

S&P/BMV China SX20 Index Consultation on the Index Universe, Constituent Weightings, and Constituent Replacement - Extended

MEXICO CITY, FEBRUARY 04, 2021: 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/BMV China SX20 Index. To allow market participants more time to review the added impact analysis, S&P DJI is extending the consultation, which now closes Friday, February 12, 2021, and the implementation date, which is now Monday, March 01, 2021.

Due to the impact of the recent Executive Order prohibiting U.S. transactions in certain Chinese companies, S&P DJI is considering expanding the index universe to ensure the target constituent count of 20 is satisfied.¹ In addition, SPDJI is considering changing the index weighting scheme to one of the three Options outlined below. Finally, S&P DJI is considering adding a constituent replacement rule to automatically add a constituent for any constituent removed due to index deletion.

The tables below summarize the proposed changes and the impact analysis of the changes should they be adopted.

Index Universe	
Current	The Index Universe consists of all stocks of Chinese companies that trade on NYSE and Nasdaq in the form of level II or level III ADRs and ADSs, that are also listed on the BMV’s SIC (International Quotation System).
Proposed: Option I	The Index Universe consists of all stocks domiciled in China listed on the BMV’s SIC (International Quotation System) and listed in the U.S. on U.S. exchanges (NYSE, Nasdaq, and OTC).
Proposed: Option II	The Index Universe consists of all stocks domiciled in China listed on the BMV’s SIC (International Quotation System), including Chinese companies listed in the U.S., London, Hong Kong, and Singapore.

Constituent Weightings	
Current	The index is weighted based on FMC, subject to a single stock weight cap of 10%.
Proposed: Option I	The index is weighted by FMC, subject to the following constraints: <ul style="list-style-type: none"> • No single stock’s weight can exceed 20%, and • The aggregate weight of stocks with weights greater than 15% cannot exceed 60%.
Proposed: Option II	The index is weighted based on FMC, subject to the following constraints: <ul style="list-style-type: none"> • No single stock’s weight can exceed 20%, and • The aggregate weight of the five largest stocks cannot exceed 60%.
Proposed: Option III	The index is weighted based on FMC, subject to the following constraints: <ul style="list-style-type: none"> • No single stock’s weight can exceed 15%, and • The aggregate weight of the five largest stocks cannot exceed 60%.

¹ Please note that in the event the Index Committee does expand the index universe, the language of the Index Objective will be updated to align with the expanded index universe.

Constituent Replacement	
Current	Except for spin-offs, there are no intra-rebalancing additions.
Proposed	<p>Between semi-annual rebalancings, index additions occur only in response to an index deletion. When an index deletion occurs, an addition is made according to the following process:</p> <p>The eligible non-constituent with the lowest joint Marketability Factor and VWAP FMC ranking over the prior six-month period is selected and added to the index. The effective date of the addition is the same date as the deletion effective date. The Marketability Factor reference date for additions is the same reference date used for the latest semi-annual rebalancing. The VWAP FMC reference date is seven business days prior to the addition effective date.</p> <p>In cases where two or more non-constituents share the same joint ranking, the stock with the highest VWAP FMC is selected.</p> <p>Except for spin-offs (which are added at a zero price), an addition made using the constituent replacement rule is added to the index with the same AWF as the largest AWF currently represented in the index. If using the largest AWF in the index would result in the addition's weight being higher than the maximum stock weight as of the date the addition is announced, the addition is added to the index with index shares commensurate with the index shares of the stock capped at the maximum weight using the closing prices on the date the addition is announced. In such cases, index shares for current constituents remain constant.</p>

For more information on the S&P/BMV China SX20 Index, please refer to the S&P/BMV Indices Methodology available [here](#).

IMPACT ANALYSIS

Using data as of December 31, 2020, the table below shows the actual eligible universe count using the current index universe, versus the hypothetical eligible universe count had either of the proposed index universe changes previously detailed been implemented.

Index	Eligible Universe
Current Methodology	31 ²
Option I – Index Universe	34²
Option II - Index Universe	39²

TURNOVER IMPACT

Using data as of December 11, 2020, the table below shows the one-way turnover that would result using the proposed constituent weighting schemes, considering the index composition at the time of the weighting.

Constituent Weighting Scheme	Turnover
Option I	17.94%
Option II	15.16%
Option III	10.20%

² China Mobile Ltd. ADR, China Unicom Ltd. ADR, and CNOOC Ltd. ADR are removed as directed by the Executive Order in accordance with the guidelines described in the Sanction Section of S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

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HYPOTHETICAL BACK-TESTED PERFORMANCE

The table below uses hypothetical back-tested data to show the performance of the index had the index universe been expanded as proposed under Option I, and with each of the proposed weighting options included.³ Hypothetical back-tested performance is not actual performance. It is not possible to invest directly in an index.

OPTION 1 - INDEX UNIVERSE

Risk-Return Profile	S&P/BMV China SX20	Constituent Weightings Option I	Constituent Weightings Option II	Constituent Weightings Option III
Annualized Return (%)				
Past 1 Year	29.1	30.5	36.7	36.4
Past 2 Year	22.9	24.3	29.1	28.6
Since 03/31/2017	12.4	15.7	17.2	16.2
Annualized Volatility (%)				
Past 1 Year	19.5	20.9	21.3	20.8
Past 2 Year	19.8	20.2	20.5	20.1
Since 3/31/2017	20.3	20.3	20.6	20.1
Risk Adjusted Return				
Past 1 Year	1.5	1.5	1.7	1.8
Past 2 Year	1.2	1.2	1.4	1.4
Since 03/31/2017	0.6	0.8	0.8	0.8

Source: S&P Dow Jones Indices LLC. Data from March 31, 2017, to December 31, 2020. Index performance based on total return in MXN. Past performance is no guarantee of future results. Table provided for illustrative purposes and reflect 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.

HYPOTHETICAL BACK-TESTED COMPOSITION

The following table shows hypothetical composition as of the latest rebalancing on September 18, 2020 using the proposed index universe expansion under Option 1. Note that this table is hypothetical only and may or may not correspond to the actual composition of the index.

Name	Constituent Weightings Option I	Constituent Weightings Option II	Constituent Weightings Option III
Alibaba Group Holding Limited	20.0%	19.0%	15.0%
Baidu Inc.	5.7%	8.9%	10.3%
Tencent Holdings Limited	20.0%	19.0%	15.0%
Jd.Com, Inc.	9.8%	3.6%	3.6%
Momo Inc.	0.5%	0.8%	0.9%
Joyy Inc.	0.8%	1.2%	1.4%
Vipshop Holdings Limited	1.5%	2.4%	2.7%
Netease, Inc.	1.3%	2.0%	2.3%

³ Please note no analysis of the index universe expansion under Option 2 is provided as the results were very similar to Option 1, but for the inclusion of six companies trading only in Hong Kong.

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Name	Constituent Weightings Option I	Constituent Weightings Option II	Constituent Weightings Option III
New Oriental Education & Techonology Group Inc.	2.9%	4.5%	5.2%
Tal Education Group	5.3%	8.2%	9.4%
Trip.Com Group Limited	2.0%	3.2%	3.6%
China Petroleum & Chemical Corporation	1.9%	3.0%	3.4%
Cnooc Limited	3.0%	4.6%	5.3%
Huazhu Group Limited	0.7%	1.1%	1.2%
Ping An Insurance (Group) Company Of China, Ltd.	9.9%	3.6%	3.6%
China Life Insurance Company Limited	3.0%	4.6%	5.4%
Gds Holdings Limited	1.0%	1.6%	1.9%
Zto Express (Cayman) Inc.	2.8%	4.4%	5.0%
Petrochina Company Limited	1.3%	2.0%	2.3%
China Mobile Limited	6.6%	2.4%	2.4%
	100.0%	100.0%	100.0%

Source: S&P Dow Jones Indices LLC. Data from September 18, 2020.

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology changes, if adopted, on Monday, March 01, 2021, to provide at least one-week advance notification.

QUESTIONS

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

1. Do you agree with the proposal to change the index universe?
 - a. Yes, change to Option I.
 - b. Yes, change to Option II.
 - c. No, keep the current methodology.
2. Do you agree with the proposal to change the constituent weightings scheme?
 - a. Yes, change to Option I.
 - b. Yes, change to Option II.
 - c. Yes, change to Option III.
 - d. No, keep the current methodology.
3. Do you agree with the proposal to add a constituent replacement rule?
 - Yes.
 - No.
4. Should the proposed methodology changes be adopted, do you agree with the proposed implementation date?
 - a. Yes.
 - b. No.

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5. 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 externally available upon request.⁴ 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 **February 12, 2021**. 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 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.

PERFORMANCE DISCLOSURE

The data presented in the performance chart was created using hypothetical concepts applying the proposed changes in the consultation. All information presented in back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the proposed changes to the methodology. It is not possible to invest directly in an index. Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown. For the purpose of this consultation, the back-test period does not necessarily correspond to the entire available history of the Index.

Please refer to the methodology paper for the Index, available at www.spdji.com or www.spindices.com 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.

Another limitation of back-tested hypothetical information is that generally the back-tested calculation is prepared with the benefit of hindsight. Back-tested data reflect the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities (or fixed income, or commodities) markets in general which cannot be, and have

⁴ Individual and company names as well as contact details will be redacted.

not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

The Index returns shown do not represent the results of actual trading of investible assets/securities. S&P Dow Jones Indices LLC 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 3 years, 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).

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 been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

S&P Dow Jones Indices is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit www.spdji.com.

FOR MORE INFORMATION:

S&P Dow Jones Indices
index_services@spglobal.com

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