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China A-Shares Enter Pension Market Following Policy Relaxation

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In the local retirement investment market, the role of China A-shares as an asset class had been minimal for years. This was the case until the recent relaxation of long-time restrictions regarding A-shares investment in local pension funds. This presents a turning point, as A-shares will enter the local pension market and are even likely to become a standalone asset class.

The Chinese stock markets have been a favourite investment for retirement portfolios of employees in Hong Kong. But do you know in which type of Chinese companies you are investing? In fact, the vast spectrum of the Chinese stock market spans A-shares listed in the mainland, Hong Kong-listed Chinese companies, and Chinese ADRs listed in the US.

A-shares build an incremental importance globally

Take the Mandatory Provident Fund (MPF) as an example: Hong Kong Equity funds account for 36%[1] of the scheme's total assets, representing one of the most popular categories. A number China Equity MPFs and Greater China Equity Funds are also readily available in the market but most of them invest in stocks listed in Hong Kong, the US or Taiwan. That means, the proportion of A-shares in these funds is effectively low. As of September 2020, the total assets of A-shares in MPF assets amounted to HK$ 11 billion, accounting for around 1.12% of the entire scheme. This is due to the fact that the MPF framework had not included A-shares as a single market investment option.

Key takeaways

- China's A-shares market was neglected in the Hong Kong pension market in the past.
- Following the policy change, A-shares are expected to usher Hong Kong's pension market into a new era.
- The addition of China's A-shares helps investors diversify their retirement investments.

A-shares are not considered a single market option in the MPF framework
Asset allocation of approved constituent funds by geography and asset class[2]:

	Saving and Cash	Bond Securities	Equity	Overall
Hong Kong	13%	9%	36%	**58%**
Japan	§	1%	3%	**4%**
Asia	§	1%	9%	**11%**
North America	§	6%	12%	**18%**
Europe	§	3%	7%	**10%**
Overall	**14%**	**20%**	**67%**	**100%**

§ Less than 0.5%

Allianz Global Investors

However, with the increasing liberalization of China's financial markets, A-shares have become an asset class that cannot be ignored. For example, the FTSE Global Equity Index Series, the flagship index of international index provider FTSE Russell, will include 71 A-shares[3], while other index providers such as MSCI are increasing the representation of A-shares in their global or emerging markets indices. This is an irreversible trend that A-shares have developed a stronger foothold in the world's investment arena and are expected to become a standalone asset class, like its Japanese and US peers.

China A-Shares charge into the pension market

As such, Hong Kong's regulator has relaxed the restrictions that previously curbed MPF managers from offering funds that invest in China's A-shares. In November 2020, the MPFA included the Shanghai and Shenzhen exchanges on the list of approved stock exchanges. We anticipate that Hong Kong's retirement market will be rejuvenated by the addition of China's A-shares. The anticipated standalone choice of A-share funds will be another bright spot that significantly opens up to the city's workers a more diversified MPF scheme.

Therefore, MPF scheme participants will be able to ride on China's economic and investment potential as China's A-shares emerge among the available asset classes. As smart investors, act now and ready your portfolio for the new investment opportunities.

[1] Source: Mandatory Provident Fund Schemes Statistical Digest, MPFA, as of March 2021.
[2] Source: Mandatory Provident Fund Schemes Statistical Digest, MPFA, as of March 2021.
[3] Source: Reuters, as of August 23, 2021.