

The Case for China Treasury Bonds

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SPDR Bloomberg Barclays China Treasury Bond UCITS ETF seeks to provide investment results that, before fees, aim to replicate as reasonably as possible the total return of the Bloomberg Barclays China Treasury 100BN Index.

The ETF serves as a liquidity-focused building block for developed and emerging market bond investors looking to diversify with, gain exposure to, or express views on China's sovereign bond market.

As Chinese government bonds continue their journey into global government bond indices, investors need new tools to access the indices transparently and in a cost-efficient way.

Indeed, China's bond market has grown significantly and is the second-largest bond market globally at \$19.5 trillion (of which \$7.8 trillion is in treasury and local government bonds).¹

Until recent years, the onshore China bond market had been difficult for foreign investors to access due to investment restrictions and quotas, resulting in Chinese bonds held by international investors accounting for only 3.2% of the total onshore China bond market at the end of 2020. However, at the same time, foreign ownership of only government bonds was higher at around 10%.²

Key Points to Consider When Investing in China Treasury Bonds

Low Correlation Chinese bonds have historically shown low correlation (less than 30% over 15 years) with global bonds and they can provide diversification benefits for global bond investors.

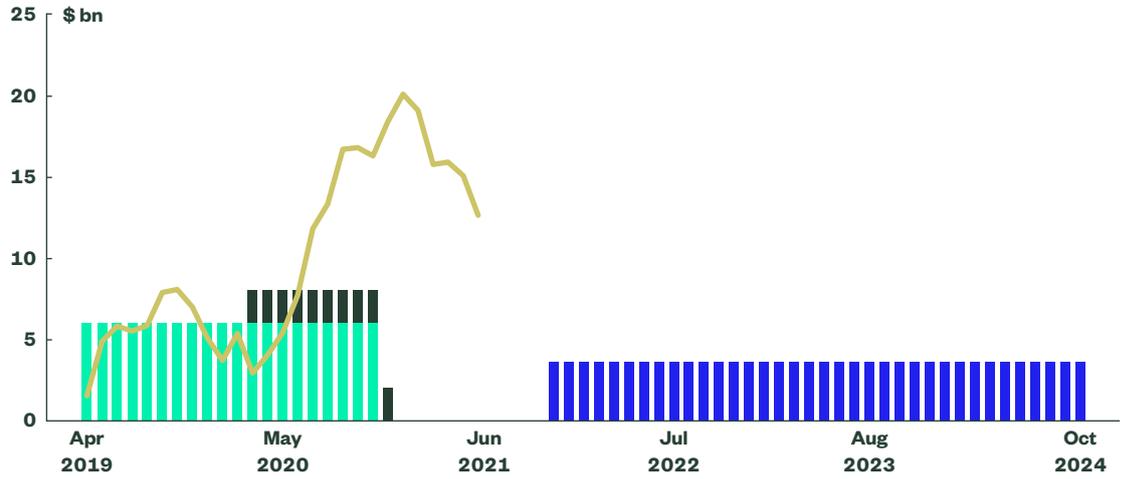
Comparative Appeal Chinese bonds look relatively attractive when compared across global bond markets as they tend to exhibit lower volatility and provide a yield pick-up of 195bps versus global treasuries (based on the Bloomberg Global Aggregate Treasury Index). With an average duration of 6.2, Chinese bonds are also shorter relative to US, euro, Japanese and sterling treasury bond indices.

Inflows Supported by Index Inclusions Since March 2019, Chinese onshore treasury bonds have been included in the Bloomberg Global Aggregate Bond Index as well as the Bloomberg Emerging Market Local Currency Government Index. In 2020, they were included in the JP Morgan GBI Emerging Market family. From 31 October 2021, they will be included in the FTSE World Government Bond Index, added over 36 months, to \$4.5 billion monthly inflow, based on investment bank and FTSE estimates (see Figure 1).³

Lower Liquidity and Less Maturity Investors need to be aware of the lower potential liquidity and the developing nature of China's bond market, in particular smaller and longer-dated bonds.

Figure 1
**Index Inclusion,
 Estimated Flows
 and Timeline**

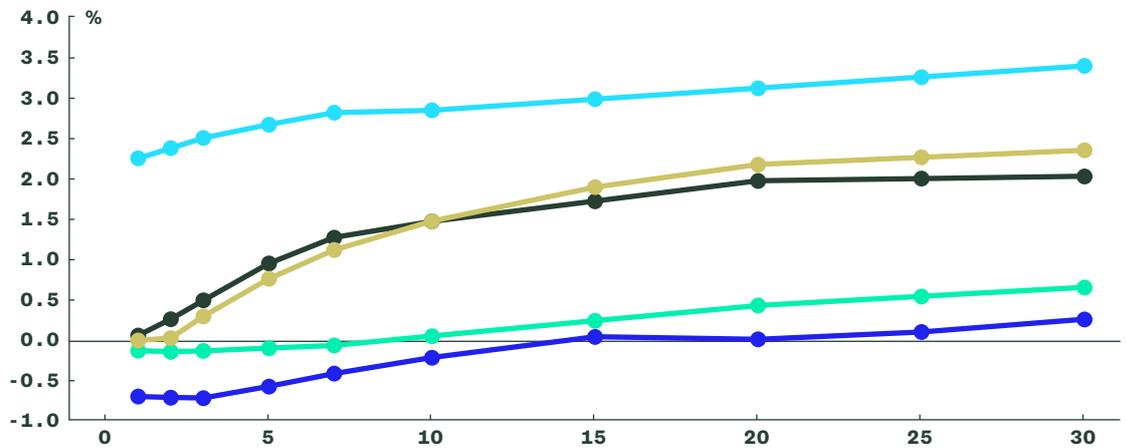
■ JPM GBI-EM GD
■ Barclays Global Agg
■ FTSE WGBI
— Actual Foreign Investor Flows (\$bn) (Monthly, Rolling 6m smoothed)



Source: State Street Global Advisors, Morgan Stanley, Bloomberg Finance L.P., as of 30 June 2021. Projections are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

Figure 2
Treasury Curves

— US
— Japan
— Germany
— Australia
— China



Source: State Street Global Advisors, Morgan Stanley, Bloomberg Finance L.P., as of 30 September 2021.

Figure 3
Fund Information

Inception Date	10 November 2021
ISIN Code	IE00B6YX5J02
Tickers	SPP8 (EUR — Xetra) CHNT (USD — LN) CHGT (GBP — LN) CHNT (EUR — IM) CHNT (USD — SE)
Total Expense Ratio	0.19%
Index Name	Bloomberg Barclays China Treasury 100BN Index
Index Ticker	I36342US
Number of Index Holdings	51
Index Rebalance Frequency	Monthly
Index Inception Date	1 April 2016

Figure 4

Characteristics of the Index

	Bloomberg Barclays China Treasury 100BN Index
Number of Issues	51
Amount Outstanding (USD BN)	1,607
Market Val (USD BN)	1,656
Yield to Worst	2.76
Coupon	3.11
Maturity (Years)	8.43
Option-Adjusted Duration	6.23
Option-Adjusted Spread	0.05
Option-Adjusted Convexity	0.92
Index Rating	A1/A1
Liquidity Score	98.87

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 30 September 2021. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Reasons to Choose SPDR Bloomberg Barclays China Treasury Bond UCITS ETF

Treasury Only Investing solely in government bonds issued by the Chinese government while getting more convexity compared with mixed treasury and policy bank bond indices.

Focus on Liquidity The index tracked by the SPDR Bloomberg Barclays China Treasury Bond UCITS ETF focuses on bonds with a minimum outstanding amount of CNY 100 billion from 1 year of remaining maturity and above.

Core Building Block The ETF is designed as a cost-efficient, easy-to-use core building block for both benchmark-aware investors and those allocating to treasury exposures more tactically.

Why SPDR for Chinese Bonds?

SPDR ETFs are a part of State Street Global Advisors, the asset management arm of State Street. This structure affords SPDR a heritage of fixed income capabilities, managing a wide spectrum of strategies and significant resource to respond to client needs. Efficiently accessing targeted levels of income generation, capital preservation and risk exposure offered by fixed income can be challenging for investors of all sizes. This is especially true in less liquid sectors and regions. State Street SPDR fixed income ETFs provide a cost-effective, liquid and transparent way to build your fixed income portfolio.

State Street Global Advisors China Bond Experience

- AUM: \$5.2 billion in onshore China bonds (as of 30 June 2020).
- Managing China bond exposures since 2005, successfully navigating the significant market developments over last decade.
- Bringing a deep knowledge gained in relation to local regulations that drive local fixed income investor preferences and behaviour.
- Experienced in accessing the Chinese onshore bond market.

Endnotes

- 1 Source: People's Bank of China, as of 31 August 2021.
- 2 Source: State Street Global Advisors, China Central Depository & Clearing, Shanghai Clearing, as of 31 December 2020.
- 3 Estimates are based on certain assumptions and analyses. There is no guarantee these estimates will be met.

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