If we buy the business as a business and not as a stock speculation, then it becomes personal. I want it to be personal.
▸ Phil Town

QUOTE OF THE WEEK

TheWall

FUNDS

Investing in China's new economy

BY **TAN ZHAI YUN**

There are investing opportunities to be found as China transitions into its new economy despite the geopolitical and economic challenges that are currently plaguing the markets, according to Affin Hwang Asset Management Bhd (AHAM) managing director Teng Chee Wai.

This optimism stems from the reforms taken by the Chinese government to move away from an industrial-focused economy to a consumption and services-based one, which is boosted by the presence of internet players such as Alibaba Group Holding Ltd, Tencent Holdings Ltd and Baidu Inc.

"We believe there are ample opportunities in the Asian economic giant as the reforms take root. China's economic transition has led to the emergence of a new set of opportunities via the consumption and services-led sectors as the country moves away from high-speed growth and focuses more on quality growth. Positive demographic and consumption trends are also supportive of this view," says Teng.

The Chinese government is expected to undergo some monetary policy easing to cushion a slower-growth environment. Valuations are also at historical lows, which could offer attractive investment opportunities, even though there is moderating earnings growth.

"We have seen some softness in recent Chinese data, which shows that its manufacturing sector is experiencing a slowdown as a result of the trade conflict. The stimulus measures announced by Beijing to prop up growth and cushion the impact from its ongoing trade spat with the US have provided a reprieve for markets and inject liquidity," says Teng.

"Closer monitoring would be needed to see whether such stimulus has started to trickle down to growth and GDP, possibly sometime in 2Q2019 due to lag effects. Still, with a larger pain threshold and a more resilient economy today, we do not see China reverting to its more aggressive stimulus measures to drive growth, like its credit-fuelled binge in the past.

"Over the long term, as China presses on with reforms, we see positive structural trends that bode well for the country. Its consumption and services-led sectors now contribute more than 60% to GDP and growth is expected to increase exponentially with rising income levels and rapid urbanisation. As China continues to harness these strengths, we see opportunities emerging from the consumption and services-led sectors, which are riding these positive trends."

AHAM/S&P DOW JONES INDICES

S&P New China Sectors Ex A-Shares Index — top 10 holdings

NO	COMPANY	WEIGHT (%)
1	AIA Group Ltd	10.6
2	Tencent Holdings Ltd	10.3
3	Alibaba Group Holding Ltd	9.5
4	China Mobile Ltd	7.9
5	Ping An Insurance Group Co of China Ltd	6.7
6	Baidu Inc	6.6
7	NetEase Inc	2.6
8	JD.com Inc	2.6
9	Galaxy Entertainment Group Ltd	2.4
10	China Life Insurance Co Ltd	2.4

AHAM/BLOOMBERG

Three-year performance of selected China-related indices (as at Dec 31, 2018)

INDEX	(%)
S&P New China Sectors Ex A-Shares Index	15.3
FTSE China 50 Index	5.56
FTSE China A50 Index	-4.29
Shanghai Stock Exchange Composite Index	-31.79
FBM KLCI	10.43

NOTE: PERFORMANCE REPRESENTS TOTAL RETURNS AND IS QUOTED IN RINGGIT

To take advantage of these opportunities, AHAM will be listing its TradePlus S&P New China Sector exchange-traded fund (ETF) on Jan 28. The ETF will track the S&P New China Sectors Ex A-Shares Index, which measures the performance of China and Hong Kong-based companies in the consumption and services-oriented industries. Offshore listings of all Chinese share classes can be included in the index, excluding A-shares.

The ETF will be the first to list on Bursa Malaysia in dual currencies (ringgit and US dollar), but it will not be the first to focus on China. The CIMB FTSE China 50 ETF was launched in 2010 to track the performance of the 50 largest and most liquid Chinese stocks listed and traded on the Hong Kong Stock Exchange. According to its fund fact sheet as at Dec 31, 2018, its largest holdings are financials (45.99%), telecommunications (18.89%) and energy (11.56%).

"The TradePlus S&P New China Sector ETF differentiates itself by participating in the beneficiaries of the Chinese government's initiatives for economic transition. This ETF will be shying away from the conventional heavy banking names, which typically make up the bulk of the general indices," says Chong Lee Choo, AHAM's director of the Innovation Lab and alternative investments.

Instead, the ETF will give exposure to some of the fastest-growing internet companies that investors in Malaysia may not have easy access to, she adds. "These sectors are expected to benefit from the spending patterns of Chinese consumers. For instance, we saw record-breaking figures on Single's Day, which saw Alibaba rake in US$30.8 billion in sales within 24 hours."

The new economy, as tracked by some indices, has already outperformed the broader Chinese market, which is heavy on financial and industrial stocks. For instance, the S&P New China Sectors Ex A-Shares Index's three-year total returns outperformed those of the FTSE China 50 index by 9.74 percentage points and the Shanghai Stock Exchange Composite Index by 47.09 percentage points, according to Bloomberg data as at Dec 31, 2018.

"We believe that these sectors [consumption and services-oriented industries] will be the key beneficiaries of the government's focus on transitioning away from an industrial-focused economy. Despite the economy's marginally slower growth, shares of China's new economy have beaten the broader market," says Chong.

She cites the MasterCard Caixin BBD New Economy Index (NEI) as evidence of the growing importance of the new economy. The index, launched in March 2016, defines the new economy as industries that are labour and technology-intensive but asset light, experience sustainable, have rapid growth and are in strategic areas encouraged by the government.

"The NEI, which measures labour, capital and technology inputs in 10 emerging industries relative to those in all other industries, hit a new high last year. The new economy industries accounted for 31.33% of China's overall economic input activities," says Chong.

According to a Caixin report last December, the top contributor was the new information and technology sector, followed by financial and legal services and advanced equipment manufacturing.

The TradePlus S&P New China Sector ETF's annual management fee and annual trustee fee are up to 1% and 0.04% of the net asset value respectively. The ETF will be listed at HK$10 per unit, with the ringgit and US dollar value dependent on the foreign exchange rate on the day of listing. Investors will be required to purchase a minimum of 100 units.

The ETF gives Malaysian investors access to Chinese stocks listed in Hong Kong, China and even the US. "It will be a cost-efficient alternative for investors to gain access to a portfolio of companies that will be beneficiaries of China's new economy policies by trading in a single ETF, as opposed to individual stocks on the global market," says Chong.

She adds that the company plans to keep the tracking error low through a lower fee structure than a typical unit trust fund.

Chong