

Jackie Choy, CFA, ETF Strategist
jackie.choy@morningstar.com

Ben Johnson, Director, Global Passive Fund Research
ben.johnson@morningstar.com

Hortense Bioy, CFA, Director, European Passive Fund Research
hortense.bioy@morningstar.com

Patricia Oey, Senior Fund Analyst
patricia.oey@morningstar.com

John Gabriel, ETF Strategist
john.gabriel@morningstar.com