



CONSULTATION PAPER

A New 'Comprehensive' China Index *- Access to both Onshore and Offshore China Stock Markets*

February 2022

(Data as of 31 December 2021 and sourced from Hang Seng Indexes Company Limited unless otherwise specified)

Note:

The information and questions in this document are for the sole purpose of gathering opinions from market participants and various stakeholders.

Responding to the Consultation

Please send us your responses to research@hsi.com.hk by **31 March 2022**. Thank you.

All responses will be kept strictly confidential and used solely for the purposes of internal research and discussion by Hang Seng Indexes Company Limited ('Hang Seng Indexes Company').

If you wish to provide your responses in hardcopy format, please mail to:

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Respondent Details

In order to better understand your valuable opinions, we may further contact you via e-mail and / or phone for follow-up after you return your responses. Please provide your contact information for this purpose. Failure to provide valid contact details may result in your responses being excluded from this consultation. Thank you.

Name: _____

Job Title: _____

Organisation: _____

Professional Profile:

<input type="checkbox"/> Academic or Institute	<input type="checkbox"/> Asset Owner
<input type="checkbox"/> Broker or Dealer	<input type="checkbox"/> Exchange
<input type="checkbox"/> Individual Investor	<input type="checkbox"/> Investment Manager
<input type="checkbox"/> Passive Fund Manager	<input type="checkbox"/> Regulatory
<input type="checkbox"/> Others (please specify)	_____

Contact Number*: _____

E-mail address*: _____

Date: _____

** Please provide at least one channel through which you can be contacted*

Important Note

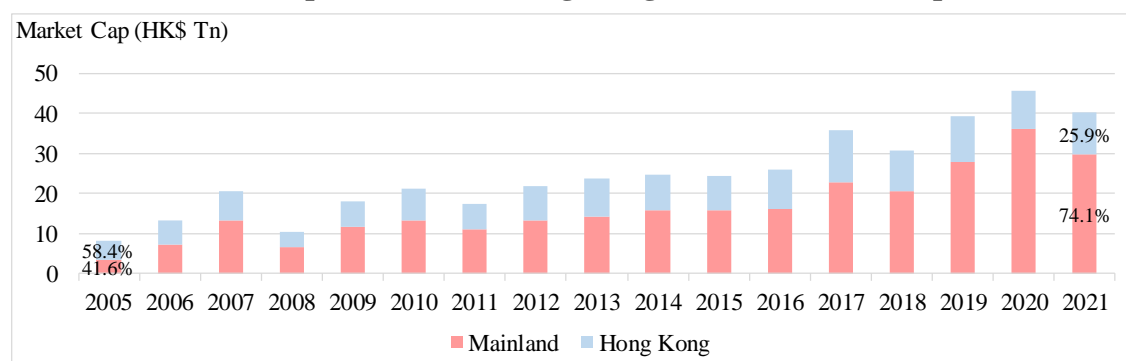
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A. Background: Opening up of Onshore China Market

Hong Kong Stock Market has been a Good Offshore Proxy for China Market

- Over the past 16 years, the total market capitalisation of the Hong Kong stock market grew by 391%, i.e. from HK\$8.2 Trillion in 2005 to HK\$40.1 Trillion in 2021. The proportion of Mainland companies also increased from 41.6% to 74.1% during the same period. As of 2021 year-end, out of 2,232 companies that were listed on the Main Board of Stock Exchange of Hong Kong, 1,408 were classified as Mainland companies according to the place where they derive the majority of revenues from.

Exhibit 1: Market Capitalisation of Hong Kong and Mainland Companies*

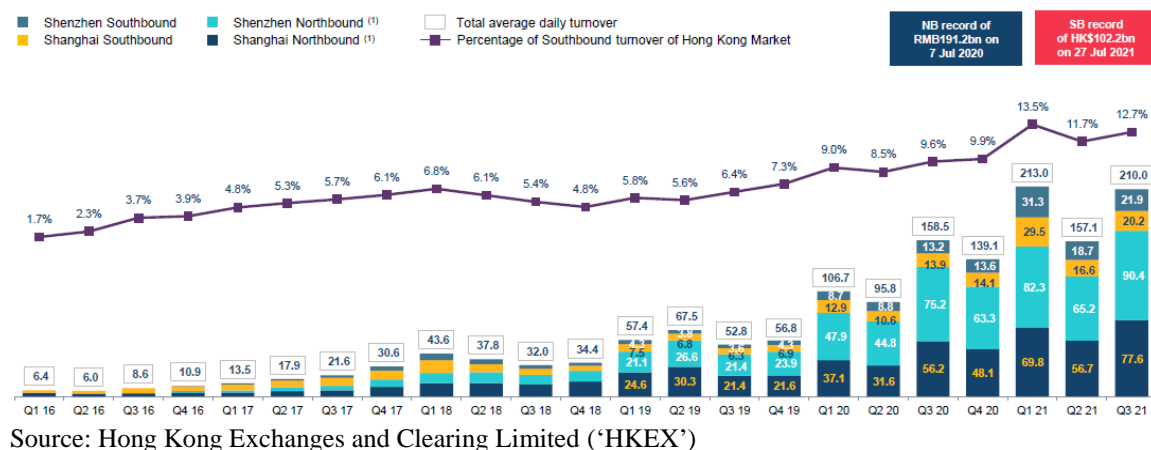


* Foreign companies excluded

Internationalisation of China Onshore Market

- China onshore market is the most important listing place for mainland companies. As of 31 December 2021, the total market capitalisation of China onshore A-shares listed companies was above CNY 91 Trillion with an average daily trading value of CNY 1,273 Billion in 2021, which is 2.6 and 9.4 multiples of HKEX Mainboard-listed companies.
- The accessibility to China onshore market has been improving and different schemes, e.g. QFII, RQFII and Stock Connect, come into play for bridging the domestic market and the global investors.
- The Stock Connect program, which was introduced in 2014, should be the most convenient channel perceived by international investors for accessing the China A-shares market as evidenced by the rapidly increasing turnover via the Northbound Trading under the program – hitting a record of CNY 191 Billion on 7 July 2020. Such turnover was about 16% of the overall traded value for Shanghai Stock Exchange and Shenzhen Stock Exchange on the same day.

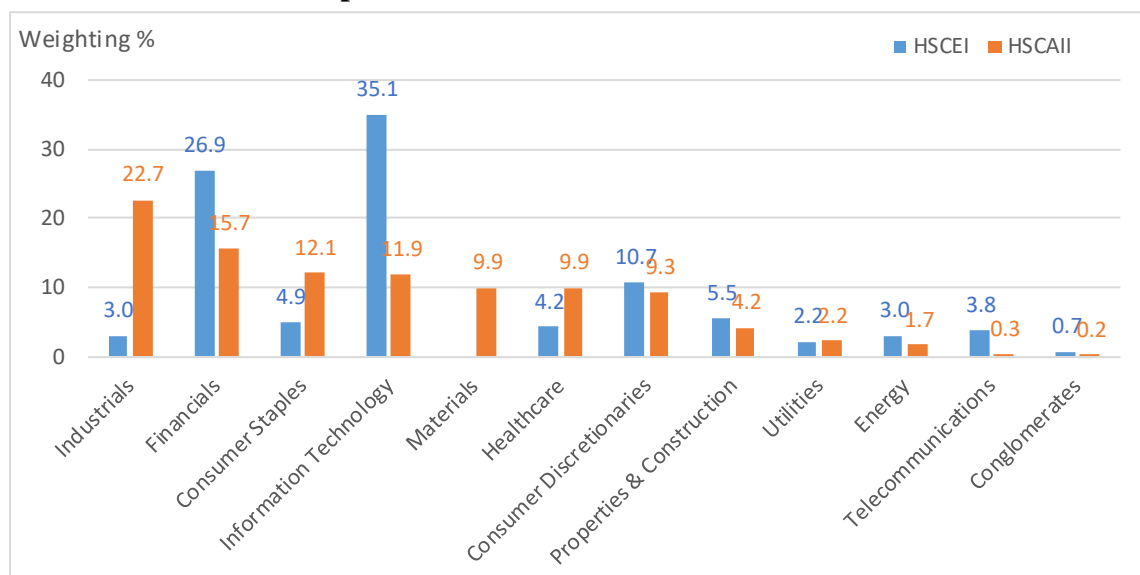
Exhibit 2: Stock Connect Average Daily Turnover (HK\$bn)



Complementing the Onshore/ Offshore China Investment Opportunity Sets

- Exhibit 3 takes a closer look at the structural difference of the offshore and onshore China markets by comparing the sector composition of the Hang Seng China Enterprises Index ('HSCEI') and the Hang Seng China A (Investable) Index ('HSCAII').
- The HSCEI serves as a benchmark that reflects the overall performance of Mainland securities listed in Hong Kong while the HSCAII gauges the performance of investable stocks within a market coverage of 80% in the China A-shares market.
- Apparently certain industries e.g. Industrials, Consumer Staples, Materials and Healthcare have stronger presence in the onshore China market. And with over 4,000 A-shares, the investment universe in the onshore China market is also much wider.

Exhibit 3: Sectoral Comparison of Onshore and Offshore China Markets



- Among the 50 largest listed Chinese companies, only 18 of them are having listing in both Mainland China and Hong Kong exchanges while 23 are solely listed in Mainland China.

Exhibit 4: The Largest 50 Chinese Companies in terms of Market Capitalisation

#	Company Name	A-shares?	HK-listed?	#	Company Name	A-shares?	HK-listed?
1	TENCENT		Y	26	CITS	Y	
2	KWEICHOW MOUTAI	Y		27	CHINA SHENHUA	Y	Y
3	ICBC	Y	Y	28	INDUSTRIAL BANK	Y	
4	CATL	Y		29	XIAOMI		Y
5	CM BANK	Y	Y	30	SHANXI FEN WINE	Y	
6	MEITUAN		Y	31	EASTMONEY	Y	
7	BABA		Y	32	LUZHOU LAO JIAO	Y	
8	CCB	Y	Y	33	GREATWALL MOTOR	Y	Y
9	ABC	Y	Y	34	CHINA TELECOM	Y	Y
10	PING AN	Y	Y	35	LXJM	Y	
11	WULIANGYE	Y		36	WUXI APTEC	Y	Y
12	PETROCHINA	Y	Y	37	YIHAI KERRY ARAWANA	Y	
13	BANK OF CHINA	Y	Y	38	SF HOLDING	Y	
14	CHINA MOBILE		Y	39	HR	Y	
15	BYD COMPANY	Y	Y	40	PAB	Y	
16	CHINA LIFE	Y	Y	41	CITIC SEC	Y	Y
17	CYPC	Y		42	WANHUA	Y	
18	MIDEA GROUP	Y		43	BANKCOMM	Y	Y
19	HIKVISION	Y		44	JD		Y
20	SINOPEC CORP	Y	Y	45	CNOOC		Y
21	NONGFU SPRING		Y	46	MUYUAN	Y	
22	LONGI	Y		47	COSCO SHIP	Y	Y
23	MINDRAY	Y		48	BIDU		Y
24	PSBC	Y	Y	49	WILLSEMI	Y	
25	HAI TIAN	Y		50	YILI	Y	

- The A-shares stock market (HSCAII) also outperformed its offshore counterpart (HSCEI). Since 2010 year-end, the HSCAII delivered 121 p.p. more than the HSCEI.

Exhibit 5: Historical Performance Comparison



Return %	2014	2015	2016	2017	2018	2019	2020	2021	3 Year	5 Year	Since 2010
HSCEI	+10.8	-19.4	-2.8	+24.6	-13.5	+10.3	-3.8	-23.3	-18.7	-12.3	-17.1
HSCAII	+45.4	+17.1	-14.8	+9.9	-28.3	+33.9	+27.4	+1.6	+73.2	+36.5	+104.1

- Separately, China A-shares market is quite unique and its risk and return characteristics are different from those in other markets. Including A-shares investment in an offshore investor's portfolio could bring diversification.

Exhibit 6: Correlation between A-shares and other Stock Markets (2018 – 2021)

Index	HSCEI (offshore China)	US Equities ¹	European Equities ²
HSCAII (A-shares)	0.6351	0.1902	0.2445

¹ S&P 500 Index

² EURO STOXX 50

Create a New ‘Comprehensive’ China Benchmark using the HSCEI?

- The HSCEI was launched in 1994 and covers the largest 50 Hong Kong-listed Mainland companies. Recognised as a representative China benchmark, the HSCEI is also well-supported by a comprehensive ecosystem of investment products. Some of the HSCEI products are comparable with or even exceed those of the Hang Seng Index (‘HSI’).

Exhibit 6: Exchange-traded Products/ Derivatives Tracking HSI & HSCEI in 2021

	HSI	HSCEI
Exchange-traded Products (‘ETPs’)		
Number of ETPs*	17	23
AUM (USD Mn)*	21,300	4,400
Futures Trading		
Average Daily Volume (‘000)	160	130
Open Interest (‘000)*	120	360
Options Trading		
Average Daily Volume (‘000)	35	47
Open Interest (‘000)*	92	997

*As at the end of December 2021

- In response to the growing interests in including the A-shares into the global portfolio, we would like to explore whether it is feasible to create a new ‘Comprehensive’ China index riding on the actively traded HSCEI. The purpose of this consultation is to solicit market feedback on the following:

- China investment & asset allocation plan*
- Considerations in taking a ‘Comprehensive’ approach to China investment*

B. Consultation Questions

China investment & asset allocation plan

1. Given the improved accessibility, do you agree A-shares should be an integral part of a China-concept portfolio?

Yes

No

2. What is the size/ proportion of your existing portfolio in the below China-concept products?

_____ Onshore China (pure mainland A-shares)

_____ Offshore China (pure Hong Kong/ overseas-listed Chinese stocks)

_____ Comprehensive China (combination of onshore and offshore China)

3. If you are separately holding investment in onshore and offshore China products,

a) Do you have a plan to re-allocate your investment to a product which is a combination of the two?

Yes

No

b) What are your considerations?

4. If you are holding/ planning to hold 'Comprehensive' China products,

a) What is a good mix of the two 'markets'?

b) What are your considerations?

Considerations in taking a ‘Comprehensive’ approach to China investment

5. The HSCEI has been regarded as a representative proxy for China investment (and supported by a well-established product ecosystem). One of the options for constructing a new ‘Comprehensive’ China Benchmark is to ride on the HSCEI.

a) Do you think it is a good idea to construct a new ‘Comprehensive’ China Benchmark by combining HSCEI constituents with some A-shares?

Yes

No

b) What are your considerations?

6. What is the appropriate proportion of A-shares and HSCEI constituents in this new ‘Comprehensive’ China Index under the current market development?

7. Which group of A-shares should be pooled with the HSCEI constituents in this new ‘Comprehensive’ China Index?

a) I would suggest to add:

A-shares counterpart among the existing HSCEI constituents

Non-AH companies

(AH companies are companies listed in both Mainland China and Hong Kong)

Largest A-shares companies by market capitalisation
(regardless of AH companies or not)

Others: _____

b) What are your considerations?

8. What are the hurdles you expect in constructing a portfolio by combining HSCEI constituents with A-shares?

~ Thank you ~

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