

## Financial Review - afrrr.com

**OPINION**

May 21 2018 at 3:00 PM

Updated May 21 2018 at 3:00 PM

# Why MSCI China A inclusion is a big deal

by **Stirling Larkin**

With intense focus on the potential of a United States-Sino trade war and what that could mean for global markets, the fact that world-leading indexer MSCI is to include 234 Chinese companies in several of its bellwether benchmarks from June 1 for the first time has gone almost unnoticed.

And yet in the weeks before [the MSCI China A-share inclusion](#), buying accelerated, with April recording a high monthly northbound net inflow of 40.54 yuan, up 222 per cent on March's northbound inflow and a staggering four times the net inflows seen in April 2017.

Importantly, international pension funds, endowments and exchange-traded funds will now be forced to participate in this buying of Chinese yuan-denominated shares for the first time.

Beyond symbolism, there could be near-term ramifications for regional, Australian and US share markets, as well as the buoyancy of Australian dollar.

Australian ultra high net worth (UHNW) global investors have, by contrast, expressed such interest in this shift that they will be doubly exposed to mainland Chinese bourses thanks to their alternative investment exposures (private equity, venture capital, hedge funds) being benchmarked to MSCI global benchmarks.

This is also because of their existing allotments to China A shares through the Shanghai-Hong Kong Stock Connect program (facilitating trading and clearing between Hong Kong and the mainland), which opened four years ago.

The MSCI China Index (MXCN) alone will add 301 stocks to its index constituents, of which 234 A shares will make up 2.5 per cent of the index from June and then 5 per cent from September

It will also add 66 overseas listed shares plus 1 B share to the index, bringing the total to 454 stocks from 153.

Consequently, it will bring inflows from both passive and active funds given that the MSCI index is widely used to track benchmarks.





