# The Deep Dive to China: Navigating the Many Attractive Opportunities in China

**Carol Wong is Managing Director, Head of International Institutions, Head of Marketing and Investor Services, Institutional Business Development Department, Ping An of China Asset Management (Hong Kong). She gave an insightful and welcome 15-minute presentation to delegates at the Hubbis Middle East Wealth Management Forum, the first live conference Hubbis had hosted anywhere since early 2020, when the pandemic first struck. Armed with slides, Carol told delegates how the firm has been curating a fascinating collection of investment routes into Mainland China, from AI-enhanced A-shares to diversified RMB bonds issued in China's vast and gradually liberalising fixed income markets and to China Green bonds that match financial returns with sustainability.**

**KEY POINTERS:**

- Ping An's AI Multi-factor Enhanced A-shares Strategy helps to optimise a well-diversified equity portfolio
- RMB Bonds provide high yields with low correlation to major asset classes
- China Green Bonds are creating huge positive environmental and financial impact

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**CAROL WONG**
Ping An

**Carol Wong:** "I am delighted to be here with you all, so much so that I know on my return I will have to quarantine in a designated Hong Kong hotel for 14 days. But it is worth it, as I want to communicate about the firm I represent, and some of our ideas for routes into the vast Chinese investment markets. The Middle East is a vital priority for us, and it is a welcome chance to help spread the word amongst the private wealth community here.

Ping An Group originally started as an insurance company 33 years ago, so we are relatively young, but very successful. In fact, we are now one of the largest insurance companies in the world in terms of market cap, which is around USD140 billion, and we have total assets of more than USD1.4 trillion. We have over 500 million internet users and 218 million retail customers.

## Ping An – a privately-held Chinese giant

We are all over China, not only in insurance, but in banking, we have a finance platform, an e-commerce platform, and we also have health platform, technology, and so forth. In short, we are a huge conglomerate. We also rank consistently number one in terms of FinTech and digital healthcare, and we are a pioneer in artificial intelligence modelling as well.

Many think that Ping An is a state-owned enterprise. We are not. The Group Ping An belong to is publicly traded in both mainland China (A-share) and Hong Kong (H-share). One of the biggest publicly traded companies in China actually, also among the top around the world.. In fact, our largest institutional shareholders include people like Citi, UBS, Norges Bank and others.

We believe we are a very sound and reputable conglomerate headquartered in China, but operating out of China, mainly in Hong Kong. We don't have a presence in the UAE. But in the future, we are very interested to expand our network here.

## Peak performance

In terms of Fortune 500, last year we ranked number two in the finance sector. In terms of the Forbes Global 2000, we ranked number one in terms of global diversified insurers. Consistently, we are voted as amongst the most respected companies in China. Insurance, my market, is headquartered in Hong Kong, managing assets out of China.

We are the pioneer of ESG in China. We were the first company in China to sign UNPRI – United Principles for Responsible Investment. We are also the first Asian institutional investor, and the first Chinese asset manager, to become climate bonds partners. We partnered with our climate bond initiatives to launch our first green bond fund in China.

So, what do we offer? We offer both public as well as private investments. In fact, we set up our team in Hong Kong mainly to invest on behalf of our group.

**"Why do we think investing into China is so attractive now? In fact, China will contribute more than one-fifth of the total increase in the world's GDP in the coming five years and will be the largest growth contributor. China is simply too big a country to be ignored."**

## A wide remit and an ideal gateway to China

As you can imagine, as a huge insurance company, we are naturally one of the world's largest LP as well as institutional investors. So, we have in place many high-quality investment teams, both on private equity, private credit, infrastructure, real estate, as well as public markets, both equity as well as fixed income. Of course, we don't claim ourselves to be a global asset manager. We are very focused on China and more broadly Asia. We believe we are the ideal gateway for China expertise and investment exposure.

## Three key opportunities

Today, I want to highlight three of our key offerings on the public fund side, just to give you an idea of what we can do.

In 2020, we were very proud to have become the Asset Management Firm of the Year by Asia Risk Awards, not only measuring the performance, but also the risk monitoring mechanism that our firm adopts.

One of our flagship funds – the Renminbi Bond Fund, in fact, has won lots of industry awards. For example, 2020, we won the Bloomberg Offshore China Fund award.

## China – vast and hugely appealing

Why do we think investing into China is so attractive now? In fact, China will contribute more than one-fifth of the total increase in the world's GDP in the coming five years and will be the largest growth contributor. China is simply too big a country to be ignored.

In terms of the currency, the Renminbi, more and more firms are using Renminbi for cross-border settlements. More of the major indices increasingly include Renminbi into their indices. More and more countries are increasing the use of Renminbi as a reserve currency. In short, we see an increasing demand for Renminbi going forward.

Chinese equities and fixed income offer extremely low correlation with major equity and bond markets in the world, not just the US and Europe, but the emerging markets as well. So, China represents extremely good diversification tools for your clients' portfolios.

China's sovereign paper, in fact, offers higher yield than other major markets, as you can see here from the chart.

## Going green

As I mentioned, we are the pioneer in ESG in China. The China green bond market, in fact, is the fastest growing bond market. China is the second largest issuing country in terms of green issuance.

We are seeing a lot more demand in this area. When people invest in green, when they have a green mindset, it's very important that they invest in developing markets versus very well-developed markets, because the impact is much more powerful in our view.

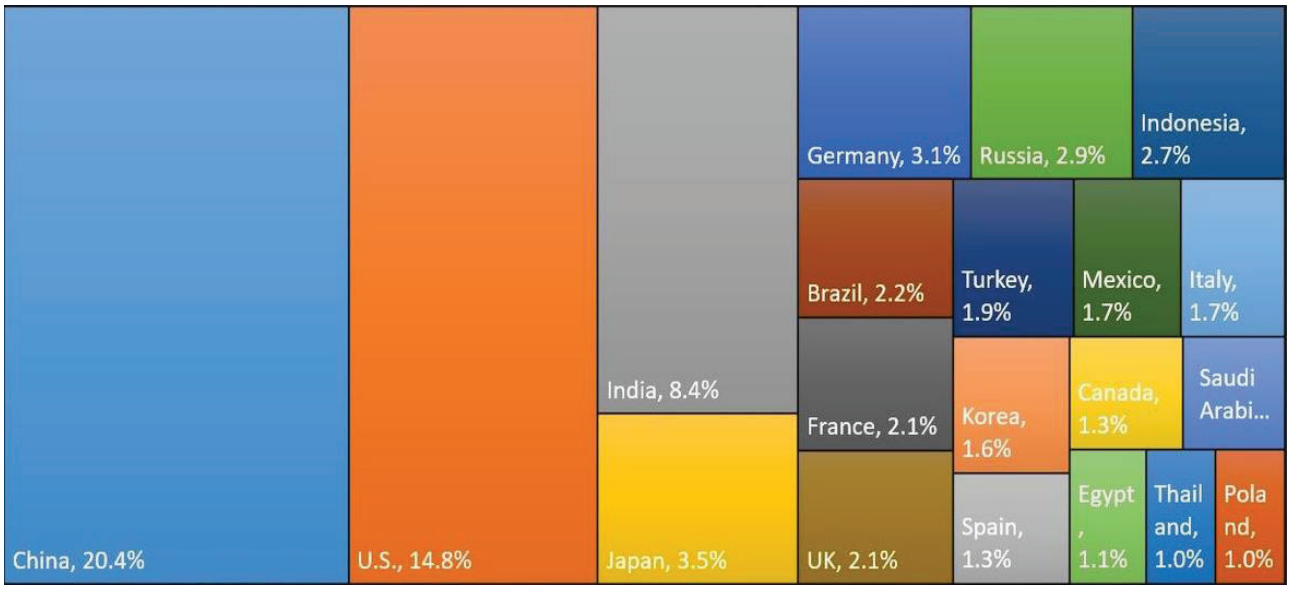
Also, green bonds offer relatively stable returns, even compared against bonds issued by the same issuer. For example, Bank of China's green bonds are much more stable than their normal bonds.

## Compelling equity valuations

Equities in China represent a significant opportunity. Most of the companies, even the largest and most attractive, offer very attractive

- China will contribute more than one-fifth of the total increase in the world's gross domestic product in the five years through 2026.

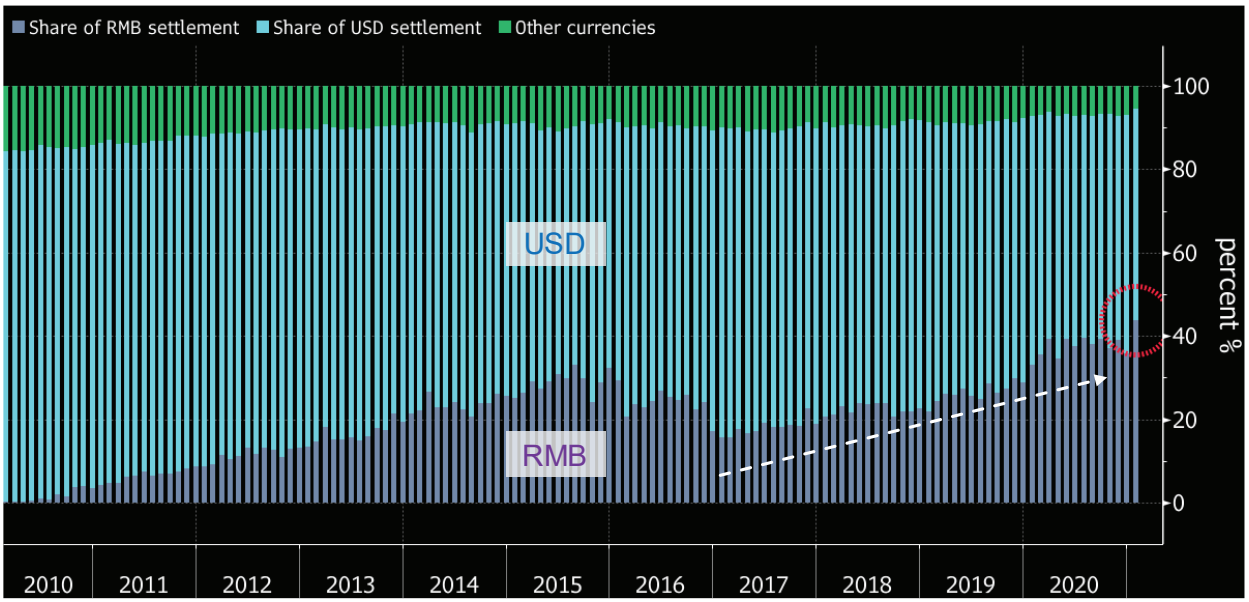
**World Economic Growth: 2021 - 2026**




Source: Bloomberg analysis of IMF data, as of 6 April 2021. Individual economy's forecast growth, as a share of increase of world GDP, between 2021-2026; Purchasing power parity-based. Percentage may not equal 100% due to rounding.

- More and more firms are using RMB for cross-border settlements.

### Historical Trend: China's Cross-border Payments




PE ratios now. For example, Alibaba now is trading at 10x to 12x, Tencent around 15x, while companies in the US like Apple, or Facebook are in the 20x to 25x range. While China is cheaper it is still highly profitable.

## Taking the quant approach to stocks

As a firm, we believe that China using a quant approach is the best way to capture the growth going forward. Why? First, the market size of China - the Shenzhen and Shanghai markets - are big enough for quant strategies to attain scale. Secondly, the market is dominated by retail investors. Yes, there are many institutional investors as you can see from the pie chart. But retail is big and they are usually more

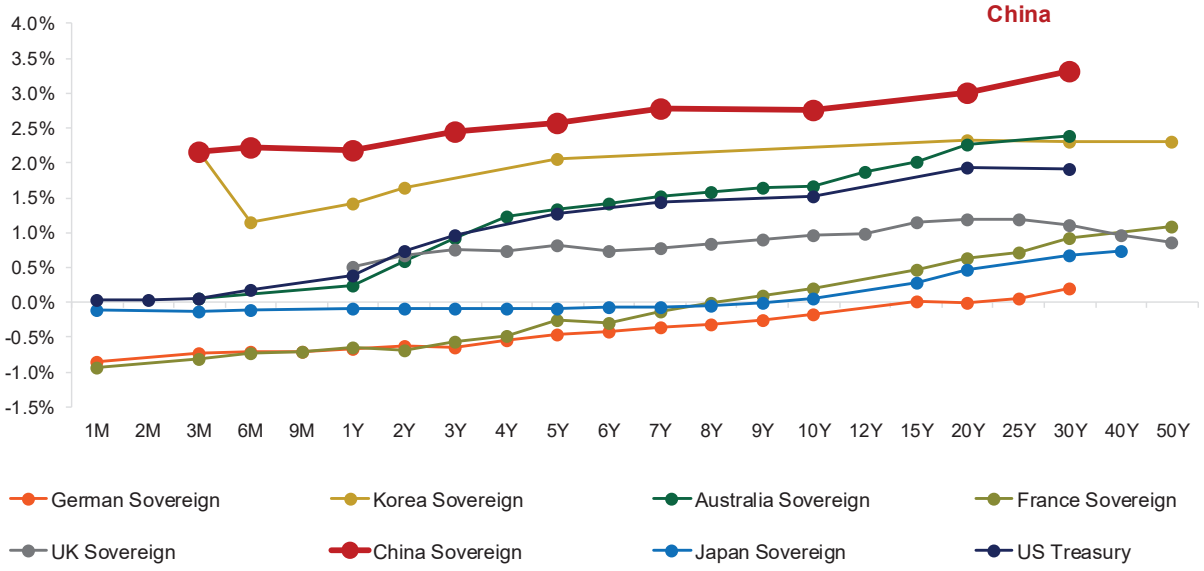
- China equity and bond (both onshore and offshore) provide relatively low correlation with major equity and bond markets.

| 10-Year Correlations | Bond Markets | | | | | | | | Equity Markets | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | RMB Bond Onshore | RMB Bond Offshore | Global Bond | US Bond | US Treasury | US Corp HY | EM USD Bond | Asian USD Bond | Global Equity | Asia Pacific (ex Japan) Equity | China A-share |
| RMB Bond Onshore | 1 | | | | | | | | | | |
| RMB Bond Offshore | 0.76 | 1 | | | | | | | | | |
| Global Bond | **0.30** | **0.37** | 1 | | | | | | | | |
| US Bond | **0.12** | **0.13** | 0.71 | 1 | | | | | | | |
| US Treasury | **0.02** | **-0.03** | 0.49 | 0.88 | 1 | | | | | | |
| US Corp HY | **0.20** | **0.36** | 0.46 | 0.20 | -0.23 | 1 | | | | | |
| EM USD Bond | **0.25** | **0.37** | 0.66 | 0.45 | 0.04 | 0.84 | 1 | | | | |
| Asian USD Bond | **0.20** | **0.29** | 0.70 | 0.77 | 0.46 | 0.65 | 0.88 | 1 | | | |
| Global Equity | **0.34** | **0.46** | 0.35 | -0.02 | -0.39 | 0.83 | 0.68 | 0.44 | 1 | | |
| Asia Pacific (ex Japan) Equity | **0.47** | **0.62** | 0.50 | 0.11 | -0.25 | 0.77 | 0.71 | 0.53 | 0.88 | 1 | |
| China A-share | **0.38** | **0.52** | **0.12** | **-0.05** | **-0.22** | **0.35** | **0.28** | **0.20** | **0.48** | **0.60** | 1 |

Source: Bloomberg, monthly in USD as of 31 May 2021. RMB Bond Onshore: Markit iBoxx ALBI China Onshore Total Return Index; RMB Bond Offshore: Markit iBoxx ALBI China Offshore Total Return Index; Global Bond: Bloomberg Barclays Global-Aggregate Total Return Index (Value Unhedged USD); US Bond: Bloomberg Barclays US Aggregate Total Return Index (Value Unhedged USD); US Treasury: Bloomberg Barclays US Treasury Total Return Index (Value Unhedged USD); US Corporate High Yield: Bloomberg Barclays US Corporate High Yield Total Return Index (Value Unhedged USD); EM USD Bond: Bloomberg Barclays EM USD Aggregate Total Return Index (Value Unhedged); Asian USD Bond: Markit iBoxx Asian USD Total Return Index; Global Equity: MSCI ACWI Net Total Return Index; Asia Pacific (ex Japan) Equity: MSCI AC Asia Pacific (ex Japan) Net Total Return Index; China A-share: CSI 300 Index. **Past performance is not indicative of future results.**

- China bonds provide relatively high yields compared to other major markets.

**China Sovereign: Higher Yields vs. Other Major Markets**




Source: Bloomberg, as of 31 December 2021. **Past performance is not indicative of future results.**

emotional, and it is therefore much easier for a quant model to capture those inefficiencies in the market.

Accordingly, we believe that using a quant approach is the best way going forward to capture China growth in the equity area. The quant approach in Europe and the US is crowded, but in China is not crowded, as the market and the application of quant are both relatively less mature. We think that there are lots of discrepancies that we can capture.

I now want to highlight three of our offerings that capture China's growth potential.

## RMB bonds

First is the Renminbi bond strategy, which has more than 10 years of track record, very steady returns and that is very suitable for conservative investors who want to diversify out of US dollars and into this pure Renminbi paper. We can invest in onshore RMB as well as offshore RMB paper.

As you can see, it's a very stable predictable kind of return and has SIF daily liquidity and for the past few years, we consistently pay out around a 2.5% yield and target around a 3.5% to 4% return. As I said, it's suitable for more conservative clients, this is without leveraging and the majority of the holdings are investment grade bonds. As mentioned, this is ideal for people who want currency diversification, a relatively predictable kind of yield environment, solid yield payout, and stability.

## China Green Bonds

The second one is the China Green Bond Fund which I briefly mentioned earlier. This is also an award winning fund, though we only have around two and a half years track record. However, it is somewhat unique as it is a Luxembourg domiciled SICAV UCITs fund, again with daily liquidity, and currently a yield to maturity around 3.5%. Its correlation with major bond markets in the world are very, very low. In short, it's an excellent diversification tool.

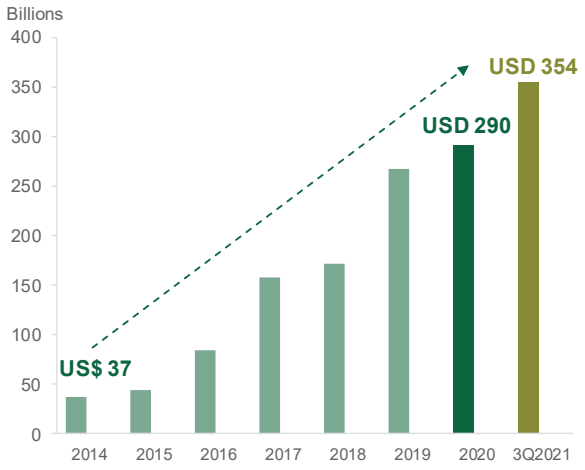
It ticks all the ESG elements, it's 100% green. To offer more detail on that front, we have to tick the climate initiatives taxonomy to make sure that every issuance is really green in nature in order to qualify for the portfolio. The average credit rating is BBB. This one is dollar denominated, not RMB.

## Mining out the value

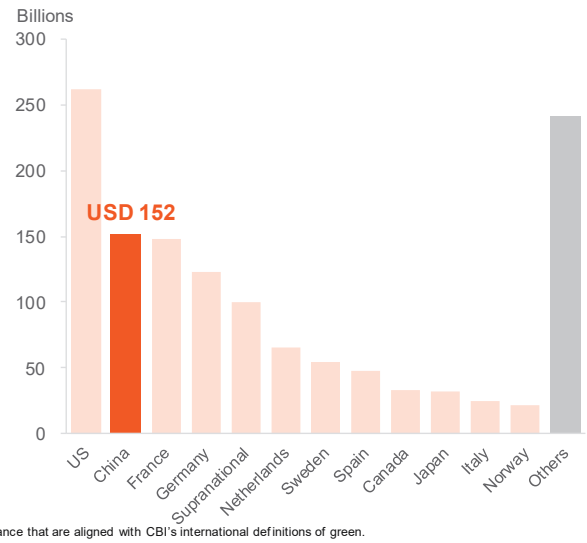
The last opportunity I want to highlight is an equity fund. I said we believe the best way to capture the China equity growth going forward is using a quant model. For this we use our own proprietary artificial

- In early December of 2020, the accumulative volume of global green bond since 2014 reached **USD 1 trillion milestone** with US, China and France being the largest sources.
- **Green bond investment in a single year** is set to double and reach the **USD 1 trillion milestone** for the first time by the end of Q4 2022 (according to a survey by Climate Bonds Initiative in October 2021).

**2014 – 3Q2021: Global Green Bond Markets**
(Total Amount Issued)




**2014 – 1H2021: Global Green Bond Markets**
(Total Amount Issued)




Source: Climate Bonds Initiative (CBI), latest data as of October 2021. The figure for China only includes issuance that are aligned with CBI's international definitions of green.

intelligence model for investment. This model has a proven track record onshore, and we launched an offshore version two and a half years ago.

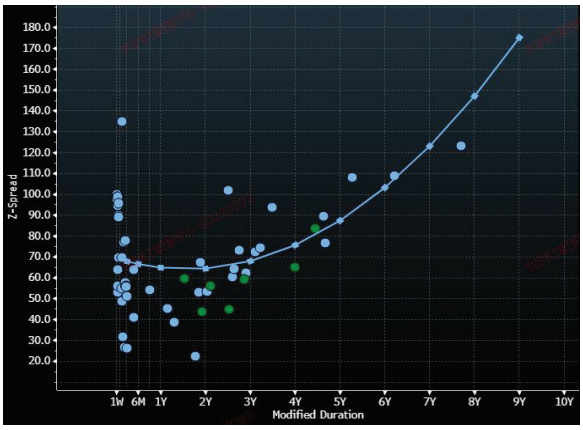
Since launch, we also delivered outperformance against the CSI 300. And with the built-in machine learning modelling, it also eliminates all the noise and irrationality in the stock market. The number of holdings is more than 200, and it is a dollar fund.

## Build exposure today

My final comment is that investors in this part of the world are underexposed to China, but right now, even in this part of the world, more and more institutional investors are increasing their allocations to China, carved out and distinct from their broader emerging markets exposure. They are increasingly investing in China as a standalone country and increasing their holdings.

I'm sure Ping An of China Asset Management can help you to capture the best opportunities in China. We are ready to help you." ■

**Bank of China Dollar Bonds against its Green Bonds**
(Spreads of green bonds shown in green)




**Global IG Sovereign Bonds against Green Bonds**
(Spreads of green bonds shown in green)