

# Creating Differentiated Investment Research Capabilities in Chinese Equities

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According to the IMF, China's nominal GDP was more than USD10trillion in 2014 (second-highest in the world) and its GDP-PPP surpassed that of the US. The phenomenal growth in the country's economy over the past couple of decades, however, was out of bounds for many global investors, who were not allowed to invest directly in the companies listed in Mainland China without a special license.

All this, however, changed in November 2014 when Shanghai-Hong Kong Stock Connect (Stock Connect) was launched. **Stock Connect allows global investors access to equities listed in Mainland China, while allowing eligible investors in Mainland China access to stocks listed on the HKSE.**

There is a lot of enthusiasm about Stock Connect among global investors, who can now invest in 568 stocks listed in Mainland China (including all constituent stocks of the SSE 180 index and SSE 380 index) and in equities in a wide variety of niche sectors previously unavailable through Hong Kong-listed shares.

This substantial addition to the potential investible universe in China allows global investors more efficient gearing to China's GDP growth. Going forward, the list of eligible stocks is likely to expand further presenting greater opportunities for global investors to participate in opportunities in Chinese equities.

Chinese equities, too, stand to gain a lot from this platform. Thanks to Stock Connect, the combined market cap of the HKSE and the Shanghai Stock Exchange is the second-largest globally. Further, such liberalisation of the Chinese markets could result in higher weightage for Chinese equities on global benchmarks, which, in turn, could draw more global flows to the Chinese economy. However, there are certain challenges that investment teams are likely to continue to face in China.

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**Lack of on-the-ground presence:** Many global investors lack on-the-ground presence in Mainland China, which will be critical to benefitting from the potential opportunities in the region. Investment talent is scarce and increasingly expensive.

**Lack of internal bandwidth to ramp up coverage:** Asset managers' investment teams may lack internal bandwidth to move quickly to identify investment opportunities in this market. This, coupled with disclosure issues (quality of disclosures and Mandarin language challenges), significantly inhibits the investment teams' ability to cover this region from distant global financial centres.

**Limited sell-side research coverage:** Mainland China shares have limited coverage from global sell-side firms. While there is some local sell-side research coverage available, especially for the largest market cap companies, the quality of research is patchy at best.

To effectively cover this market, [asset managers](#) will need to create large in-house research teams, proficient in Mandarin. This is where companies like [Acuity Knowledge Partners](#) can help global investors keen on investing in Chinese equities. The firm already has a presence in China and is helping asset managers internalise a substantial part of their research in the country through its team of around 100 analysts (MBAs, CFAs and accountants) proficient in Mandarin. Our research support is enabling these investors to scale up their research coverage in this market, while reducing overall costs and time to market.

**We set up dedicated teams of analysts to service each client at its Beijing delivery centre.** Our analysts work on various types of client-specified research assignments, including [financial modelling](#) and valuation, conducting background research (on companies/sectors/investment ideas, market sizing, etc.), gathering primary and secondary data, preparing for company visits, and providing earnings season support and a whole host of value-added research (accounting diagnostics, [ESG research](#), etc.). **Unlike brokerage research, our analysts work on custom research projects for each client and each research output reflects the corresponding client's proprietary and differentiated research process.** This exclusivity provides our clients with a unique edge that is sustainable too.

#### About Acuity Knowledge Partners

*Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 650+ financial institutions and consulting companies through a team of over 6,000+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.*

*We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.*

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