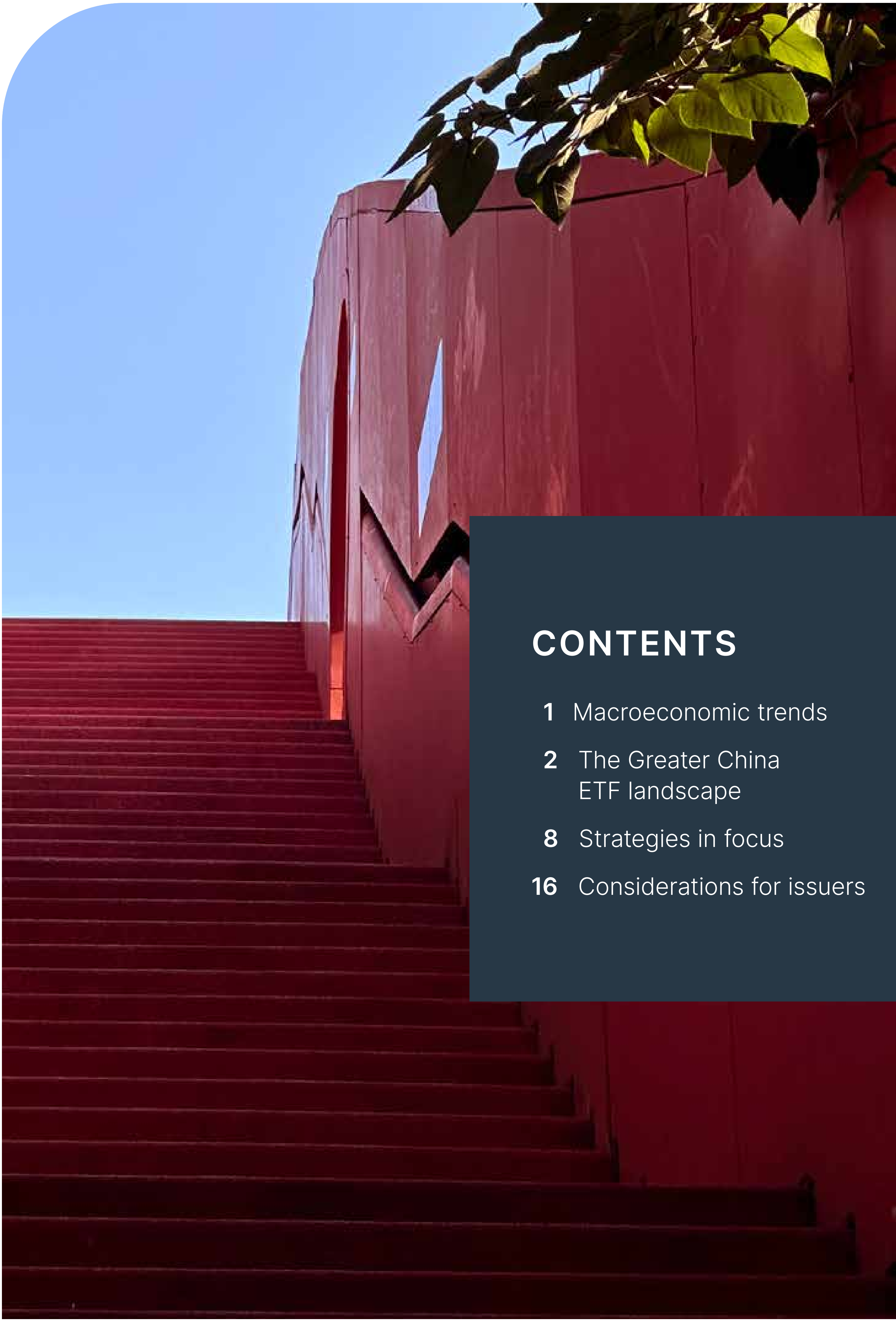
2025

Greater China ETF Investor Survey

EXPLORING OPPORTUNITY



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Welcome

BBH's 8th Annual Greater China ETF Investor Survey, which is a subset of its Global ETF Investor Survey, comes amid a period of heightened market dislocation, as trade tensions continue globally.

As the challenging macroeconomic headwinds intensify, our survey found that appetite among Greater China investors for ETFs offering downside protection, such as buffered ETFs, is trending upwards. In addition, the survey highlighted that the region's asset allocators are also registering increased demand for active ETFs.

As the regional ETF markets have matured and developed, investors are deploying an increasing amount of capital to ETFs. While local ETF issuers have a strong position across Greater China, there are opportunities for international ETF issuers too, as long as they understand the local market nuances.

This uniquely placed, Greater China-centric report is here to help.

The macro backdrop

Rising geopolitical tensions and shifting macroeconomic dynamics hold major implications for the Greater China (mainland China, Hong Kong, Taiwan) Exchange Traded Fund (ETF) industry in 2025.

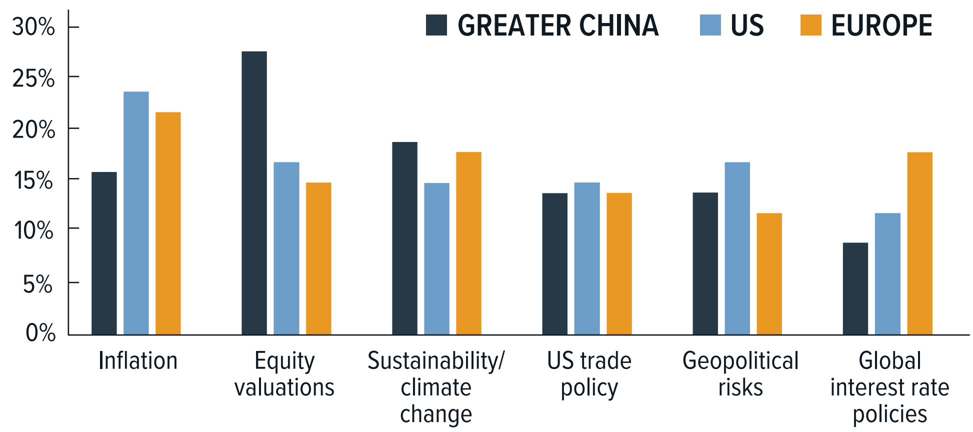
US tariffs are expected to have far-reaching consequences for the region. For China and other parts of Asia, the escalating trade war with the US risks being damaging for economic growth. The impact of this volatility and uncertainty on regional ETF flows is yet to be fully understood, however.

Investment decisions in Greater China will be swayed by a variety of global trends.

Whereas our survey found inflation is the biggest driver for American and European allocators, Greater China investors are influenced mostly by equity valuations (28%), followed by sustainability and climate change (19%) with inflation sitting in third place (16%). However, with this survey being fielded prior to US tariff discussions, we suspect responses would differ today, with US trade policy potentially being ranked higher.

However, most experts would argue that, in the future, investors will give greater consideration to US trade policy when constructing their ETF portfolios.

Which global trends do you believe will most significantly influence your investment strategy in 2025?



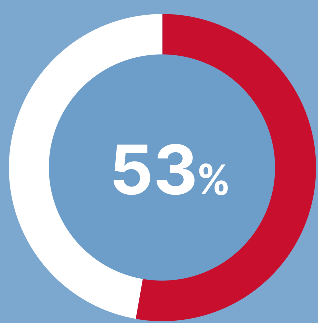
WE SURVEYED

100
ETF Investors

Mainland China: **35**
Hong Kong: **35**
Taiwan: **30**

From the following investor classifications:

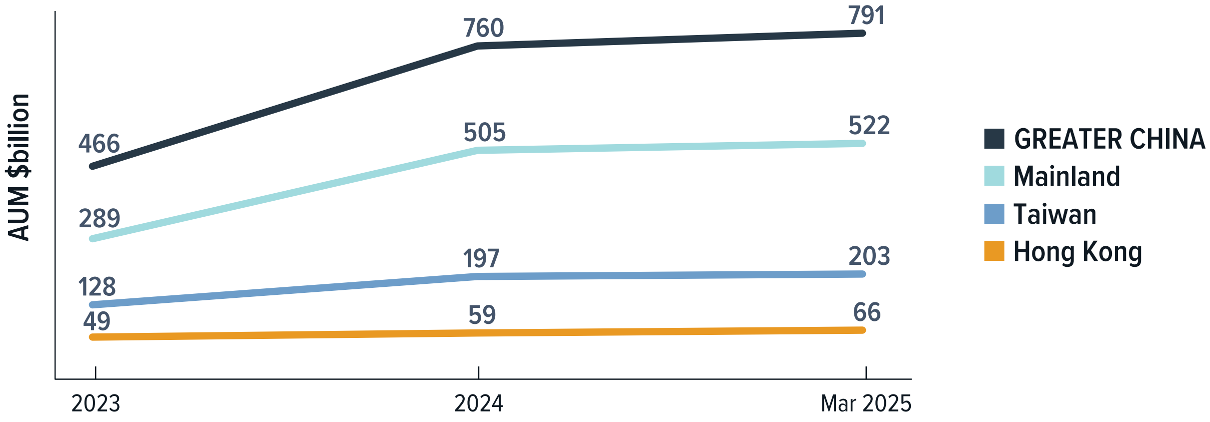
- Institutional Investors
- RIA/Financial Advisors
- Fund Management
- Private Banks
- Wealth Management



manage more than $1 billion in assets

The Greater China ETF landscape

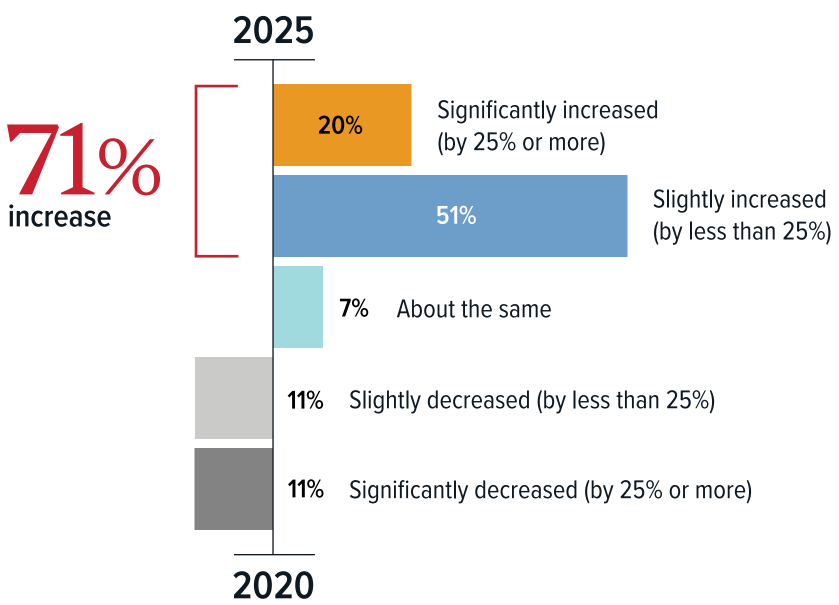
ETF assets in Asia-Pacific (ex-Japan) as a whole increased by 31% to $1.7 trillion in 2024, following record inflows of $347 billion.[1] The mainland China, Hong Kong, and Taiwan ETF markets accounted for 71% of the overall Asia-Pacific ETF growth in 2024.



Our data shows that 71% of investors in the region have increased their ETF exposures over the last five years, with 20% adding their allocations had grown by over 25%. Appetite for ETFs is particularly pronounced in Taiwan and Hong Kong, where 27% and 23% of allocators respectively have ramped up their ETF holdings by more than 25% in the last five years.

Investor adoption of ETFs in Taiwan is a notable success story. Since the end of 2022, ETF assets in the market have increased by more than 170%, making it one of the fastest growing ETF markets in the world. Retail investors have been a driving force behind this success with over 14 million retail investors owning ETFs in Taiwan.

How does your current ETF allocation compare to your allocation five years ago?



Regulatory initiatives have helped propel regional ETF flows.

These include the ETF Connect linkage program between mainland China and Hong Kong. Reports suggest there are plans underway for a UK-China ETF Connect program, while Saudi Arabia and China are also in dialogue about establishing an ETF cross-listing scheme in addition to the scheme launched with Singapore.[2]

1 ETFGI
2 ETF Stream – January 15, 2025 – UK and China governments explore ETF partnership

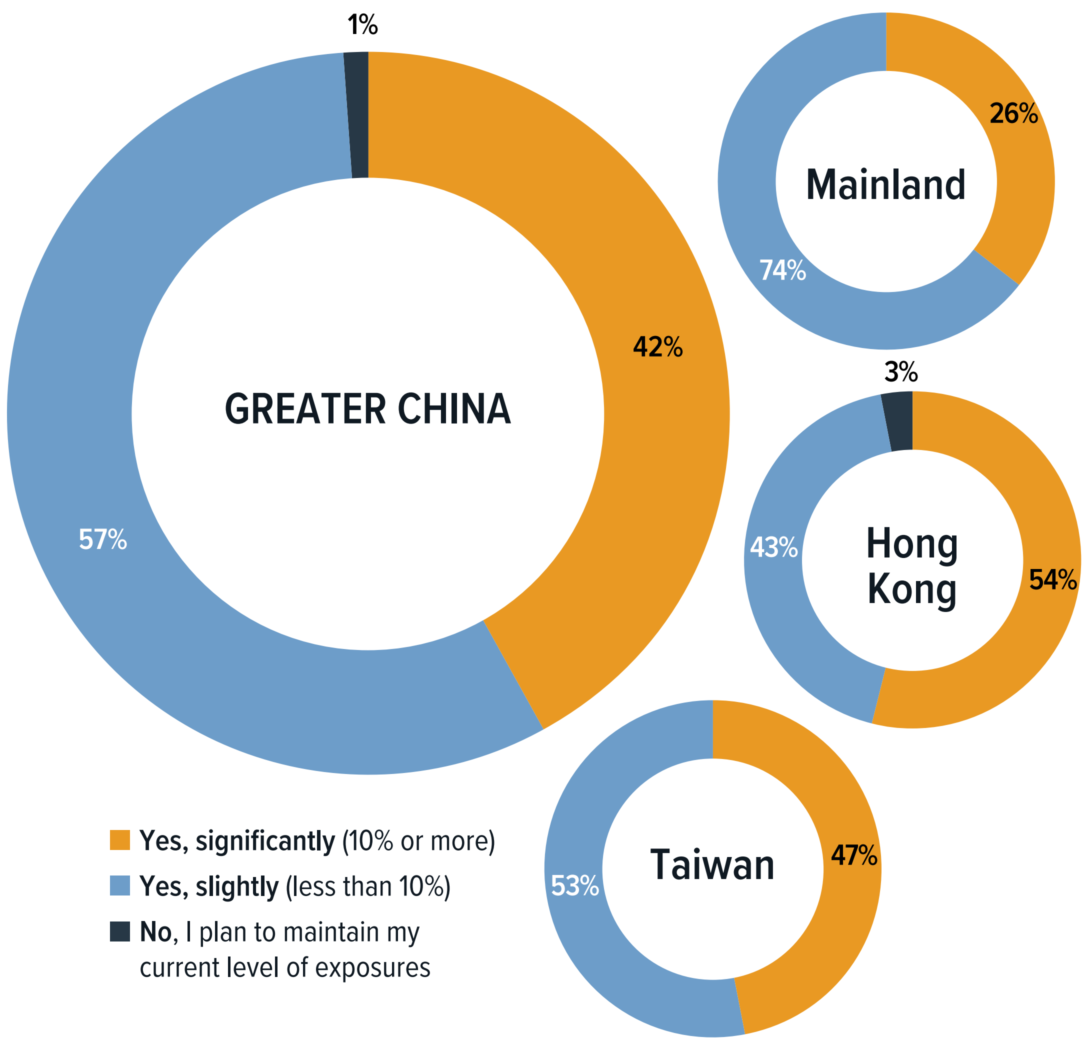
Further insights

Hong Kong is one of the most diverse ETF markets in Asia. Flows have been driven by product innovation, both from local regulators and the local stock exchange. Earlier this year, Hong Kong Exchanges and Clearing Limited (HKEX) rolled out Asia's first single stock leveraged and inverse (L&I) products.

Product innovation, particularly in Hong Kong, has been a major facilitator of ETF flows.

Our latest survey findings show that ETFs have a bright future ahead in Greater China, with 99% of respondents planning to increase their ETF allocations over the next 12 months. 54% of investors in Hong Kong and 47% in Taiwan plan to increase their allocation to ETFs by more than 10%. Mainland China investors were also positive on increasing allocations, but the majority (74%) plan to increase by less that 10% in the next 12 months.

Do you plan to increase your exposure to ETFs in the next 12 months?



69% of investors ranked ETFs as being among their top three choices for fresh allocations over the next 12 months, followed by 56% who said the same for mutual funds, and 51% for separately managed accounts (SMAs).

What product types do you intend to increase allocations to in the future?

	GREATER CHINA	Mainland	Hong Kong	Taiwan
ETFs	36%	46%	31%	30%
Single stock/individual bonds	20%	11%	26%	23%
SMAs	20%	17%	17%	27%
Mutual funds	14%	17%	11%	13%
Private funds	4%	3%	6%	3%
Derivatives	3%	6%	3%	–
Structured products	3%	–	6%	3%

Reasons for adopting ETFs

Investors in Greater China are buying ETFs for a variety of reasons:

– 35% of investors said they are increasing their ETF allocations to obtain long-term portfolio growth through core exposures. This option was the top choice for Hong Kong (34%) and Taiwan (43%) investors.

– 32% said they are buying ETFs to provide portfolio outperformance through tactical, niche or narrow sectors of the market. Looking forward over the next 12 months, mainland China investors (34%) prefer sector products compared to core exposure.

– 20% of investors are increasing their ETF holdings to achieve volatility management, risk management, or downside protection.

– Just 13% are increasing their ETF holdings to generate income.

Investors are pulling funding from a variety of sources to fund ETF growth.

Among investors planning to make allocations into ETFs, 29% are funding those purchases by redeploying capital from other ETFs, which includes 40% of mainland China and 26% of Hong Kong investors.

In Taiwan, reallocating from active mutual funds (23%) was the most popular option. Greater China investors are increasingly shifting capital from both index (16%) and actively managed (15%) mutual funds to ETFs, attracted by the structural advantages of the ETF wrapper.

When considering the ETFs you plan to purchase in the next 12 months, what are the top two sources of capital you plan to reallocate from?

	GREATER CHINA	Mainland	Hong Kong	Taiwan
Other ETFs in your portfolio	29%	40%	26%	20%
Index mutual funds	16%	20%	9%	20%
Active mutual funds	15%	11%	12%	23%
Individual stocks/bonds	12%	9%	21%	7%
Separately managed accounts	10%	6%	15%	10%
Alternative investments (e.g., private equity)	10%	11%	6%	13%
Allocate new investment dollars	7%	3%	12%	7%

Cross-border demand

Demand for offshore assets remains strong from mainland China investors as signalled by the flows into the different cross-border outbound capital channels like Qualified Domestic Institutional Investor (QDII), Mutual Recognition of Funds (MRF), and Wealth Management Connect (WMC). The inclusion of ETFs into the Stock Connect program continues to grow with positive momentum driven by a reduction of eligibility requirements which went live in July 2024. Investors were net buyers of Hong Kong listed ETFs through the Southbound channel in 2024, accounting for HKD $6.7b of net flows.[3]

Mainland China investors are most interested in buffered ETFs (34%) and environmental, social and governance (ESG) products (20%) if they are going to buy ETFs listed on HKEX in the next 12 months. While investment into digital asset and cryptocurrency ETFs isn't accessible to mainland China investors yet, 9% have demand to allocate capital to these products in Hong Kong.

As part of your clients' overseas investment allocation over the next 12 months, which types of Hong Kong listed ETF strategies do you anticipate being most in demand from your clients and your firm?

	Mainland	Institutional investor	RIA/financial advisor	Fund management	Private bank	Wealth management
Defined outcome ETFs (Buffered ETFs)	60%	75%	50%	43%	80%	67%
Environmental, social, and governance (ESG)	43%	38%	–	71%	–	33%
Sector or thematic equity exposure	40%	50%	50%	29%	40%	50%
Dividend/income	37%	50%	–	36%	40%	33%
Multi-asset	23%	–	50%	29%	20%	33%
Cryptocurrency	20%	–	100%	21%	20%	17%
Fixed income	17%	38%	50%	–	40%	–
Commodity	17%	–	–	29%	–	33%
Leveraged/inverse	14%	13%	–	14%	20%	17%
Actively managed	14%	–	–	–	21%	20%
Money market	14%	38%	–	7%	20%	–

3 https://www.hkexgroup.com/Media-Centre/Insight/Insight/2024/HKEX-Insight/ETFs-in-Stock-Connect-New-Issuer-Criteria-New-Opportunities?sc_lang=en

Strategies in focus

As with America and Europe, allocators in Greater China are looking to gain exposure to a diverse range of global ETF strategies over the next 12 months, which is broadly in line with what we saw in 2024.

In which of the following ETF strategies do you plan to invest over the next 12 months?

	GREATER CHINA	Mainland	Hong Kong	Taiwan
Defined outcome ETFs (Buffered ETFs)	29%	34%	26%	27%
Fixed income	27%	26%	34%	20%
Cryptocurrency	26%	17%	23%	40%
Dividend/income	23%	23%	29%	17%
Multi asset	22%	26%	14%	27%
Commodity	19%	23%	14%	20%
Liquid alternatives	18%	14%	17%	23%
Sector or thematic equity exposure	18%	14%	20%	20%
Leveraged/inverse	11%	17%	9%	7%

Buffered ETFs

Twenty-nine percent of Greater China investors said they are planning to invest in defined outcome – or buffered ETFs – over the next 12 months, rising to 34% in mainland China.

Even before the US announced its trade tariffs, investors across Greater China – and in particular mainland China – were bracing themselves for heightened market volatility under President Trump's second term.

As an asset class currently with $45 billion[1] assets globally, defined outcome or buffered ETFs protect investors against equity market downturns, while also enabling them to capture the upside in rising markets, although the return upside is generally capped. The strategy appeals to allocators who may be more focused on downside protection than growth potential.

Fixed income ETFs

The next most popular ETF strategy in Greater China is fixed income (27%), although it is also much more sought after in Hong Kong, where 34% of allocators plan to invest in it. Currently, fixed income products account for 9.2% of the Hong Kong ETF market compared to approximately 15% of the Asia-Pacific ex-Japan region.

Further insights

The strong demand in Hong Kong for fixed income ETFs was a slight outlier, given that investors in the jurisdiction have not historically been the biggest buyers of locally listed fixed income ETFs.

1 EY – February 17, 2025 – How ETF trends are shaping market growth and innovation for 2025

Further insights

Hong Kong is also positioning itself as a regional digital asset hub, with the Securities and Futures Commission (SFC) having put forward a regulatory roadmap for virtual assets.

Allocators in Greater China seem to be displaying a more conservative bias with 14% looking to buy US investment grade corporate bonds. Meanwhile, in Taiwan, structured products, i.e. Collateralised Loan Obligations (CLOs) appear to be very popular, with 23% of allocators planning to gain exposure to the asset class in 2025.

Which of the following fixed income ETF products are you most likely to purchase in 2025?

	GREATER CHINA	Mainland	Hong Kong	Taiwan
US investment grade corporate bonds	14%	11%	17%	13%
Structured products (e.g. CLOs – Collateralized Loan Obligations)	14%	11%	9%	23%
Asset-backed or mortgage-backed securities	13%	9%	17%	13%
US Treasuries	10%	14%	6%	10%
Non-US investment grade corporate bonds	9%	11%	6%	10%
High yield corporate bonds	9%	14%	9%	3%
Non-US developed market sovereign debt	8%	6%	14%	3%
Emerging market sovereign debt	8%	6%	11%	7%
Short-dated bonds	8%	6%	9%	10%
Treasury inflation protected securities	7%	11%	3%	7%

Cryptocurrency ETFs

Twenty-six percent of Greater China investors intend to buy cryptocurrency-focused ETFs in 2025, with Taiwan (40%) and Hong Kong (23%) leading the way.

Despite cryptocurrency trading currently being banned outright in mainland China, 17% of allocators surprisingly reported that they are interested in purchasing cryptocurrency ETFs. This highlights potential future demand from mainland China investors once this asset class becomes accessible onshore or through the outbound cross-border channels.

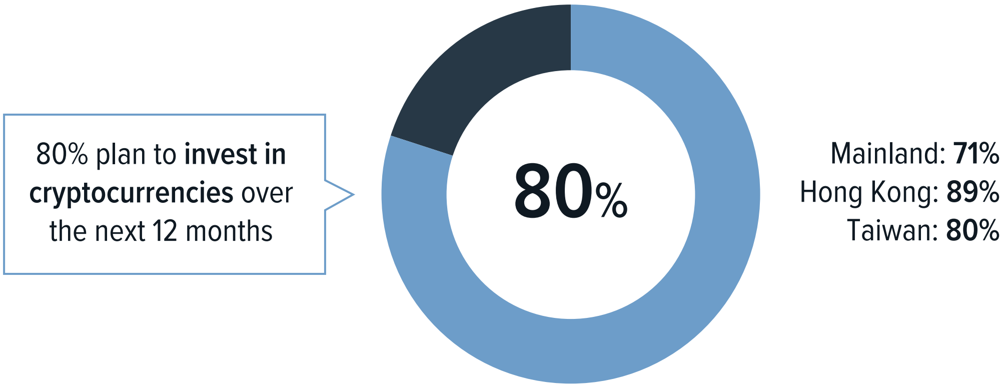
Appetite for cryptocurrency ETFs in Taiwan and Hong Kong comes as regulators in both markets have introduced digital asset-friendly frameworks. For instance, Taiwan's Financial Supervisory Commission permitted professional investors last year to start trading 'foreign virtual asset' ETFs.[2]

2 CoinTelegraph – September 30, 2024 – Taiwan opens digital asset ETF market to professional investors

As market volatility intensifies, some investors in the region may increase their holdings of cryptocurrency ETFs in order to store value or act as a hedge against inflationary risk.

Many investors are piling into cryptocurrency ETFs as they want more efficient exposure to cryptocurrencies, i.e. because they do not want to go through the motions of setting up a digital wallet or they might be reluctant to store assets at crypto-exchanges, due to their perceived cybersecurity weaknesses.

What are your plans for investment in cryptocurrencies over the next 12 months?



Themes and sectors

Greater China allocators are bullish on artificial intelligence (AI), with 31% saying it will be a major investment trend for 2025, versus 23% in Europe and 22% in the US. In Taiwan, a staggering 60% of allocators believe AI will be a dominant investment trend in 2025.

This strong bias towards AI investments in Taiwan should not be surprising given its deep pool of technology companies and talent.

In addition, 26% of Greater China investors expect the dominance of the so-called Magnificent Seven stocks, namely Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla to continue, jumping to 34% in Hong Kong.

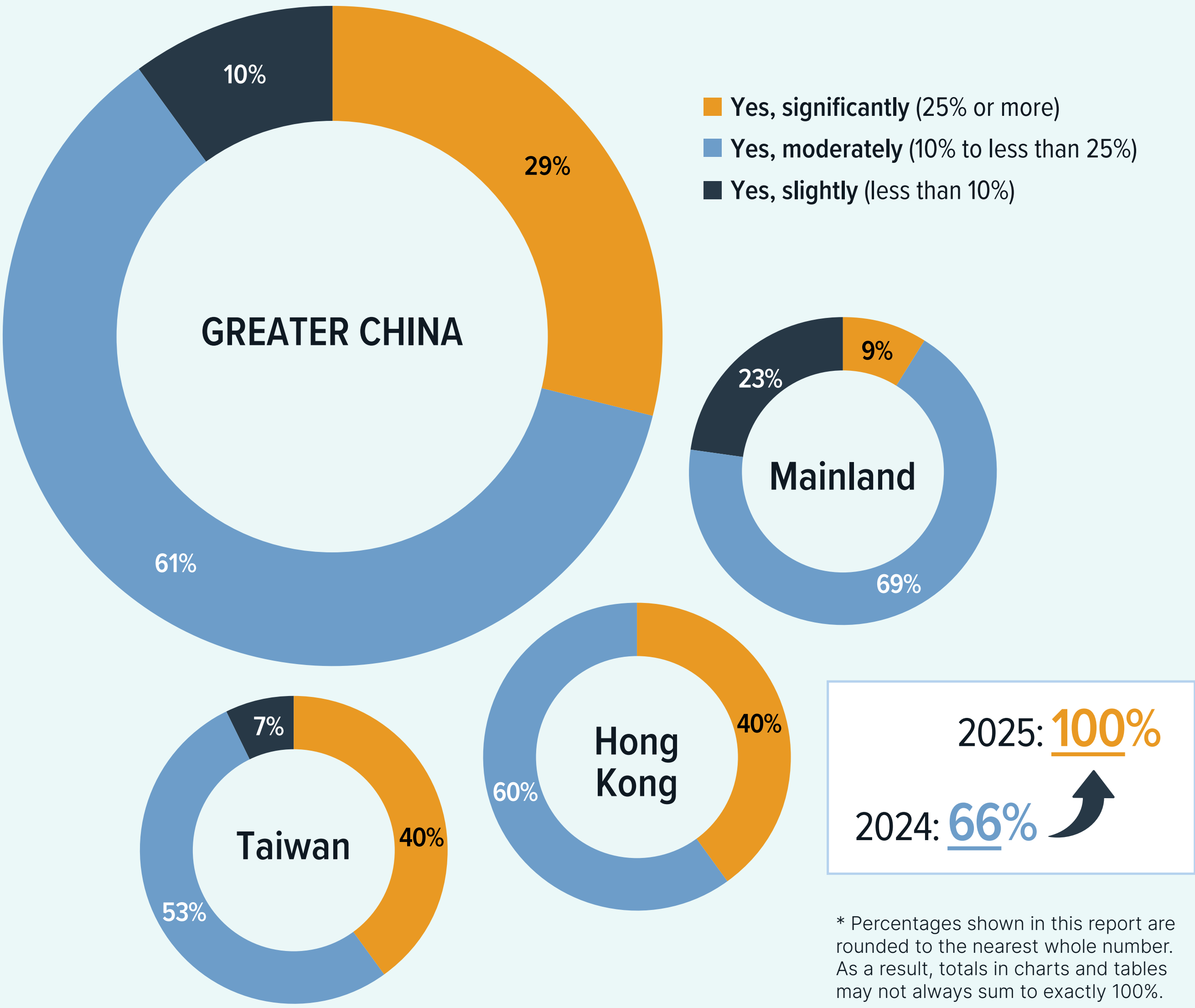
Which investment trend from 2024 do you expect to continue in 2025?

	GREATER CHINA	Mainland	Hong Kong	Taiwan
Artificial intelligence	31%	20%	17%	60%
The dominance of the “Magnificent Seven” (Apple, Microsoft, Amazon, Alphabet (Google), Meta Platforms (Facebook), Nv	26%	23%	34%	20%
Continued growth of alternative investments	22%	40%	17%	7%
Digital assets	14%	11%	17%	13%
Rising US Treasury yields	7%	6%	14%	–

ACTIVE ETFS: GAINING TRACTION IN GREATER CHINA

Every respondent in Greater China said they plan to increase their exposures to active ETFs over the next 12 months. Of this, 40% of investors in Hong Kong and Taiwan respectively said they would bolster their active ETF holdings by more than 25%.

Do you plan to increase your current exposure to active ETFs in the next 12 months?



* Percentages shown in this report are rounded to the nearest whole number. As a result, totals in charts and tables may not always sum to exactly 100%.

Among those Greater China investors buying active ETFs, 29% are increasing their exposures to equities, followed by liquid alternatives (22%), and fixed income (16%).

Where do you plan to increase your actively managed ETF allocations?

	GREATER CHINA	Mainland	Hong Kong	Taiwan
Equity	29%	29%	23%	37%
Liquid alternatives	22%	17%	23%	27%
Fixed income	16%	17%	26%	3%
Commodities	13%	17%	9%	13%
Defined outcome	11%	9%	14%	10%
Multi-asset	9%	11%	6%	10%

Launch of active ETFs in Taiwan

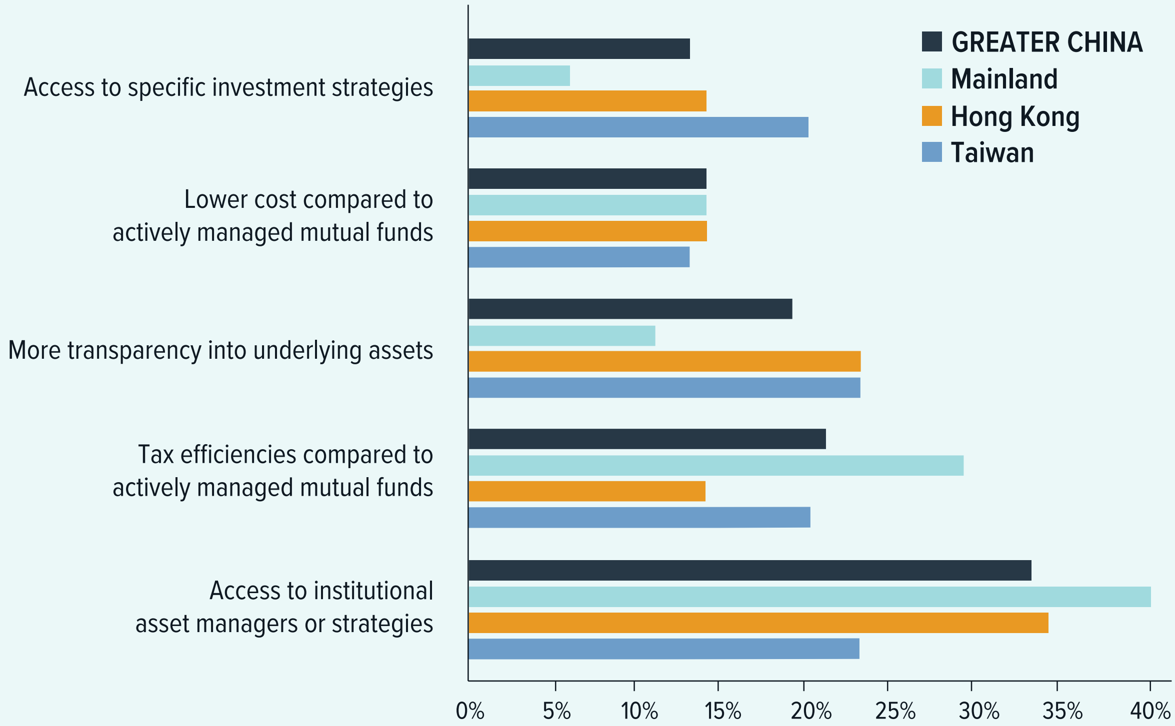
Locally listed active ETFs are still a relatively newer investment option across Asia-Pacific. These products will launch for the first time in the Taiwan market in 2025 and 37% and 27% of investors in Taiwan respectively said they plan to allocate to equities and liquid alternatives, yet just 3% said the same for fixed income, versus 26% in Hong Kong.

In January 2025, Taiwan's regulator said it would permit active ETFs to begin trading in the country, which has led to a flood of applications from high-profile asset managers. With many global asset managers having well established mutual fund businesses in Taiwan, these firms are evaluating options to capitalize on the significant ETF growth by packaging their active investment strategies into a locally domiciled ETF. Issuers should note an opportunity to increase product availability in this space to match investor demand.

Greater China investors are using active ETFs for a variety of reasons:

- 33% of allocators use active ETFs to access institutional asset managers or strategies, rising to 40% in mainland China, and 34% in Hong Kong.
- 21% of investors trade active ETFs because of the tax efficiencies compared to actively managed mutual funds, rising to 29% in mainland China.
- 19% of investors said active ETFs provide them with more transparency into the underlying assets.
- 14% cited the low costs of active ETFs versus actively managed mutual funds.
- 13% are leveraging active ETFs to access specific investment strategies, jumping to 20% in Taiwan.

What is the primary reason you utilize active ETFs?



To fund their purchases of active ETFs, 22% of investors said they would reduce their exposures to index-based ETFs, followed by actively managed mutual funds (19%), and actively managed SMAs (15%).

Which of the following products do you plan to reduce allocations to as you increase exposure to active ETFs?

	GREATER CHINA	Mainland	Hong Kong	Taiwan
Index-based ETFs	22%	20%	26%	20%
Actively managed mutual funds	19%	11%	17%	30%
Actively managed SMAs	15%	17%	14%	13%
Index mutual funds	13%	11%	20%	7%
Cash or treasuries	11%	17%	3%	13%
Alternatives	10%	14%	9%	7%
Single stock/bond	10%	9%	11%	10%

Investors are redeeming from index trackers and buying more active ETFs as they are seeking greater alpha, which they believe active ETFs will deliver. In parts of Emerging Asia, equity markets still suffer from certain structural inefficiencies, creating opportunities for active asset managers. This is driving more demand for active ETFs.

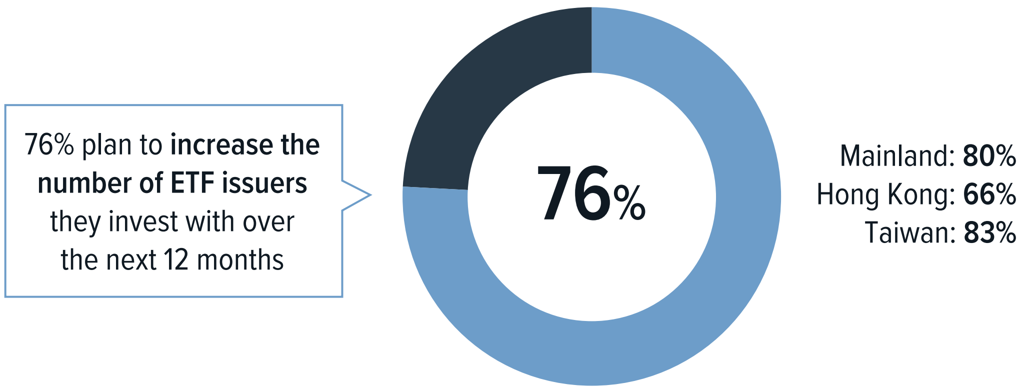
Even though index ETFs are significantly cheaper than active ETFs, with the former charging investors around 0.43% and the latter 0.73%, investors still appear happy to pay a premium for the opportunity to access superior performance.

Considerations for issuers

As with many other markets, competition for investor assets in Greater China is intensifying.

Seventy-six percent of Greater China allocators plan to increase the number of ETF issuers they invest with over the next 12 months.

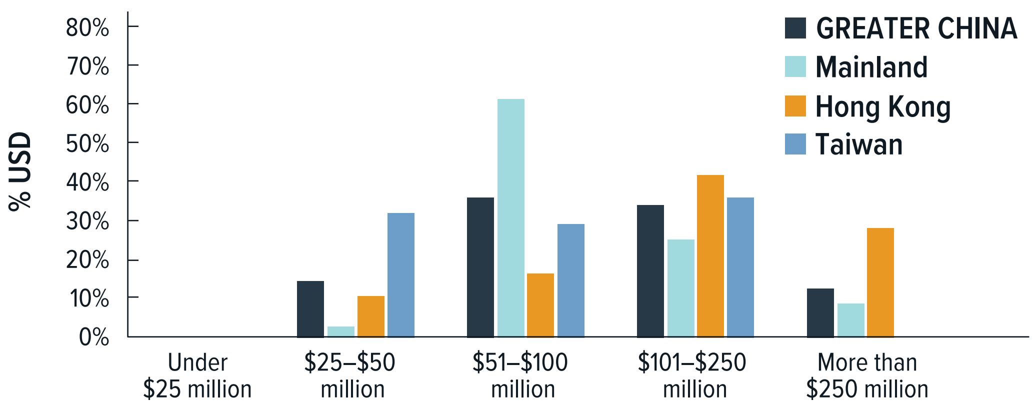
In what way do you expect the number of ETF issuers that you are investing with to change over the next 12 months?



In Greater China, having critical mass is important for issuers if they are to win mandates. Our data found that 85% of investors require issuers to have a minimum AUM of $50 million in new products, while 48% will not invest unless an issuer has an AUM of at least $100 million. Larger investors are more demanding with 46% of allocators running in excess of $1 billion saying they will only invest in new ETFs with an AUM of at least $250 million.

Larger institutions typically lean towards bigger ETFs, as they do not want the concentration risk which comes with investing in smaller ETFs.

What is the minimum assets under management (AUM) that you require for a new ETF before considering an investment?



As investors add more ETFs to their portfolios, 16% of respondents in Greater China said tax efficiency was their most important consideration when buying an ETF.

In Hong Kong, this stands at 26%.

Further Insights

In the US, people buy ETFs because they are tax efficient as they rely on the in-kind creation and redemption process to minimize capital gains. In Hong Kong, tax is an important component of the total cost of ownership that investors are increasingly evaluating.

Other important ETF selection criteria for Greater China investors include expense ratios (15%), strategy or sector focus (13%) and liquidity and trading costs (12%).

In mainland China, 17% of investors said they looked closely at the tracking error when purchasing ETFs.

What are the most important selling points for you when considering an ETF?

	GREATER CHINA	Mainland	Hong Kong	Taiwan
Tax efficiency	16%	11%	26%	10%
Expense ratio	15%	17%	11%	17%
Strategy or sector focus	13%	11%	14%	13%
Liquidity and trading costs	12%	11%	11%	13%
Brand reputation	11%	14%	11%	7%
Tracking error/difference with target index	10%	17%	6%	7%
Historical performance	8%	3%	11%	10%
Fund size	8%	6%	3%	17%
Index methodology	7%	9%	6%	7%

Just like in other expanding domiciles, differentiation is critical as competition increases.

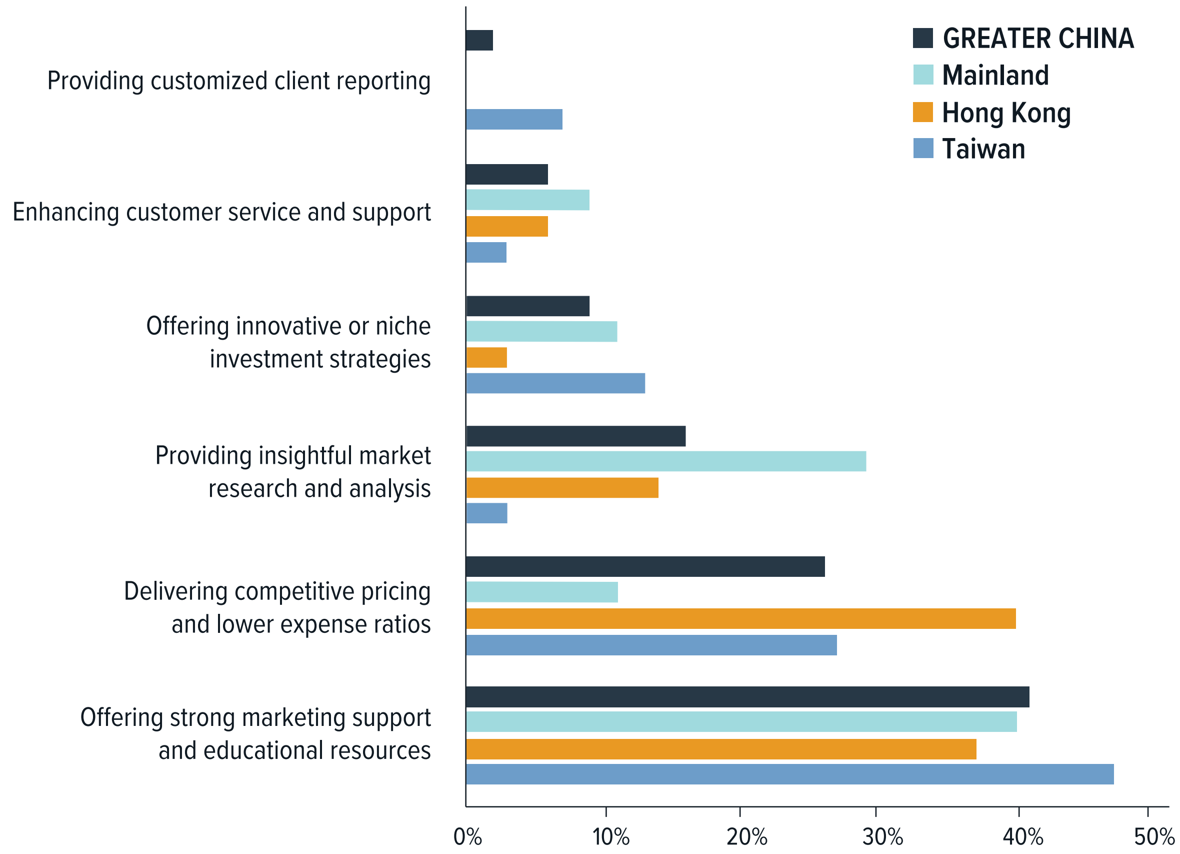
The top three ways investors say ETF issuers can add the most value is by:

– Providing strong market support and educational resources (41%)

– Delivering competitive pricing and lower expense ratios (26%)

– Offering insightful market research and analysis (16%)

Where do you believe ETF issuers can add the most value to stand out in the market?



Further insights

As these ETF markets mature, cost is becoming an increasingly important factor and we continue to see rising price competition between issuers. Looking back at our results even a few years ago, cost wasn't a top consideration for investors.

ETFs AND AI: THE STATE OF PLAY IN GREATER CHINA

Our study found 27% of firms in Greater China are using AI-driven tools to make investment decisions. A similar proportion – 35% – are deploying AI for market analysis or research purposes, but not for decision-making, with a standout 49% in Hong Kong. A further 32% said their firms rely on financial advisors or fund managers who use AI in their strategies. However, 5% say their firms are interested in using AI but have not started yet, with that percentage rising to 9% in Hong Kong. With the level and nature of AI adoption varying across different firms, responses should be viewed with caution.

Conclusion

Regional ETF markets across Greater China continue to mature as investor demand, product innovation, and regulatory frameworks coalesce to form an environment ripe for further growth. Much like their global counterparts, investors here indicated that they are leaning on ETFs to hedge against downside risk, a factor that could become more important as US trade policy fluctuates. With more record years ahead, there is significant opportunity for domestic and international ETF issuers in mainland China, Hong Kong, and Taiwan.

About BBH ETF Services

For over 20 years, BBH has been a leading global provider of ETF services for the largest established global asset managers and new asset managers entering the ETF market in the US, Europe and Asia. BBH provides a comprehensive service model of solutions (accounting, administration, custody, and transfer agency) to power our clients' ETF businesses. In addition, BBH supports its clients with deep expertise and unique insights to inform our clients' ETF strategies.

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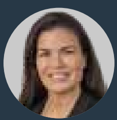

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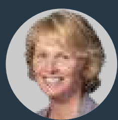

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Methodology

Methodological notes

The BBH ETF Survey, including this Greater China focus, was conducted by Wakefield Research among 325 ETF Investors in the following markets: US, Greater China (mainland China, Hong Kong, Taiwan), and Europe (UK, Germany, France, Italy, Spain, Switzerland) between January 24th and February 3rd, 2025, using an email invitation and an online survey.

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 5.4 percentage points total and 9.8 percentage points in the US and Greater China, and 8.8 in Europe, from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

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