"A" Opening to the Great Wall

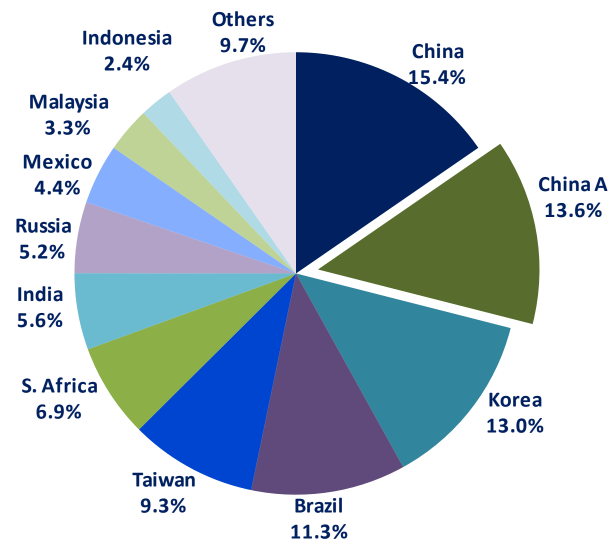
- Since the end of 2011, the Chinese authorities have accelerated the opening of the Chinese domestic capital market. They have raised the total QFII (Qualified Foreign Institutional Investors) quota to USD 80 billion from USD 30 billion, introduced a new RQFII scheme and lowered the QFII qualification requirements for various groups of investors.
- In an extreme hypothetical scenario, if the QFII scheme were to be abolished and all access barriers were removed, the China A-share market would comprise about 14% of the MSCI Emerging Markets (EM) Index. This would increase China's total EM market weight from 18% to close to 30%.
- As the A-share market continues its path to liberalization, China's importance in a global emerging markets portfolio is likely to rise. Investors who are not well prepared could be caught short in the process.
- To effectively capture the diverse and dynamic A-shares opportunity set, a broad-based portfolio, such as one based on the **MSCI China A Index,** remains the most effective option in the long run.

Recent Changes to the China QFII Scheme and Implications for Global Investors

- In April 2012, China increased the total QFII & Renminbi-QFII (RQFII) quotas from USD 30bn to USD 80bn and RMB 20bn to RMB 70bn, respectively
- On July 27, 2012, China Securities Regulatory Commission (CSRC) announced a substantial reduction in the QFII institutional requirements
- The increase in RQFII quota to RMB 270bn in November 2012 was followed by an announcement in March 2013 to expand RQFII qualification to include financial institutions incorporated in HK (previously only HK subsidiaries of PRC fund management and securities companies are eligible)

Types of QFIIs	China QFII Qualification Requirements	
	Existing	Revised
Banks	Top 100 Banks	10 years exp, Capital > USD 300m, AUM > USD 5bn
Insurance companies, asset management institutions, and other institutional investors (pension, trust, foundations)	5 years exp, AUM > USD 5bn	2 years exp, AUM > USD 0.5bn
Securities companies	30 years exp, AUM > USD 10bn	5 years exp, Net Assets > USD 500m, AUM > USD 5bn

Hypothetical Full Inclusion of China A-shares in the MSCI EM* Index



****Note:* Assumes the China QFII scheme is abolished and all accessibility restrictions are removed*

Current Accessibility Obstacles that Prevent Inclusion of China A-Shares in the MSCI Emerging Markets Index

Stringent capital mobility restrictions. Approved quota must be remitted within 6 months and principal capital can only be repatriated after a minimum period of 3 months to a year. These restrictions severely hamper the liquidity management in the investment process and limit investor flexibility in timing and getting into the market

Individual quota limit of USD 1 billion. Quota limit makes it impossible for large investors to align their portfolios with any significant increase in hypothetical market weights

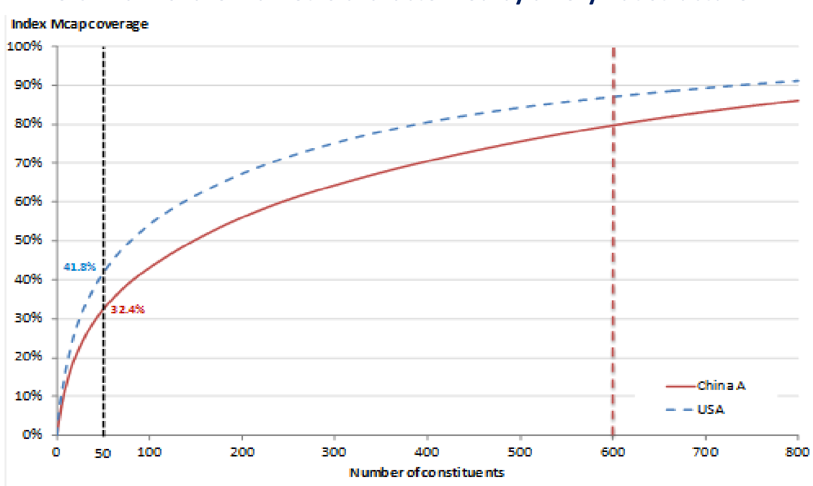
Key Considerations in Implementing China A-Share Exposure

Ideally, an A-share portfolio should possess two important characteristics to fully capture the diversified opportunity set. It should be 1) broad-based and 2) dynamic in nature

Why broad-based?

- While a narrow portfolio could serve as an efficient tool for achieving quick exposure to the underlying market, it suffers from critical limitations in the context of building a representative portfolio
- Example: a top 50 portfolio is significantly overweight in Financials and has no IT representation. Importantly, it only captures less than one-third of the free float market capitalization

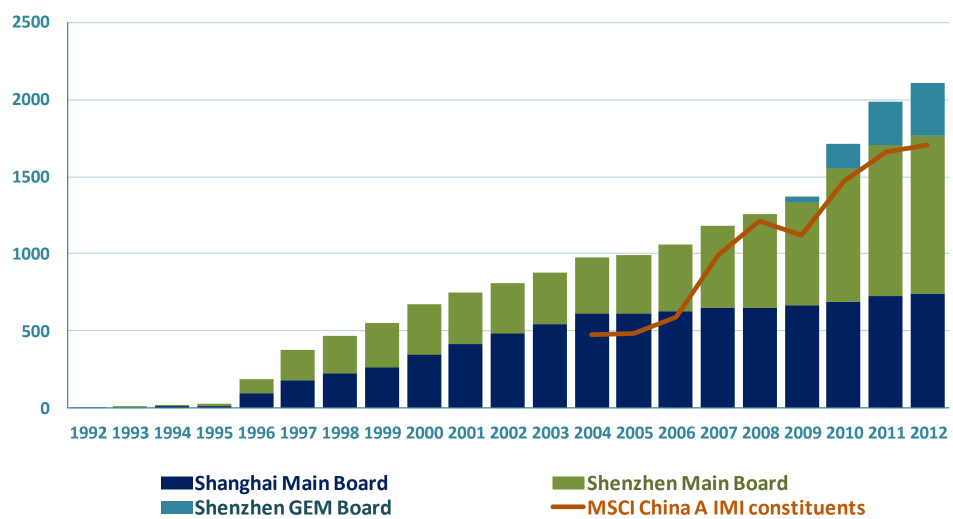
The China A-share market is characterized by a very flat structure



Why dynamic in nature?

- The fast-growing nature of the China A-share market strongly implies that a fixed number portfolio will eventually lose its effectiveness and incur unintended sector bets as the market expands
- Example: A top 300 stock portfolio that captured 86% of the free float-adjusted market capitalization in 2005, would have seen its representation shrink by almost one-third to 60% in 2012
- To capture the dynamic evolution of the A-share market, a target representation approach to portfolio construction, such as one based on MSCI China A Index, is a more effective approach over the long-term

The Number of Securities Listed in Domestic China



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