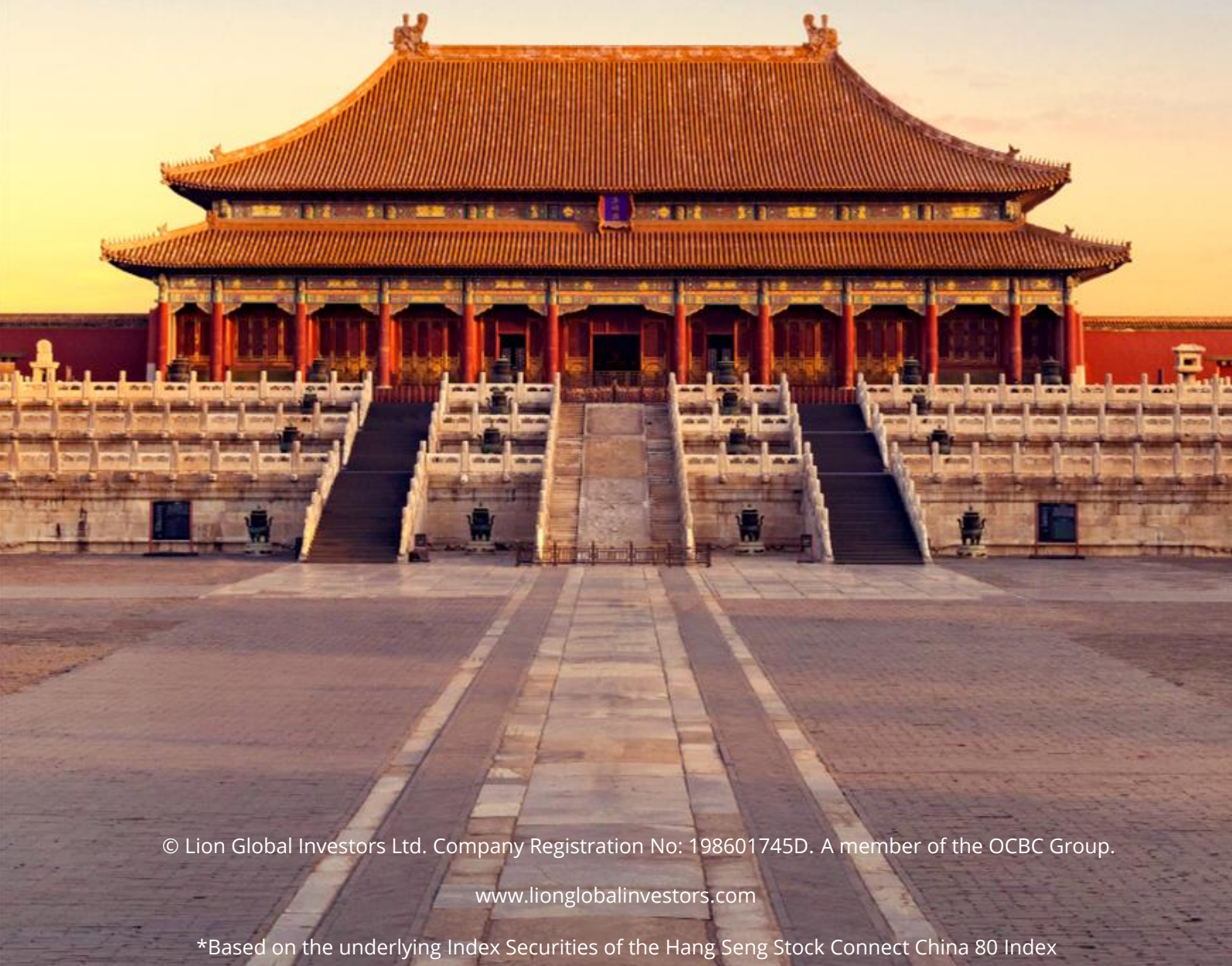


LION-OCBC SECURITIES  
**CHINA LEADERS ETF**

Seize the opportunity with 80\* China leaders.

Quarterly Newsletter

Q3 2022



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[www.lionglobalinvestors.com](http://www.lionglobalinvestors.com)

\*Based on the underlying Index Securities of the Hang Seng Stock Connect China 80 Index

## INTRODUCTION

- The Lion-OCBC Securities China Leaders ETF was listed in the Singapore stock market on 2 August 2021.
- This ETF is a well-diversified portfolio containing industry leaders across multiple sectors.
- It is passively managed to fully replicate the Hang Seng Stock Connect China 80 Index.

## KEY FACTS

- Dual trading currencies: SGD and RMB
- Total AUM: SGD 77.1 million as of 30 September 2022
- Management fee: 0.45% p.a.
- Bloomberg ticker: YYY SP (S\$ counter), YYR SP (RMB counter)

## KEY FEATURES



80 largest Chinese companies listed on HKEX, SZSE and SSE<sup>1</sup>



Capped at 8% and 40% weightage for individual stocks and sectors respectively during rebalancing<sup>2</sup>

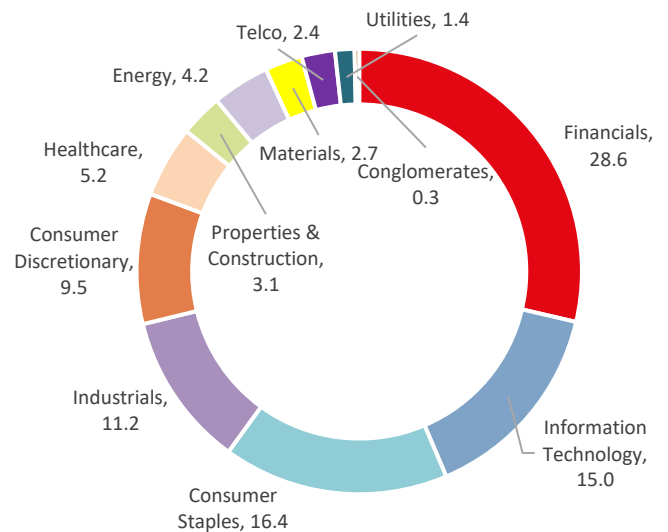


Rebalanced quarterly (every March, June, September and December)

## Lion-OCBC Securities China Leaders ETF Performance<sup>3</sup>



## Composition



Source: Lion Global Investors, 30 September 2022

\* Returns are based on NAV-NAV basis in CNH and assuming all dividends are reinvested net of all charges payable upon reinvestment. Performance is calculated in the base currency of the Fund. The Lion-OCBC Securities China Leaders ETF was listed on 2 August 2021. Opinions and estimates constitute our judgment and along with other portfolio data, are subject to change without notice. Past performance, as well as any prediction, projection, or forecast are not necessarily indicative of future or likely performance

<sup>1</sup> Based on the underlying Index Securities of the Hang Seng Stock Connect China 80 Index.

<sup>2</sup> Weightage of individual stocks within the index will be reviewed semi-annually and rebalanced quarterly by the index provider (Hang Seng Indexes Co Ltd). The weights of each Index Security and industry might fluctuate above 8% and 40% respectively due to market movements in between the rebalancing period

<sup>3</sup> Source: Bloomberg, Lion Global Investors, Hang Seng Indexes Company, 30 September 2022



## WITH THE US FED IMPLEMENTING 5 RATE HIKES TO TACKLE INFLATION IN 2022 YEAR TO DATE, WHAT IS CHINA DOING IN CONTRAST?

In Q3 2022, we saw the Chinese government strengthening economic stimulus to support growth. On 15 August 2022, the People's Bank of China (PBOC) lowered<sup>4</sup> the rate of one-year medium-term lending facility (MLF) loans to certain financial institutions by 10 basis points (bps) from 2.85% to 2.75%. Additionally, PBOC also injected CNY 2 billion through seven-day reverse repos and cut the seven-day reverse repo rate by 10 bps from 2.1% to 2.0%. Both rates were last reduced in January 2022.

On 22 August 2022, PBOC intensified stimulus<sup>5</sup> through cutting the 1-year loan prime rate (LPR) by 5 bps from 3.70% to 3.65%. The 5-year LPR was also cut by 15 bps from 4.45% to 4.30%. This is the second reduction in 5-year LPR, following the previous in May 2022. On 24 Aug 2022, China further introduced CNY 1 trillion of stimulus<sup>6</sup> to reinforce growth and manage the impact from repeated Covid lockdowns. In the meeting chaired by Premier Li Keqiang, China's cabinet unveiled a 19-point policy package, including an additional CNY 300 billion for state policy banks to invest in infrastructure projects beyond the initial CNY 300 billion announced in June 2022. Local governments will also be allocated CNY 500 billion of special bonds from previously unused quota.

Attributing to the policy and funding supports<sup>7</sup>, China's infrastructure investment growth showed acceleration to 8.3% year-on-year (yoy) in the first eight months of 2022, compared to 7.4% yoy in the first seven months. Besides policy loosening, China also further eased Covid-19 restrictions in Q3 2022. For instance, Hong Kong removed mandatory hotel quarantine requirements<sup>8</sup> for overseas arrivals effective 26 September 2022.

All these actions came while the US Federal Reserve approved a 75-bps rate hike<sup>9</sup> on 21 September 2022 to tackle inflation, being the 3<sup>rd</sup> consecutive 75-bps rate hike and 5<sup>th</sup> rate hike in 2022. The US Federal Reserve is expected to implement rate hikes until interest rates reach 4% in 2022. In contrast, China is doing the contrarian opposite by loosening policies to drive growth as described in our previous newsletters.

We believe China's easing of policies and Covid-19 restrictions will continue the path for driving growth in 2022 while other countries such as the US focus on tightening policies to manage inflation. By providing exposure to 80 industry leaders across 12 sectors, the Lion-OCBC Securities China Leaders ETF is well-positioned to ride on this new wave of policy loosening.

<sup>4</sup> Source: Reuters, August 2022

<sup>5</sup> Source: CNBC, August 2022

<sup>6</sup> Source: The Business Times, August 2022

<sup>7</sup> Source: OCBC Treasury Research, September 2022

<sup>8</sup> Source: OCBC Treasury Research, September 2022

<sup>9</sup> Source: CNBC, September 2022



*We believe China's easing of policies and Covid-19 restrictions will continue the path for driving growth in 2022 while other countries such as the US focus on tightening policies to manage inflation*

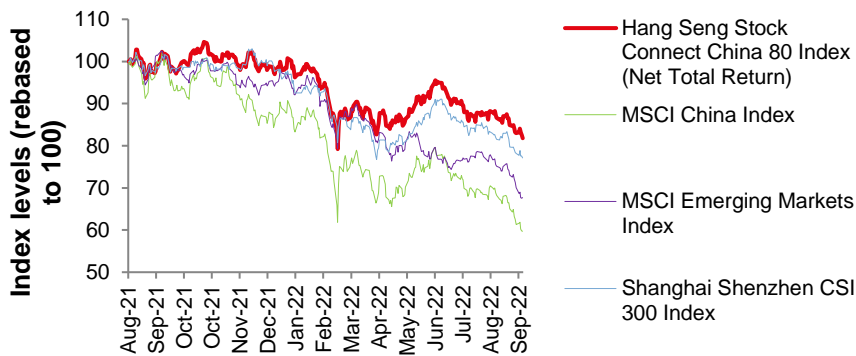
## HOW DOES THE BENCHMARK INDEX AND ETF COMPARE WITH OTHER CHINA-FOCUSED INDICES AND ETFs SINCE INCEPTION?

Despite the overall Chinese market volatility in Q2 2022, the Hang Seng Stock Connect China 80 Index (the Benchmark Index) had stable performance relative to other China-focused indices. Between 2 August 2021 (ETF's listing date) and 30 September 2022, the Index cumulatively outperformed<sup>10</sup> other China-focused indices (Figure 1) such as the MSCI China Index, MSCI Emerging Markets Index and the Shanghai Shenzhen CSI 300 Index as of 30 September 2022.

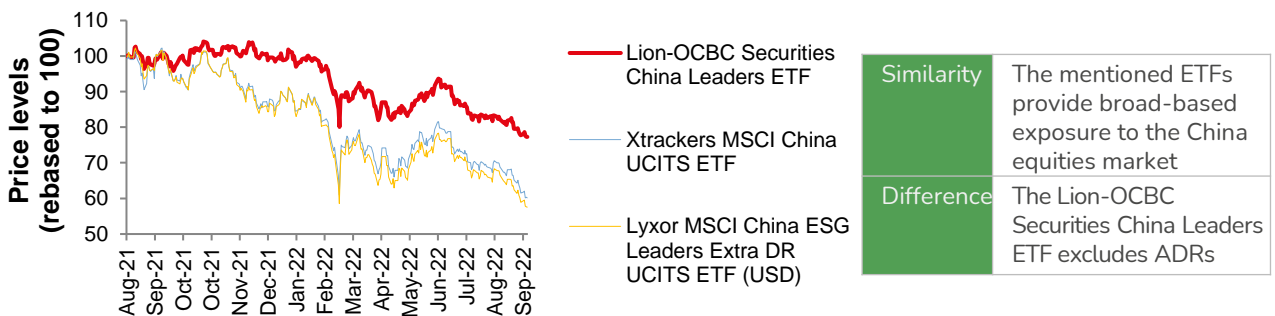
Between 2 August 2021 and 30 September 2022, the Lion-OCBC Securities China Leaders ETF also cumulatively outperformed<sup>11</sup> other China-focused ETFs listed in SGX (Figure 2), such as the Xtrackers MSCI China UCITS ETF and Lyxor MSCI China ESG Leaders Extra DR UCITS ETF (USD) as of 30 September 2022. The cumulative outperformance (as of 30 September 2022) can be attributed to the Index's exclusion of American Depositary Receipts (ADRs). This exclusion helped reduce the Index's exposure to the foreign regulatory risks that negatively impacted US-listed Chinese companies when the US Securities and Exchange Commission (SEC) conclusively identified<sup>12</sup> to potentially delist 164 companies (including Pinduoduo) that failed to comply with the Holding Foreign Companies Accountable Act (HFCAA) as of 30 September 2022.

However as highlighted in our Q1 and Q2 2022 newsletter, China has shown increasing willingness to comply with US Public Company Accounting Oversight Board (PCAOB). On 26 August 2022, the PCAOB and China Securities Regulatory Commission (CSRC) jointly signed a landmark agreement<sup>13</sup> on the HFCAA audit dispute, facilitating PCAOB's inspection and investigation of registered accounting firms in China and Hong Kong. While This is expected to cushion delisting risks for US-listed Chinese companies. By excluding ADR exposure and providing diversified exposure to industry leaders listed in HKSE, SSE and SZSE<sup>14</sup>, the Lion-OCBC Securities China Leaders ETF is less vulnerable to foreign regulatory risks and better cushioned against the broader market volatility.

**Figure 1: Benchmark Index performance relative to other China-focused indices**



**Figure 2: ETF performance\* relative to other China-focused ETFs**



Note: Each ETF currently adopts a direct replication strategy in tracking their respective indices. The Lyxor MSCI China ESG Leaders Extra (DR) UCITS ETF (USD) tracks the MSCI China Select ESG Rating and Trend Leaders Index while the Xtrackers MSCI China UCITS ETF tracks the MSCI China Index.

\* Returns are based on NAV-NAV basis in SGD and assuming all dividends are reinvested net of all charges payable upon reinvestment. Performance is calculated in the base currency of the Index. The Lion-OCBC Securities China Leaders ETF was listed on 2 August 2021

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<sup>10, 11</sup> Source: Bloomberg, September 2022

<sup>12</sup> Source: US Securities and Exchange Commission, September 2022

<sup>13</sup> Source: The Business Times, August 2022

<sup>14</sup> HKSE, SSE and SZSE refer to Hong Kong Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange respectively.

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