Link to Article on website

Samsung Asset Management opens ETF doorway to Chinese internet giants

Hong Kong's ETF machine kicked up another gear on June 20 as Samsung Asset Management listed The CSI China Dragon Internet ETF, giving regional and global investors access to the 30 largest internet-related tech giants out of China. The core holdings are listed across the globe, but investors access to this basket through Hong Kong's well-honed securities infrastructure.

HONG KONG'S HIGH growth ETF market is now 130 strong and with a market valuation of HKD339.6 billion (exclude SPDR Gold Trust) as of 29th Mar 2018. The addition of the Samsung Asset Management (Samsung AM) offering has further diversified the market.

"Investors across the globe can obtain access to a high-quality hamper of 30 big-cap stocks that to all intents and purposes represent the best of China's e-commerce and internet-related technology sector," reported Peter Lee, head of global strategy for Samsung AM in Seoul. "This is an excellent opportunity and we believe there will be keen interest amongst Asia's high net worth investors seeking simplified exposure to this dynamic sector."

China is already a major player in digital technologies both locally and globally, and it has enormous growth potential backed by a large and young Chinese demographic. The Chinese government's active and continued support for the listing of new economy corporations.

The weightings in the ETF are based on market valuations, meaning that Baidu Inc comes top at 14.98% of the portfolio, followed by Alibaba Group at 14.57%, then Tencent at 14.21%. Other large holdings include Netease, JD.com and Ctrip. "There are names that will be well-known to global investors as well as names that are not so well-known," Lee noted.

"The use of Hong Kong also fits the current theme of China itself wanting to bring more of the economic value of market activity closer to the mainland."

The ETF represents stocks that are listed across the globe, whether in the main US stock exchanges, equity market home to most of the major Chinese tech giants, or in Hong Kong or Mainland China itself. China is the common denominator, as any stock must have at least 50% of its business in China itself, based on data from index provider China Securities Index (CSI). "Accordingly," Lee stated, "this is what we believe to be a wonderfully diverse gateway to this sector and to China itself."

PETER LEE
Samsung Asset Management

The concept for the ETF is to broaden the range of Hong Kong-listed ETFs by the creation of a thematic strategy. "This is a diversification away from the many Hong Kong listed ETFs

that track the large-cap A-shares indices, such as the CSI 300 and MSCI China A Index and therefore a new passive investment opportunity for investors," said Carmen Cheung, head of ETFs at Samsung AM in Hong Kong.

While there are many analysts and investors around the globe who believe that Big Tech emanating from the US has, for the current wave, passed its peak, the China tech story is not yet near that stage. "We believe there is considerable upside in this sector as China's dramatic e-commerce growth continues and the internet revolution penetrates every corner of China's vast population," said Cheung.

Cheung's colleague Lee noted that Hong Kong is an ideal gateway to China, due to its capital markets expertise, close links to the mainland and its global standards of regulation and markets excellence. "The use of Hong Kong also fits the current theme of China itself wanting to bring more of the economic value of market activity closer to the mainland," he noted. "We have for example seen the development of Stock Connect and we also hold out expectations of seeing ETF Connect before long."

There are positive signs that the Hong Kong-mainland ETF Connect, a proposed cross-border trading of ETFs, is expected to be operational by early 2019, or even before, according to Cheung. "However," she conceded, "we still await direction from the regulator giving us guidelines on eligible products."

Samsung AM currently manages six Hong Kong listed ETFs, including this latest offering. "We managed 90 ETFs in Korea," Lee noted, "and in Hong Kong we expect to continue adding to our ETF portfolio, which now also includes a crude oil futures ETF and four leveraged and inverse products. ETFs are transparent, liquid and have a low cost of entry and exit."

Passive versus active is an ongoing debate across the world of investment, especially in the private banking and wealth management space. "Globally, there has been a clear trend toward passive vehicles in the past decade," Lee observed. "Asia is rather playing catch-up as investors out here warm to the appeal of vehicles such as ETFs. It is also important to note that ETFs are now considered building blocks for portfolios, in other words passive but part of a more active selection strategy."

Lee is enthusiastic about the reaction of the wealth management market in the region to these are similar products. "We have found recently when we joined a Hubbis wealth management forum in Bangkok that there is rapid growth of interest amongst investors there. For this new fund we have already registered keen interest from Korea, Taiwan, Thailand and even mainland China as investors there see this as an ideal vehicle." ■