



恒生投資  
HANG SENG INVESTMENT

30<sup>YEARS</sup>

# Understanding Hong Kong's ETF Market Landscape



Chapter 1  
A Comparative Analysis of Asia Pacific Markets

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# 1 Executive Summary

This executive summary provides an overview of the comparative analysis of the evolution of the ETFs market in the Asia Pacific region's seven leading markets: Australia, Hong Kong, India, Japan, mainland China, South Korea (“Korea”), and Taiwan. The analysis explores the market share, concentration, trading behaviour, and growth trends of these markets over the past 16 years, from 2008 to 2023.

The study reveals that despite their significant presence in the ETFs market, these seven markets only accounted for a small percentage of their overall equity market capitalisation, indicating room for further expansion. Japan emerged as the first market to introduce ETFs back in 1995, followed by Hong Kong, Australia, India, Korea, Taiwan, and mainland China. The largest ETFs in Hong Kong and India exhibited higher concentration among investors compared to other markets.

The analysis of trading volume relative to ETF AUM shows variations in investor participation and trading behaviour across different markets. Mainland China, Hong Kong, and Korea exhibited relatively higher trading activities. Over the past 16 years, these seven markets collectively experienced consistent growth in AUM and the number of issued ETFs, with mainland China leading in both categories.

The research highlights the importance of understanding the factors contributing to the success of these markets. Hong Kong's ETF market has remained resilient despite an equity market downturn, offset by continuous southbound fund inflows. Mainland China's late entry into the market did not hinder its ascent to market leadership in terms of AUM, ranking second behind Japan. Other markets such as Korea, Taiwan, Australia, and India have also shown significant growth.

Overall, the analysis showcases the substantial growth and potential of the Asia Pacific ETFs market. The findings provide valuable insights for investors, policymakers, and market participants interested in understanding and capitalising on the opportunities in this rapidly evolving market.

The next chapter of the research will focus on understanding the market dynamics of 7 individual Asia-Pacific's ETF market, which covers Hong Kong, Australia, Taiwan, Korea, mainland China, Japan, and India. Subsequently, an examination of market liquidity, ownership distribution, policy supports and product innovations for each individual market will be conducted. This study aims to draw insights from each individual ETF market and propose strategies and solutions to enhance Hong Kong's ETF market going forward.

## **2 Overview of the Asia Pacific Exchange-Traded Funds Market Landscape**

### **2.1 Introduction**

Over the past decade, passive investments, with a specific focus on Exchange-Traded Funds (ETFs), have witnessed a remarkable surge in popularity. ETFs have emerged as a vehicle offering exposure to diversified asset classes and investment strategies. Globally, the growth in Assets Under Management (AUM) for ETFs has been nothing short of exponential. By August 2023, the total count of ETF listings worldwide had reached 9,904, tripling the number of global ETF listings present in 2012 (ETFGI LLP, August 2023). Concurrently, the global ETF AUM has soared from approximately US\$1.95 trillion in 2012 to US\$10.7 trillion as of August 2023, marking an impressive growth of over five-fold (ETFGI LLP, August 2023).

Globally, ETF AUM has exhibited a compound annual growth rate (CAGR) of 16.9% over the past decade (ETFGI LLP, 2023). Within the Asia Pacific (APAC) region, the total count of ETF listings in APAC have reached 2,433, accounting for nearly 26% of the global ETF issuance, with AUM reaching US\$703 billion by August 2023, which represents 7% of AUM in the global arena. This achievement reflects a 10-year CAGR of 20.5% (ETFGI LLP, August 2023). Remarkably, the growth of ETFs in the Asia Pacific region has outpaced the global market growth rate, underscoring its potential for further expansion as financial markets continue to mature.

Hong Kong has indeed carved a niche for itself as one of the prominent ETFs markets in the Asia Pacific region. It boasts a diverse array of ETF products, underpinned by deep liquidity, and has successfully attracted internationally renowned issuers, market makers, and investors. Serving as a vital gateway to mainland China and positioned as a "super-connector" linking it to the global financial landscape, Hong Kong has leveraged its favourable tax, legal, and regulatory framework to its advantage. In the past six years, the Asia Pacific ETFs market has witnessed substantial growth, particularly in mainland China, Australia, Korea, Taiwan, and India. These markets have experienced robust expansion and have emerged as key players in the region's ETFs industry.

The inaugural chapter of this research paper offers a broad glimpse into the Asia Pacific ETFs market, serving as a foundational backdrop for our investigation. Subsequent chapters will embark on a more granular exploration, focusing on an in-depth analysis of each individual Asian Pacific ETFs market, drawing successful narratives from other prominent Asia Pacific ETFs markets, and

culminating in a forward-looking examination of the prospects and potential trajectories for the Hong Kong ETFs market.

## 2.2 What are Exchange-Traded Funds?

Before delving into the analysis of the Asia Pacific ETFs market, it is imperative to provide an introduction to ETFs. ETFs are financial instruments that are publicly traded on stock exchanges, allowing investors to buy and sell them at market prices during trading hours. The majority of these funds are designed to track the performance of specific financial indices, such as the Hang Seng Index or the S&P 500 Index, by investing in a basket of securities. Owing to their unique attributes and advantages, ETFs have evolved into indispensable investment tools for a wide spectrum of stakeholders, including institutional investors, pension funds, professional investors, and individual investors.

It is noteworthy that ETFs offer a multitude of advantages to investors. These include diversification of portfolio risk, cost-effectiveness in terms of investment expenses, a high level of transparency, and flexibility when compared to traditional actively managed funds and individual stocks. Detailed information on these benefits is available in Table 1.

**Table 1: ETFs' benefits comparison**

|  | ETFs*                             | Actively managed funds                                   | Stocks                            |
|--|-----------------------------------|--|-----------------------------------|
| Diversification                        | ✓                                 | ✓  | ✗                                 |
| Exchange-traded                        | ✓                                 | ✗  | ✓                                 |
| Real-time pricing during trading hours | ✓                                 | ✗  | ✓                                 |
| Trade anytime during trading hours     | ✓                                 | ✗  | ✓                                 |
| Management fees                        | ↓ (Relatively low)                | ↑ (Relatively high)                                      | N/A                               |
| Trading fees                           | Brokerage fees,<br>Bid-ask spread | Subscription fees,<br>Switching fees,<br>Redemption fees | Brokerage fees,<br>Bid-ask spread |

\*Passively managed ETFs

## 2.3 Overview of Asia Pacific Exchange-Traded Funds Market

This section is dedicated to a comparative analysis of the ETFs market in the Asia Pacific region's seven leading markets: Australia, Hong Kong, India, Japan, mainland China, Korea, and Taiwan. As of August 2023, these seven markets collectively represented over 98% of the AUM in the broader Asia Pacific market. However, despite their significant presence in the ETFs market, these seven ETFs markets only accounted for a mere 4% of the combined market capitalisation of their markets. When compared to the United States, the ETF AUM in these seven markets represented approximately 10% of the total ETF AUM in the US, whereas the US ETF AUM accounted for 16% of its overall market capitalisation (ETFGI LLP, World Federation of Exchanges, August 2023). The fact that the ETF's share as a percentage of market capitalisation in the seven Asia Pacific markets is relatively low suggests that there is still ample room for further expansion. It also highlights the significant growth potential of the region as index investing continues to mature.

**Table 2: ETF AUM and market cap of the seven leading Asia Pacific markets**

| Market                      | ETF AUM (US\$ Mn) | As % of Asia Pacific AUM | Market Capitalisation (US\$ Mn) | AUM as % of Market Capitalisation |
|-----------------------------|-------------------|--------------------------|---------------------------------|-----------------------------------|
| Hong Kong                   | 46,654            | 3.8%                     | 4,225,476                       | 1%                                |
| Australia                   | 115,082           | 9.4%                     | 1,650,088                       | 7%                                |
| India                       | 69,114            | 5.7%                     | 3,450,348                       | 2%                                |
| Mainland China              | 278,982           | 22.8%                    | 11,141,702                      | 3%                                |
| Korea                       | 89,935            | 7.4%                     | 1,859,587                       | 5%                                |
| Taiwan                      | 102,851           | 8.4%                     | 1,809,131                       | 6%                                |
| Asia Pacific ex-Japan Total | 717,281           | 58.7%                    | 26,307,159                      | 3%                                |
| Japan                       | 503,933           | 41.3%                    | 5,474,985                       | 9%                                |
| Asia Pacific Total          | 1,221,214         | 100%                     | 31,184,187                      | 4%                                |
| US                          | 7,447,533         |                          | 46,794,358                      | 16%                               |
| Global                      | 10,989,820        |                          | 110,165,105                     | 10%                               |

Note: Global data includes APAC, Americas, and EMEA.

In anticipation of delving deeper into the statistical analysis of the ETFs market's development across the seven markets, an informative table enumerating the inaugural domestic ETFs introduced in each respective market is presented below in Table 2. This table serves as a reference point, illuminating the inception of each market and enabling a more comprehensive assessment of their subsequent growth trajectories. In brief, Japan emerged as the pioneer in introducing ETF products to its local market, followed sequentially by Hong Kong, Australia, India, Korea, Taiwan, and, finally, mainland China. Examining other markets, it is important to note that the world's first ETF was issued in Canada in 1990. The first domestic ETF in the US was issued in 1993, which was six years earlier than the first ETF issuance in Hong Kong.

**Table 2: First domestic ETF in seven leading markets in the Asia Pacific region**

| <b>Listing Year of the ETF</b> | <b>Market</b>  | <b>Name of the First Domestic ETF</b>                                | <b>Issuer / Fund Manager</b>   |
|--------------------------------|----------------|--|--|
| <b>Asia Pacific Markets</b>    |                |  |  |
| 1995                           | Japan          | Nomura Nikkei 300 ETF  | Nomura Asset Management  |
| 1999                           | Hong Kong      | The Tracker Fund of Hong Kong  | Hang Seng Investment Management Limited (Former: State Street Global Advisors) |
| 2001                           | Australia      | SPDR S&P/ASX 200 Fund  | State Street Global Advisors   |
| 2002                           | Korea          | Samsung KODEX 200 ETF  | Samsung Asset Management   |
| 2002                           | India          | Nippon India ETF Nifty 50 Bees                                       | Nippon India Mutual Fund   |
| 2003                           | Taiwan         | Yuanta/P-shares Taiwan Top 50 ETF                                    | Yuanta Securities Investment Trust Co., Ltd.                                   |
| 2005                           | Mainland China | ChinaAMC SSE 50 ETF  | China Asset Management Co., Ltd.   |
| <b>Other Markets</b>           |                |  |  |
| 1990                           | Canada         | Toronto 35 Index Participation Fund                                  | Vanguard Investment Management   |
| 1993                           | United States  | SPDR S&P 500 ETF (SPY)   | State Street Global Advisors   |
| 2000                           | Europe & UK    | iShares Stoxx Europe 50 UCITs ETF<br>iShares Euro Stoxx 50 UCITs ETF | Blackrock Inc.   |



In order to gain a deeper understanding of investor preferences and ETF landscape of various markets, it is essential to analyse the market share of the largest ETFs in the seven leading markets. Table 3 presented the findings, indicating that ETF investors in Hong Kong and India exhibited a higher concentration towards the largest ETF in their respective markets, with market shares of 35% and 28% respectively based on AUM. In addition, Table 4 provided additional insights into the concentration of ETF investors in Hong Kong and India. The top 20 ETFs, based on AUM and average daily trading volume, accounted for a significant portion of the market, ranging from 85% to 99% (ETFGI LLP, Aug 2023).

In contrast, investors in other markets demonstrated a more diversified investing pattern, with only single-digit market shares for their largest ETFs observed in Table 3. Notably, the Korean market exhibited an interesting pattern, with its top 20 ETFs by AUM demonstrating a significant level of diversification, accounting for 44% of the market. However, in terms of average daily trading turnover, the market appeared to be more concentrated, as the top 20 ETFs accounted for 86% (ETFGI LLP, Aug 2023).

A notable common characteristic observed across Asia Pacific markets was that both the initial domestic ETF and the largest ETF's market share tracked a broad-based index that was relevant to its respective local stock market.

**Table 3: Market share of the largest ETF in the seven leading markets by AUM**

| Market                      | Largest ETF                              | AUM<br>(US\$ Mn) | ETF Market<br>AUM<br>(US\$ Mn) | % of<br>Respective<br>Market |
|-----------------------------|--|------------------|--------------------------------|------------------------------|
| <b>Asia Pacific Markets</b> |  |                  |                                |                              |
| Hong Kong                   | Tracker Fund of Hong Kong                | 16,284           | 46,654                         | 35%                          |
| India                       | SBI-ETF Nifty 50 - Acc                   | 19,230           | 69,114                         | 28%                          |
| Taiwan                      | Yuanta/P-shares Taiwan Top 50<br>ETF     | 9,643            | 102,851                        | 9%                           |
| Australia                   | Vanguard Australian Shares Index<br>ETF  | 9,548            | 115,082                        | 8%                           |
| Mainland<br>China           | Huatai-Pinebridge CSI 300 ETF            | 16,579           | 278,982                        | 6%                           |
| Korea                       | Samsung KODEX 200 ETF                    | 4,445            | 89,935                         | 5%                           |
| Japan                       | NEXT FUNDS TOPIX Exchange<br>Traded Fund | 133,561          | 503,933                        | 27%                          |

**Table 3: Market share of the largest ETF in the seven leading markets by AUM**

| Other Markets   |                                      |         |           |    |
|-----------------|--------------------------------------|---------|-----------|----|
| US              | SPDR S&P 500 ETF Trust               | 415,664 | 7,447,533 | 6% |
| Europe & the UK | iShares Core S&P 500 UCITS ETF - Acc | 64,125  | 1,658,337 | 4% |

**Table 4: Top 20 ETFs in the seven leading markets in terms of AUM and average daily trading volume (ADV)**

| Markets        | AUM           |             | ADV           |             |
|----------------|---------------|-------------|---------------|-------------|
|                | AUM (US\$ Mn) | % of market | ADV (US\$ Mn) | % of market |
| Hong Kong      | 40,913        | 88.1%       | 1,955.5       | 99.3%       |
| India          | 59,119        | 85.5%       | 68.7          | 87.4%       |
| Taiwan         | 61,567        | 60.7%       | 476.9         | 66.4%       |
| Australia      | 60,796        | 54.2%       | 176.2         | 52.3%       |
| Mainland China | 133,447       | 47.8%       | 11,265.7      | 57.0%       |
| Korea          | 35,717        | 44.4%       | 3,269.5       | 86.3%       |
| Japan          | 155,347       | 30.8%       | 2586.2        | 63.5%       |

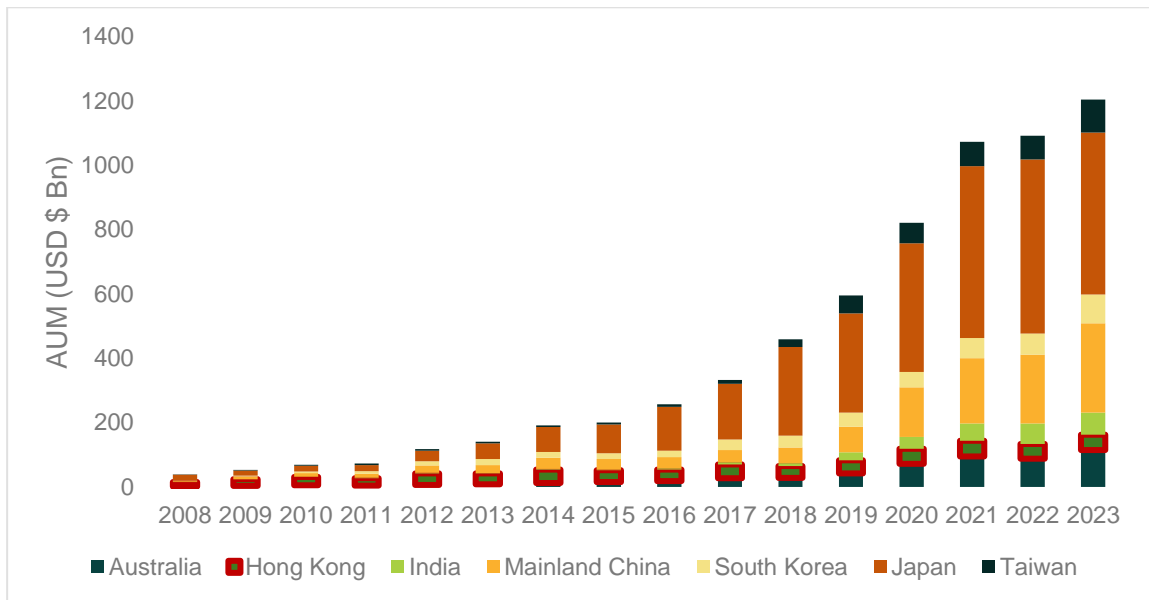
To gauge the trading behaviour of ETF investors in Asia Pacific, an analysis was conducted on the proportion of trading volume relative to ETF AUM. This measure provided insights into the level of active trading in terms of monetary value within the ETF market. Historical data revealed a range in the proportion of daily trading volume to ETF AUM, spanning from 0.11% to 7.09%, with relatively higher trading activities observed in mainland China, Hong Kong, and Korea. In contrast, the developed markets, such as the United States, did not exhibit proportionately higher trading volumes, due to their larger AUM base. These findings indicated notable variations in investor participation and trading behaviour across different markets in the region.

**Table 5: Total AUM and ADV for the overall ETF market of the seven leading markets**

| <b>Markets</b>             | <b>ADV (US\$ Mn)</b> | <b>AUM (US\$ Mn)</b> | <b>ADV as a % of AUM</b> |
|----------------------------|----------------------|----------------------|--------------------------|
| <b>Asia Pacific Market</b> |                      |                      |                          |
| Hong Kong                  | 1,970                | 46,654               | 4.22%                    |
| Mainland China             | 19,779               | 278,982              | 7.09%                    |
| Korea                      | 3,922                | 89,935               | 4.36%                    |
| Taiwan                     | 719                  | 102,851              | 0.70%                    |
| Australia                  | 345                  | 115,082              | 0.30%                    |
| India                      | 79                   | 69,114               | 0.11%                    |
| Japan                      | 1,443                | 503,933              | 0.29%                    |
| <b>Asia Pacific</b>        | <b>26,828</b>        | 1,221,214            | <b>2.20%</b>             |
| <b>Other Markets</b>       |                      |                      |                          |
| US                         | 155,443              | 7,447,533            | 2.09%                    |
| Europe and the UK          | 2,379                | 1,658,337            | 0.14%                    |
| Global                     | 188,665              | 10,696,717           | 1.76%                    |

Over the past 16 years, the seven leading markets in Asia Pacific have collectively experienced a consistent upward trajectory in both AUM and the number of issued ETFs, thereby illustrating the accelerated growth witnessed within the region. This underscores the substantial contribution made by these markets to the rapid evolution of the Asia Pacific ETFs market over the years.

**Figure 1: AUM of seven leading Asia Pacific ETFs markets (2008-2023)**

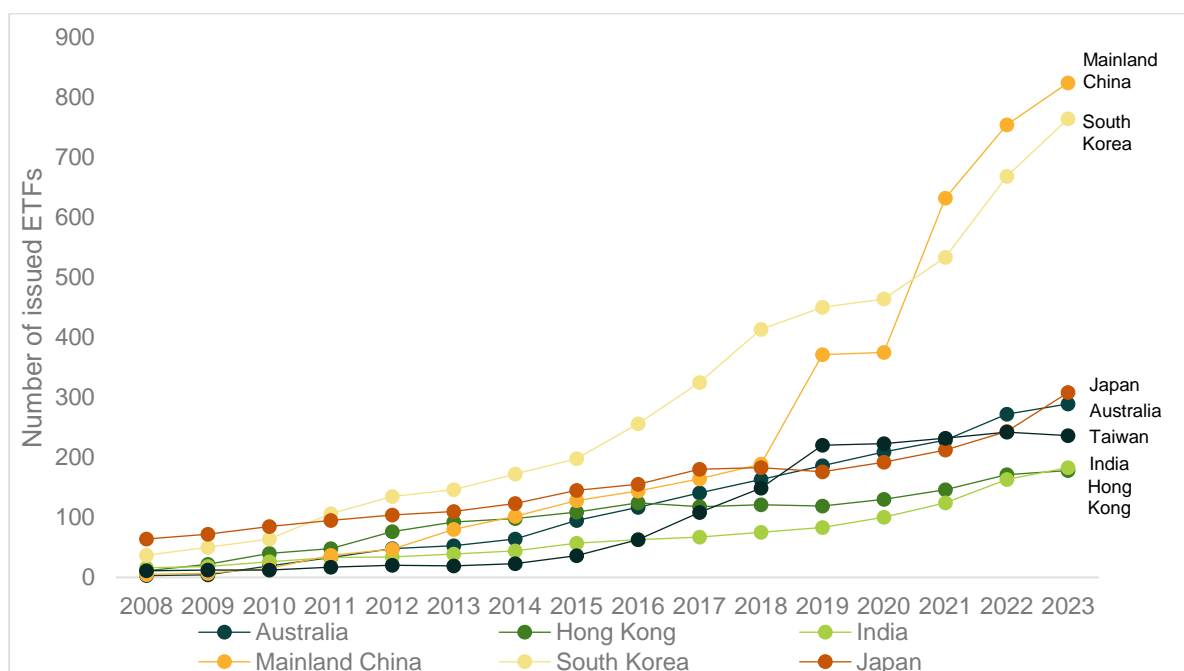


*^ Refer to the appendix for detailed breakdowns of each market*

In terms of AUM (Figure 1), Japan remained the largest ETFs market in the Asian Pacific region over the past decade with an AUM of US \$504 billion. This was followed by mainland China, which ranked as the second largest ETFs market in Asia Pacific, despite entering the market relatively late. As of August 2023, mainland China boasted an impression AUM of US\$214 billion, representing 22.8% of the total AUM in the Asia Pacific ETFs market.

Over the past 16 years, the Asia Pacific ETFs market demonstrated a remarkable CAGR of 25%. Notably, several markets have outperformed the overall market growth, including Australia, India, mainland China, Korea, and Taiwan, with CAGRs of 38%, 31%, 38%, 29%, and 32% respectively. Hong Kong, as one of the pioneering markets in the ETFs industry, maintained a steady and stable growth trajectory, evidenced by a CAGR of 9% over the past 15 years. Its decline in AUM share, accounting for 3.8% of the Asia Pacific market as of August 2023 (compared to 42% in December 2008) (ETFGI LLP, Aug 2023), was primarily a result of robust growth in other markets rather than a deterioration of its own. Analysing the contributing factors to the robust growth in other Asian markets would provide valuable insights into their success.

**Figure 2: Number of issued ETFs in seven leading Asia Pacific ETFs market (2008-2023) <sup>^</sup>**



<sup>^</sup> Refer to the appendix for detailed breakdowns of each market

When examining the number of issued ETFs from Figure 2, mainland China also dominated the Asia Pacific ETFs market, offering 824 ETFs, which constituted 30% of the total ETF offerings in the region as of August 2023. In the case of Hong Kong, despite its pioneering position, the number of issued ETFs has largely plateaued with 178. Over the past 16 years, the CAGR for the number of issued ETFs in the Asia Pacific ETFs market stood at 22%. Particularly, Australia (CAGR: 38%), mainland China (CAGR: 43%) and Taiwan (CAGR: 25%) surpassed the CAGR of the broader market, while the other three markets, namely Hong Kong (CAGR: 22%), Korea (CAGR: 23%), India (CAGR: 18%), and Japan (CAGR: 10%) lagged.

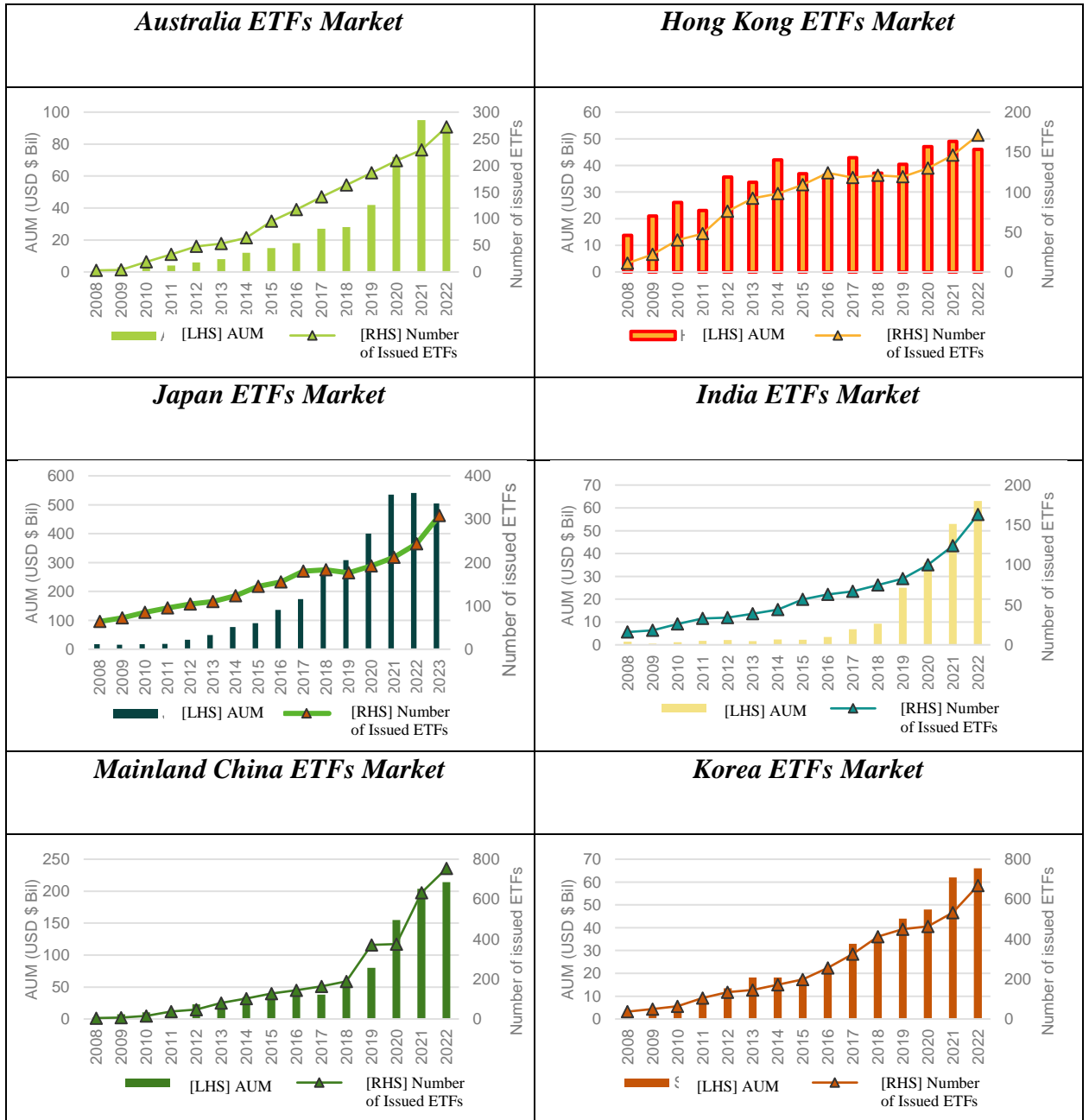
The amalgamation of information presented in this paper suggests that the Asia Pacific ETFs market enjoyed robust growth over the past 16 years. The analysis of ETF AUM, market cap, and average daily trading volume revealed insights into market penetration in individual market, as well as investment patterns of ETF investors. Since the launch of the ETF Connect in July 2022, it has played a pivotal role in driving the growth of Hong Kong's ETF market. Despite experiencing a market downturn from January to August 2023, the AUM has remained relatively stable, indicating substantial inflows that have supported the market.

A thorough examination of the strategies and measures adopted by these markets over the past 5 years may shed light on the drivers behind their comparatively robust growth rates in the ETFs market's AUM. Further insights will be unveiled in the forthcoming chapters of this study.

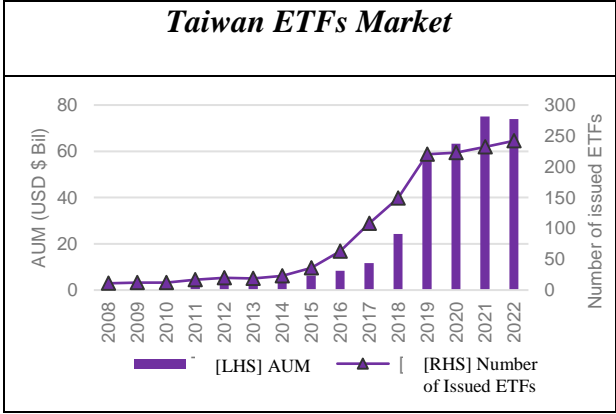
### **3 What's next?**

The subsequent chapter of the research will focus on understanding the market dynamics of seven individual Asia-Pacific's ETF market, which covers Australia, Hong Kong, India, Japan, mainland China, Korea, and Taiwan. Subsequently, an examination of market liquidity, ownership distribution, policy supports and product innovations for each individual market will be conducted in order to understand their unique characteristics, merits and challenges. The study will delve into these intricacies of these factors and subsequently propose potential strategies and solutions aimed at enhancing Hong Kong's ETFs market.

## 4 Appendix – Individual ETFs market AUM and Number of issued ETFs







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