



BLOG

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Capturing Many Facets of China's 'New Economy' Sector

With a surge in fundraising activities and increasing contribution to GDP growth, China's 'new economy' industries are rapidly expanding their economic significance on the economic landscape. The Hang Seng China New Economy Index ('HSCNE') serves to provide comprehensive exposure to new economy business in China by tracking companies listed in the US, Hong Kong and mainland China.

The Significance of New Economy in China

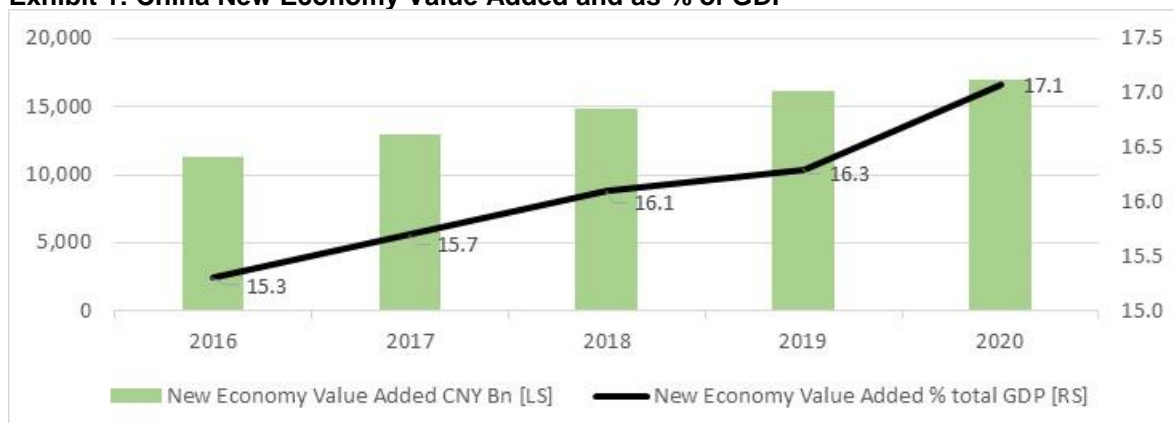
Broadly speaking, New Economy refers to the aspects or sectors in the economy where innovation or new technologies are produced or intensely used. In China, it contains **Three New** ('San Xin') elements, namely i) New Industry, ii) New Business Form, and iii) New Business Model. In short, **New Industry** refers to the new type of economic activities arising from the commercialisation of newly invented technology; **New Business Form** refers to the form of economic activities derived from existing businesses by leveraging innovation and application of technology; and **New Business Model** refers to the consolidated and restructured operational model that is unique and competitive and will create value for users, a model which may involve vertical or horizontal integration with up/down stream or peers along the value chain. In other words, New Economy not only involves the Information Technology sector, but also a range of technology-enabled companies in other sectors.

In 2020, China has achieved a real GDP growth of 2.3% YoY, being the only major economy in the world that having positive growth amid COVID-19. This was likely due to the booming New Economy. From the perspective of economic value added, the New Economy grew 4.5% YoY, higher than the nominal GDP growth by 1.4%pt, representing 17.1% of the total GDP in 2020. Exhibit 1 shows the increasing significance of New Economy, as % of GDP rising from 15.3% in 2016 to 17.1% in 2020.

During the recent years, the companies engaged in China's New Economy have actively raised funds across the major markets in the world, including the US, Hong Kong and mainland China. In 2018, the HKEX introduced new listing chapters to welcome the wave of New Economy IPOs and also the homecoming of US-listed Chinese technology firms. Exhibit 2 shows that in 2020, the New Economy fundraising in Hong Kong grew 67% YoY, representing 64% of total IPO funds raised in Hong Kong.

Given the increasing economic significance and the high growth of China's New Economy segment, the Hang Seng China New Economy Index can serve to capture the opportunities arising from across the US, Hong Kong and mainland China stock markets, for global investors who would like to have a comprehensive exposure in China New Economy.

Exhibit 1: China New Economy Value Added and as % of GDP



Remarks: New Economy refers to the China's 'San Xin' Economy Value Added
Source: National Bureau of Statistics
Data as of 6 July 2021



Exhibit 2: New Economy IPO Funds Raised in Hong Kong



Remarks: HKEX's New Economy consists of industries including biotech, healthcare technology, internet & direct marketing retail, internet software & services, IT services, software, technology hardware, storage & peripherals
Source: Hong Kong Exchanges and Clearing (HKEX)
Data as of 9 July 2021

HSCNE – A Cross-market Index to Track New Economy Companies

The objective of HSCNE is to reflect the performance of Chinese companies that are listed in Hong Kong, mainland China and the US and that are classified under the industries which are perceived as New Economy. It is freefloat-adjusted market capitalisation weighted, with 10% weighting cap on individual companies to avoid over-concentration. This cross-market index is calculated and disseminated once on each trading day at about 9:30am HKT, in RMB currency. The index was launched on 3 September 2018, with a fixed number of constituents at 100.

Exhibit 3 shows that the HSCNE currently consists of 101 companies (with 111 tickers) from eight industries, namely the Information Technology (48% weights, 31 companies), Consumer Discretionary (20% weights, 26 companies), Industrials (14% weights, 16 companies), Healthcare (12% weights, 15 companies), Telecom (3% weights, 4 companies), Financials (2% weights, 2 companies), Utilities (2% weights, 6 companies) and Consumer Staples (0.1% weight, 1 company). Exhibit 3 shows the weights of different industries and three stock markets under the HSCNE. Exhibit 4 shows top ten constituents account for a total weighting of 44% in the HSCNE.

For the index universe, the HSCNE is a cross-market index and selects constituents from the universes including: i) H-share, Red-chip and P-chip constituents in the HSCI that eligible for Southbound Stock Connect trading, ii) A-shares eligible for Northbound trading, iii) US-listed China companies incorporated and headquartered in mainland China. For turnover requirement in the past 6 months, the threshold requires ADT not less than HKD20 million (for HK-listed shares), RMB20 millions (for A-shares) and USD3 million (for US-listed shares).

Exhibit 3: The HSCNE Weightings by Industry and Listing Markets



Source: Hang Seng Indexes Company
Data as of 9 July 2021



Exhibit 4: Top 10 Constituents of the HSCNE

Top10	Ticker	Name	HSICS Industry	HSICS Sector	Weightings
1	BABA.US	ALIBABA	Information Technology	Software & Services	9.9%
2	700.HK	TENCENT	Information Technology	Software & Services	9.1%
3	3690.HK	MEITUAN-W	Information Technology	Software & Services	5.7%
4	300750.SZ	CATL	Industrials	Industrial Engineering	4.1%
5	PDD.US	PINDUODUO	Information Technology	Software & Services	2.9%
6	JD.US	JINGDONG	Information Technology	Software & Services	2.9%
7	601012.SS	LONGI	Industrials	Industrial Engineering	2.7%
8	NIO.US	NIO	Consumer Discretionary	Automobiles	2.5%
9	1810.HK	XIAOMI-W	Information Technology	IT Hardware	2.4%
10	333.SZ	MIDEA GROUP	Consumer Discretionary	Household Goods & Electron	2.2%
					44.4%

Source: Hang Seng Indexes Company
Data as of 9 July 2021

For the sector requirement, eligible stocks should be classified in one of the sub-sectors shown in Exhibit 5. In particular, for Consumer Staples, Consumer Discretionary, or Financials, given those companies which have major business operations by using internet platform can also be eligible.

Exhibit 5: Sector Requirement for the HSCNE

Industry	Sector	Sub-sectors
10 Industrials	1010 Industrial Engineering	101020 Industrial Components & Equipment
		101025 Electronic Components
		101030 Environment Engineering
		101050 New Energy Materials
		101060 Aerospace & Defense
23 Consumer Discretionary	2310 Automobiles	231010 Automobiles
		231020 Auto Parts
	2320 Household Goods & Electronics	232010 Home Appliances
		232020 Consumer Electronics
	2340 Travel & Leisure	234050 Travel & Tourism
	2350 Media & Entertainment	235010 Advertising & Marketing
		235020 Broadcasting
		235030 Movies & Entertainment
235040 Publishing		
2360 Support Services	236010 Education	
2370 Specialty Retail	237010 Automotive Retailers	
	237020 Apparel Retailers	
	237030 Home Improvement Retailers	
	237040 Diversified Retailers	
	237050 Other Retailers	
28 Healthcare	2810 Pharmaceuticals & Biotech	281010 Pharmaceuticals
		281020 Biotechnology
	2820 Healthcare Equipment & Services	282010 Medical Devices
282020 Medical & Aesthetic Services		
35 Telecom	3500 Telecommunications	350010 Satellite & Wireless Communication
		350020 Telecommunication Services
40 Utilities	4000 Utilities	400010 Electricity
		400030 Water
		400040 Alternative/ Renewable Energy
70 Information Technology	7010 IT Hardware	701010 Telecommunication Equipment
		701020 Computers & Peripherals
	7020 Software & Services	702010 System Applications & IT Consulting
		702020 E-Commerce & Internet Services
		702030 Software
7030 Semiconductors	703010 Semiconductors	
Industry (with special criteria)	Special Criteria for Eligibility	
23 Consumer Discretionary	Retail companies that perform major business operations by using internet platform	
25 Consumer Staples		
50 Financials	Financial companies that perform major business operations by using internet platform	

Source: Hang Seng Indexes Company
Data as of 9 July 2021

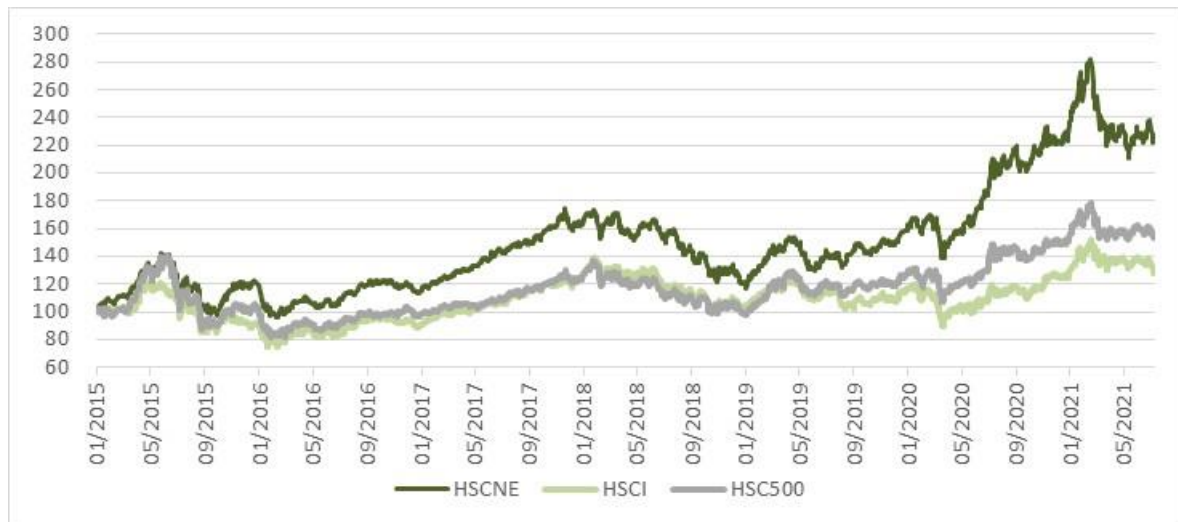


Outperformance of the HSCNE by 6.4%pt vs broad market HSC500

By analysing the backtesting data from 1 January 2015 to 9 July 2021, it is observed that the HSCNE has generated a return of 131% or an annualised return of 14.1%, indicating it is outperforming the benchmark market (represented by the HSC500's annualised return of 7.6%) by 6.4%pt on annualised basis. Though the HSCNE's annualised volatility of 19.5% was higher than the HSC500's 18.4%, the HSCNE's risk-adjusted return (annualised return/annualised volatility) of 0.72x outperformed HSC500's 0.41x.

During the market crash in the early 2020, the HSCNE's performance plunged 19% (from 5,120 on 20 February 2020 to 4,153 on 23 March 2020), slightly larger than the decline of 17% by the benchmark market (represented by the HSC500) in the same period, but the subsequent rebound of the HSCNE's 62% (as of 9 July 2021) was substantially stronger than the HSC500's 43%.

Exhibit 6: The HSCNE Outperformance vs the HSCI and the HSC500 (rebased)



Source: Hang Seng Indexes Company
Data as of 9 July 2021



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