

 BROWN BROTHERS HARRIMAN

EXCHANGE THOUGHTS

The 6th Annual

2023 **GREATER CHINA** **ETF INVESTOR SURVEY**

Expanding product platform and investor use to drive growth

2023 Survey Introduction

BBH's 6th Annual Greater China ETF Investor Survey captures the opinions of more than 100 ETF-focused investors about their usage, selection, and demand for ETFs.

This year, BBH captured responses from institutional investors, financial advisors, and fund managers from Mainland, Hong Kong and Taiwan.

Our findings show investors are expanding their usage of ETFs and accessing new and diverse products. Despite challenging market conditions, broad usage of ETFs and overall consistent demand reflect their appreciation of the ETF wrapper regardless of volatility and cyclicalities.

Who We Surveyed:

103

**respondents in
Greater China**

representing Mainland,
Hong Kong and Taiwan

59%

manage **more than
\$1 billion** in assets

77%

have **more than
25% of their portfolio**
invested in ETFs

Some of the numbers in the survey are rounded off to the next percentage point.

Key Findings



ETF allocation keeps pace

With 75% of investors expecting their use of ETFs to grow, consistent demand signals the still nascent but expanding opportunity for ETFs in the region.



Mainland investor demand for Hong Kong ETFs increases

62% of these investors demand managed risk strategies, while 43% prefer ESG or thematic strategies via the cross-border access channels.



Investors play it safe while diversifying

Given market uncertainty, 85% of investors in the region prefer managed risk strategies. At the same time, they're showing greater appetite for diversification through defined outcome ETFs and dividend/income ETFs.



Thematic ETFs expand their reign

Interest in thematic ETFs continues with over 90% of investors planning to maintain or increase their exposures. Internet/Technology is the most preferred thematic strategy.



Investors lean toward fixed income

50% of investors in Greater China plan to increase their allocations to fixed income ETFs over the next 12 months. 50% of those investors expect to increase their exposure to short-term bond/money market ETFs.



Active ETFs are nascent but on the rise

88% of investors plan to increase or maintain their exposures as the region introduces new actively managed ETFs.



Rules-based investing approach grows

More capital is flowing into smart beta ETFs, with 77% of investors allocating from mutual funds into these funds.



Virtual trumps in-person as a preferred way to meet

A staggering 76% of investors in the region prefer digital meetings. 66% prefer receiving digital content and insights.

Big Changes

ETFs make up more of investors' portfolios

The number of investors with more than 25% of their portfolio invested in ETFs is up 11% from 2022.

Selection criteria is changing

Across Greater China, index methodology moved to being the most important criteria, up from 6th place last year. But there are more significant shifts locally. For instance, in Mainland, trading spreads ranked as the most important factor after being ranked last in 2022.

Thematic ETF demand not slowing down

82% of investors in Greater China plan to add these strategies, up 10% from 2022. In the next three years, 36% of investors foresee thematic ETFs making up 11-20% of their portfolio.

Investors more optimistic about ESG than their global peers

More investors in the region are planning to allocate than those in the U.S. and Europe (62% in Greater China vs 45% in the U.S. and 44% in Europe).

Market grows as investors evolve their usage and access new products

The ETF marketplace in Greater China is thriving, with assets growing from \$300 billion in 2021 to \$336 billion¹ at the end of 2022.

Asset levels are returning despite challenging market conditions as the region emerges from an elongated Covid period.

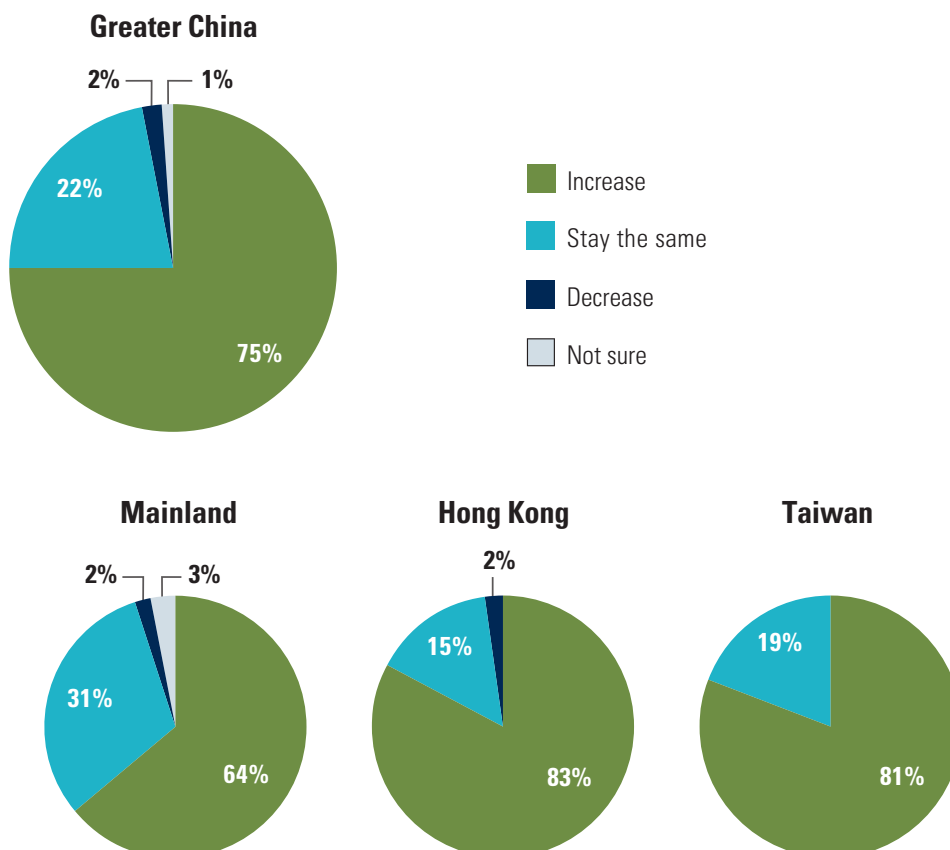
Even with the challenging equity markets of 2022, a majority (75%) of investors in Greater China expect their use of ETFs to increase (84% in 2022). 83% of Hong Kong investors expect to increase their allocations.

Greater diversification, new product launches and new issuers reflect this demand, and we expect further education and access initiatives to advance the ETF industry with lasting momentum.

While investors are signaling their demand through their increased allocations to ETFs, certain structural challenges remain present in the region which are hindering growth. We believe that addressing the following factors have been important to amplify the growth of ETFs in other markets and could have a material impact on regional ETF flows:

- Ban on trailer fees/retrocessions
- Increased trading liquidity
- Expansion of the product platform to include new strategies/exposures
- Lower costs
- More retail investor participation

Do you expect your use of ETFs to increase, decrease, or stay the same over the next 12 months?



1. ETFGI Dec 2022

ETF marketplace

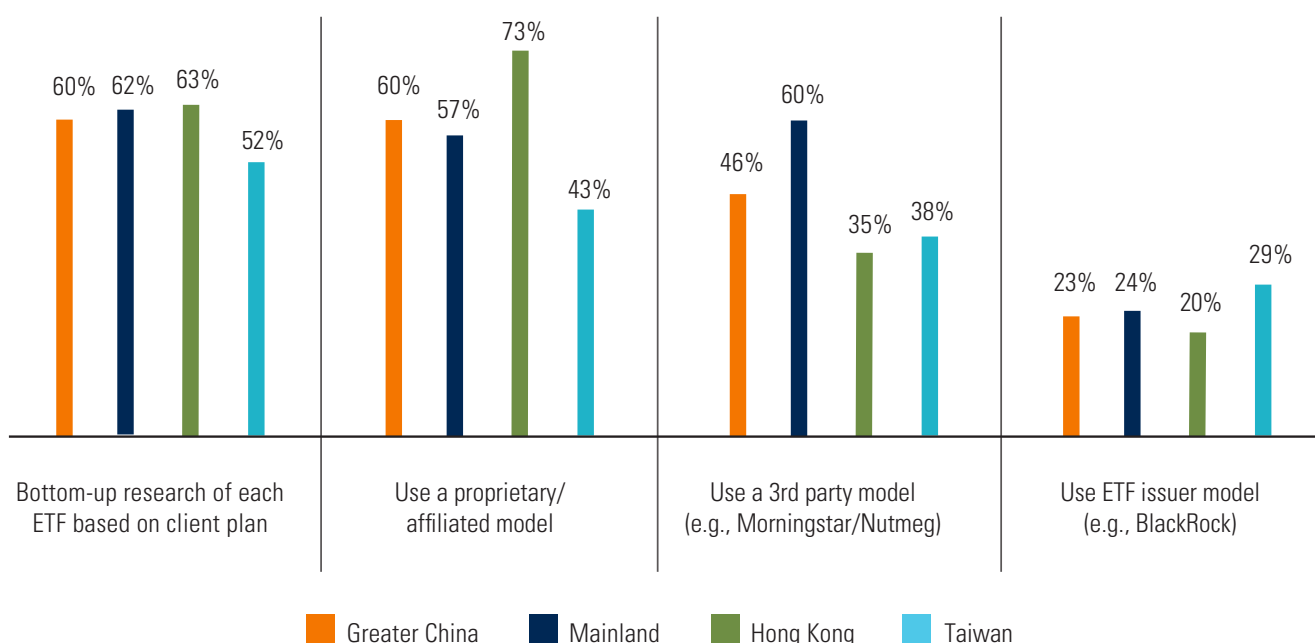
What is driving access?

As the regional ETF industry becomes more mature, 60% of Greater China investors are now leveraging proprietary models to build their portfolios. Usage differs greatly between 2022 and 2021, when only 16% of investors used their own models.

But robo-advisors remain a strong component for those wanting to access model portfolios, with 49% of investors leveraging this access channel.

Our survey findings support expectations that by 2027,² 21% of all fund flows in the region will go through robo-advisors. Mainland will account for 80% of those assets.

How do you build your ETF portfolio?*



What channel do you use to access ETF model portfolios?*

	Greater China	Mainland	Hong Kong	Taiwan
Robo-Advisor	49%	66%	47%	21%
ETF Strategists	64%	66%	68%	53%
Wealth Manager/Private Bank Advisor	53%	42%	55%	68%
Broker – Dealer	15%	24%	11%	5%
ETF Manager	25%	34%	16%	26%

* Respondents could choose multiple responses.

2. Broadridge Distribution Insight

Hong Kong listed ETFs in demand by Mainland investors

Reflecting on demand for Hong Kong ETFs, 52% of Mainland investors already invest or plan to invest in the future through the inclusion of ETFs in Stock Connect.

Managed risk strategies within Hong Kong ETFs were much more in demand by Mainland investors this year. Interest in ESG continues, with 43% of investors preferring this strategy.

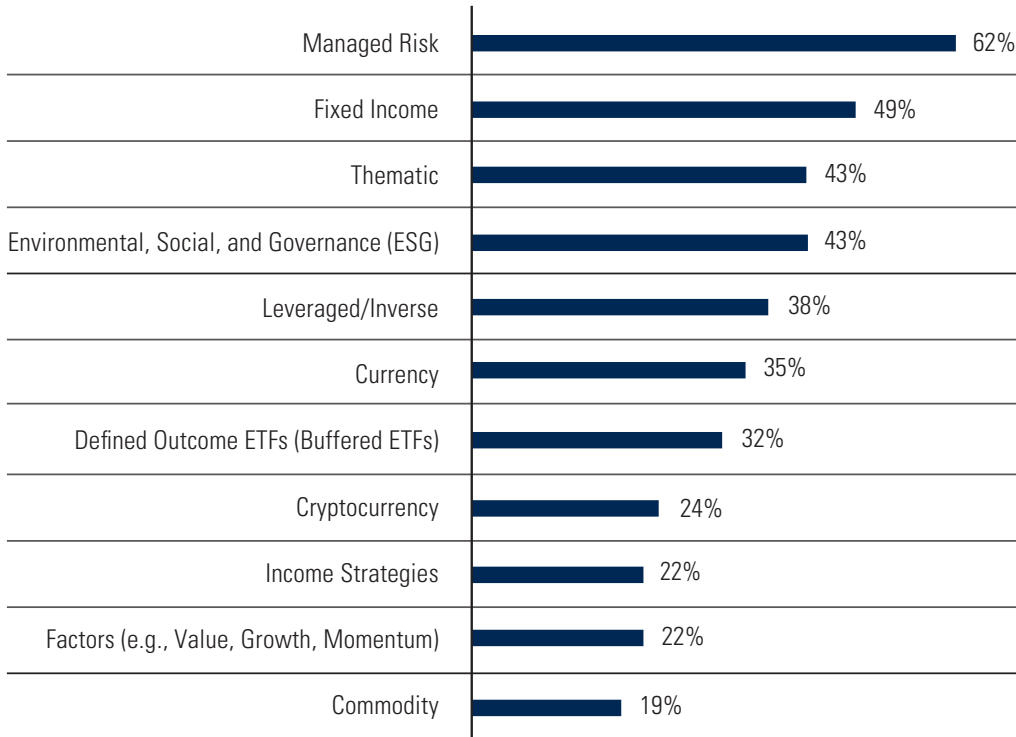
More than half (55%) of investors in Greater China say they would increase their use of local ETFs if new ones were listed with different strategies or exposures, while 56% would invest in locally listed structures if they cost less than those outside of their local exchange.

Do you invest cross border into Hong Kong listed ETFs today? (Mainland only)

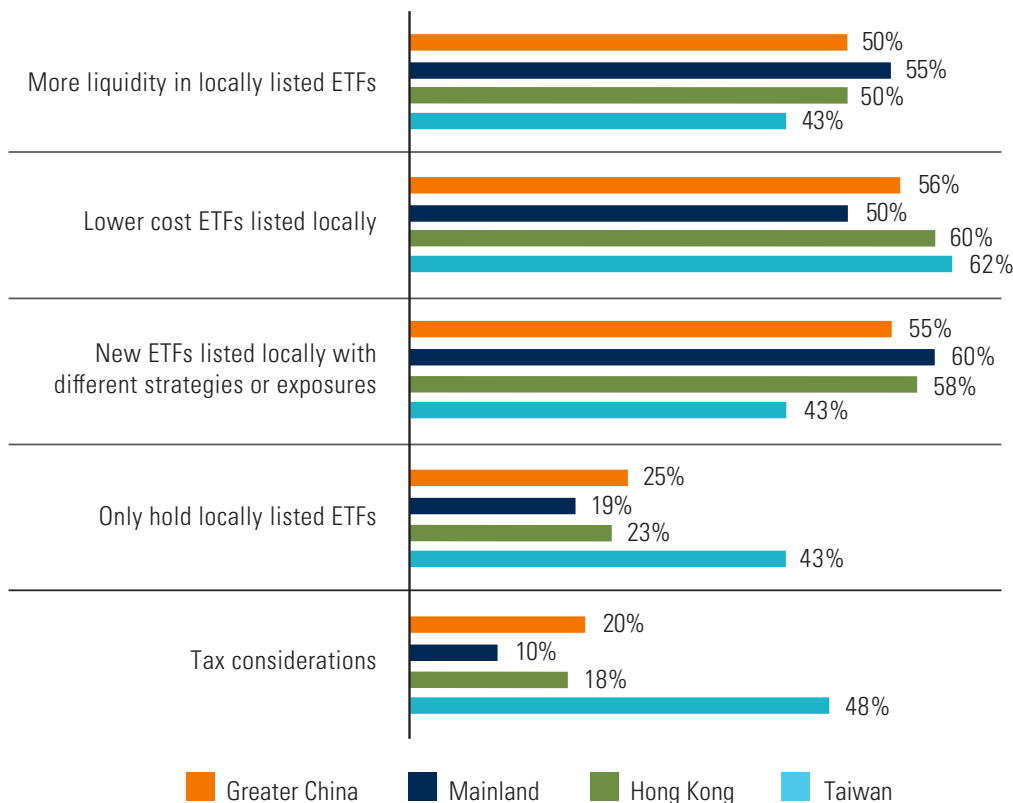
Yes (Net)	69%
Yes, purchase ETFs through the QDII (Qualified Domestic Institutional Investor) program	29%
Yes, purchase ETFs through the recent inclusion of ETFs in the Stock Connect program	40%
No (Net)	19%
No, but I plan to invest into Hong Kong listed ETFs this year through QDII	7%
No, but I plan to invest into Hong Kong listed ETFs this year through Stock Connect	12%
Do not have plans to invest cross border into Hong Kong listed ETFs this year	12%

Hong Kong listed ETFs

If allowed to invest cross border into Hong Kong listed ETFs, what type of ETF strategy could be in demand for your clients and your firm?* (Mainland only)



If you currently purchase ETFs listed outside of your local exchange, what would drive you to increase your use of locally listed ETFs?*

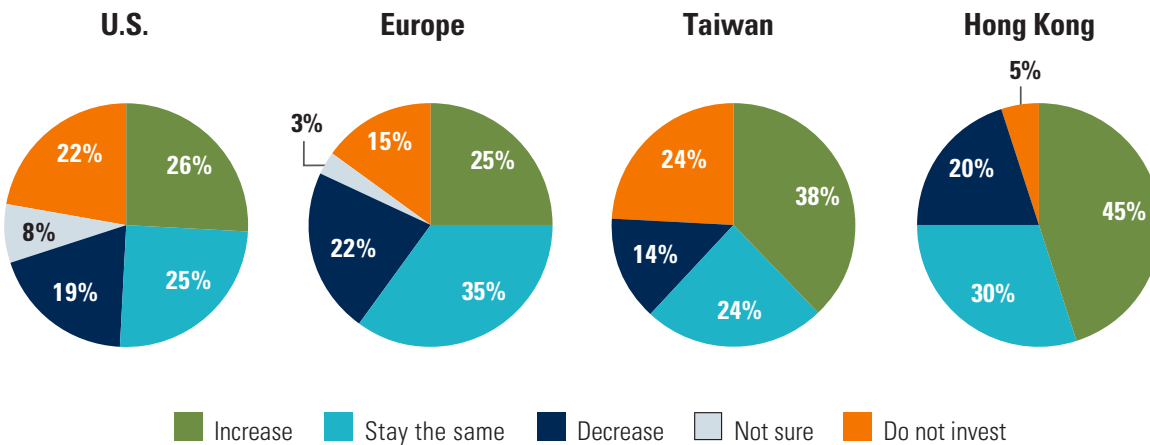


* Respondents could choose multiple responses.

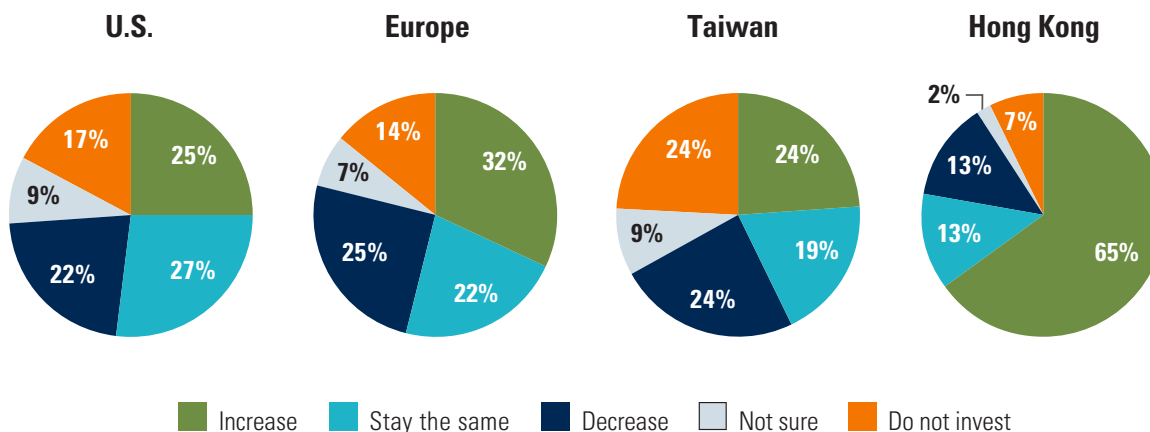
New access channels drive appetite for Mainland exposure

Through access channels such as Stock Connect, the Qualified Foreign Investor scheme and Bond Connect, 29% of global investors plan to increase their exposure to direct Chinese investments this year. 65% of Hong Kong investors plan to increase their allocation to ETFs with exposure to Chinese investments.

Do you expect your exposure to Chinese investments via inbound channels such as Stock Connect, the QFI scheme and Bond Connect to increase, decrease, or stay the same over the next 12 months?



Do you expect your exposure to ETFs investing in China to increase, decrease, or stay the same over the next 12 months?



Investors' selection criteria and engagement preferences shift

The way investors select ETFs has changed. Regionally, index methodology is the most important criteria this year (up from 6th place last year). But a closer look reveals even more significant shifts locally. For instance, in Mainland, trading spreads ranked as the most important factor after being ranked last in 2022.

Meanwhile in Hong Kong, issuer brand trades places with trading volumes this year.

In Taiwan, brand outweighs performance, which drops to fifth most important factor for investors.

In Western markets, investors have different concerns. U.S. investors ranked expense ratios as their top factor impacting their selection of ETFs followed by brand. In Europe, tax efficiency took the top place this year followed by trading spreads.

What is the most important factor when selecting an ETF?

Mainland		Hong Kong		Taiwan	
	2022 Rank		2022 Rank		2022 Rank
Trading Spreads	8	ETF Issuer	2	ETF Issuer	6
Index Methodology	5	Trading Volume	1	Trading Spreads	7
Tax Efficiency	2	Index Methodology	6	Tracking Error	8
Historical Performance	6	Tax Efficiency	5	Trading Volume	2
Expense Ratio	3	Expense Ratio	4	Historical Performance	1
Trading Volume	4	Trading Spreads	7	Index Methodology	3
Tracking Error	7	Historical Performance	3	Tax Efficiency	5
ETF Issuer	1	Tracking Error	8	Expense Ratio	4

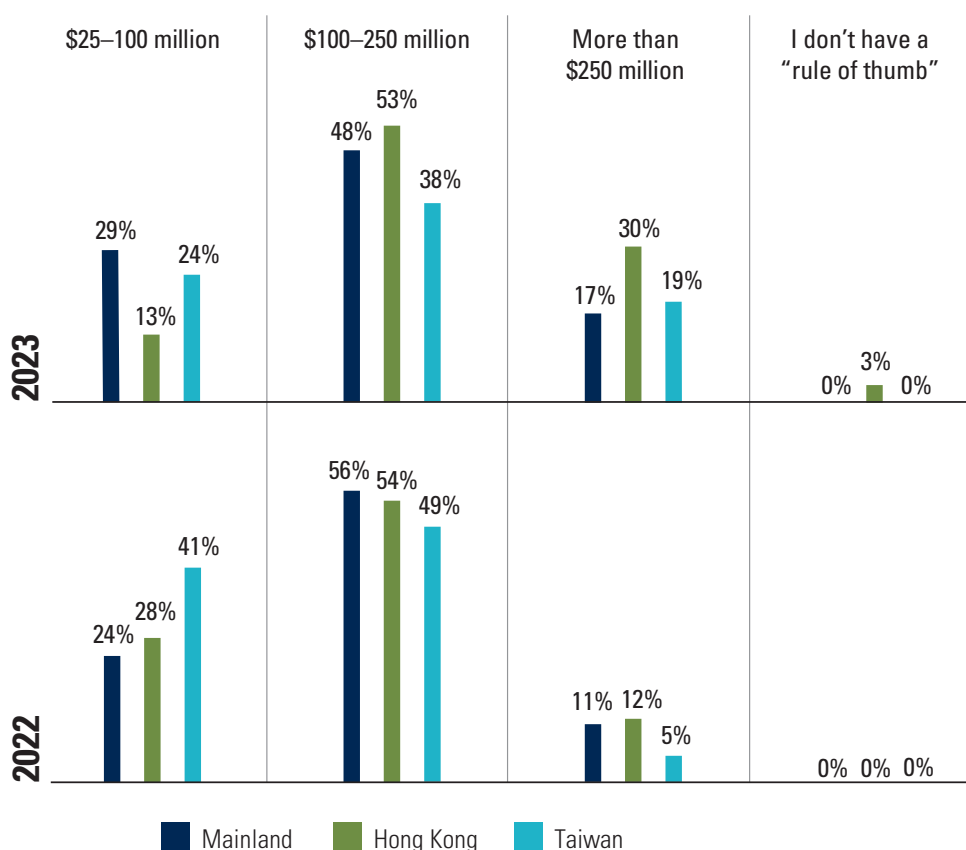
U.S.		Europe	
	2022 Rank		2022 Rank
Expense Ratio	2	Tax Efficiency	2
ETF Issuer	1	Trading Spreads	5
Tax Efficiency	4	Index Methodology	7

Investor selection criteria

ETF selection criteria

Some investors in the region are still waiting for products to reach \$100 million before they will invest, while around half of institutional investors (57%), fund managers (57%) and private banks (50%) wait for \$250 million.

What is your “rule of thumb” AUM for minimum AUM for a new ETF before you’ll invest?



Investors prefer virtual meetings

Digital communication formats have a notable impact on how investors are engaging with industry participants. 76% of investors in Greater China prefer digital interactions, while 66% prefer receiving digital content and insights. A good percentage of investors in Hong Kong prefer a combination of in-person and digital meetings (75% and 85% respectively).

In which of the following ways do you most prefer to engage with ETF sponsors?*

	Greater China	Mainland	Hong Kong	Taiwan
In person meetings with firm representatives	64%	60%	75%	52%
Digital meetings with firm representatives	76%	71%	85%	67%
Through digital content and insights that are pushed to me	66%	76%	58%	62%
Attend sponsored conferences and events	28%	29%	23%	38%

* Respondents could choose multiple responses.

Investors manage risk while diversifying their usage

Given market uncertainties, 85% of investors in the region say they are extremely/very interested in managed risk strategies while 50% of investors across the region expect their fixed income allocations to increase.

However, investors are showing their appetite for diversification through defined outcome ETFs and dividend/income ETFs. 39% plan to increase allocations to commodity ETFs and 39% plan to increase their allocations to buffer/market neutral funds.

Meanwhile, thematic ETFs expand their reign in Mainland. And despite a tumultuous year for crypto, cryptocurrency interest hasn't cooled entirely.

Demand for thematic products in Hong Kong also hasn't cooled with most year-to-date net new flows coming from a technology-focused ETF.³

Please rank the ETF strategies that you would like to see more of in the market

Greater China	Mainland	2022 Rank	Hong Kong	2022 Rank	Taiwan	2022 Rank
Managed Risk	Managed Risk	10	Thematic	1	Managed Risk	2
Thematic	Defined Outcome ETFs (Buffered ETFs)	1	Managed Risk	5	Dividend/Income*	–
Dividend Income	Actively Managed*	–	Dividend/Income*	–	Environmental, Social, and Governance (ESG)	5
Currency	Thematic	12	Currency	7	Factors (e.g. Value, Growth, Momentum)	10
Actively Managed	Fixed Income	8	Factors (e.g. Value, Growth, Momentum)	10	Fixed Income	1
Factors	Factors (e.g. Value, Growth, Momentum)	4	Actively Managed*	–	Currency	9
Fixed Income	Currency	3	Fixed Income	3	Defined Outcome ETFs (Buffered ETFs)	4
Defined Outcome ETFs	Environmental, Social, and Governance (ESG)	5	Environmental, Social, and Governance (ESG)	4	Actively Managed*	–
Commodity	Cryptocurrency	2	Cryptocurrency	12	Thematic	12
	Dividend/Income*	–	Commodity	6	Commodity	6
	Commodity	6	Leveraged/Inverse	11	Cryptocurrency	7
	Leveraged/Inverse	9	Defined Outcome ETFs (Buffered ETFs)	2	Leveraged/Inverse	8

* Actively Managed and Dividend/Income were new strategies added to this year's survey.

3. Source ETFGI, April 2023

Thematic ETFs expand their reign

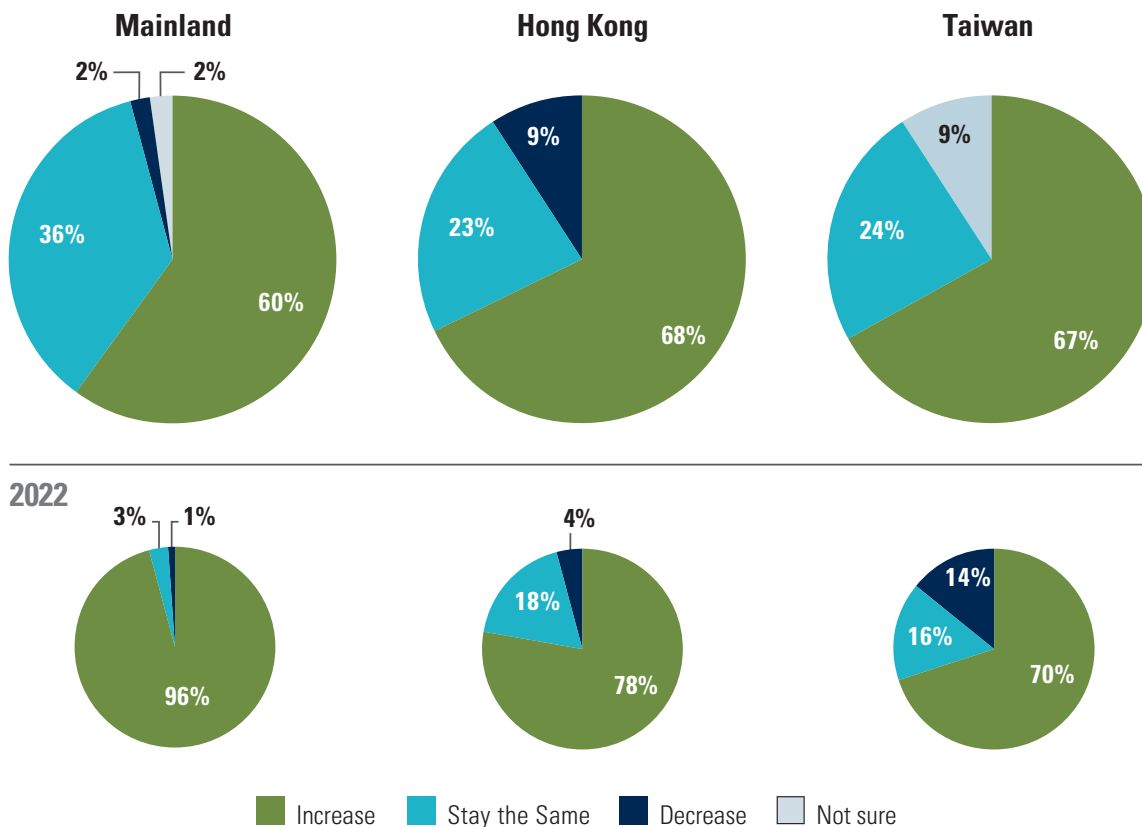
Interest in thematic ETFs continues with investors in Mainland (96%), Hong Kong (91%) and Taiwan (91%) planning to maintain or increase their exposures.

Technology-focused thematic ETFs still command the most interest from ETF investors as technology is intertwined with these long-term trends. In 2022, three out of the top five Hong Kong listed ETFs by net new flows were technology-focused products. Looking forward, 82% of investors in Greater China plan to add these strategies, up 10% from 2022.

Mainland investors' interest in thematic strategies remains robust with seven out of the top ten ETFs by net new flows this year are thematic or sector focused products.

Digital asset ETFs are an area of recent focus, with 59% of investors in Hong Kong planning to add these products to their portfolios. The Hong Kong Securities & Futures Commission's approval of the use of digital asset futures ETFs⁴ should lead to even more demand.

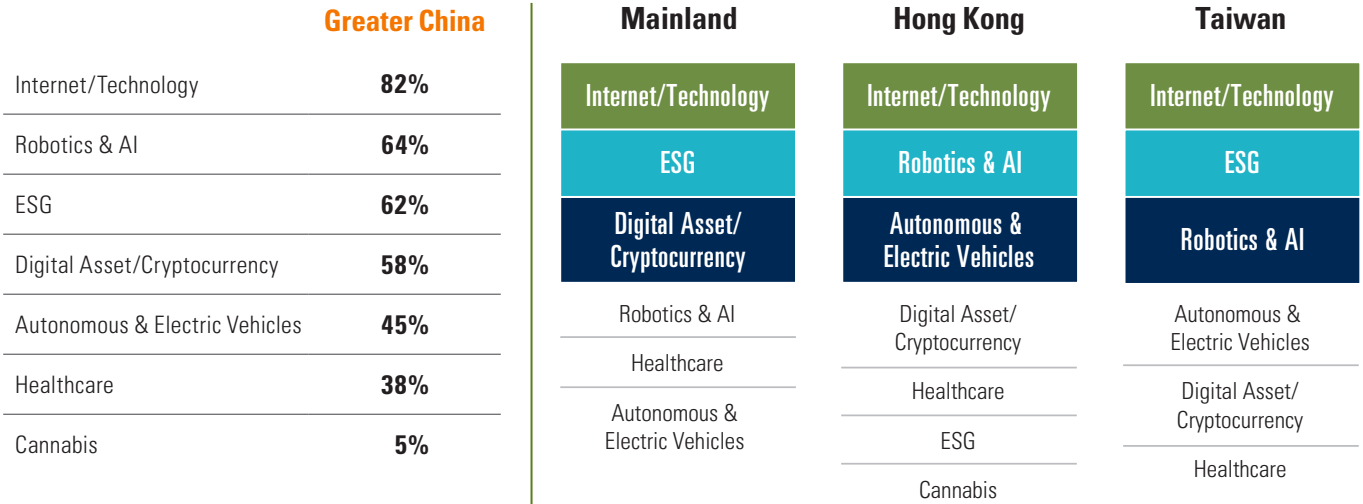
What are your plans regarding your exposure to thematic ETFs over the next 12 months?



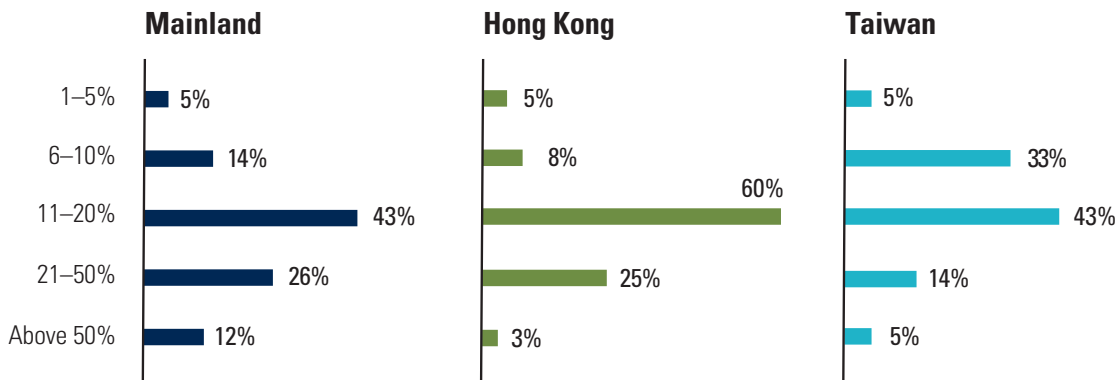
4. <https://www.asiaasset.com/post/26585-etf-1101>

Thematic ETFs

Which of the following thematic strategies do you plan to add?*



In the next 3 years, what percentage of your portfolio do you foresee will be in thematic ETFs?



* Respondents could choose multiple responses.

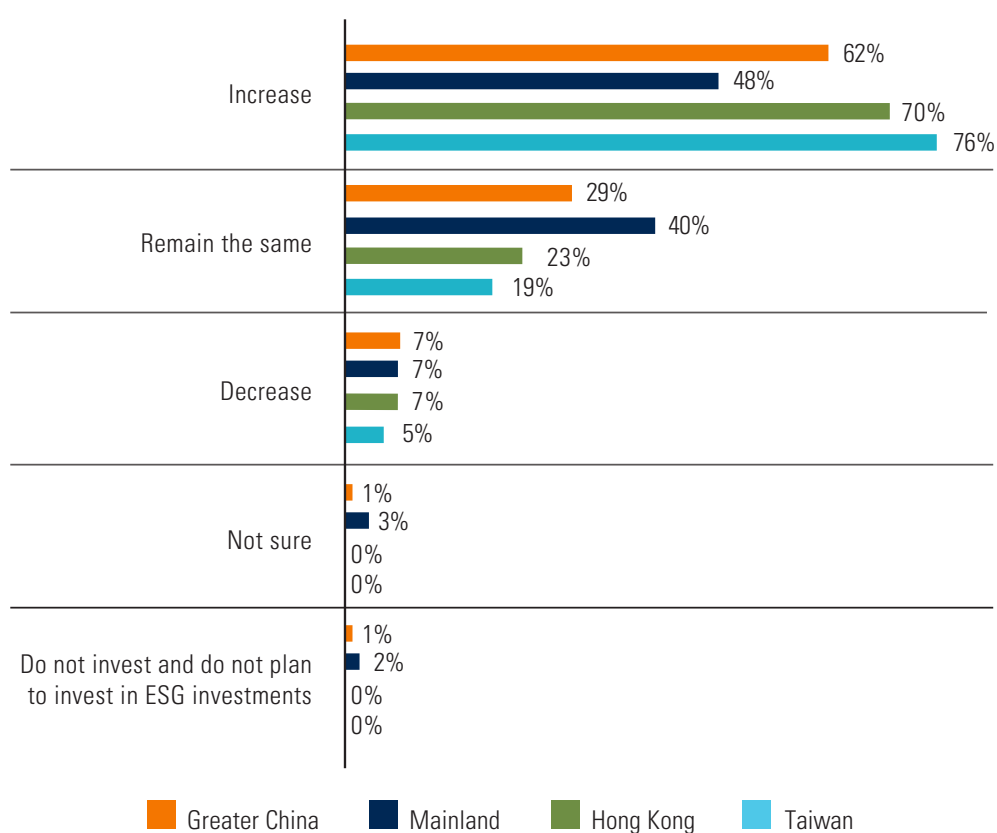
ESG data to drive allocations

62% of investors in Greater China plan to increase their allocation to ESG. Disclosure-based enhancements to existing regulations in the region will result in more data being available as this trend continues to grow.

In terms of locally listed products, there is increasing interest from issuers to bring ESG ETFs to the regional market and ETF issuers have recently focused on sustainability within their product development strategies.

Flows have started to come in as investors have begun to allocate capital to these products. For example, in Taiwan, the ETF with the highest net inflows this year is a sustainability focused high yield ETF.⁵ It is not surprising to see 76% of investors in Taiwan planning to increase their allocations.

What are your plans regarding your allocation to environmental, social, and corporate governance (ESG) investments (not limited to ESG ETFs) over the next 12 months?



ESG drives allocations

Evaluating ESG ETFs

As attention and capital allocated to ESG grows, investors in the region have evolved their means of analyzing ESG data using company statements/reports for underlying holdings.

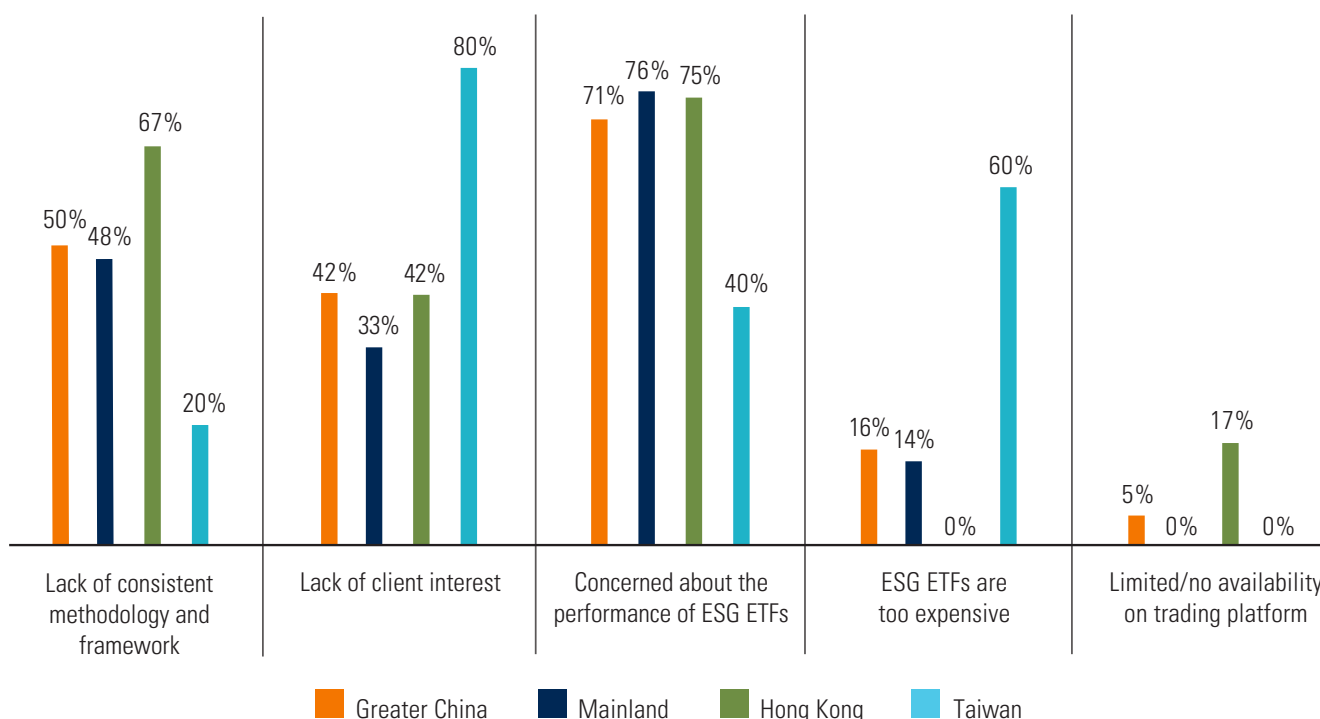
In which of the following ways do you evaluate ESG ETFs?*

	Mainland	Hong Kong	Taiwan
Third party ratings	40%	79%	43%
In-house/proprietary ESG ratings criteria	60%	71%	57%
Review company statements/reports for underlying holdings	84%	79%	71%
Brand recognition of ETF manager	56%	46%	43%
We don't have a process to evaluate ESG ETFs	–	–	7%

ESG headwinds

Despite growth, ESG continues to have its detractors. Interestingly, investors in Greater China differ significantly from their global peers in their reasoning for not adding ESG to their portfolios. 71% of those in Greater China report performance concern as their main factor in avoiding ESG, while only 46% in the U.S. and 33% in Europe do so.

If you have not added ESG to your portfolio, what is the main factor influencing your decision?*



* Respondents could choose multiple responses.

Investors lean toward fixed income

In Greater China, more institutional investors are turning to fixed income ETFs for different strategic or tactical use cases. 56% of investors in Greater China have allocated more than 30% of their portfolio to fixed income ETFs.

In Taiwan, for example, more than half (53%) of the ETF assets in the market are allocated to fixed income. This allocation is drastically different than the overall APAC ex Japan ETF market where fixed income ETFs only account for 16% of assets.⁶

50% of investors in Greater China also expect to increase their exposure to short-term bond/money market ETFs to manage financial markets uncertainty.

Do you expect your exposure to the following fixed income ETFs to increase over the next 12 months?*

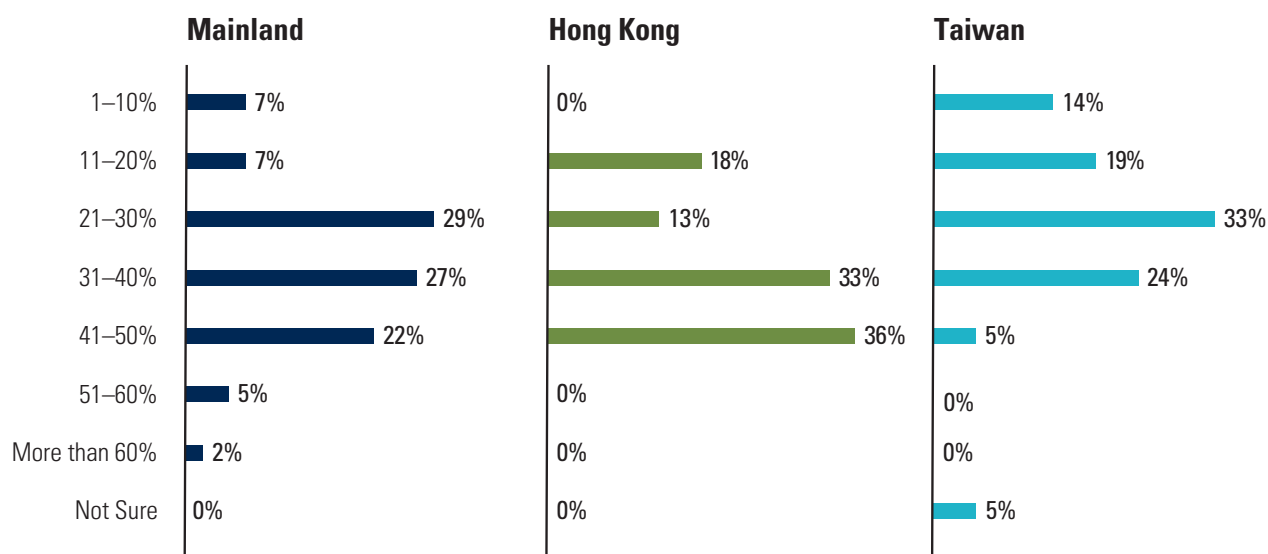
	Greater China	Mainland	Hong Kong	Taiwan
Short-duration bond ETF	50%	43%	65%	33%
Corporate Bond – "High Yield" ETF	45%	43%	55%	29%
Corporate Bond – Investment Grade ETF	38%	29%	43%	48%
Inflation-linked Securities ETF	38%	43%	40%	24%
Emerging Market Bond ETF	36%	33%	43%	29%
U.S. Treasury ETF	34%	14%	53%	38%
Municipal Bond ETF	34%	26%	50%	19%
China Treasury ETF	49%	62%	53%	14%
Sovereign Debt	37%	33%	40%	38%
Loans/CLOs	28%	33%	28%	19%
Mortgage-Backed or Asset Backed Securities (MBS/ABS) ETF	27%	29%	30%	19%

* Respondents could choose multiple responses.

6. ETFGI, December 2022

Fixed Income ETFs

What is your current portfolio weight to fixed income ETFs?



Fixed Income ETF investing concerns

Investors are still worried about expense ratios, with 77% of Greater China investors deeming expense ratio to be Extremely/Very Important (37%). All investors in Taiwan were concerned about trading volumes, while spreads are a top concern for Mainland investors.

How important is each of the following when investing in fixed income ETFs?*

	Greater China	Mainland	Hong Kong	Taiwan
Expense ratio	77%	76%	88%	63%
Trading volume	84%	76%	83%	100%
Trading spreads	77%	76%	79%	75%
Liquidity of underlying bonds	75%	72%	83%	69%
Index methodology	57%	69%	50%	44%
Tax efficiency	62%	69%	54%	63%
Historical performance	59%	69%	50%	56%
Tracking error	67%	72%	67%	56%

* Respondents could choose multiple responses.

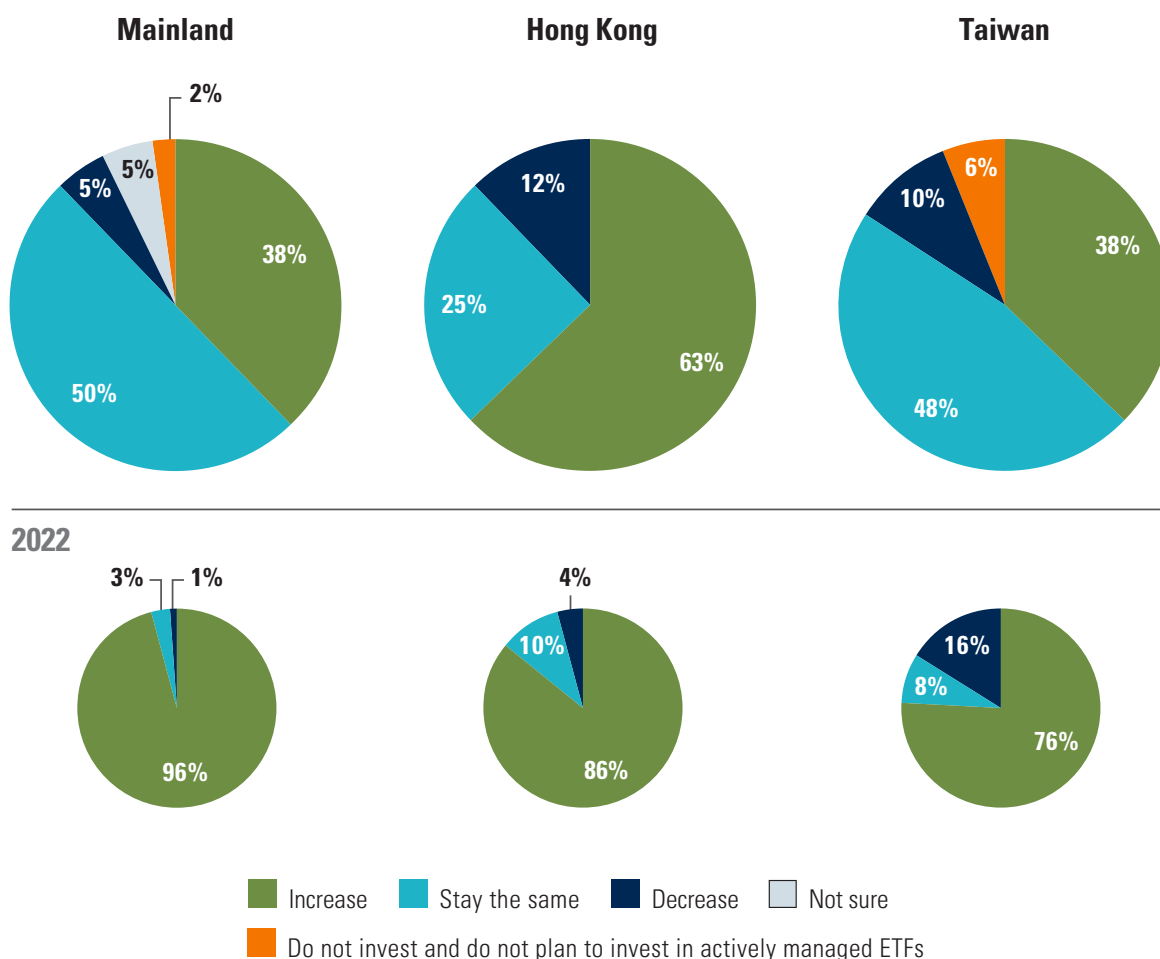
Active ETFs are a nascent but popular strategy

Actively managed ETFs are still a relatively new concept in Greater China, but new structures have been introduced by active managers to deliver their investment strategies.

Mainland investors are interested in actively managed ETFs with 88% of investors planning to increase or maintain their exposures.

Most of the capital that went into ETFs in 2022 was allocated from mutual funds. The ETF market saw positive net flows of \$856bn while mutual funds saw negative netflows of \$821bn. In Greater China half of respondents allocated from index mutual and active mutual funds. On the back of volatile markets, global investors poured money into ETFs, leaving mutual funds behind.

Do you expect your exposure to actively managed ETFs to increase, decrease, or stay the same over the next 12 months?



Active ETFs

If you purchased an actively managed ETF in the last 12 months, from where did you allocate the capital?*

	Mainland	Hong Kong	Taiwan
Cap weighted passive ETF	54%	45%	20%
Smart beta ETF	27%	48%	40%
Index mutual funds	59%	45%	40%
Active mutual fund	44%	65%	30%
Separately managed accounts	34%	28%	45%
Allocated new investment dollars	24%	20%	20%
I did not purchase active ETFs	2%	3%	10%

In which of the following asset classes would you most likely include in an actively managed ETF?*

	Mainland	Hong Kong	Taiwan
Fixed Income	55%	60%	52%
Domestic Equities	64%	43%	48%
U.S. Equities	29%	53%	67%
Global Equities	43%	48%	38%
European Equities	21%	18%	14%
Asia Pac Equities	31%	23%	29%
Japan Equities	14%	30%	19%
LATAM Equities	10%	23%	5%
Asset Allocation	50%	33%	29%
Commodities	40%	25%	19%
Alternatives	2%	18%	14%
Currency	31%	18%	24%
Buffered ETFs (e.g. Defined Outcome ETFs)	12%	15%	14%
None of the above	–	3%	–

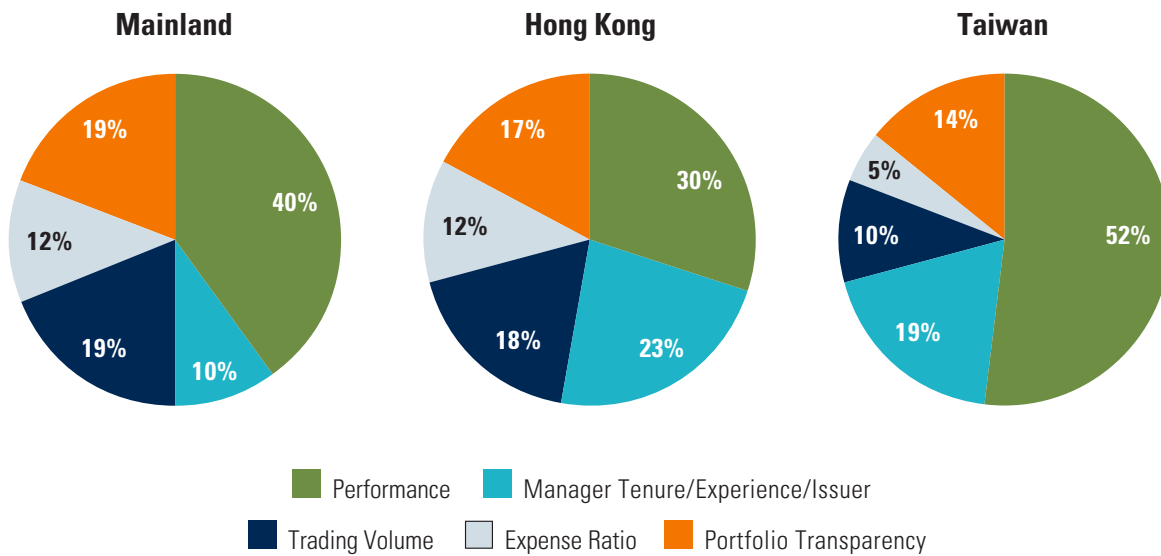
* Respondents could choose multiple responses.

Active ETFs

Active ETF investing concerns

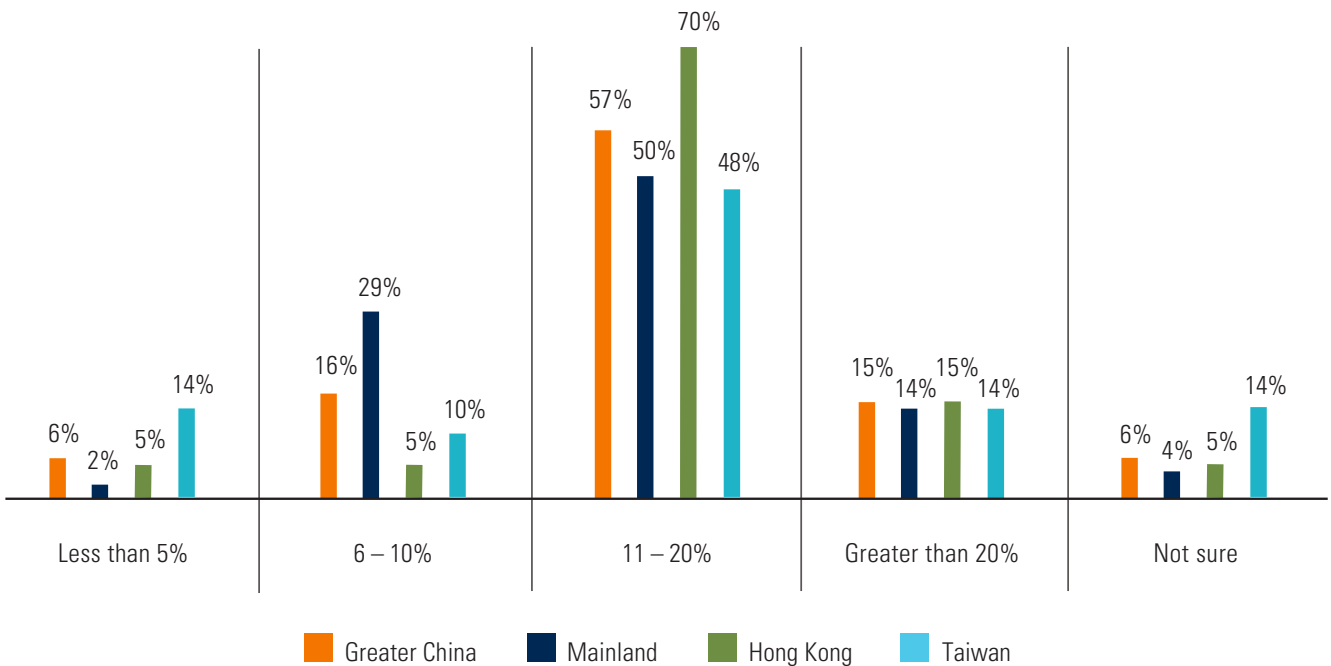
Performance is the key consideration for investors who are assessing active ETFs.

What concerns you most when investing in active ETFs?



15% of investors in the region have more than 20% of factor-based ETFs in their portfolio.

What share of factor-based products currently make up your AUM?



Rules-based investing approach grows (Smart Beta ETFs)

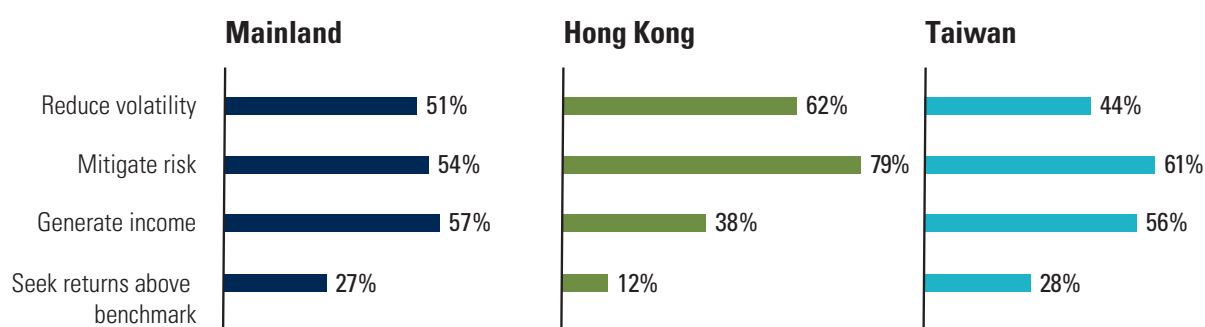
Our survey shows more capital flowing from mutual funds into smart beta ETFs. This trend was particularly notable among investors in Greater China where, on average, 77% of investors allocated from mutual funds.

If you purchased a smart beta ETF in the last 12 months, from where did you allocate the capital?*

	Mainland	Hong Kong	Taiwan
Core index exposure	40%	35%	33%
Mutual Funds (Net)	81%	78%	67%
An actively managed mutual fund	45%	58%	52%
Index mutual funds	60%	45%	29%
Separately managed accounts	33%	33%	57%
Allocated new investment dollars	38%	40%	5%
I did not purchase smart beta	10%	13%	10%
Not sure what a smart beta ETF is	2%	3%	5%

Smart beta was used mostly to mitigate risk by 65% of investors in Greater China. Even though the Taiwan ETF market is dominated by fixed income strategies, dividend ETFs have been attracting capital as investors look for other opportunities to generate income. At the end of March 2023, the second largest ETF (by AUM) in the Taiwan market by assets is a dividend product.

What is the top reason why you are using/considering using smart beta?*



* Respondents could choose multiple responses.

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Data as of January 2023

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