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Research

Capturing the Complete China Story: The S&P China 500

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The S&P China 500 captures a more complete picture of the Chinese economy than other segmented China equity indices. This paper discusses the demand for and objective of the index and reviews its construction, characteristics, and historical performance in comparison with other onshore and offshore China equity indices.

EXECUTIVE SUMMARY

- China is one of the world's largest economies and is experiencing rapid capital market growth. Chinese equities will likely remain an essential part of long-term investments globally.
- Offshore-listed shares have represented as much as 34% of the total Chinese equity market, and they have gained increasing traction among global investors who seek exposure to the Chinese economy but are restricted from onshore market investment.
- There is an increasing demand for benchmarks that integrate Chinese onshore and offshore listings. The introduction of various domestic and foreign investment schemes, as well as stock connect programs, have broadened capital flows between domestic and international markets.
- The S&P China 500 is designed to measure the performance of the top 500 companies in China. The index includes companies regardless of their place of listing, thereby reflecting a more complete China story than other segmented China equity indices.
- As the majority of leading Communication Services companies are only listed offshore, and the S&P China 500 is designed to approximate the sector weights of the broad market, the S&P China 500 is less concentrated in the Financials sector and more tilted to the Communication Services sector than the onshore China indices.
- Benefiting from more diversified sector, exchange, and currency exposures, performance of the S&P China 500 was less volatile than the onshore China indices, while recording slightly higher risk-adjusted return over the long term.

THE RISE OF CHINA AND THE NEW G2

China's nominal GDP reached USD 13.4 trillion in 2018, representing 15.8% of the world economy.

There is little room for doubt regarding the growing importance of China in the global economy. China's nominal GDP reached USD 13.4 trillion in 2018, representing 15.8% of the world economy. It is second only to the U.S., which had a GDP of USD 20.5 trillion in the same year, representing 24.2% of the world economy. China leaped into the new G2 and replaced Japan as the world's second-largest economy in 2009. Its 2018 GDP was more than double that of Japan, which is in third place, with a 2018 GDP of USD 5.0 trillion.[1]

From 2014 to 2018, China's real GDP grew at an average rate of 6.9% year-over-year, and the IMF expects this to continue growing at an average annual rate of 5.9% from 2019 to 2023, which would still be much higher than the growth rates of developed countries.[2]

Judging from the purchasing power parity GDP, China represented 18.7% of the world economy in 2018 according to IMF estimates, surpassing the U.S., which represented 15.2% of the world economy in the same year.

THE DEVELOPMENT OF THE CHINESE CAPITAL MARKET

The Chinese government has adopted a series of approaches to stimulate the economy since the 1980s, including the privatization of government-controlled enterprises to foster competition; gradually opening the market; the establishment of equity and bond markets to finance the growth of the private sector and to support the government's fiscal spending; the introduction of institutional investors into the market; and the initiation of the mutual fund and ETF markets.

Chinese assets may provide diversification due to low correlation with other markets.

As of the end of 2018, the size of equity and bond markets in China had reached RMB 43.5 trillion and RMB 58.4 trillion, respectively, with assets under management of RMB 12.9 trillion in the fund market.[3] With sustained economic growth and a relatively isolated environment due to the restrictions on capital flows, Chinese financial assets tend to have low correlation with other major financial assets, which makes them potential diversification tools. Historically, the Chinese equity market has had low correlation with the U.S. and Europe, as well as other developed and emerging markets.

[1] Based on 2018 data from the IMF's World Economic Outlook Report, April 2019.

[2] For GDP growth figures for China in comparison with other developed markets, see Exhibit 11 in the Appendix.

[3] For asset growth history of the Chinese capital markets, see Exhibit 12 in the Appendix.

Exhibit 1: Potential Diversification Benefit of Chinese Assets

REGION CORRELATION	U.S.	EUROPE	JAPAN	CHINA A-SHARES	CHINA OFFSHORE	ALL CHINA	GLOBAL	DEVELOPED MARKETS	EMERGING MARKETS
U.S.	1.00	0.58	0.01	0.09	0.30	0.19	0.87	0.89	0.52
Europe	-	1.00	0.22	0.17	0.46	0.31	0.86	0.85	0.75
Japan	-	-	1.00	0.22	0.44	0.34	0.31	0.29	0.39
China A-Shares	-	-	-	1.00	0.53	0.93	0.21	0.19	0.38
China Offshore	-	-	-	-	1.00	0.80	0.56	0.51	0.82
All China	-	-	-	-	-	1.00	0.39	0.35	0.61
Global	-	-	-	-	-	-	1.00	1.00	0.81
Developed Markets	-	-	-	-	-	-	-	1.00	0.77
Emerging Markets	-	-	-	-	-	-	-	-	1.00

Source: S&P Dow Jones Indices LLC. Correlation is calculated based on daily total returns of the corresponding S&P Country/Region BMI Indices in USD. Data from June 30, 2006, to Feb. 28, 2019. Past performance is no guarantee of future results. Table 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. Shaded cells correspond to the China A-shares market.

GAINING ACCESS TO THE ONSHORE CHINA MARKET

Foreign investments in China are restricted due to foreign exchange controls, but the Chinese government has been introducing bilateral channels to deepen and broaden the capital flows.

In November 2002, the Chinese government introduced a transitional arrangement called the Qualified Foreign Institutional Investor (QFII) scheme, which allowed qualified foreign institutional investors to invest in a limited scope of securities products, with an initially allocated quota of USD 10 billion.[4] As of the end of February 2019, there were already 288 qualified foreign institutional investors with a total approved quota reaching USD 101.4 billion.[5]

In December 2011, the Renminbi Qualified Foreign Institutional Investor (RQFII) program was initiated, which provided direct access to Chinese onshore securities with offshore Chinese renminbi. Compared with the QFII, it allowed settlement in offshore Chinese renminbi and permitted broader investment opportunities.[6] As of the end of February 2019, the approved quota had reached RMB 660.5 billion.[7]

[4] Qualified Foreign Institutional Investors (QFIIs) Brochure Special Edition, PWC, 2012.

[5] Qualified Foreign Institutional Investors (QFIIs) with Investment Quotas Granted, SAFE, Feb. 27, 2019.

[6] Choo Lye Tan. The Renminbi Qualified Foreign Institutional Investor Program—Opportunities and Challenges for International Investors Interested in Direct Access to PRC Securities with Offshore Renminbi. *The Investment Lawyer*. Vol. 21, No. 8, August 2014.

[7] Wind Info, www.wind.com.cn/en/.

The Chinese government has been introducing bilateral channels to deepen and broaden capital flows.

In April 2014, the Chinese government announced its plan to create the Shanghai-Hong Kong Stock Connect, which would allow Hong Kong and foreign investors to trade eligible stocks listed on the Shanghai Stock Exchange (northbound), and it permitted mainland institutional and individual investors with RMB 500,000 in their investment and cash accounts to trade Hong Kong-listed eligible stocks (southbound). The Shanghai-Hong Kong Stock Connect was officially kicked off on Nov. 17, 2014, with an initial quota of RMB 300 billion and RMB 250 billion for northbound and southbound trading, respectively.[8] In August, aggregated quota for the Shanghai-Hong Kong Stock Connect was abolished.[9]

Two years later, on Dec. 5, 2016, the Shenzhen-Hong Kong Stock Connect was launched as a natural extension without any aggregated quota. As of the end of February 2019, the accumulated quota used for the northbound and southbound of Mainland-Hong Kong Stock Connect reached RMB 975.8 billion and RMB 1,135.1 billion, respectively.

Facilities have also been established to foster investments from Hong Kong.

The Mutual Recognition of Funds (MRF) program between mainland China and Hong Kong became effective on July 1, 2015, which allowed qualified mainland Chinese and Hong Kong funds, via successful registration with the relevant regulator, to be able to reach retail investors in each other's markets. The initial quota set aside was expected to be RMB 300 billion each for northbound and southbound trading.[10] As of the end of 2018, 50 China mainland registered funds had been approved, and the aggregated assets under management reached RMB 105 billion.

THE GROWTH OF THE CHINA OFFSHORE MARKET

China's onshore and offshore listing markets were traditionally segmented due to the foreign exchange controls. Over the past 20 years, the number and aggregated market cap of China's offshore-listed companies have been increasing, and they have maintained between 22% and 34% of the market share for all Chinese listings by market cap since 2007. As of the end of 2018, there were approximately 1,299 offshore-listed Chinese companies, with an aggregated market cap of around USD 3.2 trillion.

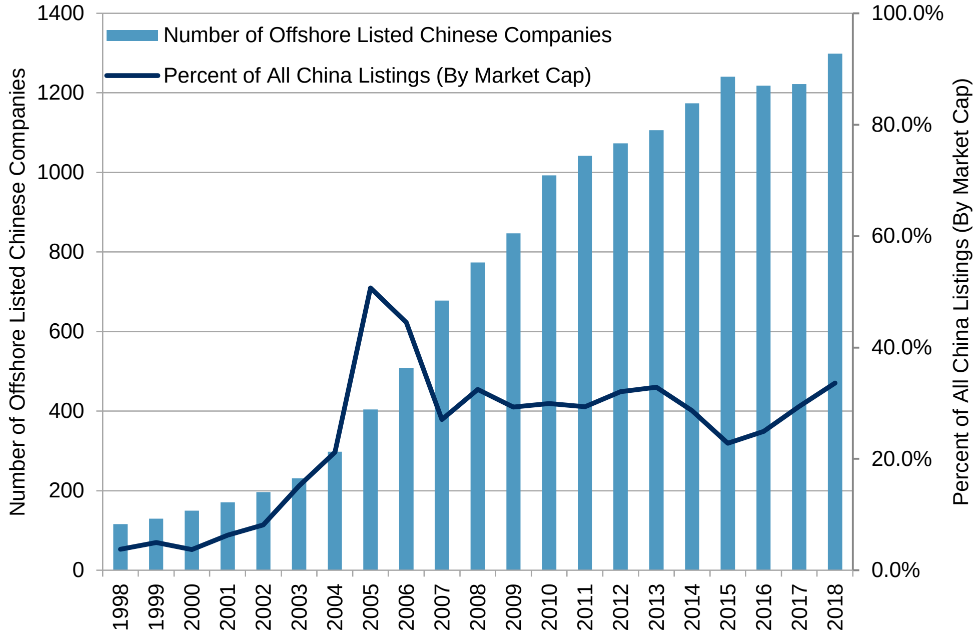
[8] https://en.m.wikipedia.org/wiki/Shanghai-Hong_Kong_Stock_Connect.

[9] Stock Connect Another Milestone FAQ, HKEX, March 21, 2019 (https://www.hkex.com.hk/-/media/HKEX-Market/Mutual-Market/Stock-Connect/Getting-Started/Information-Booklet-and-FAQ/FAQ/FAQ_En.pdf).

[10] Mainland-Hong Kong Mutual Recognition of Funds Symposium, SFC, July 3, 2015 (www.sfc.hk/web/EN/files/ER/MRF_Synopsis1.pdf).

Offshore listings have increased meaningfully in the number of listings and the aggregated market capitalization.

Exhibit 2: The Growth of China's Offshore Listings



Source: S&P Dow Jones Indices LLC, Factset. All companies available in Factset with country of domicile as China based on the country definition of S&P BMI Indices or Worldscope are counted. Data from year-end 1998 to year-end 2018. Chart is provided for illustrative purposes.

Many of the Chinese industry leaders are only investable through their offshore listings.

Of the offshore Chinese listings, many are domestic or global leaders in their respective industries, such as China Mobile and Lenovo. There are also consumer producers that offer well-known brands, such as ANTA, Want, Mengniu, express delivery provider ZTO Express, and education service provider New Oriental. Internet retailers and service providers that have brought revolutionary changes to people's daily and social life, such as Tencent, Alibaba, Baidu, JD.com, NetEase, and Ctrip, also play a significant part in the offshore listing market. It is worth highlighting that many of these Chinese industry leaders are only investable through offshore listings, as shown in Exhibit 3.

Exhibit 3: Chinese Industry Leaders that Are Listed Offshore Only

COMPANY NAME	RIC	GICS SECTOR	FLOAT MARKET CAP		CORPORATE REVENUE	
			USD MILLION	% OF SECTOR	USD MILLION	% OF SECTOR
Alibaba Group Holding	BABA.N	Consumer Discretionary	237,224	34.3	22,987	2.2
Tencent Holdings	0700.HK	Communication Services	236,210	49.3	29,880	7.7
China Mobile	0941.HK	Communication Services	58,173	12.1	113,808	29.4
Baidu.com	BIDU.OQ	Communication Services	45,202	9.4	11,242	2.9
CNOOC Ltd.	0883.HK	Energy	27,724	17.8	27,786	3.2
JD.com	JD.OQ	Consumer Discretionary	22,687	3.3	55,686	5.4
NetEase Inc	NTES.OQ	Communication Services	16,417	3.4	8,315	2.1
Yum China Holdings Inc	YUMC.N	Consumer Discretionary	15,815	2.3	7,733	0.7
China Overseas Land & Inv.	0688.HK	Real Estate	13,714	5.4	20,986	3.9
Ctrip.com Intl	CTRP.OQ	Consumer Discretionary	13,026	1.9	3,883	0.4
TAL Education Group	TAL.N	Consumer Discretionary	12,660	1.8	1,043	0.1
Geely Automobile	0175.HK	Consumer Discretionary	10,454	1.5	14,256	1.4
China Resources Land	1109.HK	Real Estate	10,089	4.0	15,177	2.8
New Oriental Education & Technology	EDU.N	Consumer Discretionary	9,602	1.4	1,800	0.2
Sunac China Holdings	1918.HK	Real Estate	9,586	3.8	10,124	1.9
Country Garden Holdings	2007.HK	Real Estate	9,409	3.7	34,872	6.4
China Evergrande Group	3333.HK	Real Estate	9,301	3.7	47,800	8.8
China Mengniu Dairy	2319.HK	Consumer Staples	8,372	3.3	9,245	3.4
WH Group Ltd	0288.HK	Consumer Staples	8,340	3.3	22,379	8.1
ZTO Express (Cayman) Inc	ZTO.N	Industrials	7,379	1.4	2,007	0.1
China Gas Holdings Ltd.	0384.HK	Utilities	7,334	5.7	4,117	1.8
Hengan International Group	1044.HK	Consumer Staples	5,947	2.3	3,047	1.1
Lenovo Group	0992.HK	Information Technology	5,627	1.6	43,035	8.5
ANTA Sports Products	2020.HK	Consumer Discretionary	5,192	0.8	2,565	0.2
Want Want China Holdings	0151.HK	Consumer Staples	5,120	2.0	3,170	1.1

Source: S&P Dow Jones Indices LLC, S&P Capital IQ. Market-cap data as of Feb. 28, 2019. Revenue data as of 2017. Percentage of sector data is based on the S&P Total China Domestic BMI. Table is provided for illustrative purposes.

CAPTURING THE TOTAL CHINA STORY – THE S&P CHINA 500

As capital flows deepen and broaden in the Chinese market, the demand for benchmarks and investment tools for the integration of Chinese onshore and offshore listings is increasing. In response to market demand, the S&P Total China Domestic BMI and the S&P China 500 were launched to offer more complete coverage for Chinese companies listed both onshore and offshore.

Index Construction of the S&P China 500

Having been designed as the "S&P 500® for China," the index reflects many key features of the U.S. market barometer, the S&P 500. For instance, the S&P China 500 consists of the 500 largest Chinese companies by total market cap with diverse sector exposure and includes their multiple listings that qualify for the market-cap and liquidity criteria, as shown in Exhibit 4.

The S&P China 500 is designed to provide more complete coverage of Chinese companies listed both onshore and offshore.

Compared with other onshore or offshore China indices, the S&P China 500 has more complete coverage of China's equity market, as it includes not only onshore but also offshore Chinese listings, as shown in Exhibit 5.

As a majority of Chinese Financials companies are large and tend to rank high by market cap, their concentration and sector weight in the large-cap segment tends to be much higher than that in the broad market. To avoid this sector bias, which is seen in many onshore and offshore China large-cap indices, the S&P China 500 is designed with a unique feature that approximates sector composition of the broad market during the stock-selection process.

Index construction reduces Financials sector concentration as a result of combining onshore and offshore markets.

The S&P China 500 inherits key features of the U.S. barometer, the S&P 500.

Exhibit 4: Major Index Construction Rules of the S&P China 500 and S&P 500

METHODOLOGY	S&P CHINA 500	S&P 500
Index Membership	S&P Total China Domestic BMI	All companies domiciled in the U.S.
Country of Domicile	China	U.S.
Listing Venue	All exchanges globally	NYSE, NYSE Arca, NYSE MKT, NASDAQ Global Select Market, NASDAQ Select Market or NASDAQ Capital Market
Number of Companies	500	500
Share Count	Variable	Variable
Eligible Share Classes	A, B, H Shares, Red Chips, P Chips, U.S. or other exchange-listed shares. ADRs are included.	Only common equities. No ADRs.
Size Criteria	Float market cap >= USD 300 million	Total market cap >= USD 5.3 billion
Liquidity Criteria	Six-month median daily value Traded >= USD 1 million	One-month trade volume >= 250,000 shares for each of the past six months; Annual float-adjusted turnover >= 100%
Public Float	No requirements	Public float >= 50%
Sector Composition	Approximate broad market GICS sector composition	Index versus market weight of each GICS sector is considered
Financial Viability	No requirements	Trailing four-quarter reported earnings and latest quarter reported earnings > 0
Treatment of IPOs	No requirements for trading history	Must be seasoned for 6 to 12 months
Index Construction	Companies are ranked by total market cap within each GICS sector. Largest company in the most underweighted sector compared with market is selected until stock count reaches 500.	Index membership eligibility is based on companies' total market cap. Sector balance relative to the broad market is considered by the index committee in determining index additions.
Multiple Share Classes	All eligible share classes that qualify for the market-cap and liquidity criteria are included.	All eligible share classes that qualify for the market-cap and liquidity criteria are included.
Weighting Method	Float-adjusted market-cap weighted	Float-adjusted market-cap weighted
Rebalance Frequency	Semiannually on third Friday of June and December	Changes are made as needed.

Source: S&P Dow Jones Indices LLC. Annual float-adjusted turnover is calculated as annual USD value traded divided by float-adjusted market cap. Table is provided for illustrative purposes. As-reported earnings are Generally Accepted Accounting Principles (GAAP) net income excluding discontinued operations and extraordinary items.

The S&P China 500 has more complete coverage of share classes.

Exhibit 5: Market Coverage of S&P China 500 versus Other China Indices

SHARE CLASS COVERAGE	ONSHORE			OFFSHORE			ONSHORE/ OFFSHORE
	S&P CHINA A 300 INDEX	CSI 300	FTSE CHINA A50	HSCEI	FTSE CHINA 50	MSCI CHINA	S&P CHINA 500
China-Listed A-Shares	Yes	Yes	Yes	No	No	No	Yes
China-Listed B-Shares	No	No	No	No	No	Yes	Yes
Hong Kong-Listed H-Shares	No	No	No	Yes	Yes	Yes	Yes
Hong Kong-Listed Red Chips and P Chips	No	No	No	Yes	Yes	Yes	Yes
U.S.-Listed Shares and ADR	No	No	No	No	No	Yes	Yes
Other Exchange-Listed Shares	No	No	No	No	No	Yes	Yes

Source: S&P Dow Jones Indices LLC, CSI, FTSE, HIS, and MSCI. Table is provided for illustrative purposes.

CHARACTERISTICS OF THE S&P CHINA 500

Composition on Sector, Exchange, and Trading Currency

By including both onshore and offshore listings and approximating a broad market sector weight during stock selection, the S&P China 500 is much more diversified in sector exposure.

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The Communication Services sector, which only comprises less than 2% in all the onshore China indices, now represents 11.8% of the S&P China 500, as China Mobile and the biggest internet service providers such as Tencent and Baidu are only listed offshore. Another significant increase in sector weight is seen in the Consumer Discretionary sector, which has a weight of 16.4% in the S&P China 500, due to the inclusion of offshore-listed e-commerce companies, such as Alibaba and JD.com.

It is also clear that the S&P China 500 has much lower concentration risk to the Financials sector than other onshore and offshore China indices in the large-cap space, as the S&P China 500 mimics the broad market sector weights in its stock-selection process. The Financials sector dominates 32%-55% in the onshore and offshore China indices in the large-cap space, but it only weighs 25.1% in the S&P China 500.

The S&P China 500 mimics the broad market sector weights in its stock-selection process.

Exhibit 6: Sector Breakdown of the S&P China 500 and Other China Indices (%)

SECTOR	ONSHORE			OFFSHORE			ONSHORE/ OFFSHORE
	S&P CHINA A 300 INDEX	CSI 300	FTSE CHINA A50	HSCEI	FTSE CHINA 50	MSCI CHINA	S&P CHINA 500
Energy	2.5	2.5	2.5	11.1	11.4	5.1	3.4
Materials	7.0	6.7	1.9	1.2	1.2	2.1	7.3
Industrials	13.4	13.5	6.4	3.6	5.0	5.2	11.3
Consumer Discretionary	10.2	9.5	8.7	3.3	5.3	22.5	16.4
Consumer Staples	8.8	8.9	12.7	0.7	0.0	2.4	5.4
Health Care	5.8	6.6	2.3	1.8	0.0	2.9	5.0
Financials	32.8	35.8	54.9	55.6	47.1	23.1	25.1
Information Technology	9.1	8.2	2.4	0.0	0.5	2.8	6.3
Communication Services	1.3	1.3	0.9	18.5	19.7	25.7	11.8
Utilities	3.6	2.6	1.2	2.2	0.9	2.8	2.8
Real Estate	5.4	4.6	6.0	2.0	8.8	5.4	5.2

Source: S&P Dow Jones Indices LLC, Bloomberg, MSCI. Data as of Feb. 28, 2019. Table is provided for illustrative purposes.

Sector exposure of the S&P China 500 is almost as broad and diverse as that of the S&P 500. While the S&P 500 is heaviest in the Information Technology, Health Care, and Financials sectors, the S&P China 500 has its highest weights in the Financials, Consumer Discretionary, and Communication Services sectors.

Sector exposure of the S&P China 500 is almost as broad and diverse as that of the S&P 500.

Exhibit 7: Sector Breakdown of the S&P China 500 and S&P 500 (%)

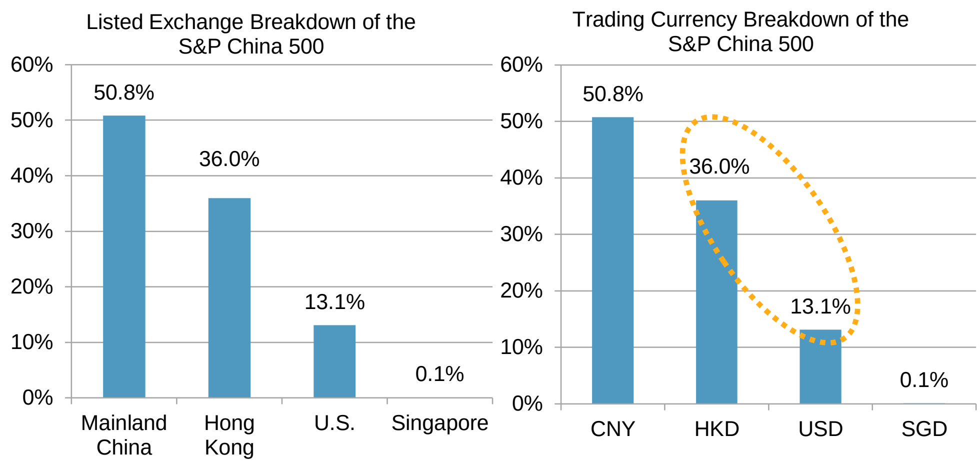
SECTOR	S&P CHINA 500	S&P 500
Energy	3.4	5.4
Materials	7.3	2.7
Industrials	11.3	9.8
Consumer Discretionary	16.4	9.9
Consumer Staples	5.4	7.1
Health Care	5.0	14.8
Financials	25.1	13.3
Information Technology	6.3	20.6
Communication Services	11.8	10.1
Utilities	2.8	3.3
Real Estate	5.2	3.0

Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2019. Table is provided for illustrative purposes.

Apart from diverse sector exposure, the S&P China 500 also distinguishes itself from other well-known onshore and offshore China indices by seeking to track diverse listed exchanges and trading currencies. As of Feb. 28, 2019, stocks traded in mainland China, Hong Kong, and U.S. exchanges accounted for 50.8%, 36.0%, and 13.1% of the index, respectively. On the other hand, the index had 50.8% and 49.2% currency exposure to the Chinese yuan and the U.S. dollar (and the Hong Kong dollar, which is pegged to the U.S. dollar), respectively.

Stocks traded in mainland China, Hong Kong, and U.S. exchanges accounted for 50.8%, 36.0%, and 13.1% of the S&P China 500, respectively.

Exhibit 8: Listed Exchange and Trading Currency Breakdown of the S&P China 500



Source: S&P Dow Jones Indices LLC. Data as of Feb.28, 2019. Charts are provided for illustrative purposes.

Market Representation

As of Feb. 28, 2019, the S&P China 500 represented about 67% of the S&P Total China Domestic BMI.

The S&P China 500 and the S&P 500 are the primary indicators of the overall equity market performance of the two biggest economies in the world. As of Feb. 28, 2019, the S&P China 500 represented approximately 67% of the S&P Total China Domestic BMI, while the S&P 500 represented about 83% of the market cap of the S&P United States BMI.

According to the sector breakdowns of these indices, internet-related industries have proven to become more important for both Chinese and U.S. markets. As of Feb. 28, 2019, Tencent and Alibaba were the top two weighted members in the S&P China 500, while Alphabet and Amazon.com were among the top four weighted members in the S&P 500. In contrast, due to the apparent preference of listing offshore by large Chinese internet and e-commerce companies, Communication Services and Consumer Discretionary were clearly underrepresented in the onshore market (see Exhibit 6). None of the top 10 companies in the S&P China A 300 Index were from the Communication Services sector, showing a different landscape from the S&P China 500.

As of Feb. 28, 2019, Tencent and Alibaba were the top two weighted members in the S&P China 500.

Exhibit 9: Top 10 Companies in the S&P China 500, S&P 500, and S&P China A 300 Index

S&P CHINA 500		S&P 500		S&P CHINA A 300 INDEX	
COMPANY NAME	**WEIGHT (%)**	**COMPANY NAME**	**WEIGHT (%)**	**COMPANY NAME**	**WEIGHT (%)**
Alibaba Group	7.86	Microsoft	3.70	Ping An Insurance	6.80
Tencent Holdings	7.83	Apple	3.34	China Merchants Bank	4.91
Ping An Insurance	5.19	Alphabet	2.91	Kweichow Moutai	2.99
China Construction Bank	3.42	Amazon.com	2.88	Industrial Bank Co Ltd	2.74
China Merchants Bank	3.04	Berkshire Hathaway B	1.67	China Minsheng Banking	2.01
ICBC	2.61	Facebook	1.66	Shanghai Pudong Development Bank	2.00
China Mobile	1.93	Johnson & Johnson	1.57	Gree Electric Appliances	1.91
Bank of China Ltd	1.62	JP Morgan Chase	1.48	Midea Group	1.82
Kweichow Moutai	1.50	Exxon Mobil	1.43	CITIC Securities	1.80
Baidu.com	1.50	Bank of America	1.13	China Vanke Co Ltd	1.53

Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2019. Table is provided for illustrative purposes.

Historical Performance

The S&P China 500 gained an annualized return of 10.9%, in U.S. dollars with a return correlation of 0.9 with the S&P China A 300 Index.

Over the period from June 30, 2006, to Feb. 28, 2019, the S&P China 500 gained an annualized return of 10.9% in U.S. dollars, with a return correlation of 0.9 with the S&P China A 300 Index.[11] It underperformed the domestic China indices by small margins, while significantly outperforming most of the offshore China indices.[12] Due to the more diversified sector, exchange, and currency exposure, the S&P China 500 had lower return volatility and drawdown than the onshore China indices, which resulted in slightly higher risk-adjusted return over the long term.

[11] Correlation is calculated based on daily total return in USD from June 30, 2006, to Feb.28, 2019, relative to the S&P China A 300 Index.

[12] For historical annual return figures, see Exhibit 13 in the Appendix.

Chinese equities could remain an essential part of long-term investment strategies for many global investors.

Exhibit 10: Risk/Return of the S&P China 500 and Other Onshore and Offshore China Indices

PERIOD	ONSHORE			OFFSHORE			ONSHORE/ OFFSHORE
	S&P CHINA A 300 INDEX	CSI 300	FTSE CHINA A50	HSCEI	FTSE CHINA 50	MSCI CHINA	S&P CHINA 500
ANNUALIZED RETURN (%)							
3-Year	10.9	10.0	15.0	17.2	17.5	19.6	14.8
5-Year	11.6	11.5	15.2	6.7	8.0	8.8	10.0
10-Year	8.2	7.8	8.3	8.7	9.5	11.3	10.2
Since June 30, 2006	11.9	11.3	10.9	7.4	7.6	9.5	10.9
CATEGORY							
Annualized Volatility (%)	27.3	27.7	28.0	30.1	29.0	27.3	23.4
Risk-Adjusted Return	0.44	0.41	0.39	0.25	0.26	0.35	0.46
Maximum Drawdown (%)	-68.7	-69.6	-70.8	-71.4	-69.0	-69.7	-66.8

Source: S&P Dow Jones Indices LLC. Index performance is based on total return in USD. Data from June 30, 2006, to Feb. 28, 2019. Past performance is no guarantee of future results. Table 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. Maximum drawdown is calculated as rolling 252-day maximum drawdown.

The S&P China 500 reflects a more complete picture of the Chinese economy…

CONCLUSION

As China is one of the world's largest economies and is experiencing growth in its capital market, Chinese equities could remain an essential part of long-term investment strategies for many global investors.

While the majority of Chinese corporations are listed on domestic exchanges, offshore-listed shares have represented between 22% and 34% of the total market (onshore and offshore) since 2007. They have gained significant traction from global investors who seek exposure to the Chinese economy but are restricted from onshore market investment.

…and has historically had lower return volatility and drawdown compared with the onshore China indices.

With the introduction of various domestic and foreign investment plans (QFII, QDII, RQFII, Stock Connect, and MRF) that deepen and broaden capital flows between domestic and international markets, there have been increasing demands for benchmarks and investment products that integrate Chinese onshore and offshore listings.

The S&P China 500, which seeks to provide comprehensive coverage of leading Chinese corporations listed on the onshore and offshore markets, serves as a unique benchmark for the whole Chinese economy. Like the S&P 500, which provides exposure to the top 500 companies in U.S. markets, the S&P China 500 captures the top 500 companies in China by market cap, regardless of where they are listed.

The S&P China 500 has a much more diversified sector, exchange, and currency exposure than onshore China indices.

As a majority of the leading Chinese Communication Services companies are only listed offshore, and the S&P China 500 is designed to approximate the sector weight of the total broad market, the S&P China 500 is less biased to the Financials sector and more tilted to the Communication Services sector compared with the onshore China indices that have existed longer in the market. The S&P China 500 therefore reflects a more complete picture of China's economy and has a much more diversified sector, exchange, and currency exposure, which has historically resulted in lower return volatility and drawdown compared with the onshore China indices.

APPENDIX

Exhibit 11: The Growth of the Chinese Economy

COUNTRY	GDP (CURRENT PRICE, USD BILLION)		FIVE-YEAR AVERAGE REAL GDP YEAR-OVER-YEAR (%)		% OF GLOBAL GDP (PPP)	
	2018* GDP	2023* GDP	2014-2018*	2019*-2023*	2018*	2023*
Australia	1,418	1,716	2.6	2.6	1.0	0.9
Brazil	1,868	2,360	-0.8	2.2	2.5	2.3
Canada	1,711	2,134	1.9	1.7	1.4	1.2
China	13,407	19,714	6.9	5.9	18.7	21.0
France	2,775	3,220	1.4	1.4	2.2	2.0
Germany	4,000	4,714	1.9	1.3	3.2	2.9
India	2,717	4,306	7.6	7.6	7.8	9.4
Italy	2,072	2,257	0.9	0.6	1.8	1.5
Japan	4,972	6,476	1.0	0.6	4.1	3.6
Korea	1,619	2,036	3.0	2.8	1.6	1.5
Mexico	1,223	1,495	2.6	2.3	1.9	1.8
Russia	1,631	1,846	0.5	1.6	3.1	2.8
Spain	1,426	1,693	2.7	1.8	1.4	1.3
U.K.	2,829	3,266	2.1	1.5	2.2	2.0
U.S.	20,494	24,813	2.4	1.8	15.2	14.0

*Data for France, Italy, Korea, Mexico, and Russia after 2017 are estimated. Data for the rest of the countries after 2018 are estimated.
Source: IMF World Economic Outlook Database. Data as of April 2019. Table is provided for illustrative purposes.

Exhibit 12: The Development of the Chinese Capital Market

YEAR	STOCK MARKET (RMB 100 MILLION)	BOND MARKET (RMB 100 MILLION)	FUND MARKET (RMB 100 MILLION)	ETFS (RMB 100 MILLION)	QDII FUNDS (RMB 100 MILLION)
2000	46,562	-	846	38	-
2005	32,430	75,114	4,691	87	-
2010	265,423	202,915	24,972	737	729
2015	531,304	367,641	83,478	6,551	582
2018	434,924	583,890	129,292	9,665	716

Source: Wind Info. Data as of Dec. 31, 2018. Table is provided for illustrative purposes.

Exhibit 13: Annual Performance of the S&P China 500 and Other China Indices (%)

PERIOD	ONSHORE			OFFSHORE			ONSHORE/OFF SHORE
	S&P CHINA A 300 INDEX	CSI 300	FTSE CHINA A50	HSCEI	FTSE CHINA 50	MSCI CHINA	S&P CHINA 500
2006 2H	49.5	50.8	76.8	53.0	47.8	47.8	46.8
2007	181.5	181.3	139.3	58.4	56.0	66.2	113.6
2008	-61.7	-63.2	-65.3	-49.6	-49.4	-50.8	-57.2
2009	96.9	98.5	85.7	66.0	54.2	62.6	84.4
2010	-6.7	-8.4	-19.5	1.5	3.2	4.8	1.3
2011	-21.1	-20.5	-13.4	-19.6	-17.0	-18.2	-20.4
2012	10.6	10.9	15.9	20.0	18.3	23.1	13.2
2013	-0.3	-2.6	-9.1	-1.5	-0.1	4.0	6.4
2014	49.4	52.1	64.7	15.5	13.3	8.3	25.7
2015	2.7	2.4	-9.2	-16.8	-11.2	-7.6	1.4
2016	-14.1	-15.2	-10.3	1.4	2.9	1.1	-8.2
2017	36.2	32.6	45.0	28.7	36.0	54.3	44.1
2018	-27.5	-27.6	-23.3	-10.2	-11.5	-18.8	-23.2
January-February 2019	24.1	25.2	23.7	12.0	11.1	14.9	18.8

Source: S&P Dow Jones Indices LLC, Bloomberg. Index performance is based on total return in USD. Data from June 30, 2006, to Feb. 28, 2019. Past performance is no guarantee of future results. Table 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.

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