



恒生指數  
HANG SENG INDEXES

# Index Methodology

For Managing the  
Hang Seng High Dividend Yield Index



## Amendment History

	Date	Description
1.0	December 2012	First Issue
1.1	March 2013	Updated vendor codes in Section 7 - Dissemination
1.2	July 2013	Updated turnover requirement in Section 3 – Constituent Eligibility
1.3	November 2013	Updated description of index universe in Section 3 - Constituent Eligibility
1.4	March 2014	Updated description of total return index in Section 5 – Index Calculation
1.5	February 2015	1) Updated description of eligible securities in Section 3 - Constituent Eligibility 2) Updated treatment to non-cash distributions in Section 4 - Index Rebalancing
1.6	March 2015	Updated description of turnover requirement in Section 3- Constituent Eligibility
1.7	July 2015	Updated treatment to non-cash distribution in Section 5 - Index Calculation and Section 6 - Index Rebalancing
1.8	April 2016	1) Updated treatment to trading suspension in Section 4 – Index Review and Constituent Changes 2) Updated Section 6 – Index Rebalancing
1.9	June 2016	Addition of exclusion of Companies with High Shareholding Concentration in Section 4 - Index Review and Constituent Changes
1.10	May 2017	Updated turnover requirement in Section 3 – Constituent Eligibility
1.11	November 2018	Updated description of index universe and eligible securities in Section 3 – Constituent Eligibility
1.12	July 2020	Updated description of eligible securities in Section 3 – Constituent Eligibility
1.13	March 2022	Updated section 3 – Constituent Eligibility <ul style="list-style-type: none"><li>• Added Price Performance Screening</li><li>• Exceptional treatment for abnormally high-yield candidate</li></ul>



## Table of Content

	<i>Page</i>
1. Overview	3
2. Management Responsibility	4
3. Constituent Eligibility	5
4. Index Review and Constituent Changes	8
5. Index Calculation	9
6. Index Rebalancing	10
7. Dissemination	11
8. Contact Information	12
9. Disclaimer	13



# 1 Overview

- 1.1 The Hang Seng High Dividend Yield Index (“HSHDYI”) aims to reflect the overall performance of high-yield securities listed in Hong Kong.
- 1.2 The HSHDYI is weighted by net dividend yield – i.e. dividend yield after deducting withholding tax – with a 10% cap on individual constituent weightings.
- 1.3 The HSHDYI is calculated and disseminated real-time at 2-second intervals during the trading hours of the Stock Exchange of Hong Kong (“HKEX”).



## 2 Management Responsibility

### Hang Seng Indexes Company Ltd (“HSIL”)

- 2.1 HSIL is responsible for conducting regular reviews in accordance with the Index Methodology.
- 2.2 HSIL is responsible for monitoring company announcements and making ad hoc proposals – which must be approved by the Chairman of the HSI Advisory Committee – if constituent changes between the regular reviews are needed.
- 2.3 HSIL is responsible for seeking the HSI Advisory Committee’s endorsement of any special action in cases where, due to exceptional circumstances, an index review is not conducted according to the Index Methodology.
- 2.4 HSIL is responsible for seeking the HSI Advisory Committee’s endorsement of changes to the Index Methodology.

### HSI Advisory Committee

- 2.5 The Committee is responsible for ensuring index reviews are undertaken in accordance with the Index Methodology.
- 2.6 The Committee is responsible for reviewing any actions proposed by HSIL in the event that, due to exceptional circumstances, an index review is not conducted according to the Index Methodology.
- 2.7 The Committee is responsible for reviewing and endorsing all changes to the Index Methodology as proposed by HSIL.
- 2.8 The Committee is responsible for giving advice on any issues related to the Index Methodology.



## 3 Constituent Eligibility

### Universe

- 3.1 The universe for the HSHDYI includes all securities that are constituents of the Hang Seng Composite Index (“HSCI”).

### Eligible Securities

- 3.2 Securities are eligible for constituent selection if they fulfil the following eligibility criteria. Foreign companies and stapled securities are not eligible for constituent selection.

### *Market Value (“MV”) Requirement*

- 3.3 Eligible securities should be large-cap or mid-cap constituents from the HSCI.

### *Turnover Requirement*

- 3.4 Stocks are required to have an average daily turnover of at least HKD20 million in the past six months in addition to the following velocity requirements. Suspended trading days are not included in average daily turnover calculation.
- 3.5 For each security, its turnover velocity in each of the past 12 months is calculated using the following formula:

$$\text{Velocity} = \frac{\text{Median of daily traded shares in specific calendar month}}{\text{Freefloat-adjusted issued shares at month-end}}$$

- 3.6 For the denominator used in velocity calculation, freefloat-adjusted issued shares / units at the end of each month is used. The freefloat-adjusted factor (“FAF”) for each security is calculated and reviewed at the end of March, June, September and December each year.
- 3.7 A security is regarded as passing the monthly turnover test if it attains a minimum velocity of 0.1% in that month.

### For New Constituents

- 3.8 In order to meet the turnover requirement, a security should fulfil the following criteria:
- velocity is a minimum of 0.1% for at least 10 out of the past 12 months, and
  - for the latest three months, velocity is a minimum of 0.1% for all three months.



## 3 Constituent Eligibility

### For Existing Constituents

- 3.9 In order to meet the turnover requirement, a security should fulfil the following criteria:
- (a) velocity is a minimum of 0.1% for at least 10 out of the past 12 months.
  - (b) if a constituent fails to meet the turnover requirement as mentioned in 3.9 (a), a supplementary turnover test will be applied for those months in which the velocity is less than 0.1%:
    - i. calculate the monthly aggregate turnover of the constituent;
    - ii. if the monthly aggregate turnover is among the top 90th percentile of the total market\*, the constituent passes the monthly turnover test for that month.
  - (c) the constituent will be regarded as meeting the turnover requirement if 3.9 (a) is fulfilled after applying 3.9 (b) as a supplementary test.

\* Total market includes securities in the universe of the HSCI.

- 3.10 For a security with a trading history of less than 12 months or a security that has transferred from the Growth Enterprise Market<sup>#</sup> ("GEM") to the Main Board in the past 12 months before the data review cut-off date, the following requirements replace those in sections 3.8 and 3.9.

Trading Record	Measurements
< 6 months	1) attain a minimum velocity of 0.1% for all trading months
≥ 6 months	1) cannot have more than one month in which a security has failed to attain a velocity of at least 0.1% AND 2) for the latest three months, a security needs to have attained 0.1% for all trading months if it is not an existing constituent

<sup>#</sup> Securities transferred from GEM to Main Board will be treated as new issues.

<sup>^</sup> For existing constituents, the supplementary turnover test as described in section 3.9 (b) also applies.

- 3.11 For a security which has been suspended for any complete month(s) during the past 12 months before the review cut-off date, the relevant month(s) will be excluded from the velocity calculation. The security should meet the requirements as described in section 3.10.



## 3 Constituent Eligibility

### *Dividend Requirement*

- 3.12 Securities from the eligible list should have a cash dividend paid record of at least three consecutive fiscal years.

### **Constituent Selection**

- 3.13 The top 25% of the eligible securities in terms of one-year historical volatility – i.e. standard deviation of daily logarithmic return for the past 12 months to the review cut-off date – will be excluded from constituent selection.

- 3.14 Securities which meet the below two conditions will also be screened out:

- Price dropped by more than 50% over the past 12 months; and
- Last 12-month price performance ranked in the bottom 10% of the eligible candidates.

- 3.15 HSIL reserves the right to remove a candidate's index eligibility if it carries abnormally high dividend yield.

- 3.16 Remaining securities will be ranked by net dividend yield, which is calculated using the following formula:

$$\text{Net dividend yield for selection} = \frac{\text{Dividend per share after deducting withholding tax (if applicable)}}{\text{Price at review cut-off date}}$$

- 3.17 Dividend per share refers to the trailing one-year declared cash dividend, i.e. total dividend for the latest two (or four) periods if a security pays dividends bi-annually (or quarterly), as at the review cut-off date.

- 3.18 Any security (non-existing constituent) which has changed fiscal year-end date within 12 months to the review cut-off date, will be excluded from constituent selection. For an existing constituent which has changed fiscal year-end date within 12 months to the review cut-off date, the dividend of the latest complete fiscal year will be used for yield calculation.

- 3.19 If a security bears a net dividend yield of above 7%, its yield will be reviewed and recalculated to exclude one-off cash distributions, if any.

- 3.20 The top 50 securities in terms of net dividend yield will be selected as constituents of the HSHDYI.





## 4 Index Review and Constituent Changes

### **Regular Annual Review**

- 4.1 HSIL undertakes regular annual reviews of constituents of the HSHDYI with a data cut-off date of the end of March each year.
- 4.2 An annual review is normally completed within eight weeks after the end of March.
- 4.3 Eligible candidates will be selected as constituents of the HSHDYI if they satisfy the requirements set out in sections 3.13-3.20.

### **Buffer Zone**

- 4.4 Existing constituents ranked below 100th will be removed from the HSHDYI, while non-constituent securities ranked 25th or above will be included. If the number of incoming securities is greater than the number of outgoing constituents, the constituent(s) with the lowest net dividend yield rank will be removed from the index in order to maintain the number of constituents at 50.
- 4.5 If the number of incoming securities is smaller than the number of outgoing constituents, the securities with the highest net dividend yield rank will be added to the index in order to maintain the number of constituents at 50.

### **Effective Date**

- 4.6 The effective date of constituent changes will be the next trading day after the first Friday of June. If that Friday falls on a public holiday, it will be postponed to the next Friday, subject to the final decision made by HSIL. Under normal circumstances, five trading days' notice will be given for any constituent changes before the effective dates.

### **Trading Suspension**

- 4.7 Any constituent that has been suspended from trading 1) due to bankruptcy / regulatory investigation, OR 2) for three months will be removed from the index as soon as possible. Such constituent may be retained in the index only in exceptional circumstances if it is believed that its shares are highly likely to resume trading in the near future. Please refer to the Index Operation Guide for details.

### **High Shareholding Concentration**

- 4.8 Companies with High Shareholding Concentration\* will not be eligible for inclusion in the HSHDYI.

\* According to the "High Shareholding Concentration Announcements" posted on the Securities and Futures Commission's website.



## 5 Index Calculation

### Price Index

- 5.1 The HSHDYI is net-dividend-yield weighted. At each index rebalancing, the weighting for each constituent is capped at 10%.
- 5.2 The formula of the HSHDYI is set out below:

$$\text{Current Index} = \frac{\sum (P_t \times IS \times FAF \times AF \times CF)}{\sum (P_{t-1} \times IS \times FAF \times AF \times CF)} \times \text{Yesterday's Closing Index}$$

- $P_t$  : Current Price at Day  $t$   
 $P_{t-1}$  : Closing Price at Day  $(t-1)$   
 $IS$  : Issued Shares  
 $FAF$  : Freefloat-adjusted Factor, which is between 0 and 1  
 $AF$  : Adjustment Factor  
 $CF$  : Capping Factor, which is between 0 and 1

- 5.3 The HSHDYI is a price index without adjustments for cash dividends or warrant bonuses.

### Total Return Index (“TRI”)

- 5.4 The TRI of HSHDYI is a daily index compiled and disseminated at the close of each trading day of the Hong Kong stock market.
- 5.5 The formula of the TRI is set out as below:

$$\text{Today's TRI} = \frac{\text{Index MV}_t}{\text{Index MV}_{t-1} - \text{Dividend Payment}} \times \text{Yesterday's TRI}$$

- 5.6 Cash dividend payments are included in the calculations of the TRI. Bonus issues, share splits and/or share consolidations that do not involve any cash payments will not affect the TRI.
- 5.7 Dividend payments for a security will be adjusted on the ex-dividend day.
- 5.8 The TRI includes Gross TRI and Net TRI. Declared gross dividends and after-tax net dividends are used as the ‘Dividend Payment’ for the calculation of Gross TRI and Net TRI respectively.



## 6 Index Rebalancing

- 6.1 Annual rebalancing is conducted after market close on the first Friday in June, and comes into effect on the next trading day. The weighting of each constituent is calculated in proportion to its net dividend yield.

$$\text{Net dividend yield for weighting} = \frac{\text{Dividend per share after deducting withholding tax (if applicable)}}{\text{Price at three days preceding the rebalancing date}}$$

*Note: Dividend per share is used as at review cut-off date.*

- 6.2 A key principle for treatment of capital changes in the HSHDYI is to keep the constituent's weight unchanged before and after the index adjustment. Thus, the HSHDYI applies the same treatment to bonus issues, share splits and share consolidations as traditional market-cap indexes such as the Hang Seng Index. However, this is not applied to rights issues or open offers.
- 6.3 In the event of a rights issue, open offer or listed/to-be-listed non-cash distribution, the constituent adjustment factor will be altered so as to offset the potential weight change.
- 6.4 The constituent adjustment factor will also be altered to keep the constituent weight unchanged for any ad-hoc index rebalancing that results from issued shares / FAF updates, placings, etc.
- 6.5 If a constituent is deleted between regular index reviews, there will be no replacement.
- 6.6 A minimum notice period of two trading days will be given to subscribers of data products issued by HSIL in the event of any ad hoc rebalancing.
- 6.7 Please refer to the Index Operation Guide for details about corporate actions adjustments and index rebalancing.



## 7 Dissemination

- 7.1 The HSHDYI is calculated and disseminated real-time every 2 seconds during trading hours on each trading day of the Hong Kong stock market, based on the calendar of the HKEX.
- 7.2 Please refer to the index dissemination timetable provided on HSIL's website for further details. (<https://www.hsi.com.hk/static/uploads/contents/en/products/timetable.xlsx>)
- 7.3 Vendor codes for the HSHDYI

Vendor	Code for Price Index	Code for Total Return Index
Bloomberg	HSHDYI	HSI52
Thomson Reuters	.HSHDYI	.HSHDYIDV



## 8 Contact Information

Hang Seng Indexes Company Limited

Address : 83 Des Voeux Road Central, Hong Kong

Website: [www.hsi.com.hk](http://www.hsi.com.hk)

E-mail: [info@hsi.com.hk](mailto:info@hsi.com.hk)



## 9 Disclaimer

All information contained herein is provided for reference only. Hang Seng Indexes Company Limited ("HSIL") ensures the accuracy and reliability of the above information to the best of its endeavours. However, HSIL makes no warranty or representation as to the accuracy, completeness or reliability of any of the information contained herein and accepts no liability (whether in tort or contract or otherwise) whatsoever to any person for any damage or loss of any nature arising from or as a result of reliance on any of the contents of this document, or any errors or omissions in its contents and such contents may change from time to time without notice.

The information contained in this document is not intended to provide professional advice and should not be relied upon in that regard. Persons intending to use any information obtained from this document are advised to obtain appropriate professional advice.

© Hang Seng Indexes Company Limited 2022. All rights reserved.

- End -