

 BROWN BROTHERS HARRIMAN

EXCHANGE THOUGHTS



2021 Greater China ETF Investor Survey

Introduction

As part of our eighth annual ETF Survey, we broke out Greater China respondents to outline the emerging trends in usage, selection, and demand for exchange-traded funds in the region.

Brown Brothers Harriman (BBH) recently surveyed more than 300 institutional investors, financial advisers, and fund managers from around the world (U.S., Europe, and Greater China – including Mainland, Hong Kong, and Taiwan). This fourth annual supplemental report takes a closer look at the Greater China responses. In Greater China, the sample was 58% institutional investors, 20% financial advisers, and 22% fund managers. All respondents invest in ETFs and are aware of their institution's overall investment strategy.

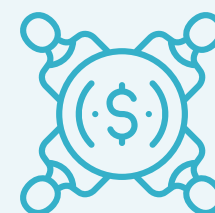
Content:

- Greater China ETF Marketplace.....2
- Thematic ETFs.....5
- China Cross-Border.....7
- ESG ETFs.....10
- Active and Fixed Income ETFs.....13

Greater China ETF Marketplace

Key Findings:

- **The pace of ETF adoption in Mainland China is ramping up.** An astonishing 92% of Mainland investors expect to increase their ETF allocation in the next 12 months, an increase of 10 percentage points from 2020.
- **Thematic ETFs get the green light.** There's resounding interest across the region with 91% of Mainland investors, 86% of Hong Kong investors, and 74% of Taiwan investors looking to increase allocations to thematic ETFs this year.
- **Mainland access continues to draw interest from global investors.** 86% of global investors plan to increase investment into the Mainland equity and bond markets in 2021.
- **ESG has captured the region's attention.** 92% of investors in Greater China plan to allocate more capital to ESG strategies this year. In 5 years, 53% of investors expect to have at least 11% of their portfolio in ESG ETFs.
- **There's an appetite for fixed income ETFs.** 76% of respondents plan to increase their exposure to fixed income ETFs.



146 respondents in Greater China, representing Mainland, Hong Kong, and Taiwan



76% manage more than \$100 million (USD) in assets



56% have more than 25% of their portfolio invested in ETFs

Greater China ETF Marketplace

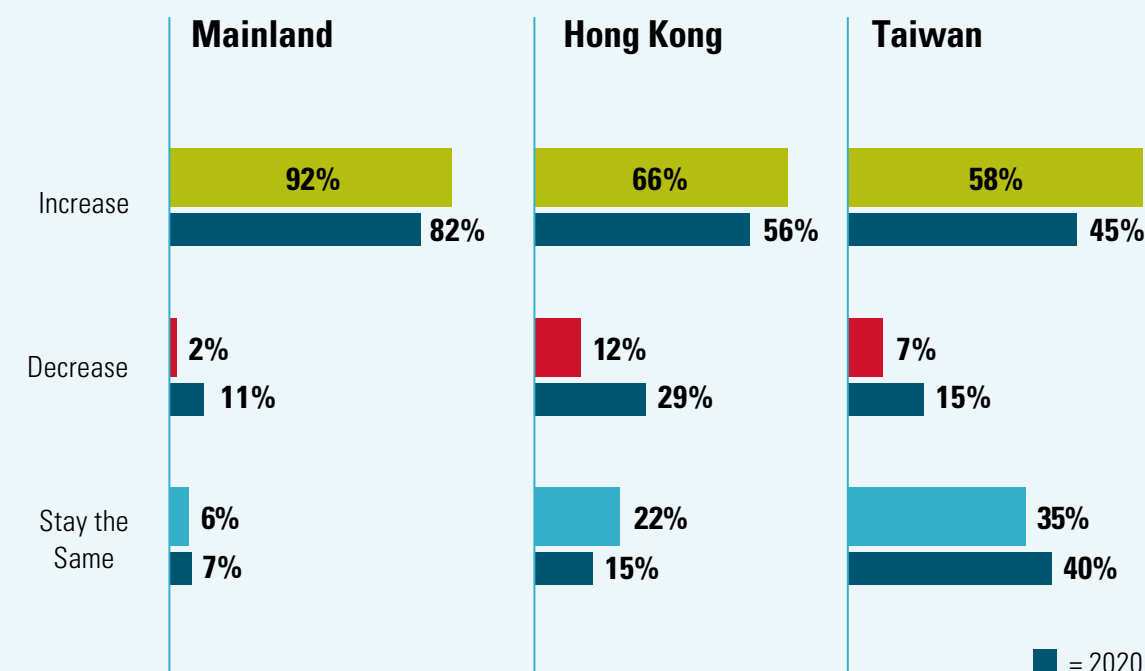
Growth in the region is closely aligned with Mainland China, which presents a significant opportunity as the onshore asset management industry continues to mature and internationalize. Known as the world's bridge to the Mainland, Hong Kong is well positioned to capitalize on this growth, while Taiwan has been one of the fastest growing ETF markets across Asia with a high level of product innovation.

As evident in the responses, ETF adoption and usage are at varying stages across Greater China. Investors in each market also have distinct views on key criteria for selecting ETFs. In the Mainland and Taiwan, historical performance was the most important factor for ETF selection. While in Hong Kong, investors focused on trading volume, noting how historical performance impacted their product choice.

2020 was a banner year for ETFs in the region. The market now represents a \$270 billion industry and is showing no signs of slowing.¹ This global growth is all the more impressive considering that close to a year ago, the market experienced one of the most volatile periods in recent history as the economic impacts of the pandemic took effect. Ongoing education efforts across Greater China around the structural benefits of the ETF wrapper seem to be resonating as investors are increasingly bullish on the products. 76% of investors in the region expect to increase their allocation to ETFs in the next 12 months.

ETFs Are Expected to Grow in the Region

Do you expect your use of ETFs to increase, decrease, or stay the same over the next 12 months?



Greater China ETF Marketplace

Historical Performance is Top Consideration

When selecting ETFs, please select and rank your top three of the following in terms of importance*.

Mainland	2021 Rank	Hong Kong	2021 Rank	Taiwan	2021 Rank
Historical Performance	1	Trading Volume	2	Historical Performance	1
Trading Volume	2	Historical Performance	3	Trading Volume	2
Trading Spreads	3	Index Methodology	1	Trading Spreads	3
Expense Ratio	4	Expense Ratio	6	Expense Ratio	6
Index Methodology	5	Trading Spreads	4	Index Methodology	4
ETF Issuer	6	ETF Issuer	5	ETF Issuer	5
Tax Efficiency	7	Tracking Error	7	Tax Efficiency	7
Tracking Error	8	Tax Efficiency	8	Tracking Error	8

*Please note that we removed ESG factors as a response in the 2021 Survey.

Top ETF Strategies

Please rank the top three ETF strategies that you want to see more of in the market.

Mainland	2021 Rank	Hong Kong	2021 Rank	Taiwan	2021 Rank
Environmental, social, and governance (ESG)	1	Thematic	2	Environmental, social, and governance (ESG)	1
Cryptocurrency	2	Cryptocurrency	3	Cryptocurrency	3
Thematic	3	Environmental, social, and governance (ESG)	4	Active	4
Active	4	Currency hedged	5	Thematic	6
Defined Outcome ETFs (Buffered ETFs)	5	Active	6	Defined Outcome ETFs (Buffered ETFs)	7
Currency hedged	6	Defined Outcome ETFs (Buffered ETFs)	7	Currency hedged	8
Market Capitalization index	7	Market Capitalization index	8	Market Capitalization index	9
Smart beta or Factors	8	Smart beta or Factors	9	Leveraged/Inverse	10
Leveraged/Inverse	9	Leveraged/Inverse	10	Smart beta or Factors	11

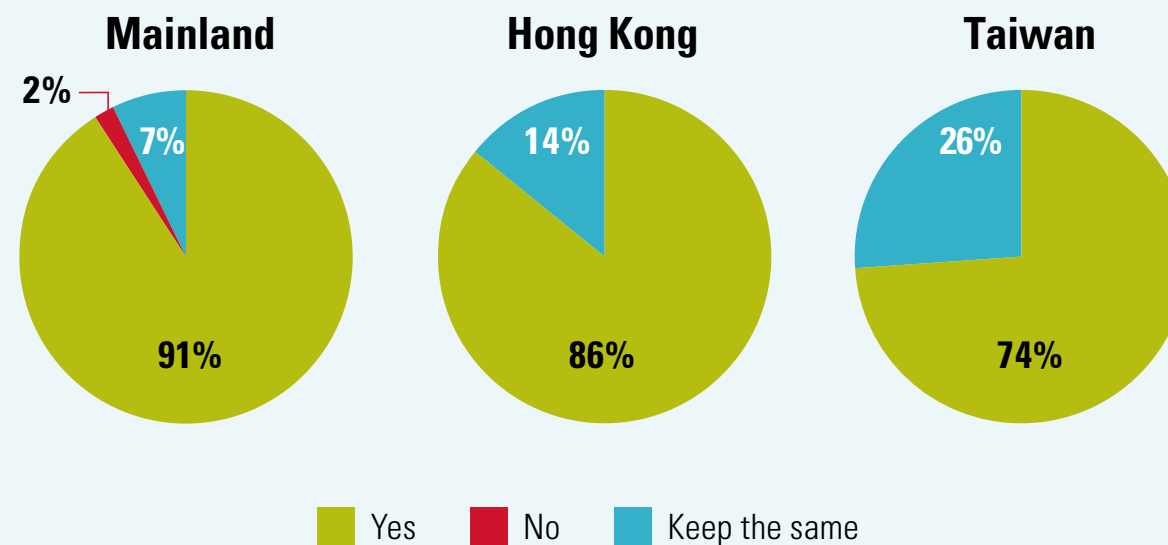
Thematic ETFs

Interest in thematic ETFs has grown significantly in recent years. Strong performance and widespread media attention of several prominent thematic ETFs helped fuel demand in 2020. We don't see that interest waning, especially in Mainland China. 91% of Mainland ETF investors said they plan on increasing exposure to thematic ETFs this year. Technology-focused thematic ETFs command the most interest from ETF investors, but there were other areas worth noting, including robotics/AI and electric vehicles. Often these ETF strategies are seen as ways to tap into long-term changes in various sectors and demographics, and while they are typically very concentrated, investors appear to be using them more widely.

Given the considerable gains in the value of digital assets throughout 2020, it is not surprising that many investors are gravitating toward fintech/crypto ETFs. Advances in the digital asset ecosystem, and increasing investment in these underlying currencies by hedge funds and corporate entities, may see ETFs targeting this market as a leading edge of broader digital asset adoption.

Thematic ETF Allocation

Do you plan on increasing your exposure to thematic ETFs?



Thematic ETFs

Thematic ETF Types

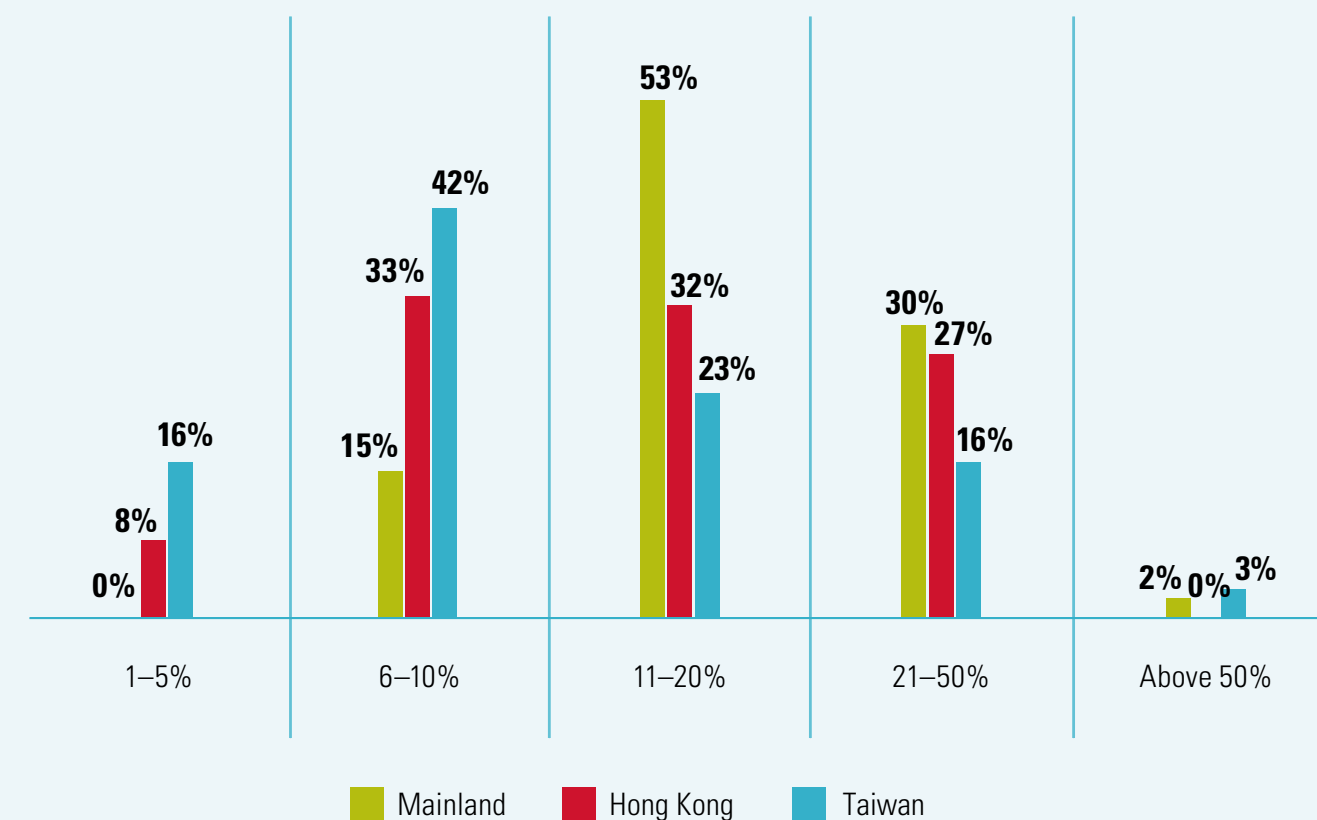
What type of thematic ETFs are you most interested in?

	Mainland	Hong Kong	Taiwan
Internet/technology	42% (37%)	20% (22%)	19% (35%)
Robotics & AI	18% (25%)	18% (17%)	48% (18%)
Cannabis	0% (1%)	0% (0%)	0% (1%)
Healthcare	8% (0%)	10% (15%)	13% (4%)
FinTech / Crypto	8% (9%)	16% (12%)	7% (15%)
Autonomous & Electric vehicles	8% (4%)	32% (5%)	13% (16%)
Environmental, social, and governance (ESG)	16% (24%)	4% (29%)	0% (11%)

(2020 %)

Thematic Future Portfolio Allocation

In five years, what percentage of your portfolio will be in thematic ETFs?



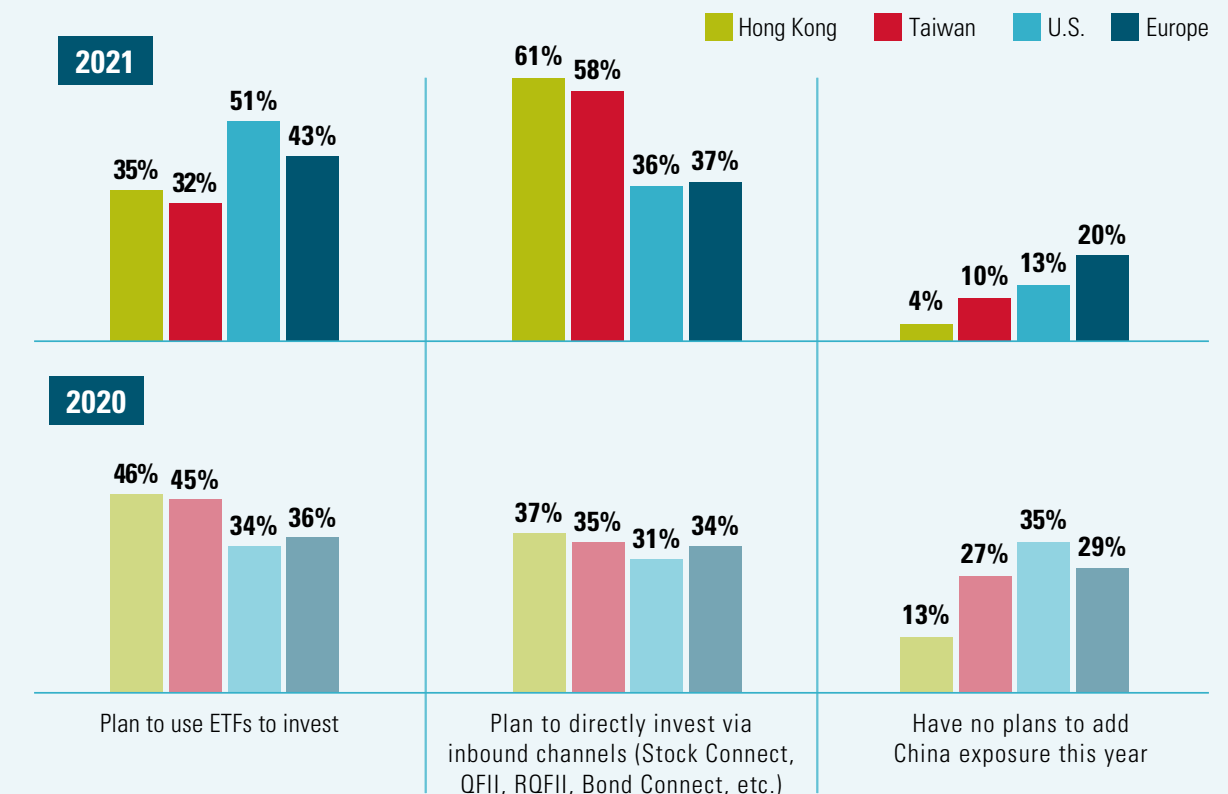
China Cross-Border

The Mainland market was one of the top performing equity markets globally in 2020 as it rebounded from the pandemic prior to the rest of the world. Last year, investors continued their trend of increasing allocations to the Mainland equity and bond markets. 86% of global respondents planned to increase their allocations to the China equity and bond markets in 2021 and the majority expected to use ETFs to facilitate their investment. China thematic ETFs were frequently noted by the survey respondents with 50% of global investors planning to allocate to these products in 2021.

As the ETF industry awaits further clarity on the potential for ETFs to be included in the Stock Connect program, Mainland investors aren't slowing down their interest in accessing the Hong Kong market through other available channels. If provided the future ability to buy Hong Kong listed ETFs, Mainland investors were most interested in managed risk/low volatility products as well as leveraged/inverse ETFs. Emerging market equity and short duration fixed income were the two asset classes most demanded by the respondents.

Mainland China Investment Access

If you are going to invest in China over the next 12 months, how do you plan to do so?



China Cross-Border

Mainland China ETF Strategies of Most Interest to Global Investors

What type of ETFs do you plan to purchase in the next 12 months to obtain your China exposure?

	Hong Kong	Taiwan	U.S.	Europe
China equity (broad based index, example: CSI300, A50, etc.)	41% (47%)	30% (56%)	35% (30%)	28% (42%)
China Treasury /Policy Bank Bonds	24% (32%)	30% (23%)	32% (30%)	30% (26%)
China Short Duration Bond	53% (21%)	30% (22%)	29% (12%)	28% (13%)
China Thematic/Sector (example: technology, internet, robotics, etc.)	59% (42%)	30% (26%)	48% (15%)	52% (35%)
Emerging Market equity	47% (37%)	40% (33%)	61% (52%)	39% (42%)

(2020 %)

China Cross-Border

ETF Connect: Mainland investors accessing Hong Kong listed ETFs

If allowed to invest cross border into Hong Kong listed ETFs, what types of ETFs could be in demand for your clients and your firm?

	Mainland
Hong Kong equity	33%
Asia Pacific equity	47%
U.S. Equity	39%
Emerging Market equity	61%
Short duration fixed income	50%
High Yield Fixed Income	44%
Commodity	27%
Other: (please specify)	3%

ETF Connect: ETFs strategies in demand by Mainland investors

If allowed to invest cross border into Hong Kong listed ETFs, what type of ETF strategy could be in demand for your clients and your firm?

	Mainland
Leveraged/ Inverse	38% (4%)
Environmental, social, and governance (ESG)	33% (15%)
Smart beta	36% (17%)
Active	36% (7%)
Market capitalization weighted index	35% (0%)
Thematic/sector	27% (7%)
Currency hedged	29% (11%)
Managed risk/low volatility	42% (22%)
Cryptocurrency	24% (17%)

(2020 %)

ESG ETFs

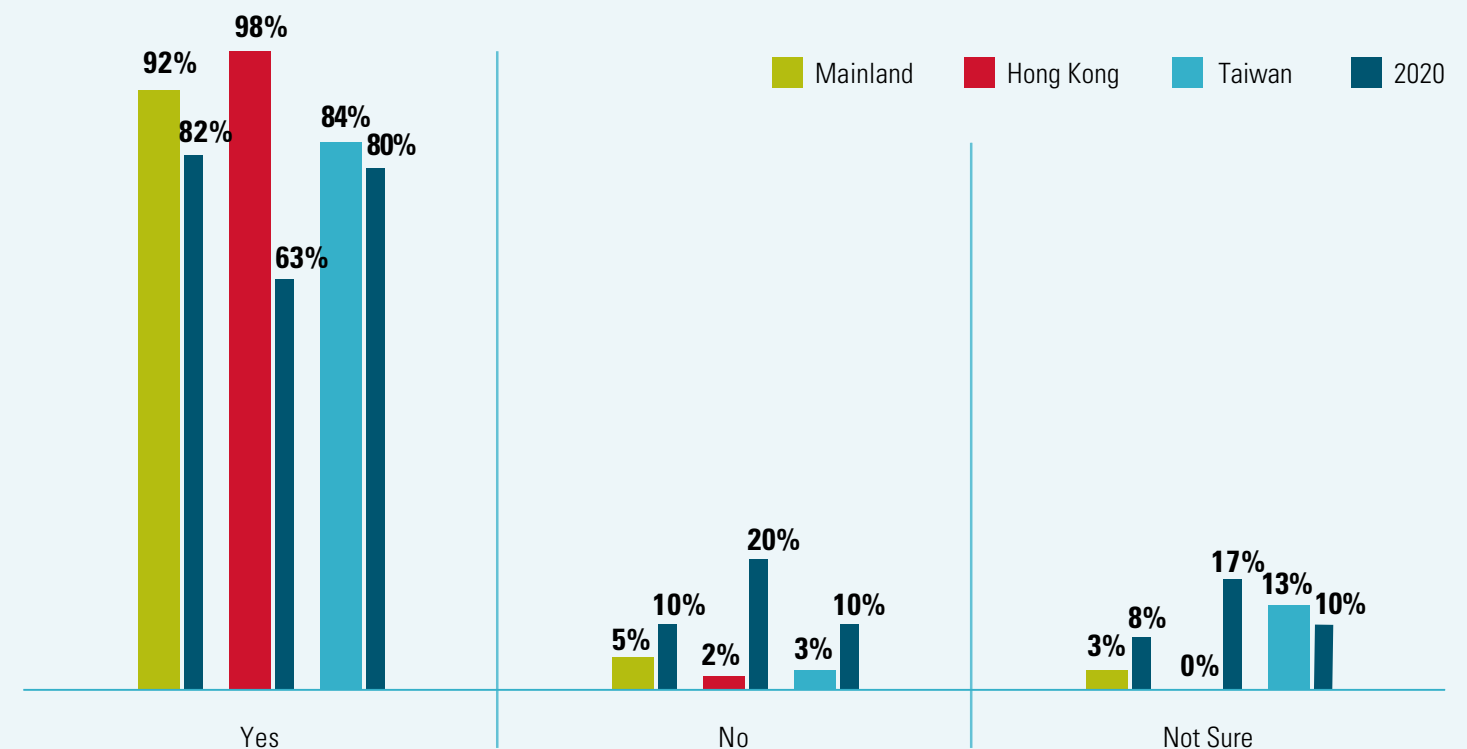
Although ESG is clearly a growing investment theme, thematic ETF statistics do not include funds devoted to strategies that rely on environmental, social, and governance (ESG) criteria for choosing the equities, yet ESG ETFs also attracted significant new assets in 2020. Globally, a record \$89 billion flowed into ESG ETFs in 2020, well above the \$28 billion of flows in 2019.² In Greater China, policy makers are enhancing regulations to further integrate climate related risks into fund managers' investment management and risk processes. Disclosures are being enhanced, which will result in more data being available.

In terms of locally listed products, there is increasing interest from issuers to bring ESG ETFs to the regional market.

While there are headwinds, the ESG segment is clearly gaining momentum, particularly in Greater China. Across all three markets, there is a pronounced uptick in interest in ESG products.

ESG Allocation

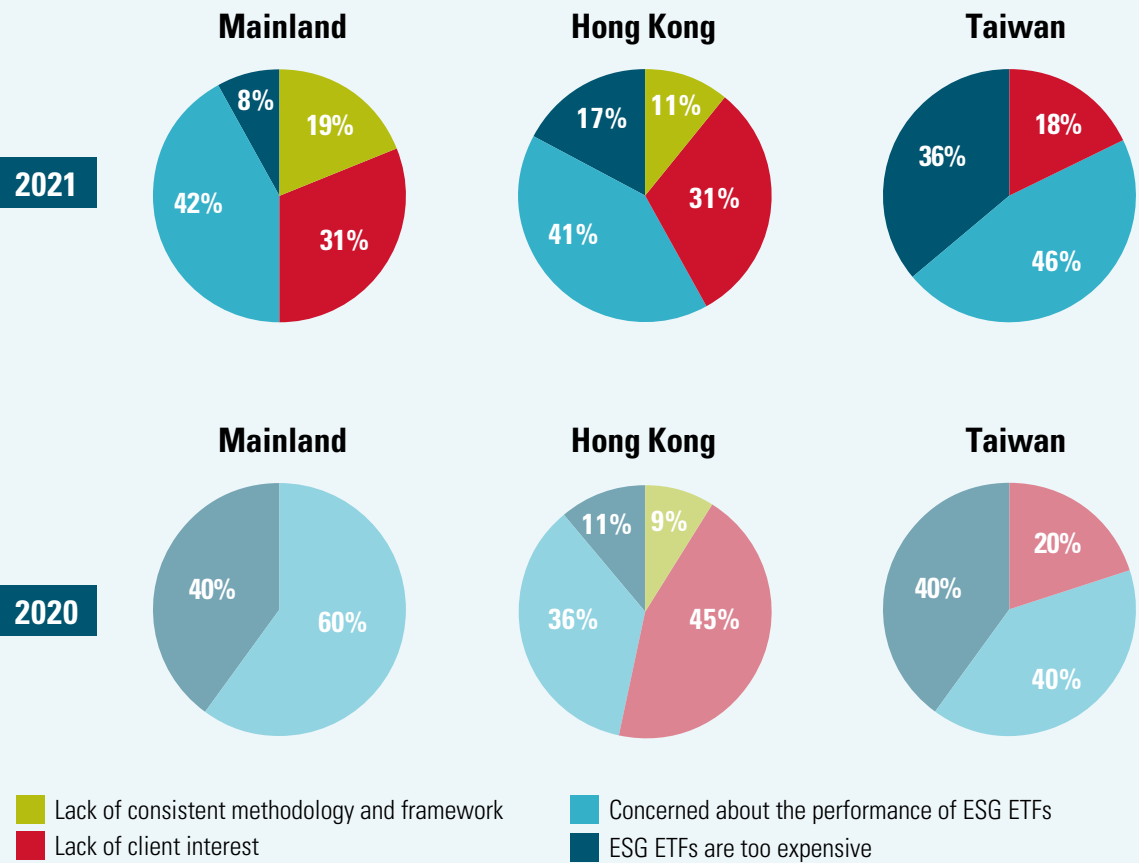
Do you plan to increase your allocation to environmental, social, and corporate governance (ESG) investments (not limited to ESG ETFs) over the next year?



ESG ETFs

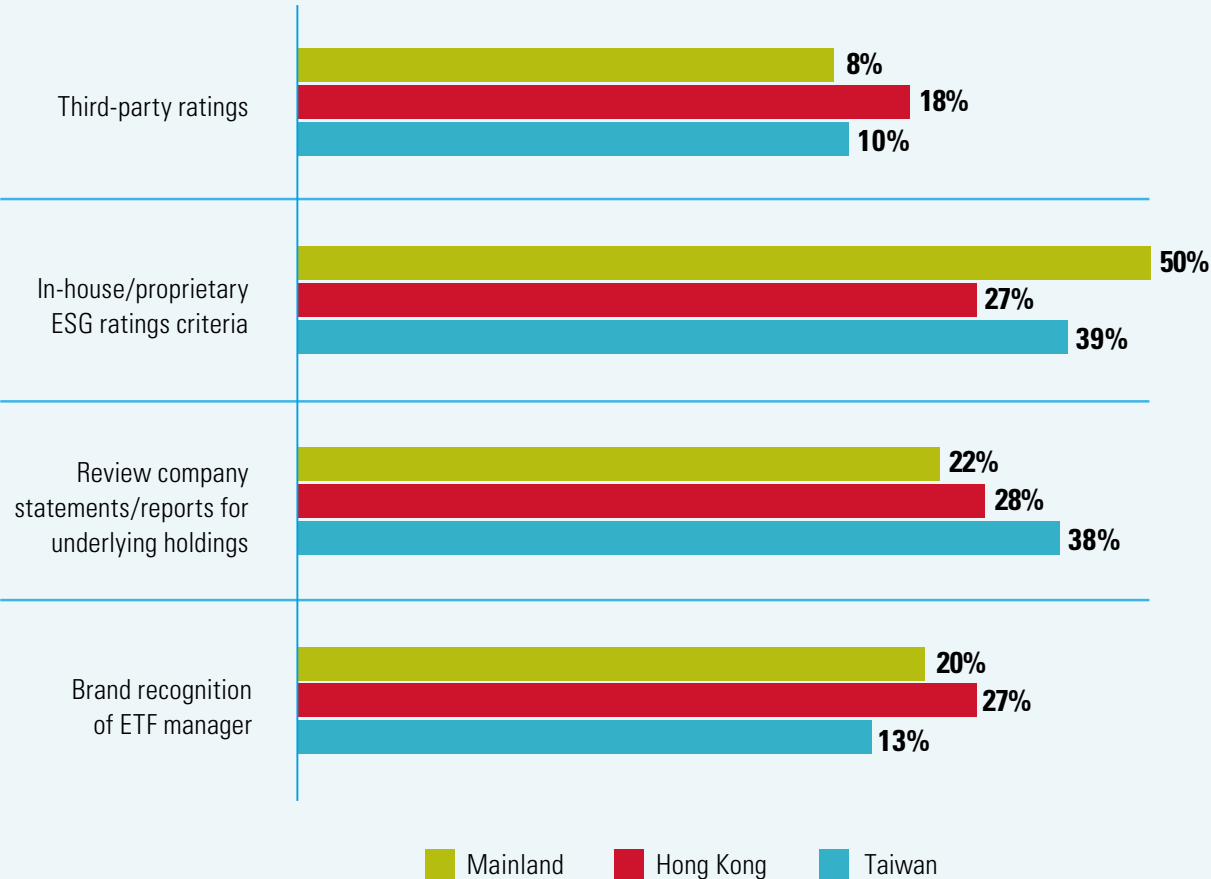
ESG Headwinds

What is preventing you from adding ESG to your portfolio?



ESG Evaluation

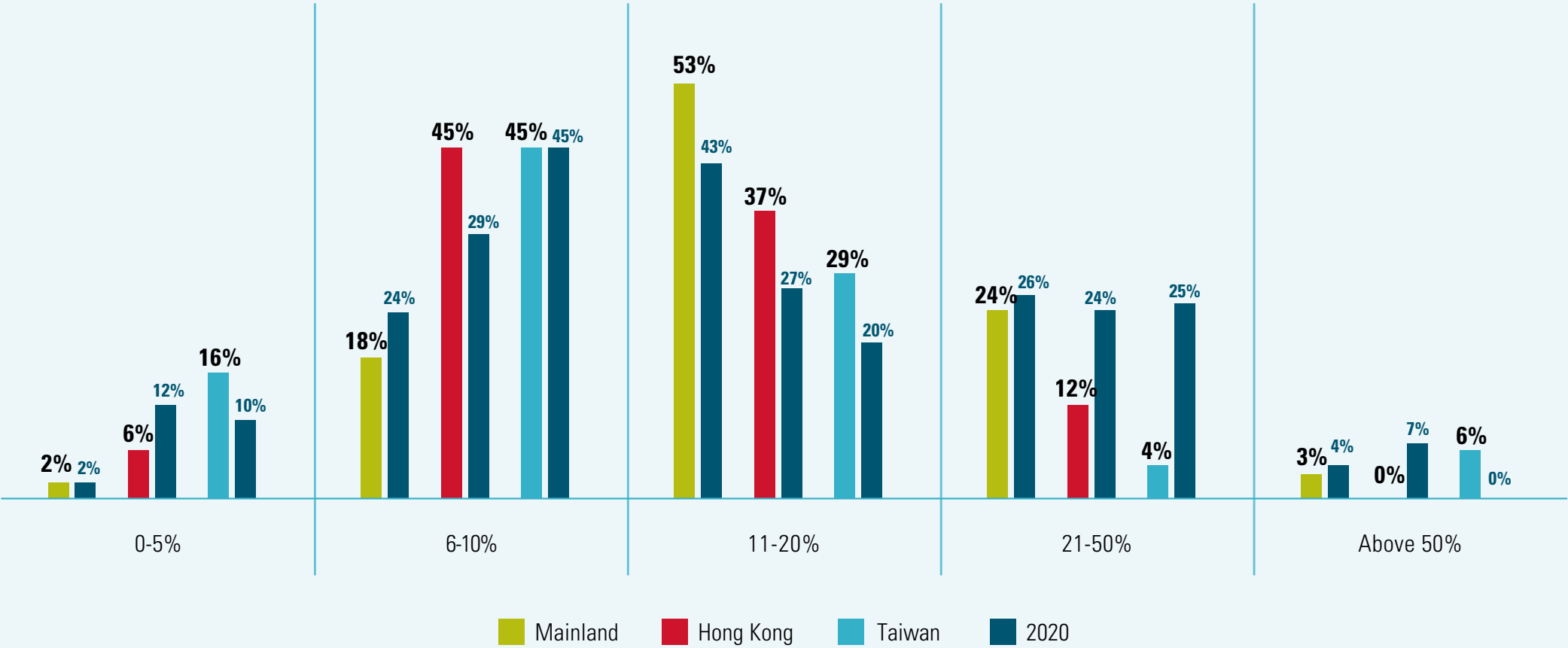
How do you evaluate ESG ETFs?



ESG ETFs

ESG Allocation in Five Years

In five years, what percentage of your portfolio will be ESG ETFs?



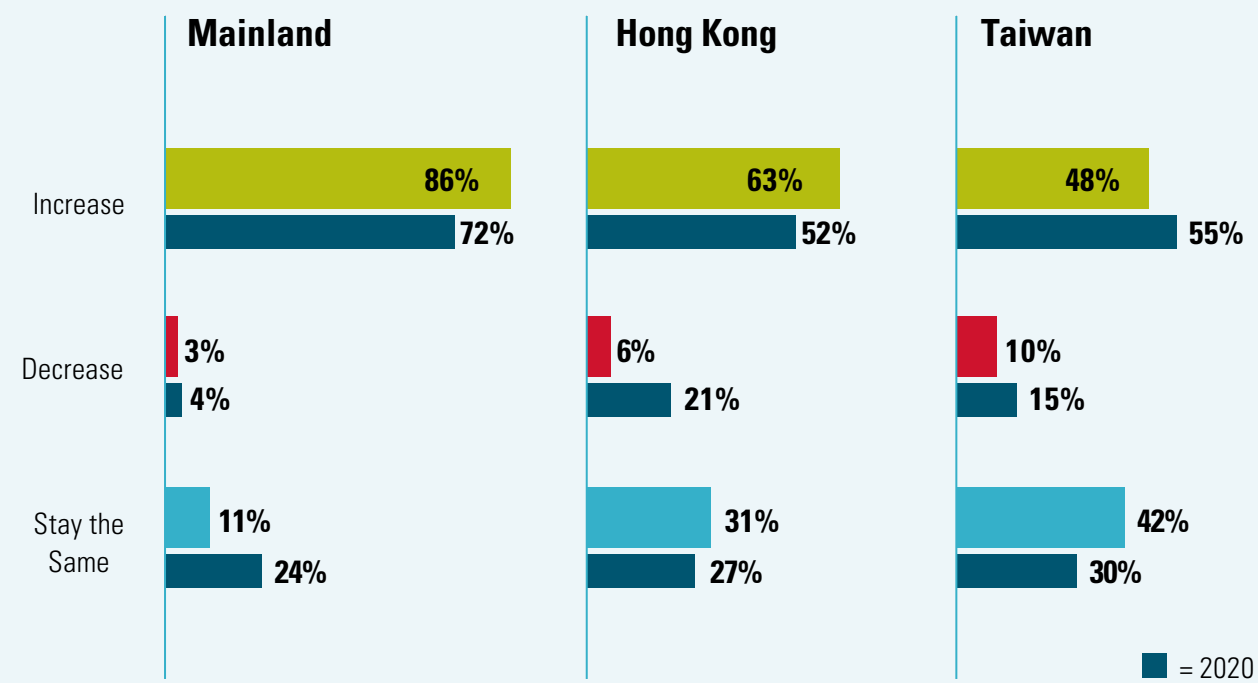
Active & Fixed Income ETFs

Actively managed ETFs are not a new phenomenon in the global ETF market, but the concept is relatively new in Greater China. They've been in play for over a decade and now account for about 2.9% of global ETF market share or \$303 billion in asset under management (AUM)³. What's different now is the introduction of new structures through which active managers can deliver their investment strategies. It stands to reason that the segment will grow: Across geographies, there was a pronounced uptick in surveyed investors' planned allocation to active ETFs.

Australian investors have been an early adopter with active ETFs accounting for 50% of net new flows in 2020, while in Hong Kong, issuers continued to add new active ETFs to their platforms. Similar to Europe and the U.S., transparency continues to be top of mind for active asset managers who are assessing these products. Finally, Defined Outcome (buffered ETFs) is an area to watch. The products surged in popularity in the U.S. in 2020 and caught the attention of managers and investors globally. These type of products will likely be a basis for additional innovation in the ETF market, especially in how active management is deployed in the wrapper.

Active ETF Exposure

Do you expect your exposure to actively-managed ETFs to increase, decrease, or stay the same over the next 12 months?



Active ETFs

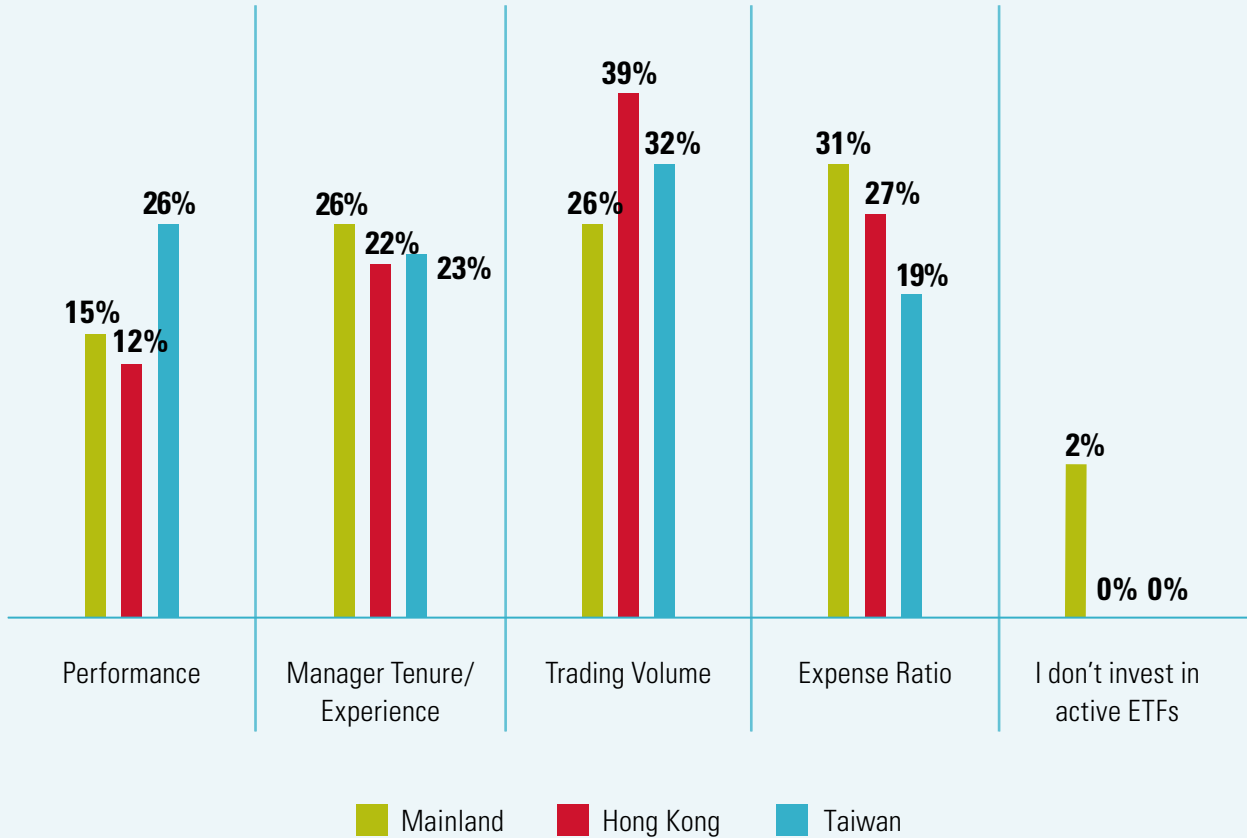
Active ETF Asset Classes

In what asset class would you be most likely to look for in an actively-managed ETF?

	Mainland	Hong Kong	Taiwan
Fixed income	21%	16%	26%
Domestic equity	6%	18%	6%
Global equity	14%	12%	26%
Multi asset	20%	16%	16%
Commodities	2%	9%	3%
Alternatives	4%	5%	10%
Currency	4%	10%	0%
Buffered ETFs (e.g. Defined Outcome ETFs)	29%	14%	13%

Concerns with Active ETFs

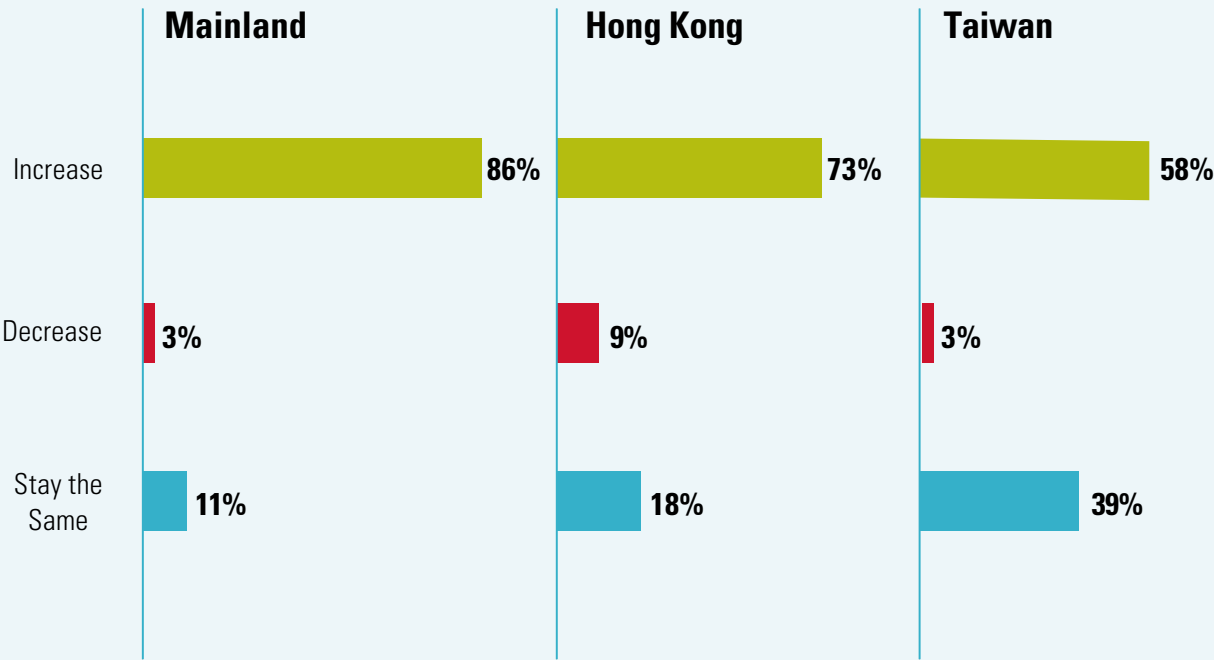
What concerns you most when investing in active ETFs?



Fixed Income ETFs

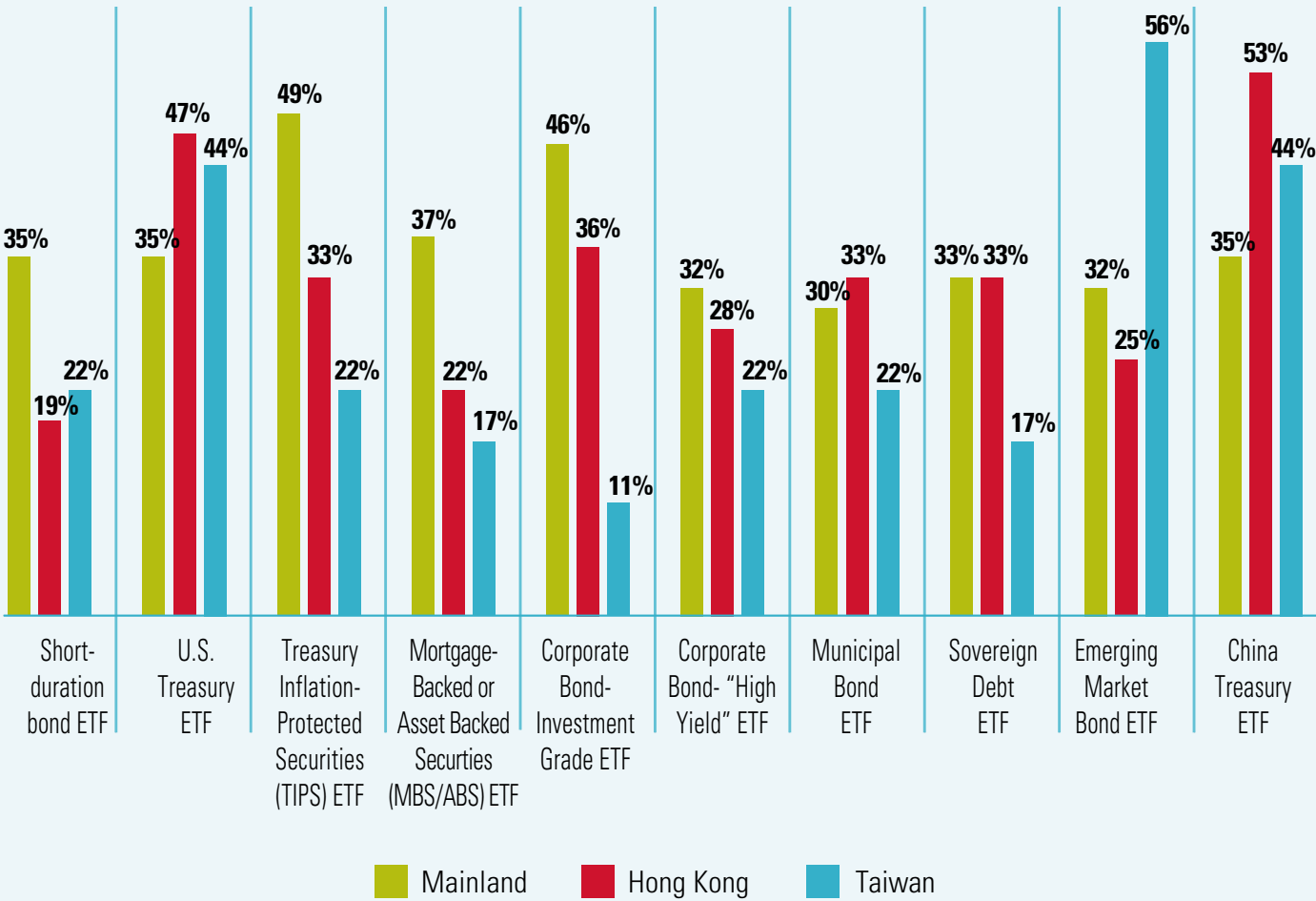
Fixed Income Allocation

Do you expect your exposure to fixed income ETFs to increase, decrease, or stay the same over the next 12 months?



What Types of Fixed Income ETFs Investors Will Add

What types of fixed income ETFs do you plan to add to your portfolio?



If you would like to discuss the survey results or learn more about ETFs, please let us know.
We look forward to collaborating with you. www.bbh.com/etf



GLOBAL

Shawn McNinch
+1.617.772.1376
shawn.mcninch@bbh.com

Brown Brothers Harriman Investor Services provides asset servicing and technology solutions to leading global asset gatherers. We are an ETF specialist for US, European, and Asian-domiciled products, and works with both experienced ETF managers and new, innovative market entrants to introduce and grow their ETF products.



ASIA

Chris Pigott
+852.3756.1749
chris.pigott@bbh.com

BBH partners with our clients to achieve their business objectives through successful navigation of the ETF product development, distribution, and servicing life cycle. We help clients launch, list, and manage ETFs across the globe.



ASIA

Samuel Zhao
+852.3756.1668
samuel.zhao@bbh.com

For the latest insights visit:

**EXCHANGE
THOUGHTS**
BBH.com/exchangethoughts

ON^{THE}REGS
BBH.com/ontheregs

Mind^{on the}Markets
BBH.com/mindonthemarkets

LinkedIn
Brown Brothers Harriman

 **BROWN BROTHERS HARRIMAN**

NEWYORK BEIJING BOSTON CHARLOTTE CHICAGO DUBLIN GRAND CAYMAN HONG KONG JERSEY CITY KRAKÓW LONDON LUXEMBOURG NASHVILLE PHILADELPHIA TOKYO WILMINGTON ZÜRICH WWW.BBH.COM

Data as of 3/1/2021

Brown Brothers Harriman & Co. ("BBH") may be used as a generic term to reference the company as a whole and/or its various subsidiaries generally. This material and any products or services may be issued or provided in multiple jurisdictions by duly authorized and regulated subsidiaries. This material is for general information and reference purposes only and does not constitute legal, tax or investment advice and is not intended as an offer to sell, or a solicitation to buy securities, services or investment products. Any reference to tax matters is not intended to be used, and may not be used, for purposes of avoiding penalties under the U.S. Internal Revenue Code, or other applicable tax regimes, or for promotion, marketing or recommendation to third parties. All information has been obtained from sources believed to be reliable, but accuracy is not guaranteed, and reliance should not be placed on the information presented. This material may not be reproduced, copied or transmitted, or any of the content disclosed to third parties, without the permission of BBH. Pursuant to information regarding the provision of applicable services or products by BBH, please note the following: Brown Brothers Harriman Fund Administration Services (Ireland) Limited and Brown Brothers Harriman Trustee Services (Ireland) Limited are regulated by the Central Bank of Ireland; Brown Brothers Harriman Investor Services Limited is authorised and regulated by the Financial Conduct Authority; Brown Brothers Harriman (Luxembourg) S.C.A is regulated by the Commission de Surveillance du Secteur Financier. All trademarks and service marks included are the property of BBH or their respective owners. © Brown Brothers Harriman & Co. 2021. All rights reserved. IS-07362-2021-05-28 20210720