# Greater Bay Area – China's Next Economic Growth Engine

Hang Seng Stock Connect GBA Index Series to Track Development Performance

The Outline Development Plan for the Greater Bay Area ("GBA") is a national initiative highlighted in the Chinese government's13th Five-Year Plan ("13th FYP"). Its aim is to build a globally competitive mega-region by 2035 by connecting the two SARs and Guangdong's nine municipalities. To achieve this goal, vast investments in infrastructure will be made to boost the regional flow of people, logistics, and business activities, so that the collective strengths of each city can be synergised to drive economic growth in the mega-region. Among the "9+2" GBA cities, Hong Kong, Shenzhen, Guangzhou and Macau are classified as the *Four Core Cities* to drive the development of financial services, logistics, transport and tourism in the GBA, while the *Seven Node Cities* should feed off of the strengths of the core cities and specialise in high-value-added manufacturing, pharmaceuticals, energy and other industries supporting the development of the *Core Productivity Cluster*.

The Hang Seng Stock Connect GBA Index Series was launched to track the performance of Hong Kong-listed and mainland-listed companies that have significant exposure to the GBA. Since the launch of the Hang Seng Stock Connect Greater Bay Area Composite Index ("HSGBAC") in May 2018, it has generated a return of 37%. After cherry-picking the constituents of the HSGBAC on the basis of their listing place to form the Hang Seng Stock Connect Hong Kong Greater Bay Area Index ("HSSCGBA") and the Hang Seng Stock Connect China A Greater Bay Areas Index ("HSABA"), which have generated remarkable returns of 44% and 54% since their launch dates, outperforming their respective local indexes, namely the Hang Seng Composite Index ("HSCI") and the Hang Seng Stock Connect China A300 Index ("HSCA300"), by 9 ppt and 11 ppt respectively.

Exhibit 1: GBA Indexes (since index launch)
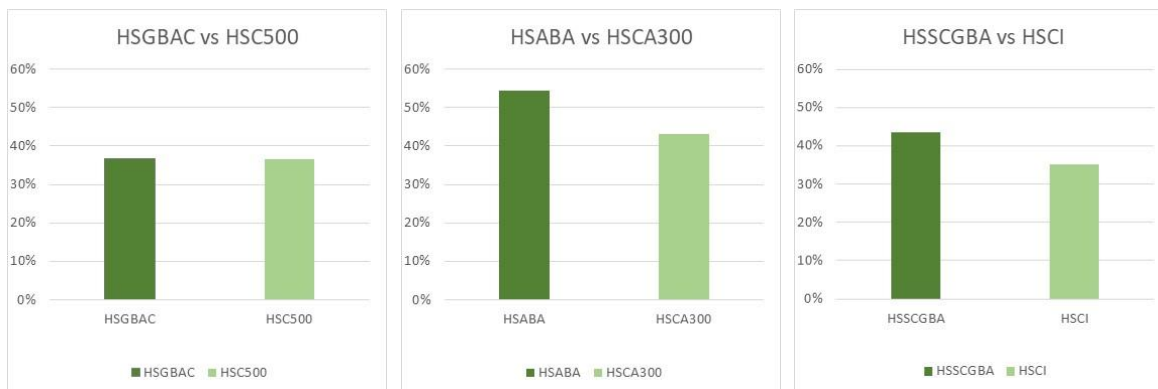
Launch dates: HSGBAC on 21 May 2018, HSABA on 15 April 2019, HSSCGBA on 8 October 2018
Source: Hang Seng Indexes Company; Data: as of 21 January 2021

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Executive Summary

Connectivity and Innovation to Drive GBA Development

Following the idea of coordinated development mentioned in the "Belt and Road Initiative" in 2015, and the "City Cluster in the 13th FYP" in 2016, a formal framework agreement on the GBA development was released in mid-2017. After that, more detailed policies for the GBA, like the Outline Development Plan in 2019 and other policies were gradually introduced. The development priority was set on enhancing infrastructural connectivity in the GBA and forming a framework for an international first-class bay area and world-class cluster by the end of 2022; and becoming a world-class influential bay area with an economy driven mainly by innovation and as a preferred location for living, working and travelling by the end of 2035. As enhancement in connectivity among the cities in the GBA is the key to creating synergies by facilitating the free flow of people, logistics and business activities, the relevant transportation networks have been built/planned. Overall, the goal is to build a one-hour living circle within the major cities of the GBA via high speed rail, railways and highways.

Division of Roles Among GBA Cities

With cities in the GBA having their own specialisms and strengths, enhancing the interaction and cooperation among them should accelerate the regional development with a synergistic result. Among the '9+2" GBA cities, Hong Kong, Shenzhen, Guangzhou and Macau are classified as the **Four Core Cities** to drive the development of financial services, logistics, transport and tourism in the GBA while the other **Seven Node Cities** (Dongguan, Foshan, Zhongshan, Zhuhai, Huizhou, Zhaoqing and Jiangmen) should feed off of the strengths of the core cities and specialise in high-value-added manufacturing, pharmaceuticals, energy and other industries supporting the development of the **Core Productivity Cluster**. Together with the rapid development of mega-regions in Jing-Jin-Ji and the Yangtze River Delta, it can support broader national economic growth and development.

GBA Index Series to Capture Low-risk Growth Opportunity

The Hang Seng Stock Connect GBA Index Series was launched by Hang Seng Indexes Company to track the performance of Hong Kong-listed and mainland-listed companies that have significant exposure to the GBA. The index series includes a benchmark index, namely the HSGBAC, plus five sets of sub-indexes which measure the constituents' performance by market, region, industry, theme, and factor & strategy. Since the launch of the HSGBAC in May 2018, it has generated a return of 37%, outperforming the Hang Seng Stock Connect China 500 Index ("HSC500"). After cherry-picking the constituents of the HSGBAC on the basis of their listing place to form two market indexes, the HSSCGBA and the HSABA, both of which have generated remarkable returns since their launch dates (44% for the HSSCGBA and 54% for the HSABA) and delivered stronger outperformance compared with their respective local indexes (35% for the HSCI and 43% for the HSCA300).

Connectivity and Innovation to Drive GBA Development

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A new economic growth engine for the Pearl River Delta Region

The objectives of the GBA development involve coordinated economic development, opening up on all fronts and being a role model for high quality growth in the country (Exhibit 2). In July 2017, the National Development and Reform Commission ("NDRC"), and the governments of Guangdong, Hong Kong and Macau signed the "Framework Agreement on Deepening Guangdong-Hong Kong-Macau Cooperation in the Development of the Greater Bay Area" (深化粤港澳合作推进大湾区建设框架协议) ("Framework Agreement"). Specifically, the key aims of the initiative are to reinvigorate growth in the Pearl Delta River region and substantially increase the strength of the GBA through broadening cooperation among Guangdong, Hong Kong and Macau, and then form a framework for an international first-class bay area and world-class cluster by the end of 2022; and becoming a world-class influential bay area with an economy driven mainly by innovation and as a preferred location for living, working and travelling by the end of 2035. Exhibit 3 shows the milestones of the ongoing GBA development, such as the support and co-ordination of local governments.

Exhibit 2: Objectives of GBA Development

| *Objectives:* |
| --- |
| 1) Promote coordinated regional economic development |
| 2) Give new impetus to the development of Hong Kong and Macao |
| 3) Build a new system of an open economy |
| 4) Provide a role model of high quality development |

Source: HKSAR Government

Exhibit 3: Timeline of GBA Development

Date	Milestone / Target
2035E	Target to become an international first-class bay area
2022E	Framework for an international first-class bay area should be formed
Nov-2019	Additional sixteen policy measures were introduced
Aug-2019	Development plan for Shenzhen is unveiled, targeting reform of economy, legal system and environment
Mar-2019	Eight policy measures were introduced
Feb-2019	Publication of Outline Development Plan
Jul-2017	Framework Agreement sets out the key cooperation areas in the GBA development
Mar-2016	Idea of City Cluster was brought up in China's 13th FYP
Mar-2015	Action plan on the Belt and Road Initiative

Source: cnbayarea.org.cn

The GBA is composed of the two Special Administrative Regions (SAR) of Hong Kong and Macau, and nine municipalities in Guangdong Province, namely Shenzhen, Dongguan, Huizhou, Guangzhou, Foshan, Zhaoqing, Jiangmen, Zhongshan and Zhuhai. Exhibit 4 shows the Gross Domestic Product ("GDP") growth of each city. By GDP size, the top 3 GBA cities are Shenzhen, Hong Kong and Guangzhou; whereas by GDP per capita, the top 3 cities are Macau, Hong Kong and Shenzhen.

Exhibit 4: 2019 GDP and GDP Growth Rate in the GBA
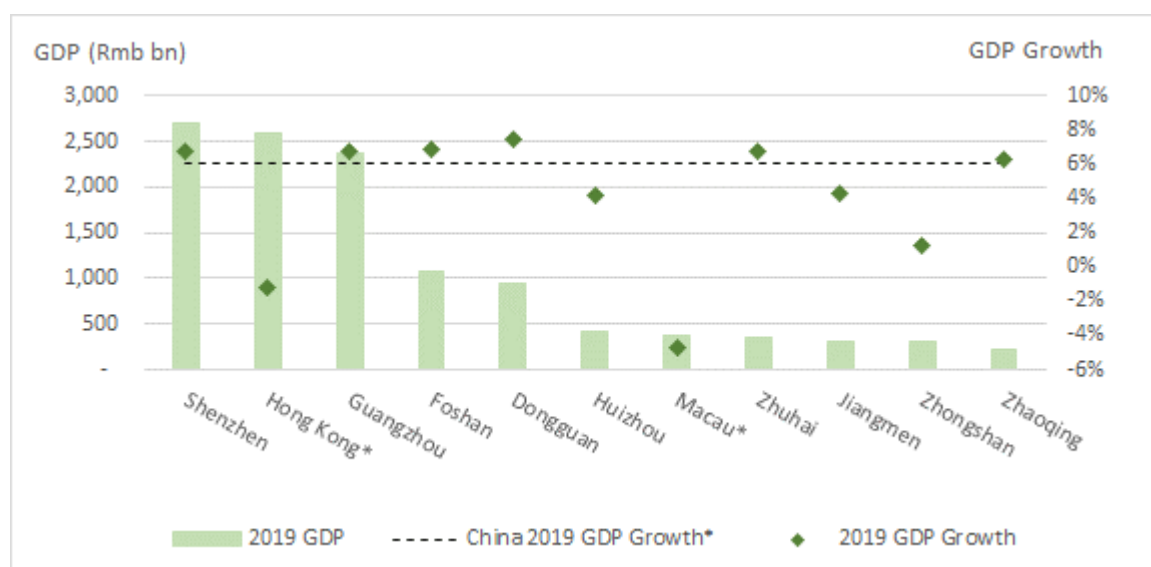
	Shenzhen	Hong Kong	Guangzhou	Foshan	Dongguan	Huizhou	Macau	Zhuhai	Jiangmen	Zhongshan	Zhaoqing	**GBA**
Population (mil.)	13.4	7.5	15.3	8.2	8.5	4.9	0.7	2.0	4.6	3.4	4.2	**72.7**
GDP per Capita (RMB '000)	200.4	342.9	154.4	131.8	112.0	85.6	556.2	169.8	68.0	91.7	53.7	**160.3**

* Real growths
Source: WIND

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Exhibit 5 compares the GBA with the world's major bay areas. China's GBA has the largest land area of 56,094 sq.km (less than 1% of China's land area), a total population of 72.7mn (5% of China's total population) and generates an aggregate gross domestic production of USD1,679bn (12% of China's total GDP in 2019), but the lowest GDP per capita of USD23,116 compared with the bay areas in San Francisco (0.19x), New York (0.25x) and Tokyo (0.52x). According to Shanghai E-house Real Estate Research, the GBA's population is expected to have a compound annual growth rate ("CAGR") of 2.9% during 2020-2030, reaching 100 million by 2030. As such, the GBA's population expansion can help to drive the GBA's growth compared with other mature peer areas.

Exhibit 5: Comparison of the GBA against the World's Major Bay Areas

	Greater Bay Area	*San Francisco Bay Area*	*New York Metropolitan Area*	*Tokyo Bay Area*
Land area (sq. km)	*56,094*	*17,887*	*21,479*	*36,899*
Population (mil.)	*72.7*	*7.8*	*19.3*	*44.3*
GDP# (USD bn)	*1,679.3*	*946.6*	*1,772.3*	*1,976.8*
Real GDP growth# (%)	*4.4*	*6.8*	*1.6*	*2.7*
Per-capita GDP# (USD)	*23,116*	*122,093*	*91,812*	*44,855*
Air passenger throughput (mil. passenger-times)	*223.2*	*86.0*	*140.0*	*127.8*
Air cargo and airmail throughput (mil. tonnes)	*8.1*	*1.2*	*2.3*	*3.3*
GDP share of tertiary industry# (%)	*66.2*	*71.6*	*82.9*	*74.5*

2018 figures for San Francisco Bay and New York Metropolitan Areas; 2017 figures for Tokyo Bay Area
Source: Hong Kong Trade Development Council

GBA Outline Development Plan and supporting policies

In February 2019, China's State Council released the details of its 15-year GBA Outline Development Plan^. Exhibit 6 shows the six basic principles and seven areas of development in the plan. Subsequently, more policies were introduced (as shown in the prior Exhibit 3), including: In March 2019, eight measures (Exhibit 7) were introduced to facilitate the free flow of people, goods, etc. in the GBA, covering taxation, talent recruitment, entrepreneurship, education, immigration facilitation pilot schemes, transportation and the flow of goods. In November 2019, sixteen policy measures (Exhibit 8) were announced to facilitate Hong Kong people in developing their careers, working and living in mainland GBA cities. On the whole, these measures can benefit the public, supporting professional services, as well as innovation and technology. Apart from these major policy measures, other policies from both the central, provincial and local governments have been released to coordinate the development from time to time, covering urban development, technology innovation, infrastructure, modern industry, environment, standard of living, business, development platform, fiscal support, customs and employment, etc.

^Note: 粤港澳大湾区发展规划纲要

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Exhibit 6: GBA Outline Development Plan (18 February 2019)

Six Basic Principles:	Seven Areas of Development:
1) To be driven by innovation and led by reform	1) Developing an international innovation and technology hub
2) To coordinate development and plan holistically	2) Expediting infrastructural connectivity
3) To pursue green development and ecological conservation	3) Building a globally competitive modern industrial system
4) To open up and cooperate and achieve a win-win outcome	4) Taking forward ecological conservation
5) To share the benefits of development and improve people's livelihood	5) Developing a quality living circle for living, working and travelling
6) To adhere to "One Country, Two Systems" and act in accordance with the law	6) Strengthen cooperation and jointly participating in the Belt and Road Initiative
	7) Jointly developing Guangdong-Hong Kong-Macao cooperation platforms

Source: HKSAR Government

Exhibit 7: Eight measures to facilitate the flow of people and goods (March 2019)

Eight Measures (Released in March 2019)
1. In determining one's tax obligations, any stay of less than 24 hours on the Mainland will not count as a day of presence
2. Provide tax relief to non-mainland high-end talents and talents in short supply
3. Support the open recruitment of Hong Kong and Macao residents by public institutions of Guangdong Government in the Greater Bay Area
4. Extend to young entrepreneurs of Hong Kong and Macao working in Mainland cities in the Greater Bay Area support measures provided by Guangdong Government to Mainland Youth
5. Support higher education institutions and scientific research institutes from Hong Kong and Macao to participate in projects under Guangdong technology programmes
6. Introduce immigration facilitation reform pilots schemes in the Greater Bay Area
7. Facilitate non-business private cars from Hong Kong and Macao using the Hong Kong-Zhuhai-Macao Bridge
8. Expand the implementation scope of expedited customs clearance

Source: HKSAR Government

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Exhibit 8: Sixteen measures to offer further convenience (November 2019)

Sixteen measures (Released in November 2019)

Benefiting Members of the Public	1)	*Facilitating property purchases by Hong Kong residents in the mainland cities of the GBA*
	2)	*Supporting the use of mobile electronic payment by Hong Kong residents on the mainland*
	3)	*Pilot scheme for Hong Kong residents to open mainland personal bank accounts in the GBA remotely by attestation*
	4)	*Ensuring that the children of Hong Kong and Macao residents enjoy the same education as those of mainland residents*
	5)	*Exploring the establishment of a cross-boundary wealth management scheme*
	6)	*Facilitating non-Chinese Hong Kong permanent residents to travel to and from the mainland cities in the GBA*
	7)	*Permitting the use of Hong Kong-registered drugs and common medical devices in designated Hong Kong-owned healthcare institutions in the GBA*
Supporting Professional Services	8)	*Measures on partnership associations by Hong Kong and mainland law firms, legal consultants and special examination*
	9)	*Further extending the scope of mutual recognition of qualifications for construction professionals*
	10)	*Expanding the scope of liberalisation measures for construction professionals from Hong Kong and Macao to practise on the mainland*
	11)	*Preferential treatment on insurance regulation*
	12)	*Removing the requirement on years of operating experience for Hong Kong service suppliers to provide insurance loss adjusting services on the mainland*
	13)	*Supporting bond market development in Hong Kong and Macao (catastrophe bonds)*
Innovation and Technology	14)	*Supporting the development of the Shenzhen-Hong Kong Innovation and Technology Co-operation Zone*
	15)	*Facilitating customs clearance of imported animal-derived biomaterials*
	16)	*Relaxing the limitation on exporting mainland human genetic resources to Hong Kong and Macao*

Source: HKSAR Government

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Enhancement in infrastructural connectivity - key to creating synergies among cities

To enhance the connectivity among the two SARs and nine municipalities of the Guangdong Province in the GBA, the relevant transportation networks have been built/planned to boost the regional flow of people and goods. Overall, the goal is to build a one-hour living circle within major cities of the GBA via high speed rail, railways and highways.

As shown in Exhibit 9, the Humen Bridge and Nansha Bridge are the key infrastructure projects for improving intercity connections between Dongguan and Guangzhou, which commenced operations in 1997 and 2019 respectively. In September 2018, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") was connected with the national high-speed rail network. The average daily patronage of the Hong Kong Section of the XRL is 54,000 - 56,000 (data as at Jun 2019). It only takes about 46 minutes to travel from the West Kowloon Station to Guangzhou South Station. In October 2018, the Hong Kong-Zhuhai-Macau Bridge was opened, incorporating the western side of the Pearl River Delta into a reachable 3-hour commuting radius of Hong Kong. For instance, it reduces the travelling time between Hong Kong Airport and Zhuhai from 4 hours to about 45 minutes. Going forward, after the opening of Shenzhen-Zhongshan Link in 2024 as scheduled, it can substantially shorten the travelling between Shenzhen and Zhongshan from 2 hours to 20 minutes.

Exhibit 9: Connectivity of Transportation Network
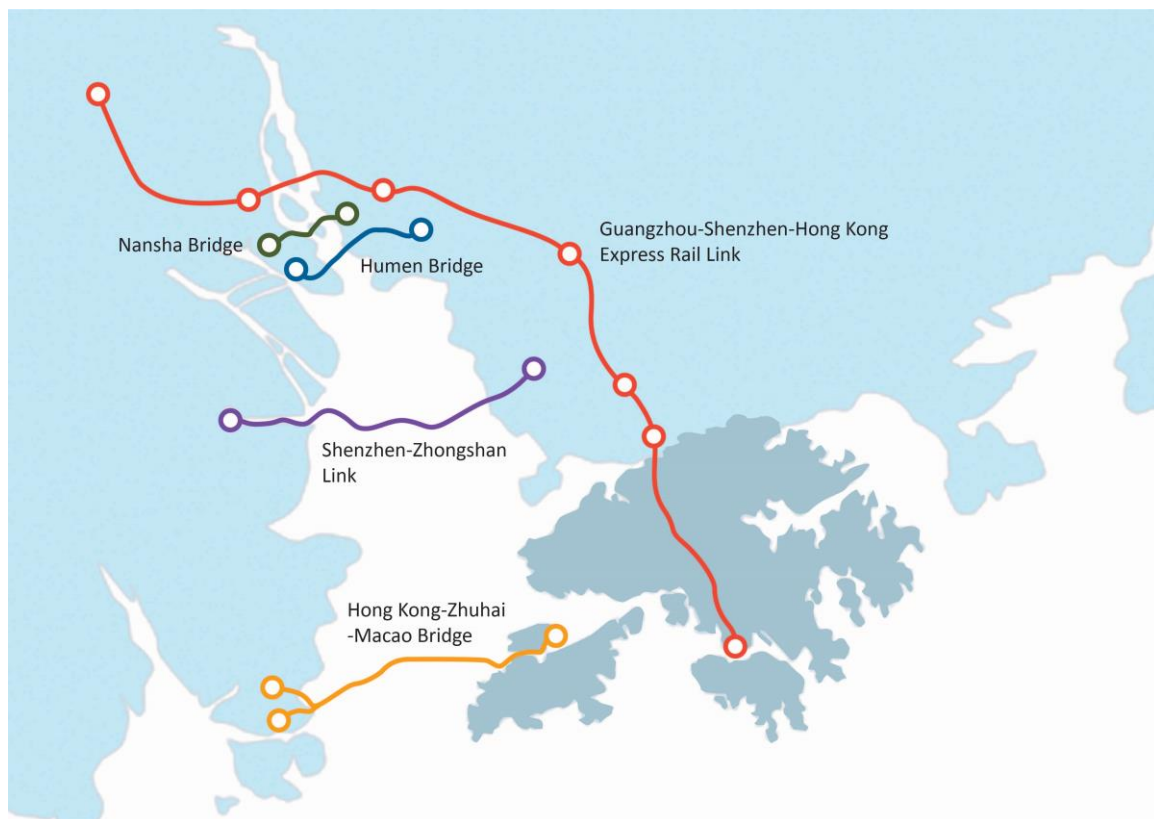
Source: Hang Seng Indexes Company

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Division of Roles Among GBA Cities

With cities in the GBA having their own specialism and strengths, enhancing the interaction and cooperation among them should accelerate the regional development with a synergistic result. Among the '9+2" GBA cities, Hong Kong, Shenzhen, Guangzhou and Macau are classified as the **Four Core Cities** to drive the development of financial services, logistics, transport and tourism in the GBA while the **Seven Node Cities** (Dongguan, Foshan, Zhongshan, Zhuhai, Huizhou, Zhaoqing and Jiangmen) should feed off of the strengths of the core cities and specialise in high-value-added manufacturing, pharmaceuticals, energy and other industries supporting the development of the **Core Productivity Cluster**.

Synergistic development between '9+2' cities

To achieve the central government's plan to develop the GBA as a globally competitive mega-region by 2035, each of the two SARs and nine municipalities in Guangdong have their own roles to play. Among which, Hong Kong, Shenzhen, Guangzhou and Macau are classified as the **Four Core Cities** to drive the development of financial services, logistics, transport and tourism in the GBA, hence, strengthening the radiating effect in leading the development of nearby areas. While the **Seven Node Cities** (Dongguan, Foshan, Zhongshan, Zhuhai, Huizhou, Zhaoqing and Jiangmen), should feed off of the strengths of the core cities and specialise in high-value-added manufacturing, pharmaceuticals, energy and other industries supporting the development of the **Core Productivity Cluster**. Overall, these cities are planned to be connected through vast investment in infrastructure to facilitate the free flow of people among them, as the collective strengths can be synergised to drive the economic growth in the mega-region. Together with the rapid development of mega-regions in Jing-Jin-Ji and the Yangtze River Delta, it can support the broader national economic growth and development.

Exhibit 10: Eleven GBA Cities' Strengths and Focus

Zhaoqing: Green agricultural production centre

Foshan: Advanced equipment manufacturing industry

Zhongshan: City of Modern services industry

Jiangmen: City of advanced manufacturing on high-end equipment

Zhuhai: Complement with Macau to develop as tourism and leisure hub; bio-pharmaceutical centre

Macau: World-class tourism and leisure centre; centre of commerce and trade with Lusophone countries

Guangzhou: International commerce and industry centre; integrated transport hub; centre for technological, education and cultural activity

Huizhou: Green production agricultural production centre with petrochemicals and electronic information pillar industries

Dongguan: High-end manufacturing centre; centre of producer service, modern service, strategy emerging industry

Shenzhen: Innovation & technology hub; R&D centre; financial centre

Hong Kong: International financial, transportation, and trade centre; aviation hub; centre for international legal and dispute resolution centre

Source: Hang Seng Indexes Company

Four core cities – key engines for regional development

Shenzhen – Companies based in Shenzhen are the most innovative in China, on the backs of a number of traditional manufacturers that transitioned into the new economy. Currently, there are a number of core Artificial Intelligence ("AI") enterprises and numerous startups in the city that transform AI technologies into specific applications in people's lives, covering robotics, mobile phones, disease screening, finance, etc. To leverage on its strong R&D capability, Shenzhen strives to become a city of innovation and creativity with global influence. Moreover, according to the development plan of the GBA, support will be given to Shenzhen in developing its capital market, with the Shenzhen Stock Exchange as the core, in accordance with relevant regulations, and expedite the process of financial liberalisation and innovation.

Guangzhou – Based on Guangzhou's solid R&D and manufacturing foundation, it can work with other GBA cities in the joint development of an AI industrial ecosystem. Currently, robots in the GBA are being used in areas such as equipment manufacturing, electronic communication, packaging and printing, logistics and warehousing, with the most industrial robots manufactured and used in Guangzhou. Moreover, Guangzhou has a strong capability in resources (policy, funding, enterprises) aggregation. For example, the Guangzhou municipal government and Guangzhou Automobile Group Co., Ltd. have signed several strategic cooperation framework agreements with Tencent Holdings Ltd., aiming to build a "smart city" in multiple aspects; the government of the Baiyun District in Guangzhou and Huawei Technologies Co., Ltd. have signed a strategic cooperation agreement on cloud computing to build a new generation information industry cluster in the Baiyun District. In addition to pursuing further enhancement in infrastructure connectivity with other GBA cities, Guangzhou targets to develop itself into an international commerce and industry centre and an integrated transport hub. In the longer term, it will seek to enhance its position as an important centre for technological, educational and cultural activity, and eventually transform itself into a global metropolis. On the financial side, Guangzhou will build a green financial reform and innovation pilot zone, as well as set up an innovative futures exchange that takes carbon emissions as its primary trading commodity.

Hong Kong – Targeting to enhance its existing status as an international financial, transportation, and trade centre, as well as an international aviation hub. With strengthened interactions through the cooperation mechanism in the GBA, Hong Kong's status in research and development and innovation will be further consolidated. Capitalising on its unique qualities for attracting and retaining talent from around the world, Hong Kong will make great efforts to develop innovation and technology industries, as well as nurture emerging industries. On the financial side, Hong Kong will establish as a platform for investment and financing serving the Belt and Road Initiative. Given its well-established legal system, it strives to develop itself into the centre for international legal and dispute resolution services in the Asia-Pacific region. In the longer term, under the outline plan for the GBA, Hong Kong will be upgraded into an international metropolis with enhanced competitiveness.

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Macau – Leveraging on its existing gambling tourism, Macau will further develop into a world-class tourism and leisure centre. Given its established close and extensive connections with Portuguese-speaking countries, the city will reinforce its role as a commerce and trade cooperation service platform between China and Lusophone countries. Moreover, it will develop an RMB clearing center, a green finance platform and a Sino-Lusophone financial service platform.

Seven node cities – cooperate with core cities to enhance competitiveness

The four core cities will take the lead to drive the development of the seven node cities in terms of deepening reform and innovations to enhance their competitiveness through transforming towards high-end manufacturing and services. In addition, interaction and cooperation between node cities and core cities should be enhanced in order to drive the development of nearby towns with distinct characteristics, and hence, jointly raise the development quality of the city cluster.

Zhuhai – With well-developed intercity railway, expressway and shipping channels seamlessly connecting Hong Kong, Macau, Guangzhou and Shenzhen as well as other urban areas and airports, Zhuhai provides convenient and comfortable transportation for international and domestic tourists arriving in Zhuhai. It should complement Macau's development into a world tourism and leisure centre. Apart from developing Hengqin into a high standard international leisure and tourism island, Zhuhai will build a Guangdong-Macau information hub and a Traditional Chinese Medicine Science and Technology Industrial Park.

Dongguan – Leveraging on its solid manufacturing foundation, Dongguan will seize the opportunity to make use of technological innovation and scale up existing industries, in order to foster more innovative industry clusters. Further, it will accelerate the development of the producer service industry, modern service industry, and strategic emerging industries.

Foshan – Manufacturing is the backbone of Foshan's strength and competence. Going forward, Foshan will play a leading role in developing the advanced equipment manufacturing industry on the west bank of the Pearl River. Moreover, the Nanhai District in Foshan will be supported to promote Guangdong-Hong Kong-Macau advanced service cooperation through sharing economic indicators such as market interconnections, talent information and technologies.

Zhaoqing – Will implement policies to boost industrial development and innovation-driven development. With a splendid natural environment and ample tourism resources, Zhaoqing will develop a green agricultural and sideline products distribution base in the Huaiji county with a focus on food safety.

Jiangmen – Planning to upgrade itself into a strong, advanced manufacturing base for high-end equipment, as well as accelerate the development of high-end equipment manufacturing, new information technology, new energy car and spare parts, comprehensive health and new materials. Jiangmen will also expand its cooperation with Hong Kong and Macau in finance, tourism, creative culture, e-commerce, marine economy, vocational education, and life and health.

Zhongshan – Developing itself into a world-class advanced manufacturing base and major area for the development of the modern services industry. Also, Zhongshan will act as an important supporting area for the global technology and innovation hub and a base for the industrialisation of scientific and technological achievements. Leveraging on the combined advantages of an ecological-friendly and comfortable living environment, history and culture as well as business environment, Zhongshan also seeks to develop itself into an important integrated transport hub in the western part of the GBA.

Huizhou – One of China's top green cities. Based on its unique characteristics in industrial development, Huizhou is forming a cluster of two pillar industries, namely petrochemicals and electronic information.
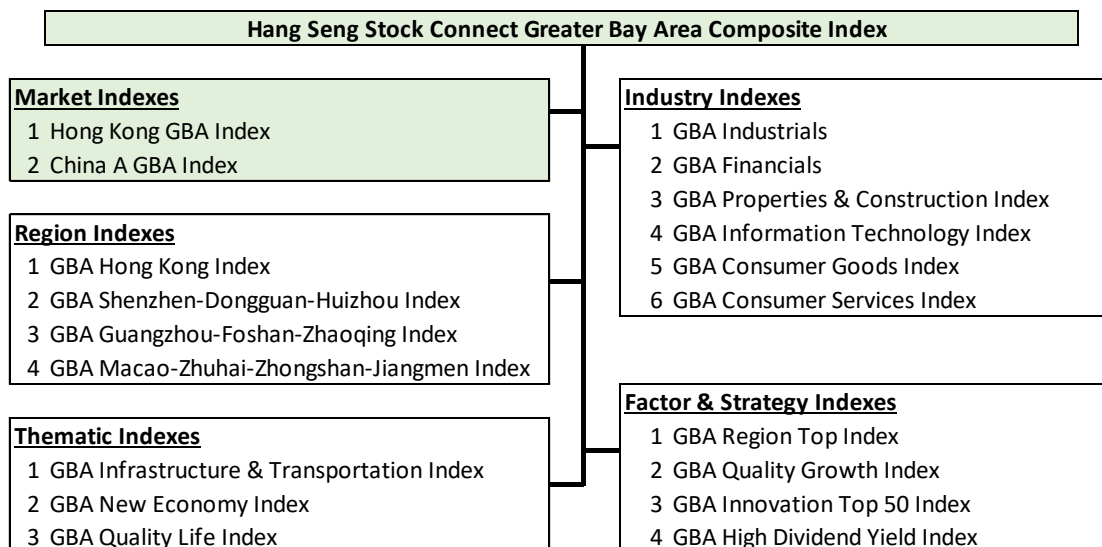
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Family of the Greater Bay Area Indexes Series

The Hang Seng Stock Connect Greater Bay Area Index Series aims to reflect the performance of Hong Kong-listed companies and mainland China-listed companies that operate in the Guangdong-Hong Kong-Macau Greater Bay Area and are eligible for Northbound or Southbound trading under the Stock Connect scheme. There are 20 indexes in the index series, which includes a benchmark index, i.e. the HSGBAC, and five sets of sub-index series which measure the constituents' performance by market (by listing place), region (by headquarters or primary centre of operations), industry (by industry level of the Hang Seng Industry Classification System ("HSICS")), theme (by subsector level of the HSICS), and factor & strategy (by quantitative factor or investment strategy). This research paper will only cover the HSGBAC and the two Market Indexes while the remaining four sub-index series will be discussed in the another research paper with more detailed comparison.

Exhibit 11: Hang Seng Stock Connect Greater Bay Area Index Series

Hang Seng Stock Connect Greater Bay Area Composite Index

Market Indexes
1 Hong Kong GBA Index
2 China A GBA Index

Region Indexes
1 GBA Hong Kong Index
2 GBA Shenzhen-Dongguan-Huizhou Index
3 GBA Guangzhou-Foshan-Zhaoqing Index
4 GBA Macao-Zhuhai-Zhongshan-Jiangmen Index

Thematic Indexes
1 GBA Infrastructure & Transportation Index
2 GBA New Economy Index
3 GBA Quality Life Index

Industry Indexes
1 GBA Industrials
2 GBA Financials
3 GBA Properties & Construction Index
4 GBA Information Technology Index
5 GBA Consumer Goods Index
6 GBA Consumer Services Index

Factor & Strategy Indexes
1 GBA Region Top Index
2 GBA Quality Growth Index
3 GBA Innovation Top 50 Index
4 GBA High Dividend Yield Index

Source: Hang Seng Indexes Company
Data: as of 21 January 2021

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HSGBAC outperformed HSC500 since its launch in May 2018

The HSGBAC was launched in May 2018 to track the performance of companies with headquarters or primary centre of operations in the two SARs and nine municipalities in Guangdong with at least 50% of revenue derived from mainland China, Hong Kong and/or Macau in the latest complete fiscal year. The universe of the HSGBAC covers constituents of the HSCI or mainland-listed companies that are eligible for Northbound or Southbound trading under the Stock Connect scheme. The largest 250 companies in terms of market value (including unlisted portion) will be selected as the constituents of the HSGBAC. To avoid it being highly skewed toward mega-sized stocks, the index is free-float market-valued-weighted, with a 10% weight cap on individual constituents.

Exhibit 12: HSGBAC – A Snapshot of the Top 10 Constituents

	Name	Ticker A-share	Ticker H-share	Industry	HQ / Primary Centre of Operations	Weightings A-share	Weightings H-share	Total
1	Tencent		700 HK	Information Technology	Shenzhen		10.6%	10.6%
2	Ping An	601318 CH	2318 HK	Financials	Shenzhen	5.3%	3.4%	8.8%
3	AIA		1299 HK	Financials	Hong Kong		8.7%	8.7%
4	HKEX		388 HK	Financials	Hong Kong		4.3%	4.3%
5	Midea Group	000333 CH		Consumer Discretionary	Foshan	4.1%		4.1%
6	CM Bank	600036 CH	3968 HK	Financials	Shenzhen	2.2%	1.7%	3.9%
7	PAB	000001 CH		Financials	Shenzhen	3.6%		3.6%
8	GREE	000651 CH		Consumer Discretionary	Zhuhai	2.9%		2.9%
9	BYD	002594 CH	1211 HK	Consumer Discretionary	Shenzhen	1.6%	1.1%	2.7%
10	Citic Sec	600030 CH	6030 HK	Financials	Shenzhen	2.1%	0.3%	2.4%
								51.9%

Source: Hang Seng Indexes Company
Data: as of 21 January 2021

Exhibit 13 shows that constituents with headquarters or primary centre of operations in Shenzhen account for the largest weighting at 53%, followed by 22% in Hong Kong, 8% in Foshan, and 7% in Guangzhou. In terms of the distribution of the number of the constituents by stock exchange, 116, 117 and 36 constituents listed in Shenzhen, Hong Kong, and Shanghai, respectively. In terms of the weighting distribution by stock exchange, listings in Hong Kong, Shenzhen, and Shanghai account for 49%, 33% and 18% respectively.

Exhibit 13: Weightings by Exchange and Headquarters/Primary Center of Operations

Source: Hang Seng Indexes Company
Data: As of 21 January 2021

Among the 12 industries under the HSICS, financials accounts for the largest weighting at 36%, followed by consumer discretionary (16%), information technology (15%) and properties and construction (12%).

Exhibit 14: HSGBAC – Constituents Distribution by Industry
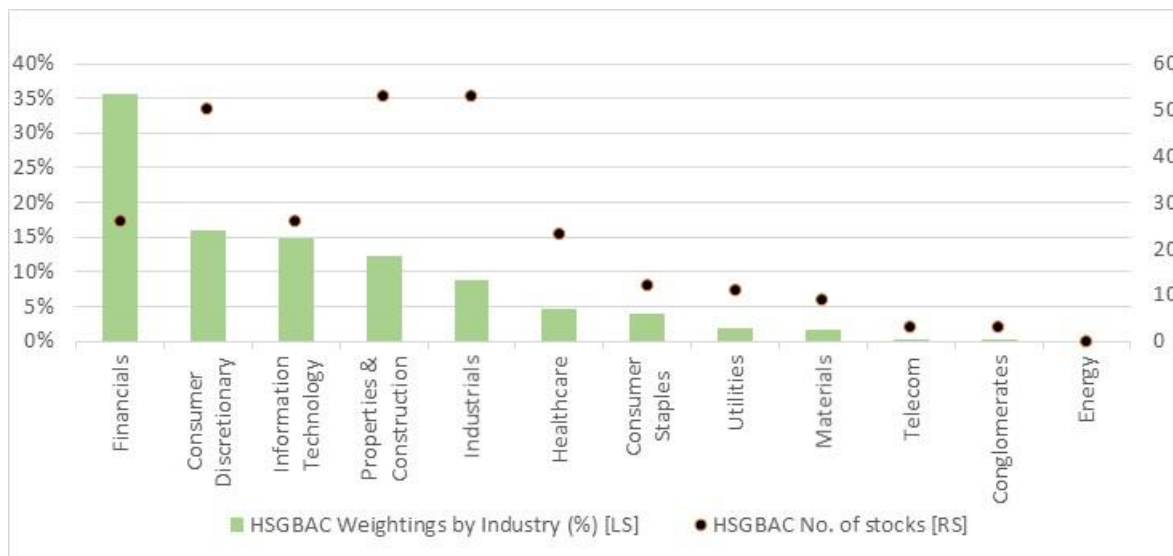
Source: Hang Seng Indexes Company
Data: as of 21 January 2021

Since the launch of the HSGBAC in May 2018, it has generated a return of 37%, outperforming the HSC500 by 0.2%. Given that the HSGBAC's annualised volatility of 19.6% is lower than that for the HSC500 (19.9%), its risk-adjusted return (annualised return / annualised volatility) of 1.87x is around 2.1% higher than that for the HSC500 (1.83x).

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Exhibit 15: HSGBAC since launch in May 2018 (index rebased 100)
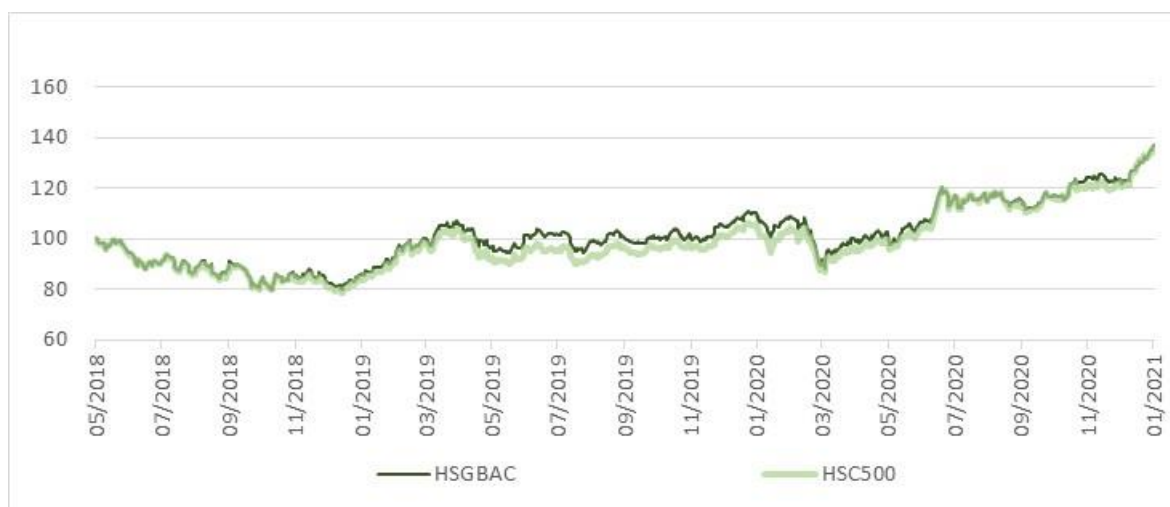
Source: Hang Seng Indexes Company
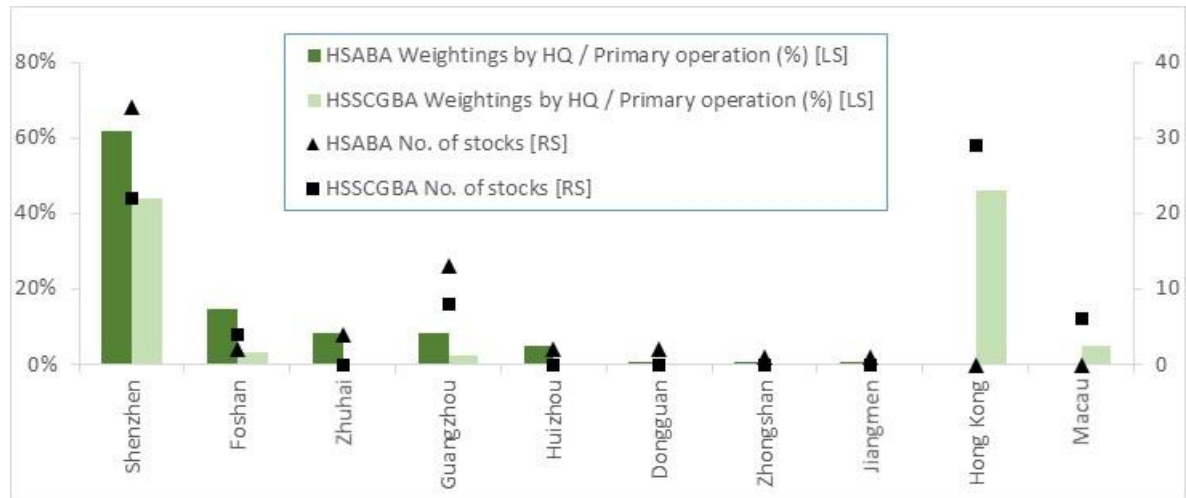Data: As of 21 January 2021

GBA Market Indexes generated stronger outperformance than their benchmarks

Within the universe that includes all the constituents of the HSGBAC, we have selected stocks based on their place of listing (Hong Kong listed or mainland listed in Shanghai and Shenzhen) to form the HSSCGBA and the HSABA. For the HSSCGBA, securities ranked within cumulative full market capitalisation coverage of 95% in the eligible securities will be selected as constituents, totaling 66 constituents. Also, there is a 15% weight cap applied to individual stocks. For the HSABA, securities ranked within cumulative full market capitalisation coverage of 85% in the universe will be selected as constituents. Currently, there is a 10% individual weight cap on 61 constituents.

Exhibit 16 shows that constituents of the HSSCGBA with headquarters or primary centre of operations in Hong Kong and Shenzhen account for most of the weighting at 46% and 44% respectively. In contrast, the HSABA has the largest weighting of constituents' headquarters or primary centre of operations in Shenzhen (62%), followed by Foshan (15%), Zhuhai (9%), and Guangzhou (8%).

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Exhibit 16: Weightings by Headquarters/Primary Center of Operations - HSABA vs HSSCGBA

Source: Hang Seng Indexes Company
Data: As of 21 January 2021

In terms of constituents' distribution by industry, Exhibit 17 shows that financials accounts for the largest weighting of 45% in the HSSCGBA, followed by properties & construction (18%), information technology (18%) and consumer discretionary (9%). On the whole, the HSSCGBA's weighting distribution by industry is more concentrated compared with that for the HSABA (financials (33%), consumer discretionary (24%), industrials (13%), properties & construction (9%), and healthcare (9%)).

Exhibit 17: Weightings by Industry - HSABA vs HSSCGBA

Source: Hang Seng Indexes Company
Data: As of 21 January 2021

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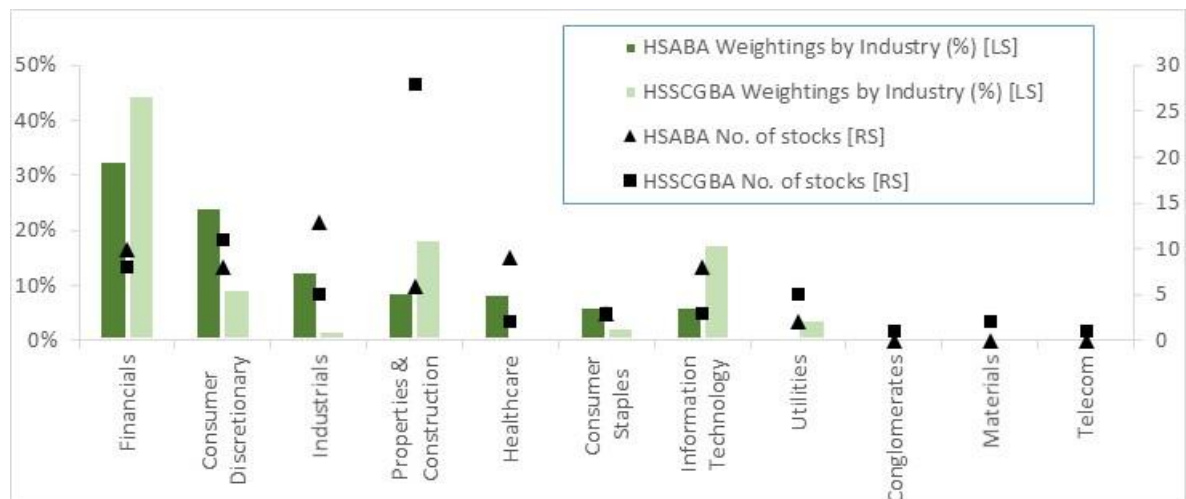
Exhibits 18 and 19 compare the performance of the HSSCGBA and the HSABA to their respective local indexes, i.e. the HSCI and the HSCA300. Since the launch of the HSSCGBA in October 2018, it generated a return of 44% which is higher than the 35% return for the HSCI. For the HSABA, its return was even larger at 54% since the launch in April 2019 and with a stronger outperformance compared with the HSCA300 (43%) during the comparable period.

Exhibit 18: HSSCGBA vs HSCI (since October 2018) (index rebased 100)

Source: Hang Seng Indexes Company
Data: As of 21 January 2021

Exhibit 19: HSABA vs HSCA300 (since April 2019) (index rebased 100)

Source: Hang Seng Indexes Company
Data: As of 21 January 2021

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