



September 2016

Accessing China Roadshow: Latest Developments

Summary

- China A Shares - Potential Transition To Global Indexes
- Shanghai & Shenzhen - Hong Kong Stock Connect, You Need To Get Ready Now
- China Connect - Launch of Shenzhen - Hong Kong Stock Connect
- China Interbank Bond Market Access

China A Shares

Potential transition to global indexes

Sudir Raju, Managing Director

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Agenda

- China's investment landscape
- Investor access to mainland China
- Investment schemes for accessing mainland China
- FTSE country classification approach
- Index reviews of China A-shares
- FTSE Russell's toolset to support our clients - FTSE Global China A Inclusion Indexes
- Any Questions?

China's investment landscape (1)

1. Largest economy in the world in PPP terms¹
 - Largest manufacturer in the world²
 - Largest online retail market in the world^{3#}
 - Largest share of global greenhouse gas emissions (28%)⁴
 - Largest investor in renewable energy⁵
 - Largest population in the world (1.4 billion)⁶

2. Second largest equity market in the world⁷

3. Third largest fixed income market in the world⁷

1. International Monetary Fund, April 2016

2. McKinsey, June, 2013

3. Morgan Stanley, 13 March, 2015.

China is also expected to become the world's largest retail market by 2018,

4. International Monetary Fund, April 2016

5. The Financial Times, 9 January, 2015

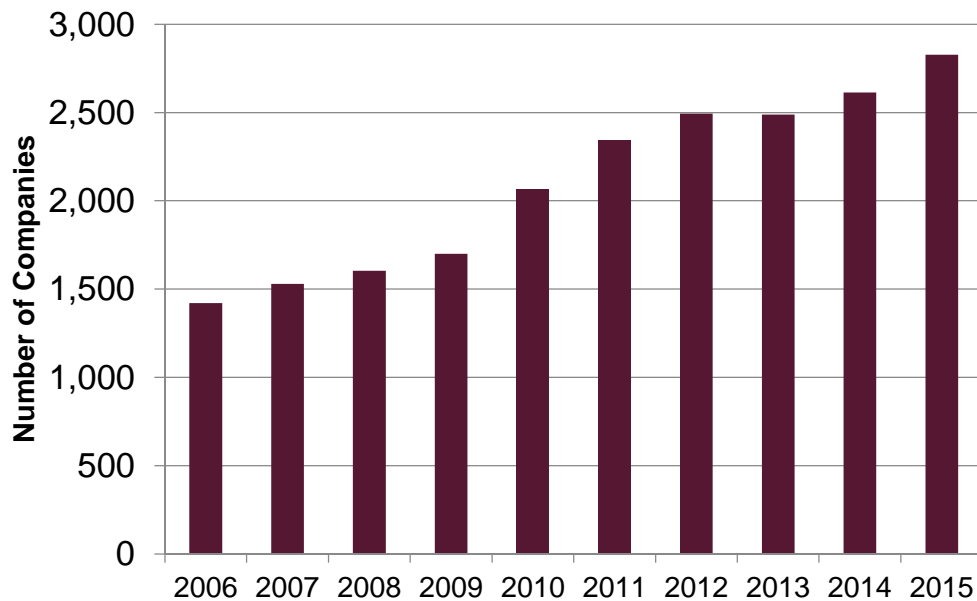
6. World Bank, 2014

7. FTSE Russell

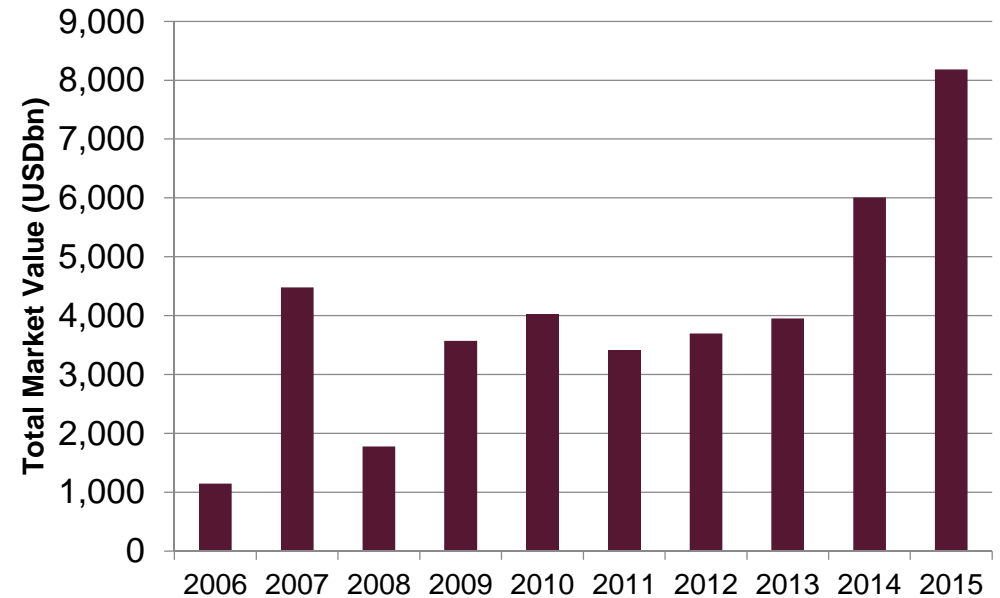
China's investment landscape (2)

- Listings on the Shanghai & Shenzhen Stock Exchanges have almost doubled in the past 10 years
- Total market value has increased by a multiple of 6

Shanghai & Shenzhen Stock Exchanges Total Company Listings (2006-2015)



Shanghai & Shenzhen Stock Exchanges Total Market Value USDbn (2006-2015)



China's investment landscape (3)

- China's equity market expansion is influencing global markets
- 7 of the top 10 companies in Asia Pacific are from China
- 4 of the top 10 global banks are from China

Top Ten Companies – Asia Pacific

Rank	Company	Country	Total Market Value (USDbn)
1	China Mobile	China	233.5
2	ICBC	China	224.5
3	Tencent Holdings	China	209.1
4	PetroChina	China	195.7
5	China Construction Bank	China	162.2
6	Toyota Motor	Japan	159.6
7	Agricultural Bank of China	China	153.7
8	Bank of China	China	141.6
9	Samsung Electronics	South Korea	135.5
10	Taiwan Semiconductor	Taiwan	123.6

Top Ten Companies – Global Banks

Rank	Company	Country	Total Market Value (USDbn)
1	Wells Fargo & Company	USA	256.5
2	JPMorgan Chase & Co	USA	240.3
3	ICBC	China	224.5
4	China Construction Bank	China	162.2
5	Bank of America	USA	154.4
6	Agricultural Bank of China	China	153.7
7	Bank of China	China	141.6
8	Citigroup	USA	138.7
9	HSBC Holdings	UK	126.4
10	Commonwealth Bk of Aus	Australia	95.3

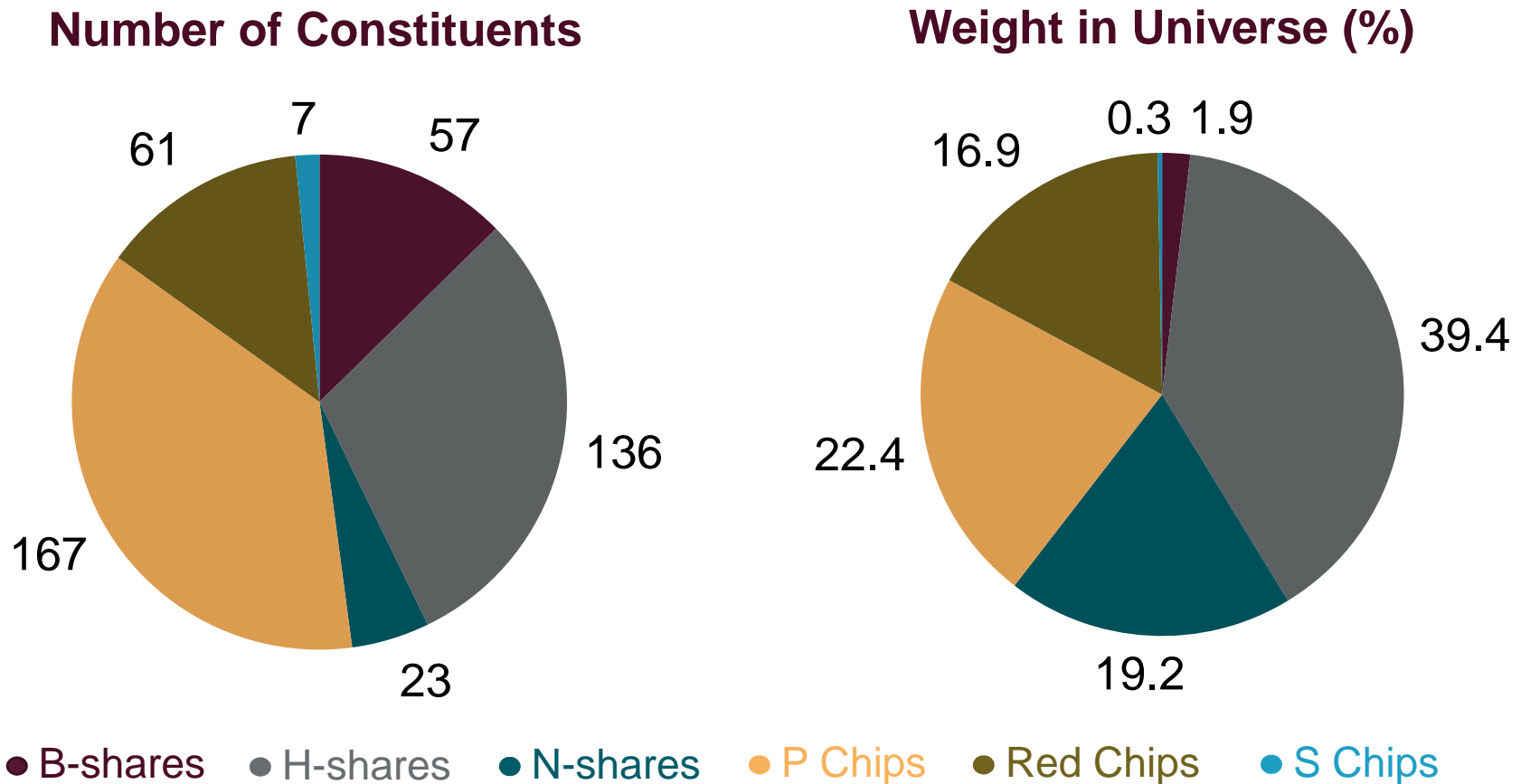
China's investment landscape (4)

- International investors only hold a small proportion of China A-shares
- The Shanghai and Shenzhen Stock Exchanges at the end of March 2016 had a combined market value of USD 7 trillion
- Total aggregate approved QFII/RQFII quota was USD 153.9 billion
- Total international take-up of China A-shares is **2~3%**

Source: FTSE Russell, SAFE, Shanghai & Shenzhen Stock Exchanges - data as at 31 March 2016

Investor access to China via overseas listings

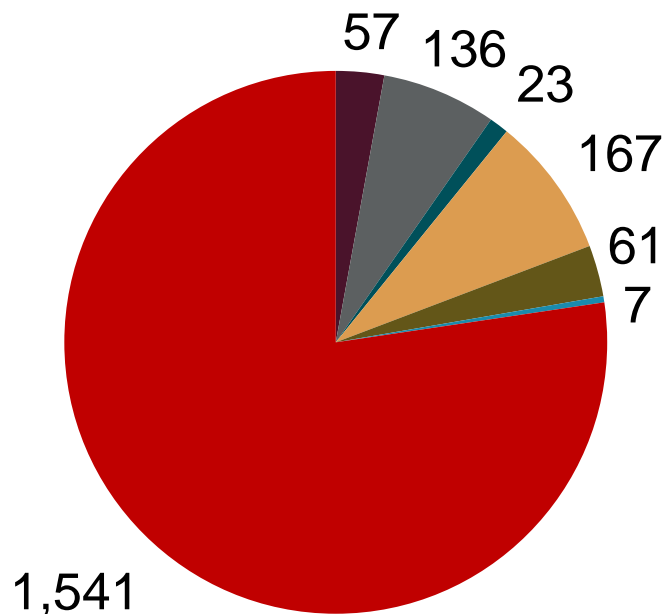
- P Chips have the largest number of listings but H-shares are the largest by weight
- N-shares market values have grown considerably since Alibaba's listing in 2014



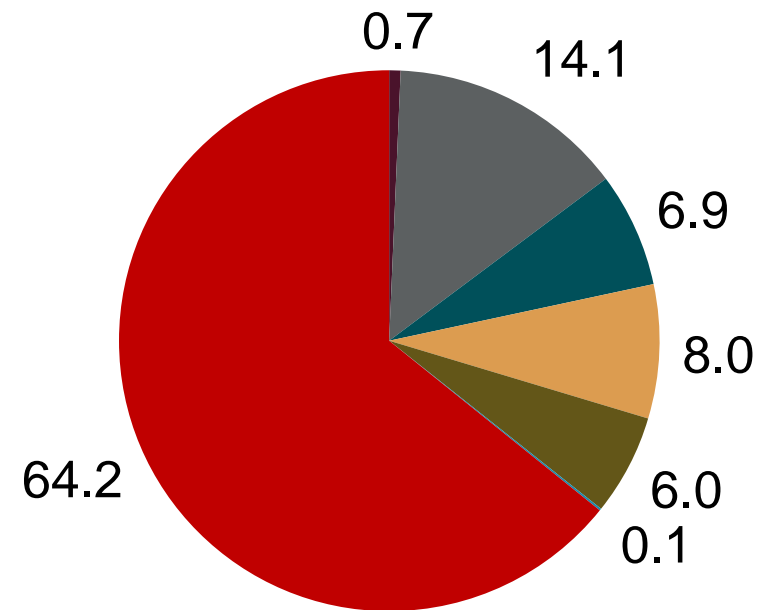
China A-shares are significantly larger than other China share class listings

- A-shares are largest by number and listing
- Only a small number of investors have access to the mainland market

Number of Constituents



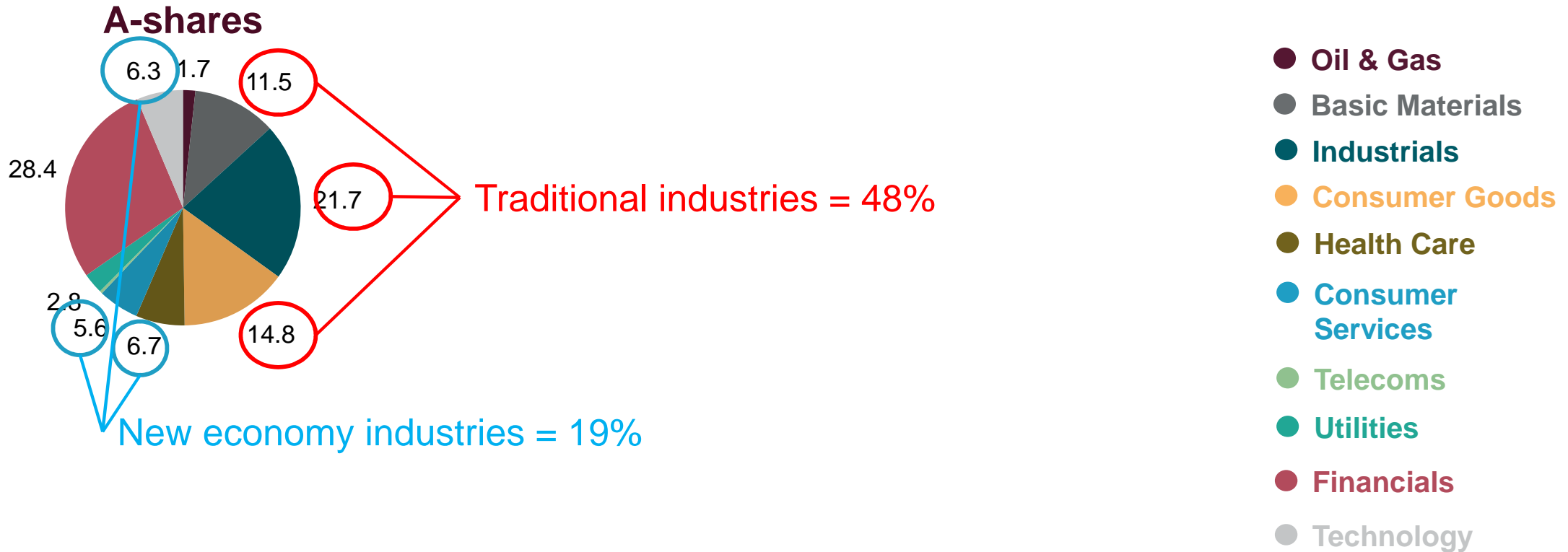
Weight in Universe (%)



● B-shares ● H-shares ● N-shares ● P Chips ● Red Chips ● S Chips ● A-shares

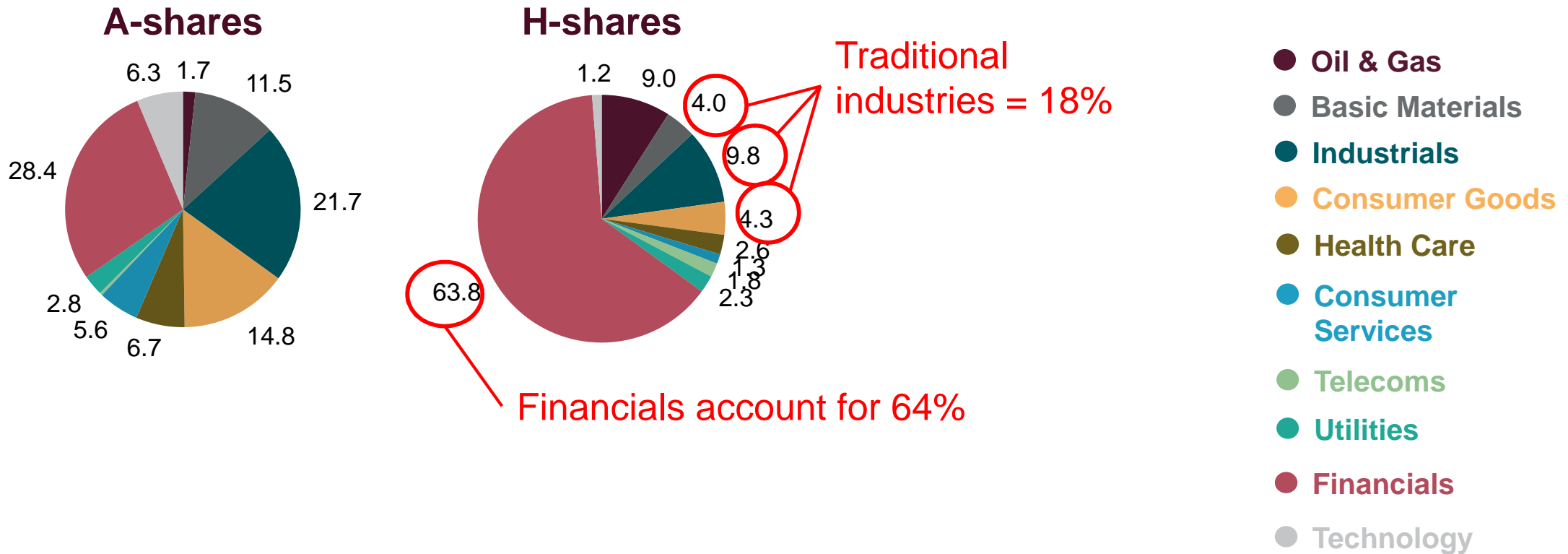
China Share Classes – A-shares

- Largest industries – Basic Materials, Industrials, Consumer Goods & Financials
- Limited exposure to Oil & Gas, Telecoms & Utilities



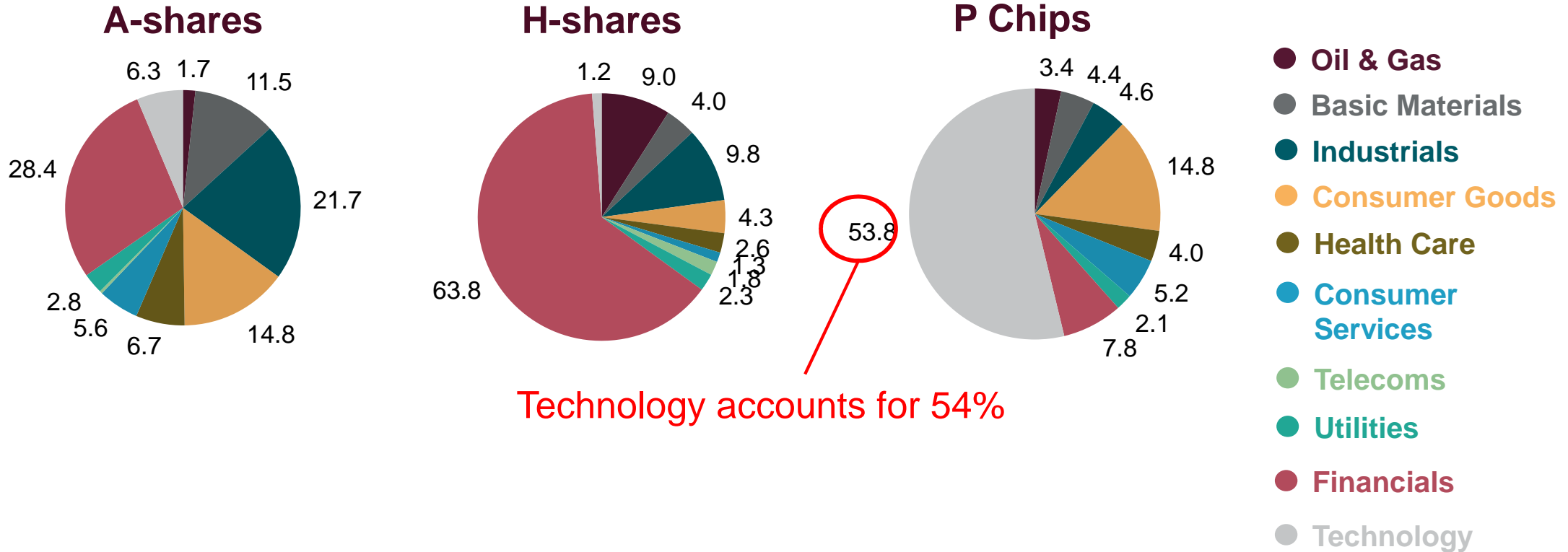
China Share Classes – H-shares

- H-shares are dominated by Financials



China Share Classes – P Chips

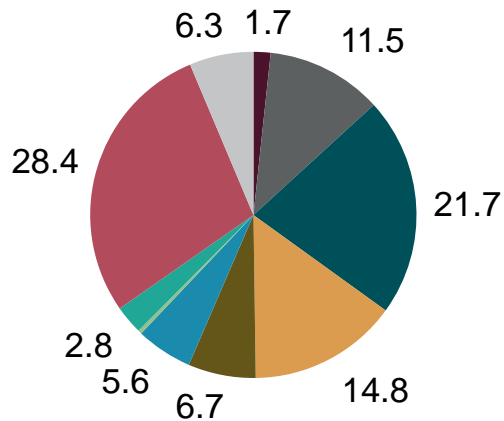
- P Chips are dominated by Technology (i.e. Tencent)



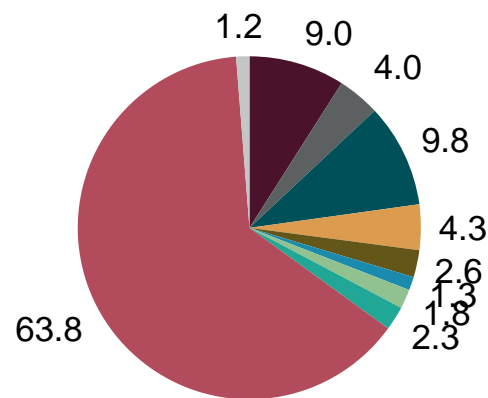
China Share Classes – N-shares

- N-share are dominated by Consumer Services (Alibaba = 43%) & Technology (Baidu = 24%)

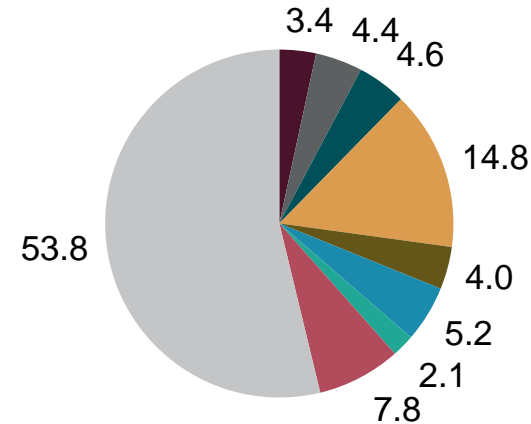
A-shares



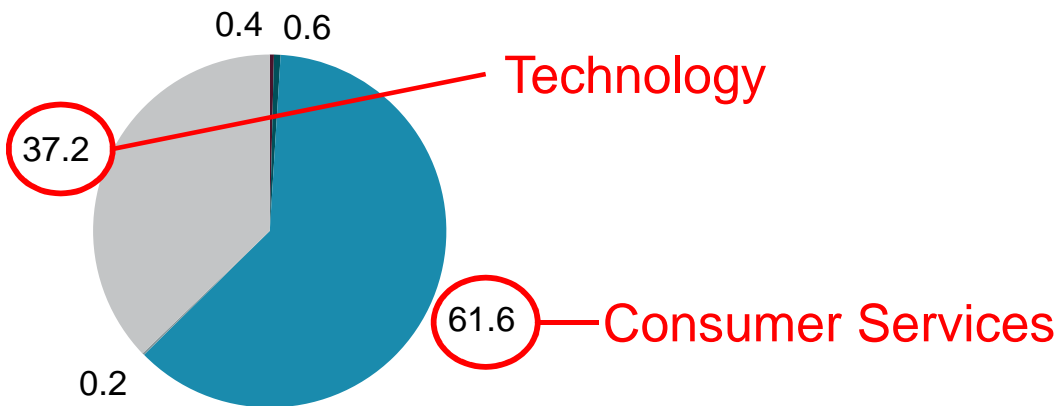
H-shares



P Chips

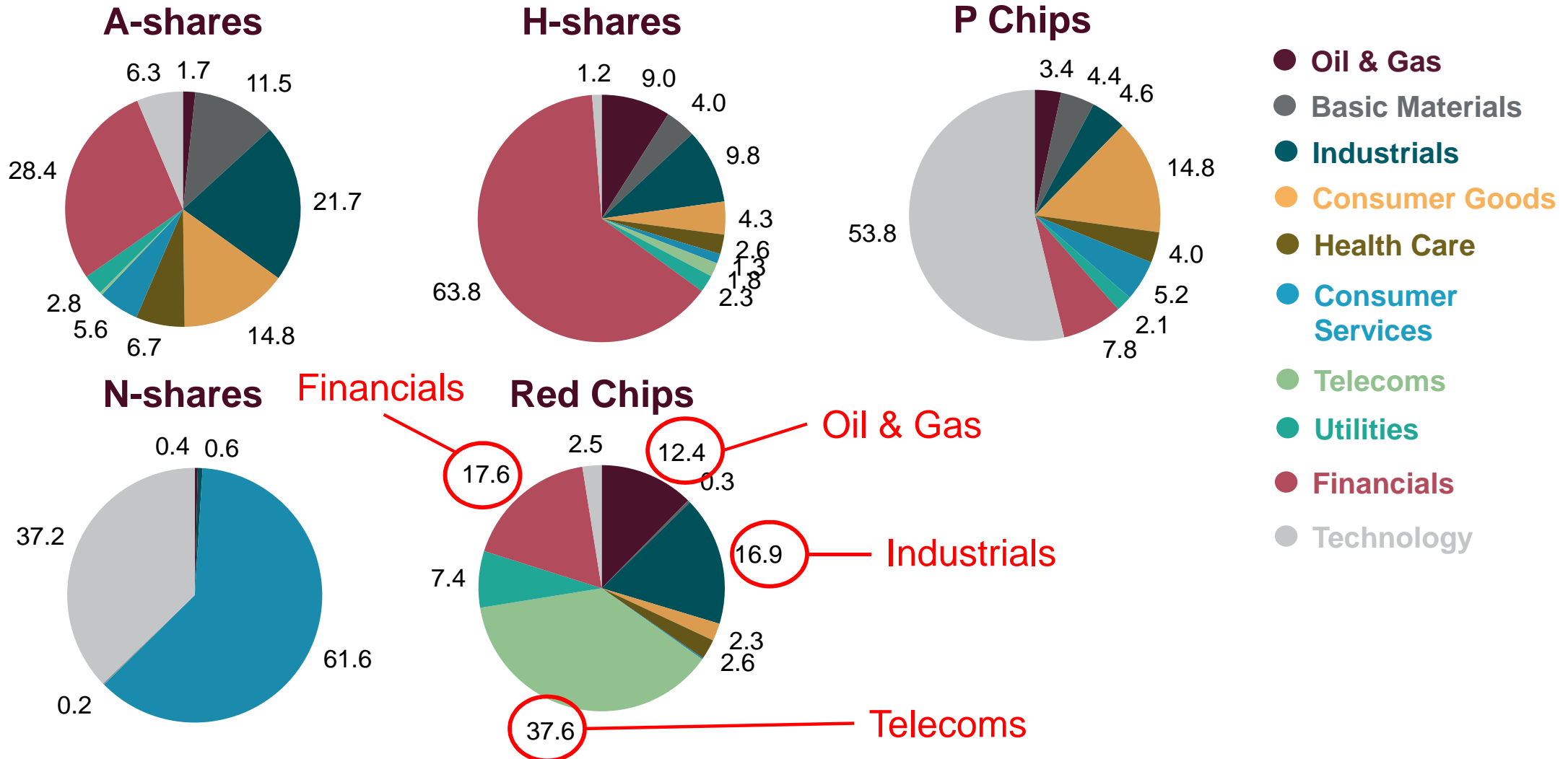


N-shares



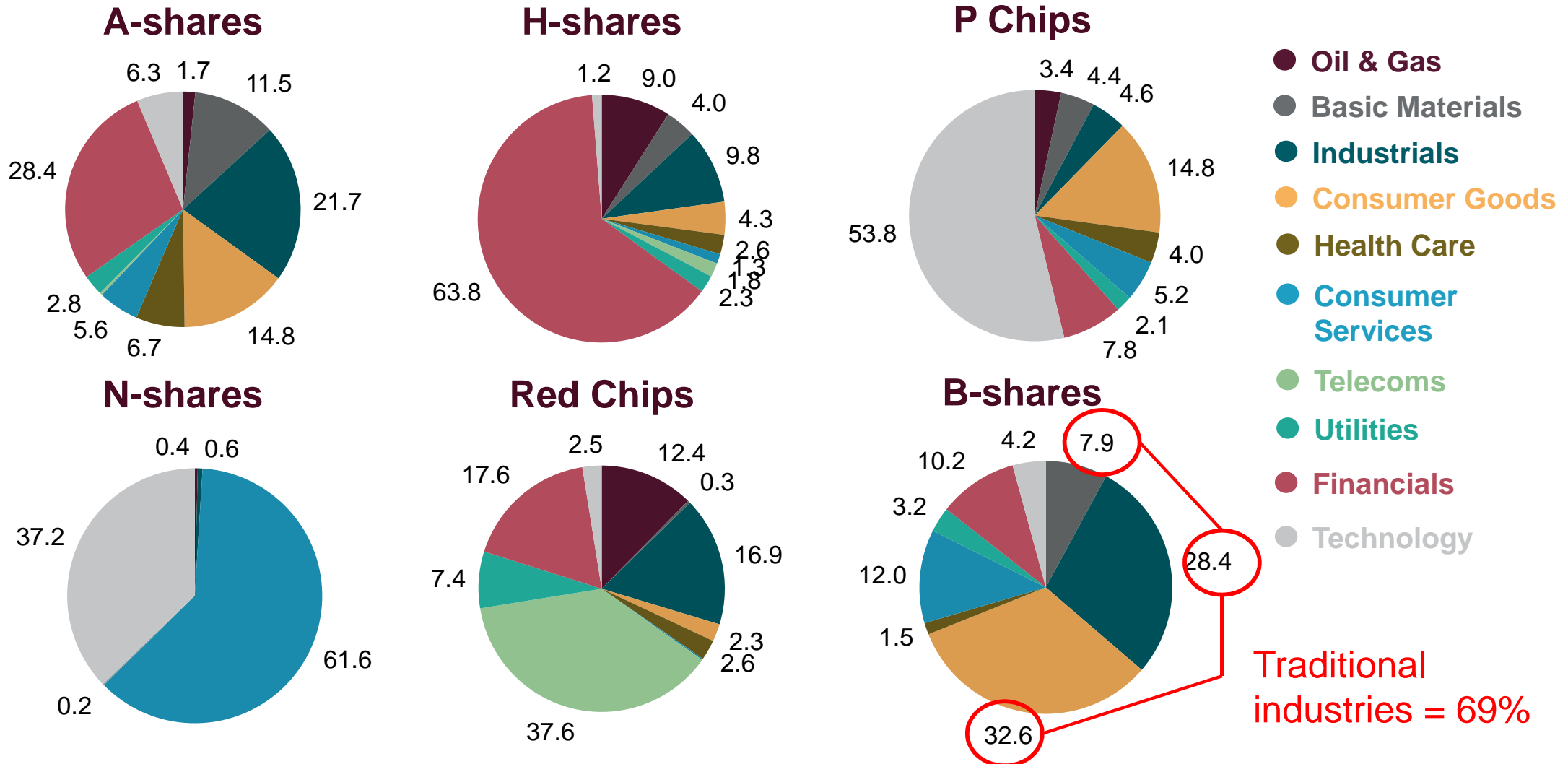
China Share Classes – Red Chips

- Telecoms, Oil & Gas, Industrials & Financials account for 85% of Red Chips
- China Mobile is the largest Red Chip (34%)



China Share Classes – B-shares

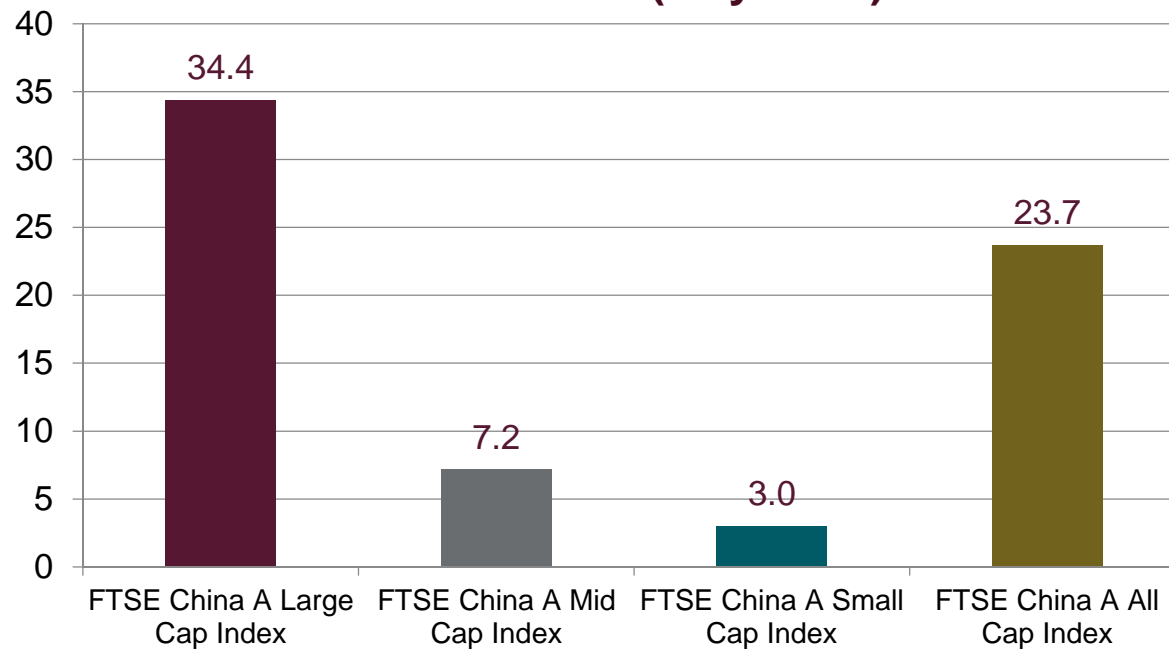
- Basic Materials, Industrials & Consumers Goods account for 69% of all B-shares



Access to China A-shares is limited via overseas listings

- Only 24% of China A-share companies by market cap can be accessed by other China share classes
- Large cap China A-shares have the highest representation but still only 34%

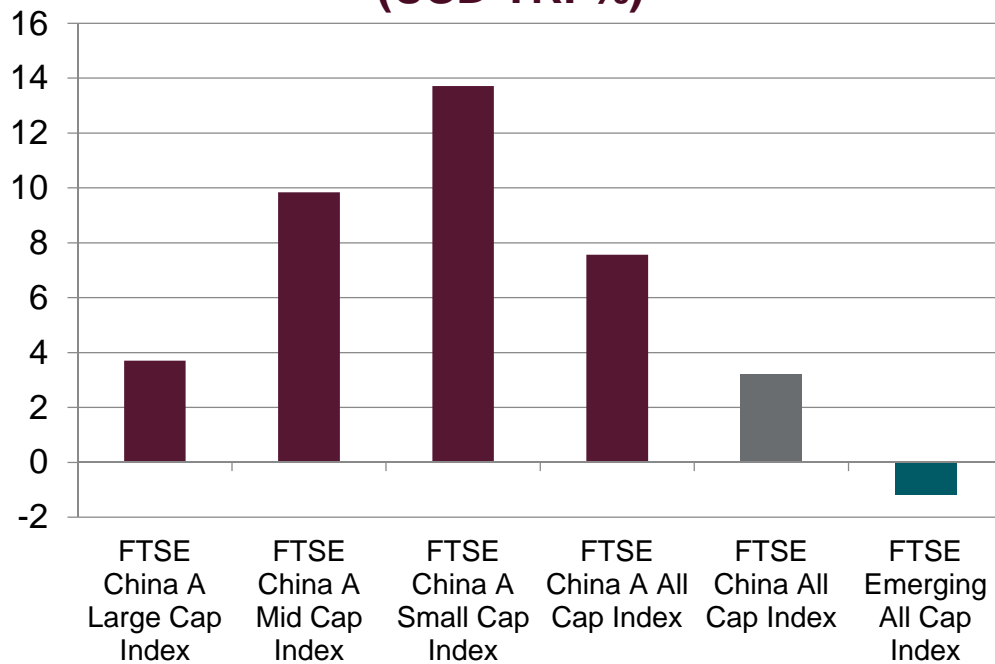
% of China A-shares by Market Cap Accessed by Other China Share Classes (May 2016)



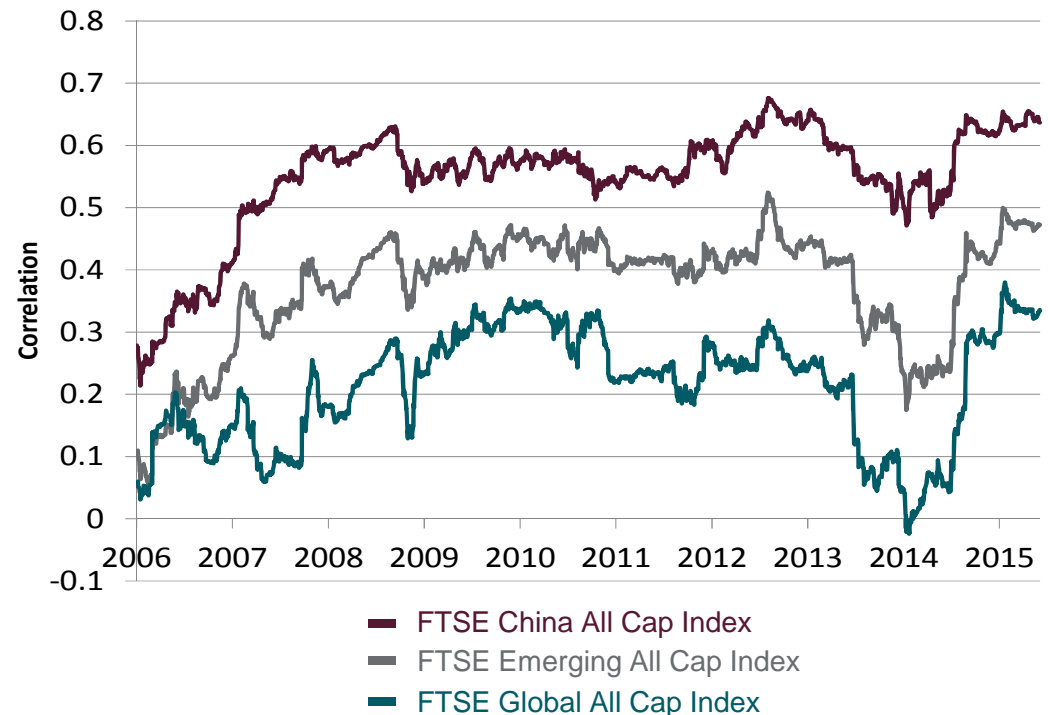
China A-shares as a diversification tool

- Historically investor access to China A-shares has been via large caps that have shown lower returns
- China A-share mid/small cap indexes have performed strongly over past 10 years
- China A-share index correlations to global equities (incl. China) are low

10 Year Annualised Relative Returns Compared to the FTSE Global All Cap Index (USD TRI %)



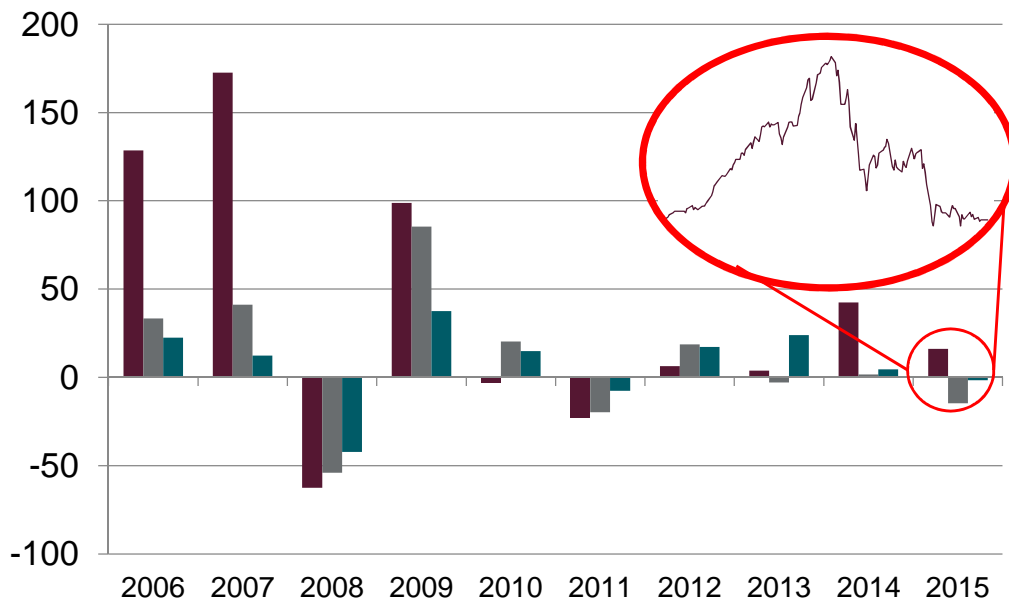
FTSE China A All Cap Index Rolling 12 Month Correlations (2006-2016)



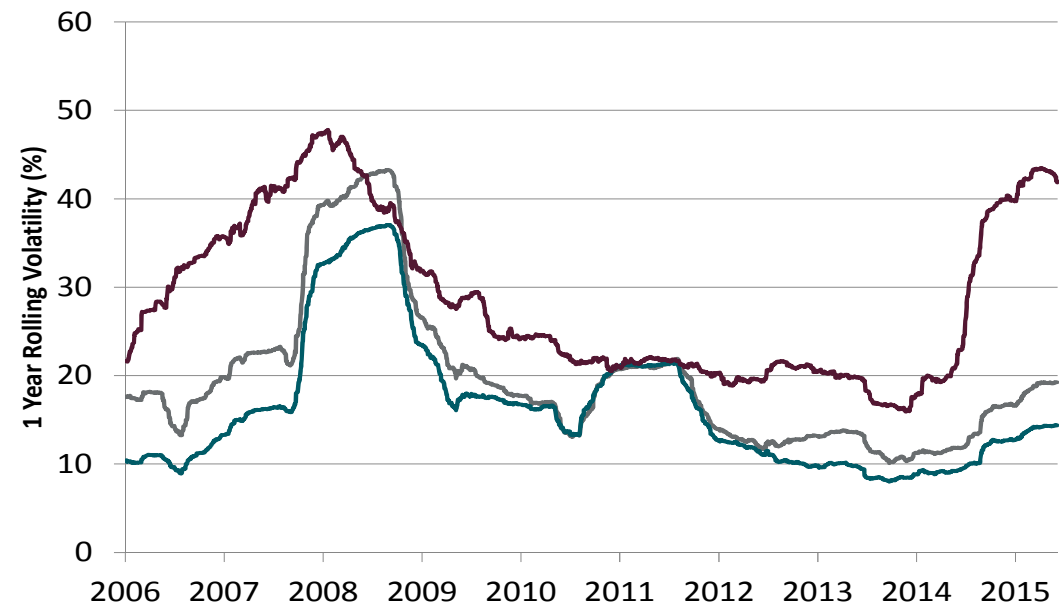
Be prepared for a bumpy ride

- Historically China A-share indexes have seen large swings in performance
- In more recent times the China A-shares performance has decoupled from global markets
- China A-share indexes have a higher historical volatility

FTSE Year-on-Year Returns (USD TRI %) (2006-2016)



1 Year Rolling Volatilities (%) (2006-2016)



■ FTSE China A All Cap Index

■ FTSE Emerging All Cap Index

■ FTSE Global All Cap Index

Investment schemes for accessing mainland China

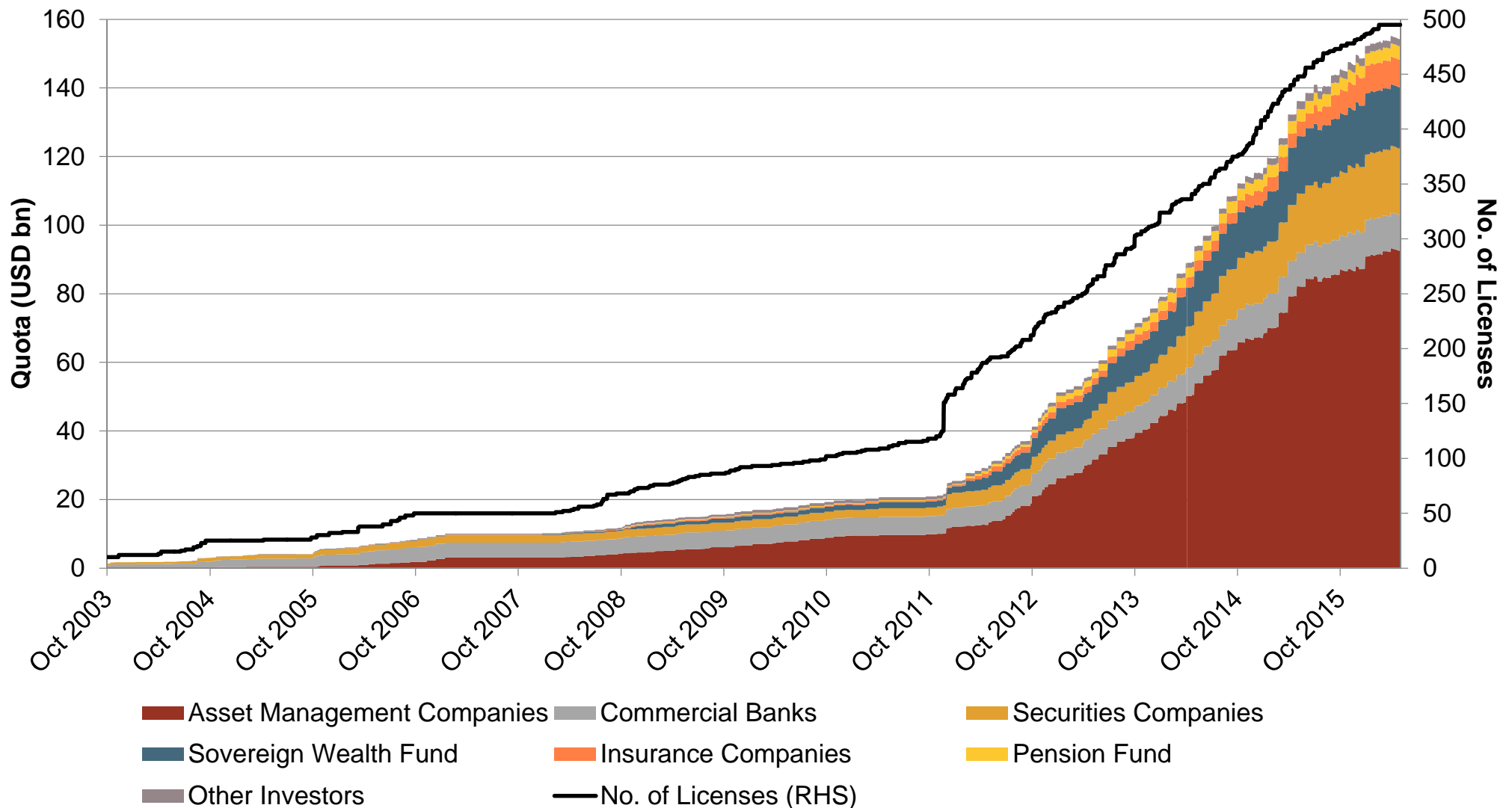
- **Qualified Foreign Institutional Investor (QFII) Scheme – (2002)**
- **Renminbi Qualified Foreign Institutional Investor (RQFII) Scheme – (2011)**
- Qualified Domestic Limited Partnership – (2013)
- **Shanghai-Hong Kong Stock Connect Scheme – (2014)**
- Mutual Recognition of Funds (MRF) Scheme – (2015)
- China Interbank Bond Market Access Scheme – (2016)

Investment schemes for accessing China A-shares – QFII, RQFII and Stock Connect

	QFII	RQFII	Shanghai-Hong Kong Stock Connect (North Bound)
Launch Year	2002	2011	2014
Scheme Currency	USD	RMB	RMB
Eligible Entities	Commercial banks, securities companies, fund management firms, insurance companies, pension funds, sovereign wealth funds. Size and operational experience qualifications apply	Financial institutions based in 15 jurisdictions e.g. USA, Hong Kong, U.K., France, Singapore, Germany, South Korea, Australia, Switzerland, Luxembourg, Canada	All Hong Kong and overseas investors (including both retail and institutional) No approval needed
Eligible Investments	Stocks, bonds, funds, warrants, IPOs, index futures	Same as QFII	<ul style="list-style-type: none"> All constituents stocks of SSE180 and 380 Indexes All dual listed shares (H shares that have A-shares in Shanghai SE) Exceptions: Stocks on “risk alert board”, IPOs
Total Allocated Quota and # of Licensees (May 2016)	USD 81bn, 273 entities	RMB 502bn (USD 76bn), 165 entities	<ul style="list-style-type: none"> RMB 300bn (USD46bn) in aggregate balance RMB 13bn (USD2bn) daily cap.
Liquidity	<ul style="list-style-type: none"> 3 months lock up period (Was 1 year, before Feb. 2016) Open-ended funds can invest/repatriate on a daily basis (Was weekly, before Feb 2016) Cannot repatriate more than 20% of previous year end's total assets each month 	<ul style="list-style-type: none"> Open-Ended Funds: 1-year injection period. Daily injection and repatriation, no lock up period Other products: 6 month investment period, 1 year lock-up, monthly repatriation 	<ul style="list-style-type: none"> Daily and no restriction for sell transaction Buy- trades are subject to quota on a net buy Cannot buy-sell-then-buy the same stock on the same day

QFII and RQFII quota by investor type

Historical QFII and RQFII by Investor Type (2003 to 2016)



FTSE country classification approach

- Process is carried out annually in September
- Classifies countries as either developed, advanced emerging, secondary emerging or frontier
- Assessment on twenty one “Quality of Markets” criteria and on the country’s economic status as measured by GNI per capita
- China A-share market has been on the Watch List for potential inclusion in secondary emerging since 2005
- It fails two tests out of the nine Secondary Emerging Quality of Markets criteria based on review results of September 2015

FTSE country classification approach

FTSE Quality of Markets Criteria for the China A-shares Market

CRITERIA	Secondary Emerging	China A-share 2015
MARKET AND REGULATORY ENVIRONMENT		
Formal stock market regulatory authorities actively monitor market (e.g. SEC, FSA, SFC)	x	Pass
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	x	Not met
CUSTODY AND SETTLEMENT		
Settlement – Rare incidence of failed trades	x	Pass
Custody – Sufficient competition to ensure high-quality custodian services	x	Pass
Clearing & Settlement – T+3, T+5 for Frontier	x	T+0
DEALING LANDSCAPE		
Brokerage – Sufficient competition to ensure high quality broker services	x	Pass
Liquidity – Sufficient broad market liquidity to support sizable global investment	x	Pass
Transaction Costs – Implicit and explicit costs to be reasonable and competitive	x	Pass
Transparency – Market depth information / visibility and timely trade reporting process	x	Pass

Source: FTSE Group as at September 2013

FTSE country classification approach

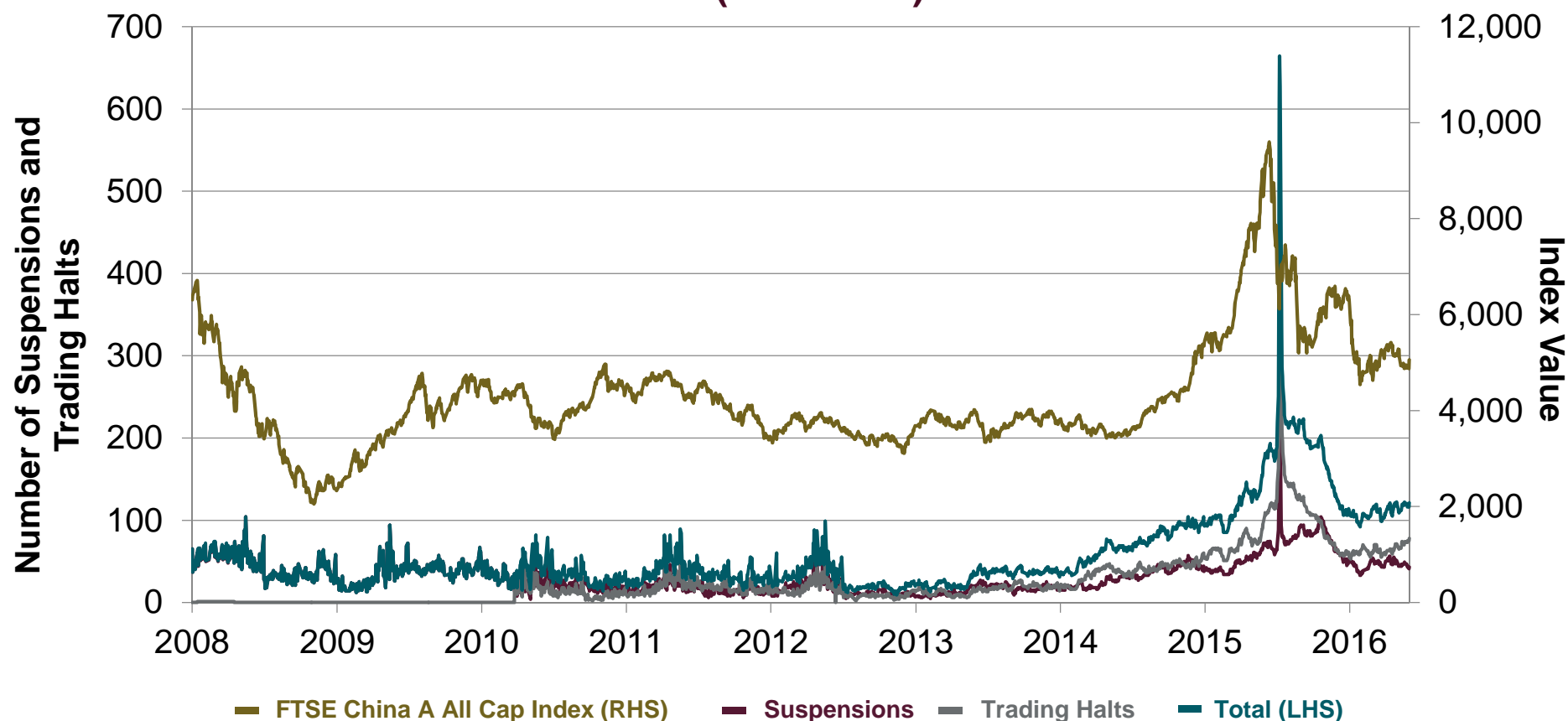
Areas of Concern for the China A-shares Market

- Capital mobility, e.g. approval process, lock-up period and repatriation cycle of the QFII/RQFII schemes
- Settlement and clearing (security settlement on T+0, money settlement on T+1)
- Company suspensions

China Suspensions

- On 9 July 2015, 664 of the 1,424 constituents in the FTSE China A All Cap Index were suspended/halted
- On 31 May 2016, 121 companies or 5.94% are suspended/halted in the index

Number of Suspensions and Trading Halts in the FTSE China A All Cap Index (2008-2016)



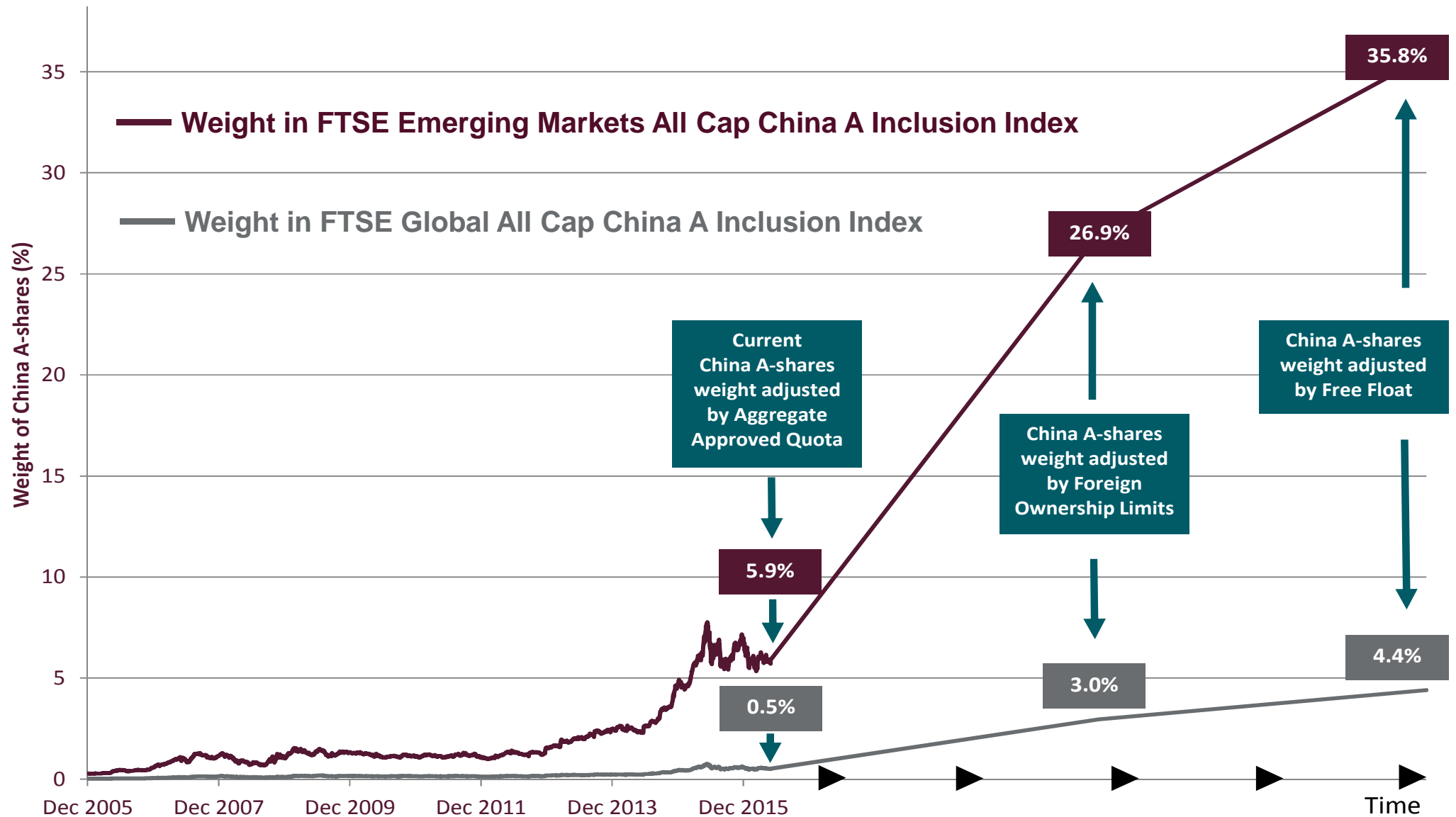
Index reviews of China A-shares

- Including China A-shares in the Asia Pacific ex Japan review universe would impact the index reviews
 - China will become 55% of the review universe
 - Large swings in market value would impact the review of other countries and increase turnover
 - India would be the next largest market with 8.8%
- China should be reviewed as stand alone country
 - Similar to how FTSE Russell reviews Japan
- All China share-classes will be reviewed in one universe
- FTSE Russell's free float rule would need to be updated
 - PetroChina is the 4th largest company (USD 195.7bn) in Asia Pacific but its A-share only has a free float of 2.5% (USD 4.5bn)

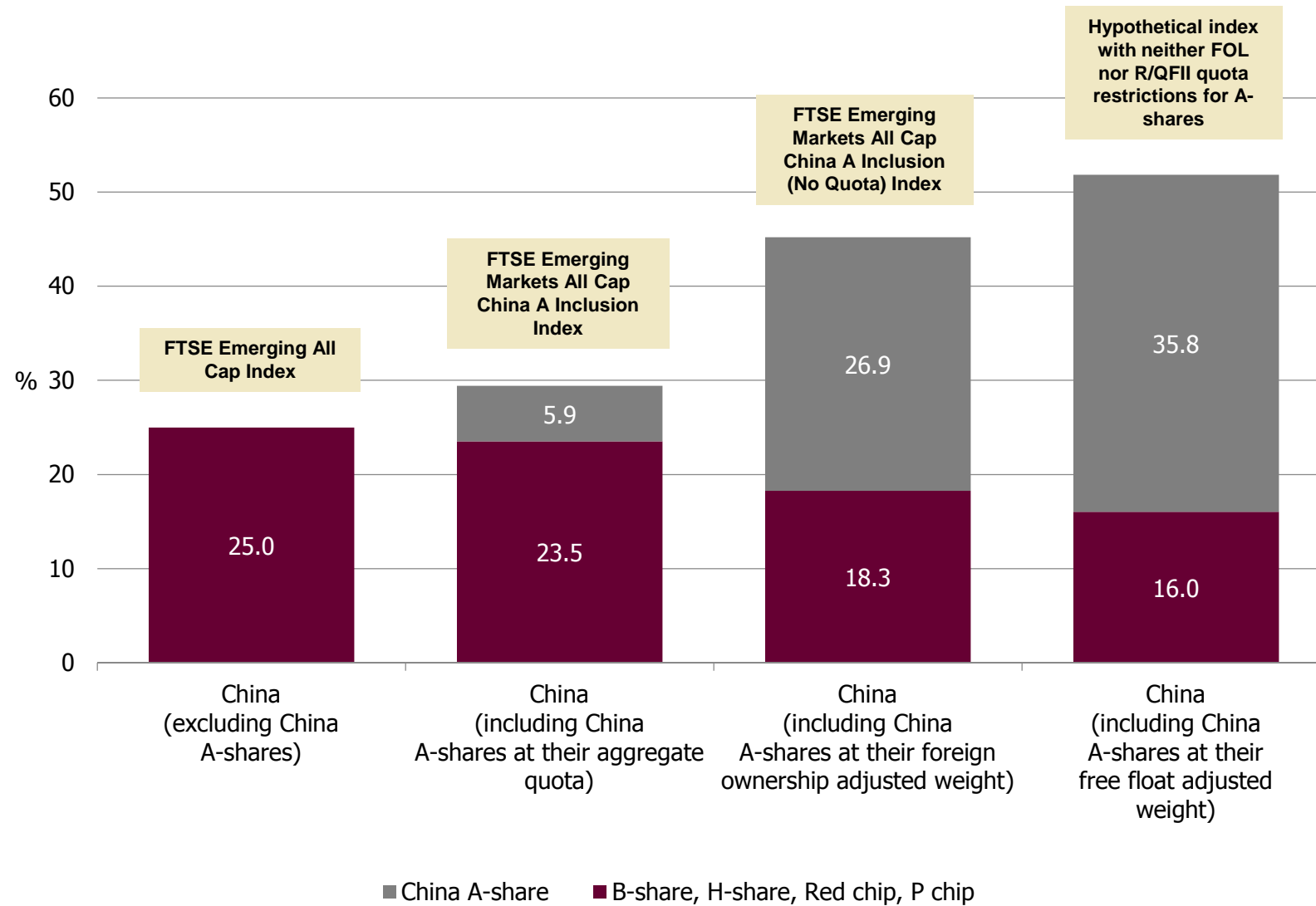
FTSE Global China A Inclusion Indexes

- Created to support the transition of China A-shares to FTSE's Global Indexes
- The Inclusion Indexes offer various options, and an investor can determine which is most relevant:
 - Allocation of A-shares based on aggregate quota granted to QFIIs and RQFIIs. As the quota amount increases the weight of China A-shares becomes larger in FTSE's global benchmarks. This is the headline version of the China A Inclusion Indexes
 - Allocation of A-shares based on the China's foreign ownership limit, but not QFII/RQFII quota amounts. Inclusion indexes using this allocation method are referred to as China A Inclusion (No Quota) Indexes
 - A customised allocation of A-shares
 - Market participants who do not wish to have China A-shares in their global benchmarks can continue to use the FTSE Global Equity Index Series, which will remain unchanged
- The mechanism can accommodate other market access schemes, such as the Shanghai-HK and potentially the Shenzhen-HK Stock Connect programme, when they are considered suitable

Transition of China A-shares in Global Benchmarks



China's expansion in various FTSE Emerging Markets All Cap Indexes (%)



Summary & questions

- The FTSE Global China A Inclusion Indexes are tools to help clients transition/respond to the inclusion of China A-shares in global benchmarks
- The indexes are evolving to reflect changes in the China A-shares market and the needs of our clients
- The indexes includes China A-shares at a weighting equivalent to their aggregate approved R/QFII quota, foreign ownership limits and customised allocations
- In the headline version the weighting of China A-shares will increase as access to the mainland market increases
- FTSE Russell will continue to work with our clients and regulators/exchanges to support the inclusion of China A-shares in our benchmarks

Question

Q6. Should China A-shares be included in global benchmarks?

- a) Yes, access is sufficient for their inclusion
- b) No, it is too early for their inclusion
- c) Still do not know

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The logo consists of a light purple circle centered on a dark purple background. Inside the circle, the words "FTSE" and "Russell" are stacked vertically in a white, bold, sans-serif font.

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Shanghai & Shenzhen – Hong Kong Stock Connect

You Need To Get Ready Now

5 Sep 2016

Shenzhen VS Shanghai Connect I

	SZ Connect	SH Connect
Trading Hours	<ul style="list-style-type: none"> Opening call auction: 9:15-9:25 Continuous auction: 9:30-11:30; 13:00-14:57 Closing call auction: 14:57-15:00 	<ul style="list-style-type: none"> Opening call auction: 9:15-9:25 Continuous auction: 9:30-11:30; 13:00-15:00 Not applicable
	<ul style="list-style-type: none"> Order can be sent 5 minutes prior to the start. 	
Order Cancellation	Unexecuted Orders	
	<ul style="list-style-type: none"> Can be cancelled during trading hours except 09:20-09:25 and 14:57-15:00 	<ul style="list-style-type: none"> Can be cancelled during trading hours except 09:20-09:25
	Confirmed Orders	
	<p>Order may be cancelled by SZSE trading system after it has been confirmed due to the unsuccessful order validation. An example of this is the order price exceeded the current price range.</p>	<ul style="list-style-type: none"> Not applicable
Eligible Stock	<ul style="list-style-type: none"> Around 880 (Main: ~270, SME: ~410, ChiNext: ~200) Market Capitalization ~ RMB 15 Trillion (74%) ADT : RMB230 bn (68%) Constituent stocks of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index with market capitalization >= RMB 6 billion Shares dual listed on SZSE and SEHK (A+H shares) 	<ul style="list-style-type: none"> Around 567 Market Capitalisation ~RMB 21.8 Trillion (85%) ADT : RMB137 bn (68%) Constituent stocks of the SSE 180 Index and SSE 380 Index Shares dual listed on SSE and SEHK (A+H shares)
	<ul style="list-style-type: none"> Except : shares not traded in RMB; IPOs (Risk Warning Board: Can only Sell) 	
	<ul style="list-style-type: none"> ETF will be announced separately after Shenzhen-Hong Kong Stock Connect has been in operation for a period of time and upon the satisfaction of relevant conditions 	
	<ul style="list-style-type: none"> More focus on new industries security e.g. Technology companies 	<ul style="list-style-type: none"> More focus on traditional industries e.g. banking and utility etc.

Shenzhen VS Shanghai Connect II

	SZ Connect	SH Connect
Eligible Investors	•All HK and overseas investors except for ChiNext Market of SZSE, only those investors who are institutional professional investors *	•All HK and overseas investors
Quota	•Aggregate Quota abolished	
	•Daily Quota RMB 13bn	•Daily Quota RMB 13bn
Fees	•Same fees as Shanghai Connect	
Operations model	•Same model as Shanghai-Connect, same SPSA and integrated model applicable for Shenzhen Connect.	
Pre-trade checking	Require	
CCASS 5-digit Stock Code	• 00 XXXX -> 7 XXXX (Main Board & SME Board) • 300 XXX -> 77 XXX (ChiNext Market) (To be confirmed by HKEX)	• 60 XXXX -> 9 XXXX
*Subject to resolution of related regulatory issues, other investors can trade ChiNext stocks listed on Shenzhen Stock Exchange		

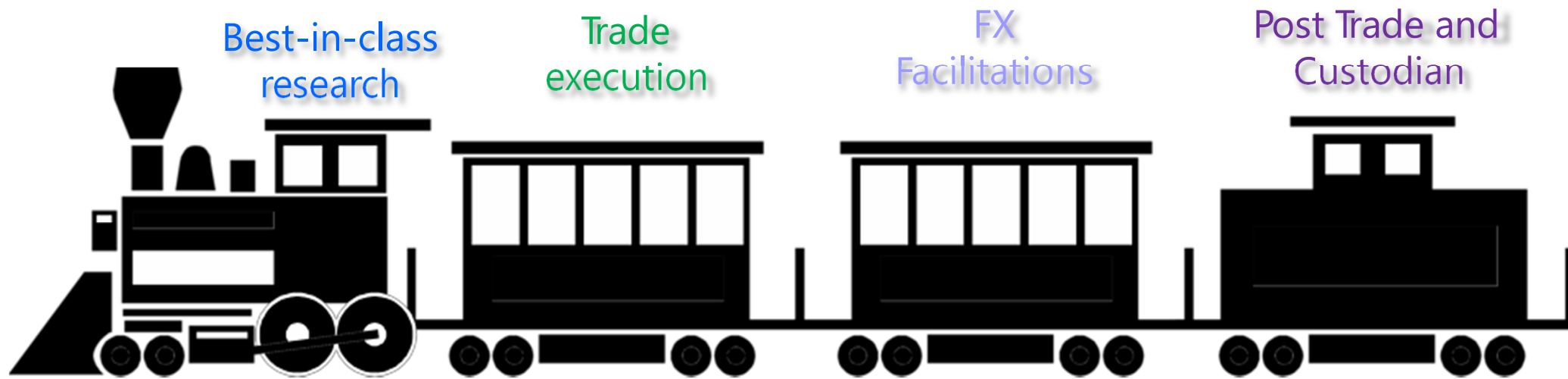
Trading Information

Trading on Hong Kong Holidays	Open only: <ul style="list-style-type: none"> • both SEHK and SSE/SZSE are open for business; and • banking services of both markets are open on the corresponding money settlement days
Order Types	Limit orders only (SSE/SZSE limit orders may be executed at or better than the input price)
Order Modification	Not allowed (must cancel and re-input order)
Board Lot	100 shares (applicable to buy orders only)
Odd Lot	Sell orders only (should be made in one single order)
Max Order Size	1 mn shares
Spread	Uniform at RMB 0.01
Price Limit	<ul style="list-style-type: none"> • In general $\pm 10\%$ on previous closing price ($\pm 5\%$ for ST and *ST stocks) • Price of buy orders must not be lower than 3% of current best bid price (in its absence the latest trade price; and in the absence of both then previous closing price)
Day (Turnaround) Trading	Not allowed
Manual Trade / Block Trade	Not allowed
Margin Trading	<ul style="list-style-type: none"> • Only eligible A shares are allowed • SSE/SZSE may suspend margin trading in specific A shares if the volume of margin trading in such A shares exceeds a certain threshold
Stock Borrowing & Lending (SBL)	<ul style="list-style-type: none"> • Only allowed for (i) covered short selling and (ii) meeting pre-trade checking • Only eligible persons may lend China Connect Securities
Short Selling	<ul style="list-style-type: none"> • Only eligible A shares are allowed (see List of Eligible SSE/SZSE Securities for Short Selling) • Short selling orders must be (i) flagged; (ii) in multiple of 100 shares and (iii) subject to tick rule • Short selling quantity of is subject to a daily limit (1%) and a 10-day cumulative limit (5%) • SSE/SZSE may suspend short selling of specific A shares if the short selling activities of such A shares exceed a certain threshold • There are reporting requirements (Short Selling Weekly Report, Large Open Short Position Report) • Short selling statistics are available on HKEX website to facilitate short selling
Non-trade Transfer	Allowable for: <ul style="list-style-type: none"> • SBL for covered short selling purpose (not more than one month duration); • SBL for the purpose of satisfying the pre-trade checking (1 day duration which cannot be rolled over); • Transfers between EPs and their clients for the purpose of rectifying error trades; • Post-trade allocation of shares to different funds/sub-funds by fund managers; • Other situations specified by SSE, SZSE and ChinaClear.

Why Citi?

Citi is committed to the China business with a full end-to-end solution:

- Complete end-to-end solution:



- Commitment to Stock Connect from day 1 of Stock Connect launch in October 2014 :
 - Citi clients have been able to trade Stock Connect **across all execution channels (high touch, algorithms and program trading)**
 - Research coverage of **143** A shares covered as of August (and 65 at launch) **(Shanghai-listed: 90 / Shenzhen-listed: 53)**
- **No 1** foreign broker for SPSA account (Source: HKEx) 
- CNH liquidity: Citibank is one of the 7 CNH **Primary Liquidity Providers** who is also a full-service broker

Citi is ready for Shenzhen Connect

- Citi **target to be ready to trade Shenzhen Connect on day 1** for all desks (High Touch, Program Trading, and Electronics Execution)
- Citi will **handle the closing auction** in Shenzhen (there is no closing auction in Shanghai)
- Citi **algorithms** will be optimized for seamless execution quality and consistency in Shenzhen
- **Same Custodian and Trading accounts** can be used for both Shanghai and Shenzhen

Citi Research

- Global footprint :



- First mover in A-share coverage: covered 65 A-shares when SH-HK Connect launched in Oct 2014
- As of August 2016, Citi Research covers **143 A-shares (Shanghai-listed: 90/Shenzhen-listed: 53)** with focus on Healthcare, Media, Tech and Consumer
- Consistently **ranked #1** for HK/China stock recommendation performance among 18 peers, per Starmine®
- 2016 Asia Institutional Investor(II) survey:
 - ✓ The **most improved firm**: Citi racks up the biggest gains of the region's best sell-side analysts
 - ✓ **12 teams ranked Top 3: #1 in Property, #1 in Small/Mid-Cap, and #1 in Utilities;**
 - ✓ #2 in HK, #3 in Insurance, #3 in Oil & Gas, and #3 in Transportation
- **2015 II China survey: #1 in Utilities, #1 in Property, #1 in Small-Mid caps**



LIU Mingkang



First Chairman of the China Banking Regulatory Commission (CBRC) between March 2003 and October 2011. He was also the Deputy Director of the Committee for Economic Affairs of the National Committee of the Chinese People's Political Consultative Conference and a member of the Monetary Policy Committee of the People's Bank of China.

Jean Claude Trichet

Former President of the European Central Bank. Made Newsweek's list of world's most powerful along with Ben Bernanke. He was named "Person of the Year" by the Financial Times (2007), "Policymaker of the Year" twice by The International Economy magazine (1991 and 2007)



Annual China Conference in Shenzhen and Macau



Alfred Schipke
Resident Chief Rep. for China IMF



Andrew Sheng
Distinguished Fellow
Asia Global Institute. Chief Advisor to the
China Banking Regulatory Commission



Greg Gibb
Co-Chairman & CEO, Lufax
China's Largest P2P Lender



James P Rubin
Foreign Affairs Columnist Sunday Times
Ex-Chief spokesperson US State Dept



Jiemian Yang
Vice President
Shanghai Institute for
International Studies



Lord Mervyn King
Economist
Former Governor of the Bank of
England, and Chief of its Monetary
Policy Committee



Weiqun Chen
Former deputy Director of the
Office of the Board of Supervisors
The State-owned Assets Supervision
and Administration Commission of
the State Council (SASAC)

Citi China Stock Connect Daily

- Citi CN Stock Connect Daily, Weekly A/H Strategy Report, Southbound Stampede research series

Citi Equities | China Stock Connect Daily



Market Commentary | Sept 1

CHINA STOCK CONNECT TODAY

INDEXES AT CLOSE – SHCOMP 3085 +0.35%; SZCOMP 2032 +0.22%; CSI300 3327 +0.48%; HSI 22976 -0.17%; HSCEI 9541 -0.58%; MXCN 61.77 -0.77%

- CHINA POLICY NEWS** – China to Promote Mixed-Ownership Reform for Insurance Companies; China to Step Up Supervision of Natural Gas Distribution Prices; China to Set Up 7 More Free-Trade Zones
- CHINA MARKET NEWS** – China To Build 40 Manufacturing Innovation Centers By 2025; Fosun Signals IPO of Health Assets to Be Announced This Year; China's Hottest Property Market Imposes Curbs to Cool Prices
- FLOWS** – Yesterday's Top 10 Most Traded Stocks
- MARGIN** – Latest Outstanding Balance of Margin Financing & Daily Margin Financing Amount
- A/H PREMIUM** – Latest A/H Premium
- Citi A-SHARE RESEARCH** – Jiangsu Hengrui Medicine | New China Life
- Citi STOCK CONNECT / A-SHARE EVENTS** – Citi Exclusive A-share Results Call: Han's Laser (REPLAY) + Hisense Kelon (REPLAY) + Hengrui Medicine (REPLAY) + Qingdao Haier (REPLAY)
- CHINA MACRO DATA CALENDAR**

CHINA POLICY NEWS

- China to Promote Mixed-Ownership Reform for Insurance Companies:** China said to support investment in insurance companies by qualified government, private and foreign capital, according to 5-yr plan for insurance industry development issued by CIRC on its website. The statement was to encourage qualified insurance companies to list shares in domestic and overseas markets, support/regulate overseas investment by insurance companies and to support insurance funds to participate in asset securitization business. (Bloomberg)
- China to Step Up Supervision of Natural Gas Distribution Prices:** China will increase supervision of local natural gas transmission and distribution prices, National Development and Reform Commission says in a statement on website. NDRC aims to lower provincial natural gas transmission and distribution prices that are "excessively high"; and China will look closely at fees charged on natural gas users by distributors (Bloomberg)



01 Sep 2016 12:04:46 ET | 30 pages

Citi Research
Equities

Strategy
Asia | China

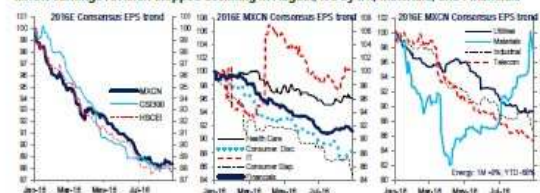
China A/H-Share Equity Strategy

1H16 Results Review: EPS Stabilization with Reduced B/S Risks

- Stay Positive on MXCN/ HSCEI while Neutral on CSI300.** MXCN 1H16 EPS was down 9% y-o-y or up 17% h-o-h, given high bases of 1H15 WTI & A-shares. Citi analysts reported 31% beats, 28% misses and 43% in line. **Key Beats:** I.T. (OW), Consumer Disc. (OW) and Materials (N); **Key Misses:** Industrials (OW), Utilities (UW) and Staples (UW). Financials (OW) are in line. Our top-down MXCN 2016E/2017E EPS growth at -3%/ +6% remain unchanged. We stay positive on MXCN (10% upside) while Neutral on CSI300 (3% downside), and highlight 10 A/H Buys & 7 Sells post 1H16 results, some of which belong to our 2H16 top stock picks.
- 2016E EPS Stabilization with Reduced B/S Risks:** MXCN 2016E EPS revision was 0% in August, reversing the significant downward 10% revision YTD, supported by upward revisions from I.T. (OW), Materials (Neutral) and Financials (OW). We see reduced B/S default risks, given a) improving Interest Coverage in 1H16 (3.64x vs. 3.16x in 2015), and b) corporate credit growth deceleration with only 4% yoy loan growth reported by 15 listed Banks. ROE (excl. Financials, mkt-cap weighted) dropped slightly for MXCN while stable for CSI300, due to reduced leverage, still slow asset turnover while stable net margins.
- Broader Read-through:** 1) CSI300 reported +2% yoy of employees and continued +5% yoy of cash salary, re-affirming our positive views on consumption upgrade. 2) We estimate non-SOEs contributed 56% (vs. 50% in 2014), and listcos contributed one-third of China's 1H16 profit. 3) July YTD Industrial Profit improved to 6.9% yoy, vs. 2.3% drop yoy in 2015, partially helped by 9% interest expenses drop yoy.
- Weekly Intelligence:** August number of senior officials arrested remained low (50% below peak); August number of bond defaults stayed low (80% below May peak); Southbound Connect flow used 40% daily quota in past few days vs. normally 10%.

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MXCN earnings revision stopped declining in August, led by I.T., Materials, and Financials



Source: Bloomberg, WIND and Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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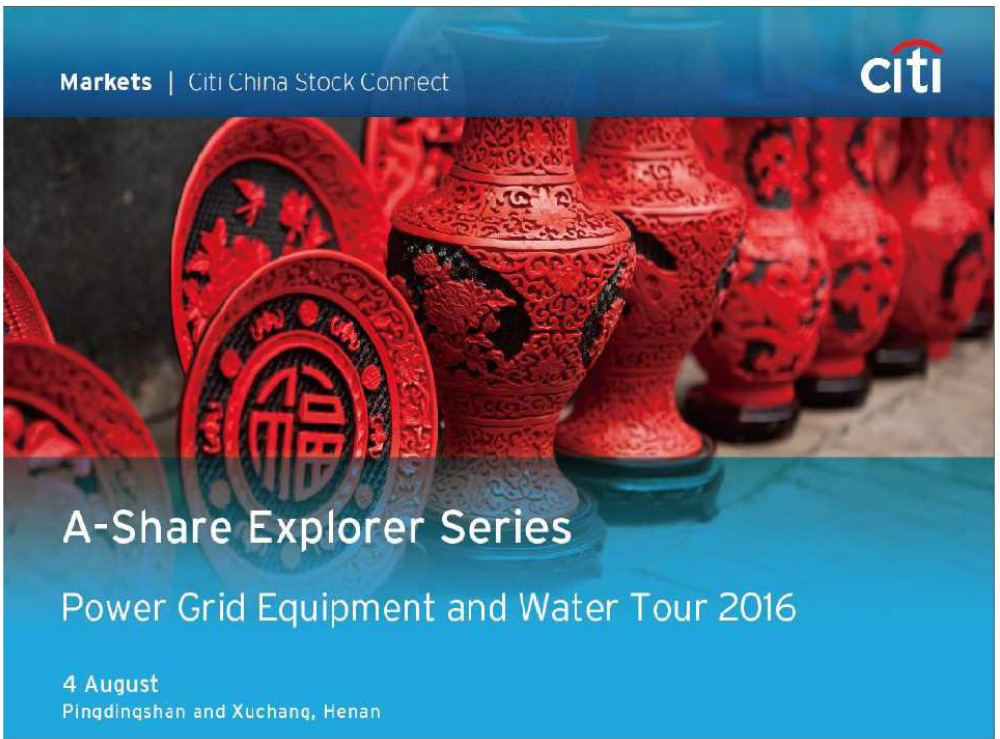
citilockcity.com

A-Shares Conference and Explorer Series

- Annual Citi A-Share Conference in Hong Kong



- A-Shares Explorer Series



4 August
Pingdingshan and Xuchang, Henan

Achieve Best Execution of China Equities with Citi

Seamless liquidity and execution consulting:

	Cash	Swap / Pnotes
Stock Connect	Yes	Yes
QFII	N/A	Yes

Citi's Execution Consultants partner with you to provide Best Execution by helping you measure and manage implementation of your trades across channels:

High Touch trading desk: full-service trading team that manages your execution according to your bespoke requirements

Electronic Execution: a full suite of high-performance algorithms and DMA provided by a team of dedicated algorithmic trading experts who train and advise you on the optimal way to implement your strategy

Program Trading: a globally-integrated team to help you manage rebalances, inclusion and deletion events and cash flows across all markets globally in a seamless manner

CNH Funding:

- Citigroup Global Markets can prefund client on **T+0**
- For buy trades, clients can choose to settle **T+0 or T+1** (We can also arrange extend settlement)
- If you settle in **CNH, no extra funding cost** will be charged as it is embedded in the commission rate
- If you settle in **USD, Citigroup can facilitate FX trading** and the funding cost will be reflected on the FX rate provided by our FX desk.

Custodian

Citibank NA

- **4th largest custodian** in the world
- **US\$15 trillion of assets** under custody
- **Leading proprietary network** providing clients unique access to local market expertise and global reach
- Leading provider of **integrated RMB/CNH banking and FX services**
- **Local Market Expertise** on Stock Connect, QFII, RQFII and other China market access channels

Shanghai-Hong Kong Stock Connect 1st Anniversary Trading and Investor Education Awards by HKEx

- **Top 3** Largest SPSA Portfolio Value
- **Top 3** Highest Number of SPSA Accounts Opened



Appendix 1: MSCI A-Shares Inclusions

Market Development

- MSCI potential China A-Shares 5% inclusions



Current Status

- Inclusion of overseas listed Chinese companies such as Baidu and Alibaba in November 2015 SAIR

Potential Initial Step: Partial Inclusion (5%*)

- Further improvements in quota allocation mechanism and size of overall quota
- Further relaxation on capital mobility and other market accessibility constraints

Potential Full Inclusion (100%*)

- Abolishment of the quota system
- Full liberalization of capital mobility restrictions
- Alignment of International accessibility standards

Data as of March 30, 2016

* The percentage number refers to the Inclusion Factor applied to the free float-adjusted market capitalization of China A share constituents in the pro forma MSCI China Index. China A-share securities are subject to a foreign ownership limit of 30%

Overseas listed Chinese companies were included in Nov 2015

Source: MSCI Consultation on China A-Shares Index Inclusion Roadmap

<https://www.msci.com/documents/1296102/2907491/Consultation+on+China+A-Shares+Index+Inclusion+Roadmap/1634d584-0320-4a30-b7a3-9c148f2ed5d0>

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September 2016

China Connect – Launch of Shenzhen-Hong Kong Stock Connect

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Country Head
Hong Kong Securities Services
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- The formal launch of Shenzhen-Hong Kong Stock Connect will only take place after preparation for the relevant trading and clearing rules and systems has been finalized, all regulatory approvals have been granted, market participants have sufficiently adapted their operational and technical systems, and all necessary arrangements for cross-boundary regulatory and enforcement cooperation, as well as investor education, have been in place. A separate announcement will be made with respect to the formal launch date.
- Since rules on trading, clearing and settlement may not have been completely promulgated or finalized by relevant authorities, therefore Citi solutions may be amended or changed in the course of the implementation of the Shenzhen Hong Kong Stock Connect

Agenda

- I. Overview of China Connect Schemes 1
- II. Key Features and Changes 3
- III. China Connect vs QFII/RQFII 6
- IV. How to Get Ready 8

China Connect | Expand Further

China and Hong Kong continue to expand the mutual market access with addition of Shenzhen and more to come



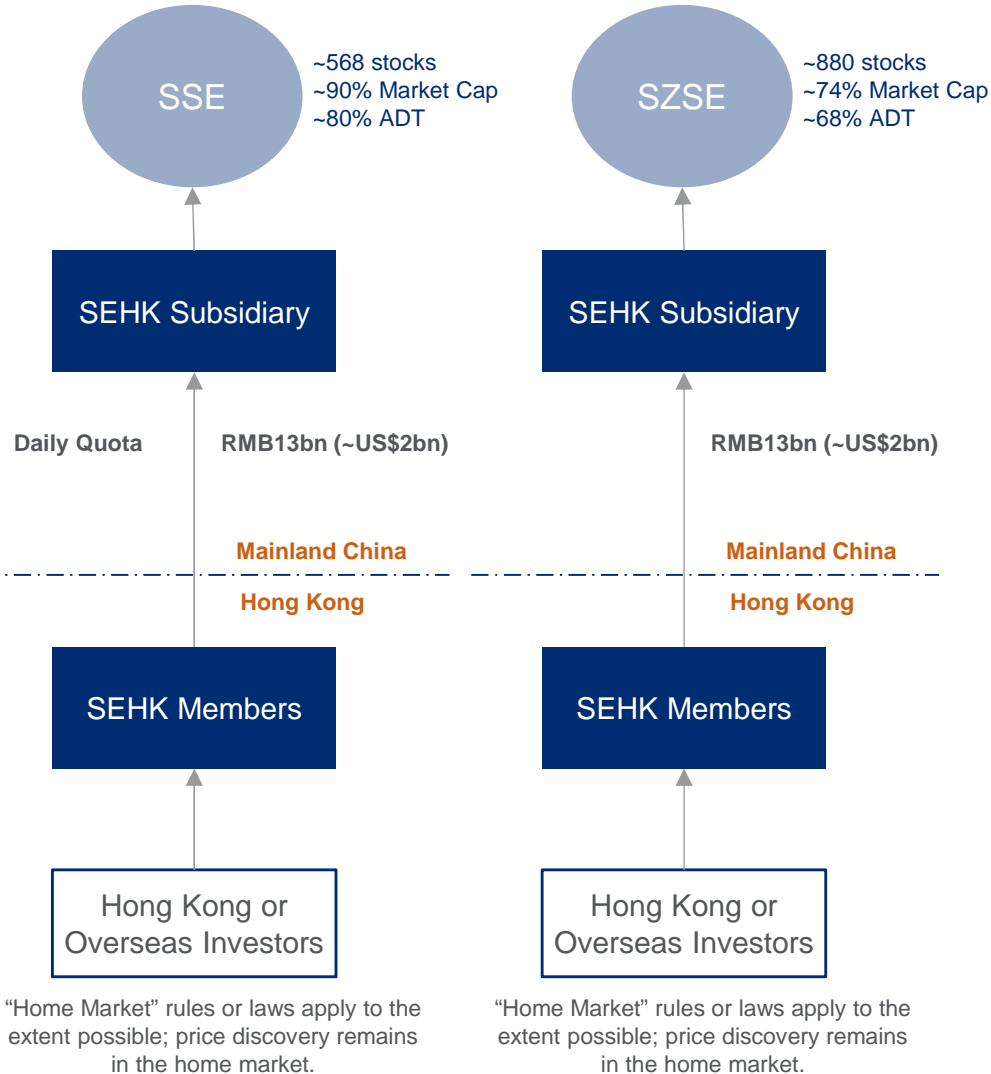
- Most efficient and scalable China access platform for international investors
- Expanding to other major asset classes ETFs, bonds

China Connect | A Transformational Breakthrough

Stock Connect is a transformational breakthrough for global investors to access the China A-shares market

Shanghai Northbound

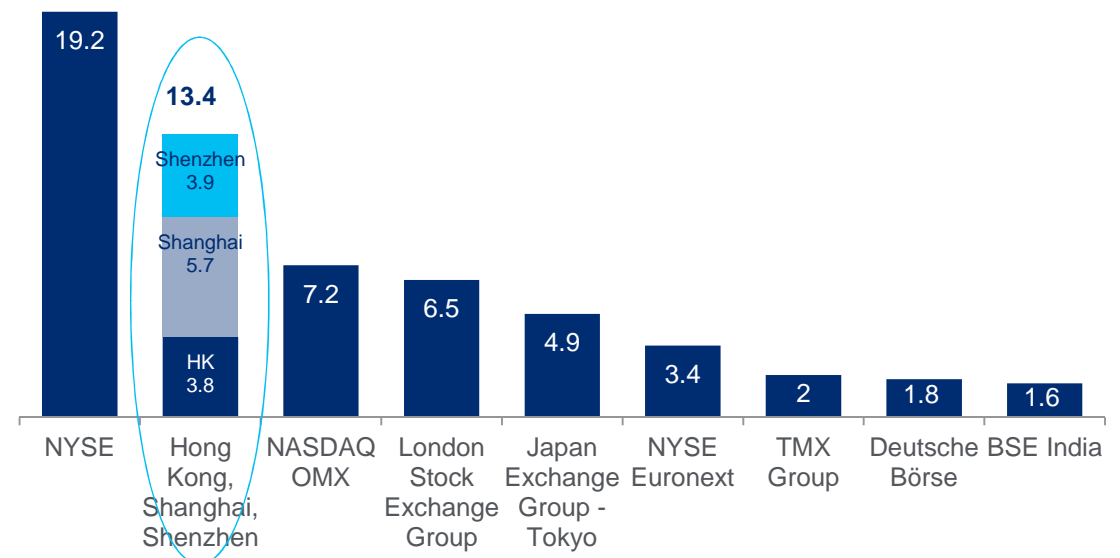
Shenzhen Northbound



Why is it a transformational breakthrough?

- Available to everyone from day one (e.g. retail investors, institutions, hedge funds, overseas investors)
- No approval or license required (e.g. no approval from CSRC, SAFE, PBOC, SFC)
- Scalable model and designed to be multi-assets and multi-markets (e.g. ability to extend to Shenzhen Exchange, equity derivatives, ETF, etc.)
- Broader impacts (IPO, index, RMB internationalization)

World’s Largest Stock Exchanges – Market Capitalizations (US\$ trillion)

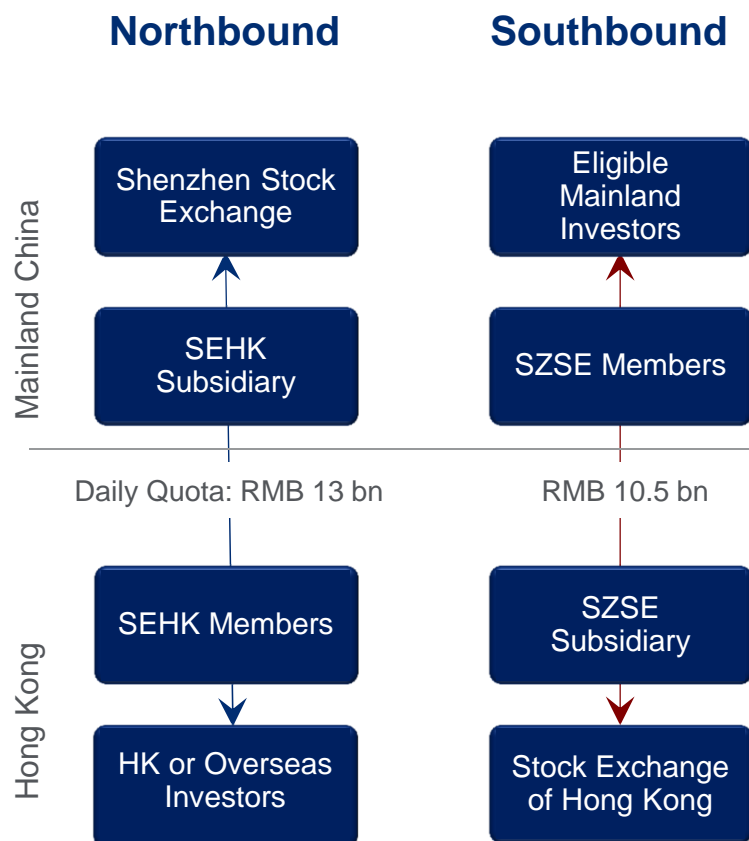


Source: World Federation of Stock Exchanges as of June 2015

Key Features and Changes

China Connect | Shenzhen Northbound and Southbound

Key features and changes



	Northbound	Southbound
Quota	<ul style="list-style-type: none"> • Aggregated Quota: None • Daily Net Buy Quota: RMB 13 bn 	<ul style="list-style-type: none"> • Aggregated Quota :None • Daily Net Buy Quota: RMB 10.5 bn
Eligible Stock	<ul style="list-style-type: none"> • ~880 Stocks Main: ~270, SME: ~410, ChiNext: ~200 ~ RMB 15 trillion (74%) Market Cap. ~ RMB 230 billion (68%) ADT • Constituent stocks of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index with market capitalization \geq RMB 6 billion; • A shares of SZSE-listed companies which have H shares listed on SEHK • <i>Exceptions: (1) Shares that are not traded in RMB; (2) Shares under "risk alert"; (3) No IPOs</i> 	<ul style="list-style-type: none"> • ~417 stocks (vs. 318 stocks for Shanghai southbound) ~HKD 21 trillion (87%) Market Cap. ~ HKD 39 billion (92%) ADT • Constituent stocks of the Hang Seng Composite LargeCap /MidCap Index; • Constituent stocks of the Hang Seng Composite SmallCap Index with market capitalization \geq HKD 5 billion; • H shares of SEHK-listed companies which have A shares listed on SZSE or SSE • <i>Exceptions: (1) Shares that are not traded in RMB; (2) Shares under "risk alert"; (3) No IPOs</i>
Eligible Investors	<ul style="list-style-type: none"> • ChiNext stocks are limited to Professional Investors initially 	<ul style="list-style-type: none"> • Aggregate balance RMB 500k or more in securities and cash accounts

China Connect | Shanghai vs. Shenzhen (Northbound)

There are only minor differences between Shanghai and Shenzhen northbound connection thus allows the Shenzhen launch to be relatively quick for the market to get ready

Northbound	SSE (Shanghai)	SZSE (Shenzhen)
Eligible Investors	<ul style="list-style-type: none"> No restrictions; open to all Hong Kong, overseas institutional and individual investors 	<ul style="list-style-type: none"> No restrictions; open to all Hong Kong, overseas institutional and individual investors, except for ChiNext which is limited to institutional professional investors initially
Eligible Securities	<ul style="list-style-type: none"> Constituent stocks of the SSE 180 and 380 All dual-listed shares i.e. SSE-SEHK A+H (68) Exceptions: (1) Shares that are not traded in RMB; (2) Shares under “risk alert”; (3) No IPOs ~569 Stocks, ~RMB 30 trillion (~90%) Market Cap 	<ul style="list-style-type: none"> Constituent stocks of the SZSE Component and SZSE Small/Mid Cap Innovation with market capitalization \geq RMB 6billion* All dual-listed shares SZSE-SEHK A+H Exceptions: (1) Shares that are not traded in RMB; (2) Shares under “risk alert”; (3) No IPOs ~880 Stocks, ~ RMB 15 trillion (74%) Market Cap.
Trading Hours	<ul style="list-style-type: none"> Opening call auction: 9:15-9:25 (SEHK will accept orders at 09:10) Continuous auction: 9:30-11:30; 13:00-15:00 	<ul style="list-style-type: none"> Opening call auction: 9:15-9:25 (SEHK will accept orders at 09:10) Continuous auction: 9:30-11:30; 13:00-14:57 Closing call auction: 14:57-15:00
Order Cancellation	<ul style="list-style-type: none"> Unexecuted orders: can be cancelled during trading hours except 09:20-09:25 Confirmed Orders: Not applicable 	<ul style="list-style-type: none"> Unexecuted orders: can be cancelled during trading hours except 09:20-09:25 and 14:57-15:00 Confirmed Orders: Confirmed order may be cancelled by SZSE due to the unsuccessful order validation
Risk Management Measures	<ul style="list-style-type: none"> ChinaClear Shanghai Branch will apply its risk management measures on the HKSCC’s unsettled positions on the SSE securities e.g. Mainland Settlement Deposit (MSTD), Mainland Security Deposit (MSCD) 	<ul style="list-style-type: none"> ChinaClear Shenzhen Branch will apply its risk management measures on the HKSCC’s unsettled positions on the SZSE securities
CCASS Stock Code	<ul style="list-style-type: none"> 60XXXX (SSE) >>> 9XXXX 	<ul style="list-style-type: none"> 00XXXX (Main and SME) >>> 7XXXX 300XXX (ChiNext) >>> 77XXX

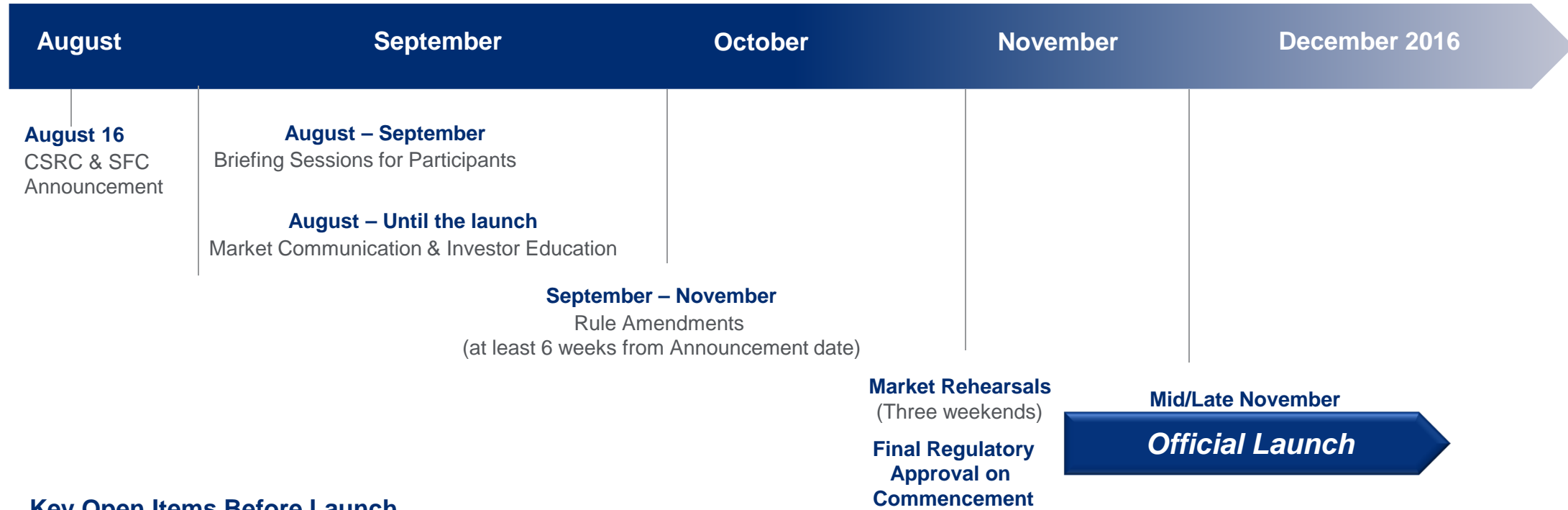
Source: Hong Kong Exchanges and Clearing Limited (HKEx), Citi Securities Services

*Subject to final regulatory approval, the periodic review of eligible stocks will be in line with half-yearly rebalancing of underlying indexes e.g. 6-month daily average 1 Nov 2015 till 30 Apr 2016

4 (review period for end 2016 launch)

China Connect | Implementation Timeline and Open Items

Preparation for the launch of Shenzhen-Hong Kong is expected to take about four months



Key Open Items Before Launch

1	Rules Amendments	<ul style="list-style-type: none"> CSRC & SFC to approval Shenzhen Connect rules which is expected to include details on SBL, order types Pending amendment of CCASS Rules, which may impact the Terms and Conditions for Stock Connect services Potential relaxation on the shares lock up rule and buy in exemption may be permitted for A-shares
2	CGT clarification from SAT	<ul style="list-style-type: none"> Confirmation that the capital gains tax temporarily waived (Circular 79) will also apply to Shenzhen shares including stock, stock index/futures and equity investment funds. Dividends withholding tax of 10%

China Connect vs QFII/RQFII

China Connect vs. RQFII/QFII

Key differences between China Connect and RQFII/QFII

	China Connect (Northbound)	RQFII (since 2011)	QFII (since 2002)
Eligible Investors	<ul style="list-style-type: none"> Available to all overseas investors since day 1 Exceptions: ChiNext are limited to Professional Institutional Investors at initial stage No license required from CSRC 	<ul style="list-style-type: none"> Only available to approved RQFII jurisdiction (currently 17) Subsidiaries of PRC fund management companies, securities companies, domestic commercial banks, insurance companies based in the RQFII jurisdiction Other institutions registered and mainly operated in the RQFII jurisdictions and possess asset management license from the relevant regulators of their jurisdictions 	<ul style="list-style-type: none"> Only available to qualified institutions in markets with MOU with China (currently 55) Commercial Banks (≥ 10yrs in operation, US\$5 billion AUM, US\$300mm Tier 1 Capital) Securities Companies (≥ 5yrs in operation, US\$5 billion AUM, US\$500mm Capital) AMC, insurance companies and other institutions (experience of 2+ years, and AUM ≥ US\$500mm)
Quota	<ul style="list-style-type: none"> Daily Net Buy Quota: RMB 13 billion each for Shanghai and Shenzhen No aggregate total quota ceiling No approval from SAFE or CSRC required 	<ul style="list-style-type: none"> Quota approved: RMB510 billion (Aug '16) for 208 RQFII entities Go through a filing process only <ul style="list-style-type: none"> if the applied quota <="Basic Quota" for commercial institutions outside Mainland. Additional quota requires approval from SAFE SWFs, central banks and monetary authorities are not subject to Basic Quota and are able to file the intended investment quota according to their investment needs 	<ul style="list-style-type: none"> Quota approved: US\$81.48 billion (as of Aug '16) for the 299 QFIIs from 30 countries Go through a filing process only <ul style="list-style-type: none"> if the applied quota <="Basic Quota" for commercial institutions outside Mainland if the applied quota <= US\$5 billion for SWFs, central banks and monetary authorities, Additional quota requires approval from SAFE Minimum Basic Quota of each QFII is USD 20MM
Eligible Investments	<ul style="list-style-type: none"> Constituent stocks of SSE 180 & 380, SZSE Component Index and SZSE Small/Mid Cap Innovation Index with market capitalization ≥ RMB 6 billion¹ All dual-listed shares i.e. SSE-SEHK and SZSE-SEHK A+H Exceptions: Shares not traded in RMB, Shares under "risk alert", IPOs 	<ul style="list-style-type: none"> All SSE and SZSE stocks Corporate, government, enterprise, convertible and interbank bond market Securities investment funds including closed-end, open-ended and ETFs Others such as warrants, index futures, IPOs 	<ul style="list-style-type: none"> Same as RQFII

1. Subject to final regulatory approval, the periodic review of eligible stocks will be in line with half-yearly rebalancing of underlying indexes e.g. 6-month daily average 1 Nov 2015 till 30 Apr 2016 (review period for end 2016 launch)

2. Basic Quota for commercial institutions outside of Mainland is USD 100 million + 0.2% of the average assets size in past 3 years - Existing quota .

China Connect – vs. RQFII/QFII (continue)

Key differences between China Connect and RQFII/QFII

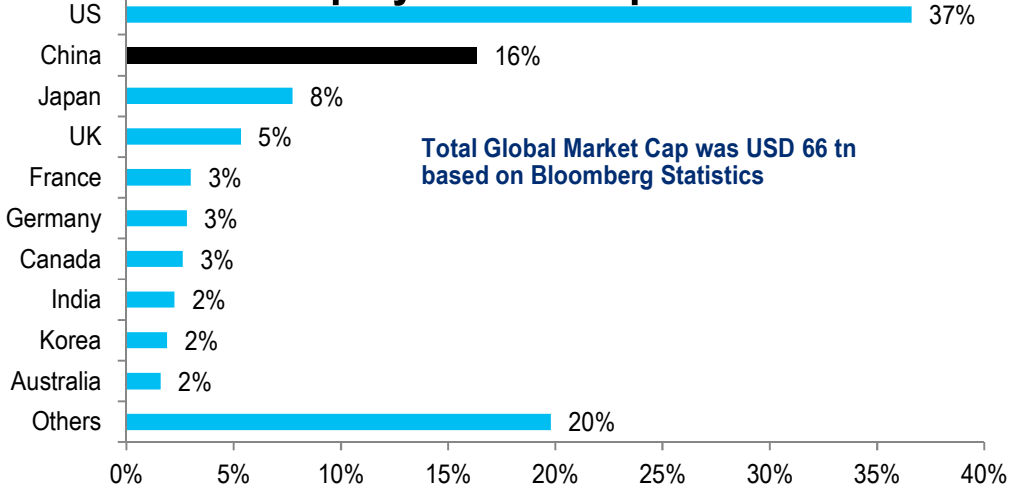
	China Connect (Northbound)	RQFII (since 2011)	QFII (since 2002)
Currency	<ul style="list-style-type: none"> • Offshore RMB 	<ul style="list-style-type: none"> • Offshore RMB 	<ul style="list-style-type: none"> • USD or other major foreign currencies
Securities Lending and Borrowing	<ul style="list-style-type: none"> • Permitted with restrictions 	<ul style="list-style-type: none"> • Not available 	<ul style="list-style-type: none"> • Not available
Liquidity	<ul style="list-style-type: none"> • Daily liquidity • No restriction for sell trades • Buy trades are subject to daily net buy quota • Trading and settlement flow are subject to a closed-loop mechanism under which income from securities sales shall be returned to origin instead of being deposited with local market 	<ul style="list-style-type: none"> • Quota shall be used within 1 year upon quota is granted or approved • Open-ended funds <ul style="list-style-type: none"> ○ Daily injection and repatriation ○ No lock-up period • All other RQFIIs <ul style="list-style-type: none"> ○ 3 months (instead of 1 year) lock-up period from the date that accumulative principal injection reaches RMB100MM ○ Daily injection and repatriation (instead of six months injection period and Monthly repatriation) ○ For principal repatriation, principal can be re-injected, but net amount of investment capital remitted to China shall be within the investment quota (instead of quota will be reduced accordingly) 	<ul style="list-style-type: none"> • Quota shall be used within 1 year upon quota is granted or approved • Monthly repatriation capped at 20% of its total QFII investments at the end of prior year • Open-ended funds <ul style="list-style-type: none"> ○ Daily injection and repatriation ○ 3 months lock-up period from date of the US\$20mm principal injection • All other QFIIs <ul style="list-style-type: none"> ○ 3 months lock-up period from date of the US\$20mm principal injection ○ Daily injection and repatriation ○ For principal repatriation, principal can be re-injected, but the net amount of capital remitted into China must be within the investment quota. No need to file with SAFE
Funding or Cash account	<ul style="list-style-type: none"> • Prefunding not required • No approval required from PBOC 	<ul style="list-style-type: none"> • RQFII custodian must confirm available cash before trade occurs • Obtain approval from RMB/FCY from PBOC 	<ul style="list-style-type: none"> • QFII custodian must confirm available cash before trade occurs • Obtain approval from RMB/FCY from PBOC

How to get ready

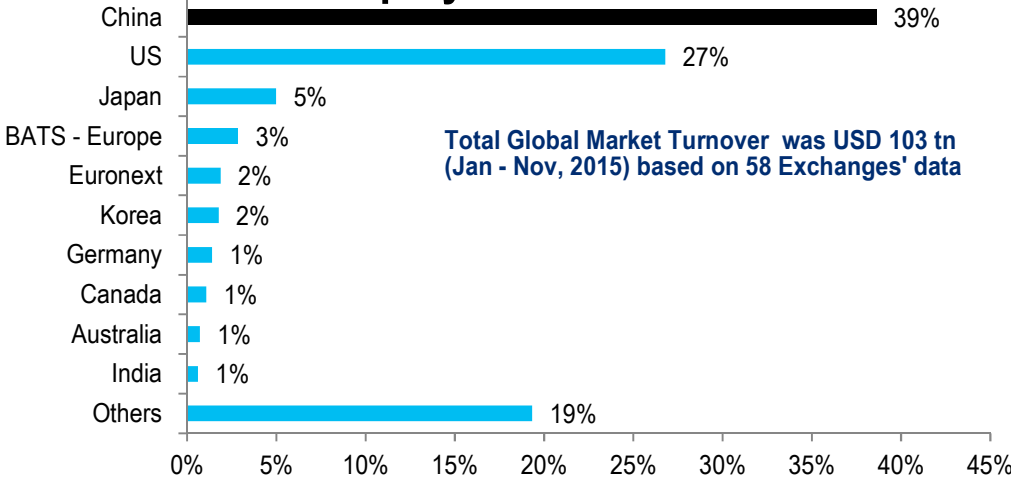
Get Familiar with China Market and Shenzhen

Turnover No. 1, Size No. 2, Benchmark weight No. 8

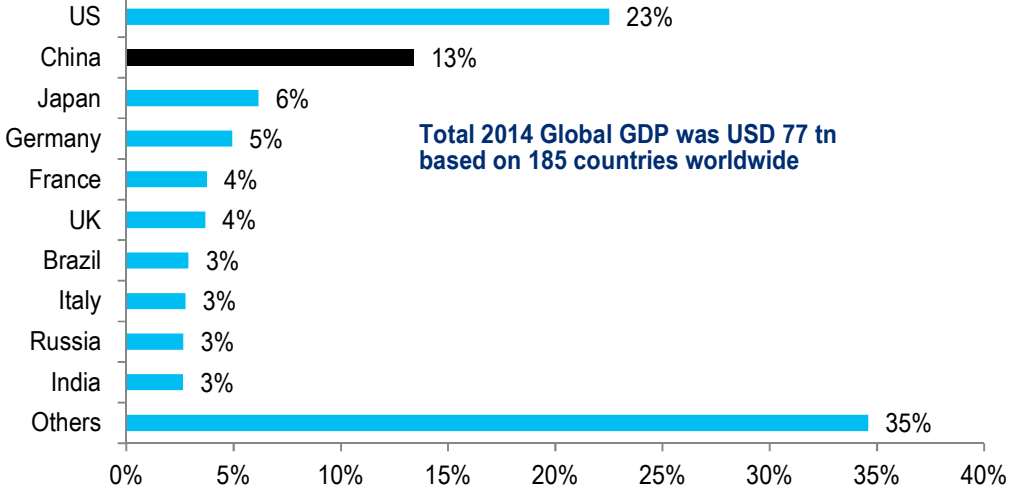
Global Equity Market Cap Distribution



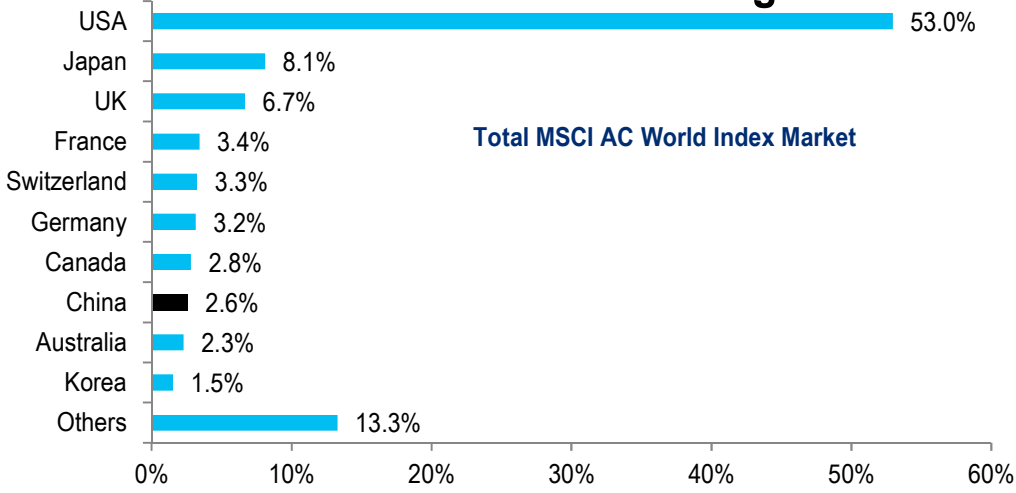
Global Equity Turnover Distribution



2014 Global GDP Distribution



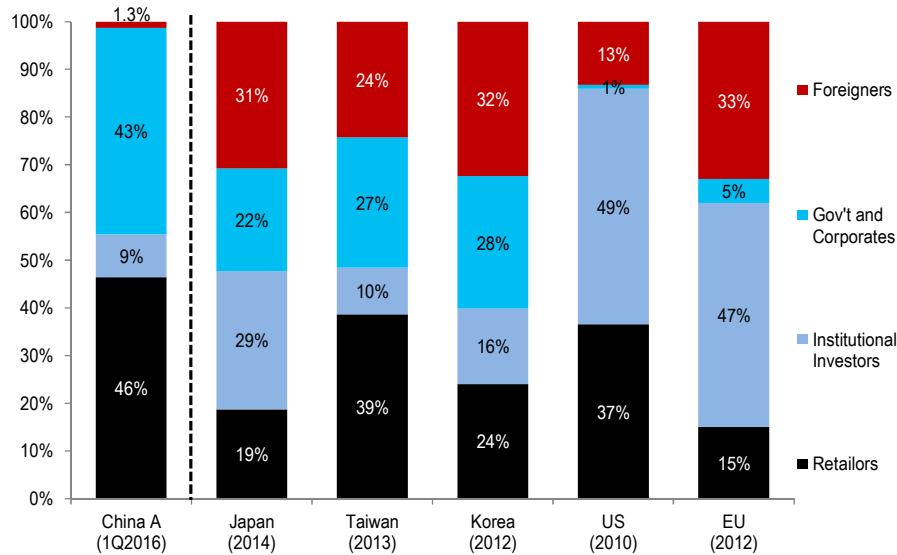
MSCI AC World Index Weight



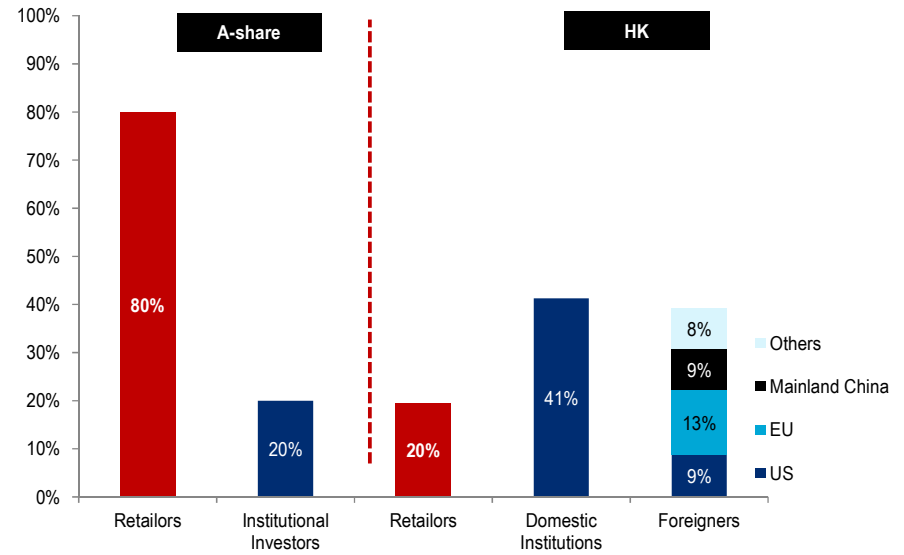
Source: Wind, Bloomberg, Factset and Citi Research. Note: GDP data as of 2014; Mkt Cap and Turnover data as of Nov 2015; MSCI AC World Index data as of Dec 18, 2015

Trend toward Internationalization & Institutionalization

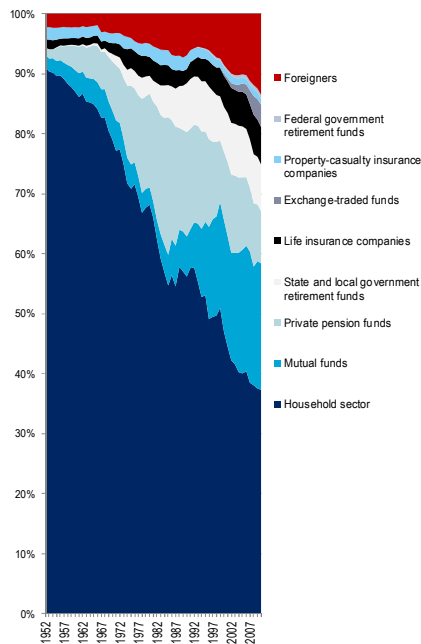
Structural trends of China A-share holding structure



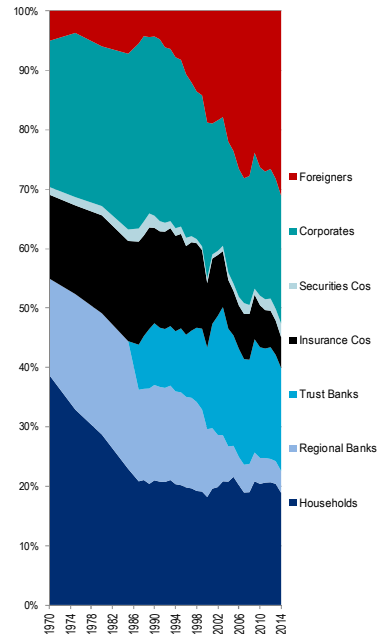
HK and A-shares Stock Exchange Trading Value Market Share



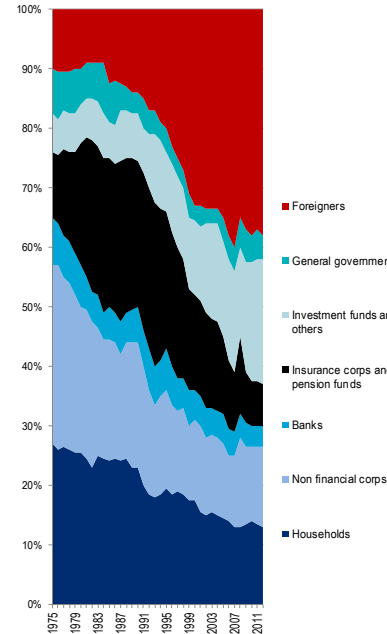
US Equity Holding Structure



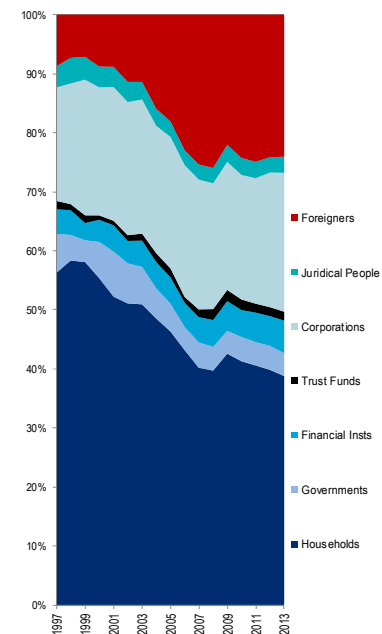
Japan Equity Holding Structure



EU Equity Holding Structure



TW Equity Holding Structure

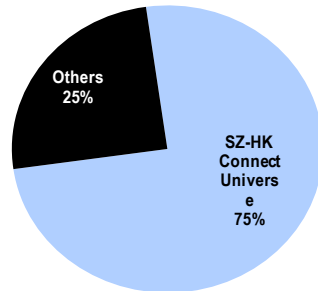


Source: Various Stock Exchanges, US Census Bureau, Bank of Japan, CHFS and Citi Research
 Note: China Overall means all Mainland Chinese companies listed in China A-share, HK, US, SGP and others.

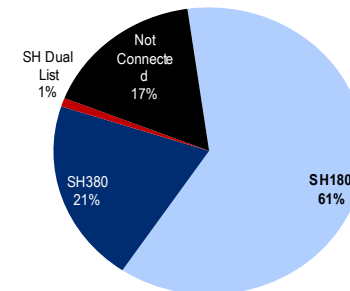
75% of China listcos' market_cap in A-shares

US\$9.4tn Market_cap of Chinese Companies Global Distribution Map

SZ total US\$3.1tn, 75% to be connected

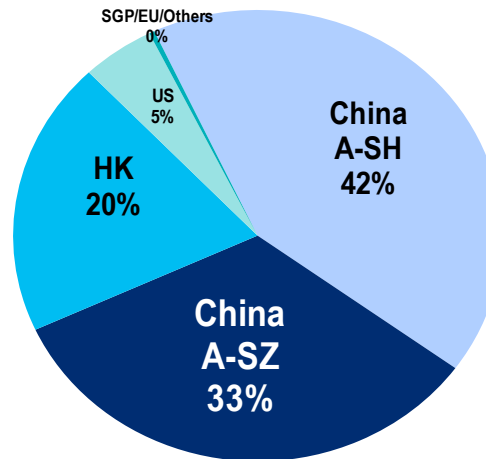


SH total US\$4.0tn, 83% connected

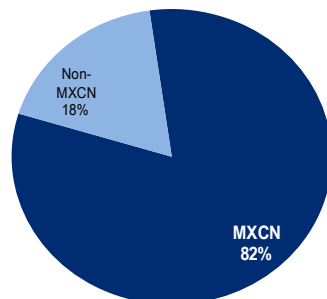


Stock Connect

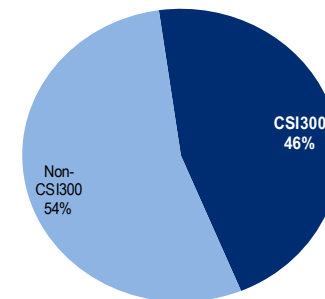
China total US\$9.4tn



MXCN, US\$1.5tn, 82% of China HK mkt_cap, ~85% connected



CSI300, US\$3.3tn, 46% of China A-shr mkt_cap

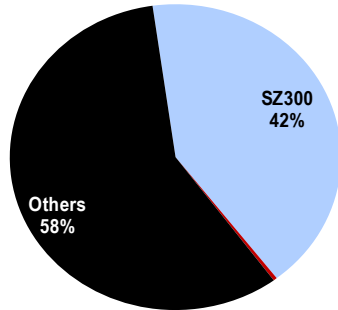


MFs Benchmark

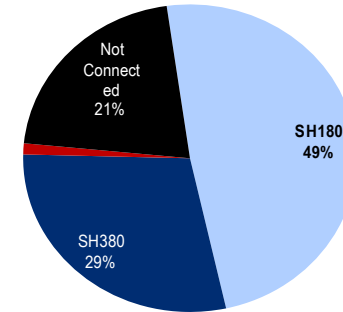
93% of China listcos' turnover in A-shares

US\$40tn Turnover of Chinese Companies Global Distribution Map

SZ total US\$17.5tn, at least 40% to be connected

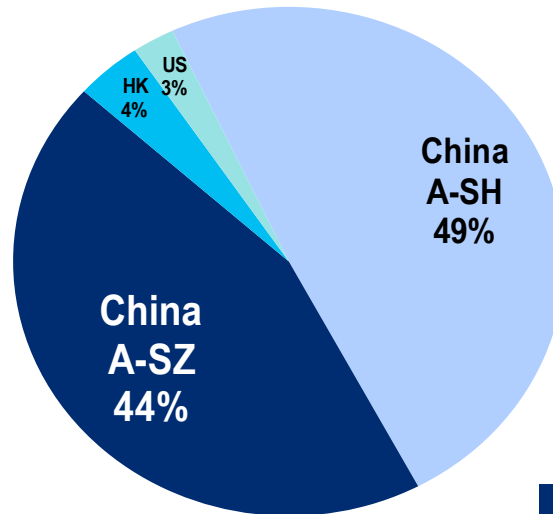


SH total US\$19.4tn, 80% connected

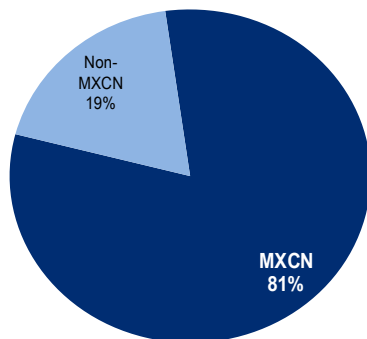


Stock Connect

China total US\$40tn, ~45% turnover is investable already

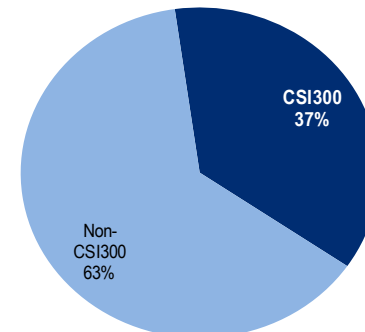


MXCN , US\$1.3tn, 81% of China HK turnover

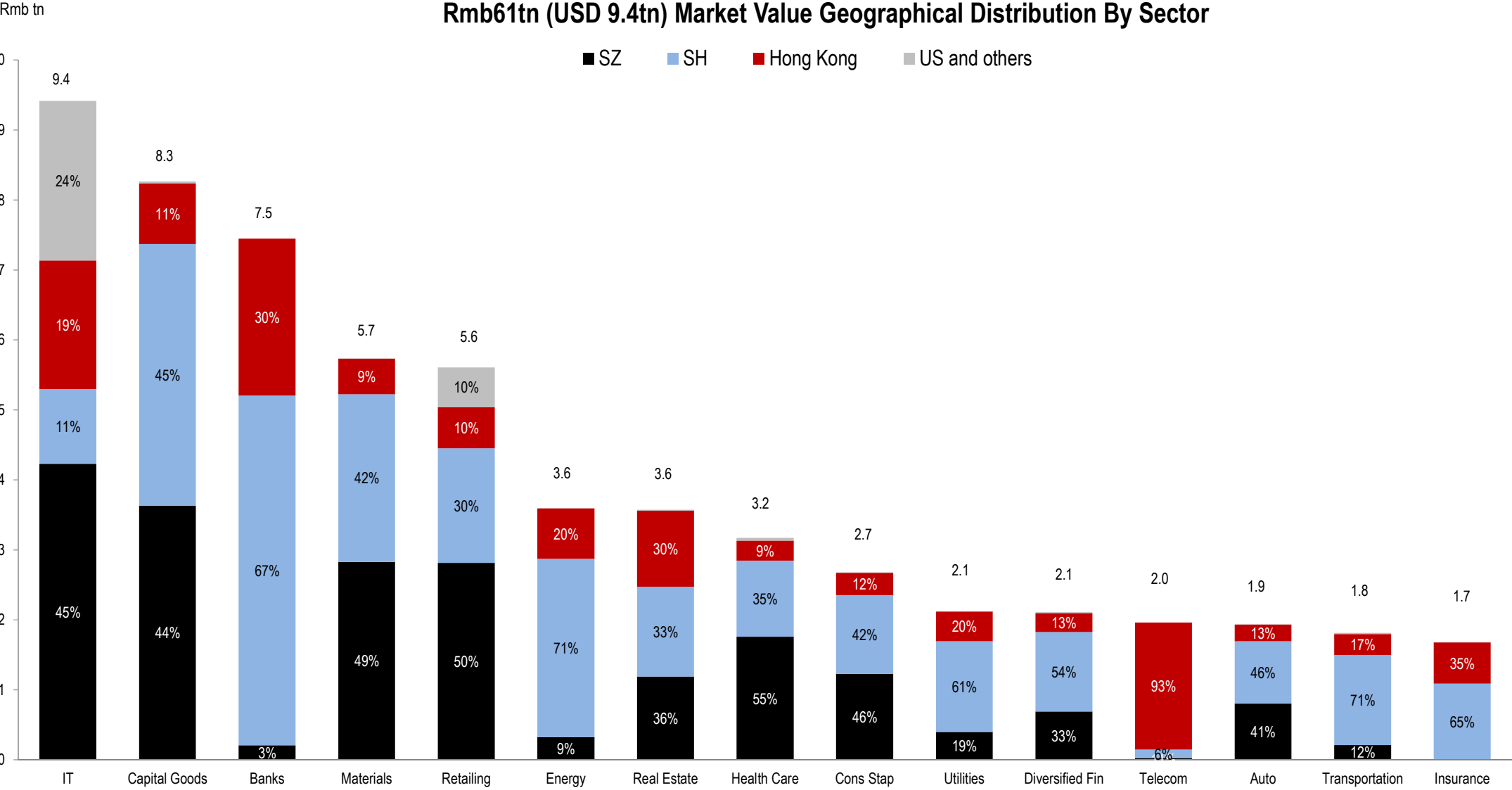


MFs Benchmark

CSI300 , US\$13.6tn, 37% of China A-shr turnover



Shenzhen -- China's Transition Future

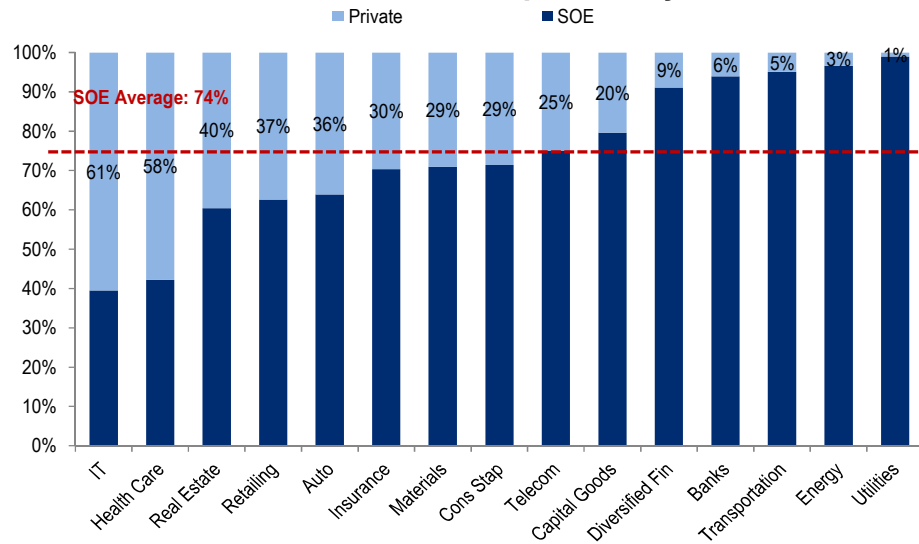


Source: Bloomberg, Wind and Citi Research, as of April 14, 2016

SZ/ SH Market Statistics

Average 74% of Shanghai listcos are SOE controlled

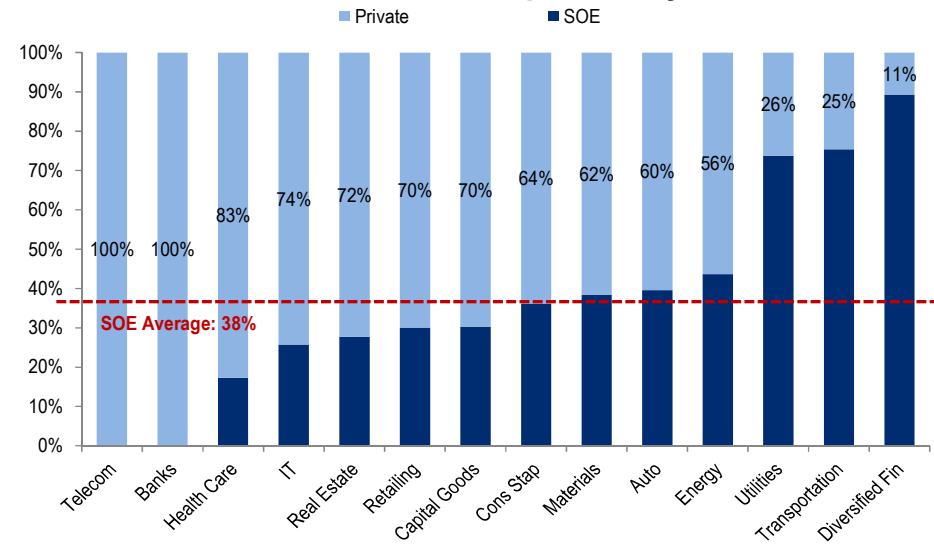
SH SOE/ Private % Comparison by Sectors



Source: Wind and Citi Research; Note: Sector distribution by mkt-cap.

Only 38% of Shenzhen listcos are SOE controlled

SZ SOE/ Private % Comparison by Sectors



Source: Wind and Citi Research; Note: Sector distribution by mkt-cap.

YTD, turnover velocity in Shenzhen 4.0x vs. 3.0x in Shanghai

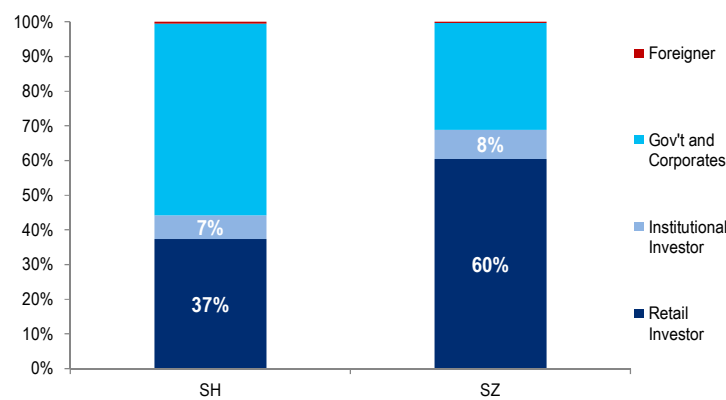
SH vs SZ Turnover Velocity Comparison



Source: Wind and Citi Research; Note: Turnover Velocity is calculated using annualized trading value divided by average total market cap.

Retail is holding more shares in Shenzhen than Shanghai

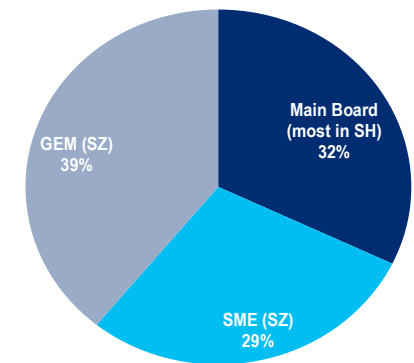
SH vs. SZ Holding Structure Comparison



Source: Wind and Citi Research

IPO waiting list concentration on Shenzhen

IPO Waiting List Distribution - SH vs. SZ



Source: Wind and Citi Research; Note: Using number of companies given data availability.

Get familiar with UCITS or relevant funds requirements

Stock Connect - UCITS Requirements

Some regulated funds are required true RVP/DVP solution to avoid counterparty risk and to maintain full control over the shares at all times to better protect the assets of the fund

Commission for the Supervision of the Financial Sector (CSSF)

The main conditions imposed by the CSSF are:

- the use of a [delivery versus payment \(“DVP”\)](#) settlement process avoiding additional counterparty risks;
- [The depository or an entity within its custodial network \(i.e. a sub-custodian\) must ensure that it retains control over the shares at all times](#)
- ensuring that accounts opened by the Luxembourg depository with the Hong Kong sub-custodian [are segregated at the level of UCITS sub-funds or structured as UCITS assets omnibus accounts of the Luxembourg depository with the Hong Kong sub-custodian](#); and
- the disclosure in the prospectus and KIID has to cover the specific legal risks of compulsory use of the local central securities depositories, Hong Kong Securities Clearing Company Limited and ChinaClear for custody of securities on a cross border basis and other specific risks.

Central Bank of Ireland

On July 15, 2015, the Central Bank of Ireland published an important update to its UCITS and AIFMD Q&A permitting Irish authorized investment funds to acquire Chinese shares via the Stock Connect program.

Key conditions are:

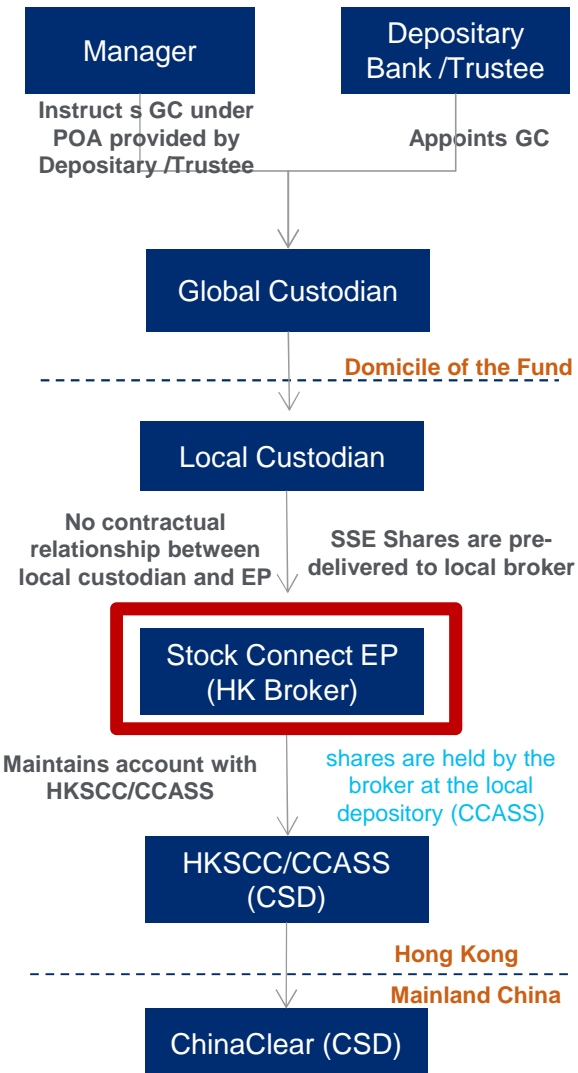
- [The depository or an entity within its custodial network \(i.e. a sub-custodian\) must ensure that it retains control over the shares at all times](#)
- The depository or a member of its custodial network can be a General Clearing Participant, Direct Clearing Participant or Custodian Participant as appropriately determined by the depository in fulfilment of its legal obligations
- The depository must review the Stock Connect infrastructure arrangements to ensure that its legal obligations can be met
- The depository needs to satisfy itself that the manner in which the shares are to be held meet with the requirements of the UCITS / AIFMD Regulations and any conditions imposed by the Central Bank

- **Definition of DVP per BIS:** A security settlement mechanism that links to a security transfer and a fund transfers in such a way as to [ensure that delivery occurs if and only if the corresponding payment occurs](#).
- UCITS V imposes a ‘strict liability’ on the Fund Depository/Global Custodian. This means that if an asset of the fund is lost, the Fund Depository has an immediate obligation to replace the asset or equivalent cash value, even if the asset was lost due to the actions of its delegates. Fund Depositories are also will bear the burden of proof to demonstrate that it has performed its duties, acts in solely in interest of the investors and exercise prudent measure to protect the fund’s assets. A depository can only avoid this strict liability standard where it can prove, cumulatively, that the loss was as a result of an external event, [beyond its reasonable control](#), the [consequences of which would have been unavoidable despite all reasonable efforts](#) to the contrary in performing all of its tasks.

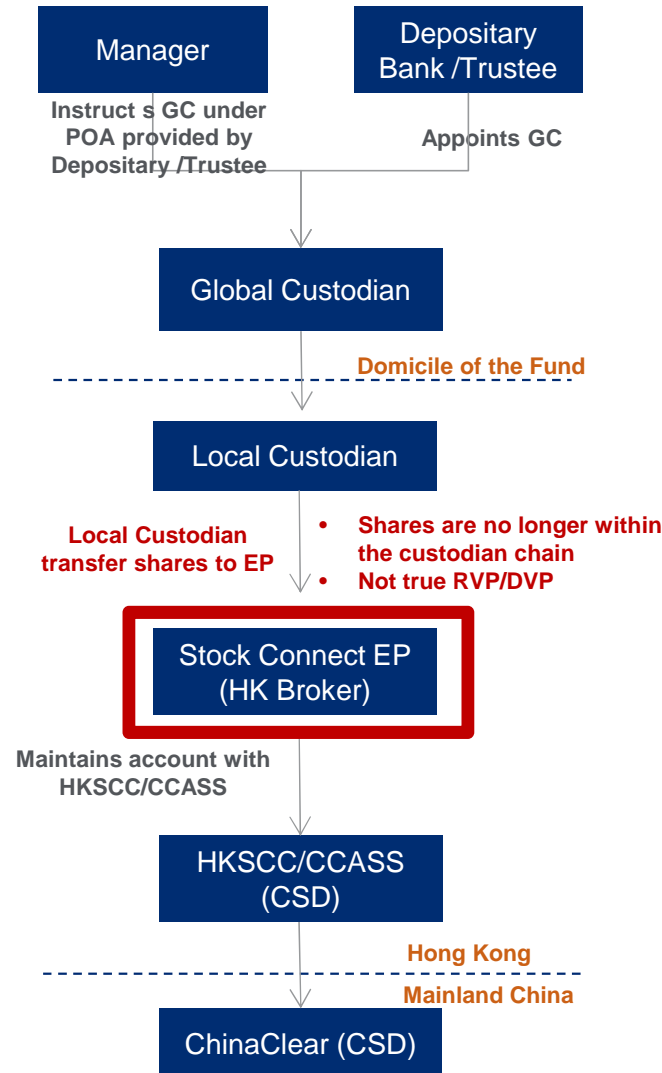
Stock Connect (Northbound) — Available Stock Connect Solutions

Citi Model C and SPSA+ solutions provides real-time RVP/DVP settlement and maintain proper segregation and control of the fund assets

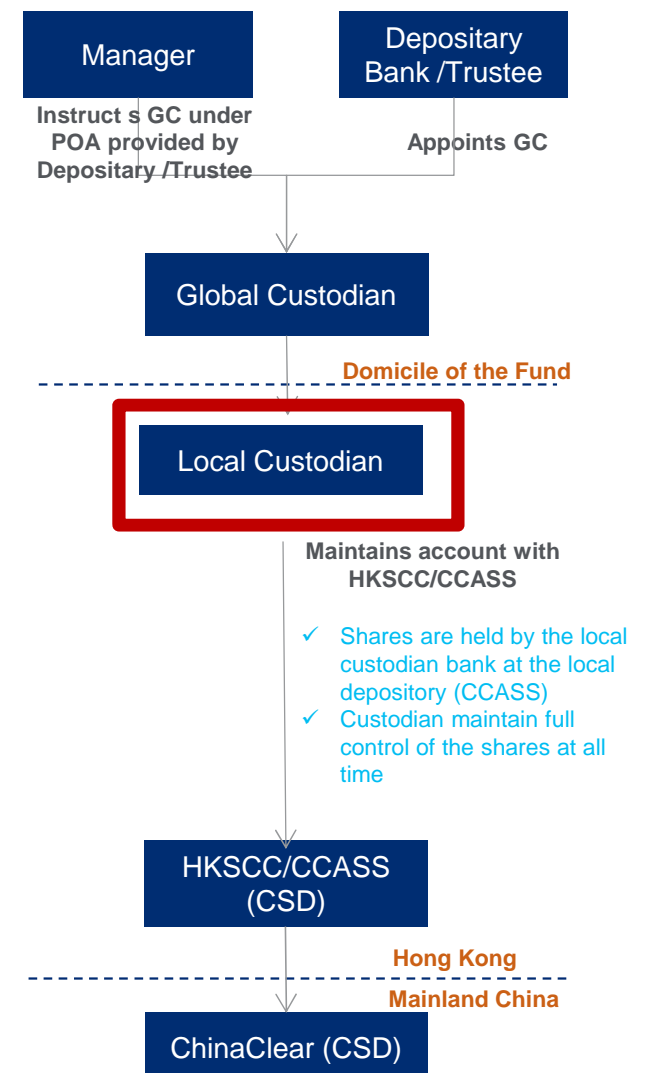
Agency Broker/PB Model



Standard SPSA



citi Model C/SPSA+



Clarify requirements and select solutions

Shenzhen Connect – How to get ready ?

How to get ready for Shenzhen Connect

Citi Solutions:

- Citi offers **unique true DVP and multiple brokers solutions** i.e. Model C or SPSA+ which will apply to Shenzhen shares
 - Same accounts, Investor ID and cutoff times available for Shanghai HK Connect will apply to Shenzhen HK Connect.
 - No new document requirements expected to this point (subject to review of the final rules)
 - Existing Stock Connect fee schedule will be applied to Shenzhen shares
-

Existing China Connect clients

1. Review Fund Prospectus (amendment, risk disclosure or approval required?)
 2. Check with Trustee or Depot bank to confirm new requirements (if any)
 3. Review changes to the Stock Connect Terms and Conditions from your broker and custodian (if any)
-

New China Connect Investors

1. Decide on the Equity and Custody solution (e.g. Model C and SPSA+)
 - Equity solution e.g. High Touch, Electronic (including E2C), PT and D1 (swap)
 - **For trust or retail funds, recommend confirming with your custodian whether they offer true DVP settlement and multiple broker support**
 - Establish CNH FX or funding arrangement with custodian or broker
 2. Review operation specifics including cutoff times for T+0 settlement
 3. Review Custody Stock Connect Documentation
 - Custody China Connect General Terms and Conditions & Custody China Connect Fee Agreement (if applicable)
 - SPSA Form (if applicable)
 4. Review Broker Stock Connect Documentation
-

How Citi Can Help?

Citi is committed to be the go-to bank for China market access

- ✓ 4th largest custodian in the world
- ✓ US\$15 trillion of assets under custody
- ✓ Largest proprietary network providing clients unique access to local market expertise and global reach
- ✓ Leading provider of integrated RMB/CNH banking and FX services
- ✓ Citigroup Global Markets offers premier execution capability including integrated research, high-touch and electronic execution for cash and synthetic trading
- ✓ Citi Investment Research and Analysis (CIRA) offers independent, thorough market and stock analysis covering over 100 Stock Connect shares



**Shanghai-Hong Kong Stock Connect 1st Anniversary
Trading and Investor Education Awards**

Top 3 Largest SPSA Portfolio Value

Top 3 Highest Number of SPSA Accounts Opened

- Offers the most comprehensive suite of solutions for investors to access Stock Connect
- Local Market Expertise on Stock Connect, QFII, RQFII and other China market access channels
- Leading provider of clearing services for brokers and uniquely capable of supporting a multi-broker arrangement
- Citi also developed unique Model C and Citi SPSA+ solutions specifically to allow regulated funds to use multiple brokers for execution and most importantly remain in compliance with relevant fund regulations such as UCITS, 40Act and MPFA or SFC regulated funds. Citi's Model C and SPSA solutions allow the funds to
 - Utilize multiple brokers and transact under true DVP / RVP environment to eliminate counterparty risk with the broker
 - Ensure proper segregation of assets throughout the entire custodian chain
 - Ensure the depositary bank and the sub custodian bank maintain full control over the securities at all times
 - Ensure shares are held by custodian bank (instead of the broker affiliate of the custodian bank) in the entire chain instead of using a broker as a sub-custodian which may trigger requirements for the trustee or global custodian to perform diligence on the broker

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Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Citi's Sustainable Progress strategy focuses on sustainability performance across three pillars: Environmental Finance; Environmental and Social Risk Management; and Operations and Supply Chain. Our cornerstone initiative is our \$100 Billion Environmental Finance Goal – to lend, invest and facilitate \$100 billion over 10 years to activities focused on environmental and climate solutions.



September 2016

China Interbank Bond Market Access

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For Institutional Investors Only—Not for Distribution to Retail Customers.
Not For Onward Distribution

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Overview of CIBM

Current Status of RMB and China Bond Market

The RMB is fast becoming an attractive global currency and the China bond market has also gained its international position in terms of bond issuance and trading volume.

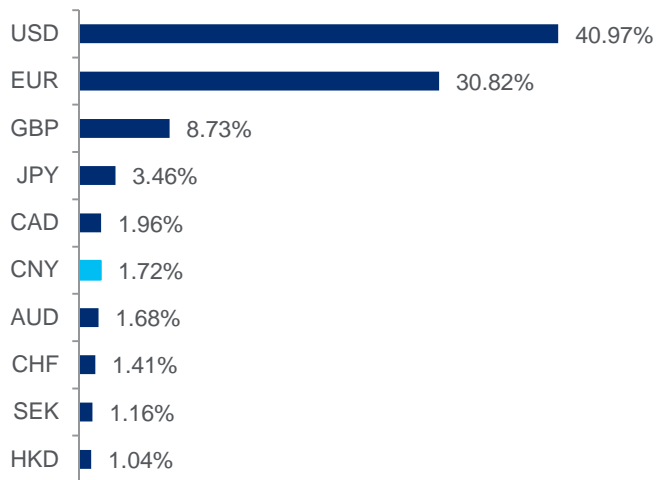
6

Top 6 Currency in Global Payments

China is now the world's largest economy measured by purchasing power parity (PPP) and the largest trading nation. RMB has been showing a consistent three-digit growth over the past two years with an increase in value of payments by +321%. The successful RMB inclusion in the SDR basket (in effect from October 2016) will shake up the way the world thinks about a 'reserve asset'.

World Payment Shares in SWIFT

June 2016



Source: RMB tracker by SWIFT

57

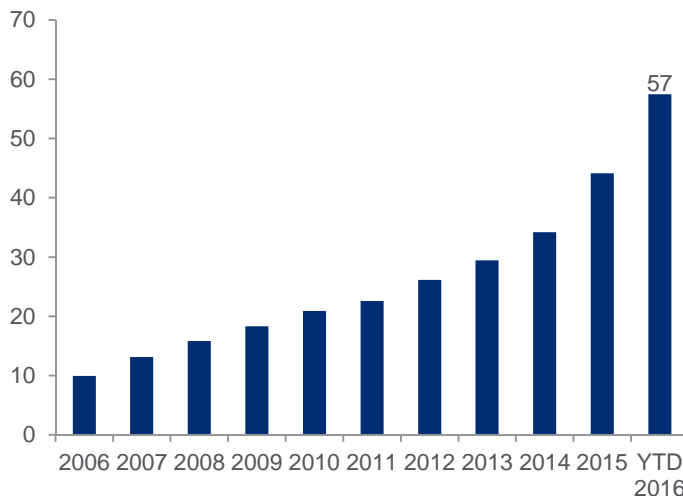
Bond Outstanding amount reach RMB 57 trillion

The China bond market has grown more than six times in size since 2005, making China the largest among emerging markets and the third largest in the world by issuance.

Trading activity has grown rapidly and the market is very liquid with ~RMB 485 trillion in total trading volume as of June 2016.

China Total Bond Outstanding Amount

June 2016, in RMB trillion



Source: Winds

47

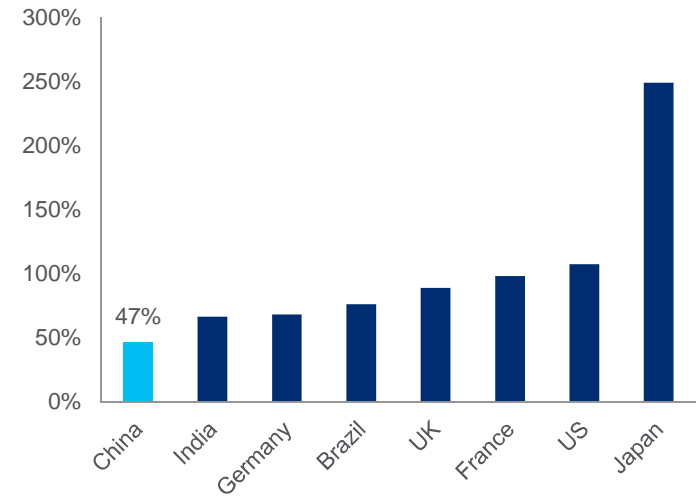
47% Debt to GDP Ratio

China's bond market is still small by GDP Share compared to global or regional peers.

In 2016, the estimated national debt of China was at about 46.76 percent of the gross domestic product.

Country Debt to GDP Ratio

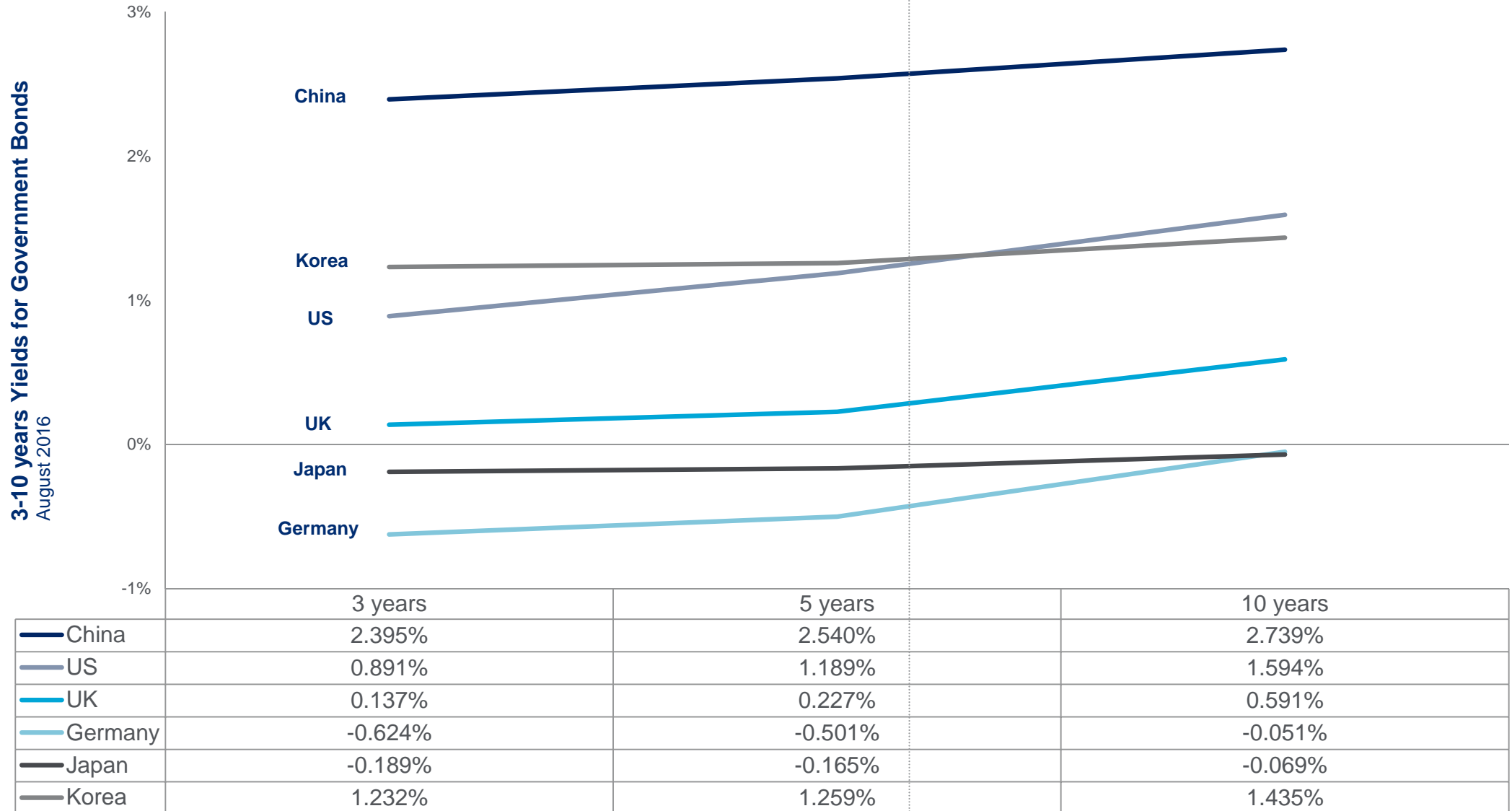
June 2016 (%)



Source: Statista EST.

Higher Yields for a High Quality Sovereign

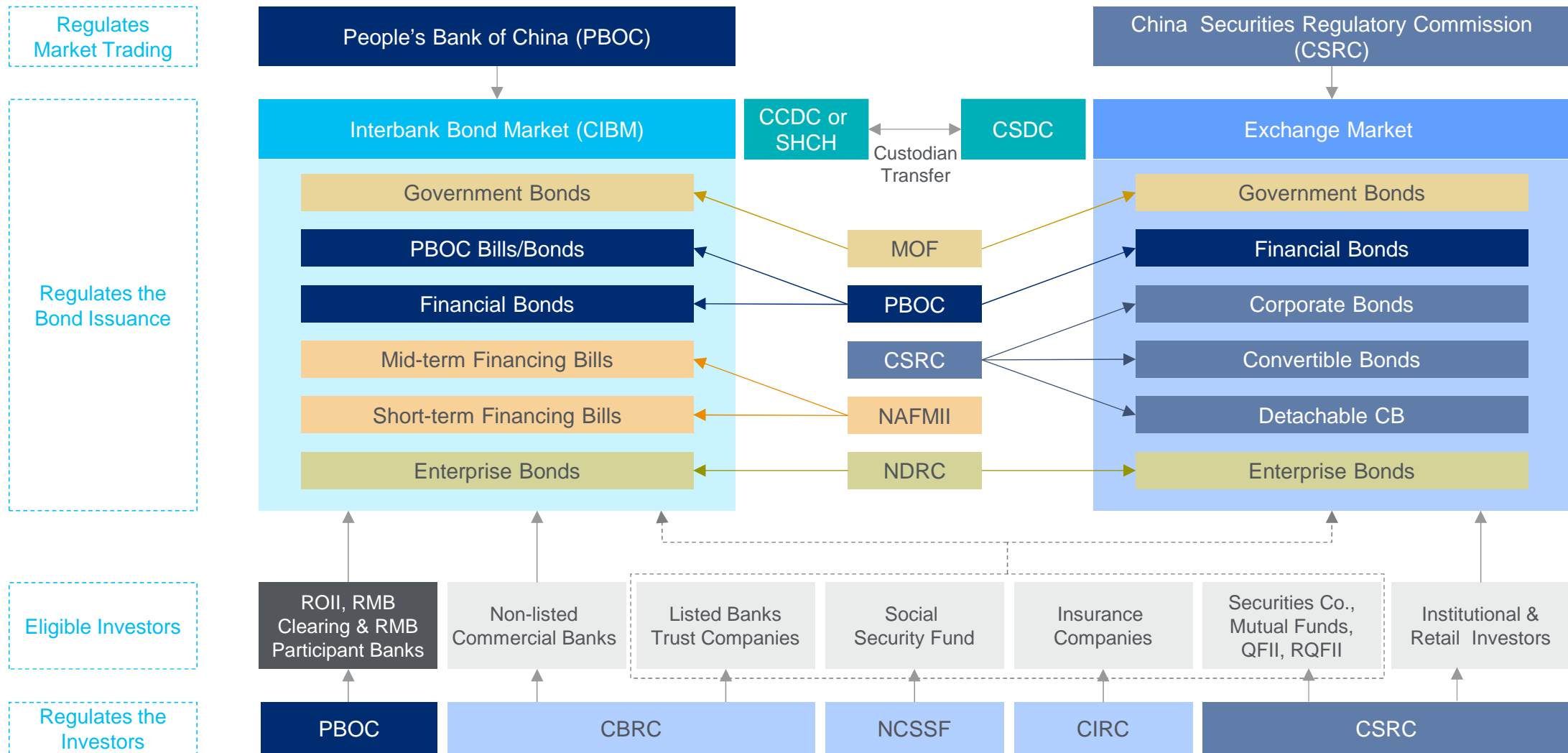
Chinese bonds have historically offered significantly higher yields relative to other major bond markets, despite China's strong sovereign credit quality. Historically low correlation to other developed and emerging market debt.



Source: investing.com

Complex Regulatory and Operational Framework of Bond Market

Bond types are regulated by different government bodies from issuance, trading and investor market perspectives, and cleared by different custodians, all of which create additional complexity for wide access to China's bond market.

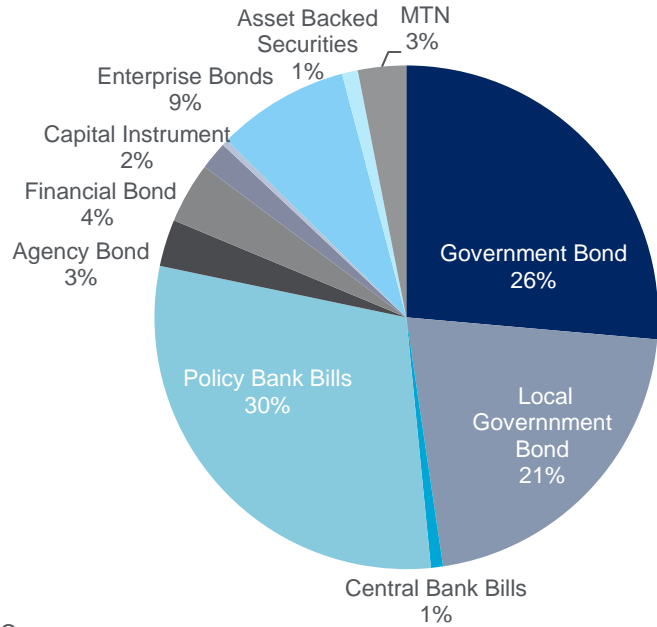


Key: China Central Depository & Clearing Co., Ltd (CCDC); Shanghai Clearing House (SHCH); China Securities Depository and Clearing Corporation Limited (CSDC); Ministry of Finance (MOF); National Association of Financial Market Institutional Investors (NAFMII), formed in 2007 and supervised by PBOC ; National Development and Reform Commission (NDRC); China Banking Regulatory Commission (CBRC); National Council for Social Security Fund, PRC (NCSSF); China Insurance Regulatory Commission (CIRC)

CIBM Remains Dominant

China Interbank Bond Market—89.13% of Total Bond Market

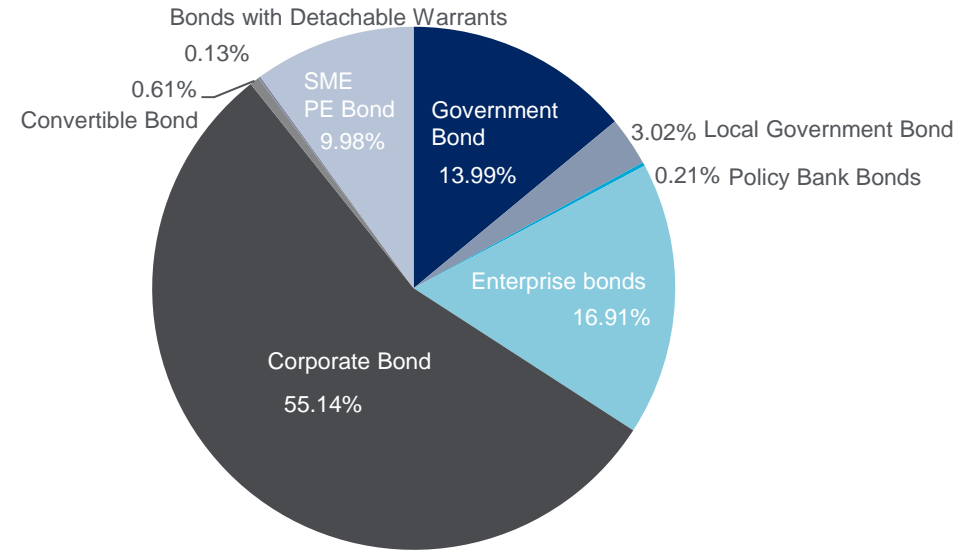
Assets under custody as of August 2016, total value of RMB 41.41 trillion (%)



Source: CCDC

China Exchange Market—10.87% of Total Bond Market

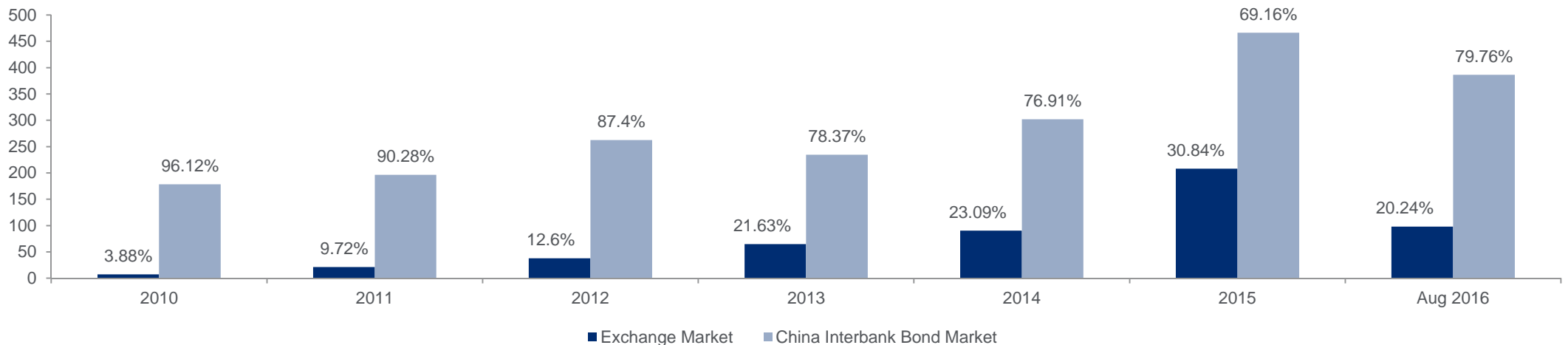
Assets under custody as of August 2016, total value of RMB 5.05 trillion (%)



Source: CSDC

Historical Trading Volume

in RMB trillion



Source: Winds

Small Number of Foreign Investors

~90%

Interbank Traded Bonds

Bond under Custody ~RMB 41 trillion

As of August 2016, ~90% of China onshore bonds under custody are in CIBM. Stock Exchanges + Counter only accounted for ~10%.

~13%

Spot Bonds

Spot bond trading at ~RMB 53 trillion

As of August 2016, most foreign investors could only invest in spot bonds in CIBM, which is 13.37% of total CIBM trading volume. Most transactions (~87%) are from credit lending and repo.

~1.7%

Bonds held by Foreigners

Total foreigners holding bonds ~RMB 0.68 trillion

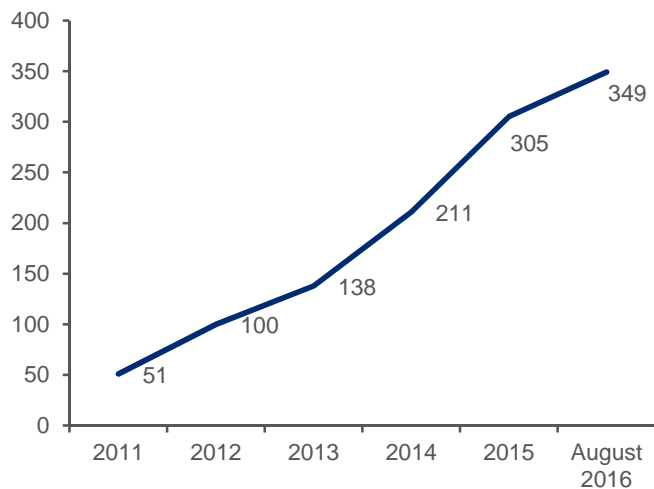
As of August 2016, foreign holdings of China domestic bonds were ~RMB 686 billion or 1.66% of the market. Domestic commercial banks dominate trading activity in CIBM with ~ 60% market share.

Source: CCDC

Growth in Foreign Investor Access

Who is already in ?

No. of Foreign Institutional Investors allowed access to bond market as of August 2016

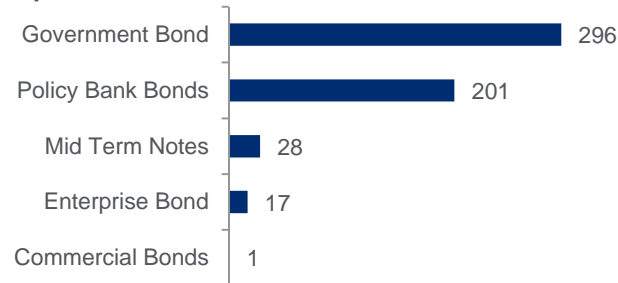


Sources: CCDC, CFETS, SHCH

What are they investing in?

May 2016, in RMB billion

Spot Bonds



Others



What are the trends?

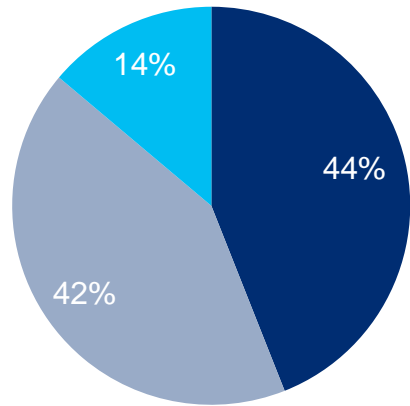
- Ease of market access requirements for foreign investors by gradually changing current approval process into filing process
- Foreign investors could invest in other instruments in CIBM other than spot bonds
- The expected bond connect and the inclusion of RMB in the SDR basket should bring in fresh demand from foreign investors for RMB denominated assets
- Considering the rising nominal GDP, doubling the ratio of bond market cap/GDP ratio in the next decade could quadruple the size of the bond market

Overview Foreign Institutional Investors (FII) in CIBM

As of July 2016, 332 FIIs acquired permission to enter CIBM where 94% domestic bonds are traded. FII's total domestic bond holding was RMB663bn (or 1.63% of China bond market), of which ~80% was attributable to CIBM.

FII's participation in CIBM

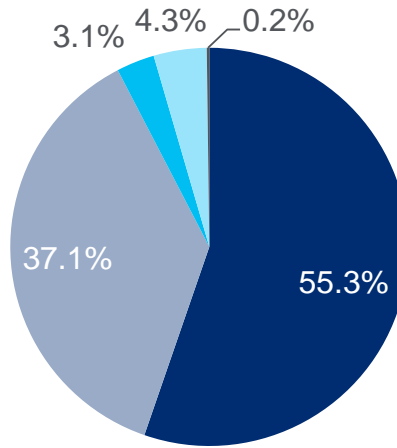
Investor Type Distribution



■ Other FI ■ RQFII ■ QFII

As of July 2016 Source: CFETS

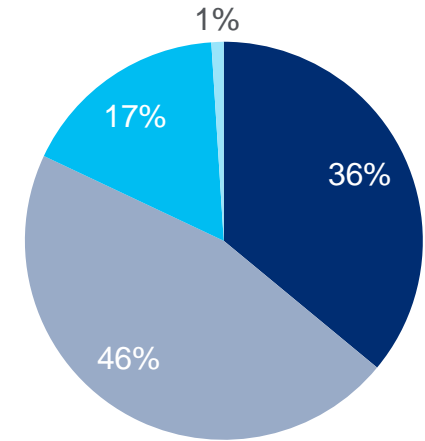
Holdings Distribution



■ Treasury Bond ■ Policy Bank Bond ■ Enterprise Bond
■ Mid Term Notes ■ Commercial Bond

As of July 2016 Source: CCDC/SCH

Bond Maturity Distribution



■ Up to 1 year ■ 1-5 years ■ 5-10 years ■ More than 10 years

As of end of 2015 Source: CCDC/SCH

FII's Trading Characteristics

Buy trade dominates, but can be further detailed:

- Banks prefer hold-to-maturity investment
- AMCs have similar volumes of buy and sell trade
- Very similar pattern to domestic investors

Typical counterparties in CIBM

- Domestic banks
- Foreign banks
- Securities companies

How to find a counterparty

- Own channel
- Bond settlement agent (BSA)
- Via BSA
- Domestic alliances such as investment advisors

CIBM Policy Updates

Updated Guidance on CIBM Access

In Q2 2016, China regulators released several FAQs and procedures for ROIs entering the China Interbank Bond Market (CIBM) and China Interbank Foreign Exchange Market (CIFM).

For Overseas Financial Institutions:		For ROIs:
May 2016:	PBOC and SAFE publishes FAQs, Implementation Details and SAFE Notices provide explicit guidance and clarification for foreign investors to enter CIBM	April 2016: PBOC released FAQs and procedures on Foreign Central Banks, Sovereign Wealth Funds and Supranational (ROIs) investing the CIBM and CIFM to address many technical details.
May 2016:	CCDC, SHCH and CFETS releases operation guidelines for foreign investors to invest in CIBM	

Key issues solved/clarified:	Overseas Financial Institution	ROI
Account opening/closure	Complete within 3 days, given documents submitted are in good order.	
Network connect set up /termination	Complete within 3 days, given the submitted documents are in good order and there is zero balance in the account with no outstanding rights.	
Investment quota and liquidity	No quota limitation. No fund repatriation restriction.	
Product and Agreement	Cash bond Bond lending: Lending agreement Bond forward, IRS and FRA (hedging purpose) : NAFMII.	Bond derivatives: NAFMII or ISDA Bond Repurchase: NAFMII Bond lending: Lending agreement
Inbound/Outbound transfer	Principal injection and repatriation are allowed in either RMB or foreign currency. Maintain FX/RMB currency proportion for inbound and outbound with no more than 10% deviation, except the first repatriation.	Principal injection and repatriation are allowed in either RMB or foreign currency after FX conversion onshore
RMB special account	Open with domestic bank, which shall be used exclusively for fund settlement of bond trading.	Open with PBOC or domestic bank, which shall be used for fund settlement of bond trading.
Agent Selection	N/A	Dual agent allowed. Non-trade transfer allowed between PBOC and commercial banks account.

CIBM: A Step Towards Internationalization

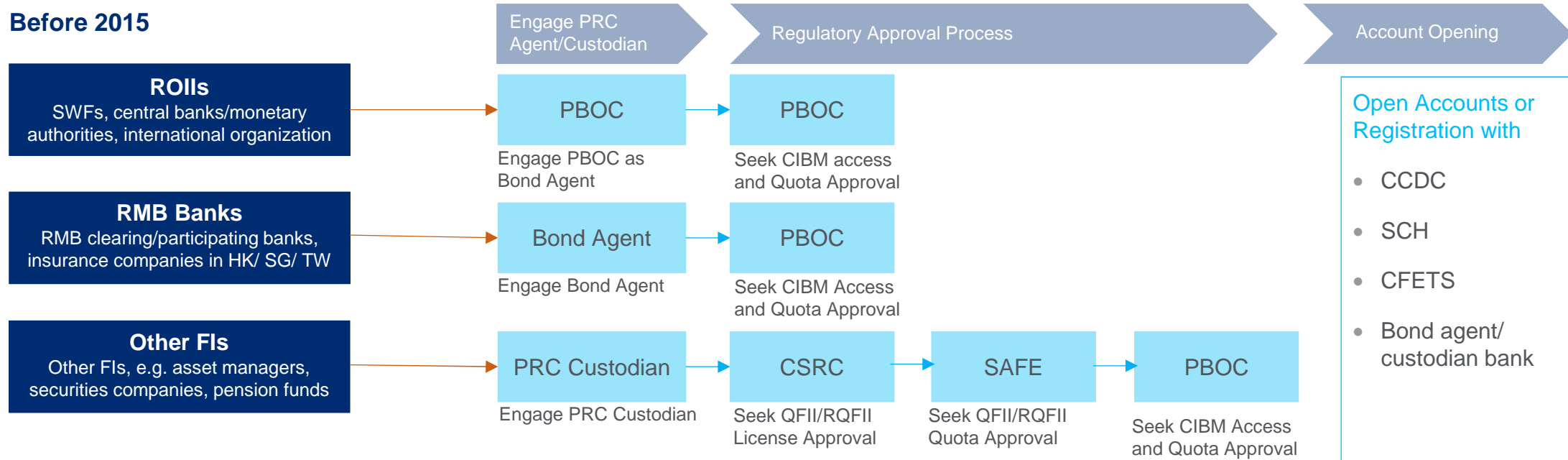
	ROII program	Expanded FI program	QFII/RQFII	RMB participating bank /RMB clearing bank
Year Published	2015	2016	2011/2013	2010
Qualified investors	Central Banks, SWFs, Supranationals	Banks, insurance companies, securities companies, funds and other asset management firms, as well as the investment products issued by these institutions; long term investors recognized by PBOC, such as pension funds, charity funds, endowment funds	QFII and RQFII holder to apply CIBM access in a separate application process	RMB clearing banks Oversea RMB clearing banks with positive offshore RMB balance from RMB XB business
Quota	No quota	<ul style="list-style-type: none"> No quota manage the program under the “macro prudential” method 	<ul style="list-style-type: none"> QFII: quota by investors RQFII: quota by region and investors 	Quota by bank
Products	Cash bond, bond repo, bond lending, bond forward, IRS, FRA	<ul style="list-style-type: none"> Cash bond Others: Bond repo will be allowed for RMB participating banks and clearing banks 	Cash bond	Cash bond Bond repo (need NAFMII)
Access method to CIBM	<ol style="list-style-type: none"> PBOC as agent Bond settlement bank as agent Direct Participation 	Domestic commercial banks with agency qualification	Domestic commercial banks with agency qualification	Domestic commercial banks with agency qualification
Market Access	Registration	Registration Via bond settlement bank	Approval	Approval
FX	<p><i>Onshore:</i> Access FX as CFETs member via</p> <ol style="list-style-type: none"> PBOC as agent FX agent bank Direct Participation <p>For FX spot, forward, swap, option</p> <p><i>Offshore:</i> Fund transfer</p>	<p><i>Onshore:</i></p> <ul style="list-style-type: none"> FX conversion with bond settlement bank Repatriation is allowed as long as outgoing FX mix (FCY vs. RMB) is within 10% of that brought in <p><i>Offshore:</i> Fund transfer</p>	<p><i>QFII:</i></p> <ul style="list-style-type: none"> Onshore FX conversion with custodian bank <p><i>RQFII:</i></p> <ul style="list-style-type: none"> Offshore RMB in/outflow 	<ul style="list-style-type: none"> Offshore RMB in/outflow



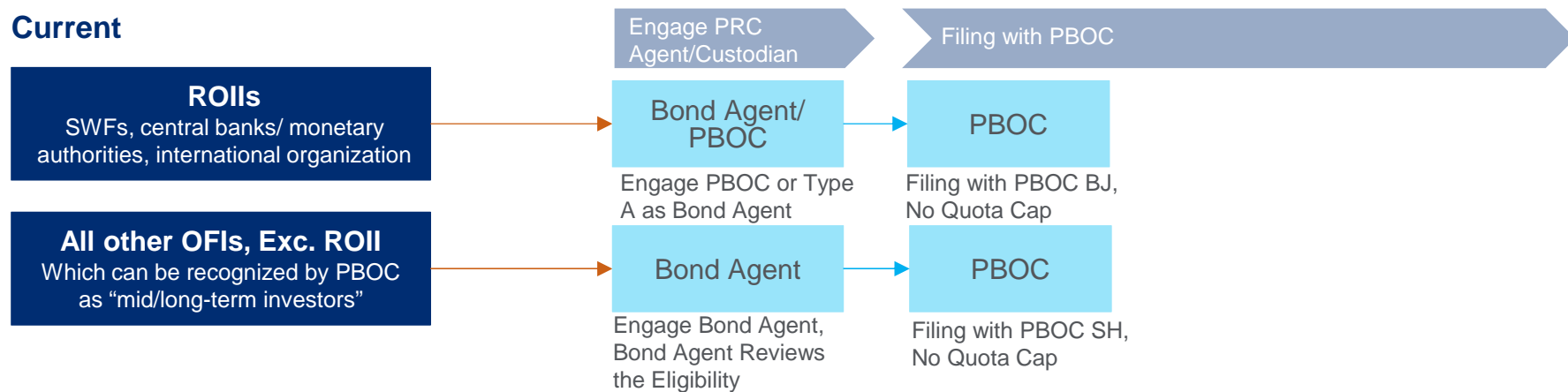
Simplified CIBM Access Process

No quota restriction, qualified investors only need to do a filing with PBOC to get into CIBM.

Before 2015

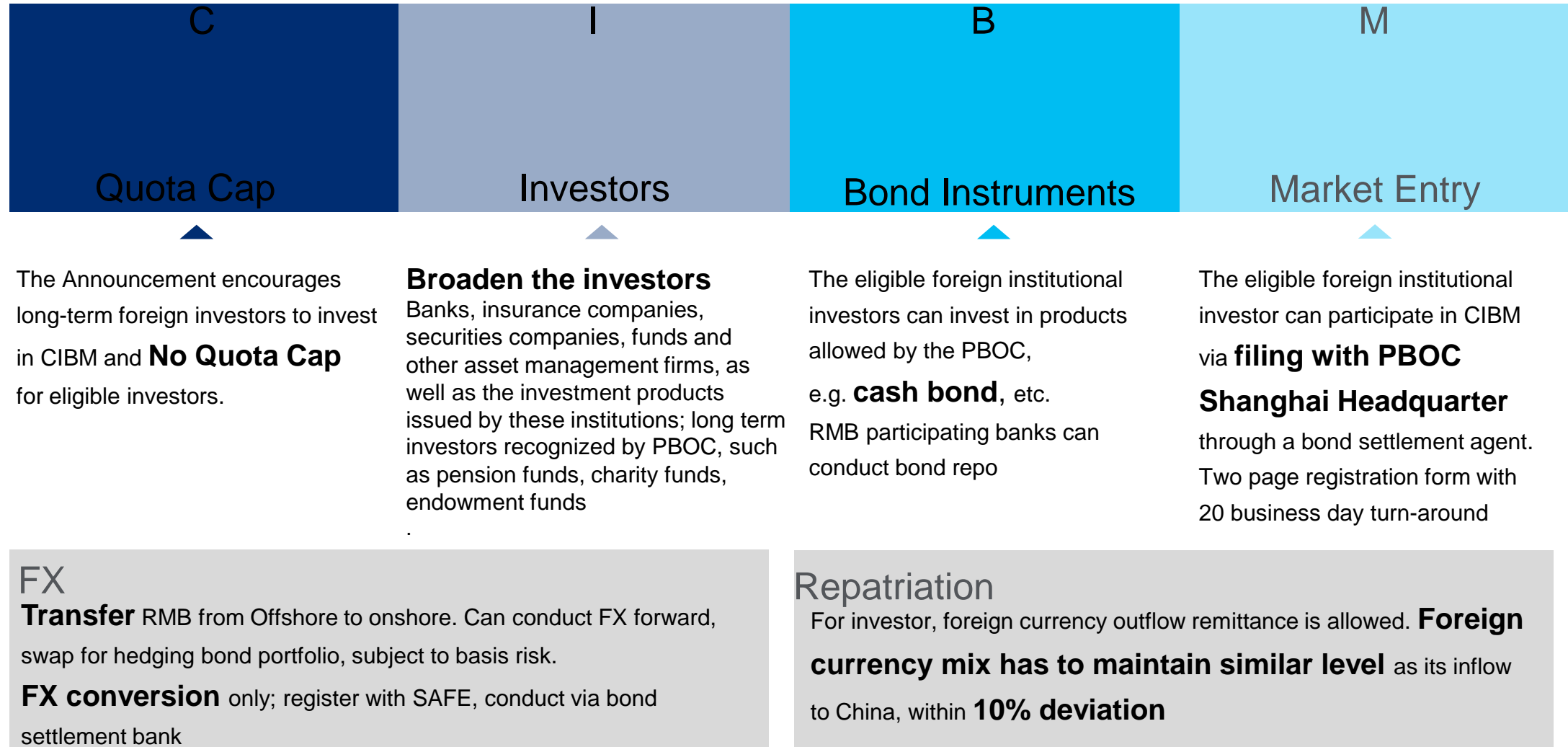


Current



Key Highlights of Expanded FI Programs

In 2016 H1, China took a major step toward encouraging long-term foreign institutional investors to invest in the world's third-largest bond market.



Appendix: Citi Markets & Securities Service Capability

Citi in China

1

1st foreign QFII custodian bank and 1st foreign bank to launch QDII

8

Top Rated custodian in China for 8 years

20

Top QFII custodian with 20% market share

30

Capacity at around 30%

55

Consumer outlets covering 13 major cities in China

60

Captured 60% market share in the insurance QDII

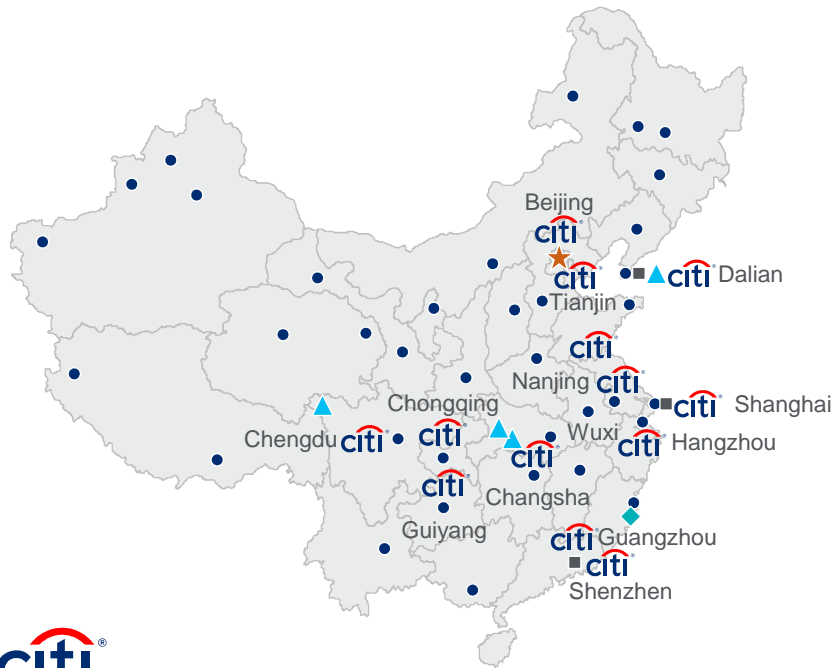
9,000

Employees in China

159,000

Settlements per year with 100% settlement rate

Present in Major Cities Across the Country



- Existing Branch
- Representative Office
- Lending Company
- COE

Citi Milestones in China

- 1902 1st established operations in Shanghai
- 2002 1st international bank granted an FX license
- 2003 1st international bank with a custodian bank license; cleared 1st trade of the QFII scheme
- 2006 1st international bank receiving QDII license and approval to offer custodian service; Strategic alliance with Guangfa Bank
- 2007 Launching RMB services to local residents
- 2008 Launched RMB debit cards
- 2009 Received regulatory approval to act as an interbank bond market maker.
- 2012 1st foreign bank to launch sole branded credit card in China; launched Citi Oriental Securities, securities JV mainly focusing on underwriting business.
- 2013 1st batch of foreign banks to launch domestic fund distribution business
- 2014 Pilot Foreign Currency Cross Border Treasury Center Solution in Shanghai Free Trade Zone
- 2015 Citi partners with local banks to offer CIBM service to clients

Citi QFII/RQFII Clients



Citi in China Interbank Bond Market

- **Top bond market maker and PBoC Primary Dealer**

- One of the only three foreign banks
- Awarded Excellent Bond Market Marker 2015
- Large trading volume (ranked No.1 in foreign banks and No.6 among all players)
- Direct communication channels with Regulators; participate in PBoC's open market operation
- Active influence towards Regulator's Policy & Product Innovation (Invited by regulators to join most key advisory panels)

- **Pioneer in derivatives market**

- Widely recognized by partners and competitors as top 3 in CNY IRS market
- First to trade CNY IRS with foreign counterparties (Mar 2006)
- First to trade Shibor linked IRS in China (Jan 2007)
- First peer of CRM (credit risk mitigation tool, Onshore CDS) dealers
- First trade of LPR IRS

- **Active in primary market**

- Underwriter for Sovereign Panda Bond issued by Korea Finance Ministry with strong book building capability

China Interbank Bond Market—Market Makers

- ✓ Industrial & Commercial Bank of China
- ✓ Agricultural Bank of China
- ✓ Bank of China
- ✓ China Construction Bank
- ✓ China Merchants Bank
- ✓ China CITIC Bank
- ✓ **Citi China**
- ✓ China Everbright Bank
- ✓ Industrial Bank
- ✓ China Minsheng Bank
- ✓ Ever Growing Bank
- ✓ Bank of Beijing
- ✓ Bank of Shanghai
- ✓ Bank of Nanjing
- ✓ Bank of Hangzhou
- ✓ Bank of Hankou
- ✓ CITIC Securities
- ✓ Guotai Junan Securities
- ✓ JP Morgan China
- ✓ China Development Bank
- ✓ Bank of Communications
- ✓ Standard Charter Bank
- ✓ China International Capital Corporation
- ✓ Guangdong Development Bank
- ✓ Shanghai Pudong Development Bank

Citi FX Capability

Onshore China

- In 2006, Citi was appointed as the China Interbank FX market marker, one of the first foreign banks to get approval
 - One of the most active market makers in the Interbank Foreign Exchange Market in China.
- In March 2011, Citi received approval to trade Yuan options

Year	Awards
2010	Most popular Derivatives Market Maker Award
	Best CFETS Member Award
	Spot Trading Excellence Award
2011	Derivatives Trading Excellence Award
	Most popular Derivatives Market Maker Award
	Best CFETS Member Award
2012	Spot Trading Excellence Award
	CFETS FX Trader Excellence Award
	CFETS Market Maker Improvement Award
2013	Best CFETS Member Award
	CFETS Market Maker Improvement Award
	CFETS FX Trader Excellence Award
2014	CFETS RMB Trader Excellence Award
	CFETS RMB Trader Excellence Award
	Citi Ranked 16th in the CFETS Top 100 RMB Market Makers.

Globally

FX Week Best Banks Awards

November 2015

- Best FX Bank Overall
- Best Bank for Forwards FX
- Best Bank for FX in North America
- Best Bank for USD/JPY
- Best Bank for FX for Corporates
- Best Bank for FX for Investors
- Best Bank for FX in North America
- Best Bank for e-Trading
- Best Bank for FX Prime Brokerage
- Best bank for FX research



Global Finance Best FX Provider Awards

November 2015

- Best FX Bank Globally
- Best FX Bank in Latin America
- Best FX Bank in North America
- Best bank for Corporate Currency Hedging



Financial News

October 2015

- Best Single Dealer Platform - Citi Velocity Trading

Euromoney Awards for Excellence

July 2015

- Best Global Bank
- Best Emerging Markets Investment Bank Globally



Risk Magazine Institutional Investor Rankings

June 2015

- Overall FX House of the Year
- FX Option House of the Year



Appendix: QFII and RQFII Market Update

China: Too Big to Ignore

Top 6 Currency in Global Payments

China is now the world's largest economy measured by purchasing power parity (PPP) and the largest trading nation. RMB has been showing a consistent three-digit growth over the past two years with an increase in value of payments by +321%. The successful RMB inclusion in the SDR basket (in effect from October 2016) will shake up the way the world thinks about a 'reserve asset'.

World Payment Shares in SWIFT

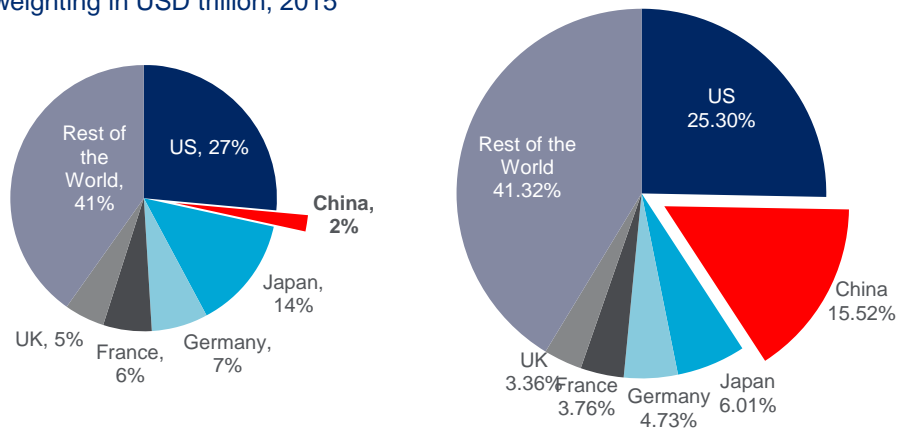
June 2016



Source: RMB tracker by SWIFT

The world's second largest economy

GDP weighting in USD trillion, 2015



GDP Weighting 1990
World GDP 22.5 Trillion

GDP Weighting 2015
World GDP 73.4 trillion

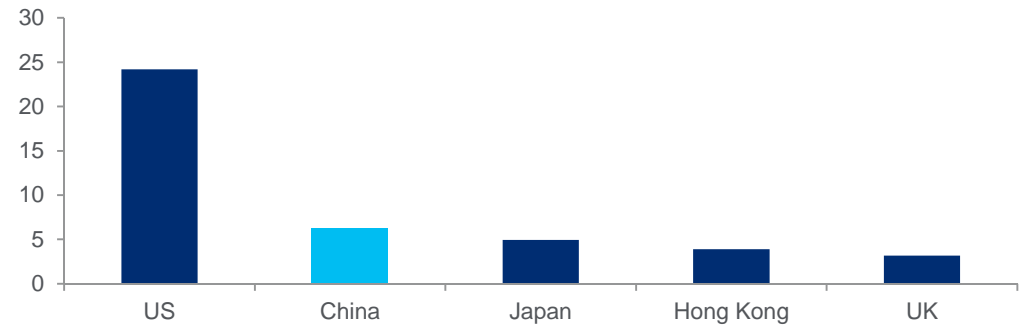
Source: International Monetary Fund, World Economic Outlook Database

China Stock Market is the 2nd largest worldwide

As of June 2016, total trading volume of both the Shanghai and Shenzhen stock exchange reached USD~39 trillion, and ranked 2nd largest in terms of market capitalization.

Global Exchange Market Capitalization

June 2016, in USD trillion



Summary of China Equity Market

June 2016

Market	No. of Listed Companies	Market Cap (in USD billion)	Average Daily Trading Value (in USD billion)
Shanghai Main Board	1,122	3,784	29
Shenzhen Main Board	478	997	13
Shenzhen- SME Board	791	1,419	24
Shenzhen- ChiNext Board	512	781	15

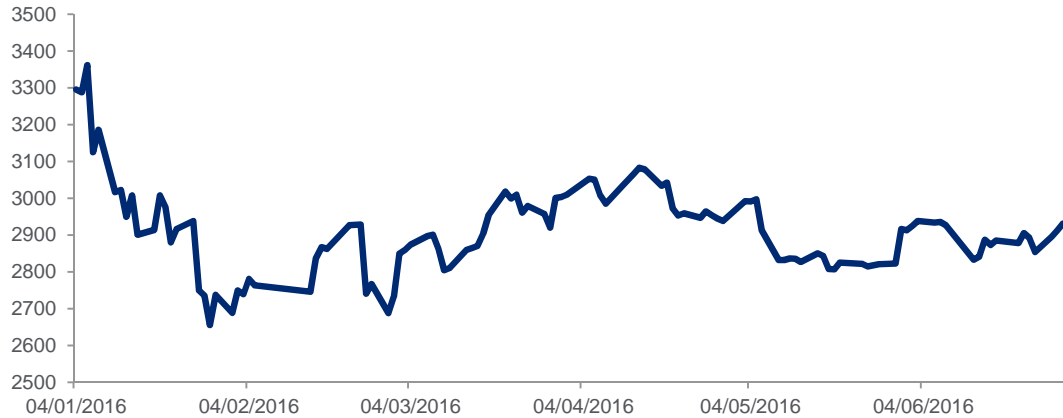
Source: Bloomberg, SSE, SZSE

China Markets Performance

China foreign exchange, funds and bonds market also performed correspondingly to reflect the boom and collapse of the stock market and China capital market development.

Equity—China A Share

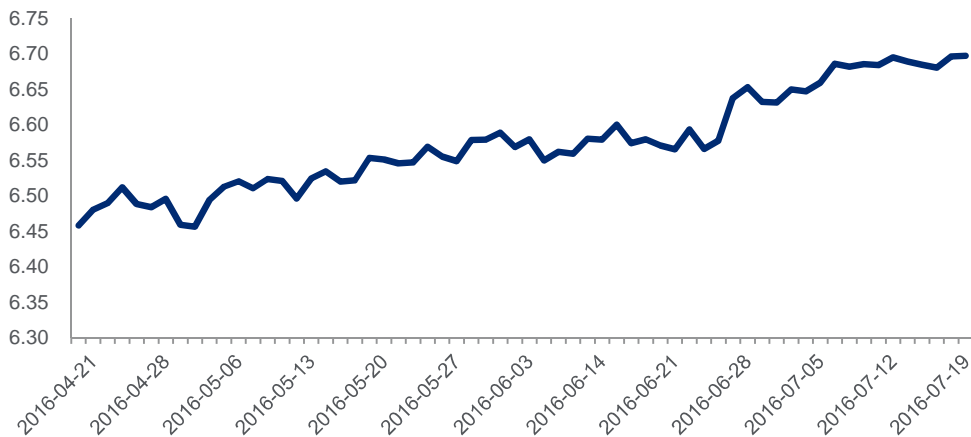
1H16 China A share Market Movement



Source: Bloomberg

China Foreign Exchange Market

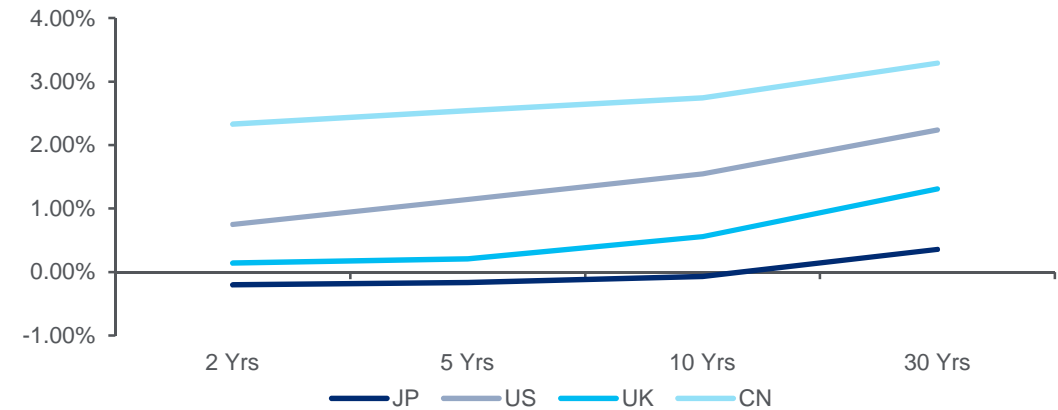
USD / RMB Foreign Exchange Rate



Source: SAFE

2–30 Years Yields for Government Bonds

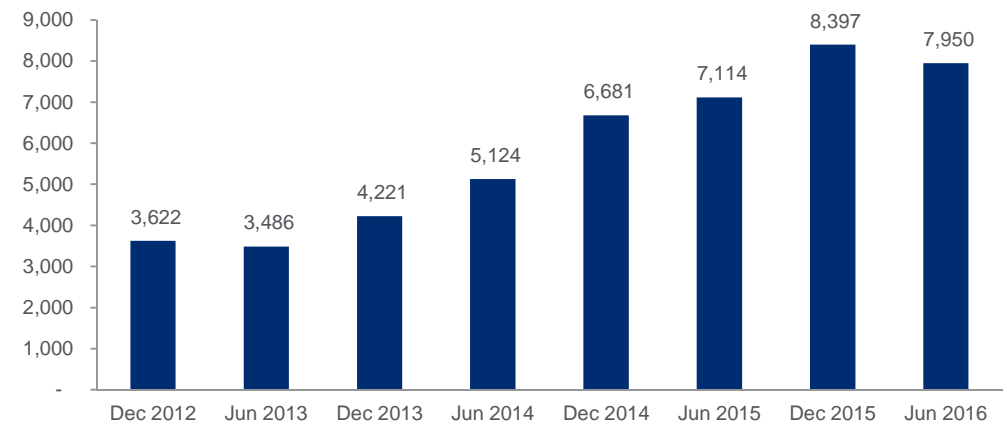
August 2015



Source: Investing.com

China Mutual Funds Market

(NAV of Open-ended Funds in RMB Billion)



Source: AMAC

QFII and RQFII: Main Channel For China A Shares Investment

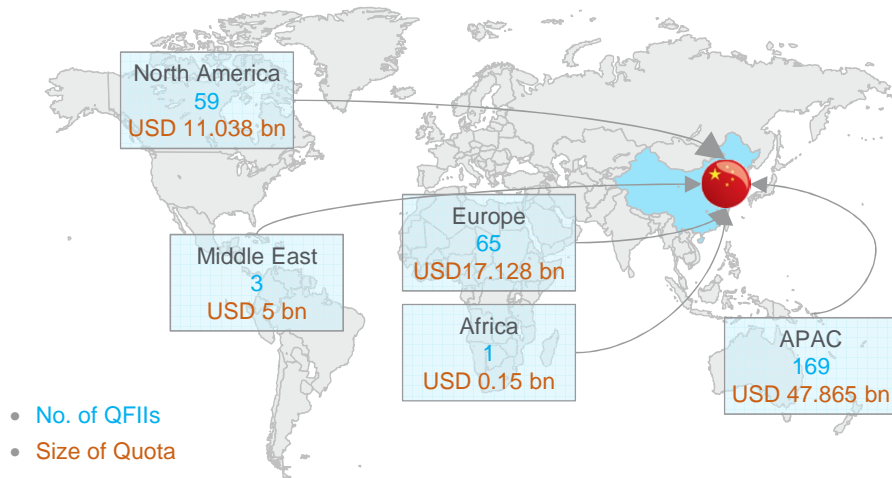
The QFII scheme was established in 2002 to attract foreign institutional investors to invest in China's domestic A-share market. RQFII was launched around 10 years after the QFII schemes to be further expanded to meet the increasing demand for offshore RMB products.

QFII Scheme

The Qualified Foreign Institutional Investors (QFII) scheme is a program that allows foreign asset owners, sell sides and asset managers to make foreign currency –denominated (primarily USD) investments into securities markets on the China.

The QFII scheme has transformed from an initial test-bed for foreign participation in the China securities market to the cornerstone of China's cross-border programs. We believe QFII will play a pivotal role in the opening of China's capital account.

QFIIs Around the World



Source: CSRC, SAFE.

RQFII Scheme

The RMB Qualified Foreign Institutional Investors (RQFII) scheme is to promote usage of the RMB abroad by providing a RMB-denominated investment channel into China's capital-controlled environment.

The RQFII scheme has been dominated by asset managers since the scheme's inception in 2011. We are now seeing the scheme grow to include asset owners and the sell side.

Continuous Expansion of RQFII (RMB in Billions)

Country/Region	Inception Date	Quota Ceiling	No. of RQFIIs with Quota	Total Approved Quota
Hong Kong	2011	270	79	270
Singapore	2013	100	23	56.5
UK	2013	80	15	30.1
France	2014	80	7	24
Korea	2014	120	34	74
Germany	2014	80	2	6.543
Qatar	2014	30	0	0
Canada	2014	50	2	1.825
Australia	2014	50	1	30
Switzerland	2015	50	1	5
Luxemburg	2015	50	3	10
Chile	2015	50	0	0
Hungary	2015	50	0	0
Malaysia	2015	50	0	0
UAE	2015	50	0	0
Thailand	2015	50	0	0
United States	2016	250	0	0

Key Highlights of QFII New Rules

On February 4, 2016, SAFE eased QFII access with more transparent quota allocations and easier in/outflow.



Simplified Quota Approval Mechanism

- **Basic Quota.** QFII can make a filing with SAFE for a “basic investment quota” based on certain % of its total asset or AUM. The Basic Quota is set within a range of US\$20 million to **US\$5 billion** (increased from the previous upper limit of US\$1 billion).
- For certain types of QFIIs such as **SWFs, central banks and monetary authorities**, the Basic Quota will not apply and they may apply a quota up to **US\$5 billion** through filing process.
- SAFE’s approval is only required when the quota being applied for exceeds the Basic Quota.

Injection Period Removed and Lock-up Period Improved

- **3 months lock-up period** for all the QFIIs. The new lock-up period for principal repatriation has been shortened from 1 year to 3 months for non-open-ended funds other than pension funds, insurance funds, mutual funds, charitable funds, endowment funds, governments and monetary authorities
- **6 months injection period removed**, but a QFII will need to use its quota within one year of the filing or approval

Flexible Cross-border Remittance

- **Daily basis injection or repatriation** on the net subscription or redemption for open-end fund
- The **net amount** of investment capital remitted into China shall be within the investment quota
- **No approval** needed for non-open-end fund principal repatriation. No restriction in term of frequency of repatriation for non-open-end fund
- **The monthly net repatriation cap** still applicable to all QFIIs (being 20% of its total onshore assets as at the end of the previous year)



Type of QFII

Basic Quota Calculation

For QFII or its Group Company Who Have Their Majority of Assets (or Assets Under Management) **outside of China**

- **US\$100 million** + **0.2%** of the average assets size in the latest three years
– Existing RQFII quota (in US\$)
- The basic quota granted shall not exceed US\$5 billion

For QFII or its Group Company Who Have the Majority of Assets (or Assets Under Management) **inside of China**

- Equivalent **RMB 5 billion** + **80%** of the assets size in the last fiscal year
– Existing RQFII quota (in US\$)
- The basic quota granted shall not exceed US\$5 billion

Foreign SWFs, Central Banks and International Monetary Authorities

- The basic quota granted shall not exceed **US\$5 billion**

Key Highlights of R-QFII New Rules

SAFE announced the new R-QFII rules on September 5, 2016



Simplified Quota Approval Mechanism

- **Basic Quota.** R-QFII can make a **filing** with SAFE for a "basic investment quota" based on certain % of its total asset or AUM.
- For certain types of R-QFIIs such as **SWFs, central banks and monetary authorities**, the Basic Quota will not apply and they shall self-determine the intended investment quota through filing process.
- SAFE's approval is only required when the quota being applied for exceeds the Basic Quota.



Injection period removed and lock-up period improved

- **3 months lock-up period** for all the R-QFIIs *except* open ended fund, commence from the date when accumulated principal injection reaches to **RMB 100 million**.



Flexible cross-border remittance

- **Daily injection or repatriation** are allowed for *all* R-QFII product types.
- **Re-injection of principal** is now allowed for non-open-end fund within the investment quota.

Type of R-QFII

Basic Quota Calculation

For R-QFII or its group company with majority of assets (or assets under management) **outside of China**

USD 100 million in RMB equivalent
 + **0.2%** of the average assets size in the latest three years
 - Existing QFII quota (in RMB)

For R-QFII or its group company with majority of assets (or assets under management) **inside of China**

RMB 5 billion
 + **80%** of the average assets size in the last fiscal year
 - Existing QFII quota (in RMB)

Foreign SWFs, Central Banks and international monetary authorities

Determine the intended investment quota at its **own discretion**.

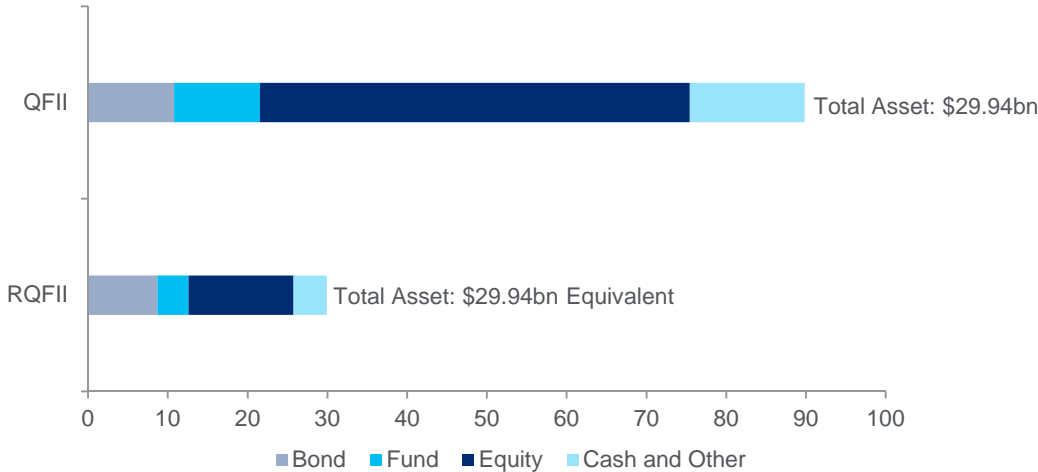
Comparison of QFII and RQFII Schemes

	QFII	R-QFII
Quota	<ul style="list-style-type: none"> No individual quota ceiling, Quota shall be used within 1-year upon approval Aggregated quota ceiling: US\$\$ 150 billion <ol style="list-style-type: none"> Only go through filing process <ul style="list-style-type: none"> For commercial institutions, if the applied quota <= "Basic Quota" For SWFs, central banks and monetary authorities, if the applied quota <= US\$\$ 5 billion Any applied quota larger than the Point 1 above, quota approval needed from SAFE 	<ul style="list-style-type: none"> Aggregated quota ceiling: each RQFII eligible countries has a aggregated quota ceiling, within a range RMB 50 billion to RMB 250 billion <ol style="list-style-type: none"> Only go through filing process <ul style="list-style-type: none"> For commercial institutions, if the applied quota <= "Basic Quota" For SWFs, central banks and monetary authorities: own discretion Any applied quota larger than the Point 1 above, quota approval needed from SAFE
Eligible Investors or Institutions	<ul style="list-style-type: none"> Commercial Banks (≥10 years in operation, US\$5 billion AUM, US\$300 million Tier 1 Capital) Securities Companies (≥5 years in operation, US\$5 billion AUM, US\$500 million Capital) AMC, insurance companies and other institutions (Experience of 2+ years, and AUM ≥US\$500 million) 	<ul style="list-style-type: none"> PRC AMC, securities companies, commercial banks, insurance companies in approved RQFII markets Other institutions registered and mainly operated in RQFII approved markets and possess asset management license from the relevant regulators of their jurisdictions
Currency	<ul style="list-style-type: none"> Quoted granted in US\$ or other major foreign currency 	<ul style="list-style-type: none"> Quoted granted in RMB
Add. Quota Gap Period	<ul style="list-style-type: none"> No waiting time for additional quota application 	
Liquidity for Open-end Fund Account	<ul style="list-style-type: none"> Daily injection and repatriation 3 months lock-up period starting from the date US\$20 million principal injected 	<ul style="list-style-type: none"> No lock-up period
Liquidity for Non-open-end Fund Account	<ul style="list-style-type: none"> 3 months lock-up period starting from the date US\$20 million principal injected No injection period restriction No restriction on repatriation frequency For principal repatriation, principal can be re-injected, but the net amount of investment capital remitted into China shall be within the investment quota 	<ul style="list-style-type: none"> 3 months lock-up period since accumulated principal injection reaches to RMB 100 million.
Monthly Cap	<ul style="list-style-type: none"> For all the QFIIs, monthly repatriation capped at 20% of its total asset of QFII investments at the end of last year 	<ul style="list-style-type: none"> For profit repatriation, audit reports issued by domestic accounting firm and relevant tax payment evidence are needed No monthly cap.

Overview of QFII/RQFII Asset Allocation and Investment

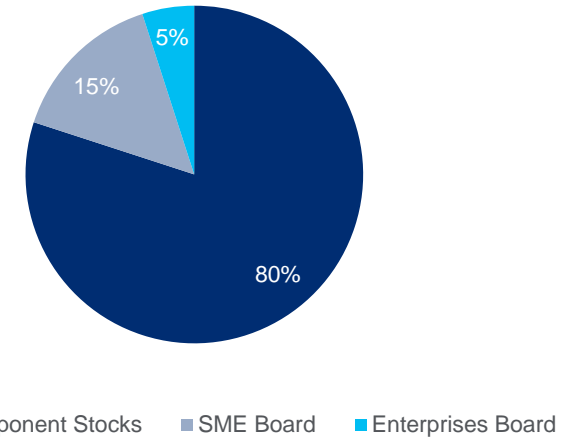
QFII/RQFII's asset allocation is majorly attributable to China A-shares, while their equity investment indicate strong "value investment" strategy, with 80% investment flowing into high ROE CSI 300 component stocks.

QFII/RQFII's asset allocation



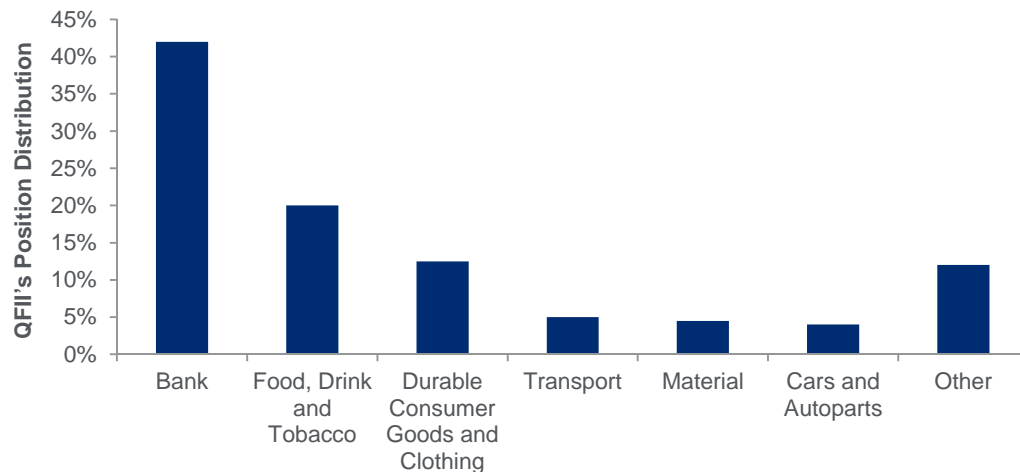
Source: CSRC Apr 2016 Training

QFII/RQFII's equity investment allocation in China A-shares

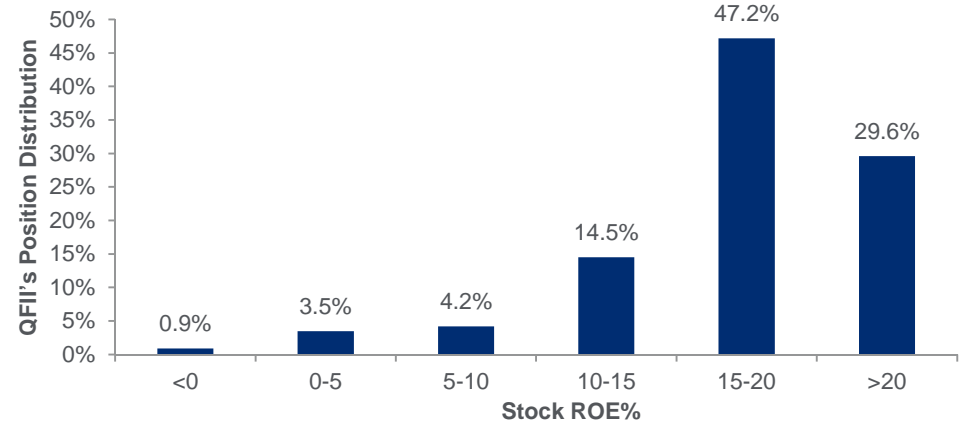


As of Mar 2016. Source: CSRC

QFII/RQFII's position distribution in China A-shares by industry and by stock ROE



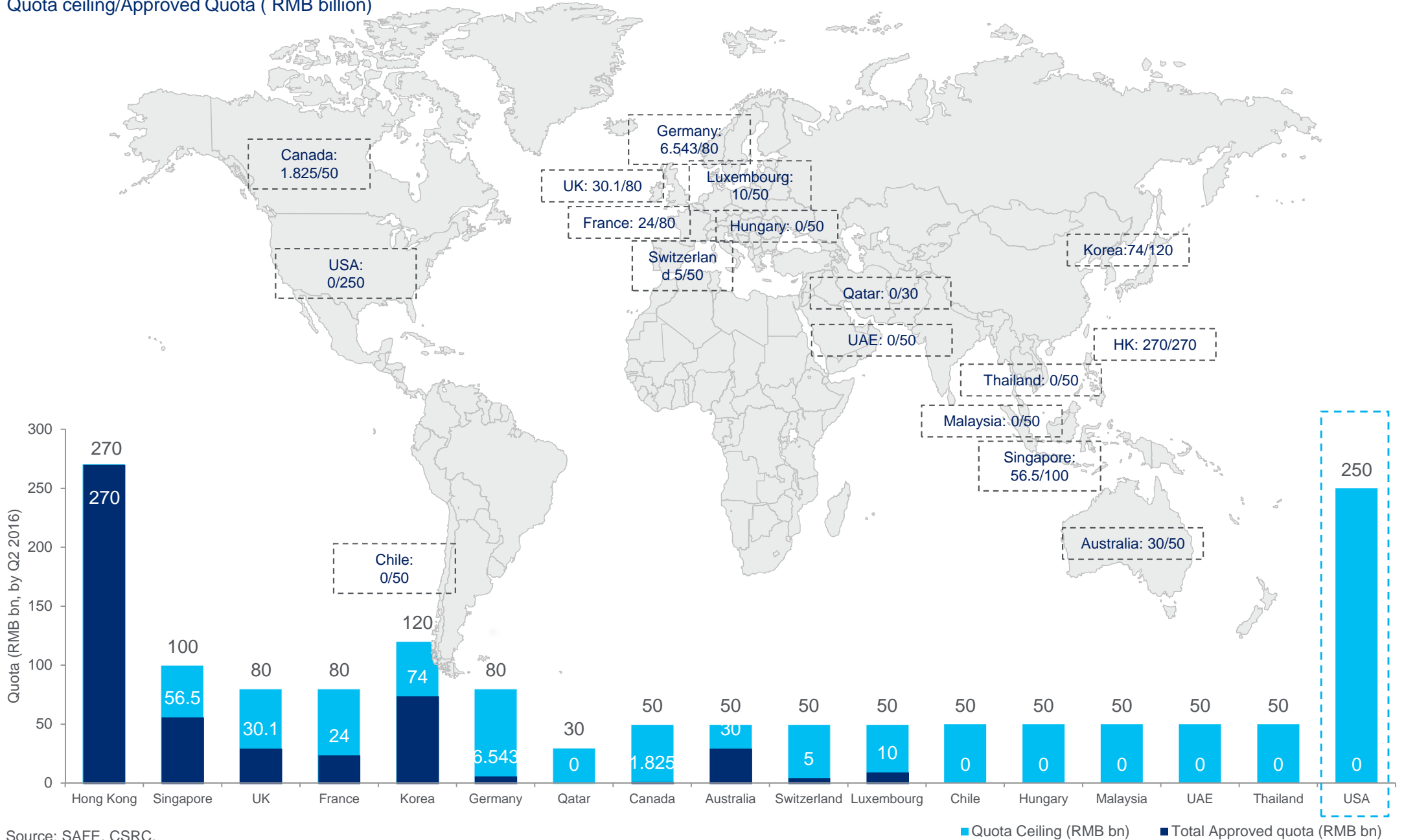
As of Aug 2016. Source: Wind



As of Aug 2016. Source: Wind

RQFII Landscape

Quota ceiling/Approved Quota (RMB billion)



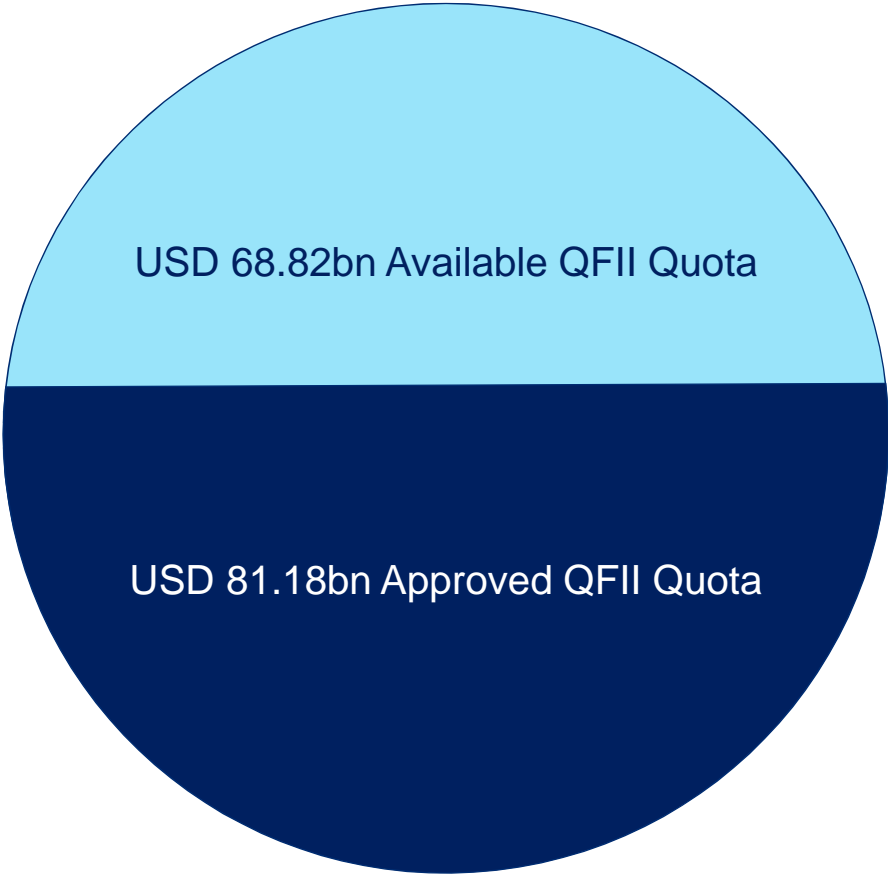
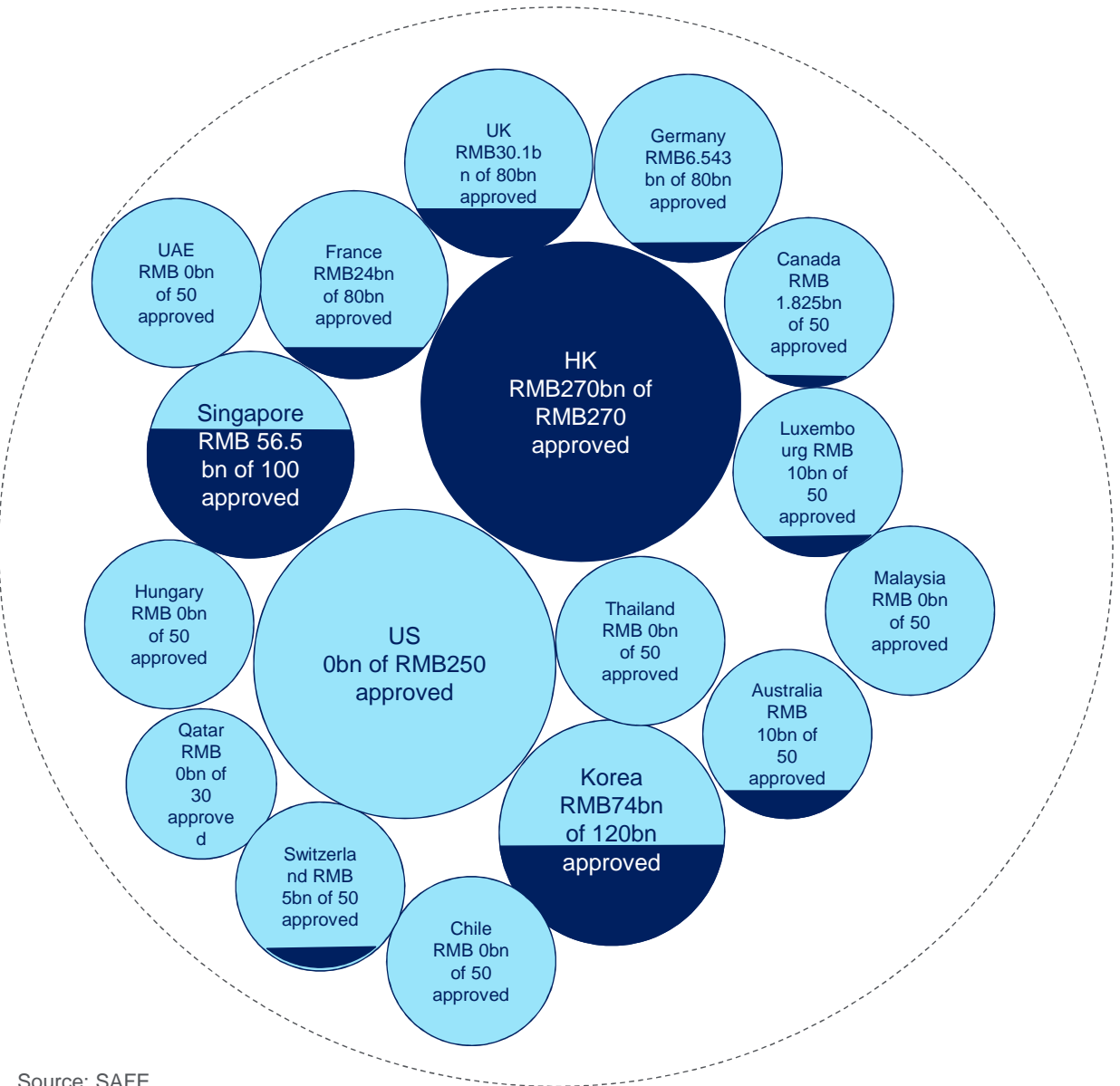
Source: SAFE, CSRC.

■ Quota Ceiling (RMB bn) ■ Total Approved quota (RMB bn)

RQFII and QFII Quota Availability for Foreign Investors *as of June 2016*

RQFII USD 218bn (USD 76bn approved)

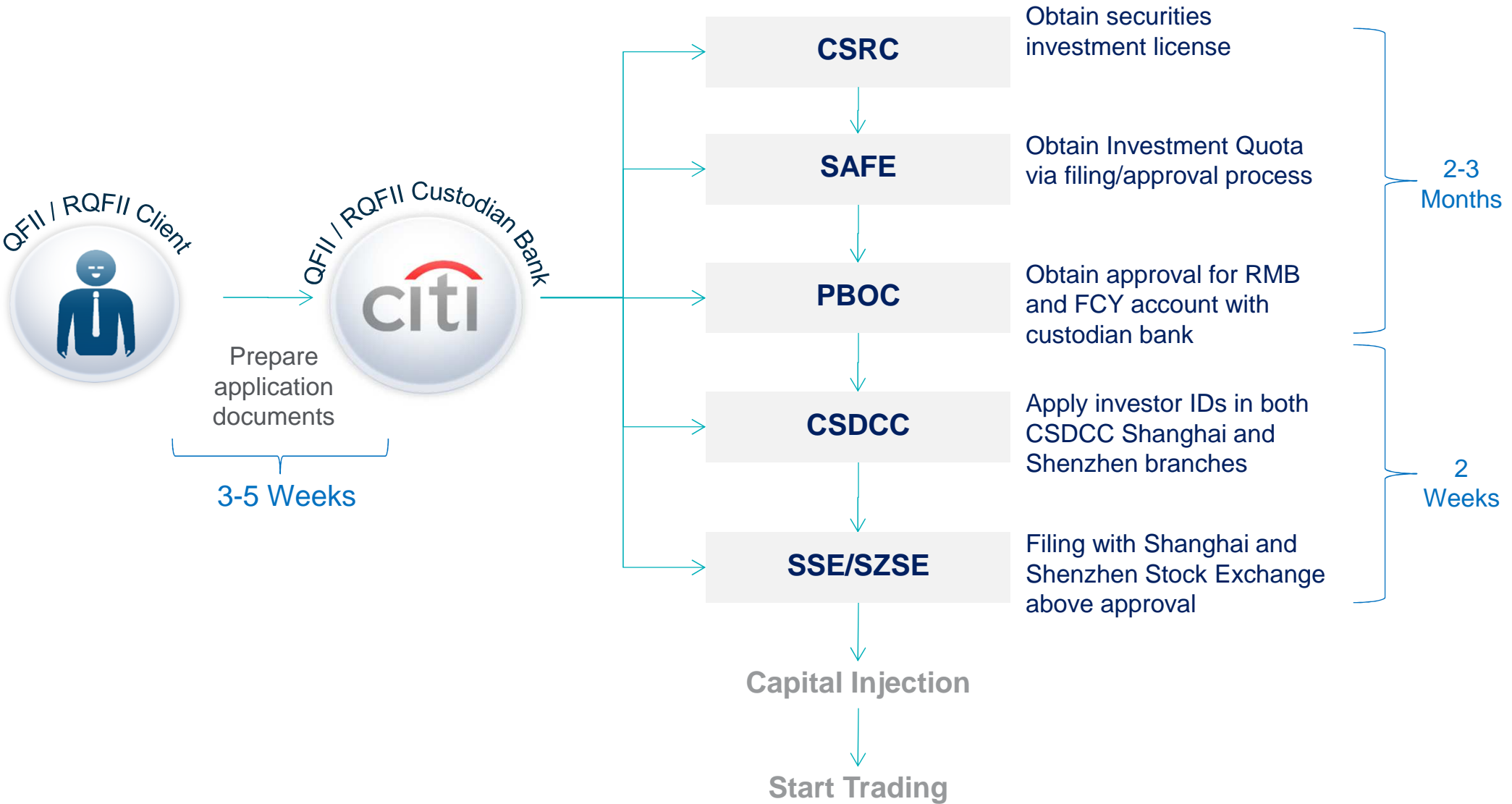
QFII USD 150bn (USD 81bn approved)



Source: SAFE

QFII/RQFII Application Process

Under normal situation, the QFII/RQFII application takes around 2-3months to complete.



QFII/RQFII Application Requirement

Foreign investors intending to enter China securities market must meet certain qualifications for getting the approval from CSRC and SAFE.

QFII	Years of Business Experience	Net Asset	Assets under Management	Other Requirement
Fund Management Company, Insurance Companies and Other Institutional Investors*	2+	N/A	No less than USD 500 million	N/A
Securities Firms	5+	No less than USD 0.5 billion	No less than USD 5 billion	N/A
Commercial Banks	10+	N/A	No less than USD 5 billion	Tier 1 capital not less than USD 300 million
MOU	Between CSRC and Applicant's financial regulator			
RQFII	Application Requirement			
Subsidiaries of PRC fund management companies, securities companies, domestic commercial banks, insurance companies	Based in Hong Kong/UK/Singapore/France/Korea/Germany /Qatar/Canada/Australia/Switzerland/Luxemburg/Chile /Hungary /Malaysia, UAE, Thailand and the US			
Other institutions possess asset management license from the relevant regulators	registered and mainly operated in Hong Kong/UK/Singapore/France/Korea/Germany /Qatar/ Canada/Australia/ Switzerland/ Luxemburg/Chile/Hungary/Malaysia/UAE/Thailand/US			

*Other Institutional Investors include pension funds, charity funds, donation funds, trust companies, government investment management companies etc.

QFII/RQFII Documentation Requirement

Qualified institutions should apply to CSRC for QFII/R-QFII license and subsequently to SAFE for investment quota.

Regulator	Purpose of Application	QFII	RQFII
		Required Documentation	
CSRC	License	<ul style="list-style-type: none"> • CSRC QFII / RQFII Application Form • Registration forms of QFII / RQFII team • Investment Plan • Copy of Business License • Copy of Financial License • Certificate of proof that key personnel of applicant satisfy requirements for qualification of practice in the country where the applicant is domiciled • Statement on any substantial penalties by regulators in the last three years • Statement on fund sources and domestic securities investment plan • Audited financial statements for the latest year • Power of attorney signed with PRC custodian • Other documents required by CSRC 	
SAFE	Quota	<p>For Basic quota filing:</p> <ul style="list-style-type: none"> • Explanation Letter for application of quota filing • QFII Registration Form • Audited balance sheets for the past 3 years/last year (or audit reports for securities AUM, etc.) • Securities Investment business license issued by CSRC • Evidence document for approved RQFII quota (if applicable) <p>For quota application (if the asked quota > basic quota):</p> <ul style="list-style-type: none"> • Application letter • Audited balance sheets for the past 3 years/last year (or audit reports for securities AUM, etc.) • Other materials required by SAFE 	

Citi China Custodian QFII/RQFII Operational Support Capabilities

Citi China has a dedicated QFII/R-QFII operation team to support the daily operation work, including regulatory reporting, client service, settlement and corporate actions.

Settlement Services

- Efficient settlement of transactions and enhanced operational efficiency through our advanced technology and processing platforms
- Highest STP rate in the industry - 99%
- For China A, for those clients which may not be able to send out the settlement instruction before cut-off time (e.g. due to time zone issue), Citi China now can facilitate them to settle based on CSDC data. Those client only need to pre-set a SI with Citi china to authorize Citi China to settle without settlement instruction and based on CSDC data.

Asset Servicing

- Robust corporate actions offering
- Income payment
- Proxy voting : flexible voting methods
- Corporate actions calendar: we provide the corporate actions calendar to our R-QFII clients who require the service. The corporate actions calendar is a value-added report to R-QFII clients, which is a weekly summary covering all living corporate actions events of the A-shares of the China stock market. With this corporate actions calendar, R-QFII clients will be able to have a full picture on the whole corporate actions event.

Reporting

- Full support of QFII/RQFII reporting requirements for internal and regulatory reporting, including comprehensive substantial shareholding reports, securities and cash holdings, corporate actions, executive MIS reports, investment activity reports and annual financial reporting of the client's investment, inward and outward remittances, foreign exchange conversions
- Assist to communicate with regulators on reporting and information disclosure requirement

Value Added Services

- Timely provision of market information and notification of any regulatory changes to QFII rules
- Citi maintains a consistent and regular interaction with the regulators and market participants in order to ensure that our clients get the most updated and accurate information in a timely manner.
- Assist to resolve problems/errors between the broker and the central depository (CSDCC), and complete special regulatory reporting and abnormal cash movement after approval
- Perform periodic service reviews to receive RQFII's feedback on our services, which will enable us to improve our services

Partnership with Other Services Provider

Well-established relationships between Citi and top local services providers. By working closely together, Citi China manage to deliver best class custodial services in QFII and RQFII space.

Below is a reference list with our QFII/RQFII's services providers which have been working with Citi many years .

Brokers

- CICC
- Citic
- UBS
- Goldman Gaohua
- Shenyin & Waiguo
- Haitong
- Guosen
- Galaxy
- Guangfa
- Guotai Junan

Asset Managers

- Harvest
- Bosera
- China AMC
- China International Fund Management
- Aegon-Industrial
- Huabao

Futures Companies

- Haitong futures
- Citic futures
- Galaxy futures
- Guotai Junan futures

CPA Firms

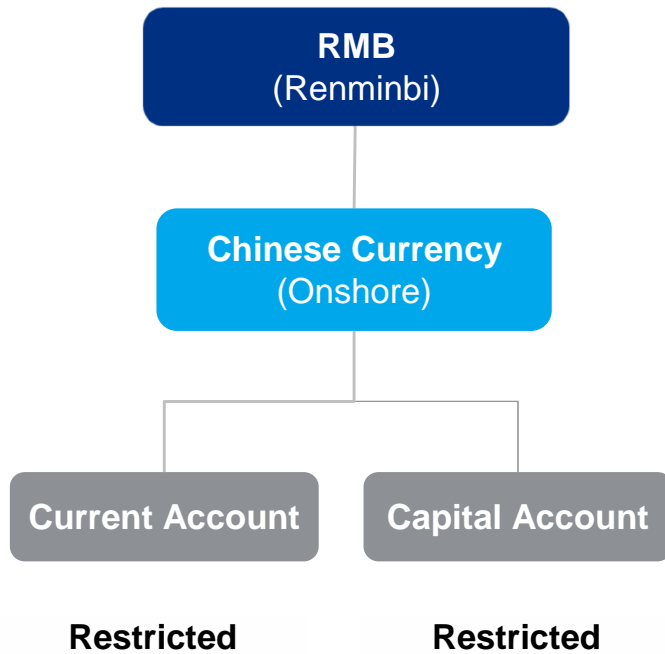
- EY
- KMPG
- Deloitte
- PWC

Appendix: Understanding RMB

Understand RMB

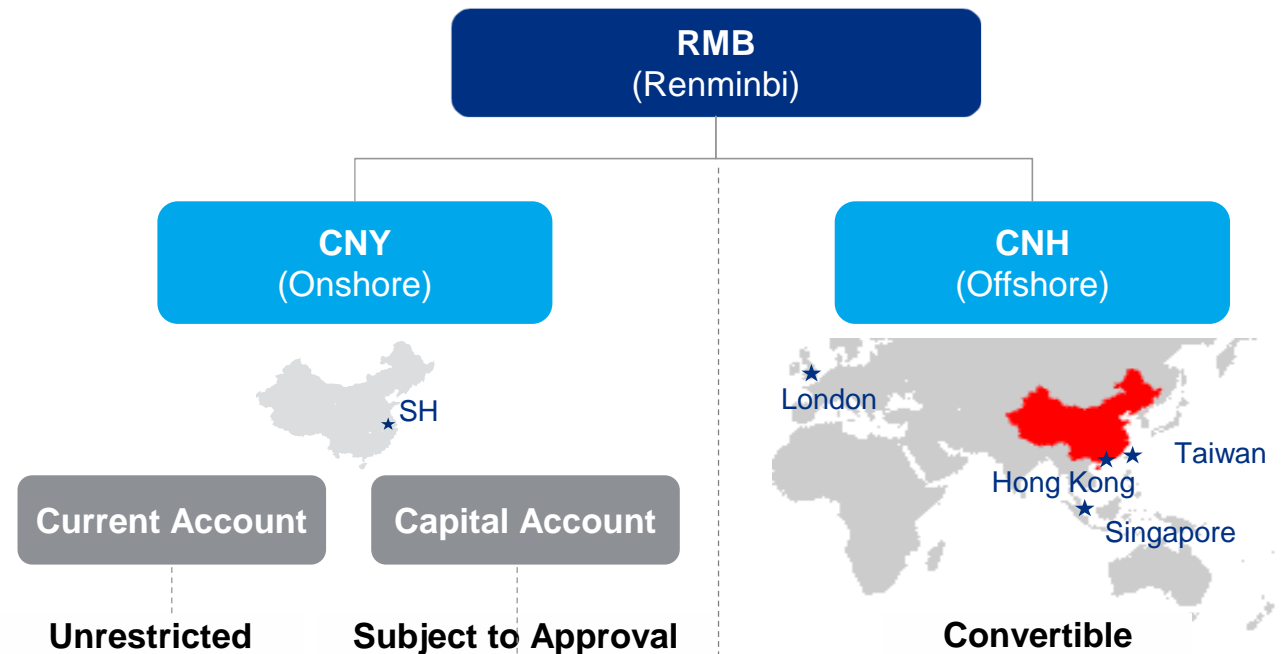
RMB is developing quickly as a functional currency for trade settlement and cross-border investment

Before 2009 - Domestic



- Current account and capital account strictly controlled. No cross-border allowed
- G3 currencies used for cross-border trade and investment
- Little exposure for RMB outside China; no offshore RMB market

Today - “One Currency, Two Systems”



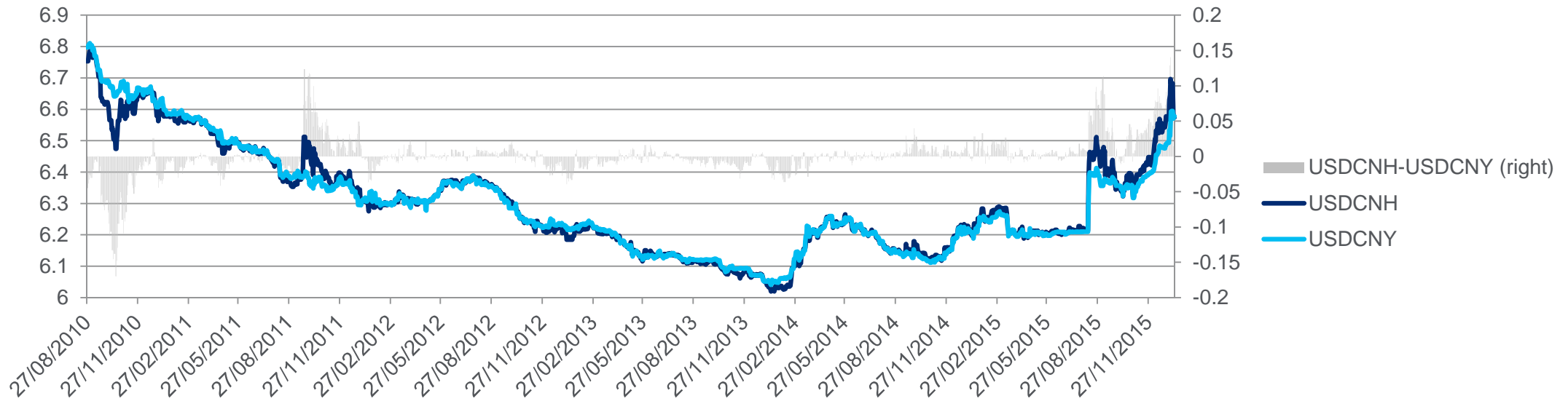
- FX daily band onshore + PBOC Intervention
- RMB as Top 5 World Payment Currency* (20%+ of China RMB trade settled)
- In the process of liberalizing capital account

- No FX restriction offshore
- Onshore + Offshore FX Daily Volume: \$285Bn+
- ‘Orphan Currency’: no natural oversight structure

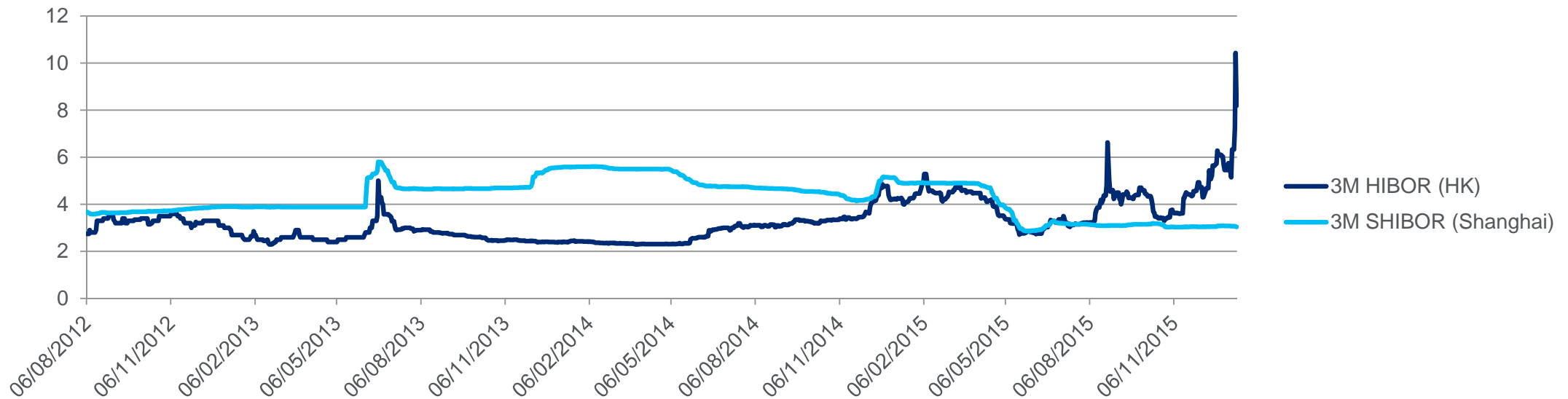
*SWIFT, Data as of 2015; *According to Triennial Central Bank Survey of foreign exchange and derivatives market activity in 2013

RMB FX and Interest Rate Market

FX Rate (Aug 2010 – Jan 2016)



Interest Rate (Aug 2012 – Jan 2016)



Source: Bloomberg. Data as of Jan 13, 2016.

The Roadmap of RMB Internationalization

Trade Currency

Any corporate can use RMB to settle trade anywhere in the world

Cross Border Trade Settlement

China



2009: Pilot for 5 Cities
2010: 20 Provinces
2011: Nationwide in China

Rest of World



2009: Pilot for 3 countries/territories
2010: All countries/territories

Documentation

2012: Provincial pilots of simplification
2013: Nationwide simplification
2014: SFTZ: no documentation

Investment Currency

RMB increasingly used in cross-border investment and financing

Offshore RMB Centers



2007: RMB-denominated bond
2010: CNH transferability, access to China bond market, RMB-denominated ETFs
2011: RMB IPO, **2013:** CNH HIBOR fixing
2014: HK Primary Liquidity Provider (Citi)

Cross-border Investments

2011: RQFII 1 - RMB20bn
2011: RMB FDI and ODI, FIE financing offshore
2012: RMB inter-company loan
2013: RQFII 3 - RMB270bn, further relaxation on RMB FDI
2014: SFTZ: 2-way RMB pooling
2014: SH-HK stock connect, RQDII (no quota)
2015: Mutual Recognition of Funds (MRF)

Reserve Currency

RMB on its way to become a world reserve currency

RMB in Reserve Portfolio

RMB entered Special Drawing Rights currency basket in Nov 2015
 20 has established arrangement for clearing and settlement
 At least 38 central banks hold RMB reserves as of 2014 (IMF 2015 survey)

Currency Swap Agreements

Bilateral currency swap agreements between China and 32 central banks



SDR Inclusion is Positive for Long-term Capital Flows into RMB Assets

Background

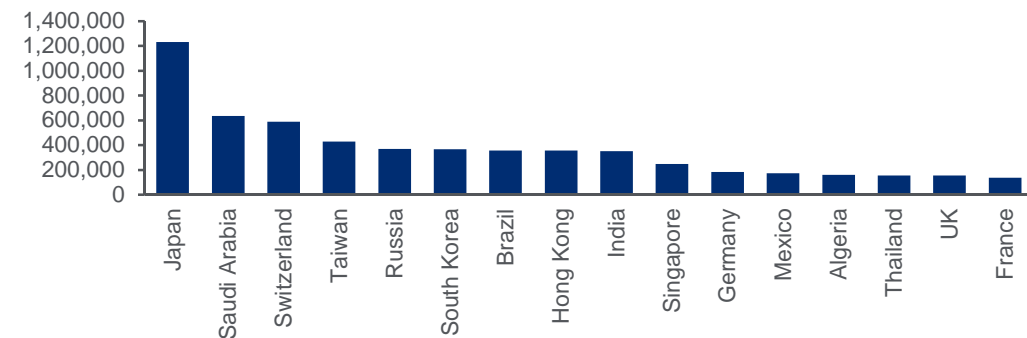
- IMF formally announced the inclusion of the RMB as a fifth currency in the SDR currency basket from October 1, 2016 onward, with a weighting of 10.92%
- It could encourage an increase in global asset diversification into RMB assets and promote RMB internationalization
- Global asset allocations and diversification into RMB assets will likely be gradual

Global FX Reserve

- Global FX reserves (ex-China) as of 2Q15: **US\$7.8 trillion**
- The US\$ took 63.8% of the world's allocated FX reserves outstanding, while the RMB is estimated to have taken merely 1.1% as of 2Q15

Top 20 Countries Ranked by FX Reserve (Ex-China)

(US\$ in Billions)



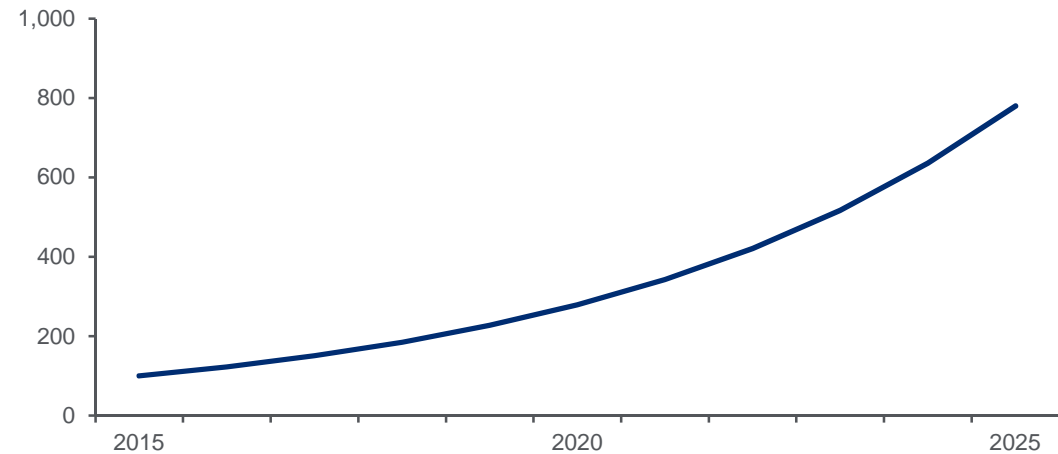
Source: IMF, Citi Research.

Allocation into RMB Assets

- The direct SDR-related flows would be FX conversions by IMF members (\$280 Billion as of 3Q15) to maintain their quotas in the appropriate proportion by the end of September 2016
- As China opens up channels for investment, private and public sector allocation to RMB assets is expected to rise
- It is estimated that the RMB's share in global reserves could reach 5% in five years, and 10% in 10 years

Projected Growth of RMB Allocation

(US\$ in Billions)



Assumptions

According to IMF, RMB may have taken 1–2% of the world's allocated FX reserves outstanding as of 2015. A industry survey of central banks sponsored in April 2015 highlights that the RMB could account for 5% of global FX reserves in 5 years, and 10% (US\$780 billion) in 10 years. With this assumption, we can back out an annual growth rate of 23% of RMB allocations. The graph shows a projected trend based on this growth rate.

Onshore-Offshore Liquidity Comparison

FX Forward/ Swap	IRS	CCS	FXO
Onshore Deliverable CNY			
<input type="checkbox"/> Accessible for ROIs <i>Avg. Daily Vol: USD 20-40bn</i> <i>Avg. Deal Size: USD 10-20m</i> <i>Tenor: Up to 10yrs</i> <i>Liquid Tenor: Up to 1yr</i>	<input type="checkbox"/> Accessible for ROIs <i>Avg. Daily Vol: CNY 25bn</i> <i>Avg. Deal Size: CNY 100-200m</i> <i>Tenor: Up to 10yrs</i> <i>Liquid Tenor: Up to 5yrs</i>	<input type="checkbox"/> Accessible for ROIs <i>Thin Liquidity</i>	<input type="checkbox"/> Accessible for ROIs <i>Avg. Daily Vol: USD 200-300m</i> <i>Avg. Deal Size: USD 10-20m</i> <i>Tenor: Up to 3yrs</i> <i>Liquid Tenor: Up to 1yr</i>
Offshore Non-Deliverable CNY			
<input type="checkbox"/> No access for onshore entities <i>Avg. Daily Vol: USD 10bn</i> <i>Avg. Deal Size: USD 20m</i> <i>Tenor: Up to 5yrs</i> <i>Liquid Tenor: Up to 1yr</i>	<input type="checkbox"/> No access for onshore entities <i>Avg. Daily Vol: USD 2bn</i> <i>Avg. Deal Size: USD 20-30m</i> <i>Tenor: Up to 10yrs</i> <i>Liquid Tenor: Up to 5yr</i>	<input type="checkbox"/> No access for onshore entities <i>Avg. Daily Vol: USD 50-300m</i> <i>Avg. Deal Size: USD 10-50m</i> <i>Tenor: Up to 10yrs</i> <i>Liquid Tenor: Up to 1yr</i>	<input type="checkbox"/> No access for onshore entities <i>Avg. Daily Vol: USD 500m</i> <i>Avg. Deal Size: USD 30m</i> <i>Tenor: Up to 5yrs</i> <i>Liquid Tenor: Up to 1yr</i>
Offshore Deliverable CNH			
<input type="checkbox"/> No access for onshore entities <i>Avg. Daily Vol: USD 20-40bn</i> <i>Avg. Deal Size: USD 20-50m</i> <i>Tenor: Up to 5yr</i> <i>Liquid Tenor: Up to 1yr</i>	<input type="checkbox"/> No direct access for onshore entities <input type="checkbox"/> New market (CNH HIBOR) <i>Thin Liquidity</i>	<input type="checkbox"/> No access for onshore entities <input type="checkbox"/> New market (CNH HIBOR) <i>Avg. Daily Vol: USD 600-800m</i> <i>Avg. Deal Size: USD 10-50m</i> <i>Tenor: Up to 10yrs</i> <i>Liquid Tenor: Up to 5yr</i>	<input type="checkbox"/> No access for onshore entities <i>Avg. Daily Vol: USD 1bn</i> <i>Avg. Deal Size: USD 50-100m</i> <i>Tenor: Up to 3yrs</i> <i>Liquid Tenor: Up to 3yrs</i>

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