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Smart Beta in Asia

Why Asia's Investors Need Active Selection ETFs

In mid-November, Hubbis and our exclusive partner for the event, Premia Partners, assembled a group of asset managers and investment experts to a thought leadership lunch in Hong Kong to learn more of Premia's views on the topic of 'China Beyond the Trade War', and the firm's dedicated ETF strategies that will enable investors to participate in the considerable upside ahead. Premia's core thesis is that, while some investors are inclined to de-risk and wait it out, some key segments of the Chinese economy are performing very well, reflected in the relevant equity indices, which are up substantially this year. Why go the 'alpha' route, Premia asks, when smart beta is a great way to play the older and newer economy of China? Premia's team believes it has the right formula to identify the equity winners, minimise correlations, and thereby offer exposures that make sense for a number of global scenarios, also highlighting its relatively new Vietnam ETF as another exciting alternative.

The key takeaways

Asia still an active dominated investment landscape

The Asia region remains very heavily focused on active investment, whereas in the US and in Europe, beta has gained immense traction, especially in the past decade.

Global outlook not set for much change ahead

Looking ahead, the global macro scene looks set for more of the same, according to Premia Partners' two experts at the discussion. Nobody knows where the trade war will lead, but tension between China and the US is likely to persist and be a dominant theme over the next decade.

Markets remain stymied by negative rates and high prices

Almost 30% of the world's investment-grade debt is already at negative yield, as buyers remain chronically risk-averse. Gold is up sharply in the past few years. Equity valuations across the globe are high, especially in the US, but investors are holding fast, indeed have been adding stock during 2019.

China appears to be solid, despite many headwinds

While many might assume China's economy and its capital markets would weaken sharply in this scenario, the GDP numbers are still compelling, and China's 'A' shares are up about 30% this year. China's government has returned to a more expansive mode in the past 18 months, reversing its previous inclination towards de-leveraging and tightening.

There is plentiful value to be found in China today

Although the market has raced up this year, Premia noted that valuations remain at 12 times forward profits, or well below if major stocks such as Tencent and Alibaba are stripped out. Meanwhile, the S&P is trading around 17 times, the European markets about 14 times, and so too Japan.

Growth continues to be more likely than not

Premia expects earnings to achieve low-teens growth, potentially dropping to high single-digit if negative factors arise. Considering this and the 20% inclusion since 2018 of A-shares in the MSCI index, Premia anticipates continuing strong interest from foreign investors in the A-share market.

Many sectors and business in China remain largely immune to the trade wars

Premia believes there are plenty of opportunities in a broad range of sectors in China that will continue to offer growth and immunity form the trade wars, as consumer spending at home continues to rise rapidly, and as government policy encourages the development of new technologies, for example, the nationwide 5G rollout, AI, blockchain, and so forth. Accordingly, consumer stocks, healthcare and IT in the New Economy are performing well.

Premia's New Economy ETF captures this growth

The Premia CSI Caixin China New Economy ETF is designed to neatly offer access to this universe of China A 'new economy' stocks and is tilted toward asset-light, accounting conservative and quality growth stocks.

And the old economy stocks, if smartly filtered, also offer great appeal

Premia also promotes its Premia CSI Caixin China Bedrock Economy ETF, which houses high-quality contributors to China's real economy. With Premia's more fundamental approach to reducing the broad universe of A-share stocks to roughly 300 names - those offering high-quality, low valuations, low risk and leaving aside the banks - the portfolio should allow investors to continue to capture upside potential vs a simple portfolio of the largest 300 names. Premia's premise is that fundamental selection through a value and quality screen built inside the ETF will produce consistent results and minimise risks.

Building liquidity, offering more modest entry costs

Premia aims to create highly relevant ETF strategies and to impose its active selection protocol to achieve smart beta. It is doing this at costs to investors that are well below the cost of active funds and building AUM and liquidity to offer investors viable trading activity.

Vietnam - a beneficiary of the trade wars and a growth market

Premia also offers The Premia MSCI Vietnam ETF, launched in July this year and aimed at capturing Vietnam's great growth opportunities in a single trade. The country is not only on a multi-decade path towards economic and market liberalisation, but is enjoying compelling demographics, rapid consumer spending growth and is a beneficiary of powerful FDI inflows, as China-based manufacturing shifts to the country as a lower-cost alternative, and one that partially at least circumvents the trade conflicts.

From frontier to emerging market

Vietnam is not an easy market in which to invest, due to foreign ownership restrictions and local brokerage practices, and as it is a frontier market currently. But these practices are set to change as the country moves towards EM status, thereby further enhancing the appeal to foreign investments.

AS ALWAYS WITH THESE DISCUSSIONS, THE GUESTS EXPRESSED THEIR VIEWS ON AN OFF-THE-RECORD BASIS, while co-hosts David Lai, Partner and Co-Chief Investment Officer of Premia Partners (Premia), and Aleksey Mironenko, Partner and Chief Distribution Officer, spoke openly about their views and recommendations.

Lai and Mironenko opened the discussion by introducing themselves (see Overview attached) and explaining that their mission at such an event was not only to offer their views and insights but to hear from market players in order to help them devise better Asian beta tools.

"We know that the Asia region remains very heavily focused on active investment, whereas in the US and in Europe we are seeing a lot more beta tool coming into the asset management and wealth management industry," Mironenko commented. "We therefore like to hear your views and to understand what you and your wealth management clients are seeking, so that we can tailor strategies that are highly relevant."

Lai set the global macro scene, explaining that today it appears to be more of the same recipes - central banks printing money, and zero or low-interest rates globally, more of the global debt stock moving into negative yield territory. Meanwhile, there appears to be no resolution in sight to the trade conflict between the US and China, no end in sight to the Brexit standoff, no end in sight to the potential crisis in the Korean peninsula, and no truly encouraging signs in the Hong Kong troubles.

Nobody knows, for sure

"Whether the trade conflicts between the US and China will continue," Lai remarked, "and exactly how much damage will be inflicted, nobody knows, but we see that both sides have their own point of view to try to minimise the impact. Almost 30% of the world's investment-grade debt is already negative yield, but buyers are still queuing up for it, meaning they are chronically risk averse in accepting that if they hold to maturity, they will receive back less than they paid. And gold is also a major beneficiary of this global risk aversion.

With indicators increasingly pointing to the potential for a recession in the US, and with core inflation in the US about 2.4%, probably a result of tariffs, the combination of slower economic growth and higher inflation is never good for the equity market.

ALEKSEY MIRONENKO
Premia Partners

China – still growing, still appealing

Over in Asia, the assumption might be that China would fare badly in this environment. Yet China 'A' shares have returned close to 30% YTD [by end November], with China adjusting fiscal policies and therefore reducing debt costs in the corporate world and the economy at large, thereby providing a boost to domestic consumption.

"Although the trade wars continue," Lai remarked, "it is the policy changes in China that appear to be driving momentum. The government was intent on deleveraging, tightening, but then about 18 months ago, that reversed, turning a weak market in 2018 into a strong market in 2019."

Value aplenty

Despite the run-up in China's share prices this year, Lai considers valuations modest, with the broader A-share market trading at between 11- and 12-times forward earnings.

"Even if profits are flat, that is a low multiple," he observed. "And the S&P is trading around 17 times, the European markets about 14 times, and so too Japan. Even EM overall is still trading at 12 times on average, so quite a number of them are still trading higher than China."

On the earnings front, Lai and colleagues anticipate a low-teens

growth, potentially dropping to high single-digit if negative factors arise. "But reform will continue in China, and we anticipate some catalyst for evolution in terms of the MSCI inclusion. Of course, they have already included China A, but only up to 20%, even after the last change at the end of November, so we expect the full 100% within the next few years, which of course will produce more fund inflows from global investors."

Seeking immunity from trade wars

As to sectors, Premia continues to like innovative sectors, which are largely immune to the trade conflicts. For example, the government is driving 5G forward, as well as supporting AI, blockchain and other technology developments.

"So, given the macro uncertainties and negatives," Lai concluded, "we look at sectors that can continue to offer growth, and also which countries will potentially benefit from the global supply-chain shift. Already, many factories are moving from China due to the high costs. Samsung recently shut down their last factory in China and are expanding in Vietnam, where we see exports up more than 30% in the first nine months of the year and where the economy is growing at around 6.8%, faster than China itself. Other more developed ASEAN countries, such as Thailand, the Philippines and Malaysia are also beneficiaries."

Supporting policies

Moreover, China has been intent on policy measures to boost consumer activity, in such areas as promoting e-commerce, green/smart home appliances and other measures to help encourage overall consumption. And tax cuts for the corporate and personal/retail markets, with knock-on benefits for 'A' share listed corporations.

Lai then highlighted how it is important to be selective, not to view Chinese equities as a whole, whether the stocks are from the older or the newer segments of the market.

"The China New Economic Index - comprising mainly consumer stocks, healthcare and IT - is growing much faster than the average," he explains. "Domestic consumption, technological upgrading, urbanisation, infrastructure - the high-innovation end of this, and tech/IT, these sectors are all driving towards stronger growth in the near future."

China New Economy – beacons for growth

Premia thus far has two China ETF strategies and is very bullish on prospects there for equity investors. Mironenko reiterated some of Lai's observations on China and explained that all of the key developments Lai had talked about will benefit China's 'A' shares market, which is also being propelled by new foreign investment coming in through the Stock Connect programme driven by MSCI inclusion from Q2 in 2018, pulling in more and more foreign investors.

He reiterated how structural change is also central to the uptick in China interest, as the country's emphasis is on the new economy. Domestic consumption contributed some 37% to GDP growth in the past decade, but it is nearer 80% today. The new economy exposure in the index, including consumption, IT and healthcare, used to be about 20% and today is 32.5%, so new economy exposure in the capital markets is also gaining weight.

DAVID LAI
Premia Partners

Tech-heavy, asset-lite

"The New Economy definition is industries that are skilled talent, advanced technology, asset-light, sustainable growth, and my personal favourite for China, policy supported," Lai elucidated. "That is just not our definition, this is the definition of the New Economy PMI that is published in China and what we are simply doing is taking the industry definitions they included in PMI, and we convert them to stock subsectors."

The Premia CSI Caixin China New Economy ETF therefore neatly offers access to this universe of China A 'new economy' stocks and is tilted toward asset-light, accounting conservative and quality growth stocks and has outperformed comparable alternatives, including ChiNext, since its creation nearly two years ago with less volatility.

China New Economy is one of the best performing China 'A' share ETFs globally year to date, having risen 35% by the end of November.

Views from the floor

With that, Lai opened the floor to the guests. "From a long-term perspective, we are convinced of China economic growth, the consumption story, and Vietnam as well," said one investor. "Valuations in China excluding major stocks such as Alibaba and Tencent are really low, we see a lot of opportunities."

Another expert noted that if the tariffs wars escalate there could be knock-on through technology transfer and also some investment restriction, which could lead to delistings of ADRs stocks in the US, and those shares returning to Asia, perhaps Shanghai or Hong Kong, or both, following Alibaba's lead.

Stick to quality

Another invitee said their firm and clients have been investing in the H share market, ADRs, and also fixed income. "A concern we have right now," he said, "is the default rate amongst the debt of LGFPs, local government financing platforms, so we are advising clients to stick to prime provinces like Beijing and Shanghai, not the smaller ones, because although the yields might on face value appear attractive, the default risk is very high."

Mironenko took the microphone to outline Premia's strategies for China, first arguing that smart beta via targeted ETFs is a great way to play the market.

Playing inefficiencies

"What a lot of people do not realise is that China ETFs tend to be some 60% banks," he explained, "so, yes, a proxy for China, but not truly China beta, more China bank beta. So, when we started talking to our institutional clients about what they wanted out of a China ETF, one of their very clear messages was that China A, unlike China H, is a retail market, it is 85% retail trading, whereas China H is mainly institutional trading. Ergo, if it is retail, it must be inefficient, so we joked with them that China might be the second-largest equity market globally, but it ranks as the number one most inefficient of the largest markets."

This, he extrapolated, means that buyers of market cap beta are therefore price takers in an inefficient retail setting.

"This, in turn, means there is no efficient capital allocation," he observed. "For example, the story of a Chinese CEO who could not fly on arriving at the airport resulted in that stock going limit down, as malicious rumours spread, whereas the truth was he had simply forgotten his passport. But we have designed our ETFs as vehicles to deliver smart beta, one via selection through a value quality screen built inside the ETF, and the other doing the same, but focused only on new economy stocks."

Lai agreed and then offered further insights into the Premia selection process, noting that a host of segments are excluded from the New Economy ETF,

including for example banks, real estate, materials, energy, while key segments are included, such as consumer, tech, healthcare.

Filtering and sifting

"And then within that universe of about a thousand stocks, the ETF targets low debt, conservative accounting, and high growth type of stocks. It is still an ETF, it still has an index, but whether it is more active than passive depends on your viewpoint. Actually, we don't think of it as passive versus active, we just think of value, quality, growth and low leverage."

"You said one of the screens that go into your factor model is conservative accounting," interjected an active investor at the lunch, "and for many years when I run a screen for red flags, the two biggest clusters are China A-shares and India."

Premia's senior advisor in the form of Dr Jason Hsu, who has been studying China A for a long time and whose white paper on factor investing in China highlighted that investors should avoid any stock with consistently high accruals. If those accruals are measured as rising year on year, it appears to produce a negative correlation with the share price, which then weakens significantly.

"So," he clarified, "not only do we focus on new economy stocks, but we then narrow the field down to focus on quality, low debt, efficient inventory management, nimble leadership, targeted, efficient R&D spending and other key factors. We like asset-light firms, those who are there to benefit from China's long-term transition from the old economy to the new economy. We also want low net operating assets and low accruals, because you will be shocked how many companies in China have fantastic earnings and have negative cash flow."

"From a long-term perspective, we are convinced of China economic growth, the consumption story, and Vietnam as well,"

Seeing through the mirrors

"Governance and transparency clearly remain big issues in China, and it will take them years to reach international standards," another expert acknowledged. "What you see in the Chinese balance sheet will not be very accurate, in all likelihood. At least the H share market is somewhat regulated by the Hong Kong authorities, so it is likely to offer greater transparency."

Mironenko agreed, noting that Premia then sifts the universe of roughly 1000 stocks down to around 300 names, helped he explained by expertise from

The universe is thereby trimmed from 900 to 300 stocks. "Financials and real estate don't feature in the new economy," he reported. "The government is going to use that sector to promote New Economy in our view, meaning net margins will fall. But what we overweight are sectors such as consumer discretionary, healthcare, technology/IT, innovative infrastructure, so for example, not the businesses that lay the railroad tracks but the businesses

that build the bullet train engines. In other words, high skill, high complexity, high tech industries, and of course robotics, which is far from old economy. All these key areas can be accessed efficiently through the Premia CSI Caixin China New Economy ETF."

Mironenko added that Premia's process means it behaves in some ways like active managers, but he maintains it is still all boiled down to beta because it is still a quite large universe of around 300 stocks. "Whereas an active manager would then narrow down further to perhaps about 50 shares," he remarks, "we stop at 300, helping us offer smart beta but at a low entry cost, with low fees."

Chicken and the egg

Demand for ETF strategies is down to the focus, the relevance, liquidity and of course cost, but it is a combination of these factors, a guest observed, so the market has not yet reached a point where customers are targeting the cheapest funds as a matter of priority.

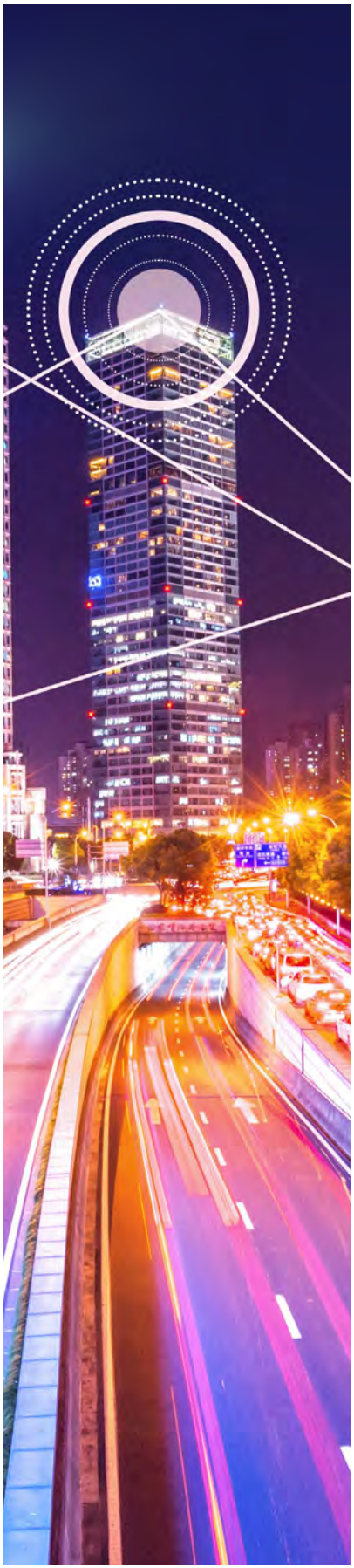
"Perhaps for us," a guest explained, "the key thing for ETFs is the liquidity and the size. A lot of people try to come up with new products trying to access onshore China opportunities, but not many have succeeded to attain the necessary size. It is, therefore, a bit of a chicken and the egg story, and if you reach critical mass then you can race ahead, as most of us are more comfortable with that scale of product."

He added that where he sees considerable shortfall is onshore funds accessing the bond market. "For example," he noted, "to access the onshore convertible bond market is very difficult. The reality is everyone is crowding in on the liquid stocks, but not accessing the more difficult asset classes. The other area is access to commodities, for example, precious metals."

The representative of a multi-family office explained that as to strategies for their clients, his firm offers a multi-ETF programme that will allow clients to switch in and out ETFs without fees. "Most of the ETFs in that programme are extremely liquid, and it represents multi-asset, multi-markets, and sector-specific. I myself think if you come up with sector-specific ETFs that are liquid enough, then such programmes can actually work for China as well."

Vietnam – picking up momentum

Lai picked up on these themes to highlight Premia's first Vietnam strategy, which the firm launched mid-July. "It is the first ETF focusing 100% on Vietnam physical and tracking the MSCI Vietnam," he reported. "When we talk to clients, most of them are intrigued as they see Vietnam is rising fast



and represents a new and exciting opportunity. We see Vietnam as a structural story, not simply fashionable, so we see links to China when they were just opening up the economy in the 1980s when Deng Xiaoping was in charge. Vietnam began opening cautiously in 1995, so it lags by 15 years or more. China entered the WTO in 2000 and Vietnam in 2007, so again it is some years behind. And Vietnam's capital market opened less than 20 years ago, while China is more than a decade ahead of them."

He added that the big state-owned banks and insurers in China went to the IPO markets in Hong Kong and elsewhere 10 or more years ago while Vietnam is only just beginning this process of state to private, which began in 2016. And the population, now around 100 million, is young, fast-growing and energetic.

"Moreover, Vietnam should transition from a frontier market to an emerging market in MSCI parlance in the foreseeable future," he reported. "When it does, it will benefit from further foreign inflows by global investors who will seek to weight up accordingly," he noted, "yet it is not an easy market to access so people are going either through active funds, which are charging hefty fees, or an ETF that doesn't only track Vietnam stocks, but instead has them mixed with stocks from other countries that have links to Vietnam's economy, for example Korean, Japanese or other companies."

He added that the result of this last strategy he outlined is that even though the Vietnam market has performed well, those Vietnam-linked ETFs have not. "Our ETF listed on July 18," Lai reports, "and now stands at about USD25 million as it offers physical exposure directly to the country."

Frontier markets – barely on the radar

Another guest highlighted an additional appeal of Vietnam for his firm, noting that the correlation of Vietnam to global equity markets is currently 0.2.

"The reason is that first of all it is a frontier market," he reported, "so the average developed market or EM market investor doesn't actually own it, meaning when they go risk-off Vietnam is not part of the 'sell' basket. There is a totally separate community of investors who invest in frontier. If you think about, if you look at global equity markets, the developed market is about 90%, the emerging market is about 10%, and the frontier market doesn't round to even one per cent."

He added that most people just exclude that bucket because the

"Most of the ETFs in that programme are extremely liquid, and it represents multi-asset, multi-markets, and sector-specific. I myself think if you come up with sector-specific ETFs that are liquid enough, then such programmes can actually work for China as well."

cost of accessing is much higher than that sub-1% allocation is actually worth. "So, if most people aren't already invested, the global risk-on, risk-off doesn't touch it, it is the standalone investors."

Restrictions on investment

The second reason for the lack of correlation, he reported, is that, even for those people who do invest in frontier markets, it is actually one of the harder frontier markets to access because they have a lot of foreign ownership limit restrictions, and there are many local market requirements, for example they pre-fund, so investors must send their money in first, subscribing on a Monday to buy on the Tuesday. "That adds up to a pretty inefficient trade," he remarked. "And commissions are high, the brokers will charge 20 basis points and above. So we work through local brokers, who are cheaper, as the international names do not have local access and ultimately use them anyway."

Mironenko agreed and said that due to some of these factors, the Premia Vietnam ETF is on the more expensive beta strategy side, but that is a reality of the market as it stands today.

"On the other hand," he observed, "access issues are, as we see things, rather less relevant than economic growth, as we all know that while in the short-term equities don't follow economic growth, but in the long term they do, and Vietnam has had four decades of 6% to 8% GDP growth quite consistently. Of course, Vietnam has had its own corrections due to currency issues, due to its own minor slowdown about 15 years ago, but it is very much uncorrelated, it has been well disconnected from the global markets and the global economy until now. Finally, it is now a recipient of so much FDI that it seems kind of on a very smooth path forward."

The discussion concluded with invitees quizzing Premia's experts further on the details of their ETF strategies and reiterating their interest in creating exciting, focused new avenues to access market and corporate growth that is relatively less correlated either to global developed or even broader EM markets. ■

Premia Partners Back the Thesis that in an Uncertain World Smart Beta is a Winner

Premia Partners (Premia) is a Hong Kong-based investment manager that began life around three years ago and that offered its first ETFs just over two years ago. The firm's stated goal is to be a trusted ETF partner for investors by curating a best-in-class range of ETF tools and solutions that enrich and empower its partners and investors in Asia and for Asia.

Aleksey Mironenko, Partner and Chief Distribution Officer, explains that Premia's team comes from a variety of leading firms and have always focused on Asia before coming together to build an Asian ETF company. Premia today boasts a team of 20 with hands-on execution experience from leading firms. The firm has garnered a wide range of leadership and managerial experience from global institutions including Marsh & McLennan, BlackRock, China Asset Management, Mirae, Value Partners and other firms.

"Two years from our first ETF launch," he reports, "we were the 8th largest ETF manager in Hong Kong with USD371 million in AUM, and top 3 by inflows. We are dedicated to creating efficient investment tools and see enormous scope for innovation in Asian ETFs. We don't just build ETFs; our mission is to solve Asian investment problems."

Premia aims to build products that are relevant for Asia, relevant for investors seeking exposure to these markets, and to do all this at a lower cost of entry and with a more incisive selection of investments. Premia ETFs employ smarter indices, offer access to key markets, improve tax efficiency and lower investor costs. "In short," says Mironenko, "our goal is simple yet bold - to reshape the landscape for ETFs in Asia."

Premia's three guiding principles

David Lai, Partner and co-Chief Investment Officer, explains that Premia was founded on three core beliefs. First, there is enormous scope for innovation in Asian ETFs, and plentiful opportunities to introduce global best practices for Asia. Second, Asian investors should not have to trade in New York or London or Frankfurt to find the best products the ETF industry has to offer. And finally, Asian investors deserve better solutions than those available today and technology allows Premia to make them a reality.

Lai offers more insight into the state of the market in Asia today. "We see that the ETF industry in Asia, the beta industry, is far behind the rest of the world," he elucidates. "We all know about the low-cost S&P 500 and FTSE 100 and EURO STOXX 50 ETFs, but when you look here in Hong Kong, China, or Southeast Asia, we don't have sectors, we don't have factors, we don't have themes and some of the biggest ETFs cost 1% plus. So, beta is not really an alternative in our part of the world, and our mission is to be a catalyst for change, to offer strategies that are highly focused, highly relevant, and that offer good value for that access."

In an over-valued world, seek value elsewhere

Mironenko highlights briefly how the US equity market is very highly valued, how there is almost nowhere to obtain yield in fixed income without taking on substantial credit or duration risk or both, how gold has already surged significantly since 2018 and notes that there are fewer and fewer evident drivers to keep that momentum going much longer.

He says this background is conducive to Premia's current strategies in China and in Southeast Asia, including Vietnam. He says Premia's chosen EM markets in Asia have strong fundamentals, low valuations, are under-invested and are now benefiting from improved currency dynamics. And adds that emerging Vietnam is also benefiting from supply chain repositioning, while China new economy stocks are benefiting from an increasingly domestic and consumption-driven market.

"Take China," he says. "We know growth is slowing, but we offer structural growth stories that are not correlated, such as, for example, New Economy stocks. China knows the US exports game is over compared to the past, so the long-term story is going to be a relative decline in exports to the US."

With this in mind, the Premia CSI Caixin China New Economy ETF (3173 HK) offers smart beta exposure to China 'A' new economy stocks, targeting precisely the part of the Chinese economy that continues to grow. Not only does this ETF focus on new economy stocks, but its index narrows the field down to focus on quality, asset-light, low debt, high R&D and high growth potential firms.

Premia CSI Caixin China New Economy ETF houses what Premia considers as representing new economy megatrends: technology advancement, rising middle class and ageing population, with a keen concentration on consumer, healthcare and technology stocks.

As of 31 October, the top five holdings, by way of illustration, were Gree Electric Appliances of Zhuhai (12.57%), Jiangsu Hengrui Medicine Co (9.72%), Midea Group (5.63%), Focus Media Information Technology (3.11%), and China International Travel Service (1.93%).

Asia beyond China

And Premia is keen to build additional strategies across the region, for those investors thinking about growth in new markets beyond China. Premia, therefore, recently launched the Premia MSCI Vietnam ETF (2804/9804 HK).

The Premia MSCI Vietnam ETF aims to capture Vietnam's exponential growth opportunities in a single trade. The top five holdings at October 31 comprised VinGroup JSC (22.07%), Vietnam Dairy Products (17.57%), Vinhomes JSC (16.52%), Vincom Retail (6.83%) and Masan Group at 6.67%.

"Vietnam as an economy has a very large number of positives," Lai explains, "and is also the biggest US-China trade war beneficiary. Vietnam is one of the fastest-growing markets in the region, benefiting not only from the trade war but from increased domestic consumption by its 100 million citizens. It is an exciting choice for investors, as the country is in fact not yet an emerging market - it is classified as a frontier market and is working hard to qualify for emerging market status under MSCI."

The country, he notes, has several core positives, including government support via privatisation to boost the equity market, faster growth than most of ASEAN and indeed, all of Asia, conducive liberalisation, and growing foreign investor interest.

Vietnam also offers a 60% labour cost advantage versus China, a large and willing-to-work population, and increasingly improving infrastructure for global supply chains. "Our new Vietnam ETF offers a low cost, rules-based access strategy to the fast-growing Vietnam market," he reports.

"Vietnam's spending has been more than 50% centred on food and beverage, in other words, necessities," Mironenko adds, "but a whole range of areas from financial services to healthcare, housing, retailing, and other sectors are now rising rapidly as spending power rises and as more spending is focused on these growth areas. And tourism is growing very rapidly, with the government targeting 10% of GDP from this sector as more Asian and other visitors flood in."

Vietnam's equity market size is now only 60% of GDP, but the government has a target to raise that in 2020 to 100% and by 2025 to 120%. Surprisingly, Vietnam has already surpassed Singapore to become the biggest IPO market in any ASEAN country. The stock market should roughly double in size within six years, according to Premia.

The Premia ETF offers pure Vietnam exposure, as the strategy tracks the MSCI Vietnam Index, which consists of only public Vietnam listed companies and may one day be added to MSCI EM, hopefully, sooner rather than later.

The ETF offers physical replication, in other words, direct low-cost access to the Vietnam stock market. It is cost-efficient with ongoing expenses of only 0.75% p.a., versus 1% plus for existing foreign-listed ETFs and 1.5%-3% for active funds. Moreover, as it is Hong Kong-listed, and available in USD or HKD, it offers easy access for investors and in the same time zone as the underlying market and without any US withholding taxes. ■