

**MSCI has announced the result of their 2017 Market Classification Review, and the long-awaited China A-Share inclusion is finally going to happen in 2018.**

### Key Facts

- **Timeline:** it will be done in 2 phases, May 2018 / Aug 2018
- **No. of stocks to be included:** 222 (more than 169 previously) China A-Shares large cap stocks only (same as the proposal in March), final list will be decided using price data in April 2018
- **Weighting in MSCI EM:** Approximately 0.73%

### Implications and Our View

As we've discussed previously, there were some key obstacles for the decision and the announcement was sensible to address MSCI's concerns – the 2 phases of inclusion. This offers a more flexible way for MSCI to track progress on, i.e. whether the A-share markets will become a more open market by abolishing stock connect daily limit, progress on trading suspension and lowering the restrictions on anti-competitive measures etc. With that said, MSCI could decide to implement the inclusion in one phase instead if the progress is satisfactory.

This is no doubt a positive news for China A-Share equities and it is another huge step towards capital market opening for China. We reiterate this carries more symbolic value in the near term than actual flow given the small % of weighting especially in the first phase which will happen 11 months later.

Market is estimating around USD12bn flow by August 2018 and the sentiment improvement shall add positive spins to our bottom up stock picks in the A-Shares market. Currently, we favour selective A-Shares home appliances and high end white liquor (baiju) companies driven by consumption upgrade in mainland China.

Click [here](#) for official statement from MSCI.

### Questions?

Should you have any queries, please feel free to contact one of our Asia Investment Specialists.

#### Derek Paas (NSW/QLD/ACT)

E: [derek.paas@premiumchinafunds.com.au](mailto:derek.paas@premiumchinafunds.com.au)

T: +61 406 608 388

#### Jonathan Wu (VIC/TAS/SA/WA)

E: [jonathan.wu@premiumchinafunds.com.au](mailto:jonathan.wu@premiumchinafunds.com.au)

T: +61 416 031 676

#### Clayton Coplestone (New Zealand)

E: [clayton@heathcoteinvestment.com](mailto:clayton@heathcoteinvestment.com)

T: +64 21 410 815 or 0508 410 815 (toll free New Zealand only)