Rebalancing update 15 May 2015

VONCERT on the «Vontobel China Policy Performance-Index»

The Vontobel China Policy Performance Index was rebalanced as part of the semi-annual adjustment process. For this rebalancing, our China policy research specialist NSBO selected the sectors "Brokers", "Banks", "Property", "Insurance" and "Urbanization", these being likely to profit most from the comprehensive structural programme.

Brokers
This sector has never before featured on the recommendation list for the index. However, according to NSBO it provides strong support for developing the capital markets. With the aim of delivering the most transparent funding channels for the economy in China, the reforms are endeavouring to ensure that the equity market continues to function well. NSBO believes the Chinese government is still glad to see a booming stock market. In addition to the improved profitability of the brokers themselves, the government's supporting measures are benefiting this sector.

Banks
Maintaining stable economic growth and keeping employment levels as high as possible rank among the Chinese government's top priorities. For the economy to be supplied with sufficient liquidity (e.g. credit), the system needs healthy and functioning banks. According to NSBO, shadow banking in China is to be tightened yet further, placing keener focus than ever on the banking sector. To achieve this, the specialists at NSBO expect new favourable policies to be released for the banking sector. The sector is set to undergo various reforms in the second half of the year, with the SOE (state-owned enterprises) reform playing a pivotal role.

Property
According to NSBO, property is currently the most controversial sector on the recommendation list, with debates over the extent to which the recent downward drag of market forces will be offset by the government's supportive policies. In March, the Chinese government launched a fourth round of support measures for the property sector. These demand-support measures go further than previous policies, and the experts at NSBO therefore believe the current measures will reinforce the trend of rising transactions in the 30 largest cities. This sector will thus be able to continue to profit from the structural adjustments.

Insurance
The development of the insurance sector is a long-term goal as part of China's comprehensive programme of structural adjustment. In light of the demographic trend, the focus is on healthcare and pension provision in particular. The sector is also a beneficiary of the afore-mentioned capital market reforms on the bond and equity markets. The new tax breaks should only further accelerate this growth, especially in the case of health insurance.

Urbanization
Urbanization comprises the sectors Telco Equipment, Water and Gas, which were part of the 'mini stimulus' in Q2 2014. The effect of additional fiscal and SOE spending should continue to unfold this year, thus driving growth in the Chinese economy. NSBO believes these sectors will benefit most from these measures.

- **Telco Equipment:** With the release of increased capex figures by the Ministry of Industry and Information Technology (MIIT), the expansion and development of telecommunications could even exceed the government's ambitious targets.
- **Water:** According to NSBO, the water sector will continue to benefit from two major government policy drives: urbanization and clean energy. On the one hand, investment in environmental protection has already exceeded the official targets for 2011-2015. Meanwhile, China plans to continue to improve water quality through to 2020. For example, by 2017 all companies in certain regions of the country are to invest in waste water treatment facilities.
- **Gas Distribution:** Gas and nuclear are the two clean energies that are seeing the greatest level of promotion. Owing to the less onerous safety concerns, gas distribution is afforded greater potential, underscored by pricing reform and the opening up of the sector to private enterprises.

Source: NSBO Beijing – China Policy Research, 07 May 2015