



CHINA A: ARE THE STARS ALIGNING?

By Edward Cole

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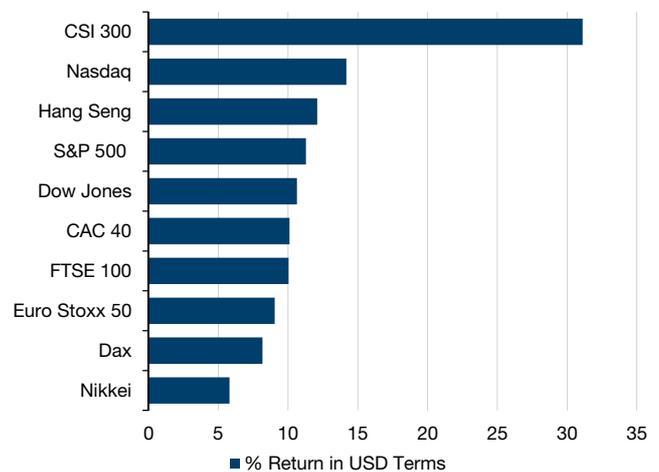
On 1 March, MSCI announced that it was increasing the free-float inclusion factor for China A (onshore Chinese shares) from 5% to 20%, in a 3-stage implementation in June, September and December this year. This could result in a notable increase in active and passive foreign fund inflows, with estimates reaching about USD100 billion, according to Bloomberg.¹

China A is the best-performing major market this year through March 5, up more than 30% in USD terms (Figure 1). As argued in a **January note**, we believe the headwinds China faced in 2018 have turned to tailwinds, and the fundamental opportunity in China A is attractive, even after such a big move. Indeed, some of our tactical models suggest the market is due some correction/consolidation, which could open a compelling window.

China A is a particularly fertile environment, **in our view**, as there are inefficiencies in liquid stocks and we feel there are a wealth of conservatively-run, organically growing, cheap businesses. In principle, we believe this is an attractive alpha investment opportunity.

We believe we are having a rare moment where the stars have aligned for China A: the potential flows, improving growth prospects and the still-compelling valuations make for an attractive beta opportunity, in our view.

Figure 1. China the Best-Performing Major Market in 2019



Source: Bloomberg; between 1 January 2019 and 5 March 2019.



Edward Cole

Managing Director - Equities

Edward Cole is responsible for investment strategy at Man GLG. He joined Man Group in 2015, co-managing emerging-market equity strategies until the end of 2018. He started his career in 2001 working for specialist Eastern European-focused investment banks as an equity strategist during the period of EU accession for former communist-bloc countries, and moved to JPMorgan in 2005 as a global emerging market equity strategist. He has worked in investment management since 2007, managing long-only, long/short and multi-strategy emerging market funds. Edward graduated from the University of Bristol with a BSc in Politics and from the London School of Economics with an MSc in International Development.

1. <https://www.bloomberg.com/news/articles/2019-03-01/msci-s-latest-china-call-positive-but-mostly-symbolic-analysts>

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