



# RESEARCH PAPER

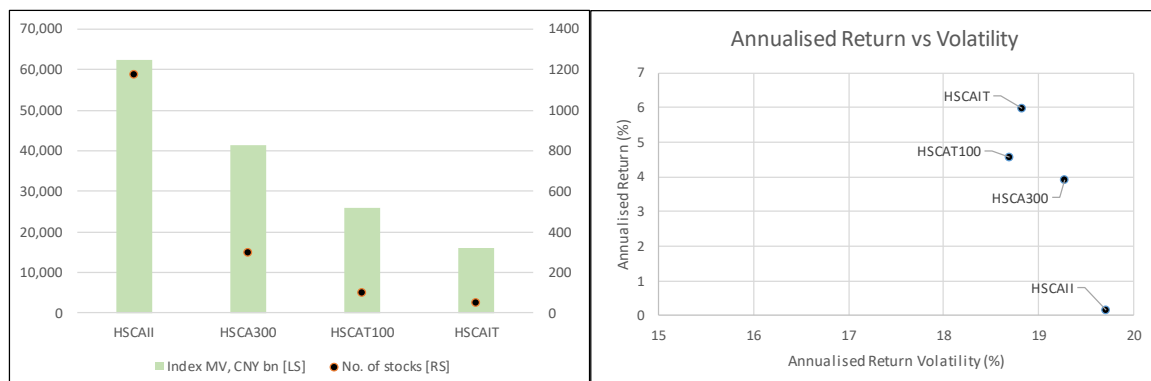
March 2022

## Hang Seng A-shares Indexes – All-round Tracking of A-shares by Approaches from Purely Market Value to Multi-factor

China's capital markets have closely reflected the structural change in national economy's shift to New Economy sectors since 2015, as driven in large part by urbanisation and a consumption-led growth model. To provide investors with various benchmarks for capturing the ongoing A-shares market's development, the **Hang Seng A-shares Indexes** are designed to track the overall performance of A-shares listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Among the four broad-based A-shares indexes, **Hang Seng China A (Investable) Index** ('HSCAI') and the **Hang Seng Stock Connect China A 300 Index** ('HSCA300') select A-shares constituents *based purely on market value*, while the **Hang Seng China A Top 100 Index** ('HSCAT100') and the **Hang Seng China A Industry Top Index** ('HSCAIT') employ a constituent selection methodology that based on *combined rank of market value, net profit and revenue*.

Given the HSCAI has the most 1,180 constituents with the widest market coverage of 80% in the A-share market, it highly reflects the A-shares market performance. Although fewer constituents (range from 52 to 300) for the other three indexes, their high return correlation (from 0.901 to 0.977) with the HSCAI imply a high degree of representativeness for A-shares as well. With different constituent selection criteria employed by the four A-shares indexes, industry breakdown for these indexes varies from three indexes' highly concentrated in Industrials, Financials, and Consumer Staples, to the HSCAIT's more even industry distribution. In terms of the back-testing performance since 31 December 2015 till 10 March 2022, the HSCAIT has generated the highest annualised return of 6.0% versus 4.6% for the HSCAT100, 3.9% for the HSCA300 and 0.1% for the HSCAI. With a lower annualised return volatility for the HSCAIT (18.8% versus 18.7%-19.7% for the other three indexes), its risk-adjusted return of 0.32x is even higher compared to that for the HSCAT100 (0.24x), the HSCA300 (0.20x) and the HSCAI (0.01x).

### Exhibit 1: Index Market Capitalisation and Risk-adjusted Return Comparison



Remarks: Data period for the annualised return and volatility is from 31 December 2015 to 10 March 2022  
Source: Hang Seng Indexes Company; Date: 10 March 2022



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## Executive Summary

### ***China's Stock Market Distribution Reflects Economic Development***

China's national economic activities in Primary / Secondary / Tertiary Industries as percentage to its GDP have changed -0.7%pt / -3.0%pt / +3.7%pt from 2015 to 2020, according to data on WIND. The shift to Tertiary Industry in economic activities has been broadly in line with the trend of urbanisation and consumption-led growth model that is aiming to drive the overall economy. In addition, with the on-going implementation of Dual-Circulation Strategy that was proposed in 2020, the domestic consumption has huge potential to grow further and would drive the significance of Tertiary Industry to a higher level. Given the traditional sectors have been shrinking in recent years, long-term structural change in economy could be reflected in China's capital market preference.

### ***Hang Seng A-shares Indexes – Broadly Measure Performance of the A-shares Market***

The Hang Seng A-shares Indexes, includes the HSCAll, the HSCA300, the HSCAT100 and the HSCAIT, are designed to track the overall performance of A-shares listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Within the A-shares universe that contains more than 4,700 A-shares companies (as of 10 March 2022), our four broad-based A-shares indexes serve as benchmarks to reflect the overall performance of A-shares companies, which are selected from purely based on market value (the HSCAll and the HSCA300) to using combined rank of market value, net profit and revenue (the HSCAT100 and the HSCAIT). The numbers of constituents included in these A-shares indexes are ranging from 52 to 1,180, the latter altogether covers 80% of the total market capitalisation of A-shares companies. All of these indexes are freefloat-adjusted market value weighted with a 10% stock weight cap to avoid over-concentration on individual stock.

### ***Different Focus, Different Risk-adjusted Performance***

With different constituent selection criteria employed by the four Hang Seng A-shares indexes, industry breakdown for these indexes varies from three indexes' highly concentrated in Industrials, Financials, and Consumer Staples, to the HSCAIT's more even industry distribution. In terms of the back-testing performance since 31 December 2015 till 10 March 2022, the HSCAIT has generated the highest return of 43% or annualised return of 6.0% versus 4.6% for the HSCAT100, 3.9% for the HSCA300 and 0.1% for the HSCAll. With a lower annualised return volatility for the HSCAIT (18.8% versus 18.7%-19.7% for the other three indexes), its risk-adjusted return of 0.32x is even higher compared to that for the HSCAT100 (0.24x), the HSCA300 (0.20x) and the HSCAll (0.01x). Among the four A-shares indexes, the HSCAll has the most 1,180 constituents with the widest market coverage of 80% in the A-shares market, hence, highly reflects the A-shares market performance. Although fewer constituents (range from 52 to 300) for the other three indexes, their high return correlations with the HSCAll imply a high degree of representativeness for A-shares as well.



## China's Stock Market Distribution Reflects Economic Development

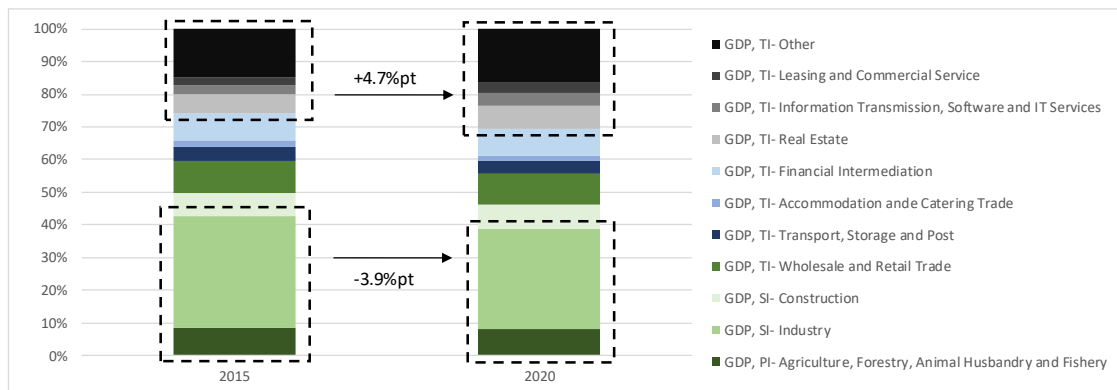
China's national economic activities in Primary / Secondary / Tertiary Industries as percentage to its GDP have changed -0.7%pt / -3.0%pt / +3.7%pt from 2015 to 2020, according to data on WIND. The shift to Tertiary Industry in economic activities has been broadly in line with the trend of urbanisation and consumption-led growth model that is aiming to drive the overall economy. In addition, with the on-going implementation of Dual-Circulation Strategy that was proposed in 2020, the domestic consumption has huge potential to grow further and would drive the significance of Tertiary Industry to a higher level. Given the traditional sectors have been shrinking in recent years, long-term structural change in economy could be reflected in China's capital market preference.

### Structural Changes in China's Economy: Shifting to Tertiary Industry

China's national economic activities can be classified into three categories, namely Primary, Secondary and Tertiary Industries. Primary Industry ('PI') includes Agriculture, Forestry, Animal Husbandry and Fishery; Secondary Industry ('SI') covers Industry (including Mining, Manufacturing, and Power Generation) and Construction; Tertiary Industry ('TI') represents the rest of the economic activities, such as Financials, Information Technology, Services, etc. According to data on WIND, among the China's nominal GDP of RMB114.3 trillion in 2021, PI / SI / TI amounted to RMB8.3 / 45.1 / 61.0 trillion, respectively.

With the structural changes in China's economy, the PI / SI / TI's portion as percentage to the GDP had changed from 8.4% / 40.8% / 50.8% in 2015 to 7.7% / 37.8% / 54.5% in 2020, representing a change of -0.7%pt / -3.0%pt / +3.7%pt during the period according to WIND. Exhibit 2 compares the China's economic activities in 2015 and 2020, as percentage of total GDP. Notably, the aggregate PI and selected portion of SI (Industry, excluding Construction) declined 3.9%pt, from 42.8% to 38.9%, whereas the aggregate selected portion of TI (Real Estate, Information Transmission, Software and IT Services, Leasing and Commercial Services, and Other) increased 4.7%pt, from 26.0% to 30.7%. The shift to TI in economic activities has been broadly in line with the trend of urbanisation and consumption-led growth model that is aiming to drive China's overall economy.

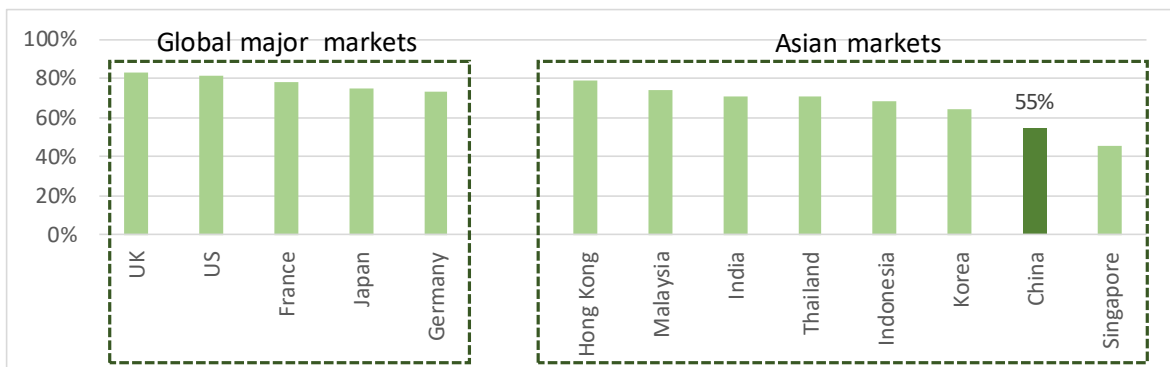
**Exhibit 2: China's GDP Breakdown by National Economic Activities**





In 2020, China proposed a “Dual-Circulation” Strategy which involves reinforcing the huge domestic market (‘domestic economic cycle’) while remaining open to the international trade and investment (‘international economic cycle’) as a supplement. Going forward, domestic consumption would drive the growth of the Tertiary Industry. Exhibit 3 shows that according to data of the World Bank, China’s final consumption expenditure as percentage of GDP was only 55% in 2020, which was relatively low compared to its Asian peers (average 68%) or global major economies (average 78%), indicating huge potential for the growth in GDP consumption expenditure.

**Exhibit 3: Final Consumption Expenditure in year 2020, as % of GDP**

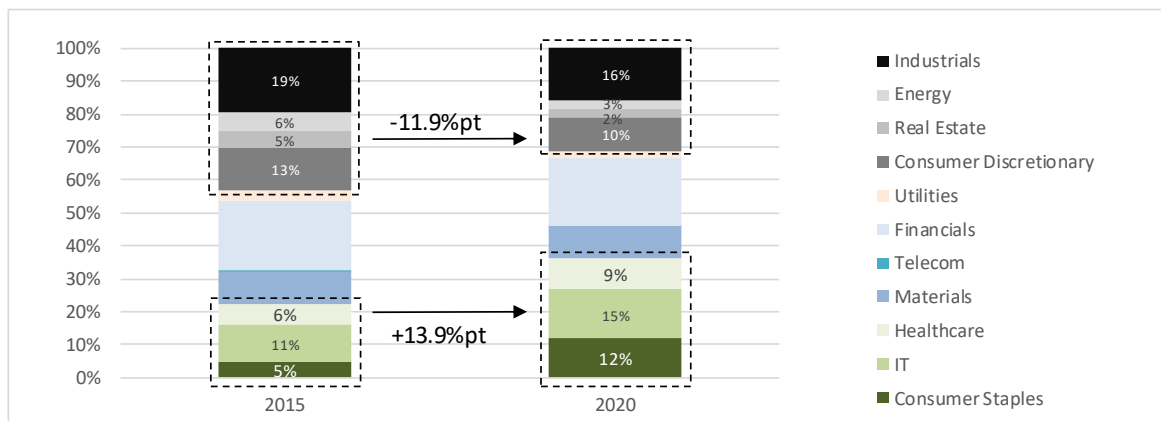


Source: World Bank  
Date: 10 March 2022

### China’s Stock Market in Favour of Innovation and Technology

During the 2015-2020, the China’s equity market capitalisation has grown 48.9%, from RMB56.8 trillion to RMB84.6 trillion, representing a 5-year CAGR of 8.3%, according to WIND. Exhibit 4 shows that the sectors in New Economy, which is highly related to innovation and technology, has expanded 13.9%pt, from 22.1% to 36.0% of the market capitalisation coverage, indicating a shift to industries such as Healthcare and Information Technology. In contrast, the traditional industrial sectors have shrunk 11.9%pt from 43.0% to 31.1% of the market capitalisation coverage, such decline may due to a long-term structural change in economy being reflected in capital market preference.

**Exhibit 4: China Stock Market’s Total Market Capitalisation Breakdown by Sector Classification**



Source: WIND; Date: 10 March 2022



## Hang Seng A-shares Indexes – Broadly Measure Performance of the A-shares Market

The Hang Seng A-shares Indexes are designed to track the overall performance of A-shares listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Within the A-shares universe that contains more than 4,700 A-shares companies (as of 10 March 2022), our four broad-based A-shares indexes serve as benchmarks to reflect the overall performance of A-shares companies, which are selected from purely based on market value, to using combined rank of market value, net profit and revenue. The numbers of constituents included in these A-shares indexes are ranging from 52 to 1,180, the latter altogether covers 80% of the total market capitalisation of A-shares companies. All of these indexes are freefloat-adjusted market value weighted with a 10% stock weight cap to avoid over-concentration on individual stock. Except for the HSCAT100 and the HSCAIT which have an annual review of constituents with data cut-off at the end of June, the HSCAII and the HSCA300 will also carry out interim review at the end of December.

### Exhibit 5: Index Highlights for the HSCAII, HSCA300, HSCAT100 and HSCAIT

A-shares Indexes	Hang Seng China A (Investable) Index	Hang Seng Stock Connect China A 300 Index	Hang Seng China A Top 100 Index	Hang Seng China A Industry Top Index
<b>Index Code</b>	HSCAII	HSCA300	HSCAT100	HSCAIT
<b>Objective</b>	Measure the performance of investable stocks within a market coverage of top 80% in the China A-shares market	Measure the performance of the 300 largest A-share companies in terms of market cap listed in mainland China that are eligible for Northbound trading under the Stock Connect Schemes	To reflect the overall performance of the top 100 A-share companies listed in mainland China	To measure the performance of leading companies in different industries in the mainland China A-shares market
<b>Universe</b>	A-share companies listed in mainland China	A-shares that are eligible for trading under the Stock Connect Scheme	A-share companies listed in mainland China	Constituents of the HSCA300
<b>Constituent selection</b>	Securities in the universe are sorted in descending order of MV. Securities among those that constitute the <b>cumulative MV coverage of top 80%</b> are selected as constituents	The <b>top 300 securities</b> with the highest MV Rank will be selected as constituents	The top 100 securities with the highest Combined ranking scores: <b>Company-wide MV Rank x 50% + NP Rank x 30% + Revenue Rank x 20%</b>	Max of 5 companies with the highest combined ranking of Combine ranking scores <b>(Company-wide MV Rank x 50% + NP Rank x 30% + Revenue Rank x 20%)</b> in each industry under the HSICS
<b>Freefloat-adjusted weight cap</b>	10%	10%	10%	10%
<b>Number of constituents</b>	1,180	300	100	52 (cap at 60)
<b>Launch date</b>	25-Jan-2021	22-Jun-2020	18-Mar-2013	21-Sep-2009
<b>Review frequency</b>	Half-yearly with cut-off at end-June & end-Dec	Half-yearly with cut-off at end-June & end-Dec	Annually with cut-off at end-June	Annually with cut-off at end-June

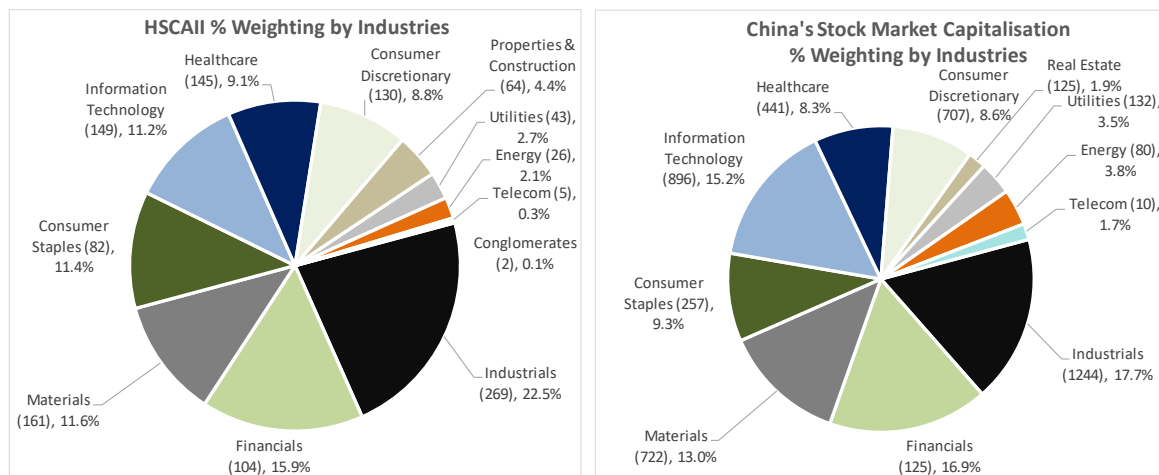
Source: Hang Seng Indexes Company;  
Date: 10 March 2022



## HSCAll to Measure Overall Performance of the A-shares Market

To track the overall performance of China A-shares, in January 2021, Hang Seng Indexes Company Limited (Hang Seng Indexes Company) launched the Hang Seng China A (Investable) Index (HSCAll) as a broad-based index to measure the performance of investable stocks within a market coverage of 80% in the China A-shares market. Exhibit 6 shows the HSCAll currently consists of 1,180 companies, with the top five industries being Industrials (23% weighting, 269 companies), Financials (16% weighting, 104 companies), Materials (12% weighting, 161 companies), Consumer Staples (11% weighting, 82 companies), and Information Technology (11% weighting, 149 companies). Overall, the industry weighting distribution for the HSCAll looks highly represent the industry breakdown of the A-shares market.

**Exhibit 6: HSCAll – Number of Constituents and Weightings by Industry**



Note: Number of stocks in bracket  
Source: Hang Seng Indexes Company; WIND  
Date: 10 March 2022

Given the HSCAll has the largest number of constituent stocks among the four broad-based A-shares indexes, Exhibit 7 shows that the top 10 companies in total accounts for 14% of the index market capitalisation, with Kweichow Moutai being the largest constituent with 3.1% weighting, then followed by CATL (2.4%) and Ping An (1.5%).

**Exhibit 7: HSCAll – Top 10 Companies**

Top10	Ticker	Name	Industry	% Weightings
1	600519.SS	KWEICHOW MOUTAI	Consumer Staples	3.1%
2	300750.SZ	CATL	Industrials	2.4%
3	601318.SS	PING AN	Financials	1.5%
4	601012.SS	LONGI	Industrials	1.3%
5	601166.SS	INDUSTRIAL BANK	Financials	1.2%
6	000858.SZ	WULIANGYE	Consumer Staples	1.1%
7	000333.SZ	MIDEA GROUP	Consumer Discretionary	1.0%
8	600036.SS	CM BANK	Financials	0.8%
9	600900.SS	CYPC	Utilities	0.7%
10	300059.SZ	EASTMONEY	Financials	0.7%
				<b>13.7%</b>

Source: Hang Seng Indexes Company  
Date: 10 March 2022

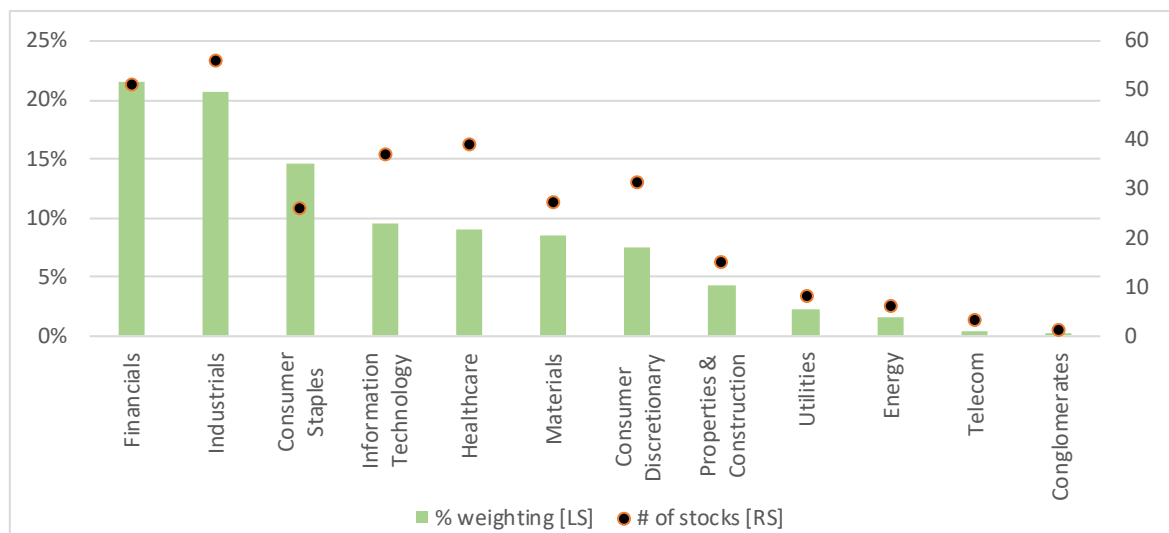


### HSCA300 to Reflect the Performance of the 300 Largest A-shares

Theoretically, the simplest way to construct an index to measure the performance of the entire stock market would be holding every listed security. By holding all of the securities, a high level of diversification can be achieved and most of the unsystematic risk would be mitigated. However, it may be complicated and expensive for ETFs or index funds to track the index when balancing the portfolio given it would hold a large number of securities. To simplify the construction of a broad-based market index for A-shares, the HSCA300 is designed to measure the performance of the 300 largest A-shares companies in terms of market capitalisation listed in mainland China. As the universe of index constituents requires those A-shares should be eligible for Northbound Trading under the Stock Connect Scheme, the funds which track the HSCA300 could associate with lower costs when balancing the portfolio compared with those using the Qualified Foreign Institutional Investor (QFII) channel.

Exhibit 8 shows that in the HSCA300, Financials accounts for the highest constituent weighting at 21% with 51 companies, then followed by Industrials (21% weighting, 56 companies) and Consumer Staples (15% weighting, 26 companies), accounting for more than half of the index weighting.

**Exhibit 8: HSCA300 – Number of Constituents and Weightings by Industry**



Source: Hang Seng Indexes Company  
Date: 10 March 2022

As shown in Exhibit 9, with fewer constituent stocks for the HSCA300 compared with those in the HSCAll, the top 10 companies of the HSCA300 accounts for 21% of the index market capitalisation, in which Kweichow Moutai being the largest constituent with 4.8% weighting, then followed by CATL (3.7%) and Ping An (2.3%).





**Exhibit 9: HSCA300 – Top 10 Companies**

Top10	Tickers	Name	Industry	% Weightings
1	600519.SS	KWEICHOW MOUTAI	Consumer Staples	4.8%
2	300750.SZ	CATL	Industrials	3.7%
3	601318.SS	PING AN	Financials	2.3%
4	601012.SS	LONGI	Industrials	2.0%
5	601166.SS	INDUSTRIAL BANK	Financials	1.8%
6	000858.SZ	WULIANGYE	Consumer Staples	1.8%
7	600036.SS	CM BANK	Financials	1.2%
8	600900.SS	CYPC	Utilities	1.1%
9	300059.SZ	EASTMONEY	Financials	1.1%
10	600887.SS	YILI	Consumer Staples	1.1%
				<b>21.0%</b>

Source: Hang Seng Indexes Company  
Date: 10 March 2022

**HSCAT100 to Track the Performance of the Top 100 A-shares**

Apart from constructing a broad-based index that purely based on market value (MV) ranking, Hang Seng Indexes Company has also employed a factor approach to select constituents which have met certain financial criteria as well as based on specific investment strategy. For the HSCAT100, we adopt a combined score approach:

**‘Score’ value = Company-wide MV Rank\* x 50% + Net Profit Rank\*\* x 30% + Revenue Rank\*\* x 20%**

\* “Company-wide MV” includes MVs of A-shares, B-shares, H-shares and unlisted shares, and is expressed as an average of the past 12 months (month-end basis).

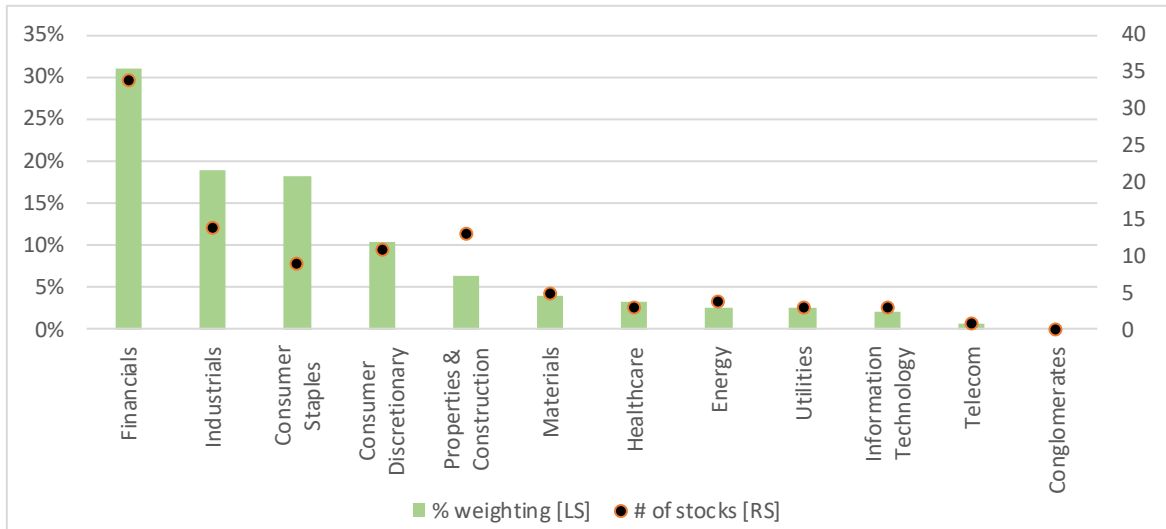
\*\* “Net Profit Rank” and “Revenue Rank” refer to the rank of averages of the relevant full-year figures for the past two fiscal years.

After ranking the stock in ascending order by their ‘Scores’, the top 100 securities will be selected as constituents of the HSCAT100. The index is freefloat-adjusted market-capitalisation weighted with a 10% cap on individual to avoid over-concentration on large-cap stocks.

Exhibit 10 shows that in the HSCAT100, Financials accounts for the highest constituent weighting at 31% with 34 companies, then followed by Industrials (19% weighting, 14 companies) and Consumer Staples (18% weighting, 9 companies), accounting for nearly 70% of the index weighting.



Exhibit 10: HSCAT100 – Number of Constituents and Weightings by Industry



Source: Hang Seng Indexes Company  
Date: 10 March 2022

Exhibit 11 shows that among the 100 constituents of the HSCAT100, the top 10 companies in total accounts for 37% of the index weightings, with Kweichow Moutai being the largest constituent at 8.2%, then followed by CATL (6.3%) and Ping An (4.0%).

Exhibit 11: HSCAT100 – Top 10 Companies

Top10	Tickers	Name	Industry	% Weightings
1	600519.SS	KWEICHOW MOUTAI	Consumer Staples	8.2%
2	300750.SZ	CATL	Industrials	6.3%
3	601318.SS	PING AN	Financials	4.0%
4	601012.SS	LONGI	Industrials	3.4%
5	601166.SS	INDUSTRIAL BANK	Financials	3.1%
6	000858.SZ	WULIANGYE	Consumer Staples	3.1%
7	000333.SZ	MIDEA GROUP	Consumer Discretionary	2.6%
8	600036.SS	CM BANK	Financials	2.1%
9	600900.SS	CYPC	Utilities	1.9%
10	600887.SS	YILI	Consumer Staples	1.8%
				<b>36.6%</b>

Source: Hang Seng Indexes Company  
Date: 10 March 2022

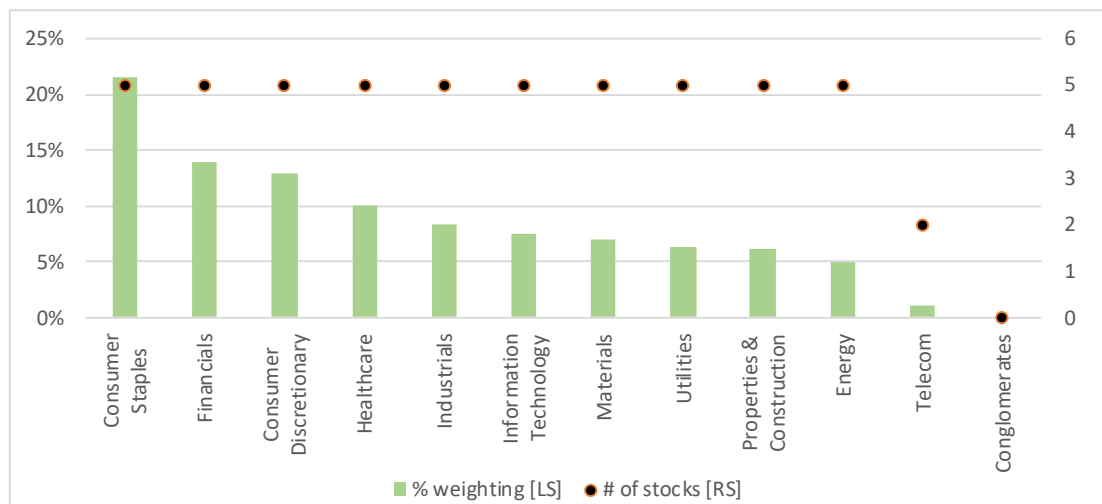


### HSCAIT to Capture the Performance of Leading A-shares in Different Industries

The HSCAIT aims to serve as a benchmark for tracking the performance of leading companies in different industries in the mainland China A-shares market. To quantitatively select the top stocks by industry, the HSCAIT would first apply the same combined “Score” approach as the HSCAT100 does (*please refer to above sub-section for detail definition*). In each of the industry, stocks are ranked in ascending order based on their ‘Scores’ with the top five securities will be selected as constituents. Given there are 12 industries in the Hang Seng Industry Classification System (HSICS), the maximum number of constituents for the HSCAIT is capped at 60.

Exhibit 12 shows that in the HSCAIT, the top three industries in total accounts for 48% of the index weighting, with exposure in Consumer Staples (22% weighting), Financials (14% weighting) and Consumer Discretionary (13% weighting). As the HSCAIT selects constituents first from each industry while the constituent selection for the HSCAT100 is purely based on constituent’s ‘Score’ value in the universe irrespective of their industries, industry weighting distribution for the HSCAIT looks more even compared to those in the HSCAT100.

#### Exhibit 12: HSCAIT – Number of Constituents and Weightings by Industry



Source: Hang Seng Indexes Company  
Date: 10 March 2022

Exhibit 13 shows that among the 52 constituents of the HSCAIT, the top 10 companies in total accounts for 47% of the index weightings, with Kweichow Moutai being the largest constituent at 10.4%, then followed by Ping An (7.2%) and Wuliangye (5.6%).

#### Exhibit 13: HSCAIT – Top 10 Companies

Top10	Tickers	Name	Industry	% Weightings
1	600519.SS	KWEICHOW MOUTAI	Consumer Staples	10.4%
2	601318.SS	PING AN	Financials	7.2%
3	000858.SZ	WULIANGYE	Consumer Staples	5.6%
4	000333.SZ	MIDEA GROUP	Consumer Discretionary	4.8%
5	600900.SS	CYPC	Utilities	3.5%
6	600887.SS	YILI	Consumer Staples	3.3%
7	603259.SS	WUXI APPTec	Healthcare	3.3%
8	601288.SS	ABC	Financials	3.1%
9	002475.SZ	LXJM	Industrials	2.9%
10	000651.SZ	GREE	Consumer Discretionary	2.8%
				<b>47.0%</b>

Source: Hang Seng Indexes Company  
Date: 10 March 2022



## Different Focus, Different Risk-adjusted Performance

With different constituent selection criteria employed by the four Hang Seng A-shares indexes, industry breakdown for these indexes varies from three indexes' highly concentrated in Industrials, Financials, and Consumer Staples, to the HSCAIT's more even industry distribution. In terms of the back-testing performance since 31 December 2015 till 10 March 2022, the HSCAIT has generated the highest return of 43% or annualised return of 6.0% versus 4.6% for the HSCAT100, 3.9% for the HSCA300 and 0.1% for the HSCAII. With a lower annualised return volatility for the HSCAIT (18.8% versus 18.7%-19.7% for the other three indexes), its risk-adjusted return of 0.32x is even higher compared to that for the HSCAT100 (0.24x), the HSCA300 (0.20x) and the HSCAII (0.01x). Among the four A-shares indexes, the HSCAII has the most 1,180 constituents with the widest market coverage of 80% in the A-shares market, hence, highly reflect the market performance. Although fewer constituents (range from 52 to 300) for the other three indexes, their high return correlations with the HSCAII imply a high degree of representativeness for A-shares as well.

## Industry Distribution Varies on Different Constituent Selection Criteria

Among the four A-shares indexes, both the HSCAII and the HSCA300 select constituents purely based on market value while the HSCAII covers more securities in the market (1,180 constituents) compared to that for the HSCA300 (300 constituents). As shown in Exhibit 14, the rankings of industry weighting for the HSCA300 look similar to that for the HSCAII except it has higher weightings in Financials (21.5% vs 15.9% in HSCAII) and Consumer Staples (14.6% vs 11.4% in HSCAII), which largely due to its lower weightings in Materials (8.5% vs 11.6% in HSCAII), Industrials (20.6% vs 22.5% in HSCAII) and Information Technology (9.5% vs 11.2% in HSCAII).

**Exhibit 14: Industry Weightings of the HSCAII, HSCA300, HSCAT100 and HSCAIT**

Industry	HSCAII		HSCA300		HSCAT100		HSCAIT	
	Weighting	Ranking	Weighting	Ranking	Weighting	Ranking	Weighting	Ranking
Industrials	22.5%	1	20.6%	2	18.8%	2	8.4%	5
Financials	15.9%	2	21.5%	1	31.0%	1	14.0%	2
Materials	11.6%	3	8.5%	6	4.0%	6	7.0%	7
Consumer Staples	11.4%	4	14.6%	3	18.3%	3	21.6%	1
Information Technology	11.2%	5	9.5%	4	2.2%	10	7.5%	6
Healthcare	9.1%	6	9.0%	5	3.2%	7	10.0%	4
Consumer Discretionary	8.8%	7	7.6%	7	10.3%	4	12.9%	3
Properties & Construction	4.4%	8	4.2%	8	6.4%	5	6.2%	9
Utilities	2.7%	9	2.3%	9	2.6%	9	6.3%	8
Energy	2.1%	10	1.7%	10	2.6%	8	5.0%	10
Telecommunications	0.3%	11	0.5%	11	0.6%	11	1.2%	11
Conglomerates	0.1%	12	0.1%	12	0.0%	12	0.0%	12
	<b>100.0%</b>		<b>100.0%</b>		<b>100.0%</b>		<b>100.0%</b>	

Source: Hang Seng Indexes Company; Date: 10 March 2022

Note: Grey highlights represent the top 3 weighting industries

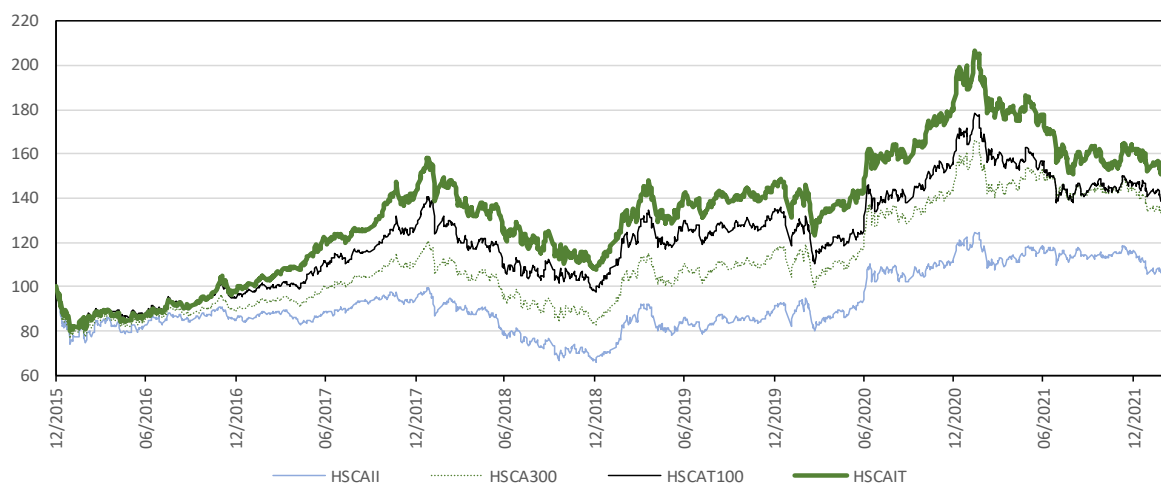


Given the constituent selection for the HSCAT100 and the HSCAIT would first filter eligible stocks based on their combined ranking of market value, net profit and revenue, the two indexes' industry distribution look fairly different from those of the HSCAll and the HSCA300. Although among the top three industries of the HSCAT100, namely Industrials, Financials and Consumer Staples, there are two overlapped with those in the HSCAll and the HSCA300, their total weightings are substantially higher at 68% in the HSCAT100 compared to that in the HSCAll (50%) and the HSCA300 (57%). Aiming to track the performance of top five securities in each industry under the HSICS, the HSCAIT's industry distribution looks more evenly spread compared to that in the HSCAT100. Notably, Consumer Staples and Consumer Discretionary ranked the 1<sup>st</sup> and the 3<sup>rd</sup>, respectively, with 21.6% and 12.9% weightings in the HSCAIT compared to the rankings of the 3<sup>rd</sup> and the 4<sup>th</sup> in the HSCAT100, the 4<sup>th</sup> and the 7<sup>th</sup> in the HSCAll, and the 3<sup>rd</sup> and the 7<sup>th</sup> in the HSCA300.

### Comparison of Index Performance and Return Volatility

As shown in Exhibit 15 and 16 about the back-testing performance of the four Hang Seng A-shares Indexes since the 31 December of 2015 till 10 March 2022, the HSCAIT has generated the highest return of 43% or an annualised return of 6.0% versus 4.6% for the HSCAT100, 3.9% for the HSCA300 and 0.1% for the HSCAll. Overall, the HSCAIT and the HSCAT100, which have employed multi-factor approach in selecting constituents, mostly delivered better annual performance compared to those in the HSCAll and the HSCA300 during the period from 2016 to 2022 except for the year of 2021. After examining the weighting distribution of the four A-shares indexes, we note that the underperformance of the HSCAIT and the HSCAT100 in 2021 was mainly caused by their lower weightings in Industrials, Information Technology and Materials industries that generated positive returns during the year. Moreover, their higher exposure to the underperformed industries such as Consumer Staples, and particularly the HSCAT100's substantial weighting in Financials, have also dragged their performance compared to those of the HSCAll and HSCA300 in 2021.

**Exhibit 15: Index Performance since end-2015**



Source: Hang Seng Indexes Company;  
Date: 10 March 2022



Exhibit 16: Index Performance since end-2015

Index		2016	2017	2018	2019	2020	2021	2022*	Overall	Anualised
									2016-22	2016-22
Return (%)	HSCAII	-14.8	9.9	-28.3	33.9	27.4	1.6	-13.3	0.9	0.1
	HSCA300	-10.5	22.9	-23.5	37.8	27.9	-2.2	-12.6	26.6	3.9
	HSCAT100	-4.7	32.0	-21.2	34.9	20.2	-8.7	-10.3	31.7	4.6
	HSCAIT	-2.1	44.4	-23.0	34.6	26.6	-12.4	-12.0	43.0	6.0
Annualised Volatility (%)	HSCAII	24.1	10.2	21.0	20.0	22.8	16.9			19.7
	HSCA300	21.8	10.0	21.1	19.4	22.2	18.5			19.3
	HSCAT100	18.9	10.8	21.4	19.4	21.8	17.7			18.7
	HSCAIT	19.5	10.9	22.1	18.9	20.4	19.1			18.8
Risk-adjusted Return (x)	HSCAII	-0.61	0.97	-1.35	1.70	1.20	0.09			0.01
	HSCA300	-0.48	2.29	-1.11	1.95	1.26	-0.12			0.20
	HSCAT100	-0.25	2.96	-0.99	1.80	0.93	-0.49			0.24
	HSCAIT	-0.11	4.07	-1.04	1.83	1.30	-0.65			0.32

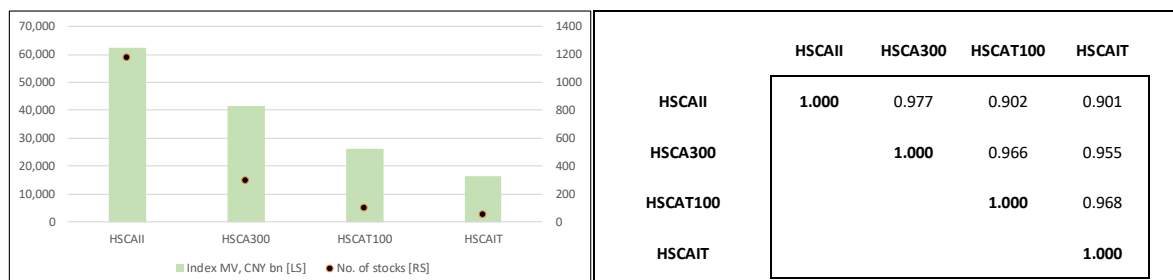
Remark (\*): YTD Return  
Source: Hang Seng Indexes Company;  
Date: 10 March 2022

In theory, there is a tradeoff between return and risk, i.e. higher returns normally associate with higher risk or return volatility. However, as shown in Exhibit 16, the annualised return volatility for the HSCAIT (18.8%) is at the low range of the annualised return volatility from 18.7% to 19.7% for the HSCAII, the HSCA300 and the HSCAT100. It appears due to the HSCAIT's more even industry distribution having helped the index to diversify the unsystematic risk at a larger extent. As a result, the risk-adjusted return (annualised return / annualised return volatility) for the HSCAIT (0.32x) is even higher than that for the HSCAT100 (0.24x), the HSCA300 (0.20x) and the HSCAII (0.01x).

### Correlation Analysis of the Hang Seng A-shares Indexes

The design of the four Hang Seng A-shares Indexes is to measure the overall performance of A-shares listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange while the key difference among the indexes is the number of constituents they have included. Left hand side of Exhibit 17 shows that the HSCAII has the largest 1,180 constituents with the widest market coverage of 80% in the A-shares market. Although there are fewer constituents for the HSCA300 (300), the HSCAT100 (100) and the HSCAIT (52), they still have high return correlations of 0.901-0.977 with the HSCAII as shown in the right hand side of Exhibit 17, implying a high degree of representativeness for A-shares.

Exhibit 17: Index Market Capitalisation and Return Correlation among A-shares Indexes



Source: Hang Seng Indexes Company; Date: 10 March 2022



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