

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

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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.

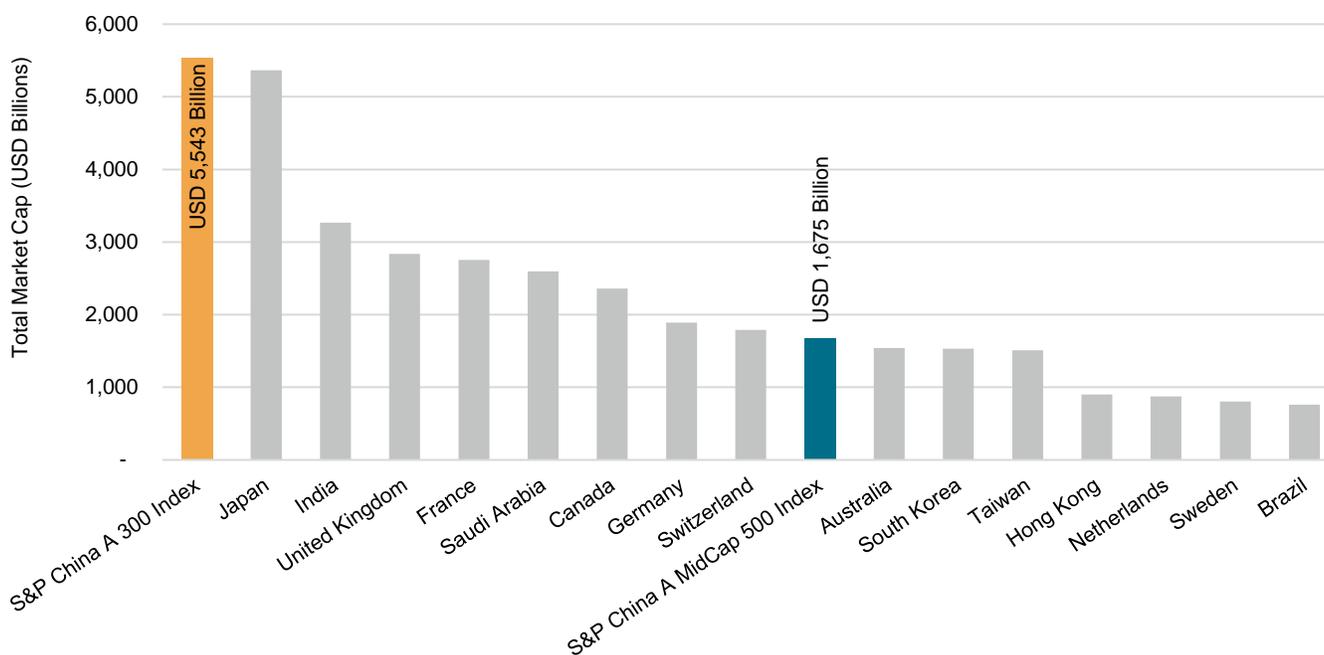
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The Size and Scope of China A-Shares

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



Source: S&P Dow Jones Indices LLC. Data as of Dec. 30, 2022. Chart is provided for illustrative purposes. Chart excludes the U.S. (USD 40,414 billion total market cap) to aid visualization.

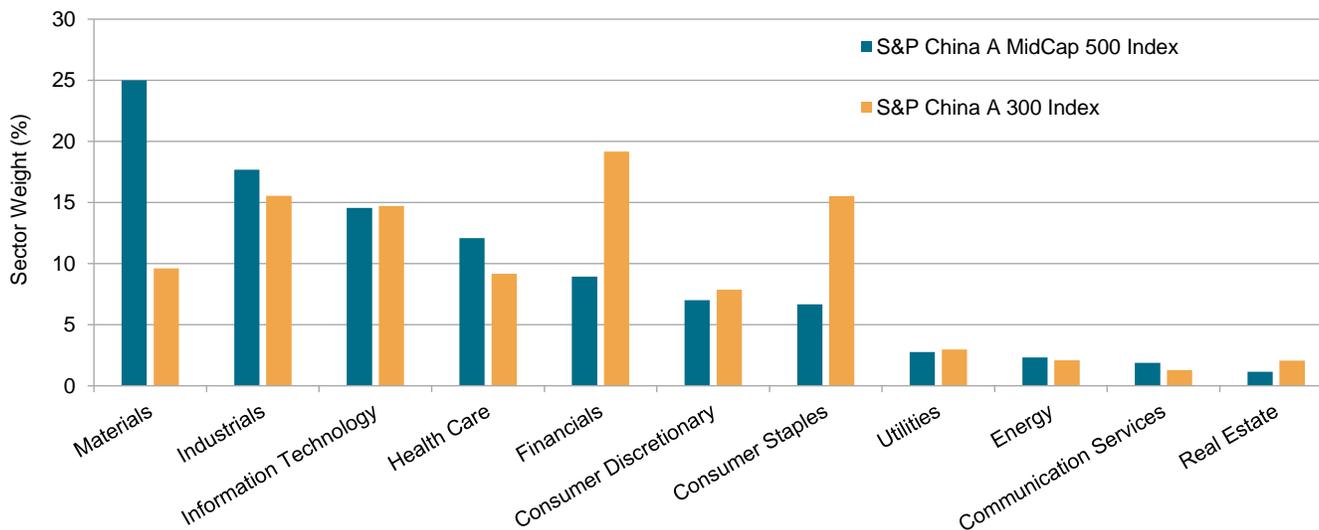
An Overview of the S&P China A MidCap 500 Index

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



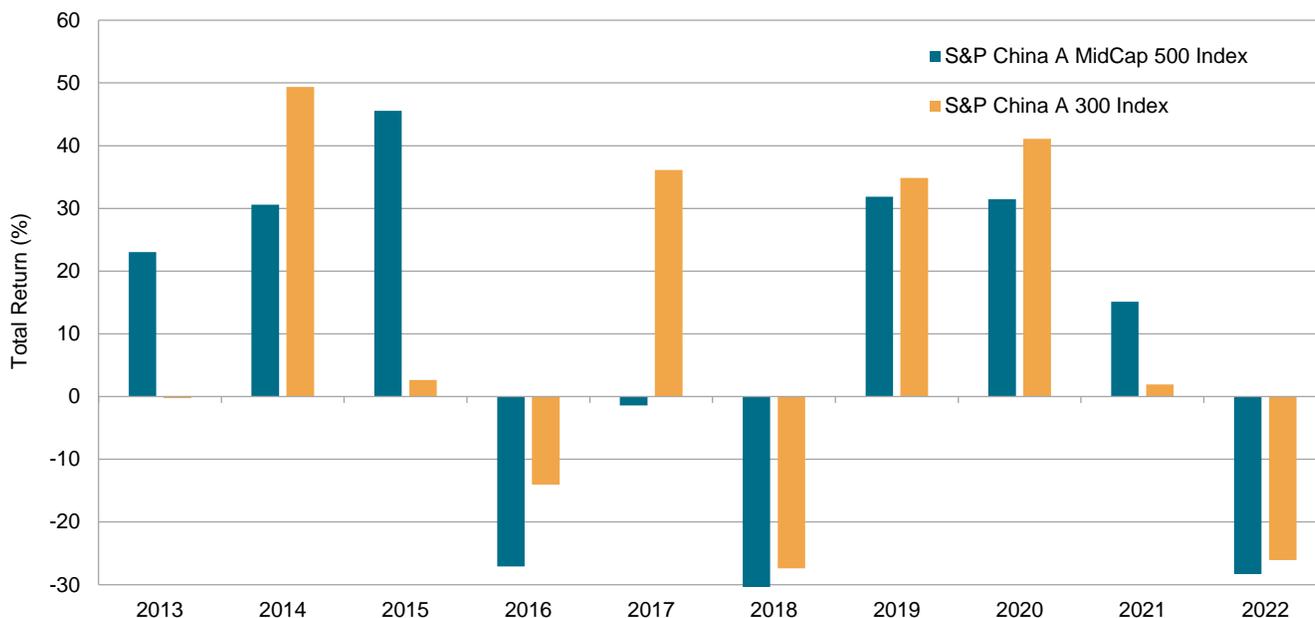
Source: S&P Dow Jones Indices LLC. Data as of Dec. 30, 2022. Chart is provided for illustrative purposes.

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.

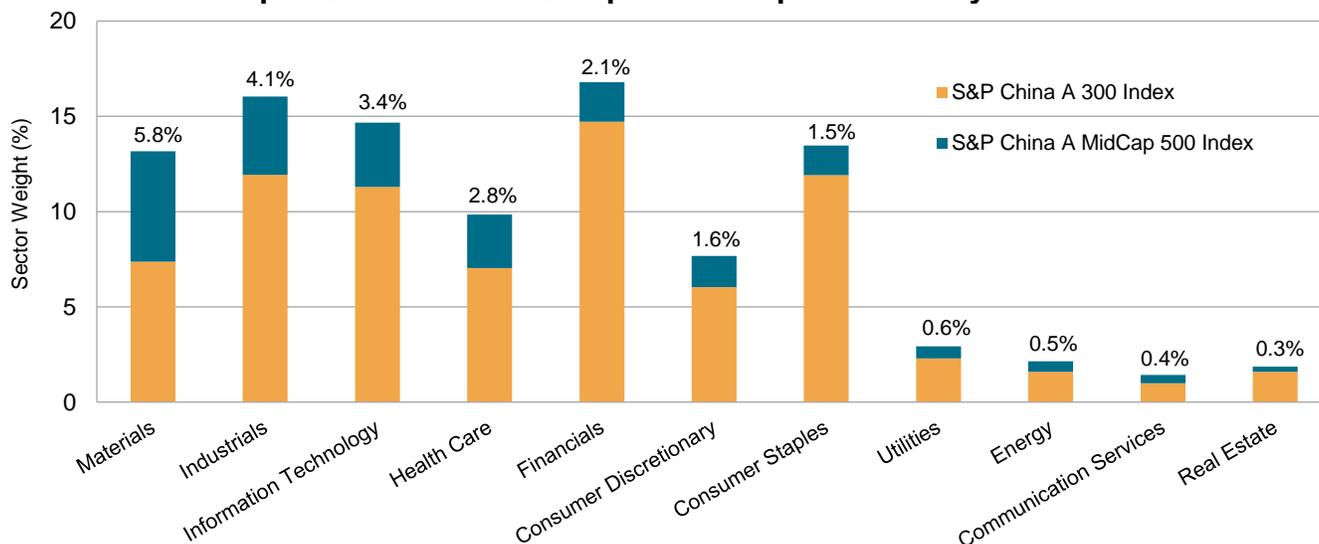
Exhibit 3: High Return Dispersion between Mid-Cap and Large-Cap A-Shares



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).

Exhibit 4: Mid-Cap A-Shares Could Complement Exposure in Key Sectors



Source: S&P Dow Jones Indices LLC. Data as of April 29, 2022. Chart is provided for illustrative purposes.

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.

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