



恒生指數
HANG SENG INDEXES

Proposal to enhance the “Hang Seng Index” as regards continuing to serve as the most representative and important benchmark of the Hong Kong stock market

Consultation Results & Conclusions

1 March 2021



Summary of the Consultation Conclusions

Enhancement Proposals & Conclusions

- 1. Enlargement in Market Coverage**
 - Target to reach **80** constituents by mid-2022
 - Ultimately fix at **100** constituents
- 2. Expansion in Industrial Representation**
 - Constituents selection by **Seven Industry Groups**
 - Combination of the Industry Groups to be reviewed every two years
 - Effective from the May 2021 Index Review
- 3. Prompt Inclusion of New Listings**
 - Shorten the listing history requirement to **three months**
 - Effective from the May 2021 Index Review
- 4. Representation of Hong Kong Companies to Remain Intact**
 - Maintain **20 to 25** constituents that are classified as Hong Kong Companies in the HSI
 - Number of Hong Kong constituents to be evaluated every two years
- 5. Enrichment in Constituent Weighting Distribution**
 - Apply **8%** weighting cap on all constituents
 - **Adopt the same for the Hang Seng China Enterprises Index (“HSCEI”)**
 - Effective from the Index Rebalancing in June 2021



Reponses Received

- Consultation Period: 22 Dec 2020 - 24 Jan 2021
- Total 60 responses were received from 55 organisations^{Note1,2}

Categories	# of Responses	By Geography		
		HK	Mainland China and Taiwan	Others
Traders/ Market Makers	14	11	1	2
Investment Manager (Active)	12	11	-	1
Investment Manager (Passive)	10	3	6	1
MPF Providers	5	5	-	-
Asset Owners	3	3	-	-
Structured Product Issuers	3	2	-	1
Academics/ Institutes	2	2	-	-
Others ^{Note3}	11	11	-	-
TOTAL	60	48	7	5

Note 1: Not all respondents answered all questions in the consultation paper

Note 2: Individual replies from the same organisation may have been assessed separately if they represent different capacities

Note 3: Includes individual investors, corporates, exchanges and other financial institutes



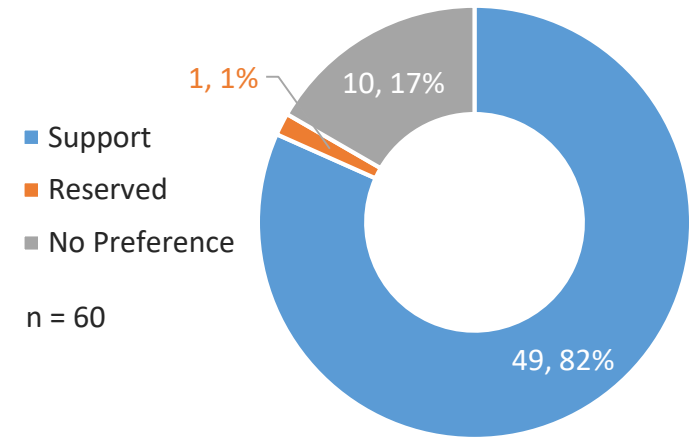
Consultation Results and Conclusions

Summary of the Consultation Proposals

Enhancement		Original Proposal
1	Enlargement in Market Coverage	Increase the number of constituents to between 65 and 80
2	Expansion in Industrial Representation	Select constituents by Industry Groups and based on a target coverage for each Industry Group
3	Prompt Inclusion of New Listings	Remove the minimum listing history Requirement for eligible candidates
4	Representation of Hong Kong Companies to Remain Intact	Maintain a certain number of constituents classified as Hong Kong Companies
5	Enrichment in Constituent Weighting Distribution	Lower the weighting cap of individual constituent from 10% to 8%; and align the weighting cap of WVR and/or secondary-listed constituents with that of other constituents, i.e. 8%



80%+ of respondents support expanding the HSI constituent number



Key Comments:

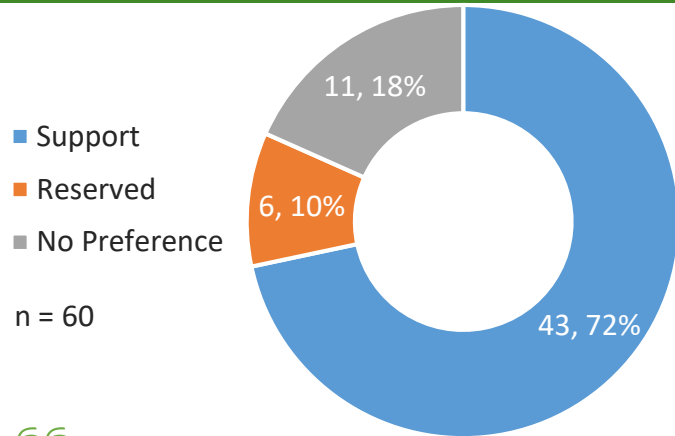
- ✓ Welcome the HSI to be more diversified
- Agree a constituent number of 80 or even 100+
- Suggest to have a variable number with a target overall market coverage
- × Elite blue-chips usually refer to a small number of companies
- × Concern on the liquidity of less sizable constituents



Conclusion:

- Target to reach **80** by the mid-2022;
- Fix the ultimate constituent number at **100**

Proposal 2: Constituent Selection by Industry Group



70%+ of respondents support selecting HSI constituents by Industry Group



Key Comments:

- ✓ Could achieve a more balanced industrial distribution
- ✓ Support and comment on the Industry Groups, e.g. Utilities + Telecom, New Economy
- Suggest more specific rules
- × Should represent the overall market but not individual sectors

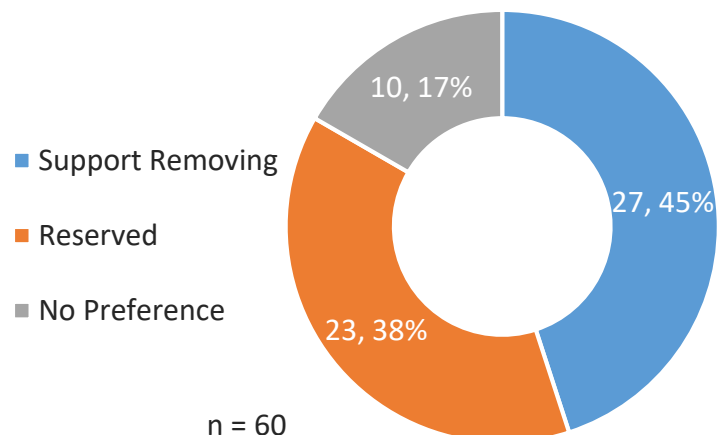


Conclusion:

- Proceed to select constituents by Industry Group;
- The finalized **Seven Industry Groups** will be **(1) Financials (2) Information Technology (3) Consumer Discretionary & Consumer Staples (4) Properties & Construction (5) Telecom & Utilities (6) Healthcare and (7) Energy, Materials, Industrials, and Conglomerates**;
- Combination of the Industry Groups are subject to **review every two years**
- New method to be implemented starting from the May 2021 Index Review



Proposal 3: Removing Listing History Requirement



60%+ support or neutral on removing the existing listing history requirement while respondents expressed hesitation still support shortening the listing history requirement



Key Comments:

- ✓ Could include large IPOs timely
- ✓ More flexible and the HSI Advisory Committee can decide if a candidate is appropriate
- ✓ Shorten the listing history requirement to three months regardless of the size
- × Usually more volatile price during IPO period
- × Trading history is important in making investment decision



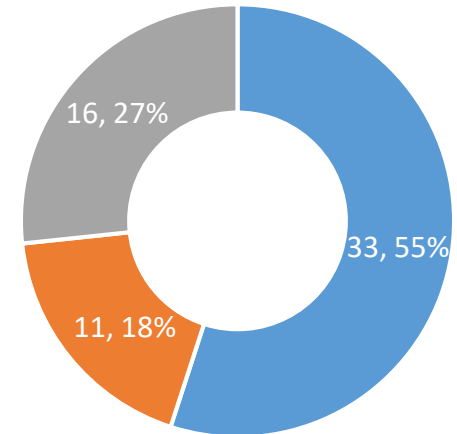
Conclusion:

- Instead of completely eliminating the listing history requirement, all potential candidates will be subject to a listing history of **three months**;
- Effective from the May 2021 Index Review

Proposal 4: Maintaining “Hong Kong” Representation

80%+ of respondents support or neutral on keeping a certain number of “Hong Kong” companies in the HSI

■ Support
■ Reserved
■ No Preference
n = 60



Key Comments:

- ✓ Preserve the Hong Kong element
- ✓ Could maintain the differentiation between the HSI and the HSCEI
- Suggest to set the proportion in terms of weighting between HK/ Mainland constituents
- × Should represent the overall Hong Kong stock market
- × Unfair to some mainland companies

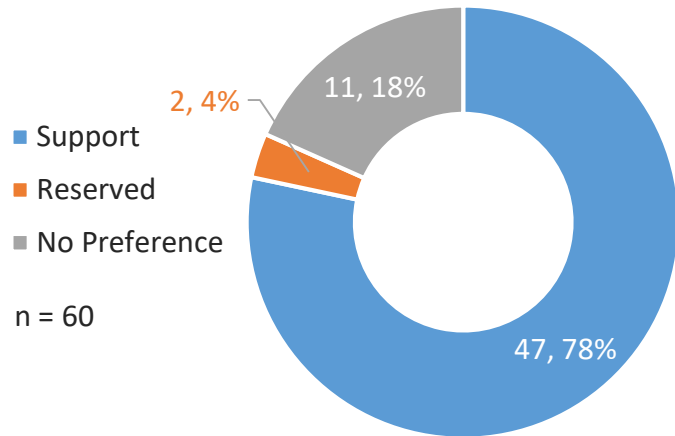


Conclusion:

- Maintain **20 to 25 “HK” constituents** in the HSI to sustain the representation of HK companies in the index;
- Number of “HK” constituents will be **evaluated every two years**



Proposal 5: Adopting Weighting Cap of 8% on All HSI Constituents



About **80%** of respondents support lowering the individual constituent weighting cap level to 8% and applying the same to WVR and/ or secondary-listed constituents



Key Comments:

- ✓ Could improve the weighting concentration of the HSI
- ✓ Market is now quite used to WVR and secondary-listed companies
- × Should not encourage WVR or secondary-listing structures



Conclusion:

- Lower the individual constituent weighting cap level from 10% to **8%** and apply the **same cap level to WVR and/ or secondary-listed constituents** ;
- The **HSCEI** will adopt the same constituent weighting cap level and handling;
- Effective from the Index Rebalancing in June 2021



Summary of the Enhancement

Existing HSI

Enhanced HSI

Universe

Greater China companies

Greater China companies

Eligibility Screening

- MV falls into the top 90% coverage
- Listing History (2 years with Fast Entry Rule)
- Turnover Screening

- Constituents of the HSLMI*
- **3-month Listing History**
- **0.1% velocity test**

Selection Criteria

All Eligible Stocks

Select constituents by Seven Industry Groups

Financials	Information Technology	Consumer Discretionary + Staples	Properties & Construction	Utilities + Telecom	Healthcare	Others
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Maintain 20 to 25 constituents classified as Hong Kong Companies

- Representation of the sub-sector
- MV and turnover
- Financial performance
- Advisory Committee discussion

50 constituents

Weighting

- Freefloat market cap-weighted
- 10% cap on non-WVR/ 2nd-listed constituents
- 5% cap on WVR/ 2nd-listed constituents

- **Representativeness of the candidate in the Industry Group**
- MV and turnover
- Financial performance
- Advisory Committee discussion

100 constituents

- Freefloat market cap-weighted
- **8% cap on all constituents**



The above changes will be implemented
starting from the May 2021 Index Review and
effective in the June 2021 Index Rebalancing

The Seven Industry Groups

Market Capitalisation and Index Weighting by Industry

- Some industries (i.e. Consumer Staples, Utilities, Telecom, Industrials, Conglomerates, Energy and Materials) are small in terms of market cap (<5%) and/ or number
- More practical and meaningful if grouping some industries together for constituents selection

HSICS Industry [#]	Hang Seng Composite Index (HSCI)							
	No.	Market Cap		Wgt %	No.	Market Cap		Wgt %
		HK\$bn	%			HK\$bn	%	
Financials	57	7,958	17.9	26.3	57	7,958	17.9	26.3
Information Technology	39	14,210	32.0	28.7	39	14,210	32.0	28.7
Consumer Discretionary	90	5,691	12.8	10.8	117	7,917	17.9	14.9
Consumer Staples	27	2,225	5.0	4.1				
Properties & Construction	103	4,435	10.0	8.7	103	4,435	10.0	8.7
Healthcare	41	3,024	6.8	6.6	41	3,024	6.8	6.6
Utilities	29	1,482	3.3	3.6	38	2,743	6.2	5.5
Telecommunications	9	1,261	2.8	1.9				
Industrials	41	1,561	3.5	4.1	80	3,311	7.5	8.1
Conglomerates	8	604	1.4	1.2				
Energy	12	696	1.6	1.8				
Materials	19	449	1.0	1.0				
FC, SS and 18A [^]	17	752	1.7	1.3	17	752	1.7	1.3
Total	492	44,350	100.0	100.0	492	44,350	100.0	100.0

[#] Definition of Hang Seng Industry Classification System ("HSICS") is available [here](#)

[^] Foreign Companies (FC), Staple Securities (SS) and Biotech Companies with stock names end with marker "B" (18A)

Target Market Cap Coverage

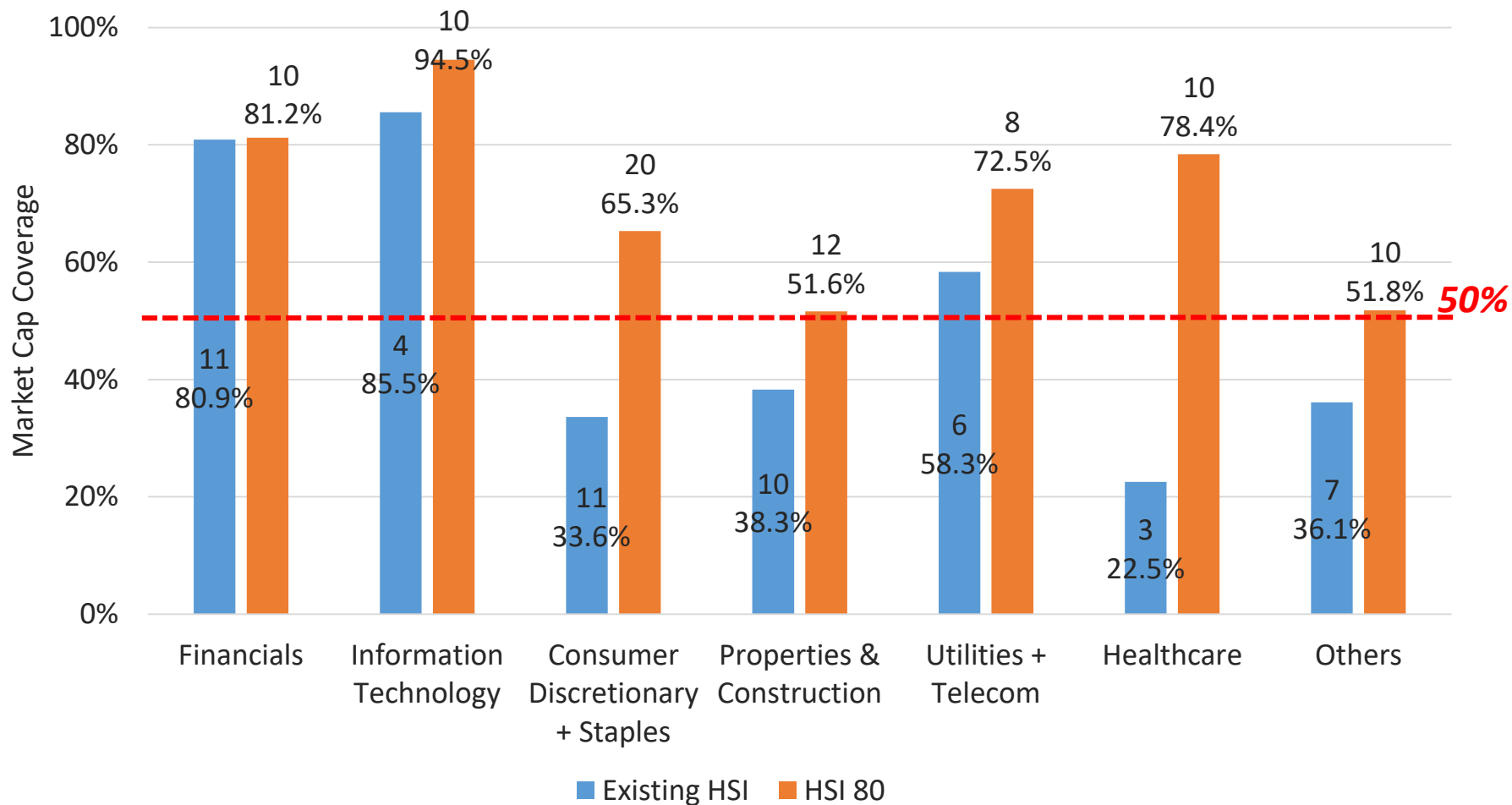
- Target to cover at least 50%, in terms of market capitalisation, for each Industry Group

Characteristics of the Industry Group

- Distribution of the listed companies, in terms of market capitalisation
- Number of listed companies
- Overall weighting distribution by Industry Group

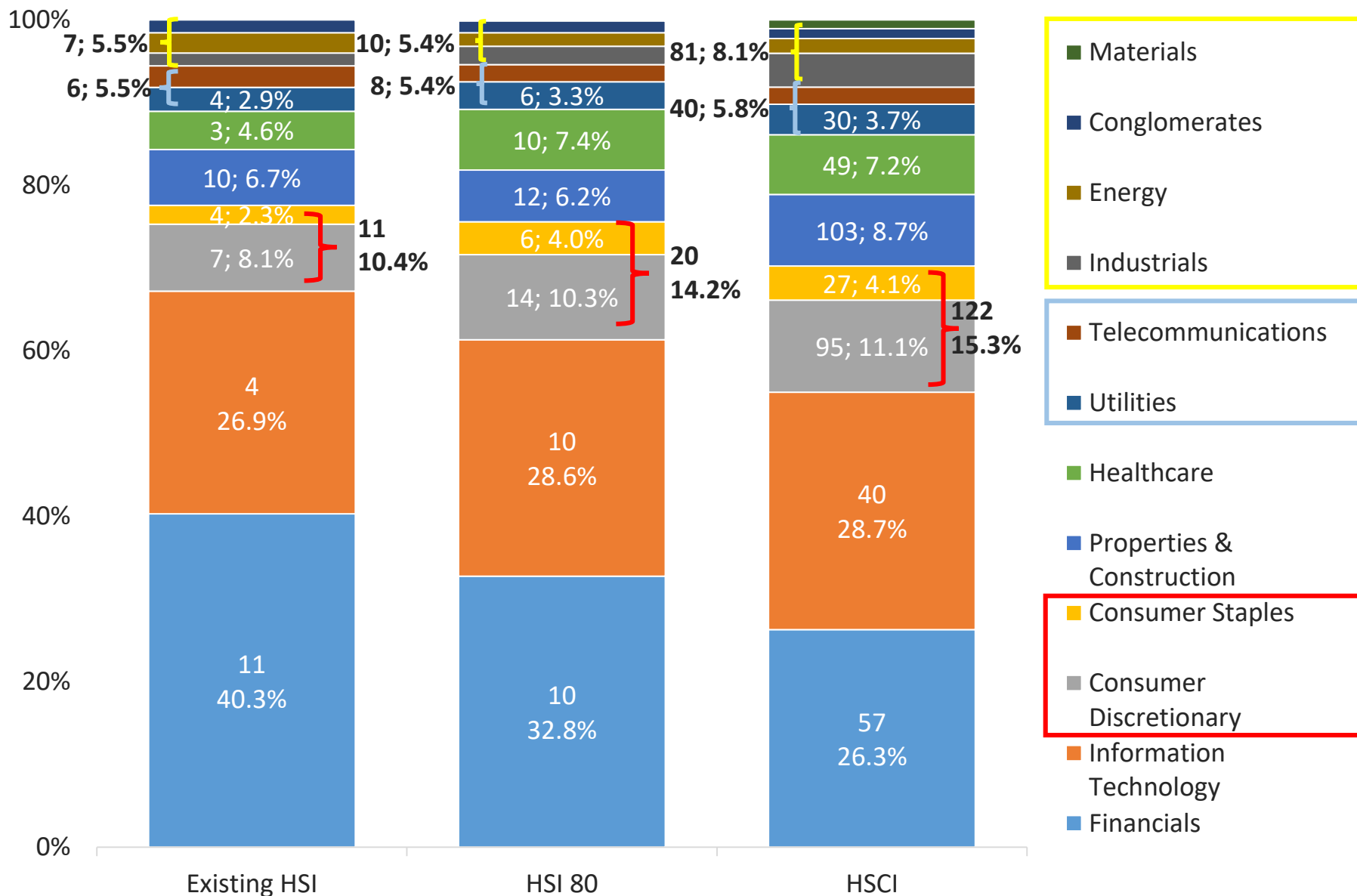
Index characteristics when reaching 80 constituents
(Simulated Results, for reference only)

Market Cap Coverage by Industry Group (Simulated Results)

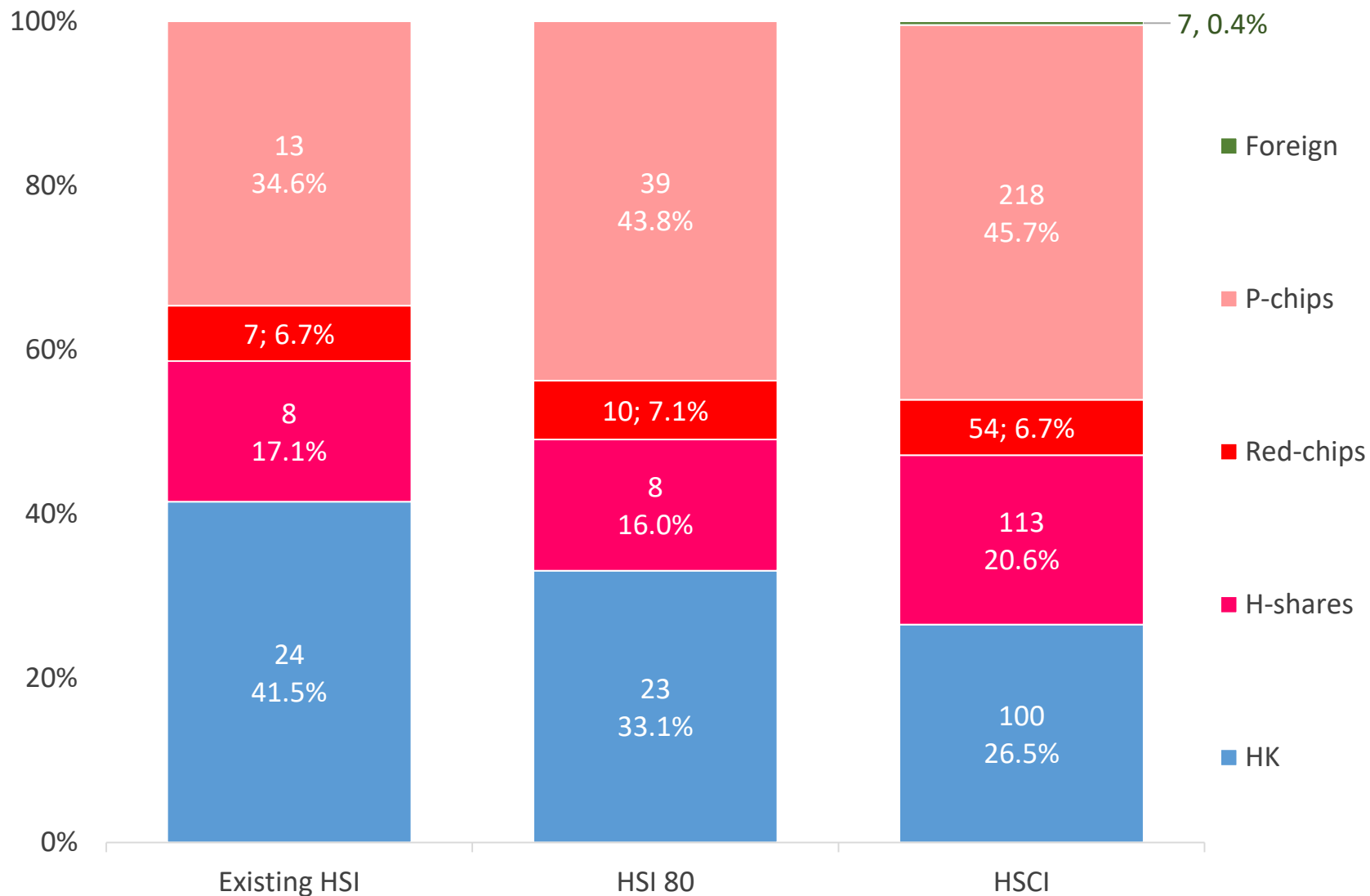


*Hypothetical constituent number, Industry Group market cap coverage (for reference only)
(Data as of 11 Feb 2021)*

Constituent Weighting Distribution by Industry (Simulated Results)



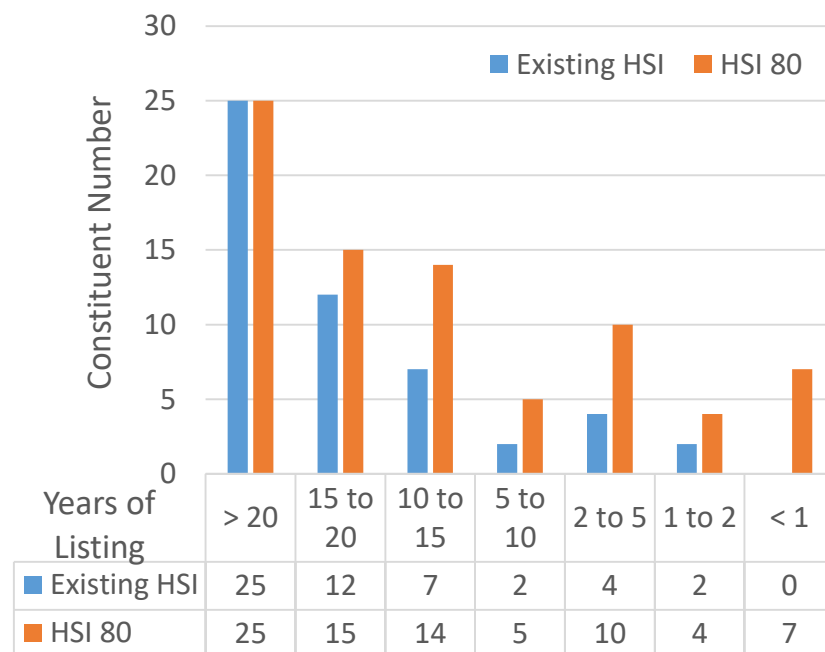
Constituent Weighting Distribution By Share Classes (Simulated Results)



Improvement in Representation (Simulated Results)

	Existing	Simulated
Market Cap (HK\$bn)		
Index	26,703	33,375 (+ 25%)
Average	514	417
Median	224	216
Top 5 Weighting	41.1%	36.1%
Coverage		
Market Cap*	56.5%	71.2% (+ 14.7 pp)
Turnover [#]	50.2%	66.0% (+ 15.8 pp)
Fundamentals		
Price Earnings	15.7x	19.1x
Dividend Yield	2.6%	2.1%

Distribution of Constituent Listing History



Younger Constituents

* Market cap as of end Jan 2021 # Aggregate traded value in Jan 2021
(Data as of 11 Feb 2021, except * and #)

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