The impact of the “Holding Foreign Companies Accountable Act” and the advantage of “All China” approach

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What happened?

- On May 20, 2020, the US Senate passed the “Holding Foreign Companies Accountable Act”. The Act would require foreign companies to certify that they are not owned or controlled by a foreign government, and to submit audits to the US Public Company Accounting Oversight Board (PCAOB). If American regulators are unable to inspect the company’s audits for three consecutive years, the firm’s securities will be banned.
- While this bill applies to any non-US company, Louisiana Republican Senator John Kennedy — one of the bill’s sponsors — said that it’s aimed at China and is intended “to stop them from cheating” on US exchanges.
- The legislation will still need to be passed by the House of Representatives before being signed into law by the US President.

What is the impact to the Mackenzie All China Equity Fund?

- According to Richard Pan, Portfolio Manager of Mackenzie All China Equity Fund, “**This Bill won’t have much impact on our Mackenzie All China Equity Fund**.”
- Mackenzie All China Equity Fund had only 7% American depository receipts exposure (or ADRs: foreign stocks traded on US markets), with 5.4% in Alibaba as of Feb 29, 2020. The Fund also holds 2.9% in Alibaba’s Hong Kong-listed share, making a total of 8.3% exposure to Alibaba.
- Most of the mid-large cap of Chinese companies currently listed as ADRs, such as JD.com and Trip.com (formerly Ctrip), are planning to list in Hong Kong. This follows Alibaba (BABA:US; 9988:HK), having its secondary listing on the Hong Kong Stock Exchange on November 26, 2019.
- As we mentioned last year, Hong Kong-listed shares for Alibaba are fully fungible (that is, fully interchangeable) with the ADRs listed on the NYSE.
- According to a South China Morning Post article[1] explaining the fungibility of Alibaba’s dual listed shares, one ADR of Alibaba (BABA:US) is equivalent to eight Alibaba (9988:HK) shares. A fully fungible stock can be bought or sold in one marketplace, then converted or sold in another, without much price divergence between the two shares. Shareholders have to request the conversion, along with payment of relevant fees, expenses, taxes and charges to the US ADR depositary, custodian bank, brokers and Hong Kong Stock Exchange. This facilitates the process and delivers the shares to shareholders’ designated accounts in Hong Kong.

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Why is it an advantage to have an "All China" strategy when investing in China?

- Mackenzie All China Equity Fund is designed to navigate the best investment opportunities in China, regardless of where the companies are listed. Its "free to roam" strategy allows the Fund to invest in Chinese companies listed in onshore China (A-shares) and offshore markets in Hong Kong and the US.
- China A-share exposure of peers in Morningstar Greater China Equity Category ranged from zero to 12.5%, according to the latest available portfolio reporting on Morningstar. Having primary exposure in onshore China equities distinguishes our Fund from its peers. Its advantage is not only to be able to access broader investment opportunities, but also to avoid potential risks caused by US-China tension.
- The onshore China market provides access to many high-quality consumer and health care companies that are geared towards the domestic market. Growth in these companies is closely related to domestic consumption growth, which is less likely to be affected by US-China trade tension.
- Since the beginning of 2020, portfolio managers also added new positions in IT hardware companies and new energy companies. They believe companies in these two sectors are likely to benefit from the government's pro-growth policies to boost development in high-tech industries.
- The Fund also has top holdings in Chinese tech giants Tencent and Alibaba, along with newly-added, fast-growing food delivery behemoth, Meituan Dianping, all of which are listed in offshore markets.
- Since inception on October 16, 2017, the Mackenzie All China Equity Fund has delivered significant outperformance against its benchmark and the Morningstar Greater China Equity Category. The majority of this outperformance is attributable to over 50% exposure to onshore China A-share equities and the stock selection within. Thanks to a large team of local experts, the Mackenzie All China Equity Fund is able to continue navigating the investment opportunities closely connected to domestic market growth, without its portfolio allocation being negatively impacted by political risks.

	YTD	1 Yr	2 Yr	Since inception*
Mackenzie All China Equity Fund- Series F	**2.6%**	**11.4%**	**6.9%**	**8.6%**
MSCI China All Shares Index (Linked)**	2.9%	2.4%	1.2%	2.4%
Morningstar Greater China Equity Category	-0.6%	-1.2%	-0.4%	2.5%

* Mackenzie All China Equity Fund Inception date: October 16, 2017

** MSCI transitioned the MSCI All China Indexes to the MSCI China All Shares Indexes as of the close November 26, 2019. Benchmark performance is linked between MSCI All China Index prior to November 26, 2019, and MSCI China All Shares Index thereafter.

Source: Mackenzie Portfolio Analytics, Morningstar Direct, as of April 30, 2020 (2-year and since inception returns are annualized returns), in CAD.

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