

S&P Hong Kong Listed China MidSmallCap Select Index Consultation

BEIJING, JULY 10, 2018: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with members of the investment community on potential changes to the S&P Hong Kong Listed China MidSmallCap Select Index.

In order to be eligible for index inclusion, stocks must currently have a three-month median daily value traded (3M MDVT) of at least HKD 20 million (HKD 15 million for current index constituents).

S&P DJI is proposing to apply a more rigorous liquidity screen in order to reduce turnover and diminish the effect of random spikes and outliers on the liquidity measure. Two options are being considered:

1. Extend the MDVT liquidity measurement period to 12 months without changing the existing HKD requirements.
2. Extend the MDVT liquidity measurement period to 12 months and introduce a relative MDVT inclusion threshold. The inclusion threshold would be determined by ranking the eligible universe by descending 12M MDVT. The threshold for inclusion would be the lowest 12M MDVT value from the top 70%, 75%, or 80% of the float-adjusted market capitalization of the eligible universe, with a 5% buffer for existing index constituents.

IMPACT ANALYSIS

The table below shows the actual turnover from the index’s historical rebalancings as well as the hypothetical liquidity threshold and turnover if the proposed changes described above had been applied.

Rebalancing	Actual Turnover	Option 1 Turnover	Option 2a - 70% coverage (5% buffer)		Option 2b - 75% coverage (5% buffer)		Option 2c - 80% coverage (5% buffer)	
			Turnover	12M HKD Threshold ¹	Turnover	12M HKD Threshold ¹	Turnover	12M HKD Threshold ¹
Sept. 2015	30.02%	25.28%	21.88%	12.46	21.46%	9.73	20.32%	5.83
Mar. 2016	12.19%	6.34%	4.71%	12.44	4.96%	9.53	5.35%	6.56
Sept. 2016	15.77%	14.43%	14.12%	10.08	15.10%	7.11	14.81%	4.44
Mar. 2017	12.59%	5.63%	6.64%	10.73	7.15%	7.09	8.08%	4.60
Sept. 2017	23.50%	21.78%	18.82%	19.72	18.18%	14.77	17.03%	10.33
Mar. 2018	7.26%	7.73%	5.99%	31.73	5.12%	21.69	4.73%	13.57
Turnover Avg. Reduction	-	3.35%	4.86%	-	4.90%	-	5.17%	-

The table on the following page shows the actual annualized index return as well as the hypothetical annualized index return if the proposed changes above had been applied historically. Please note that the hypothetical returns are indicative only and do not account for any interim drops or share and IWF changes that may have occurred intra-rebalancing.

¹ In HKD million.

Annualized Total Return (HKD) ²	Actual	Option 1	Option 2a - 70% coverage (5% buffer)	Option 2b - 75% coverage (5% buffer)	Option 2c - 80% coverage (5% buffer)
1 Year	27.06%	27.27%	26.39%	26.10%	26.11%
3 Year	6.16%	10.09%	9.66%	9.04%	8.84%
5 Year	11.85%	13.53%	13.40%	12.77%	12.62%

QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. **Should S&P DJI apply a more rigorous liquidity screen to the S&P Hong Kong Listed China MidSmallCap Select Index?**
 - Yes, Option 1 should be applied
 - Yes, Option 2 should be applied
 - No, a more rigorous liquidity screen should not be applied
2. **If you favored Option 1 in Question 1 above, is a 12-month measurement period appropriate?**
 - Yes, it is appropriate
 - No, a different measurement period should be considered (please specify)
3. **If you favored Option 2 in Question 1 above, which is preferred?**
 - Option 2a
 - Option 2b
 - Option 2c
 - A different coverage and/or buffer option should be considered (please specify)
4. **Do you have any other comments or feedback regarding the proposed changes outlined above?**

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. S&P DJI will make responses to consultations freely available upon request.³ If you do not want your response to be made available, you must clearly state that in your response. Please respond to this survey by **August 8, 2018**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI will consider the issues and may request clarifications from respondents as part of that review. Alternative options to the proposed questions after the deadline require that the consultation be re-opened to the public.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at index_services@spglobal.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply

² Annualized total returns for the period ending June 29, 2018.

³ Individual and company names as well as contact details will be redacted.

CONSULTATION

with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spdji.com.

ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500[®] and the Dow Jones Industrial Average[®]. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has become home to over 1,000,000 indices across the spectrum of asset classes that have helped define the way investors measure and trade the markets.

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