

China Onshore Bonds

China's bond market is the third largest in the world after the U.S. and Japan. There have been positive recent developments to open up the onshore Chinese bond market – The IMF approved the Renminbi (RMB) as global reserve currency in November 2015 alongside the EUR, USD, JPY, and GBP. A few months later the RMB bond market was opened to foreign investors (February 2016).¹

This allows investors to penetrate a new market with particular traits – In many cases, higher relative yield and lower duration than domestic markets providing a portfolio diversifier and yields in a yield starved environment, especially in continental Europe. It also allows Chinese local issuers to tap international bond investors.

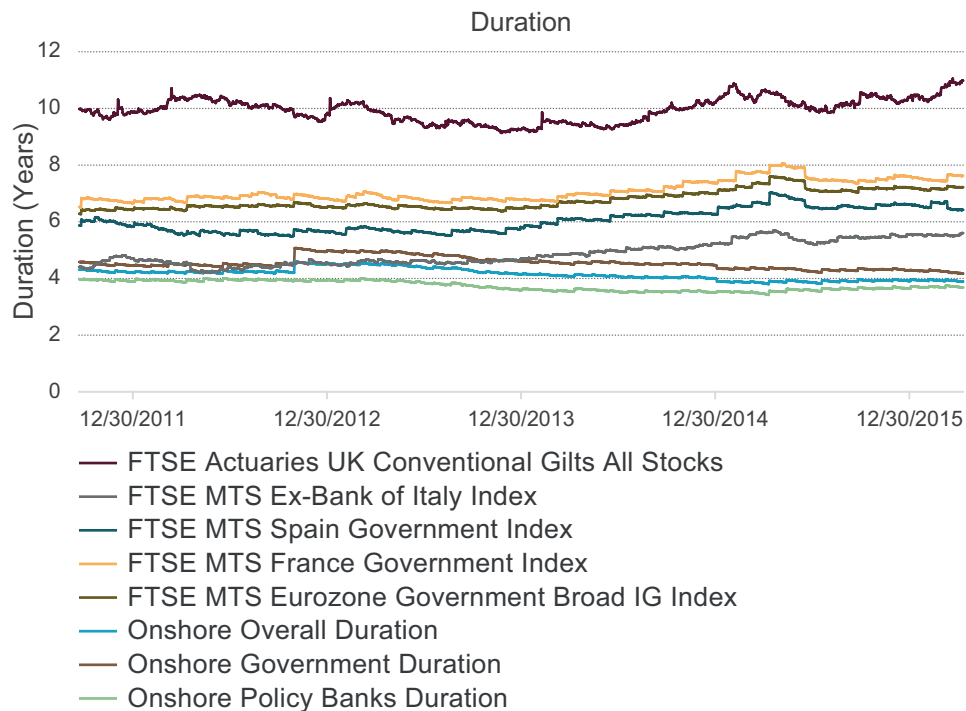
The market, being relatively new to most international investors, requires tools for research, and benchmarking. FTSE Russell launched the FTSE China Onshore Bond Index Series in March 2015 with history back to 30 December 2011 to provide an independent benchmark on the Chinese onshore RMB bond markets. The index series offers data on both the sovereign bond market representing a market value of 5.3 trillion RMB (approximately \$820 billion) as of February 29 2016, as well as the Policy Bank bond market representing a market value of 7.5 trillion RMB (approximately \$1.1 trillion).

The following document intends to highlight and compare characteristics of the onshore China bond market by comparing characteristics of the FTSE Onshore China Bond Index Series and European government bond markets represented by the FTSE Actuaries UK Conventional Gilts, FTSE MTS Eurozone Government Bond IG Index, FTSE MTS France, FTSE MTS Spain, and FTSE MTS Italy indexes.

¹ <http://www.kwm.com/en/knowledge/insights/the-pboc-has-further-opened-up-chinas-inter-bank-bond-market-20160225>

Yield and duration

Average duration in the China onshore bond market has remained stable at around the last four years (see the graph below), while the UK and continental government bond markets duration has increased over the period from December 30, 2011 to today.



Source: FTSE Russell. Data as of December 30, 2015.

This should make China onshore bonds an instrument to consider for investors with a lower duration exposure and a complement to a European portfolio.

Furthermore, data reveals that the yield on the onshore China bond market, at 2.92% (Feb 29, 2016) is higher than 1.55% for Spain, 1.43% for Italy and the higher rated countries of France with 0.67% and the UK with 1.84%.

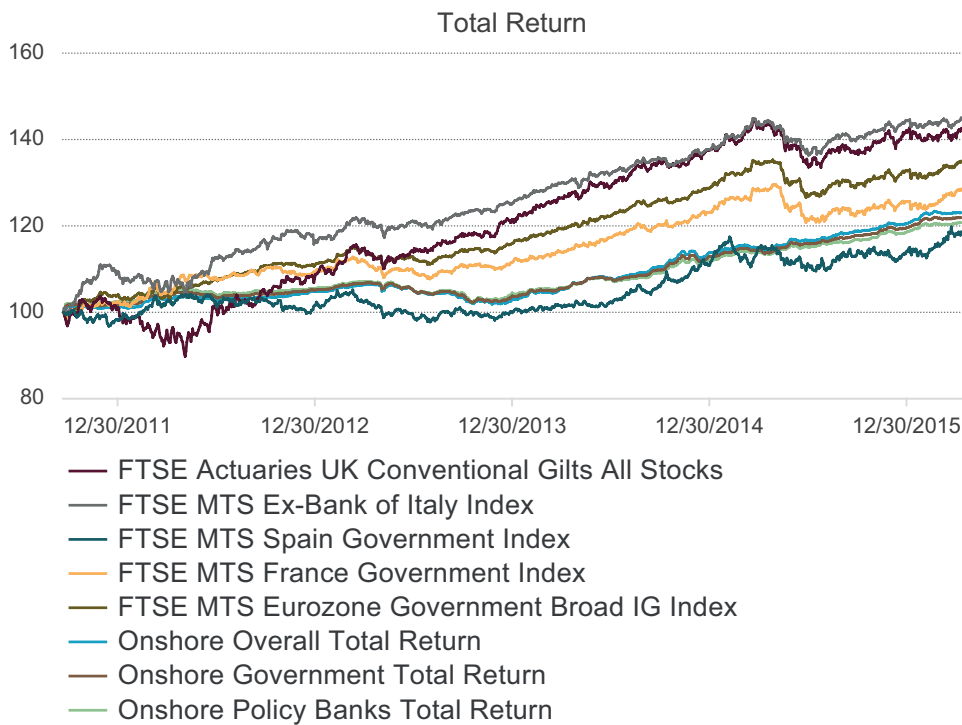
Another trend has been the consistent and significant decrease of yields in the UK and the Eurozone countries over the last 4 years, whilst the yield of the onshore China bond market is marginally lower than at the end of 2011.

It is to be noted that the spread in the yield between Policy Banks and Sovereign bonds in China has also shrunk from 0.6% to 0.4% between December 2011 and February 2015 indicating that Policy Banks are backed by the central government and the perceived difference between them and Sovereign bonds has diminished.

Performance and FX Rates

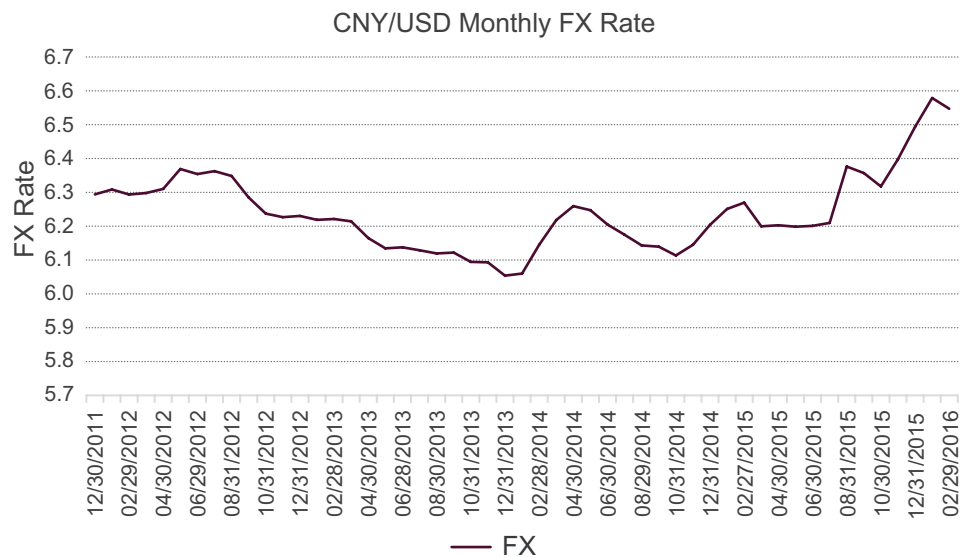
The data demonstrates that total return from the onshore China bond market has been higher over the relevant period compared to France and the UK. Compared to Italy and Spain, total returns for the onshore China bond market have been lower, although the prices of the Spanish and Italian government bonds were depressed at the beginning of the period measured as a result of the government bond crisis in those countries. From 2013 onwards, the performance of these

markets improved after the respective governments stabilized their policies and economies.



Source: FTSE Russell. Data as of December 30, 2015. Total return is in local currency. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Currency exposure is a key component of risk/return and although not significantly different from the beginning of the period there has been recently more uncertainty as to the direction of the CNY/USD rate, especially with the devaluation of 1.9% on August 11, 2015, and 0.51% on Jan 7, 2016.²

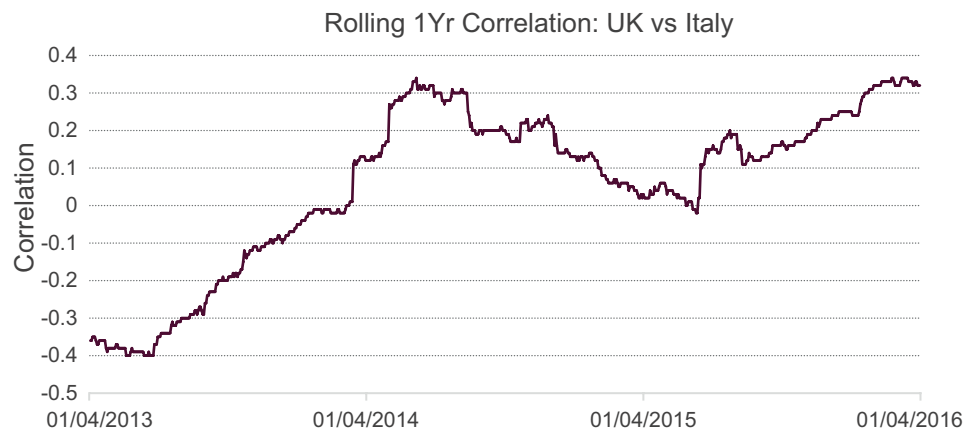
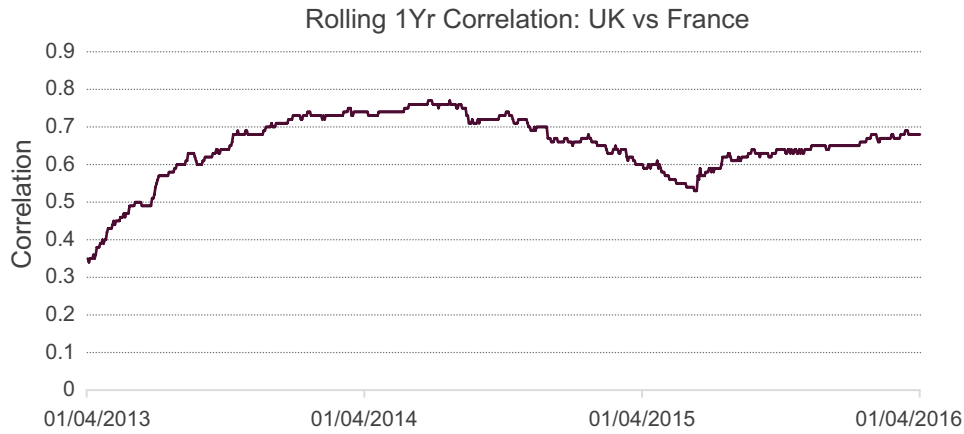


Source: FTSE Russell. Data as of February 29, 2016.

² <http://www.ftse.com/Analytics/FactSheets/Home/DownloadSingleIssue?issueName=BOCHKQR&IsManual=True>

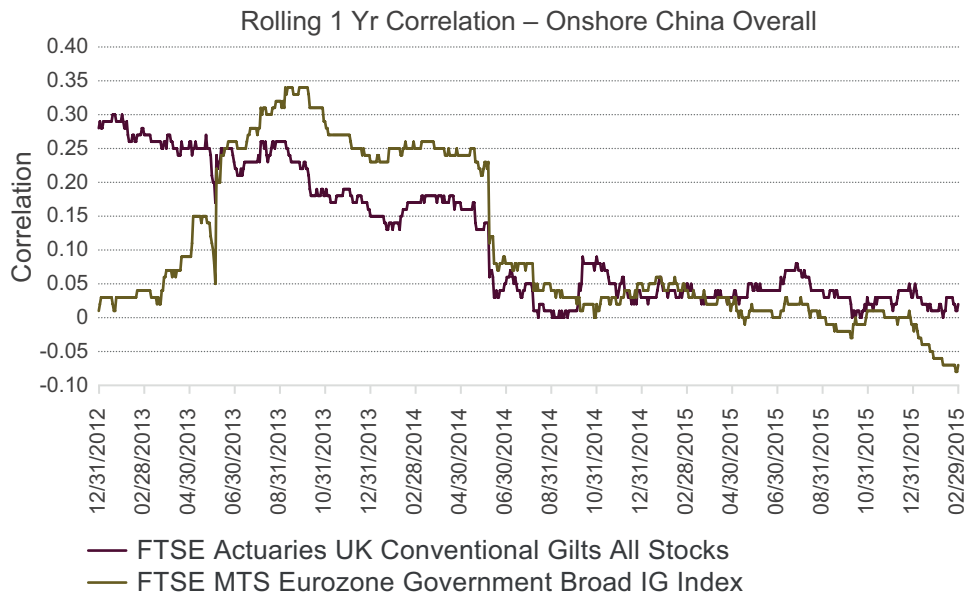
Correlation

Correlations within European markets is relatively high and has increased over the last three years.



Source: FTSE Russell. Data as of January 4, 2016. Past performance is no guarantee of future results. Returns shown may reflect hypothetical historical performance. Please see the end for important legal disclosures.

However the correlation of the FTSE Onshore China bond index series to the Gilts market and Eurozone indexes has decreased and is hovering around zero.



Source: FTSE Russell. Data as at February 29, 2016. Past performance is no guarantee of future results. Returns shown may reflect hypothetical historical performance. Please see the end for important legal disclosures.

Conclusion

The Chinese onshore bond market is still new to many investors and carries FX exposure, but the low correlation to European markets, shorter duration and higher yield as highlighted may interest certain market participants.

For more information about our indexes, please visit ftserussell.com.

© 2016 London Stock Exchange Group plc and its applicable group undertakings (the “LSE Group”). The LSE Group includes (1) FTSE International Limited (“FTSE”), (2) Frank Russell Company (“Russell”), (3) FTSE TMX Global Debt Capital Markets Inc. and FTSE TMX Global Debt Capital Markets Limited (together, “FTSE TMX”) and (4) MTSNext Limited (“MTSNext”). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE TMX and MTS Next Limited. “FTSE®”, “Russell®”, “FTSE Russell®”, “MTS®”, “FTSE TMX®”, “FTSE4Good®” and “ICB®” and all other trademarks and service marks used herein (whether registered or unregistered) are trade marks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, MTSNext, or FTSE TMX.

All information is provided for information purposes only. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for any errors or for any loss from use of this publication or any of the information or data contained herein.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE Russell indexes or the fitness or suitability of the indexes for any particular purpose to which they might be put.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this communication should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group index data and the use of their data to create financial products require a license from FTSE, Russell, FTSE TMX, MTSNext and/or their respective licensors.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index inception date is back-tested performance. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

About FTSE Russell

FTSE Russell is a leading global provider of benchmarking, analytics and data solutions for investors, giving them a precise view of the market relevant to their investment process. A comprehensive range of reliable and accurate indexes provides investors worldwide with the tools they require to measure and benchmark markets across asset classes, styles or strategies.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

FTSE Russell is wholly owned by London Stock Exchange Group.

For more information, visit ftserussell.com.

To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office:

EMEA

+44 (0) 20 7866 1810

North America

+1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 3581 2764

Sydney +61 (0) 2 8823 3521