

TalkingPoints

Capturing the Growth of the Chinese Technology Industry



John Welling

Director

Global Equity Indices

S&P Dow Jones Indices

The S&P China Tech 50 Index highlights a unique and innovative set of high-tech companies across multiple sectors in the Chinese market.

1. Why was the S&P China Tech 50 Index introduced?

As China continues its transformation toward “new economy” sectors, technology plays an increasingly important role in the nation’s economic and equity market composition. The S&P China Tech 50 Index is unique in that it is based on a transparent, well-established industry classification system (GICS®), and spans multiple industries in order to effectively capture the tech segment. Additionally, it prioritizes liquidity and capacity by limiting constituent count to 50 large, liquid companies.

2. How does the index work?

The S&P China Tech 50 Index uses a simple, rules-based process to select 50 of the largest and most liquid Chinese technology companies. The eligible universe includes all Chinese companies meeting minimum float-adjusted market cap and liquidity thresholds that are accessible via Stock Connect or trade on a foreign exchange. All companies meeting these requirements and classified under the GICS groupings in Exhibit 1 are eligible for inclusion.

Exhibit 1: S&P China Tech 50 Index GICS Inclusion Criteria

Information Technology	45102010 IT Consulting & Other Services	45102020 Data Processing & Outsourced Service	45102030 Internet Services & Infrastructure	45103010 Application Software	45103020 Systems Software
	45201020 Communications Equipment	45202030 Technology Hardware, Storage & Peripherals	45203010 Electronic Equipment & Instruments	45203015 Electronic Components	45203020 Electronic Manufacturing Services
	45203030 Technology Distributors	45301010 Semiconductor Equipment	45301020 Semiconductors		
Health Care	35103010 Health Care Technology	35201010 Biotechnology	35203010 Life Sciences Tools & Services		
Communication Services	50202020 Interactive Home Entertainment	50203010 Interactive Media & Services			
Consumer Discretionary	25502020 Internet & Direct Marketing Retail				
Industrials	20101010 Aerospace & Defense				
Utilities	55105020 Renewable Electricity				

Source: S&P Dow Jones Indices LLC. Data as of July 30, 2021. Table is provided for illustrative purposes.

The 50 largest companies (measured by total market cap) are selected and the index is weighted by float-adjusted market cap, subject to a 10% single stock cap. The index is rebalanced semiannually in March and September.

3. What was the rationale for this index design?

To fully capture technology-driven businesses in China, we felt it was important to expand the scope beyond the GICS Information Technology sector. This allows the index to include other innovative technology-related industries, such as health care technology and companies operating online marketplaces that are classified in other GICS sectors, while still being supported by a transparent and well-established industry classification system. Exhibits 2 and 3 illustrate the index weight by GICS sector and the largest index constituents.

Exhibit 2: GICS Sector Composition

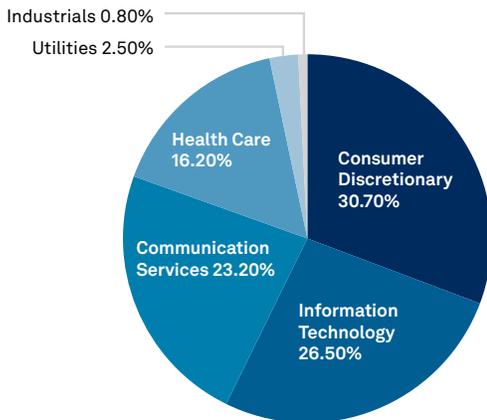


Exhibit 3: Top 10 Constituents

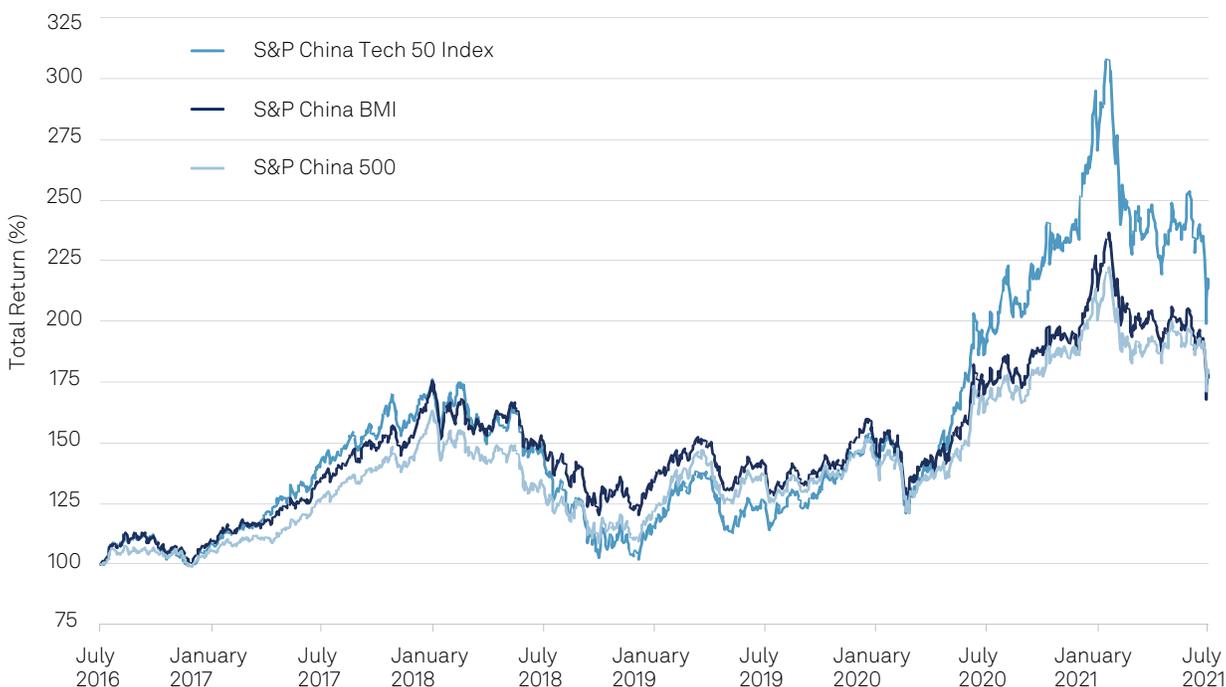
No.	Constituent	GICS Sector	Weight
1	Alibaba Group Holding Ltd ADR	Consumer Discretionary	9.35%
2	Tencent Holdings Ltd.	Communication Services	9.17%
3	JD.com Inc. ADR	Consumer Discretionary	7.52%
4	Meituan Dianping	Consumer Discretionary	7.39%
5	Wuxi Biologics (Cayman) Inc	Health Care	5.85%
6	Baidu.com	Communication Services	5.29%
7	Xiaomi Corporation - w	Information Technology	5.05%
8	NetEase Inc	Communication Services	4.84%
9	Pinduoduo Inc ADS	Consumer Discretionary	3.80%
10	Xi'an LONGi Silicon Materials Company Limited A	Information Technology	2.56%

Source: S&P Dow Jones Indices LLC. Data as of July 30, 2021. Chart and table are provided for illustrative purposes.

4. How has the performance of the S&P China Tech 50 Index compared to the broader Chinese equity market?

Over the trailing five-year period ending July 30, 2021, the S&P China Tech 50 Index posted a 17.7% annualized total return, while the S&P China BMI and S&P China 500 returned 12.1% and 12.9% per year, respectively.

Exhibit 4: Historical Performance



Source: S&P Dow Jones Indices LLC. Data as of July 30, 2021. Past performance is no guarantee of future results. 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.

5. How can the S&P China Tech 50 Indices be used?

The indices are designed to be an investable measure of technology-related Chinese businesses in order to support index-based financial products. The various indices in the series are constructed to consider different levels of access to onshore stocks and foreign listings.

- **S&P China Tech 50 Index:** All Chinese share classes are eligible, with A-shares constrained to Stock Connect listings.
- **S&P China Tech 50 HK Connect Index:** Restricts eligibility to Hong Kong listings and A-shares accessible via Stock Connect (Northbound).
- **S&P China Tech 50 Offshore Index:** Removes A-shares from eligibility to provide a fully accessible offshore-only composition.
- **S&P China Tech 50 Domestic Index:** Reflects investability from the domestic China perspective, and includes A-shares as well as Hong Kong listings accessible via Stock Connect (Southbound).

6. What are the key benefits of this index series?

- **Comprehensive Coverage of the Technology Growth Theme:** By reaching beyond the GICS Information Technology sector, the index includes other innovative technology-related industries, such as consumer internet, green technology, and health care technology companies.
- **Flexibility:** In order to permit usage by a wide audience with varied investor perspectives, the different S&P China Tech 50 Indices are designed to reflect varied levels of access to HK listings, A-shares, and offshore listings.
- **Liquidity:** The indices include only the largest, most liquid Chinese technology companies, which when combined with market-cap weighting aims to result in high liquidity and capacity, and therefore may enable more efficient replication for passive investors.

Performance Disclosure/Back-Tested Data

The S&P China Tech 50 Index was launched June 28, 2021. 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

© 2021 S&P Dow Jones Indices. All rights reserved. S&P, S&P 500, S&P 500 LOW VOLATILITY INDEX, S&P 100, S&P COMPOSITE 1500, S&P 400, S&P MIDCAP 400, S&P 600, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, S&P TARGET DATE INDICES, S&P PRISM, S&P STRIDE, GICS, SPIVA, SPDR and INDEXOLOGY are registered trademarks of S&P Global, Inc. ("S&P Global") or its affiliates. DOW JONES, DJ, DJIA, THE DOW and DOW JONES INDUSTRIAL AVERAGE are registered 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. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. S&P Dow Jones Indices LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment 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.

The Global Industry Classification Standard (GICS®) was developed by and is the exclusive property and a trademark of S&P and MSCI. Neither MSCI, S&P nor any other party involved in making or compiling any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.