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China Asset Management Lays Down a Major Marker for Asia's Growing ETF Market

China Asset Management (Hong Kong) Limited recently completed the takeover of BMO's Hong Kong ETF suite of seven funds and is therefore now managing the largest US equity ETPs and largest Asia bond ETF domiciled in Hong Kong[1]. The firm was incorporated in Hong Kong in September 2008 as one of the first mainland Chinese fund management companies licensed to conduct asset management business in Hong Kong and was one of the first RQFII fund managers. Its vision was and still is today to become a pillar of the international financial architecture, helping to bridge the markets between China and the rest of the world. The firm now has a broad range of product lines and services, including long-only funds, hedge funds, ETFs, leveraged/Inverse products, bond funds, segregated accounts as well as advisory services for both individual and institutional investors in Asia, Europe and the US. Hubbis met with Katie He, Head of Product & Strategy and Daniel Mak, Vice President, Business Development, to learn more of the firm, the acquisition and the future plans.

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KATIE HE
China Asset Management

It was on May 28 that ChinaAMC (HK) announced the takeover of seven Hong Kong-listed ETFs from Canada's BMO Global Asset Management, effective that day. Through this acquisition, ChinaAMC(HK) reports it has enriched its product line, extending the existing A-shares, Hong Kong stocks, sector themes and US equity leverage and inverse products to a wider range of strategies in Asia and globally. The ETFs include what the firm describes as the most comprehensive US equity ETPs (tracking Nasdaq-100 index) in Hong Kong including the one-beta ETF, 2x inverse, 1x inverse, and 2x leveraged products, with the wide product range set to allow investors to fully capture the investment opportunities amid market volatility in the US stock market. And there is the largest Asia bond ETF domiciled in Hong Kong with AUM of nearly HKD2 billion[2]. As of 25 May 2021, the seven ETFs had total assets of approximately HKD4.35 billion.

The seven ETFs include one fixed income ETF, the Asia USD Investment Grade Bond ETF, and six equity ETFs – the Asia High Dividend ETF, MSCI Asia Pacific Real Estate ETF, NASDAQ 100 ETF, MSCI Europe Quality Hedged to USD ETF, Hong Kong Banks ETF, and the MSCI Japan Hedged to USD ETF.

Mackenzie Financial Corporation, a Canadian asset manager and also one of the major shareholders of China Asset Management Company Limited, will be responsible as an investment delegate. The seven ETFs have been included in the list of approved Index-Tracking Collective Investment Schemes (ITCIS). After the takeover, ChinaAMC (HK) becomes the second-largest ETF provider in terms of the number of ETFs included in the ITCIS basket, providing a more comprehensive product range for MPF trustees.

"We have all our ETFs listed in Hong Kong today," he reports, "with these new ETFs adding more than HK$4.3 billion to our AUM according to Bloomberg data."

Daniel observes that BMO had over the years developed a very innovative suite of products in Hong Kong and also has deep industry relationships there, as well. "I think what we stand out amongst the other bidders is that we are seen as a highly capable manager, we do have a very experienced ETF management team here, we did already manage the largest offshore A-Share ETF globally[3], and it is clear for everyone to see that we have a long-term commitment to develop this ETF business."

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A rare event and a major statement

Daniel reports that the takeover of these seven ETFs represents a rare event in Hong Kong's asset management industry and marks a milestone for ChinaAMC (HK). He reports that as the sole subsidiary of China Asset Management in Beijing, the firm had started out in 2008 in Hong Kong as an active manager but later expanded into passive ETF strategies, and today has AUM of more than HKD30 billion in ETFs alone. "We have enjoyed tremendous growth, with all our ETFs listed in Hong Kong today," he reports, "with these new ETFs adding more than HK$4.3 billion to our AUM according to Bloomberg data."

Katie observes that the acquisition of the BMO ETF business provides ChinaAMC(HK) with a unique growth opportunity and extends the firm's medium and long-term strategy. Before the acquisition, ChinaAMC(HK) already had the world's largest offshore A-share ETF tracking CSI300 Index with over HKD21 billion AUM3. And after the deal the firm have become the largest Chinese-based ETF provider in terms of the number of ETFs included in ITCIS (with a total of 10 ETFs)[4].

[1] Bloomberg, as of 31 May 2021
[2] Bloomberg, as of 25 May 2021
[3] Bloomberg, as of 31 May 2021
[4] MPFA website, as of 31 May 2021

DANIEL MAK
China Asset Management

Daniel explains that ChinaAMC(HK) now comprises two main lines of products, one is the Asian and global strategies through the acquisition of BMO ETFs, and the other being China-focused products, capturing the trend to rising global asset allocations into China, which realistically is only just beginning.

"In both segments, the existing products in the market are far from meeting the demands from the underlying customers, so we will continue to engage deeper in the Asian, global and China strategies," he reports. "We are guided by the principle of taking the boutique route, combined with the insight of our investment and research team to launch really timely products. ChinaAMC(HK) is determined and confident to expand its ETF business to become a leader in the industry."

Great opportunities ahead, Asia catching up

He adds that there are numerous opportunities ahead for ETFs in the region and that the market is really under-represented compared to the US or Europe. "There are still a lot of themes, there are still a lot of areas in which we think we offer interesting products, there are plenty of gaps to be filled," he explains. "Additionally, we believe there is much education to be achieved in terms of developing the ETF market in the region, elevating the general level of knowledge amongst, and this is a key role we see as very important for us as a firm that is committed to the development of the market. We believe ETFs as an asset allocation tool are very beneficial to local investors of all types."

"We are seeing more institutional allocation into China, and with Hong Kong being more of a gateway into China and out of China, it all augurs well for us here, especially as ETFs are such efficient and low-cost tools to access the market. We are entirely confident this is a long-term growth trend."

Katie adds that the growth trajectory achieved in the US is only beginning to be emulated in Hong Kong and Asia, but that the momentum will accelerate, especially as China becomes ever more prominent on the global markets and indices. "We are seeing more institutional allocation into China, and with Hong Kong being more of a gateway into China and out of China, it all augurs well for us here, especially as ETFs are such efficient and low-cost tools to access the market. We are entirely confident this is a long-term growth trend."

A strong set of products

Katie also offers some further insights into the seven ETFs, noting that six of them have customised indices. "We have the one NASDAQ 100 beta ETF and three leveraged and inverse trackers. By having that one beta product, it's going to allow us to offer a more holistic, more comprehensive solution to our investors. And then we have the Asia USD investment grade fixed income product which is the largest Asia fixed income ETF domiciled in Hong Kong1, and along with our active management expertise, we are building a very unique and huge portfolio of ETFs here in the passive space, and we see both active and passive as complimentary. Additionally, we have the Asia high dividend ETF and regional real estate ETF, and Hong Kong banks ETF, so we have been able to grow considerably beyond simply being a China expert and develop some more regional and other specialised and thematic ETFs, and we thereby now offer a unique set of products."

Demand for ETFs on the rise

Daniel observes that as education increases and supply of interesting ETFs, so demand amongst the Asian wealth community will rise. "Supply will create its own demand," he says, "and we foresee more activity amongst family offices and the HNW community here." he believes that the Biotech ETF launched in March is interesting for these types of investors, and it has become by far the largest new entrant in terms of AUM in Hong Kong this year, and is also the best performing ETF among the new launches of 2021[5].

Katie remarks that she anticipates a faster flow of thematic ETFs ahead, of all descriptions and of course including China-centric funds, as well as megatrends and other interesting ideas. She adds that the retail market investors in Hong Kong are slower to latch on to some products, and there are of course regulatory issues, but for the wealthier investors and family offices, these new additions will likely be well received. "And we are likely to see some other ideas, such as the Greater Bay Wealth-Connect and also ETF Connect programmes become more active ahead," she reports.

Drive, energy and commitment

The final comment goes to Daniel, who says the ETFs that are now in the portfolio following the BMO deal will add weight and momentum to the firm's drive in the ETF arena. "This is an expanding universe globally, and here in Asia, especially in Hong Kong, there is a lot of drive and energy in this market. We are committed to this market and energised and excited by the opportunities ahead." ■

[5] Bloomberg, as of 31 May 2021