



Investment Opportunities in Chinese Offshore and Onshore Markets

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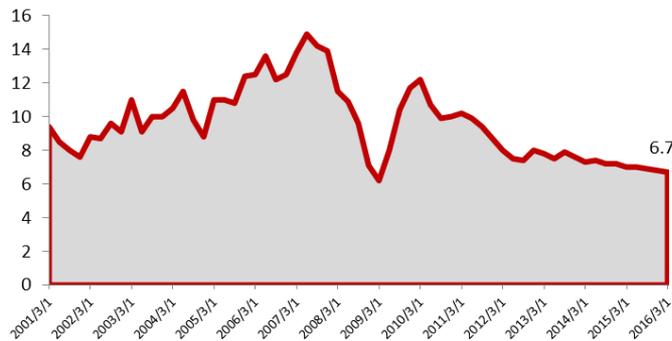
INVESTING IN CHINA

IMF lifted its growth forecast for China this year to 6.5 percent from an earlier estimate of 6.3 percent, reflecting China's announced policy stimulus.

Bottom-out Sign has Appeared

China's economy is likely to achieve an "L-shape" growth – meaning growth is going to remain steady.

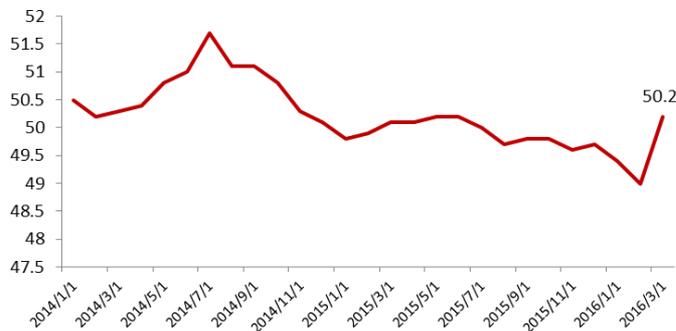
China GDP Annual Growth Rate



Gross Domestic Product

The mainland's GDP grew at an annual rate of 6.7% in the Q1 2016, meeting market expectations, which is relatively **HIGH** when compared to other countries

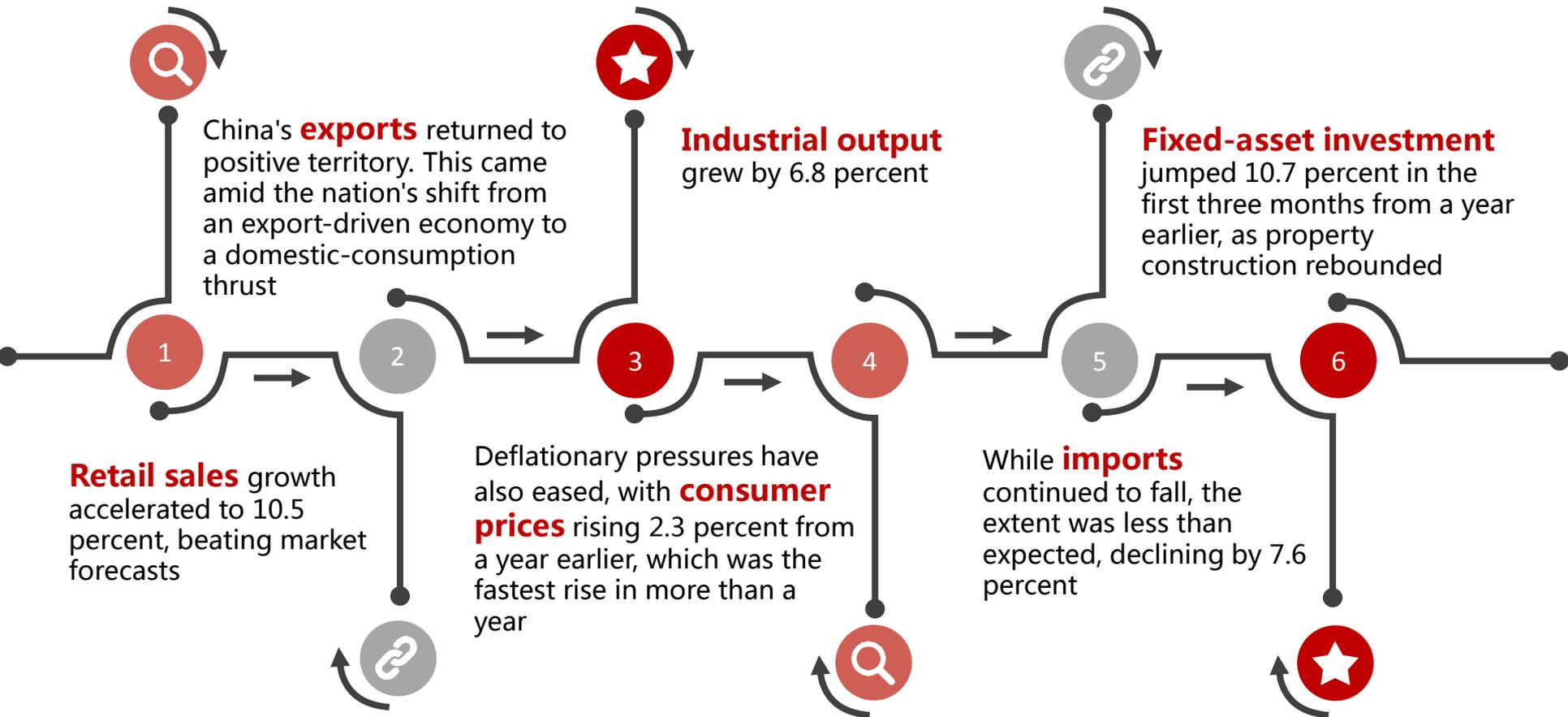
China Manufacturing PMI



Purchasing Managers' Index

The official manufacturing PMI came in at 50.2 in March hints that manufacturing demand is **stabilizing**. The manufacturing sector in China is back in expansionary territory

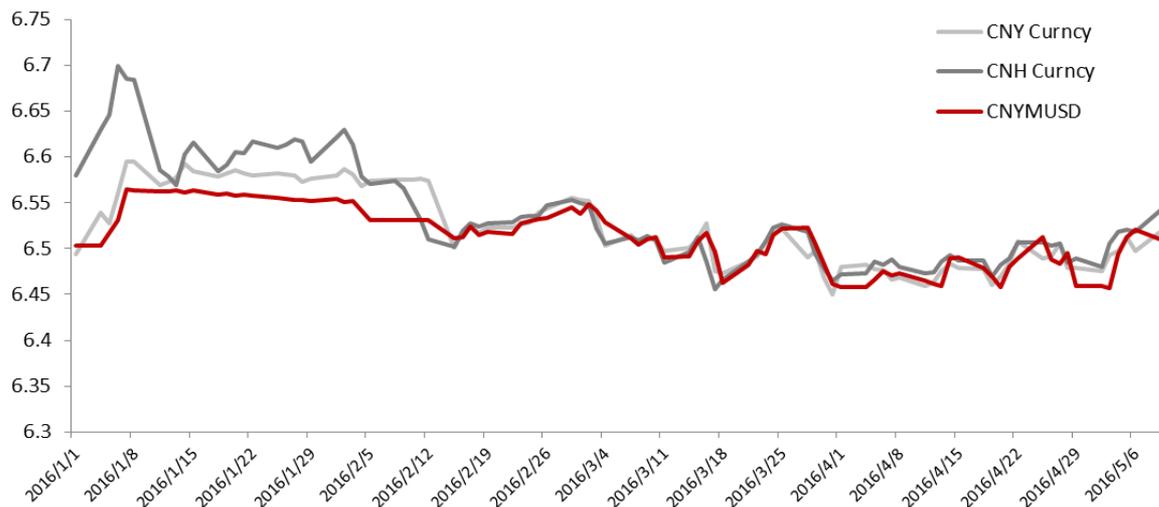
Major Indicators were also Better Than Expected



RMB Exchange Rate Against a Basket of Currencies is Basically Stable

After the enhancement of RMB central parity rate fixing mechanism, the next step will further **improve** the RMB exchange rate formation mechanism of market, **increase** the intensity of market-determined exchange rates, **enhance** the flexibility of RMB floating exchange rate regime, and keep the RMB exchange rate basically stable at a reasonable and balanced level.

The Trend of CNH, CNY and Central Parity Rate Against USD

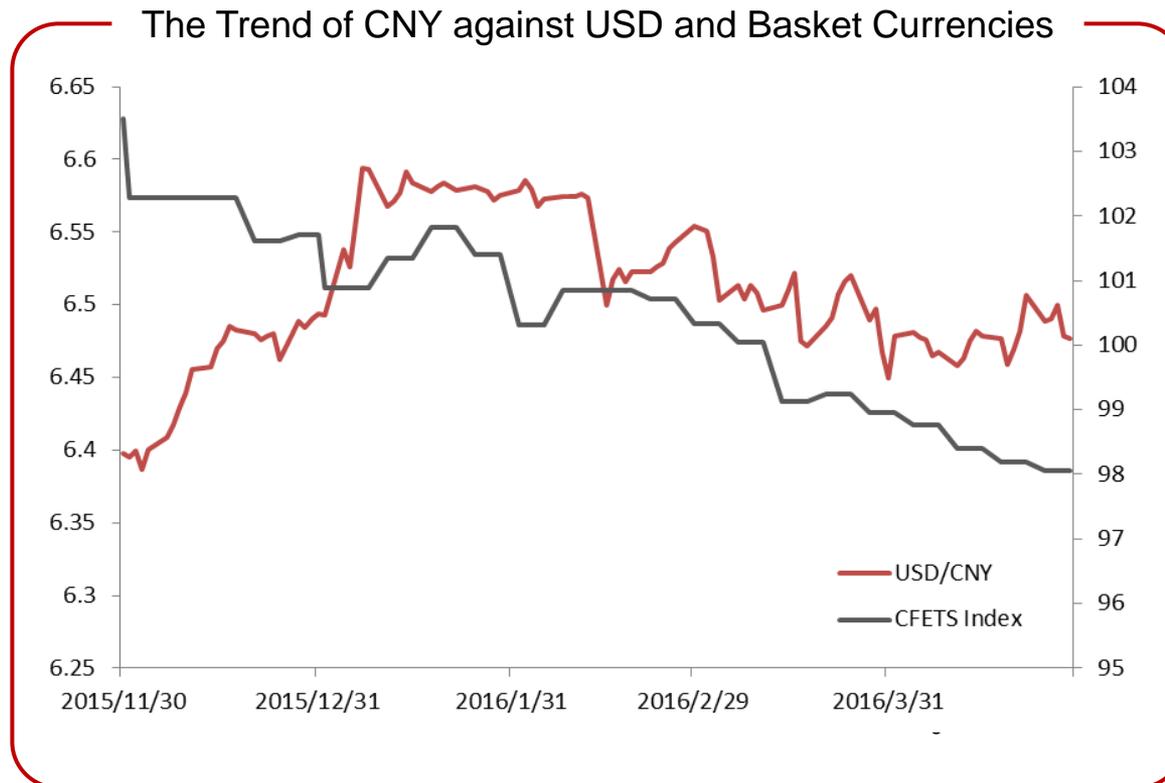


Source: Bloomberg, BOCHK Research

The New Mechanism Has Been Formed

The RMB exchange rate policy has shifted to a “dual-anchor” system to maintain the stability of the market

- At the time weak USD is weakness, the anchor will mainly comprise of the USD
- If the USD rebounds, the basket of currencies will become the anchor



- The central parity rate has formed the new mechanism which is "closing rate" + "basket currencies exchange rate "
- The central parity rate reflects both the changes in a basket of currencies and the market supply and demand

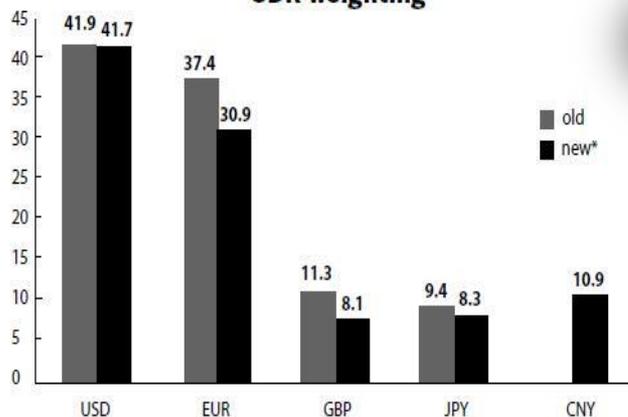
RMB Becomes an Alternative Reserve Currency

01

- IMF agrees to include RMB in benchmark SDR currency basket
- The weight of RMB in the basket will be 10.92%, surpassing JPY and GBP



SDR weighting



*effective Oct 2016

Source: International Monetary Fund

02

New Opportunity

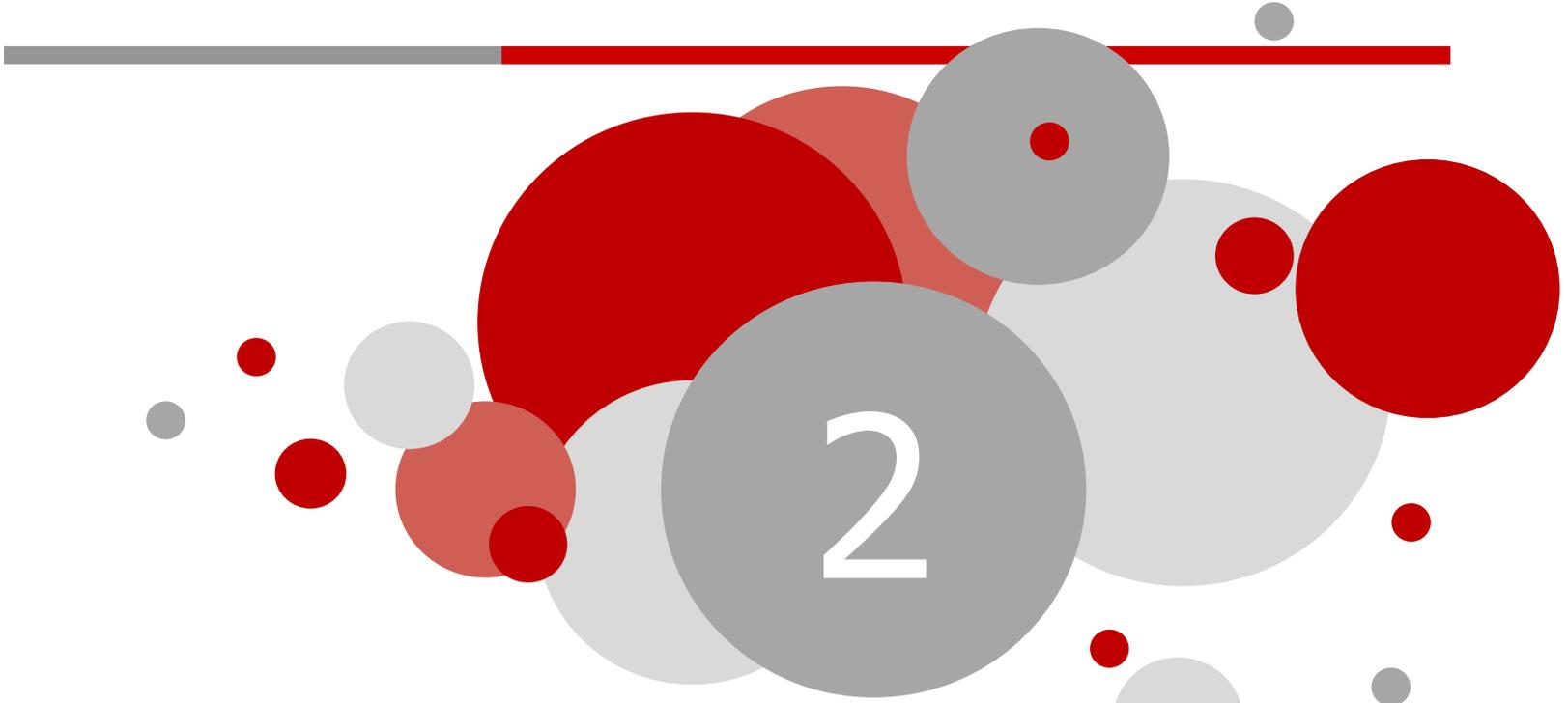
- The demand for RMB asset allocation will rise globally
- The need for taking RMB into foreign reserve by central banks around the world will drive the global investment demand for RMB, which in turn, will facilitate the development of offshore RMB Wealth Management products
- Diversification will reduce investment risks

**Huge
Economic Size**

**Stable
Currency**

**Strong
Policy Support**

**Positive
Investment Prospects**



2

**LIBERALIZATION
OFFERS NEW
INVESTMENT
OPPORTUNITIES**

Milestones of the RMB Liberalization

The QDII regime is a mirror image of the QFII regime which allows selected Chinese financial institutions to invest in offshore securities and bonds. A total of US\$90 billion quotas were granted by the end of April 2016.

QFII

2002

The QFII regime is a major policy initiative first launched in 2002 to enable specified types of institutional foreign investors to invest in the PRC securities.

2006

QDII

RQFII

2011

The RQFII regime is an RMB version of the QFII regime which is designed to facilitate the use of RMB held outside the PRC for investment in the PRC securities market.

2014

Stock Connect

Stock Connect is a joint initiative of the CSRC and the SFC launched in November 2014 which allows mutual stock market access between the SSE and HKEX.

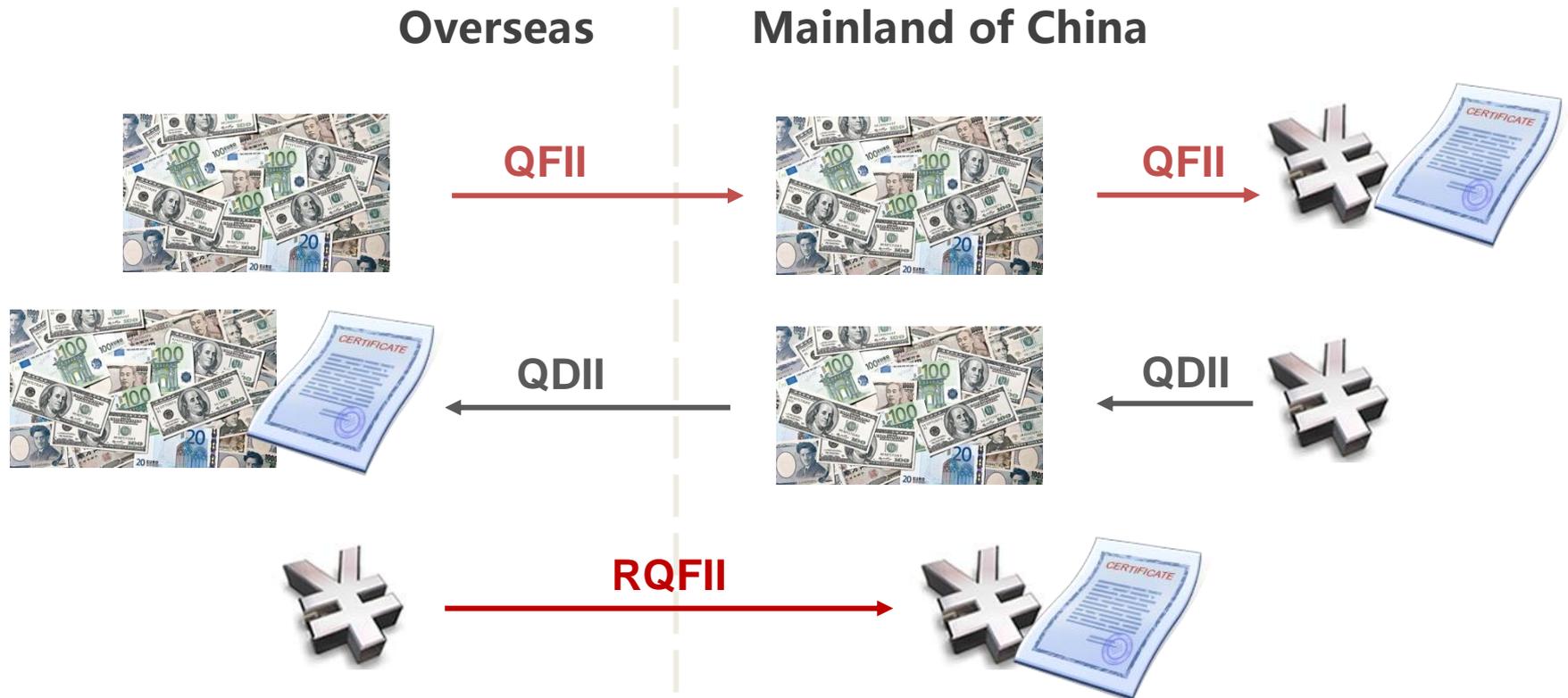
2015

M.R.F.

The Mutual Recognition of Funds initiative provides a different channel for fund managers based in Hong Kong to offer retail funds to the PRC onshore market.

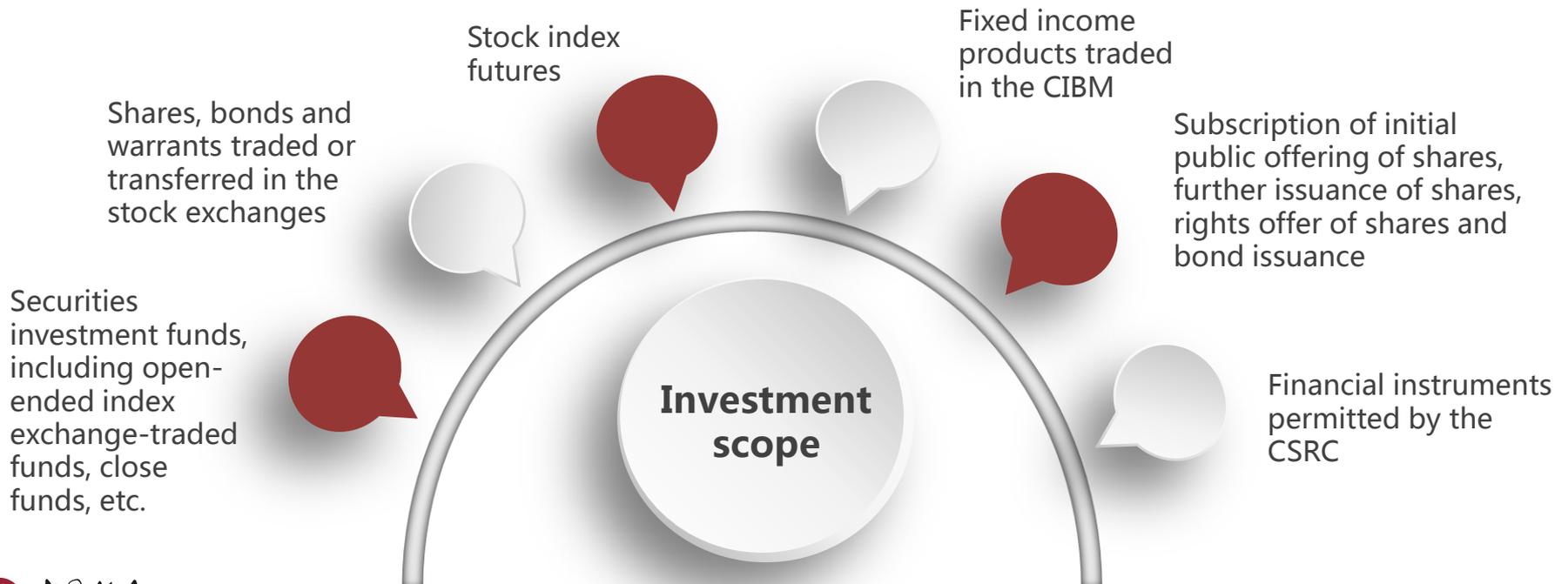
“Q” for “Qualified” Two-way Flows

- All involve cross-border investment flows
- All involve quota usage due to capital A/Cs & currency policies
- Each being governed by separate sets of policies for different purposes



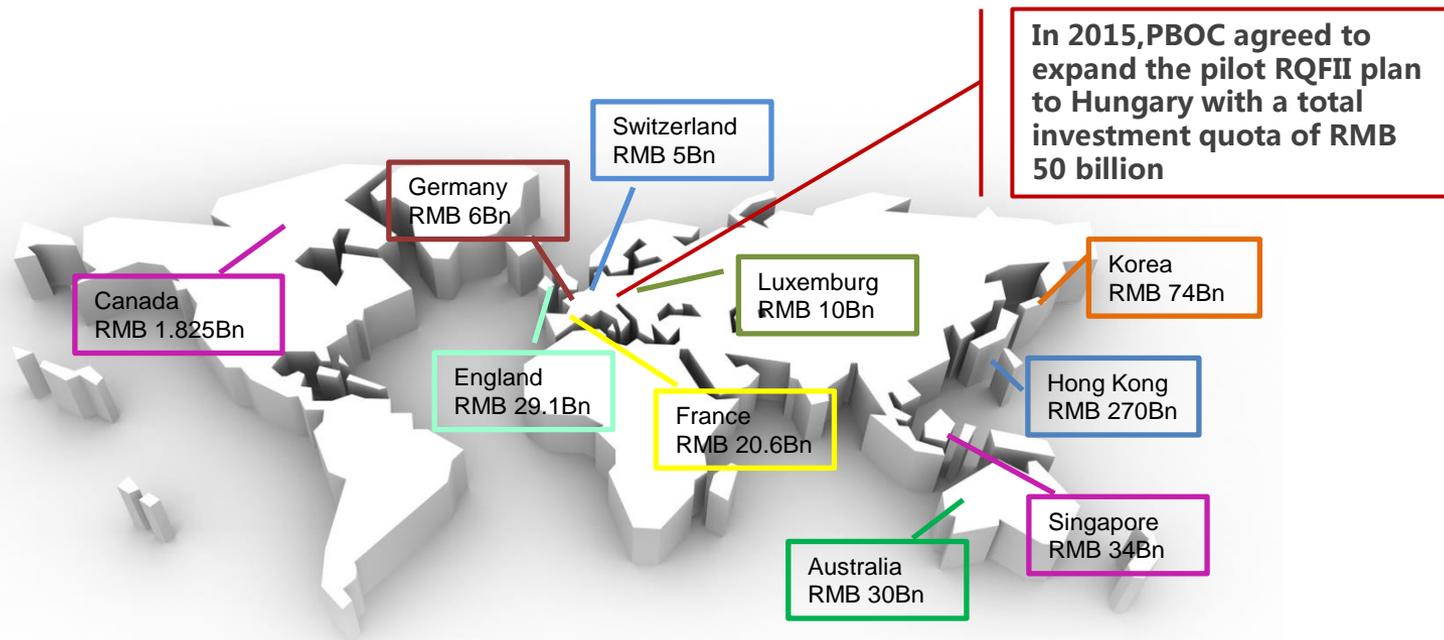
1. QFII Scheme is Expanding Rapidly

- As of 28 April 2016, a total of 272 foreign institutions were granted the status of QFIIs, with an aggregate investment quota of US\$81 billion.
- CSRC may consider relaxing or removing the quantitative eligibility requirements on QFIIs going forward.
- Investment scope is expanding quickly, however, the 'New Third Board' and bond futures are not yet permissible, and neither for repos.



2. RQFII is an Important Part of the offshore RMB Cycle Mechanism

- The RMB QFII program (RQFII), launched in December 2011, enables qualified institutional investors to channel offshore RMB funds into mainland stock and bond markets
- As of April 2016, the outstanding quota under the RQFII program came in at 480.5 billion yuan. Altogether 162 overseas institutions have obtained quotas under the program.



3. Connecting Opportunities: Shanghai – Hong Kong Stock Connect

- Shanghai-Hong Kong Stock Connect is an innovative idea to promote RMB capital account liberalization
- The scheme enables investors from both sides to realize complete market-oriented link and investment according to their respective rules.



Southbound Turnover
1407 Billion



Northbound Transactions
1049 Billion

- By the end of March 2016, total investments heading south lagged behind northbound investments by around RMB 53 billion, or about two-thirds less
- Southbound turnover in the first quarter of 2016 shot up 64% YoY to RMB 125 billion
- Northbound transactions plunged 41 %, narrowing the gap between north and southbound transactions to an unprecedented extent

4. Connecting Opportunities: Mutual Recognition of Funds

- Fund products selling is a complicated system and covers a wide range of requirements, e.g. risk disclosure, investment mandate, selling zone, customer evaluation, conduct, etc.
- It further demonstrates Hong Kong's role as the 'connector' between mainland China and the rest of the world. It also facilitates Hong Kong's development into a full-service asset management center in Asia.
- **Types of SFC authorized funds under the MRF regime:** Standardized funds including equity funds, bond funds, mixed funds and index funds (including exchange traded funds) are eligible under the MRF regime. Gold ETFs, listed Open-ended Funds, fund of funds, structured funds and guaranteed funds are not eligible for the time being.

J.P.Morgan
Asset Management



More New Channels are on the Way

Following the recent relaxation of QFII & R-QFII, we expect further expansion in terms of scale & investment scope, as well as new connections to other regions, markets & exchanges.

Offers an unprecedented channel for the PRC individual investors to invest offshore and represents a significant step in the liberalization of the investment landscape and capital account regulation in the PRC.

QDII2 Scheme

**London – Hong Kong
Stock Connect**

Allows Europe-based investors to access RMB-denominated futures and other commodities products

**Shanghai - London
Stock Connect**

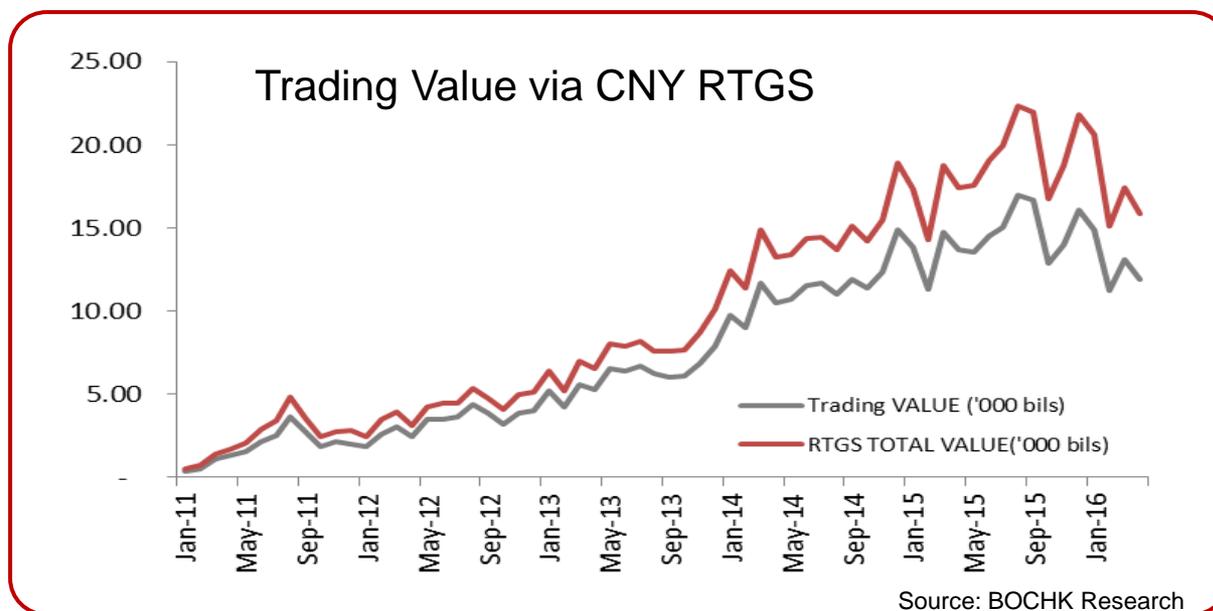
Grants access for British investors to trade Chinese shares listed in Shanghai

**Shenzhen - Hong Kong
Stock Connect**

Currently ranks amongst the top 10 largest in the world by market capitalization, at just over US\$4.4 trillion by July 2015, the SZSE is the fourth largest stock exchange in the world by turnover, averaging over US\$495 billion per month.

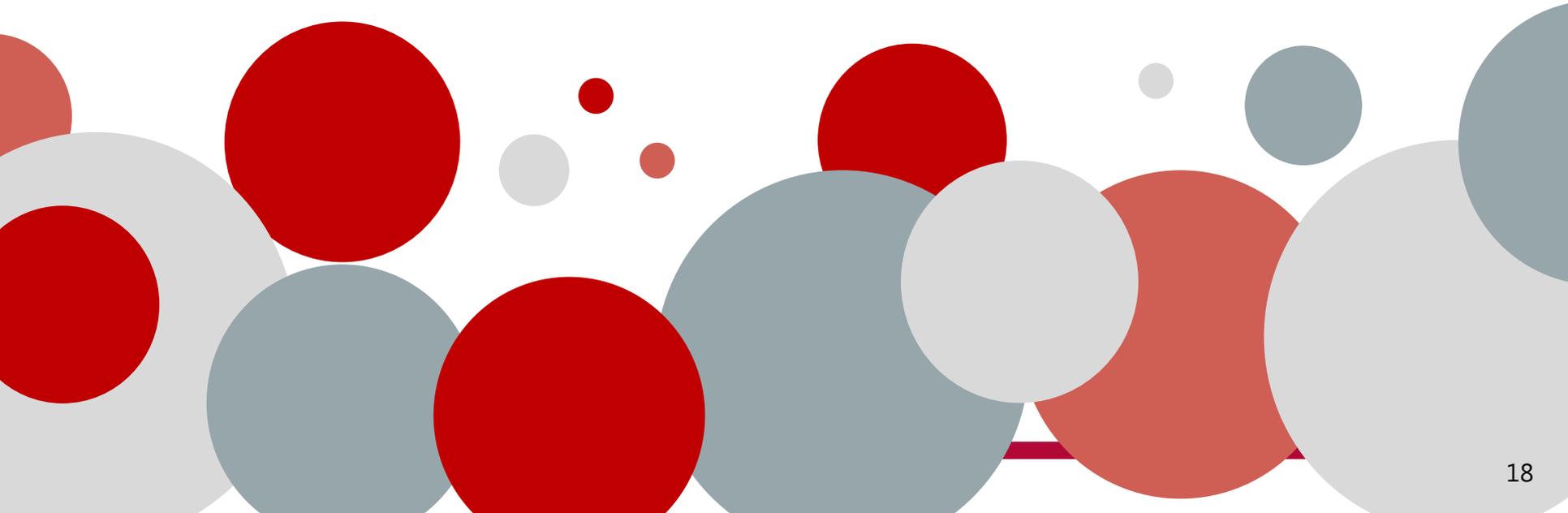
Offshore RMB Market is a **FREE Market** and **More Active** than expected

- The offshore RMB (CNH) market in 2015 is poised for further growth, with total CNH liquidity pool tipped to over 2 trillion yuan.
- Hong Kong still remains the world's largest offshore RMB center, processing 72.5% of all RMB payments.
- 85% of the RMB RTGS turnover in Hong Kong are related to USD/CNH contracts, CNH transactions and interbank activities among offshore markets.



DEEPENING MULTI-DOMAIN CO-OPERATION BETWEEN HUNGARY AND CHINA

The economic integration between the two countries intensified in the past decade



China is Hungary's **Second-Largest** Source of Imports



Trade

- In 2015, the bilateral merchandise trade between Hungary and China amounted to \$ 7.48 billion
- Hungary trade deficit is \$ 4.79 billion in 2015, increased 5.9% YoY

Export

- Hungary exports to China \$ 1.34 billion, accounting for 1.4% of total exports

Import

- Hungary imports from China \$ 6.14 billion, accounting for 6.6% of total imports, up 0.6% YoY

Trade Relationship

- China is the 19th export market and 2nd largest source of imports of Hungary

Hungary is the **Gateway** to Western Europe Through OBOR Strategy

In June 2015, Hungary was the first European country to sign a cooperation agreement for China's "One Belt, One Road" initiative, launched with \$40 billion in funding, to develop trade and transport infrastructure across Asia and beyond.

Hungary will get linked to, and therefore benefit from, China's infrastructure projects, and might even participate in contracts for such works.



Great Space to Explore RMB Using



Currency Swap

The National Bank of Hungary and the PBOC had signed a currency swap accord for a nominal amount of **RMB10 billion** (1.63 billion US dollars)



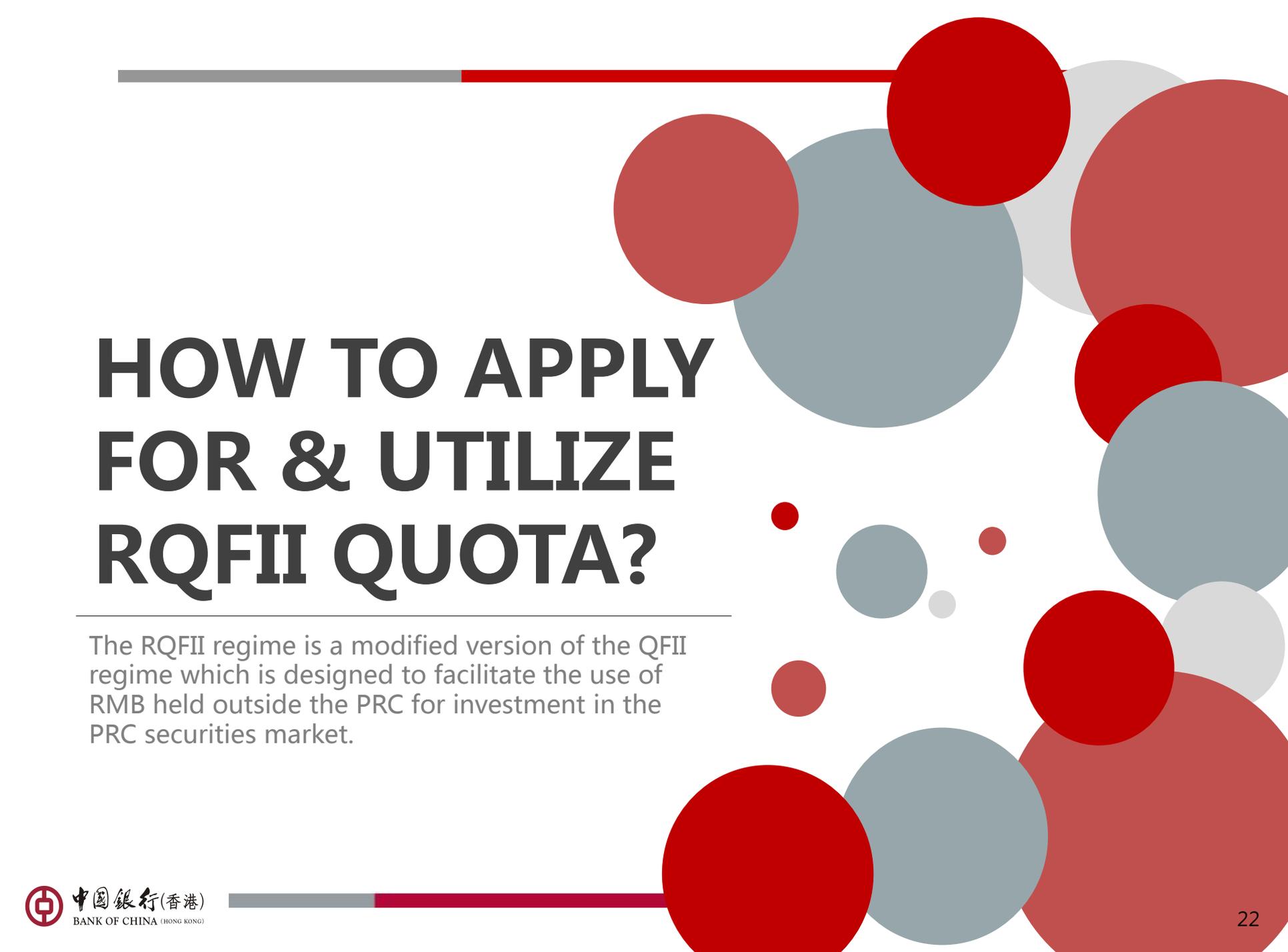
RMB Clearing

The PBOC authorized Bank of China (Budapest Branch) **as the clearing bank** for RMB business in Hungary



Dim Sum Bond

Hungary priced the three-year bond at a yield of 6.25%, raising **RMB1 billion** (\$154 million), becoming the first eastern European country to issue

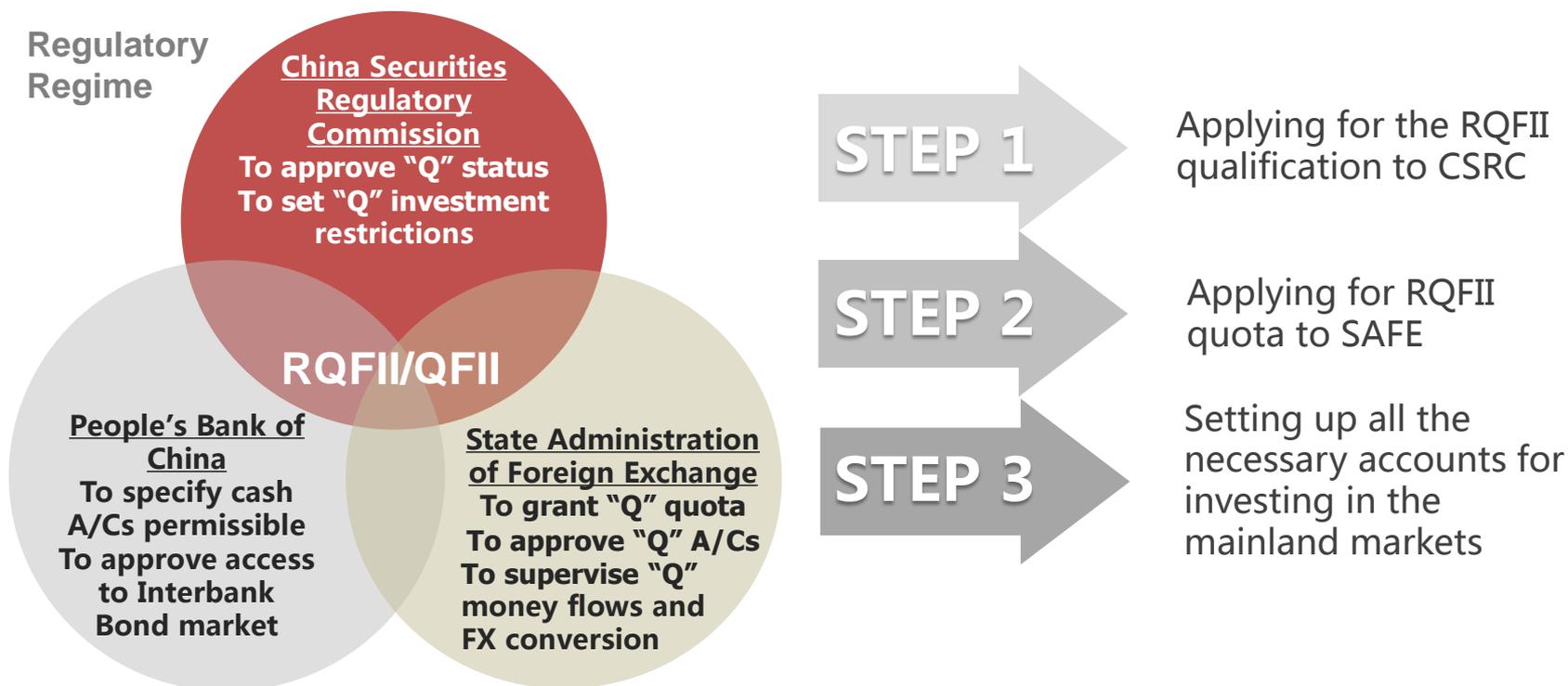


HOW TO APPLY FOR & UTILIZE RQFII QUOTA?

The RQFII regime is a modified version of the QFII regime which is designed to facilitate the use of RMB held outside the PRC for investment in the PRC securities market.

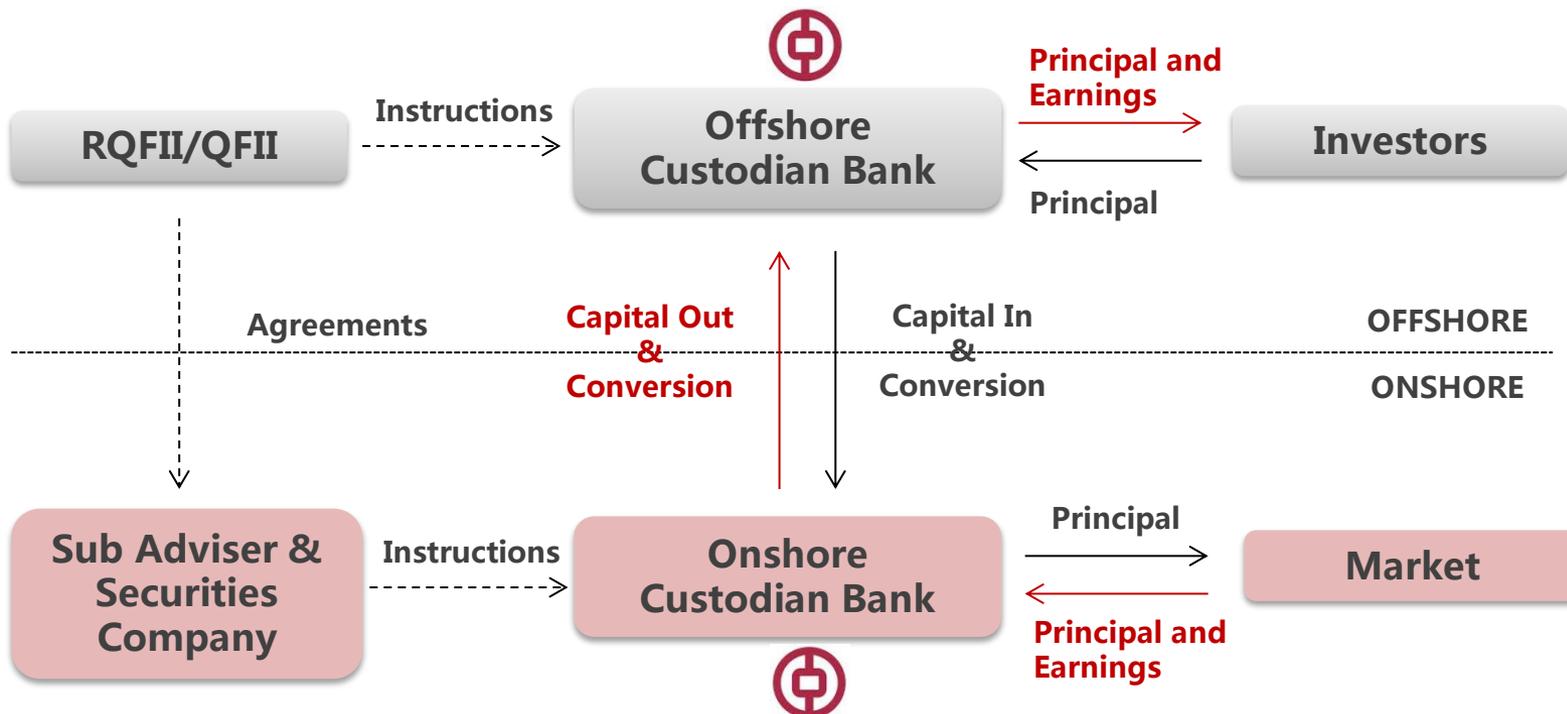
Applying for RQFII Quota

- In terms of fund structure, it can be very flexible. For example, it can be a fund registered in Hungary, a UCITs fund, or a Cayman fund
- You can also invest only a portion of the fund's AUM through the RQFII scheme, and the rest in the offshore market (i.e. Dim Sum bond market, or H-shares in the case of equities)



RQFI Structure and Capital Flow

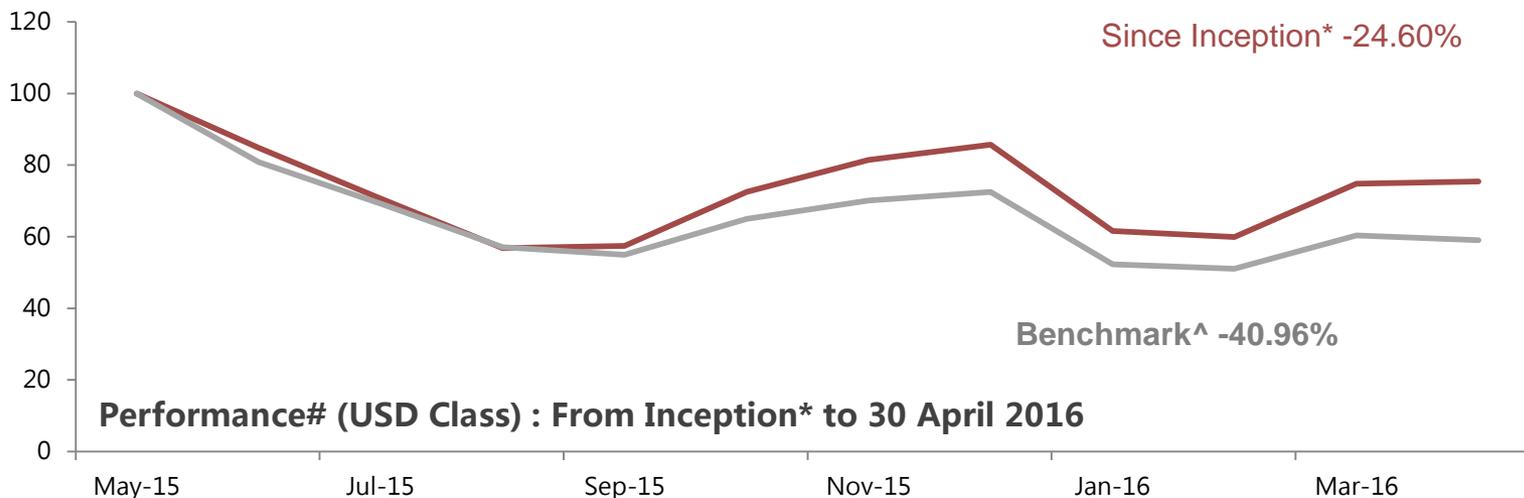
- There is no lock-up period in respect of any Open-ended Fund managed by RQFIIs, but the lock-up period for other RQFIIs is generally 1 year. During the lock-up period, no repatriation of principal is allowed.
- An RQFII with an approved investment quota may appoint a custodian bank to remit funds (both inbound and outbound).



*For earnings outflow, approval by taxation authorities is required

BOCHK All Weather CNY Equity Fund

The Sub-Fund aims to achieve long term capital growth through primarily investing in China A-Shares through RQFII.



Performance# for Periods Ending 30 April 2016					Calendar Yr
(USD)	1 Mth	3 Mths	6 Mths	YTD	2015 (Since Inception)
Fund	0.80%	22.40%	4.00%	-12.02%	-25.20%
Reference Benchmark^	-2.25%	12.74%	-9.16%	-18.60%	-39.61%
Excess Return	3.05%	9.67%	13.16%	6.58%	14.41%

Performance is calculated net of fees and on NAV to NAV with dividends reinvested

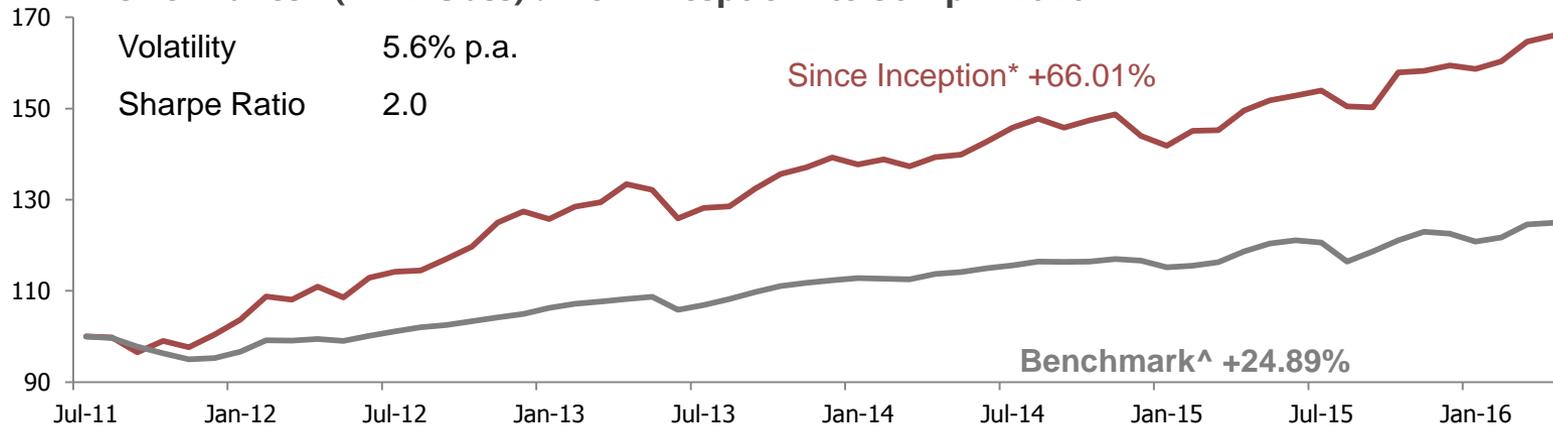
* Inception Date 5 June 2015

^ Benchmark: Shenzhen Stock Exchange Composite Index (USD)

Red Arc - BOCHK RMB High Yield Bond Fund (A UCITs Fund)



Performance# (RMB Class) : From Inception* to 30 April 2016



Performance # For Periods Ending 30 April 2016						Calendar Yr					
(RMB)	3 Mths	6 Mths	YTD	1 Yr	Annualized		2015	2014	2013	2012	2011 (from Inception*)
					2 Yrs	Since Inception*					
Fund	4.64%	5.12%	4.14%	11.02%	9.15%	11.26%	10.73%	3.39%	9.29%	26.88%	0.42%
Reference Benchmark^	3.40%	3.13%	1.90%	5.26%	4.80%	4.79%	5.10%	3.83%	7.07%	10.12%	-4.73%
Excess Return	1.24%	1.99%	2.24%	5.76%	4.34%	6.47%	5.63%	-0.44%	2.22%	16.76%	5.15%

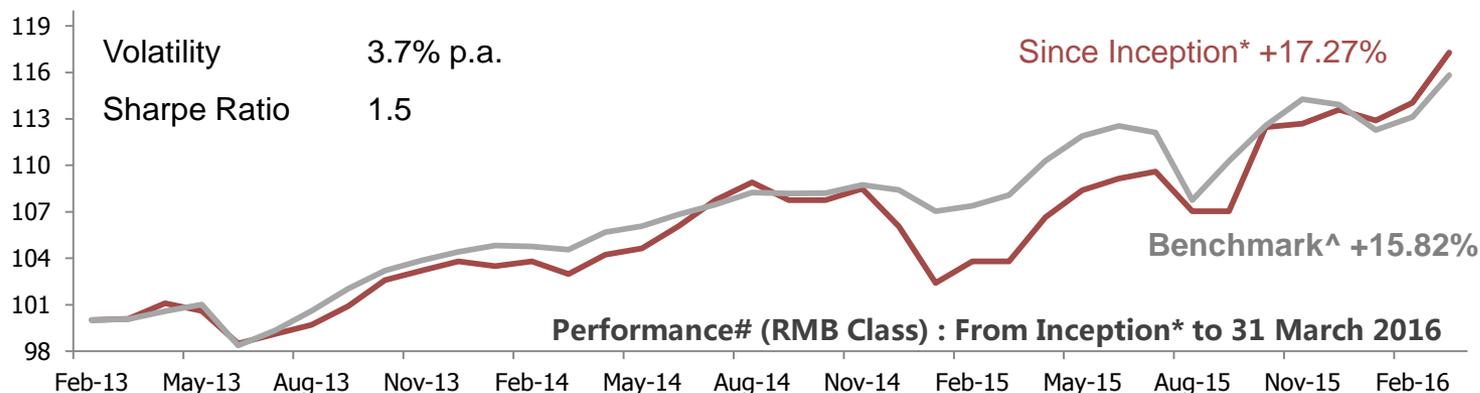
* The Fund was domiciled in Cayman at inception but was terminated and redomiciled to Luxembourg on 15 Sep 14

Performance is calculated net of fees and on NAV to NAV with dividends reinvested. * Inception Date (Cayman) 1 Aug 2011

Source: BOCHK AMC, Bloomberg

BOCHK All Weather China High Yield Bond Fund

The Sub-Fund aims to generate long-term capital growth and income in RMB terms by investing primarily in fixed income and debt securities that are denominated in RMB or other currencies. The Sub-Fund may also invest in RMB denominated deposits



(RMB)	Performance # For Periods Ending 31 March 2016							Calendar Yr		
	3 Mths	6 Mths	YTD	1 Yr	Annualized			2015	2014	2013 2011 (from Inception*)
					2 Yrs	3 Yrs	Since Inception*			
Fund	3.24%	9.56%	3.24%	12.97%	6.70%	5.41%	5.40%	7.10%	2.18%	3.80%
Reference Benchmark^	1.66%	5.03%	1.66%	7.16%	5.24%	4.99%	4.97%	5.10%	3.83%	4.41%
Excess Return	1.58%	4.52%	1.58%	5.81%	1.46%	0.43%	0.43%	2.01%	-1.65%	-0.61%

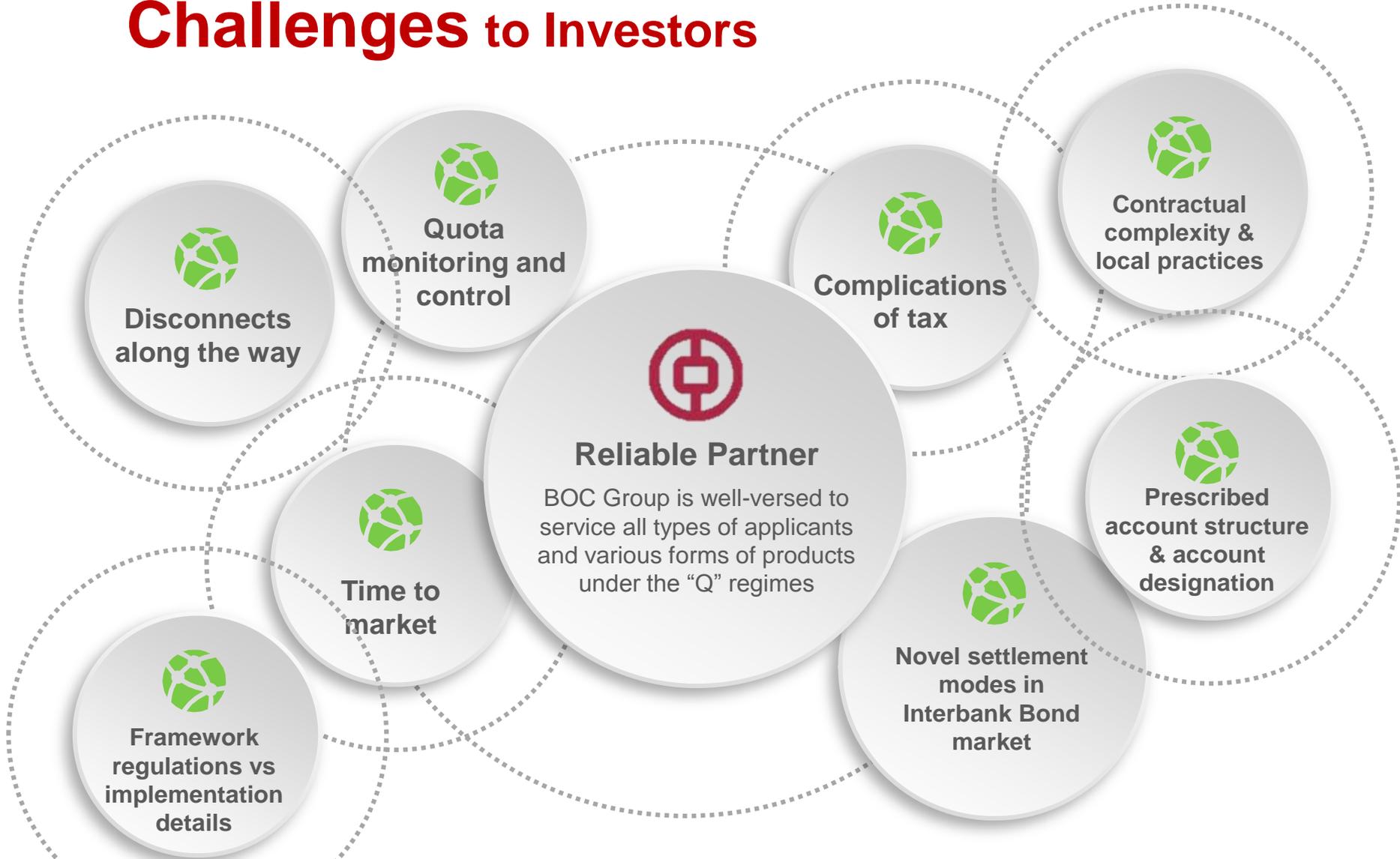
Performance is calculated net of fees and on NAV to NAV with dividends reinvested

* Inception Date 22 Mar 2013

^ Benchmark: HSBC Offshore (CNH) RMB High Yield & Non-Rated Bond Total Return

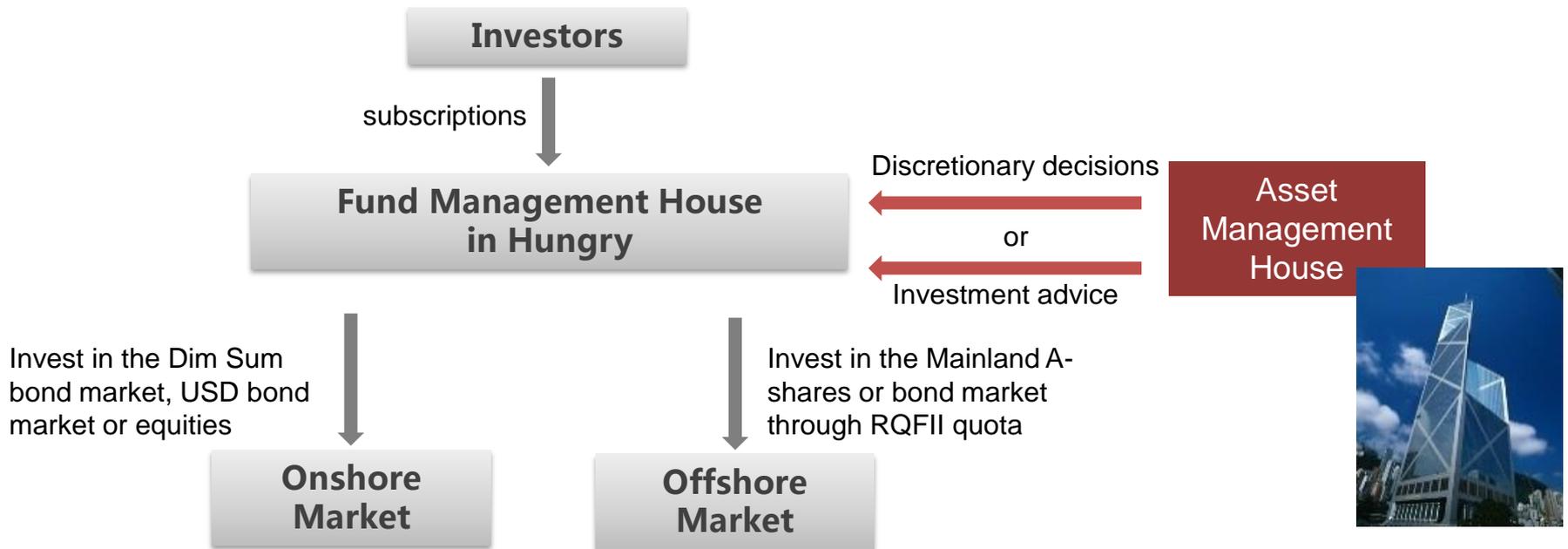
Source: BOCHK AMC, Bloomberg

Challenges to Investors



Launch an RQFII Fund with an Outside Advisor

- BOCHK's subsidiary BOCHK Asset Management Limited (BOCHK AMC) has been the investment advisor for a number of RMB funds launched by overseas financial institutions
- Currently the Dim Sum bond market offers better yields, while the onshore RMB bond market offers more choices and better liquidity



Industry Accolades

Our product solutions are both proven and well recognized in the market



The Asset Triple A
Asset Servicing Award 2013 & 2014

Regional Specialist - Best QFII Custodian
(for 2013)

Regional Specialist - Best RQFII Custodian
(for 2014)

Major Strengths of Bank of China

- **Richest experience**
- **Largest market shares in Greater China – No. of RQFII clients & mandates**
- **Wealth of expertise covering ALL product types of QFII/RQFII**
 - All types of products, be they listed or not
 - Successfully spearheaded the first overseas listed RQFII fund
- **Close contact with concerned regulators**
- **In-depth understanding about regulatory requirements and policy interpretations**
- **Second-to-none RMB-related dealing capabilities**
 - Largest RMB liquidity pool
 - Best FX rates
 - Widest variety of treasury products
 - Largest RMB bond dealing and market-making
 - Brokerage services spanning across equity markets and bond markets
- **Customization of services and reporting according to PRC requirements**
- **System monitoring of RMB investment quotas**
- **Language support**
- **Client communication and sharing of knowhow**

Bank of China – Serving Society, Delivering Excellence





Thank You!

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- (i) result of investment analysis of securities;
- (ii) investment analysis of factors likely to influence the future performance of securities, not including any analysis on macro economic or strategic issue; or
- (iii) advice or recommendation based on any of the foregoing result or investment analysis.

Applying for RQFII Quota

Applying for RQFII qualification to CSRC

- Formally submit an application to CSRC, describing your firm's background, reasons to invest in the Mainland of China, and overall investment strategy
- CSRC generally welcomes the applications from fund houses and securities firms from countries and regions that have already been granted RQFII quotas
- Due to the culture and language differences, having someone who understands Chinese culture will be a great help in communications with CSRC
- Upon the approval from CSRC, your firm is considered to have “RQFII qualification”

Applying for RQFII Quota

Applying for RQFII quota to SAFE

- With “RQFII qualification”, you can apply to SAFE for RQFII quota
- In your application, you should detail your investment plan, the amount of your intended RQFII investment, and the percentage of equity and inter-bank bond market investments
- While SAFE oversees the overall mix of equity and bond investment under the RQFII scheme, at the fund level, you can have 100% of the AUM invested in equity, or 100% in bonds, or anywhere in between

Applying for RQFII Quota

Setting up all the necessary accounts

- You need to set up a custody accounts with a Mainland custody provider. Major players are big 4 banks
- For bonds, you can source them with major counterparties in the Mainland, including big 4 banks, policy banks, and other commercial banks
- BOCHK is currently the only bank that can act as the market-maker for RMB bonds in both onshore and the offshore market
- Most of the funds invested to the Mainland market through RQFII scheme are clients' money in the offshore market. They can either obtain RMB funds through RMB cross-border trade settlement or through the CNH FX market

Difference Between QFII & RQFII

ADIA may like to consider RQFII, which is a more flexible regime than QFII.

	QFII	RQFII
Eligible Candidate	<ul style="list-style-type: none"> - Global; no geographical restriction - No restriction on the types of institutions (banks / fund managers / insurance companies / securities companies / monetary authorities / other institutions) - Each type subject to different entry requirements 	<ul style="list-style-type: none"> - Confined to applicants from the designated offshore RMB centres - Confined to their institutions with asset management qualifications
Quota Size	<ul style="list-style-type: none"> - Quota for each QFII ranges from USD50 mil to USD1 bil - Sovereign funds, central banks, monetary authorities or global fund houses may be granted quota of more than USD1 bil 	<ul style="list-style-type: none"> - No ceiling or floor requirement
Timing for Quota Application	<ul style="list-style-type: none"> - Within 1 year after QFII license approval - Incremental quota can be applied 1 year after each quota approval 	<ul style="list-style-type: none"> - No restriction on timing

Differences Between QFII & RQFII (cont'd)

	QFII	RQFII
-Quota Application	<ul style="list-style-type: none"> - Quota is no longer product-specific - *Each QFII can apply for two types of quota as deem appropriate : <ul style="list-style-type: none"> -open-ended fund quota -own assets, client assets or others 	<ul style="list-style-type: none"> -- Each RQFII can apply for two types of quota as it deem appropriate : <ul style="list-style-type: none"> -open-ended fund quota -client assets or others
-Quota Reallocation among different products of the same type	<ul style="list-style-type: none"> - Quota is no longer product-specific - *Permissible; but reallocation between open-ended fund quota vs others would require prior approval from SAFE 	<ul style="list-style-type: none"> -- Permissible; but reallocation between open-ended fund quota vs others would require prior approval from SAFE
-Funding Injection Period	<ul style="list-style-type: none"> - To be completed within 6 months of quota approval and subject to a minimum of USD20 mil, quota portion not filled will be cancelled - *One-off extension for another 6 months is possible, subject to SAFE approval 	<ul style="list-style-type: none"> -- To be completed within 6 months of quota approval for non-public fund products and quota not filled will be cancelled; no such requirement for open-ended public funds -- One-off extension for another 6 months is possible, subject to SAFE approval
-Inward Remittances of Quota	<ul style="list-style-type: none"> - Inward remittances can be made in major foreign currencies 	<ul style="list-style-type: none"> -- Inward remittance in RMB only

* as communicated by SAFE with the industry in mid-Aug 2015 and formalized since Oct 2015

Differences Between QFII & RQFII (cont'd)

	QFII	RQFII
-Forms of Products	<ul style="list-style-type: none"> -Three major types for each QFII: -Open-ended funds (no limit on the no. of quota) -Client assets (maxi. 6 quotas) -Proprietary assets (maxi. 1 quota) 	<ul style="list-style-type: none"> -Three major types for each RQFII: -Open-ended funds (no limit on the no. of funds) -Private funds (no limit on the no. of funds) -Client assets (6 set of A/Cs)
-Lock-Up Period	<ul style="list-style-type: none"> - 3 months for open-ended funds, pensions, insurance monies, mutual funds, charity funds, donation funds, or institutions like governments or monetary authorities - 1 year for the other types 	<ul style="list-style-type: none"> - Nil for open-ended funds - 1 year for other products

Differences Between QFII & RQFII (cont'd)

	QFII	RQFII
<p>-Frequency of Cross-Border Flows -(for open-ended funds)</p>	<ul style="list-style-type: none"> - Weekly; weekly fund-flows on net basis only; i.e. QFII either remits in or repatriates out each time - Monthly total of net out-flows cannot exceed 20% of the asset size as of the previous year-end - For each outward remittance, its principal versus profit have to be ascertained so that only the principal portion can be remitted in again 	<ul style="list-style-type: none"> - Daily; daily fund-flows on net basis with no limit on the frequency; however, the day-end net balance cannot exceed the quota size
<p>-Frequency of Cross-Border Flows -(for other products)</p>	<ul style="list-style-type: none"> - Monthly, net outflows capped at 20% of the asset size as of the previous year-end - Only outward repatriation is allowed - No limit on the no. of outward remittances made each month - *Repatriation of principal will be subject to a filing process to SAFE through the custodian; and quota will be reduced accordingly - Repatriation of profit will be subject to the provision of audit report and tax certificates 	<ul style="list-style-type: none"> - Monthly - Only outward repatriation is allowed - Once per month. - Repatriation of principal will need to be filed with SAFE; and quota may be reduced accordingly - Repatriation of profit will be subject to the provision of audit report and tax certificate/tax filing confirmation

* as communicated by SAFE with the industry in mid-Aug 2015 and formalized since Oct 2015

Differences Between QFII & RQFII (cont'd)

	QFII	RQFII
Outward Remittance Currencies	FCY only	Can be RMB or FCY
Investment Ratios	No more than 20% cash holding 50% equity investment	- No such stipulation, but please note the latest guidelines from the PRC regulators
Compliance Report	- Required quarterly	- Required annually
Use of PRC custodian	- One only	- Maximum three, with one of them being appointed the Main Reporting Bank

- **Notwithstanding the above differences, it is said that :**
 - The approach, principles or framework for RQFII are consistent with those for QFII;
 - Reference has been made to the QFII experience in setting the RQFII rules;
 - Consideration has also been given to the idiosyncrasies of RMB usage in the outside world; etc.
- **It is likely for RQFII and QFII to get more synchronized or even merged going forward.**