Enhancing the ETF Investing Ecosystem in Hong Kong and Mainland China

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Summary of the Impact

- Dr. Meng’s engagement in the KE activities has played positive roles in enhancing the ETF investing ecosystem in Hong Kong and mainland China, and has achieved significant impact in the following areas:
  - Promoting the ETF investor education and supporting ETFs as one of the core investment vehicles for ordinary people’s wealth management
  - Enriching the product offering to facilitate a better portfolio diversification and risk management
  - Enhancing the ETF market liquidity in Hong Kong and mainland
  - Facilitating the development of Robo Advisors in the region, a key area in financial technology (FinTech)
  - Supporting the launch of the ETF Connect between Hong Kong and mainland, which will further enhance the market liquidity and complement the product offering in the two markets, and thus benefit investors, bourses and financial institutions.
Underpinning Research

Explain the quality of the knowledge
An outline of what the underpinning research (or teaching & learning) was

- ETFs are listed open-end funds tracking a wide variety of market and asset class indices, such as S&P500, gold price, and US treasury bond indices.

- Topics examined
  - The role of ETFs in inclusive finance and ordinary people’s wealth management
  - The advantages and disadvantages of ETFs relative to other investment vehicles
  - The innovations in the index construction and ETF product design
  - How to enhance the development of the ETF markets in mainland China and Hong Kong
  - The ETF Connect between Hong Kong and mainland China
Underpinning Research

When your research (or teaching & learning) was undertaken, and your role in the creation of such knowledge

- The research started in 2011. Dr. Meng also built her expertise through the teaching & learning in TPG and executive education programmes at HKU.
- Dr. Meng examined the topics listed on the previous page and published articles and business cases.
- She is one of the active advocates of
  - ETFs being one of the core investment vehicles for ordinary people’s wealth management
  - Launching the ETF Connect between Hong Kong and mainland China
Underpinning Research

**Innovativeness** of the knowledge arising from your research (or teaching & learning) at HKU

- The research is innovative because
  - It focuses on the ETFs listed in Hong Kong and mainland China. The published articles and business cases are among the first on these markets.
  - The research links the ETFs with inclusive finance and has implications on the development of Robo Advisors in mainland China, one of the key areas of financial technology (FinTech).
Underpinning Research

Significance of the key insights or findings from the research (or teaching & learning) that relate to the impact achieved by the KE project

- ETFs, traded like stock shares on exchanges, combined the features of both traditional open-end mutual funds and closed-end funds.

- With the advantages of high liquidity and transparency, low cost, low investment requirements, insignificant cash drag, high flexibility and accessibility, ETFs are the best long-term investment vehicle for ordinary people with limited investing skills to construct a diversified portfolio.

- The new innovative products, such as leveraged and inverse products, certain smart beta ETFs, and products tracking derivatives and novel asset classes like market volatility, enrich the product offering, but are suitable only for short-term hedging and/or profit-taking.
Underpinning Research

- The turnover of most ETFs traded in Hong Kong is quite low.
- The limited coverage of market and asset class by the ETFs traded in mainland China has created obstacles for investors to build a diversified investment portfolio and has hindered the development of Robo-Advisors in mainland.
- The ETF Connect between Hong Kong and mainland China will enhance the market liquidity and complement the product offering in the two markets, and thus benefit investors, bourses and financial institutions.
Engagement

Explain the engagement process through which the knowledge arising from the research (or teaching & learning) described above was shared with or transferred to the target beneficiaries; and its Innovativeness

- Published business cases

  2. Fidelity: Embracing ETFs. Rujing Meng and Jiayun Qian. Asia Case Research Centre, The University of Hong Kong. 2019
  3. Leveraged and Inverse Products in Hong Kong. Rujing Meng and Fang Zhu. Asia Case Research Centre, The University of Hong Kong. 2018
  4. Value Partners Group Ltd. Rujing Meng and Xiaozhou Yang. Asia Case Research Centre, The University of Hong Kong September, 2017
Engagement

- **Articles published on* Financial Times* (in Chinese)


Engagement

- Successfully awarded a KE grant
  - The University of Hong Kong Knowledge Exchange (KE) Funding Exercise 2018/19, Impact Project Proposal (Project No.: KE-IP-2018/19-21)
- Built a website for ETFs in mainland China and Hong Kong, which came online on May 1st, 2019: https://www.fbe.hku.hk/~meng/etf/
Engagement

- E-engagements,
  - Built user-friendly expandable databases of mainland and Hong Kong ETFs
    [https://www.fbe.hku.hk/~meng/etf/a.dataset/?sheet=0](https://www.fbe.hku.hk/~meng/etf/a.dataset/?sheet=0)
  - As of 6 July 2020, published 34 market reports for mainland and Hong Kong ETF markets
    [https://www.fbe.hku.hk/~meng/etf/marketreport.php](https://www.fbe.hku.hk/~meng/etf/marketreport.php)
  - Made the ETF materials online
  - Set up a ETF Weibo Forum
    [https://www.weibo.com/u/7077023504](https://www.weibo.com/u/7077023504)
- Delivered a public talk in Shanghai on 2 March 2019
- In the process of publishing books
Impacts Achieved

Beneficiaries

- ETF investors
- ETF brokers, financial advisors, and sponsors in Hong Kong and mainland
- Hong Kong Stock Exchange, Shanghai Stock Exchange, and Shenzhen Stock Exchange
- FinTech startups providing robo advisory in Hong Kong and mainland
Impacts Achieved

**Nature and extent of the impact;**

- Dr. Meng’s engagement in KE activities have promoted ETF investor education and supported the development of ETF markets in mainland and Hong Kong.
- ETF investors benefited by
  - being able to easily screen ETF products listed in Hong Kong and mainland by asset class, country exposure, issuer, underlying index, expenses, etc. through the user-friendly datasets on the ETF website
  - being able to access product market data through the website links to the relevant exchange websites on the ETF website
  - understanding better the ETF markets in mainland and Hong Kong through the published monthly market reports
  - gaining knowledge of the ETFs as a low-cost, transparent and liquid investment vehicle for long-term wealth management through a public talk conducted in Shanghai and the educational materials such as the published articles on *Financial Times* (in Chinese) and business cases
Impacts Achieved

- As more investors get familiar with ETFs and use them as an investment vehicle, the market liquidity of mainland and Hong Kong ETF markets will improve.
- As a result, Hong Kong Stock Exchange, Shanghai Stock Exchange, and Shenzhen Stock Exchange will benefit from the increased capital flow.
- In addition, ETF brokers, financial advisors, and sponsors in Hong Kong and mainland will benefit from increased market demand of ETF products.
- As the mainland and Hong Kong ETF markets become more active, ETF sponsors will have more incentive to enrich the coverage of market and asset class, which will further benefit investors to build a diversified investment portfolio and support the development of Robo-Advisors in the region.
- With the improved investor education, increased market demand, and enhanced ETF infrastructure, regulators could expedite the launch of the ETF Connect between Hong Kong and mainland.
- The KE work is expected to make a positive impact in enhancing the ETF investing ecosystem in the region over the long term.
Impacts Achieved

Evidence

- The website for ETFs in mainland China and Hong Kong came online on May 1\textsuperscript{st}, 2019: [https://www.fbe.hku.hk/~meng/etf/](https://www.fbe.hku.hk/~meng/etf/)
  - Awarded a KE grant: The University of Hong Kong Knowledge Exchange (KE) Funding Exercise 2018/19, Impact Project Proposal (Project No.: KE-IP-2018/19-21)
  - 15,936 visitor counts as of 6 July 2020
  - Over 200 participants in the public talk delivered by Dr. Meng in Shanghai on 2 March 2019
  - Monthly market reports and ETF datasets were well received and commended by users through WeChat and other informal channels
  - Positive feedback from executives of financial institutions, such as CSOP, Premia Partners and Yunfeng Financial.
Impacts Achieved

- Dr. Meng was interviewed by Hong Kong Economic Journal Monthly (HKEJ Monthly) on the Chinese Capital Market covering topics on ETFs on 12 March 2019.
- The featured interview articles were published in HKEJ Monthly in the Edition of April 2019.
Impacts Achieved

- The mainland ETF market has accelerated the release of new ETF products. Here is one example with media coverage by Bloomberg quoting Dr. Meng’s research.


**China Approves First Commodity-Linked Exchange-Traded Funds**

*By Alfred Cang*

4 September 2019, 12:28 GMT+8

The combined net asset value of ETFs in China grew by more than 50% over the two years through July to around 633 billion yuan ($88 billion), according to Rujing Meng, a researcher at the University of Hong Kong. Almost all of the mainland ETFs track stocks and currencies, her research shows.
Impacts Achieved

- **Another example of media coverage**: As the financial markets plunged with the outbreak of the Covid-19 in early March 2020, Dr. Meng’s research about the merits and limitations of a few innovative exchange-traded products during stressed market environments was quoted by STCN (证券时报网) on 9 March 2020.

Impacts Achieved

- Hong Kong and mainland has enhanced the cooperation in the area of ETFs and are making efforts toward the launch of the ETF Connect.
- HKEX is considering more new types of ETFs, including leveraged and inverse products that track mainland China A share indexes, sectoral and thematic ETFs with underlying Chinese assets, and fixed-income ETFs. [https://www.straitstimes.com/business/hk-stock-exchange-plans-suite-of-new-etps](https://www.straitstimes.com/business/hk-stock-exchange-plans-suite-of-new-etps)
- Also, Dr. Meng was invited to give talks by institutions, such as China Construction Bank, Noah Holdings, and Shanxi Securities International Asset Management.
Impacts Achieved

- Here is **an example on supporting the cooperation between Hong Kong and mainland in the area of ETFs.**
  - A new ETF product tracking the mainland DCE Iron Ore Futures Index was successfully launched on HKEX on 27 March 2020.
  - Dr. Meng was **invited as a guest speaker** in a discussion forum about the product design and its significance on 20 September 2019.