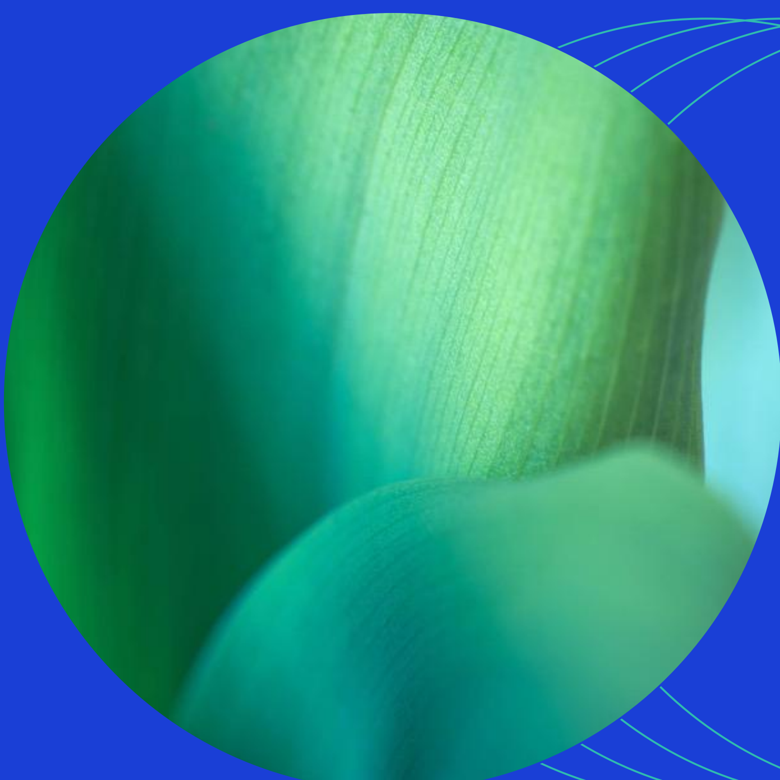
Research

MSCI

July 2026

Greater Global Exposure with Southbound ETF Connect

How expanded eligibility rules are enabling differentiated cross-border investment strategies



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Executive summary

Southbound ETF Connect is becoming a product-innovation channel, and bespoke index construction is emerging as a key differentiator.

Launched by Hong Kong Exchanges and Clearing (HKEX) and the mainland Chinese exchanges as part of the Stock Connect framework, ETF Connect allows eligible investors in each market to trade specified ETFs listed on the other market via their local exchange. The link connects only these two markets, but the eligible Hong Kong ETFs can track markets worldwide, giving mainland investors a route to global exposure.

For ETF issuers, asset managers and institutional investors involved in product development, index strategy and distribution, the evolution of the channel is creating new opportunities to develop differentiated cross-border products.

Since ETFs were added to Stock Connect in July 2022, the Southbound ETF Connect channel has developed quickly. Average daily turnover reached HKD 3.9 billion in 2025, up 61.7% year on year, then rose to HKD 6.7 billion through April 2026.[1]

As liquidity deepens, the eligible universe has also broadened, with 31 Hong Kong-listed ETFs Southbound-eligible as of May 2026, up from 23 six months earlier.[2] Taken together, rising turnover and a broader product set indicate that ETF Connect is transitioning into a substantive platform for cross-border ETF access and innovation.

The more important shift, however, is not just growth in trading activity. Recent rule changes that allow an ETF's benchmark index to include up to 40%, securities that are not eligible for trading via ETF Connect (the Connect system) have expanded the range of products possible under the scheme.[3] Issuers can now construct indexes that combine a Hong Kong Southbound core with international securities, creating scope for cross-border products that are more differentiated by theme, region, income profile or economic linkage. As the eligible universe expands, institutional investors may also benefit from broader investment choices, while mainland investors could gain access to a wider range of eligible cross-border ETFs within the existing framework.

MSCI's 65/35 framework is designed to make that opportunity scalable. Each index anchors 65% of exposure in Hong Kong Southbound securities and pairs it with a 35% sleeve from another market, while applying a consistent methodology for selection, weighting, capping and rebalancing. What varies across the suite is the exposure layered onto that Southbound core, from economic linkage and high dividend yield to robotics and AI, each defined using MSCI's proprietary data. Because every index shares a common methodology framework, the structure can be adapted to new exposures or paired markets while preserving methodological consistency, giving issuers a repeatable way to build differentiated Southbound products.

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[1] Hong Kong Exchanges and Clearing. "Stock Connect 2025 Review." *HKEX Insight*, March 9, 2026.
Hong Kong Exchanges and Clearing Limited. Inclusion of ETFs in Stock Connect. Product factsheet. May 5, 2026.

[2] Hong Kong Exchanges and Clearing Limited. Inclusion of ETFs in Stock Connect. Product factsheet. May 5, 2026.

[3] Hong Kong Exchanges and Clearing Limited, "ETFs in Stock Connect: New Issuer Criteria, New Opportunities," HKEX Insight, July 18, 2024.

ETF Connect comes of age as Southbound flows flourish

Southbound ETF Connect is evolving from an access channel into a product-design platform. Since ETFs were added to Stock Connect in July 2022, mainland investors have been able to trade eligible Hong Kong-listed ETFs through local brokers and clearing houses.[4] While the trading link connects only mainland China and Hong Kong, Hong Kong-listed ETFs can track overseas markets, giving Southbound investors a route to global exposure through a Hong Kong-listed wrapper.

The framework became more flexible in 2024, when revised eligibility rules allowed up to 40% of an ETF benchmark index to consist of securities outside the Connect system.[5] That change matters because it gives issuers more room to create a benchmark that combines a Hong Kong Southbound core with international exposure, turning index construction into a key lever for differentiated cross-border ETF design.

This paper focuses on the Southbound channel and examines how expanded eligibility, rising turnover and MSCI's 65/35 framework are creating new ways to build Southbound-eligible strategies across regions, themes and investment objectives.

How ETF Connect works

ETF Connect is part of the broader Stock Connect program. It allows eligible ETFs listed in mainland China and Hong Kong to be traded cross-border by investors in each market through local brokers and clearing houses.

Northbound trading: Hong Kong and international investors access mainland-listed ETFs.
Southbound trading: mainland investors access Hong Kong-listed ETFs.

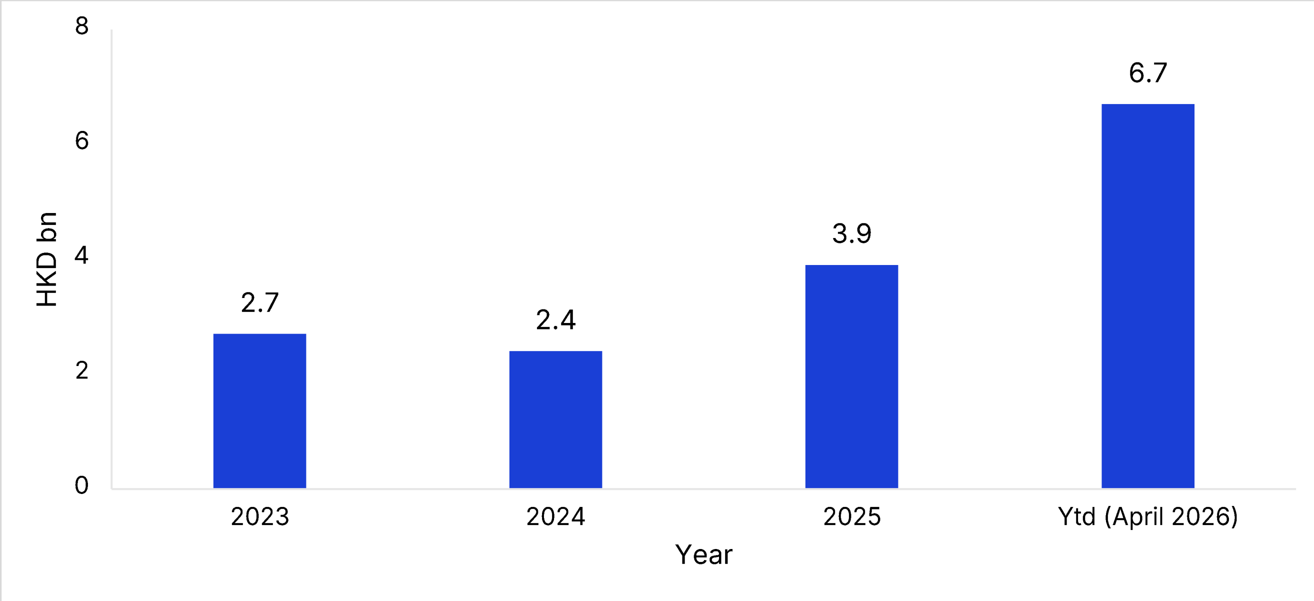
Eligibility is reviewed semi-annually and depends on factors such as assets, benchmark composition and track record.

Turnover of Southbound ETFs reached new highs in 2025

Southbound ETF average daily turnover (ADT) reached HKD 3.9 billion in 2025, up 61.7% year on year.[6] Through April 2026, average daily turnover had risen further to HKD 6.7 billion, according to HKEX, approximately 72% above the 2025 full-year average.[7] The chart below shows that liquidity continued to deepen into early 2026 following a strong 2025.

[4] Securities and Futures Commission of Hong Kong, "Launch of ETF Connect," July 22, 2022.
[5] Hong Kong Exchanges and Clearing Limited, "ETFs in Stock Connect: New Issuer Criteria, New Opportunities," HKEX Insight, July 18, 2024.
[6] Hong Kong Exchanges and Clearing. "Stock Connect 2025 Review." HKEX Insight, March 9, 2026.
[7] Hong Kong Exchanges and Clearing Limited. Inclusion of ETFs in Stock Connect. Product factsheet. May 5, 2026.

Average daily turnover of Southbound ETF has increased since 2023



Average daily turnover of Southbound ETF reported in HKD billions. Source: HKEX

Rule changes broadened the opportunity set

These revised eligibility rules have also expanded the types of products that can qualify for Southbound trading. By permitting up to 40% of a benchmark index to consist of securities outside the Connect system, the framework has created scope for ETFs that combine Hong Kong-listed securities with international exposure.

As of May 2026, 31 Hong Kong-listed ETFs were Southbound-eligible, up from 23 in November 2025.[8] The most notable development was the introduction of products offering exposure beyond Asia-Pacific (APAC). The late-2025 eligibility review admitted the first Southbound ETFs tracking overseas equity markets, including U.S. equities. Two such ETFs were added during 2025 and three more by May 2026.

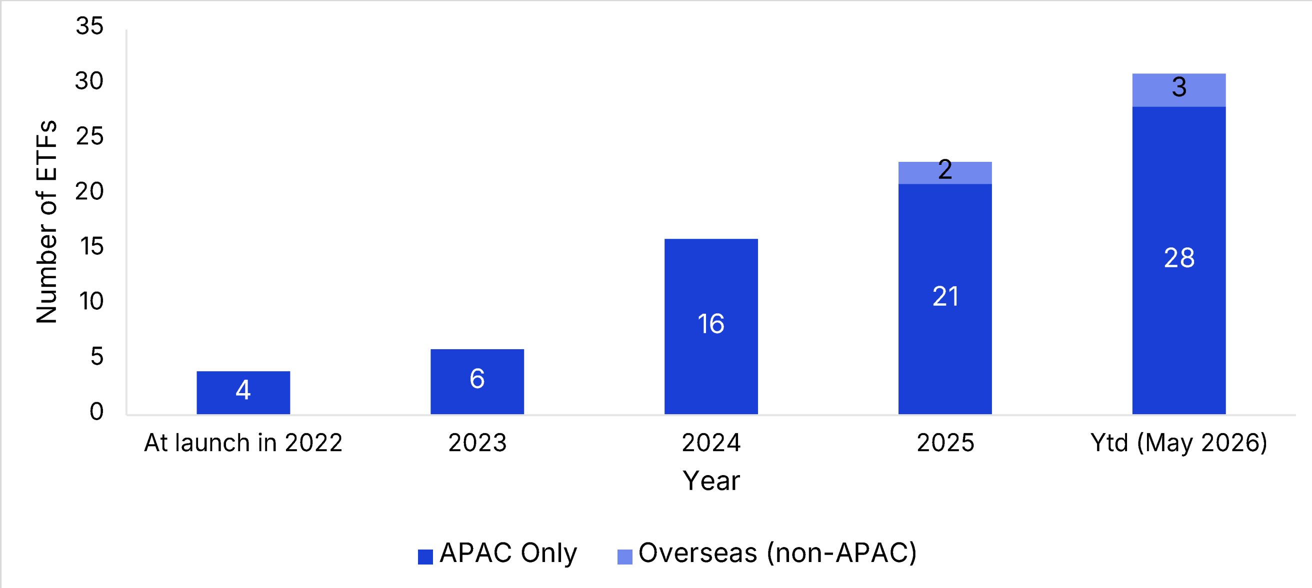
By allowing a meaningful allocation to securities outside the Connect system, the revised rules have expanded the opportunity set for mainland investors while creating new avenues for ETF issuers to develop differentiated cross-border products.

To qualify for Southbound trading, an ETF generally must maintain average daily AUM of at least HKD 550 million over a six-month period, a benchmark with sufficient weighting in Hong Kong-listed and Stock Connect-eligible securities and a track record of at least one year.[9] Eligibility is reviewed semi-annually, and ETFs that fall below the required thresholds may become sell-only. Issuers therefore need to manage these requirements throughout a product's lifecycle.

[8] Hong Kong Exchanges and Clearing Limited. Inclusion of ETFs in Stock Connect. Product factsheet. May 5, 2026.

[9] Hong Kong Exchanges and Clearing Limited, Inclusion of ETFs in Stock Connect: Investor Information, July 2022.

Overseas (non-APAC) exposure joins Southbound ETF Connect amid growth in eligible ETFs



Number of Southbound-eligible Hong Kong listed ETFs over time, highlighting the entry of exposures outside APAC in recent two years. Source: HKEX, Stock Connect ETF Information Portal (CESC).

Expanded eligibility has driven demand for bespoke index design

These rule changes have created scope for indexes that combine a Hong Kong Southbound core with international securities within a single index. As product differentiation becomes increasingly important, bespoke index design is becoming a key competitive lever for many ETF issuers.

MSCI has applied a repeatable 65/35 framework across a suite of recently launched indexes. Each allocates 65% to the MSCI Hong Kong Listed Southbound Index or its MSCI Investable Market Index (IMI) variant and 35% to a sleeve from a second market such as Association of Southeast Asian Nations (ASEAN), U.S., Australia and Japan.

The framework underpins the MSCI Asia Pacific Health Care 65/35 Index, the MSCI China USA Robotics & AI 65/35 Index, the MSCI China USA Biotech 65/35 Index, the MSCI China ASEAN Economic Linkage Select Index and, in terms of region allocation, the MSCI AC Asia Pacific Select High Dividend Index.

What differentiates the indexes is not the framework itself, but the exposure layered on top with MSCI's proprietary data.

- The MSCI China ASEAN Economic Linkage Select Index ranks securities using MSCI Economic Exposure (EE) data, which estimates a company's revenue exposure to selected countries, to identify economic linkage between Hong Kong-listed and ASEAN names.[10]

[10] https://www-cdn.msci.com/documents/10199/e54d9d3c-2334-c897-325d-ed760d3b7573

- The MSCI China USA Robotics & AI 65/35 Index selects and tilts the weights of constituents by applying a Robotics & AI Relevance Score.
- The health care and biotechnology indexes use the Global Industry Classification Standard (GICS®) to identify the relevant sector or industry.[11]
- The MSCI AC Asia Pacific Select High Dividend Index applies dividend yield, payout ratio and liquidity screens together with a Dividend Yield Score to identify and weight constituents.

Although the investment themes differ, each index is governed by the same methodology framework for capping, rebalancing and corporate-event treatment. This allows the framework to be adapted to new exposures and/or paired markets while maintaining methodological consistency, providing issuers with a scalable approach to developing differentiated Southbound ETF products.

A shared 65/35 Southbound index framework supports five distinct investment objectives

Index and inception date	Southbound component (65%) Parent Index	Other component (35%) Parent Index	Methodology summary	Security cap(s)
MSCI AC Asia Pacific Select High Dividend (March 2025)	MSCI Hong Kong Listed Southbound Index	MSCI Australia Index combined with MSCI Japan Index	Ex REITs; top 100 by 3-yr avg dividend yield; liquidity, momentum & sustainability screens; Dividend Yield Score weighting	15% per security; 25% per GICS sector
MSCI China ASEAN Economic Linkage Select (September 2025)	MSCI Hong Kong Listed Southbound Index	MSCI AC ASEAN Index	MSCI Economic Exposure data: HK leg ranked by ASEAN revenue; ASEAN leg ranked by mainland China/HK revenue	10% per security; additional cap on Philippine securities
MSCI Asia Pacific Health Care 65/35 (March 2026)	MSCI Hong Kong Listed Southbound Index	MSCI AC Asia Pacific ex China ex HK ex Taiwan Index	GICS health care sector; weighted by parent-index weight	15% per security
MSCI China USA Biotech 65/35 (March 2026)	MSCI Hong Kong Listed Southbound IMI Index	MSCI USA IMI Index	GICS biotechnology; top 20 by weight in U.S. leg; all HK Southbound biotech constituents	15% per security
MSCI China USA Robotics & AI 65/35 (March 2026)	MSCI Hong Kong Listed Southbound IMI Index	MSCI USA Index	Robotics & AI Relevance Score (MSCI Thematic Relevance Score) tilted weighting	15% per security

As of May 2026.

[11] GICS® is the global industry classification standard jointly developed by MSCI and S&P Dow Jones Indices,

The suite applies the same investment lens across both sleeves of the 65/35 framework. However, MSCI's framework is flexible enough to support more asymmetric designs. The Hong Kong Southbound allocation can serve as a stable foundation while the international sleeve offers a more tailored exposure, provided the two components remain coherent from a product design perspective.

The size of international allocation is also an important design consideration. Within the current rules, a larger overseas sleeve can broaden mainland investors' access to international markets that may be less accessible through domestic investment channels. For issuers, calibrating this allocation involves balancing differentiated international exposure with Southbound eligibility requirements and product distribution objectives.

Unity in diversity: One Southbound framework, varied exposures

The indexes introduced above share the 65/35 Southbound-anchored framework but differ in the exposures they are designed to measure and the data used to define them. The case studies that follow illustrate how the framework can be adapted across these different types of exposure. For each, it sets out the construction methodology, including the parent indexes, selection criteria, weighting and capping rules, along with the rationale for its investment strategy. It also provides key index characteristics and comparisons across the suite. The aim is to show how a common framework accommodates distinct investment objectives, from economic-linkage and dividend strategies to healthcare, robotics and AI, and biotechnology exposures.[12]

Case 1: A regional dividend strategy

The MSCI AC Asia Pacific Select High Dividend Index is designed to illustrate how the framework can be adapted to an income-oriented investment objective.

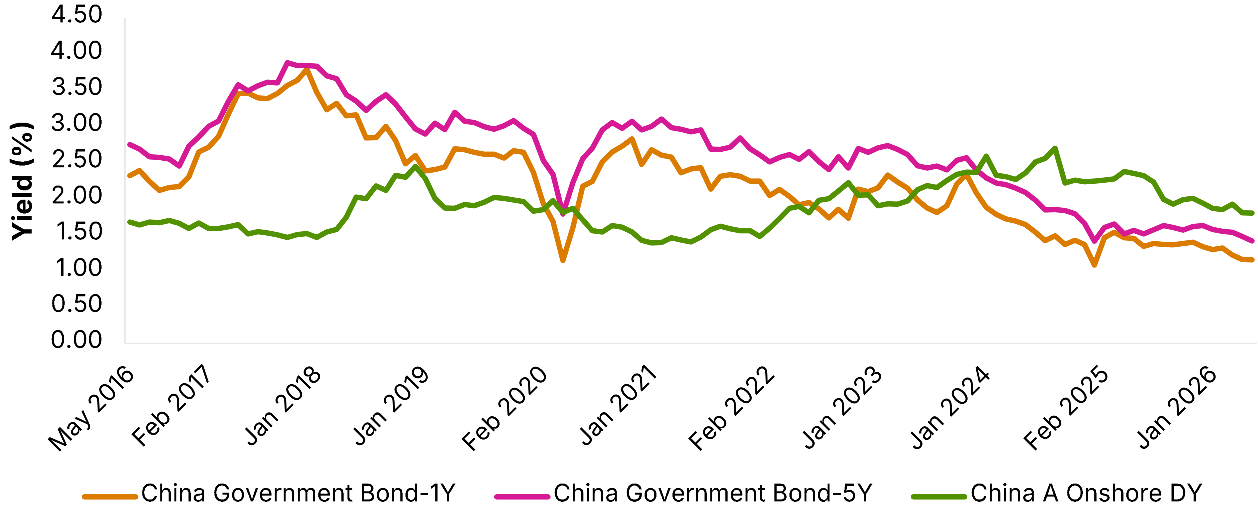
Demand for high-dividend-yielding equities among Southbound investors has been supported by three structural developments.

First, mainland onshore government bond yields have fallen sharply in recent years. By late 2025, one- and five-year China government bond yields had declined to approximately 1.1%–1.5%, well below their historical averages. They now sit below the dividend yield of the broader China A-share market, as of May 2026.

As the chart below illustrates, dividend yields for the MSCI China A Onshore Index have risen steadily since 2022 to approximately 2.3%–2.5%, as of May 2026, exceeding short- and medium-term government bond yields. In this environment, high-dividend-yield strategies have been popular, offering higher yields relative to government bonds.

[12] Past performance — whether actual, backtested or simulated — is no indication or guarantee of future performance. None of the information or analysis herein is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision or asset allocation and should not be relied on as such.

China A-share dividend yields have exceeded government bond yields in the last two years



Source: China Government Bond Yield sourced from China Central Depository & Clearing Co., Ltd. (CCDC), ChinaBond Official Website (yield.chinabond.com.cn); MSCI China A Onshore Index Dividend Yield and MSCI China A Onshore IMI Index Dividend Yield by MSCI Research. Dividend Yields are on a trailing basis. Data period: Monthly data from May 2016 to May 2026.

A second structural factor has been the persistent discount of Hong Kong listed companies relative to their mainland-listed counterparts. Since 2004, the median A-share to H-share (A/H) price ratio has fluctuated around 1.5x, implying a persistent H-share discount of roughly 33%–40%, a structural feature of China's segmented equity markets. [13] For yield-focused investors, the same dividend stream has therefore been available at a lower valuation through Hong Kong listed shares.

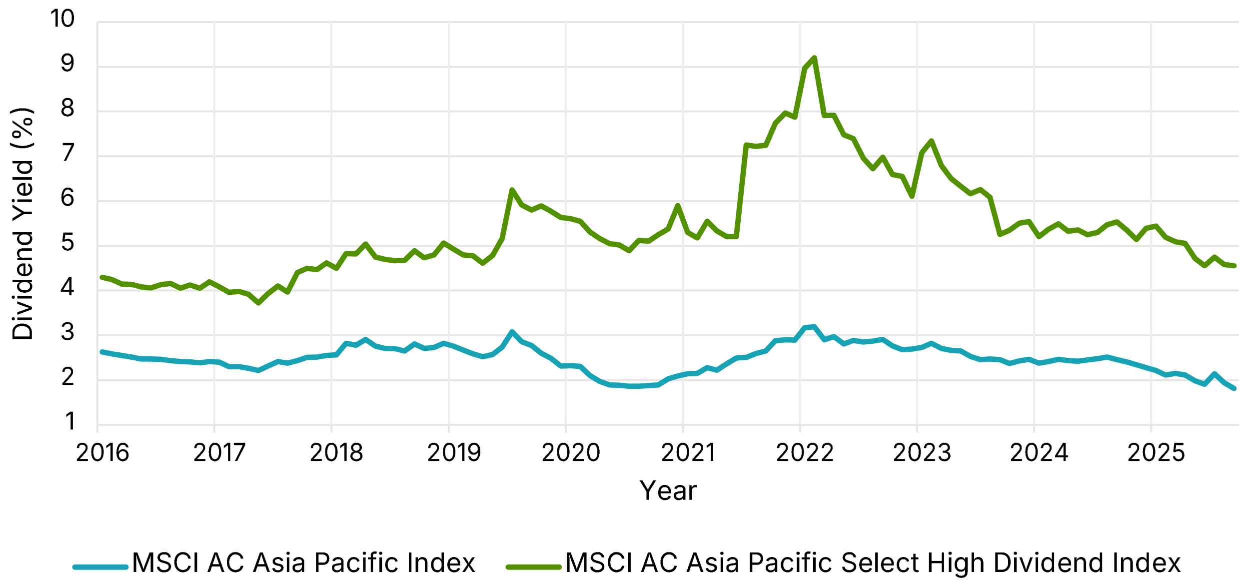
Third, the framework also broadens the opportunity set beyond the Hong Kong market. The breadth of high-yielding Southbound-eligible names is significant but concentrated in a narrow set of sectors. Combining the Hong Kong-listed universe with Australia and Japan expands the opportunity set for these exposures. Large Australian banks have historically contributed relatively high dividend yields, while Japanese companies have increased payout ratios materially over the past five years as corporate governance reforms have progressed.[14] Together, they have helped to expand the breadth of dividend-paying stocks available in Asia Pacific.

[13] Carpenter, J.N., Whitelaw, R.F., & Zou, D. (2020). "The A-H Premium and Implications for Global Investing in Chinese Stocks." NYU Stern / Wharton Working Paper.

[14]

Nikkei Asia, "Japan Finally Ignites Foreign Investor Interest After Decade-Long Governance Push," June 8, 2025.
Japan Exchange Group, Inclusion of ETFs in Stock Connect: Investor Information, July 2022.

Historical dividend yield relative to the MSCI AC Asia Pacific Index



Data period: Aug. 31, 2016, to May 29, 2026. Dividend yield of the MSCI AC Asia Pacific Select High Dividend Index versus the MSCI AC Asia Pacific Index over time. Index dividend yield is calculated as weighted average index dividend yield of constituents.

The MSCI AC Asia Pacific Select High Dividend Index has delivered higher dividend yield and stronger risk-adjusted returns

Key metrics	MSCI AC Asia Pacific Index	MSCI AC Asia Pacific Select High Dividend Index
Total return*	10.3%	11.7%
Total risk	15.6%	13.9%
Sharpe ratio	0.50	0.66
Number of constituents*	1,368	100
Turnover**	4.3%	58.8%
Price to book*	1.6	1.0
Price to earnings*	15.9	8.5
Dividend yield*	2.5%	5.4%

Data period: Aug. 31, 2016, to May 29, 2026. * Monthly averages, except total return (gross returns annualized in USD). ** Annualized one-way index turnover over index reviews.

Case 2: Capturing cross-border revenue exposure

The MSCI China ASEAN Economic Linkage Select Index demonstrates how the framework can be adapted to capture cross-border economic relationships.

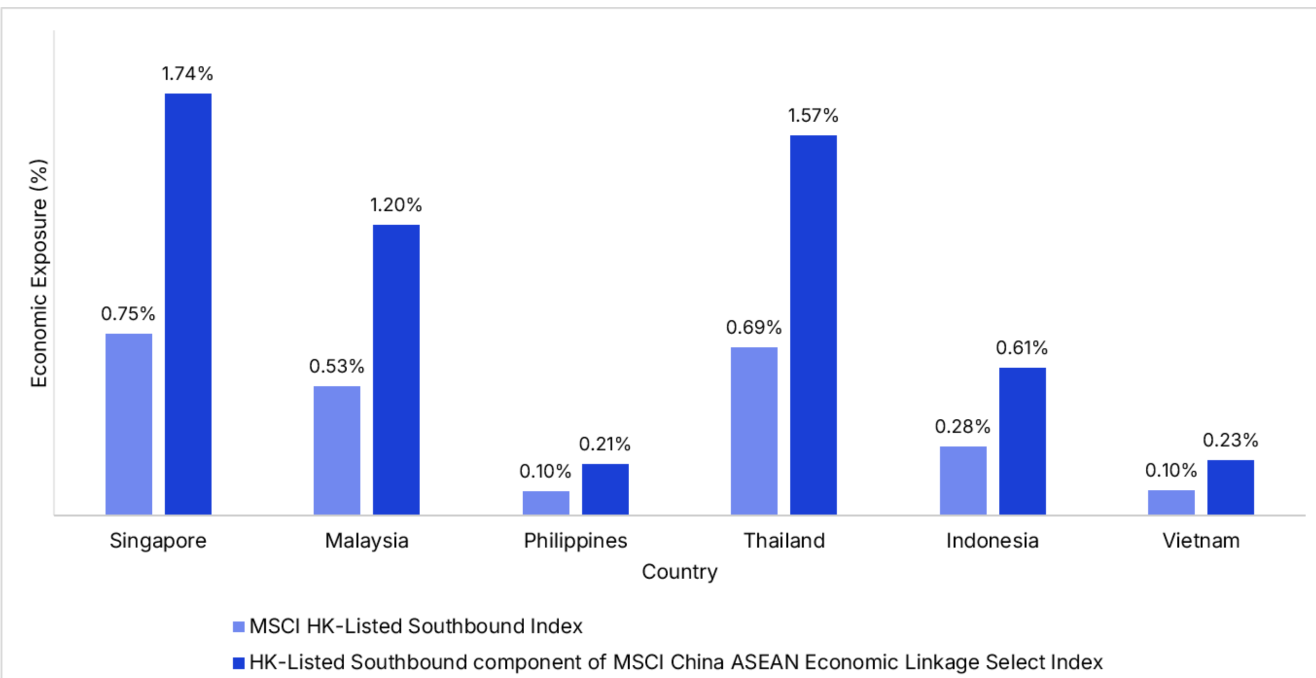
Trade and investment ties between China and ASEAN have strengthened in recent years, supported by deeper regional integration and initiatives such as the Belt and Road Initiative.[15] Rather than selecting companies based on geography alone, the index seeks to identify businesses whose revenues reflect these economic linkages by pairing Hong Kong-listed Southbound names with high revenue exposure to ASEAN and vice versa.

The Hong Kong component is constructed by selecting the top 50% of Southbound securities ranked by MSCI Economic Exposure, a proprietary dataset, which measures the share of company revenues derived from selected countries or regions.

As of May 2026, the Hong Kong component of the MSCI China ASEAN Economic Linkage Select Index had a weighted average ASEAN revenue exposure of 5.54%, compared with 2.50% for the MSCI Hong Kong Listed Southbound Index.

The differential is consistent across all six ASEAN countries, as illustrated below.

China ASEAN Economic Linkage Select Index had higher ASEAN economic exposure in every ASEAN country



Weighted average economic exposure to each ASEAN country, calculated by multiplying each HKSB constituent's MSCI Economic Exposure score by its index weight — rescaled to sum to 100% within the HKSB component, which accounts for 65% of the index — and then summing the results across all HKSB constituents. EE data as of April 2026; index weights as of June 1, 2026.

The ASEAN component recorded an average mainland China revenue exposure of 11.05%, compared with 6.13% for the MSCI AC ASEAN Index. Hong Kong exposure, by contrast, was broadly stable at

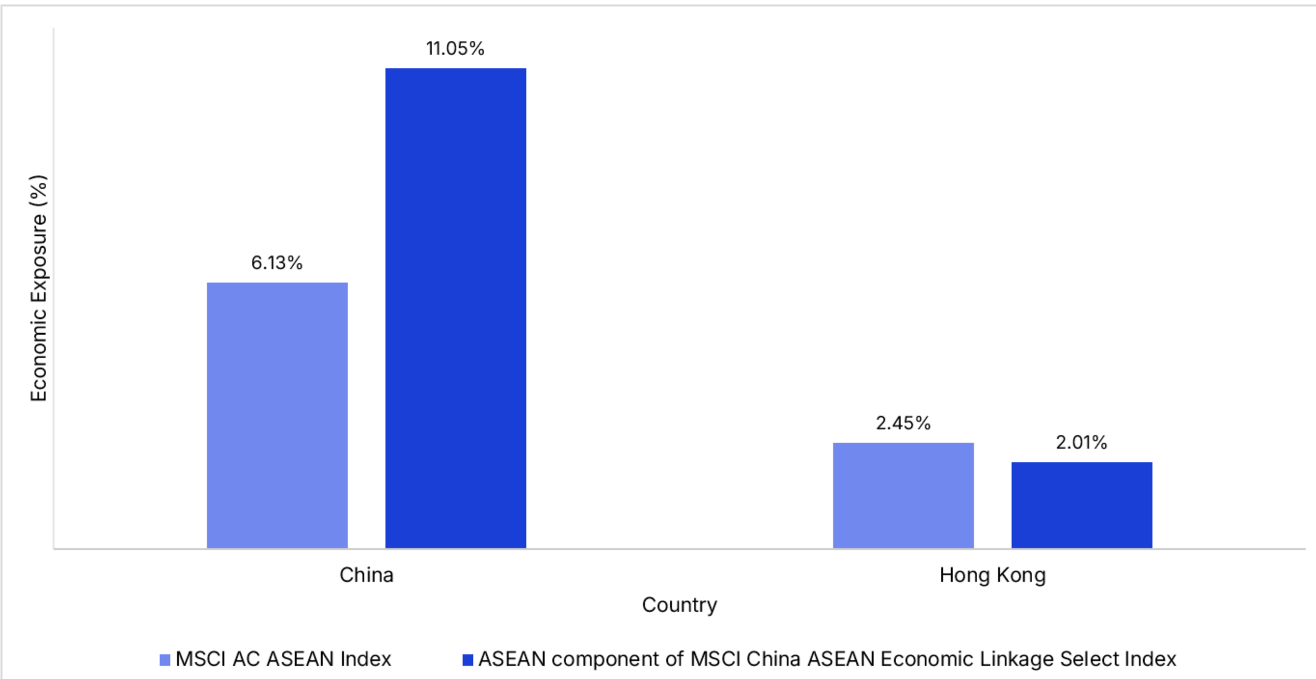
[15] ASEAN Secretariat, "ASEAN Has Been China's Largest Trading Partner Since 2019."
Global Times, "China's Goods Trade with ASEAN Countries Marks a New Record in the First 8 Months of 2025," September 2025.

2.01% in the index versus 2.45% in the parent, suggesting that the selection screen captured mainland China revenue linkage specifically rather than broad Greater China exposure.

Combined mainland China and Hong Kong revenue exposure increased from 8.58% in the parent index to 13.06% in the constructed index, demonstrating that the selection screen concentrates the portfolio in companies with stronger cross-economic ties.

This case shows how the framework can capture economic relationships using proprietary revenue data rather than traditional geographic classifications.

China ASEAN Economic Linkage Select Index carried nearly twice the China economic exposure of the AC ASEAN Index



Weighted average economic exposure to mainland China and Hong Kong, calculated by multiplying each AC ASEAN constituent's MSCI Economic Exposure score by its index weight — rescaled to sum to 100% within the ASEAN component, which accounts for 35% of the index — and then summing the results across all AC ASEAN constituents. EE data as of April 2026; index weights as of June 1, 2026.

Case 3: Biotechnology innovation across US and China

The MSCI China USA Biotech 65/35 Index applies the framework to a sector undergoing structural change. This case study also illustrates the approach used for the MSCI Asia Pacific Health Care 65/35 Index, which follows a similar construction methodology.

Between 2026 and 2035, patents protecting many leading biologic therapies and new molecular entities are expected to expire, creating what is commonly described as a patent cliff. The resulting increase in competition from generics and biosimilars is expected to act as a catalyst for renewed investment in research and development by companies to revitalize their product pipelines.

Against this backdrop, investors may seek exposure to companies advancing the research and development of drugs and therapeutics to address some of the world's most pressing medical challenges. The MSCI China USA Biotech 65/35 Index aims to represent this opportunity set across the combined Hong Kong Southbound and U.S. biotechnology universe.

Several Chinese and US biotech securities are among the top constituents of the index

Name	Country	Weight in index (%)
INNOVENT BIOLOGICS	China	15.13
BEONE MEDICINES (HK)	China	14.21
AKESO (CN)	China	12.35
ABBVIE	USA	11.39
3SBIO	China	5.47
AMGEN	USA	5.37
GILEAD SCIENCES	USA	4.94
SICHUAN KELUN BIOTECH H	China	3.66
VERTEX PHARMACEUTICALS	USA	3.36
REMEGEN CO H	China	2.52

Data as of May 29, 2026. Top 10 constituents of the MSCI China USA Biotech 65/35 Index.

The MSCI China USA Biotech 65/35 Index has delivered higher risk-adjusted returns than the composite parent

Key metrics	65% HKSB IMI + 35% USA IMI[16]	MSCI China USA Biotech 65/35 Index
Total return*	5.4%	7.5%
Total risk	17.8%	29.1%
Sharpe ratio	0.11	0.14
Historical beta	1.00	0.94
Number of constituents*	2,800	33
Turnover**	9.8%	42.4

Data period: Feb. 26, 2021, to May 29, 2026. * Monthly averages, except total return (gross returns annualized in USD). ** Annualized one-way index turnover over index reviews.

[16] Represents a simulated index to provide a comparable benchmark for the MSCI China USA Biotech 65/35 Index

Case 4: Robotics and AI across the value chain

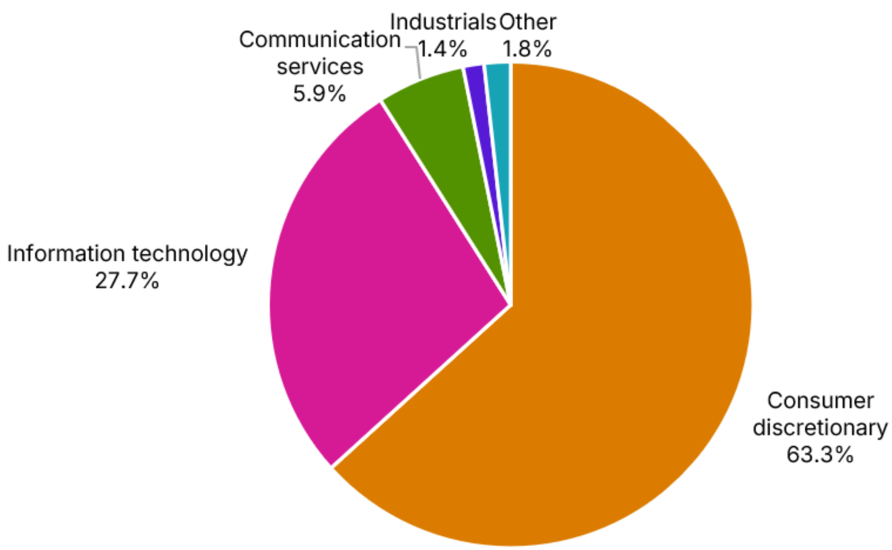
The MSCI China USA Robotics & AI 65/35 Index illustrates how the framework can capture a cross-sector thematic opportunity.

Corporate investment in robotics and artificial intelligence has picked up in recent years. Capital expenditure across the AI value chain increased 35% year over year to more than USD 700 billion in 2025, while R&D spending by AI-related companies approached USD 600 billion, accounting for more than 40% of global R&D expenditure.[17]

Exposure to robotics and AI in the MSCI USA Index extends well beyond the information technology sector, with notable weights in communication services, consumer discretionary and healthcare. A selection mechanism based solely on GICS sector classification would miss a significant share of that exposure.

The same pattern is evident within the Hong Kong Southbound universe, where relevant companies are distributed across consumer discretionary, information technology, communication services and industrials.

Robotics and AI exposure in the Hong Kong Southbound universe spans multiple sectors

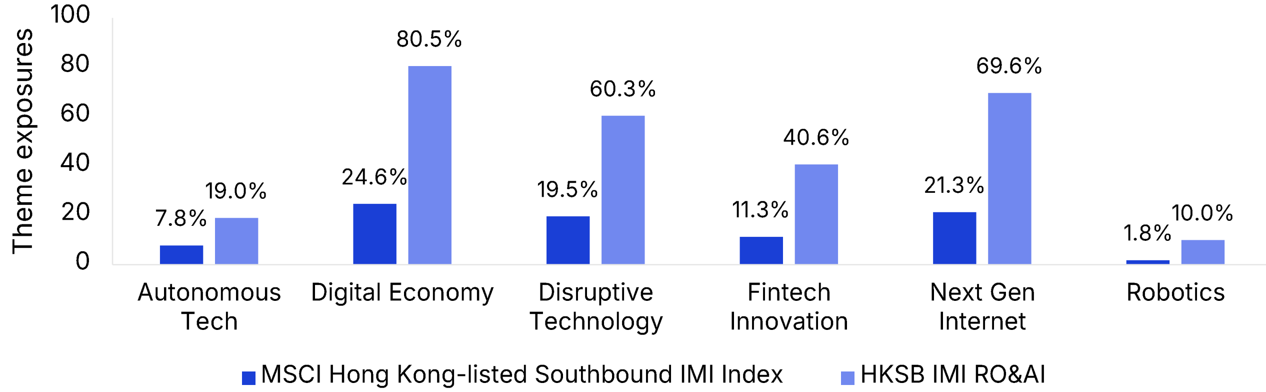


Data as of June 1, 2026. The weights allocation by sector of HKSB IMI RO&AI Component used to construct MSCI China USA Robotics & AI 65/35 Index before capping applied.

The MSCI China USA Robotics & AI 65/35 Index seeks to address this limitation by using MSCI's proprietary dataset of Robotics & AI Relevance Score to construct both legs of the 65/35 framework, tilting weight toward companies with the greatest involvement in the theme.

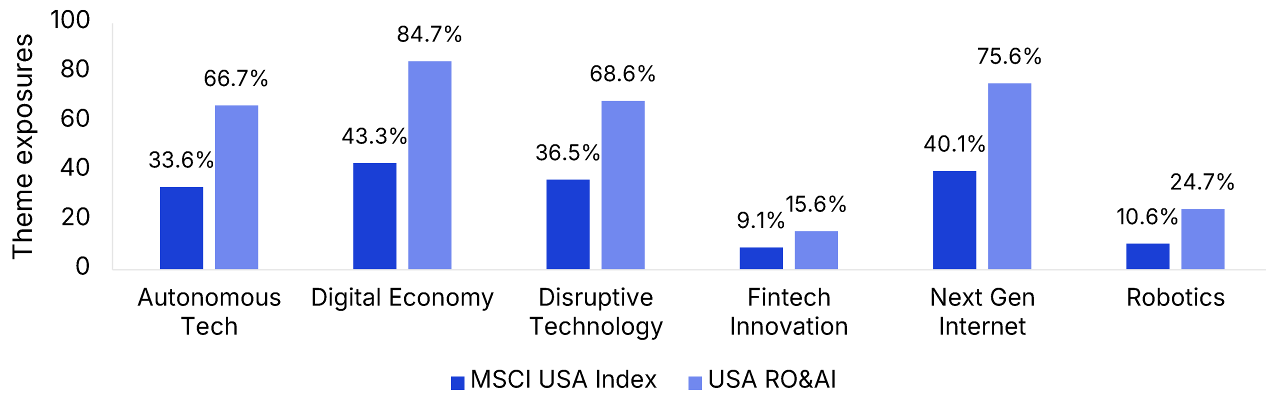
As the charts below show, this approach has increased exposure across autonomous technology, the digital economy, disruptive technology and next-gen internet themes relevant to the parent indexes.

Applying the Robotics & AI Score to the Hong Kong Southbound sleeve increased exposure across multiple tech- and automation-related themes



Data as of May 29, 2026. Figure shows the weighted average thematic exposure of the constituents of the indexes.

Applying the Robotics & AI Score to the US sleeve raises exposure to multiple tech and automation themes



Data as of May 29, 2026. Figure shows the weighted average thematic exposure of the constituents of the indexes.

Conclusion

Southbound ETF Connect has moved beyond its early development phase to become an established channel for cross-border investment. Growth in trading activity, the expansion of the eligible ETF universe and the introduction of products offering exposure beyond Asia-Pacific all point to a market that continues to broaden in both scale and scope.

As the market has evolved, the opportunity has shifted from enabling access to creating differentiated products. Revised ETF Connect rules have expanded the range of exposures that can be incorporated within a Southbound-eligible index, increasing the importance of index design as a source of product differentiation.

These developments have implications beyond ETF issuers. They are also relevant for institutional investors that support early-stage ETF liquidity and for mainland investors as the universe of eligible cross-border products continues to expand. The examples presented in this paper show how proprietary datasets and bespoke index methodologies can be combined within a repeatable 65/35 Southbound-anchored framework to support a range of investment objectives while maintaining a consistent methodology.

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