China’s Onshore Equities Beyond Large Caps: The S&P China A MidCap 500 Index

Introduction

The S&P China A MidCap 500 Index seeks to provide representative exposure to mid-sized China A-shares while requiring positive earnings for index constituents and excluding sanctioned securities. The index composition provides differentiated exposure when compared to the large-cap-focused S&P China A 300 Index due to the unique characteristics of the mid-cap size category.

In this overview, we will explore why one may want to consider mid-cap China A-shares, including:

- Their limited representation in conventional China and emerging market benchmarks;
- The size and scope of the opportunity set;
- Differentiated investment characteristics and high return dispersion compared to large-cap A-shares; and
- A combination of both large-cap and mid-cap exposure provides broader coverage across sectors.

The methodology of the S&P China A MidCap 500 Index offers some additional potential benefits, including:

- A profitability requirement to eliminate companies lacking a track record of generating positive earnings; and
- The exclusion of sanctioned securities.

Register to receive our latest research, education, and commentary at on spdji.com/SignUp.
The Size and Scope of China A-Shares

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. Without representative inclusion of A-shares, China-specific exposure within indices could be considered incomplete.

Given the size and depth of China’s onshore equities market, there is reason to extend coverage to mid caps, which represented approximately USD 1.7 trillion in total market cap as of Dec. 30, 2022. In fact, while large-cap China A-shares represented the largest market after the U.S., the market cap of the S&P China A MidCap 500 Index was nearly the size of Germany and was larger than several established markets including Australia, South Korea, Hong Kong, Sweden, the Netherlands and Brazil, among others.

Exhibit 1: Mid-Cap China A-Shares Are Larger than Many Domestic Markets

An Overview of the S&P China A MidCap 500 Index

The S&P China A MidCap 500 Index uses a simple, rules-based methodology to select 500 of the largest and most-liquid Chinese companies that follow in size after companies in the S&P China A 300 Index. The eligible universe includes all Chinese companies that meet positive earnings per share (EPS) requirements over the two most recent trailing 12-month periods and minimum liquidity thresholds. The index selection process reflects GICS® sector balance considerations and is rebalanced semiannually in June and December.¹

Considerations for Mid-Cap A-Share Sector Exposure

The sector composition of the S&P China A MidCap 500 Index varies widely from the more traditional sector exposure found in the S&P China A 300 Index. While the Financials and Consumer Staples sectors represented approximately 35% of the S&P China A 300 Index as of Dec. 30, 2022, the S&P China A MidCap 500 Index was most heavily weighted to Materials, Industrial and Information Technology (see Exhibit 2).

Exhibit 2: Sector Exposure of the S&P China A MidCap 500 Index versus S&P China A 300 Index

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

¹ For a more complete overview of methodology details, see the Appendix and the S&P China Indices Methodology.
The returns dispersion between the S&P China A MidCap 500 Index and S&P China A 300 Index illustrates the differentiated exposure between the two size classes (see Exhibit 3). In fact, the average variance in performance over the past 10 calendar years was more than 17%, and large caps beat mid caps by nearly 40% in 2017.

In 2021, several factors affected returns, as greater relative Materials and Industrials exposure drove the outperformance of the mid-cap segment. Conversely, in 2017, most large-cap sectors outperformed their mid-cap counterparts, while Information Technology companies, which were more prevalent in the large-cap index, led the outperformance.

**Exhibit 3: High Return Dispersion between Mid-Cap and Large-Cap A-Shares**

Source: S&P Dow Jones Indices LLC. Data as of Dec. 30, 2022. Index performance based on USD in total return. Past performance is no guarantee of future results. The S&P China A MidCap 500 Index was launched Aug. 17, 2020. All data prior to index launch date is back-tested hypothetical data. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Combining the S&P China A 300 Index and S&P China A MidCap 500 Index resulted in a more even distribution across sectors. A review of a combined large- and mid-cap exposure showed that the mid-cap additions had the greatest impact on Materials, Industrials and Information Technology weight, while the addition of mid caps did little to augment weight in Real Estate, Communication Services, Energy and Utilities (see Exhibit 4).
Key Characteristics of the S&P China A MidCap 500 Index

While the S&P China A 300 Index is designed to provide sufficient exposure to traditional large-cap China A-Shares, the S&P China A MidCap 500 Index offers unique advantages for market participants seeking a more comprehensive China A exposure inclusive of mid-cap A-shares.

**Profitability Screen.** The requirement for positive earnings provides reassurance that less-established mid caps that lack a track record of generating positive earnings are excluded from the index.

**Exclusion of Sanctioned Securities.** The S&P China A MidCap 500 Index is maintained from a U.S./U.K./EU perspective and therefore excludes securities sanctioned by governments in these jurisdictions, including those affected by U.S. Executive Orders 13959 and 14032. This could provide an advantage to those who may otherwise be unnecessarily exposed to tracking error if following an index that includes sanctioned securities.
Differentiated Exposures Demonstrated by Historical Performance Profiles. The S&P China A MidCap 500 Index exemplified differentiated exposure over its history in comparison to the S&P China A 300 Index, as shown in Exhibit 3.

Conclusion

The S&P China A MidCap 500 Index seeks to measure mid-cap onshore Chinese equities, enabling market participants to expand beyond the limited coverage offered by large-cap indices. Mid caps provide differentiated sector exposure and when paired with large caps, could offer greater breadth of coverage. Unique advantages of the S&P China A MidCap 500 Index, when compared to other established onshore mid-cap-focused China benchmarks, include profitability and sector balance criteria, and the exclusion of sanctioned companies.
Appendix

About the S&P China A MidCap 500 Index

The S&P China A MidCap 500 Index is designed to measure the performance of the mid-cap segment of the China A-shares universe that is traded on the Shenzhen or Shanghai exchange.

Index Methodology Overview

Inclusion Requirements

1. Constituents must be included in the S&P China A 1800 Index.

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 85% of the index universe by six-month median daily value traded (top 90% for current constituents).

Constituent Selection

1. S&P China A 300 Index constituents are ineligible for index inclusion. Remaining eligible stocks are ranked in descending order by total market capitalization.

2. The top 500 eligible stocks ranked by total market capitalization are selected, subject to current constituents remaining in the index if they rank among the top 750 stocks.

Weighting

The index is weighted by float-adjusted 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, respectively.

Investor Perspective

The S&P China A MidCap 500 Index is maintained from a U.S./U.K./EU investor perspective and therefore excludes securities sanctioned by governments in these jurisdictions including those affected by U.S. Executive Orders 13959 and 14032.
Performance Disclosure/Back-Tested Data

The S&P China A MidCap 500 Index was launched August 17, 2020. All information presented prior to an index’s Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spglobal.com/spdji. Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index’s Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company’s public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed “Date of introduction”) is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index’s public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI’s ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using “Backward Data Assumption” (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as “product involvement”) were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices maintains the index and calculates the index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US $100,000 investment for a 12-month period (or US $10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US $1,650), the net return would be 8.35% (or US $8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US $5,375, and a cumulative net return of 27.2% (or US $27,200).
General Disclaimer

© 2023 S&P Dow Jones Indices. All rights reserved. S&P, S&P 500, SPX, SPY, The 500, US500, US 30, S&P 100, S&P COMPOSITE 1500, S&P 400, S&P MIDCAP 400, S&P 600, S&P SMALLCAP 600, S&P GVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, Select Sector, S&P MAESTRO, S&P PRISM, S&P STRIDE, GICS, SPIVA, SPDR, INDEXOLOGY, iTraxx, iBoxx, ADBI, CDX, MBX, CMBX, LCDX, MCDX, PRIME, TABX, HHPI, IRXX, I-SYND, SOVX, CRITS, CRITR are registered trademarks of S&P Global, Inc. (“S&P Global”) or its affiliates. DOW JONES, DJIA, THE DOW and DOW JONES INDUSTRIAL AVERAGE are trademarks of Dow Jones Trademark Holdings LLC (“Dow Jones”). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P Global, Dow Jones or their respective affiliates (collectively “S&P Dow Jones Indices”) do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. S&P Dow Jones Indices is not an investment adviser, commodity trading advisor, commodity pool operator, broker dealer, fiduciary, promoter” (as defined in the Investment Company Act of 1940, as amended), “expert” as enumerated within 15 U.S.C. § 77k(a) or tax advisor. Inclusion of a security, commodity, crypto currency or other asset within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, hold such security, commodity, crypto currency or other asset, nor is it considered to be investment advice or commodity trading advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (“Content”) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively “S&P Dow Jones Indices Parties”) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN “AS IS” BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS. SOFTWARE ERRORS OR DEFECTS. THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.