S&P Dow Jones Indices

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TalkingPoints:

The S&P New China Sectors Index: Accessing the Growth Drivers of the "New China" Economy

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Take a look at how the S&P New China Sectors Index helps market participants see China's changing economy in a novel way.

1. What is the rationale behind the construction of the index?

Historically, China's growth has been driven by companies in the banking, natural resources, and manufacturing sectors—many of which are state-owned enterprises. However, as China's economy matures, consumption and service-related industries are becoming structurally more important. Because the country's stock market remains dominated by "old economy" sectors, many market participants are seeking alternative index solutions to participate in the next leg of China's growth. We believe the S&P New China Sectors Index meets this need in the marketplace, given its focus on companies operating in industries poised to benefit from China's transition to a consumer and service-oriented economy.

2. How does the index work?

Subject to meeting minimum size and liquidity requirements, all companies domiciled in China and Hong Kong are eligible, including A-shares and offshore listings in Hong Kong, the U.S. and Singapore. Companies classified within the Global Industry Classification Standard (GICS) sectors and industries listed in Exhibit 1 are then selected for inclusion.

If more than 300 companies are selected, only the largest 300 by float-adjusted market cap are included. The index is weighted by float-adjusted market cap, subject to a single-stock cap of 10%, and it is rebalanced semiannually in June and December.

Exhibit 1: S&P New China Sectors GICS Inclusion Criteria

GICS LEVEL	DESCRIPTION
Sector	Consumer Discretionary
Sector	Consumer Staples
Sector	Health Care
Sector	Telecommunication Services
Industry Group	Commercial & Professional Services
Industry Group	Insurance
Industry Group	Software & Services
Industry	Independent Power & Renewable Electricity Providers
Sub-Industry	Air Freight & Logistics
Sub-Industry	Airlines
Sub-Industry	Railroads
Sub-Industry	Airport Services
Sub-Industry	Highway & Railtracks
Sub-Industry	Communications Equipment

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes.

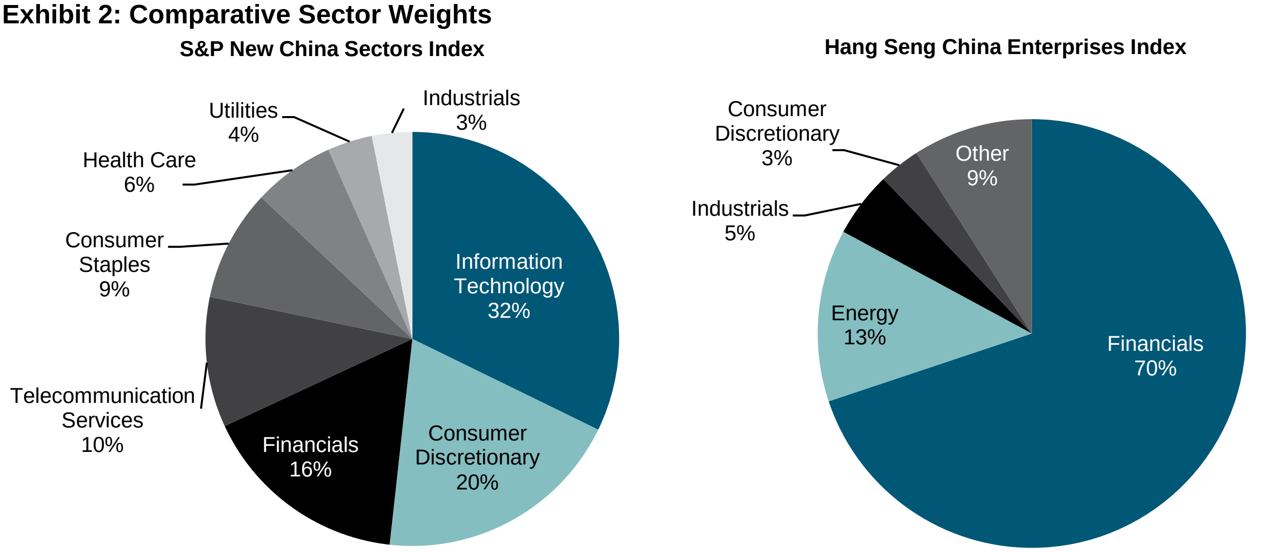
3. What are the key benefits of the S&P New China Sectors Index?

Targets the Complete Opportunity Set: All major Chinese share classes, including A-shares, as well as Hong Kong and other offshore listings, are eligible, providing a representative and complete starting universe from which to create the index. Inclusion of U.S. listings is particularly important, given that many large Chinese technology companies are only listed on U.S. exchanges.

Differentiated Exposure to the "New China" Economy: Limiting inclusion to companies operating in specific industries related to consumer and service-oriented sectors allows for a different insight into the "New China" economy. Importantly, these characteristics of the index offer a high level of differentiation from existing, widely used Chinese equity benchmarks, such as the Hang Seng China Enterprises Index, which is highly concentrated in financials and energy.

Liquidity: The S&P New China Sectors Index includes a limited number of large and liquid stocks, and therefore may enable more efficient replication for passive market participants.

Exhibit 2: Comparative Sector Weights



Source: S&P Dow Jones Indices LLC and Hang Seng Indexes. Data as of Oct. 31, 2016. Charts are provided for illustrative purposes.

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