ISSUER SPOTLIGHT

Q&A

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Q. Why did Global X ETFs decide to launch a full suite of China sector ETFs?

Historically, many investors have taken a broad approach to China, either gaining exposure through emerging market index funds or buying a China-focused ETF. ETFs targeting specific sectors in China, however, offer a more nuanced way of gaining exposure to the world's second largest economy. They allow investors to refine existing exposures to the country, play divergent sector performance and technicals, modify valuations and growth characteristics, harness long term themes, or respond to macroeconomic developments. As China continues to play an increasingly important role in the global economy and capital markets, we believe investors will turn to China sector ETFs to capture their regional exposure.

Q. What are your thoughts on China A shares?

China A shares are domestically-listed stocks in China that have historically been difficult to access for foreign investors. Instead of investing in A shares, foreigners have often focused on a narrower set of H shares listed in Hong Kong or ADRs of Chinese companies listed in the US. But as China further opens its domestic equity markets to the rest of the world, A shares are becoming increasingly available, allowing for a greatly expanded opportunity set of Chinese equities. Last year, MSCI began including A shares in its MSCI Emerging Markets Index as well as many of its China-specific indexes such as those tracked by our sector ETFs. Ultimately, we believe this inclusion of China A shares is a positive for investors as it allows them to gain more complete access to Chinese equity markets.

Q. How do you expect investors to use these ETFs in a portfolio?

We believe investors will use these ETFs similarly to how they conduct sector investing in the United States. Here it is common for investors to toggle sector exposures based on whether an investor is looking for higher growth exposures, lower valuations, more defensive qualities, or to rotate based on momentum or macroeconomics. In China, these strategies can be implemented as well, but there are also unique dynamics at play given the centrally-planned economy, the state's ownership of major companies, regional power disputes, the US-China trade wars, and a rapidly growing middle class. Investors may also want to use China sector ETFs as a complement to the existing exposure they are gaining through broader emerging market funds.

Q. Which long-term themes in China look most attractive to you?

A thread that runs through nearly all our China funds is the enormous and growing power of China's consumer. While past trends in China are not guaranteed to continue indefinitely, China has experienced years of high wage growth, a migration to cities, and an expansion of internet connectivity. In addition, the government has made consumption a priority as the economy transitions away from export-led industries. As a result, China now has a middle class that's larger than the entire population of the United States and is spending time and money on various goods and services including travel and leisure, online shopping, social media, gaming, and health care.[1] A handful of sector funds within our China suite provide exposure to this theme, such as the Global X MSCI China Consumer Discretionary ETF (CHIQ) which offers exposure to major e-commerce names and travel companies and the Global X MSCI China Communication Services ETF (CHIC) which includes large players in China's social media and mobile communications industries. The Global X MSCI China Healthcare ETF (CHIH) could also benefit from this theme as China's population ages and spends more on pharmaceuticals, medical devices, and health care services. Overall, we believe that China is still in the early phases of this transition to a consumer-led economy and its impact will be felt widely across more consumer-oriented sectors.

[1]China Statistical yearbook, 2018, China National Bureau of Statistics, 2018.

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