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Index Education

A Balanced Approach to China A-Shares: The S&P China A 300 Index

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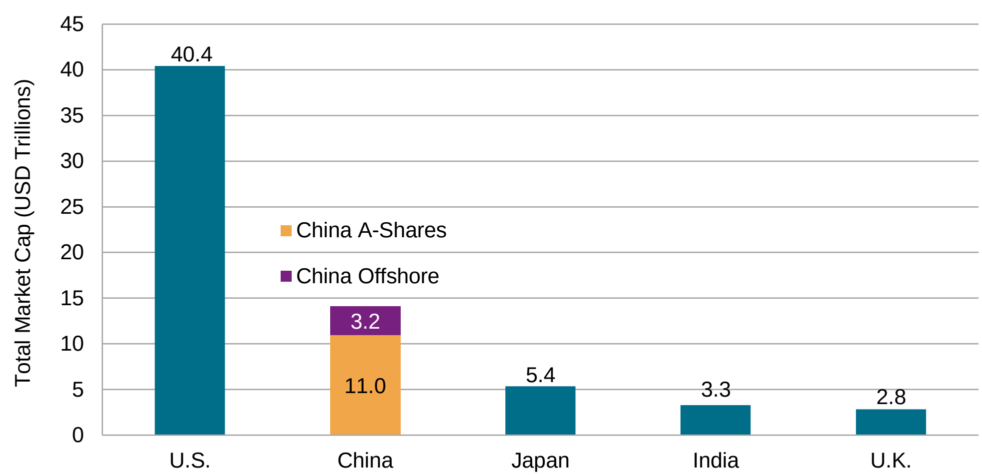
Introduction

China's economy and equity market have grown substantially in size and prominence over the past decade. Mainland-listed China A-shares have likewise become more accessible to global investors during this expansion, broadening the opportunity set beyond offshore shares. As of Dec. 30, 2022, over 75% of China's total equity value—equivalent to USD 11 trillion in total market cap—was represented by onshore listings, making the A-share market the second largest globally after the U.S.

Exhibit 1: China A-Shares Make Up Second-Largest Stock Market Globally



Source: S&P Dow Jones Indices LLC. Data as of Dec. 30, 2022. Chart is provided for illustrative purposes.

Since 2004, the S&P China A 300 Index has offered efficient, representative exposure to these onshore companies. In this overview, we will cover the following key points.

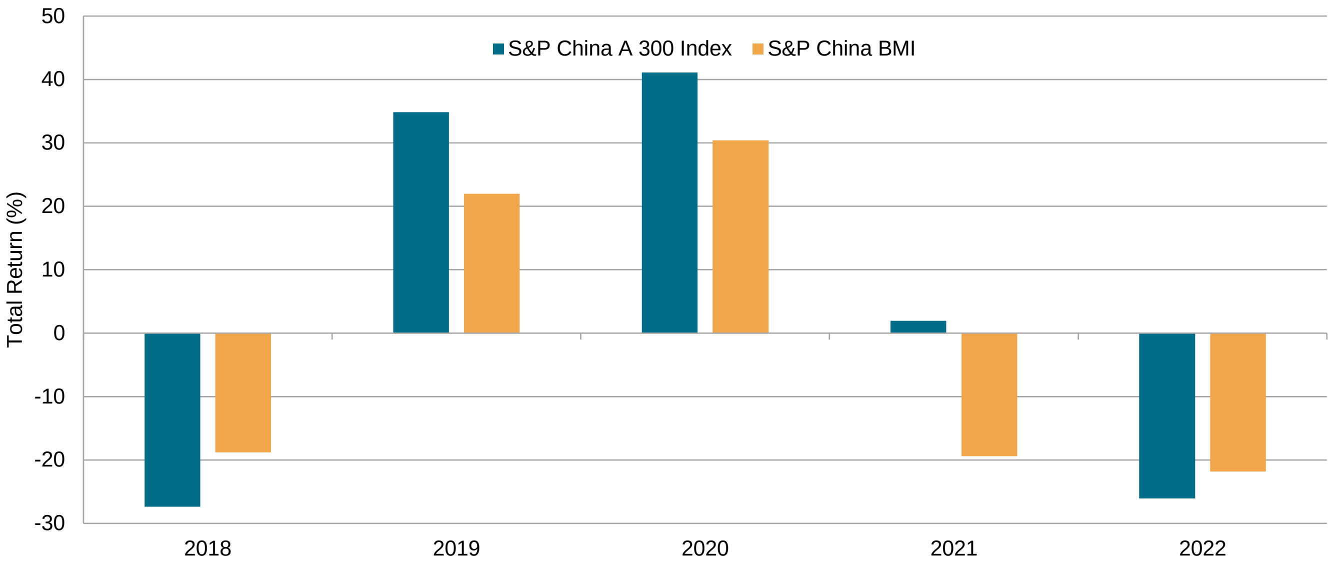
- Reasons one may want to consider China A-shares, including their underrepresentation in broad benchmarks, differentiated investment characteristics, and high return dispersions compared to offshore shares.
- The S&P China A 300 Index has an extensive track record and offers potential methodology advantages compared with the widely used CSI 300, including:
  - The exclusion of sanctioned securities;
  - A sector balance consideration to improve industry diversification; and,
  - A profitability requirement to eliminate companies without a track record of generating positive earnings.

Considerations for A-Share Exposure

While Chinese equities have grown in importance for international market participants, A-shares are limited to partial inclusion factors within broad benchmarks, leaving them significantly underrepresented in conventional Chinese and emerging market indices. While offshore-focused benchmarks tend to capture growth in technology-focused Consumer Discretionary and Communication Services sectors, onshore indices continue to provide broad exposure to traditional sectors and a growing share of Information Technology and Consumer Staples companies. Without representative inclusion of A-shares, China-specific exposure within indices could be considered incomplete.

The dispersion between the S&P China A 300 Index and S&P China BMI—particularly in 2021, when offshore tech-focused companies experienced various economic and regulatory headwinds—illustrates the differentiated exposure between the two market segments. During this period, the broad S&P China BMI lost nearly 20%, while the onshore-focused S&P China A 300 Index managed to finish in positive territory (see Exhibit 2). The inclusion of a representative share of onshore stocks within China allocations could benefit market participants who may otherwise have a limited offshore-only exposure.

Exhibit 2: High Return Dispersion between A-Shares and Broad China Market



Source: S&P Dow Jones Indices LLC. Data as of Dec. 30, 2022. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

An Overview of the S&P China A 300 Index

The S&P China A 300 Index uses a simple, rules-based methodology to select 300 of the largest and most liquid Chinese companies. The eligible universe includes all Chinese companies that meet positive earnings per share (EPS) requirements over the prior 12 months and minimum liquidity thresholds. The index selection process attempts to maintain GICS® sector balance compared with the broad China market and is rebalanced semi-annually in June and December.[1]

Comparison to the CSI 300

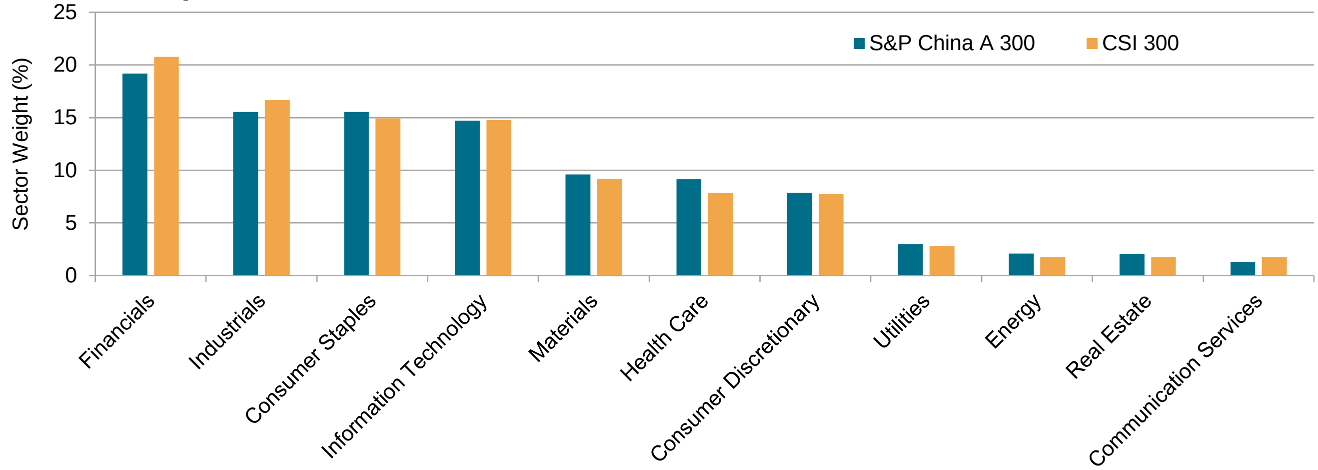
Established in 2004 and 2005, respectively, the S&P China A 300 Index and CSI 300 are two of the most tenured China A-share indices. While the CSI 300 maintains strong footing in the local market, the S&P China A 300 Index offers the following unique advantages for market participants seeking China A exposure.

Profitability Screen. The requirement for positive earnings is unique to the S&P China A 300 Index and provides reassurance that less-established companies that lack a track record of generating positive earnings are excluded from the index.

[1] For a more complete overview of methodology details, see the Appendix and the S&P China Indices Methodology.

Sector Balance Criteria. Maintains diversification and is important given the A-share market's historical concentration in the Financials sector and overweight toward Industrials during various economic cycles in the case of the CSI 300.

Exhibit 3: Improved Sector Diversification



Source: S&P Dow Jones Indices LLC, CSI. Data as of Dec. 30, 2022. Chart is provided for illustrative purposes.

Exclusion of Sanctioned Securities. The S&P China A 300 Index is maintained from a U.S./U.K./EU perspective and therefore excludes securities sanctioned by governments in these jurisdictions, including those impacted by U.S. Executive Orders 13959 and 14032. This could provide an advantage to those who may otherwise be unnecessarily exposed to tracking error considering their inability to gain exposure to certain securities within the CSI 300—which included 13 sanctioned securities, comprising a 3.6% weight as of Dec. 30, 2022.

Well-Established History*.* The S&P China A 300 Index has live history since its launch in March 2004.

Improved Historical Risk/Return Profile. The S&P China A 300 Index posted higher total returns and lower volatility over the short-, mid- and long-term periods relative to the CSI 300 (see Exhibit 3).

Exhibit 4: Comparison of Historical Returns

Period	S&P China A 300 Index	CSI 300
Annualized Returns (%)		
1-Year	-26.07	-26.52
3-Year	2.07	0.24
5-Year	0.81	0.01
10-Year	6.42	5.49
15-Year	0.90	0.05
Standard Deviation (%)		
3-Year	22.19	22.38
5-Year	21.78	22.13
10-Year	23.55	24.09
15-Year	27.01	27.57
Risk-Adjusted Return		
3-Year	0.09	0.01
5-Year	0.04	0.00
10-Year	0.27	0.23
15-Year	0.03	0.00
Returns Correlation (%)		
3-Year	99.74	-
5-Year	99.77	-
10-Year	99.81	-
15-Year	99.86	-

Source: S&P Dow Jones Indices LLC, CSI. Data as of Dec. 30, 2022. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Conclusion

The S&P China A 300 Index seeks to provide efficient exposure to onshore Chinese equities, enabling participants to expand beyond the limited inclusion provided by broad benchmarks. A-shares have grown in importance to international market participants, and the S&P China A 300 Index has been designed to capture this important market segment. Launched in 2004, it could offer unique advantages when compared to other established onshore Chinese benchmarks, including profitability and sector balance criteria and the exclusion of sanctioned companies, making it a liquid and representative index of the onshore opportunity set.

Appendix

About The S&P China A 300 Index

The S&P China A 300 Index is designed to measure the broad market performance of the China A-shares universe, which comprises over 4,500 stocks traded on the Shenzhen or Shanghai exchange. Index constituents are 300 of the largest and most liquid companies, selected to represent the sector balance of the broad market.

Index Methodology Overview

Inclusion Requirements

1. Constituents must be included in the S&P China A Domestic BMI.

2. Stocks with negative EPS for the two most recent trailing 12-month periods are ineligible for index inclusion.

3. Stocks must be ranked in the top 70% of the index universe by six-month median daily value traded (top 75% for current constituents).

Constituent Selection

1. Eligible stocks are ranked in descending order by total market capitalization.

2. The top 300 stocks ranked by total market capitalization are selected, subject to current constituents remaining in the index if they rank among the top 600 stocks.

3. The index selection process attempts to maintain GICS sector balance, as measured by a comparison of each sector's weight in the index with its weight in the index universe to ensure representative sector weightings. If a sector in the index is overweighted by 5% or more, as compared to its respective weight in the index universe, then non-constituent stocks in the overweighted sector are not added to the index.

Weighting

The index is weighted by float market cap. The investable weight factor for the stocks in the index reflect the percentage of shares available to Chinese mainland investors.

Rebalancing

The index is rebalanced semiannually, effective after the close of trading on the third Friday of June and December. The rebalancing reference dates are the third Friday of May and November.

Perspective

The S&P China A 300 Index is maintained from a U.S./U.K./EU perspective and therefore excludes securities sanctioned by governments in these jurisdictions, including those impacted by U.S. Executive Orders 13959 and 14032.

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