

# MA Financial bets on growing appetite for Chinese shares

**Richard Henderson** *Reporter*

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MA Financial capped 2021 with surging inflows for its funds management business that helped elevate earnings, and is now betting on rising demand for an unloved corner of the global equity market for its next phase of growth: Chinese stocks.

The company is launching a Chinese equity fund open to wholesale investors and managed by Beijing-based ChinaAMC, one of the country's largest fund managers.

The new fund amounts to a wager that investors will begin to correct a longstanding underweight in one of the world's biggest sharemarkets despite a period of poor performance for Chinese stocks.

The CSI 300 benchmark of Chinese blue chips has tumbled sharply, shedding more than a fifth from its peak a year ago.

The decline reflects a crackdown on the technology and education sectors last year, but also investor angst that Beijing's zero-case approach to COVID-19 will buckle as the fast-spreading omicron variant sweeps the globe.



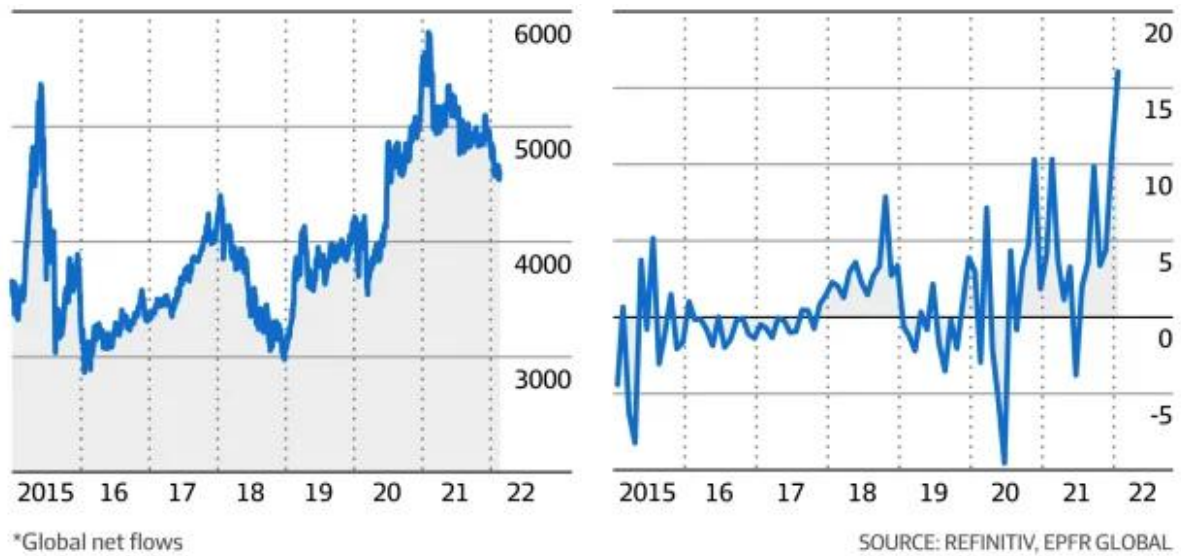
MA Financial anticipates Australian investors will increase holdings of Chinese shares. **Bloomberg**

“Australian investors are way under exposed to the second biggest equity market in the world,” said Andrew Martin, head of asset management for MA Financial, which rebranded from Moelis Australia last year.

Investors should frame an allocation to Chinese shares beyond any short-term market moves, predicated on gaining exposure to the expanding economy.

CSI 300 Index (points)

Chinese share funds net flows\* (\$b)



“This is a long-term investment proposition. You need to look at this on a five-year plus basis,” he said.

“There are a number of factors investors have been timid on China,” he said.

“Clearly there are regulatory and other issues and changes in China that need to be navigated.”



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China has reformed its financial markets over the past decade in the hopes of attracting external capital. Index providers have responded by increasing the portion Chinese equities represent across influential benchmarks. Chinese shares now make up around a third of the MSCI Emerging Markets index, close to double their weighting a decade ago.

However, investors large and small have remained cautious on Chinese stocks.

Last year, investment consultant Mercer said institutional investors including super funds hold negligible amounts in Chinese shares but should increase allocations to 16 per cent of their equity portfolios [<https://www.afr.com/markets/equity-markets/super-funds-risk-missing-china-boom-warns-mercer-20210805-p58g2o>] given the size of the country’s equity market and its role as an engine for global growth.

Part of the concerns about holding Chinese shares relate to worries that authorities can suddenly change regulations or laws governing large companies, or reinterpret

can suddenly change regulations or laws governing large companies, or reinterpret existing rules in new ways, adding a layer of uncertainty and risk.

Efforts in the past year by China to rein in large businesses in the technology and education sectors cemented precisely this type of threat in the minds of investors.

The country announced a crackdown on education providers, including listed behemoths like TAL Education, barring companies that teach the official curriculum from turning a profit.

Meanwhile, tech giants like Tencent, Alibaba and Didi have similarly traded lower after the government tried to curb their role as monopoly players in the markets in which they operate.

MA Financial's decision to partner with local fund manager ChinaAMC will help the portfolio navigate such challenges, including regulatory headwinds, Mr Martin said.

"ChinaAMC is one of the most highly credentialed investment managers in China. No one from offshore, from Australia or from the US, can offer that capability on the ground," he said.



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Mr Martin is hoping the new fund launch will extend a run of good fortune for MA Financial. In February, MA Financial's full-year results showed a 57 per cent jump in revenue for its funds management business [<https://www.afr.com/markets/equity-markets/profit-forecasts-soar-on-upbeat-earnings-20220218-p59xr0>], helped along by \$1.1 billion in net inflows.

The company is hoping the new strategy will allow wholesale investors to better understand the Chinese market given the role of Australian mining companies as proxies for Chinese growth will become less apt as China's economy matures.

"You are clearly seeing the transition in the Chinese economy from export-led manufacturing to local consumption. There is a massive consumer market there and you don't get exposure to that through Australian resource stocks," he said.

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