

Eri Gjoka, CFA
Senior Manager
Mackenzie ETFs Team

Why China?

Chinese equities are significantly underrepresented in global indices

China and Hong Kong represent only 6.2% of the MSCI ACWI index while the Chinese economy accounts for 16.3% of global GDP. In contrast, the US represents 24.5% of global GDP and a 56.5% weight in MSCI ACWI index.¹

Maturing economy

The Chinese economy is maturing and transitioning from manufacturing based (secondary) to consumption, higher value-adding services, technological development, and innovation (tertiary).

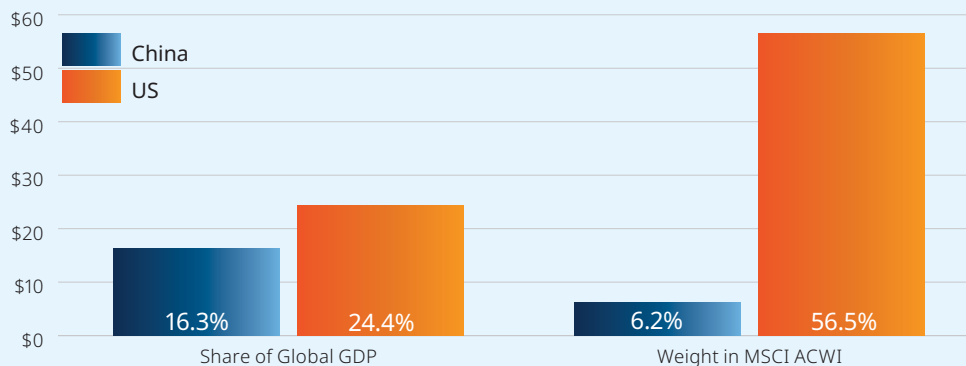
Institutionalization of Chinese equities

As indices and institutional investors increase their China exposure, the domestic investment mix will become more institutional. This will improve the quality of corporate governance, reduce volatility, and enhance equity valuations.

Diversification benefits

Chinese equities have exhibited low to modest correlation relative to Canadian, US, Global, International and Emerging Market (EM) equities. This may lead to risk reduction for global investors diversifying into Chinese stocks.²

Percentage weight as of December 2020



Source: Bloomberg as of December 2020.

¹ Source: Bloomberg as of December 2020.

² Source: MorningStar Direct.

Why now?

Growth opportunity

International Monetary Fund (IMF), is projecting that China will overtake the US as the largest economy by 2030. A recent [CNBC article](#)¹ highlights that because of the COVID-19 pandemic, China may become the largest economy by 2028.

Fastest economic recovery from COVID-19

China was the only major economy to grow in 2020 and now is only \$6.2 trillion behind the US.²

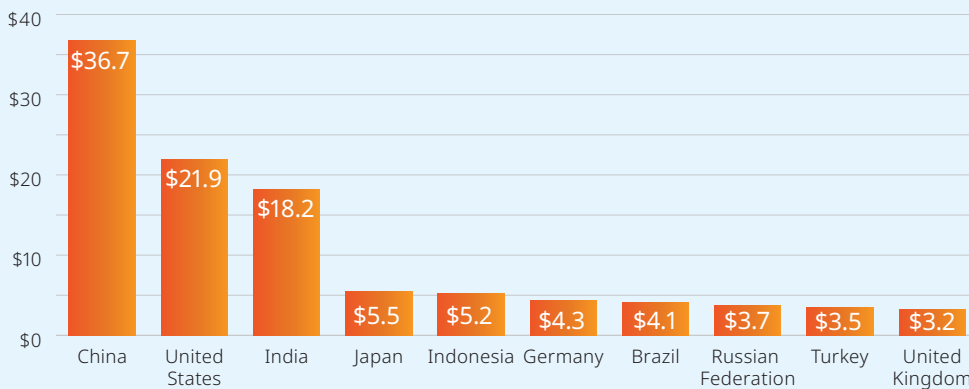
Economic modernization continues

In 2019 China's tertiary industry grew to 54.3% of total Chinese GDP. This was the eighth consecutive year in which the services and consumption part of China's economy was larger than manufacturing and construction (secondary).³

Valuations

Chinese equities are trading at much lower valuations than other equity markets.⁴

Projected share of global GDP – 2030



Source: International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD).

	CSI 300	MSCI China All Shares NTR	S&P/TSX Composite	S&P 500	MSCI ACWI	MSCI EAFE	MSCI Europe
Price Earnings Ratio (P/E)	19.34	23.38	27.94	32.06	30.87	40.38	46.81
Price/EBITDA	13.34	15.99	9.36	17.49	13.69	10.13	9.85
Price to Book Ratio	2.33	2.49	2.04	4.32	2.80	1.79	2.02

Source: Bloomberg as of March 10, 2021.

¹ CNBC.com "New chart shows China could overtake the U.S. as the world's largest economy earlier than expected" February 1, 2021.

² Source: CNBC.

³ Source: Bloomberg.

⁴ Source: Bloomberg.

Why A-shares?

MSCI China index is very concentrated and heavily weighted to state owned enterprises

The two largest companies, Alibaba and Tencent make up 30% of the exposure while the four largest state owned banks represent another 6% of the index.¹

Greater exposure to new economy sectors

Higher allocation to consumer staples, health care and information technology that are positioned to be the key drivers of the next phase of China's economic growth.

Lower correlation to other major global equity indices relative to China all shares

Over the past decade, the correlations of Chinese-A shares to Canadian, US, Global, International and EM equities have been only 0.40, 0.44, 0.48, 0.43 and 0.56 respectively.

S&P/TSX Composite TR	0.40	0.50
MSCI ACWI NR USD	0.48	0.66
MSCI EM NR USD	0.56	0.80

Source: Morningstar Direct. 10 Year Monthly correlation as of January 31, 2021.

Opportunity with Mackenzie China A-shares CSI 300 Index ETF (QCH)

- QCH tracks the CSI 300 index – an index comprised of China's most liquid 300 stocks traded in Shanghai and Shenzhen (i.e., A-shares, or onshore Chinese equity).
- QCH is the only Canadian-listed ETF that gives investors pureplay China A-shares exposure.
- Compared to offshore Chinese equities, China A-shares provide greater exposure to sectors that we believe are linked to the consumer benefits of a growing middle class.

Standard Performance

Legal name	1 month	1 year	3 years	Since inception
CSI 300 TR USD	-0.37	49.80	11.48	14.57
MSCI China All Shares NR USD	-1.03	45.06	9.85	11.89
S&P/TSX Composite TR	4.36	14.74	8.75	8.94
S&P 500 TR USD	2.76	31.29	14.14	10.93
MSCI ACWI NR USD	2.32	30.25	10.29	6.17
MSCI EAFE NR USD	2.24	22.46	4.59	8.66
MSCI EM NR USD	0.76	36.05	6.35	9.71

Source: Morningstar Direct as of February 28, 2021. The performance for QCH and S&P/TSX Composite index in CAD. The performance for the other indices is in USD.

¹ Source: Bloomberg as December 31, 2020.

² Source: Bloomberg.



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Investments

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