E Fund (HK) Launches China Onshore Commercial Paper ETF on the NYSE

Seizing market opportunities

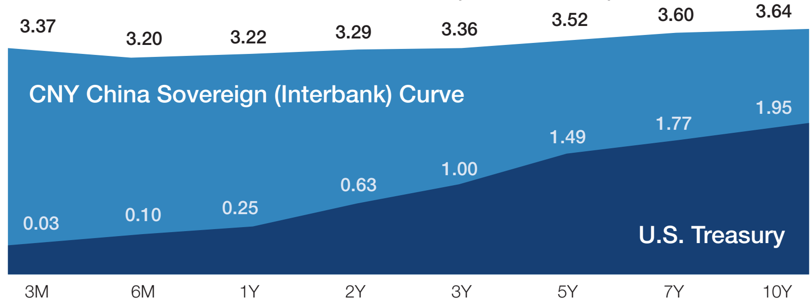
With the advent of the era of global asset allocation and the accelerated internationalization of the Reminbi (RMB), investment opportunities in China's onshore bond market have been received high attention. In order to meet market demand, E Fund Management (HK) and New York-based KraneShares have launched the first-ever commercial paper CP ETF in December 2014 on the NYSE. It delivers a basket of investment-grade commercial paper denominated in on-shore renminbi and traded in the inter-bank bond market, paving the way for US investors to participate in China's short-term credit bond markets.

The ETF linking to the ultra-short term Chinese credit bond markets is to provide foreign investors with access to Chinese interbank commercial paper. Commercial paper in the Fund is investment-grade and has a remaining term to final maturity of no more than one year and no less than one month. David Zhang, Chief Investment Officer and Deputy Chief Executive at E Fund (Hong Kong) expressed during an interview that China commercial paper may be appropriate for customers who have allocations to investment products that only invest in money market securities, investment goals with a short time horizon, low tolerance for volatility, daily liquidity requirements and/or a desire to diversify their cash-equivalent holdings.

David Zhang
CIO and Deputy CEO

In the interview, David Zhang said: "We believe the ETF is a potential alternative to the current low yield environment in US money market and bank deposit programs. The fund invests in Chinese commercial paper – a money market security. We believe Chinese commercial paper delivers superior yield and similar stability vs. US money market funds and US bank deposit programs. The underlying securities of the fund have investment grade rating and average maturity of 5 months. We believe there are many similarities between money market funds and US bank deposit programs. There are potential benefits to holding Chinese Commercial papers such as yield and stability. China's high money market fund returns are driven from the country's high risk free rate. China's yield curve is very flat.

China and U.S. Yield Curve (as of 12/31/14)



Best risk/ reward potential opportunity 3m spread = 3.34%

China's yield curve is very "flat". China sovereign debt delivers 350bps+ spread vs U.S. sovereign debt for maturities under one year as of 12/31/2014

Source: Bloomberg, 12/31/14

This means there is little deviation between short, medium and the long term durations. You may identify that within the one year maturity range of the bonds as the best risk-reward bond investments. A three-month Chinese government bond delivers 3.37% vs a three-month US Treasury Bill at 0.03%… that's a 3.34% spread. And AAA/A1 rated commercial paper index in China delivers close to 5% yield."

E Fund's new ETF can be successfully listed on the New York Stock Exchange, which means it has gained wide recognition from the SEC and overseas institutional investors. Foreign investors have more positive views on China's bond market. Not only does this turn a new page for the US investors' acceptance of the Chinese credit bond markets, but it also indicates that Chinese financial institutions are truly achieving the national policy of "going out".

Professional fund management

David Zhang also mentioned: "US dollar assets yields are relatively lower, while the yields of the Chinese assets are still higher than those in the US and Europe. This stimulates the demand for RMB bond investments in North America with a gradual increase. Regarding the demand of overseas RMB products, we took the lead and seized market opportunities by launching the product with short-duration, lower-risk, high liquidity and higher-yield, which not only meet demand in overseas markets, but also lessens the overseas investors' concern about the credit risk of credit bonds in China. This "groundbreaking" fund is expected to be the new product to replace Money Funds, to provide investors access to the ultra-short-term part of China's debt market and to attract different types of clients and explore new markets with its characteristics, including high liquidity and low risk."

Despite interest in investment opportunities in the Chinese bond markets by most of the institutions, they are barred from the Chinese market due to quota limits. Nevertheless, E Fund is not concerned with the RQFII quota for now as the Company has reserved certain quota for this product, and would add quotas when needed. It has reserved a quota of RMB 2 billion at an initial stage.

E Fund (HK) is a subsidiary of E Fund Management Co., a top mutual fund manager in China based on total assets under management, with more than RMB 400 billion (i.e. USD 66 billion) AUM worldwide. E Fund manages 57 mutual funds, with mutual fund clients including sovereign wealth funds and QFII clients E Fund is also one of the largest segregated account managers in China serving the largest institutional clients such as NCSSF.

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