

## Emerging ETF Markets and Chinese Local Bond ETFs

BNY Mellon ETF Symposium, Bloomberg Advantage Interview

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**Kathleen Hayes:** A new product that you want to talk about and I want to hear about: Chinese Local Bond ETFs. What kind of benchmark would I be up against then? What should I know about those? What are these, and why do you think they're so important to the industry?

**Steve Cook:** So, last year brought about the exposure of China A-Shares equities to investors. A bunch of new funds came out and allowed investors to get exposure to that market. This year, we haven't seen them really in the market yet. One is out, but it's not really actually buying the underlying bonds yet. But that's something that's coming in the next three to four weeks that you'll see. Three or four products that give investors exposure there. Again, it's just another way to play the broader theme of growth in China. Again, there, markets continue to try and to expand. They've taken a bit more aggressive monetary policy in China as well. And their bond market now again is starting to open up to investors. So, I think this is going to be the first push to allow investors to gain access to that bond market and the growth.

**Kathleen:** Seems like it's part of the theme, too, of capital market liberalization in China.

**Steve:** A number of countries have utilized, interestingly enough, the ETF as a way to start liberalizing their capital markets. China did that with ETFs last year, then they obviously opened it up through Hong Kong, as well. But the first step was really the ETF.

We're starting to see that in some of the GCC countries, as well now. Saudi Arabia it looks like, is starting to potentially open it up, and utilize ETFs, or looking to utilize ETFs as a way to do that. Vietnam just launched the first ETF in their market. So, countries that are trying to liberalize their capital markets, interestingly enough, have utilized ETFs as a first step in route to do that.

**Kathleen:** It's interesting, isn't it though, if you think about it, an ETF allows an investor to express a theme with their investments. I believe that China is going to do X or Vietnam is going to do Z or Middle East, with an ETF... This is not an advertisement, but you realize, this is another way to express your investment theme. And, again, you can do it at a level you could do as an institution, but as an individual, you have access to the same thing.

**Steve:** They really have become access tools, right? Five years ago, eight years ago, it was hard to access gold. It was hard to access commodities. It was hard to access frontier markets. It was hard to access certain derivative-based strategies, covered-call strategies, things like that. And yes, for the first time, individual investors, through the ETF structure, are allowed to access certain products and get traditional, professional, institutional-level asset management with small access fees.

**Kathleen:** And another thing is, we've talked to a lot of RIAs on this show and it seems this is an entrepreneurial business. There's a lot of small shops. And the same thing for the person who isn't retail, but the person who is the industry-type advisor, again, who can set up their own business and ETFs allow them to service their customers better.

**Steve:** They do. They really do. It allows them to put together an institutional-level portfolio through access tools across the board. Again, the number of products that are out there provide a really good diversification.

**Kathleen:** What kind of growth have you seen in the way ETFs are used by the professionals, but at that level, the wealth advisor, the investment advisor?

**Steve:** It's been astronomical. One of the larger themes over the last couple of years has been the model portfolio providers, or assemblers, as some folks call them where RIAs can look at pre-made models by these professional investment houses and then pick and choose the risk tolerance that their investor likes to see, there might be 15 or 20 models across the board that folks can pick and choose from. And, again, it offers them professional-level investment management.

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