

Tracking the Full China Equity Opportunity Set with the S&P China BMI

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Over the past two decades, the Chinese economy and equity markets have substantially increased in size and prominence. During this period, China embarked on a major transition from a manufacturing-led economy, reliant on the traditional industrial and banking sectors, to a more mature consumer and service-oriented economy. In parallel, the country's equity market has become more diversified, as consumer and technology-oriented companies now represent a large share of China's equity market.

Introduced in 1997, the [S&P China Broad Market Index \(BMI\)](#) is designed to represent the full investable opportunity set of Chinese equities. By maintaining eligibility for large, mid, and small caps, as well as all Chinese share classes, the index enjoys an advantage compared to several popular Chinese equity benchmarks that cover narrower segments of the market. Leveraging the well-established methodology used in the underlying S&P Global BMI, the framework is consistent, modular, and allows pairing with other global regions without gaps or overlaps.

In this overview we will cover the following key points.

- As the world's second-largest equity market and representing over 35% of emerging market equities, China is highly relevant to market participants, and has grown steadily over the past several decades.
- Improved access to onshore-listed A-shares has allowed for greater inclusion in equity benchmarks, significantly increasing the investable opportunity set.
- The S&P China BMI provides potential advantages over peer indices since it includes large-, mid-, and small-cap companies, A-shares, and offshore-listed companies, and it enjoys a long track record dating back to the mid-1990s.

CHINA MATTERS

Between Dec. 30, 1994, and Dec. 31, 2021, China's representation within global benchmarks grew considerably, increasing from less than a 0.1% share in the S&P Global BMI to nearly 4% today. Meanwhile, its share of

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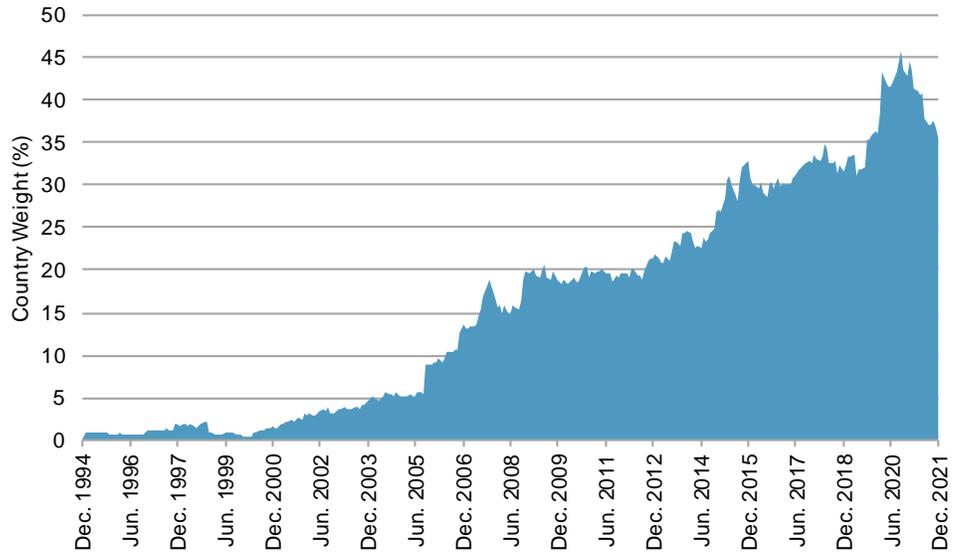
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emerging market benchmarks swelled to 35.5%¹ of the S&P Emerging BMI (see Exhibit 1).

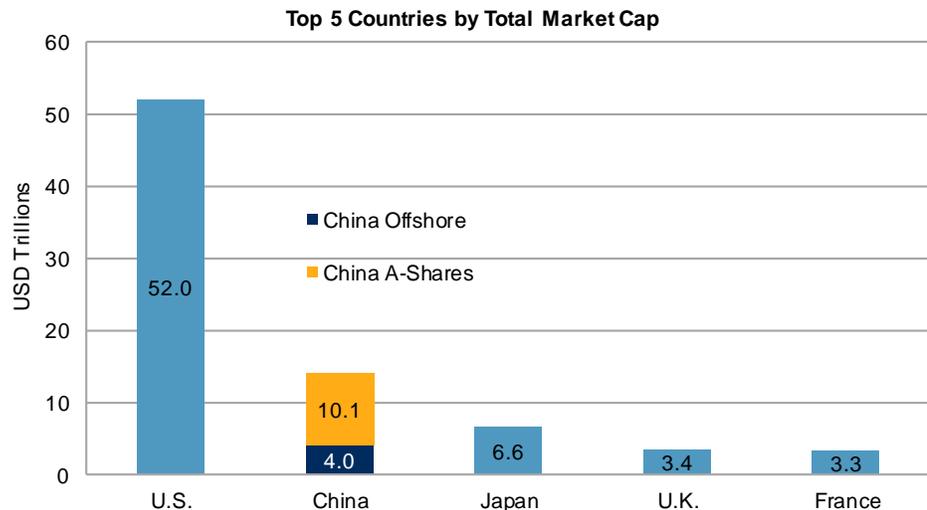
Exhibit 1: China's Increasing Weight in the S&P Emerging BMI



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2021. Chart is provided for illustrative purposes. The S&P China BMI has included A-shares since September 2019.

As of December 2021, the total market cap, including all share classes at their full weight (regardless of the public float), placed China's estimated total market cap at approximately USD 14.1 trillion, second only to the U.S. and accounting for 12.6% of global total market cap.

Exhibit 2: Including A-Shares, China Is the Second Largest Equity Market Globally



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2021. Chart is provided for illustrative purposes.

¹ Figures measured as a proportion of the S&P Global BMI and S&P Emerging BMI as of Dec. 31, 2021.

A-SHARES AND IMPROVED ACCESS

As domestic growth has taken off, foreign access to the local market has accelerated.

As domestic growth has taken off, foreign access to the local market has accelerated, improving substantially in the past several years alone.

Traditionally only accessible to domestic investors, A-shares encompass a substantial share of the total China equity opportunity set. As Chinese policymakers have sought greater adoption of these share classes in global portfolios, a methodical approach has been taken toward opening and improving access of local shares to foreign investors.

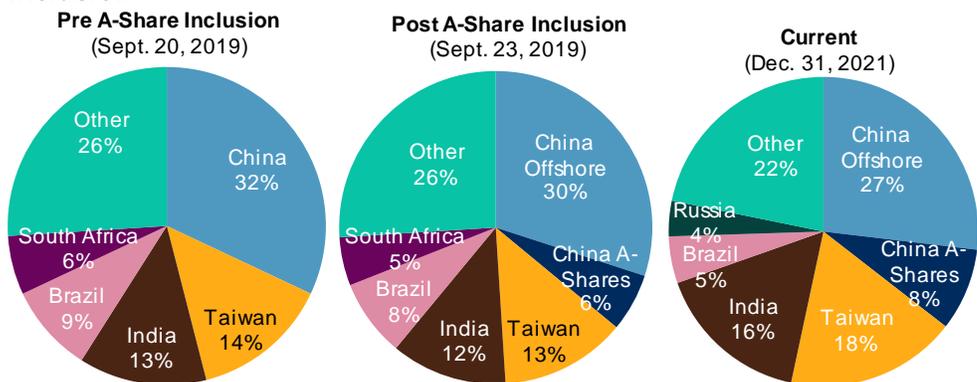
The introduction, subsequent expansion, and finally elimination of limited access programs, including the Qualified Foreign Institutional Investor program (QFII, introduced 2002) and RMB Qualified Institutional Investor program (RQFII, introduced 2011), allowed for a robust introduction of the local shares to foreigners. Meanwhile, the establishment of the Stock Connect between China’s mainland stock exchanges and the Hong Kong market brought easier access for a broader set of market participants.

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A-Share Inclusion in Global Benchmarks

Following extensive market research and a broad market consultation process, eligible A-shares accessible via the northbound Stock Connect facilities were added to S&P DJI’s global benchmarks in September 2019 at a 25% partial inclusion factor—meaning each company was represented at one-quarter of its float market cap weight. While Exhibit 3 gives more insight into the impact of the share inclusion, China’s representation in emerging and global equity benchmarks remains far below its actual size due to foreign ownership limits and a partial weight factor for A-shares.

Exhibit 3: Evolution of S&P Emerging BMI Weights Pre and Post A-Share Inclusion



Eligible A-shares were added to S&P DJI’s global benchmarks in September 2019 at a 25% partial inclusion factor.

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2021. Charts are provided for illustrative purposes.

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S&P DJI has continued to implement updates based on the access level of A-shares, most recently leading to the addition of companies listed on the ChiNext Board of the Shenzhen Stock Exchange, as well as the STAR Market board of the Shanghai Stock Exchange. These updates have allowed the indices to maintain adequate representation of shares listed on newer venues that have become broadly accepted by market participants.

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The S&P China BMI and Comparison to Peer Benchmarks

The S&P China BMI provides several advantages over other popular China indices. From available benchmarks, we have selected the MSCI China, FTSE China 50, and CSI 300 to draw contrast against the S&P China BMI, as these are the most widely used core China equity benchmarks that underlie ETFs and other index-tracking products, with wide recognition across multiple geographies.

The primary differentiating attributes of the S&P China BMI include the following.

The S&P China BMI provides several advantages over other popular China indices...

1. **Comprehensive coverage of all size classes.** Other indices cover significantly fewer stocks and tend to exclude mid- and small-cap securities entirely. At 2,054 constituents, the S&P China BMI far surpasses other popular indices by capturing a more comprehensive universe of eligible companies.
2. **All China share classes are eligible, providing onshore and offshore exposure.** The FTSE China 50 includes securities listed in Hong Kong only, which limits its access to the growing A-share market and to Chinese companies listed in other global trading venues, including the U.S. Meanwhile, the CSI 300 is focused only on A-shares and does not participate in the growth of offshore-listed tech companies.
3. **More neutral sector balance due to greater diversification.** Concentration in the top five names is also lower than two of three reviewed alternative indices.
4. **Broad exposure across sizes and listing venues promotes lower volatility.** Over a 10-year historical period, the S&P China BMI enjoyed lower volatility than its peers.
5. **Long track record, consistent framework, and well-established methodology.** Launched in 1997, the index is represented within the S&P Global BMI, a consistent, global framework, lending to a clear and predictable methodology.

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Exhibit 4: China Indices Methodology Comparison

INDEX	A-SHARE INCLUSION	A-SHARES LIMITED TO STOCK CONNECT	SIZE COVERAGE	NUMBER OF STOCKS	TOP FIVE WEIGHT (%)
S&P China BMI	25%	Yes	All	2,054	27.0
MSCI China	20%	Yes	Large & Mid	739	32.0
FTSE China 50	N/A (Offshore Only)	N/A	Large	50	38.5
CSI 300	A-Share Only	No	Large	300	15.9

Source: S&P Dow Jones Indices LLC, MSCI, FTSE Russell, CSI. Data as of Dec. 31, 2021. Table is provided for illustrative purposes.

The S&P China BMI is more evenly distributed across sectors compared with its peers.

The S&P China BMI is more evenly distributed across sectors compared with its peers. The MSCI China tends to be more heavily weighted toward Consumer Discretionary and Communication Services due to larger single-stock weights in the top names (e.g. Tencent, Alibaba), while the FTSE China 50 shows high concentration in Financials. The greatest divergence in sector weights is demonstrated by the CSI 300, which is heavily weighted to old-economy sectors including Financials, Industrials, and Materials (see Exhibit 5).

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Exhibit 5: S&P China BMI Sector Exposure More Evenly Distributed

SECTOR	S&P CHINA BMI	MSCI CHINA	FTSE CHINA 50*	CSI 300
Communication Services	16.6%	18.3%	18.5%	2.1%
Consumer Discretionary	25.8%	29.5%	34.1%	8.7%
Consumer Staples	6.2%	6.0%	2.0%	15.2%
Energy	1.8%	1.7%	2.9%	1.1%
Financials	14.2%	14.4%	28.1%	25.1%
Health Care	7.7%	7.1%	4.2%	9.6%
Industrials	7.8%	5.7%	1.2%	15.7%
Information Technology	8.3%	7.1%	5.1%	12.4%
Materials	4.8%	3.5%	1.5%	8.2%
Real Estate	4.3%	4.0%	2.5%	0.0%
Utilities	2.4%	2.8%	0.0%	1.9%
Total	100.0%	100.0%	100.0%	100.0%

Source: S&P Dow Jones Indices LLC, Refinitiv. Data as of Dec. 31, 2021. *Data for FTSE China 50 as of Jan. 1, 2022. Table is provided for illustrative purposes.

The FTSE China 50 shows high concentration in Financials, while the CSI 300 is heavily weighted to Financials, Industrials, and Materials.

Over the short term, A-shares have outperformed offshore shares, allowing the CSI 300 to excel during the YTD and five-year periods (see Exhibit 6). The MSCI China performed much more closely with the S&P China BMI, although with significantly fewer constituents and somewhat higher volatility. The FTSE China 50, meanwhile, underperformed during all periods beyond YTD.

Market participants evaluating Chinese equities would be well served to look under the hood of seemingly similar benchmarks, as there are a number of differences.

Exhibit 6: Index Construction Differences Have Led to Meaningful Performance Variation				
PERIOD	S&P CHINA BMI	MSCI CHINA	FTSE CHINA 50	CSI 300
ANNUALIZED RETURNS (%)				
YTD	-24.1	-26.2	-22.8	-4.0
3-Year	8.6	7.9	0.9	23.6
5-Year	9.2	9.5	4.3	12.6
10-Year	7.8	7.4	4.2	10.0
RISK (STANDARD DEVIATION)				
3-Year	19.4	20.2	18.3	20.1
5-Year	18.8	19.5	18.0	19.0
10-Year	19.4	19.7	19.7	24.0
RETURN/RISK				
3-Year	0.45	0.39	0.05	1.18
5-Year	0.49	0.49	0.24	0.66
10-Year	0.40	0.37	0.22	0.41

Source: S&P Dow Jones Indices LLC, Refinitiv. Data as of Dec. 31, 2021. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

CONCLUSION

Since the 1990s, the S&P China BMI has tracked the ups and downs of China's equity market while reflecting the nation's long-term transition to a more diversified consumer and service-oriented economy. Market participants evaluating China benchmarks would be well served to look under the hood of seemingly similar benchmarks covering Chinese equities, as many do in fact have large compositional differences that may lead to varying risk/return profiles. Those seeking the broadest measure of the investable Chinese market may not need to look further than the S&P China BMI.

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