

S&P China 500 (SPC500 UN) Index Performance Review – March 2019

The S&P China 500 Index (SPC500UN Index) selected the 500 largest and most liquid Chinese companies, covering all eligible shares classes including A-shares, H-shares, US ADRs.

During March 2019, the Index performed: + **4.06%**.

Market Overview

1. Statistical Data from NBS (National Bureau of Statistics of China)

	Feb 2019	Change (month-on-month)
China's Manufacturing PMI	49.20%	0.3% ↓
China's Non-Manufacturing PMI	54.30%	0.4% ↓

(Source: NBS Purchasing Managers Index, http://www.stats.gov.cn/english/PressRelease/201903/20190301_1651561.html)

	Jan – Feb 2019(RMB)	Change (year-on-year)
China's Industrial Profits	708.01 billion	14% ↓

(Source: NBS China's Industrial Profits, http://www.stats.gov.cn/english/PressRelease/201903/20190328_1656767.html)

2. Trade conference

- United States Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin will travel to Beijing for the latest round of high-level trade talks scheduled to start on March 28, the White House said in a statement. The United States also will receive a Chinese trade delegation led by Vice Premier Liu He for meetings in Washington that are set to begin on April 3, the White House said. President Donald Trump said the negotiations with China were progressing and a final agreement seemed probable, as the world's two largest economies seek to ease tensions from an eight-month-old trade war.

(Source: <https://www.reuters.com/article/us-usa-trade-china/u-s-s-lighthizer-mnuchin-to-travel-to-china-for-trade-talks-white-house-idUSKCN1R40N8>)

- EU trade surplus with U.S. expands, deficit with China grows. The European Union's trade surplus with the United States and its deficit with China both increased in January, serving as potential fuel for trade conflicts between the world's largest economies. The EU surplus in goods trade with the United States expanded to 11.5 billion euros (\$13.0 billion) in January, from 10.1 billion in January 2018. With China, the EU deficit also increased to 21.4 billion euros, from 20.8 billion euros a year earlier. EU statistics office Eurostat said.

(Source: <https://www.reuters.com/article/us-eurozone-economy-trade/eu-trade-surplus-with-u-s-expands-deficit-with-china-grows-idUSKCN1QZ0Z3>)

3. China's open-up

- China will increase oversight of systemically important financial institutions and holding companies as the country opens up its financial sector, Central Bank Governor Yi Gang said. "The financial sector opening itself is not the root cause of financial risks," Yi said at the China Development Forum. "But the process of financial opening could increase the complexity of risk prevention, and therefore we should improve risk prevention systems." China has repeatedly vowed to improve market access for foreign investors and companies amid criticism from major trading partners, including the United States.

The United States is demanding improved transparency and protection for its companies as part of the ongoing negotiations to end the protracted bilateral trade war with China.

China has taken several steps in recent months that it says will improve the business environment for foreign firms and investors operating in the world's second-largest economy, including reducing foreign ownership limits in the financial sector. It has pledged to do more.

(Source: <https://www.reuters.com/article/us-china-economy-pboc-sfii/china-central-bank-head-says-country-to-step-up-oversight-of-systemically-important-financial-firms-idUSKCN1R5083>)

- Italy signed a preliminary accord with China on Saturday that makes it the first country of the Group of Seven industrialized nation to join the Chinese Belt and Road infrastructure project. Around 30 parallel deals were signed on the sidelines of the visit to Rome by Chinese President Xi Jinping, including 10 with Italian companies and others with ministries and public bodies.

Italian Deputy Prime Minister Luigi Di Maio said the deals were worth an initial 2.5 billion euros (\$2.8 billion) but had a potential value of 20 billion

(Source: <https://www.reuters.com/article/us-italy-china-deals-factbox/italy-signs-deals-worth-2-5-billion-euros-with-china-idUSKCN1R40KN>)

- Bloomberg confirmed that Chinese RMB-denominated government and policy bank securities will be added to the Bloomberg Barclays Global Aggregate Index starting April 2019 and phased in over a 20 month period. The inclusion is a result of the completion of several planned operational enhancements that were implemented by the People's Bank of China (PBoC), Ministry of Finance and State Taxation Administration. When fully accounted for in the Global Aggregate Index, local currency Chinese bonds will be the fourth largest currency component following the US dollar, euro and Japanese yen. Using data as of January 24, 2019 the index would include 363 Chinese securities and represent 6.03% of a \$54.07 trillion index upon completion of the phase-in.
(Source: <https://www.bloomberg.com/company/announcements/bloomberg-confirms-china-inclusion-bloomberg-barclays-global-aggregate-indices/>)

4. Chinese equity ETFs dominate top performers in 2019Q1

- Lately, China equities have been on a tear. Buoyed by investor optimism over thawing U.S.-China relations, the CSI 300 Index, a benchmark of the 300 largest stocks trading in Shenzhen and Shanghai, rallied 29% in the first quarter of the year.
(Source: <https://www.etf.com/sections/features-and-news/etf-week-small-cap-china-fund-shines?nopaging=1> Index Performance)
- Lyxor is set to change the benchmark on its China A-shares ETF in response to MSCI's decision to increase the weight of onshore Chinese stocks across its broader emerging market and China benchmarks earlier this month. MSCI's changes to its wider benchmark will take place over a three-step inclusion process starting this May and ending in November that will see China A large-cap jumping from 5% to 20% of its benchmarks. If fully included, China A-shares will account for around 16% of the MSCI Emerging Markets index.
(Source: https://www.etfstream.com/news/6616_lyxor-to-switch-benchmark-on-china-a-shares-etf-in-response-to-msci-changes/)

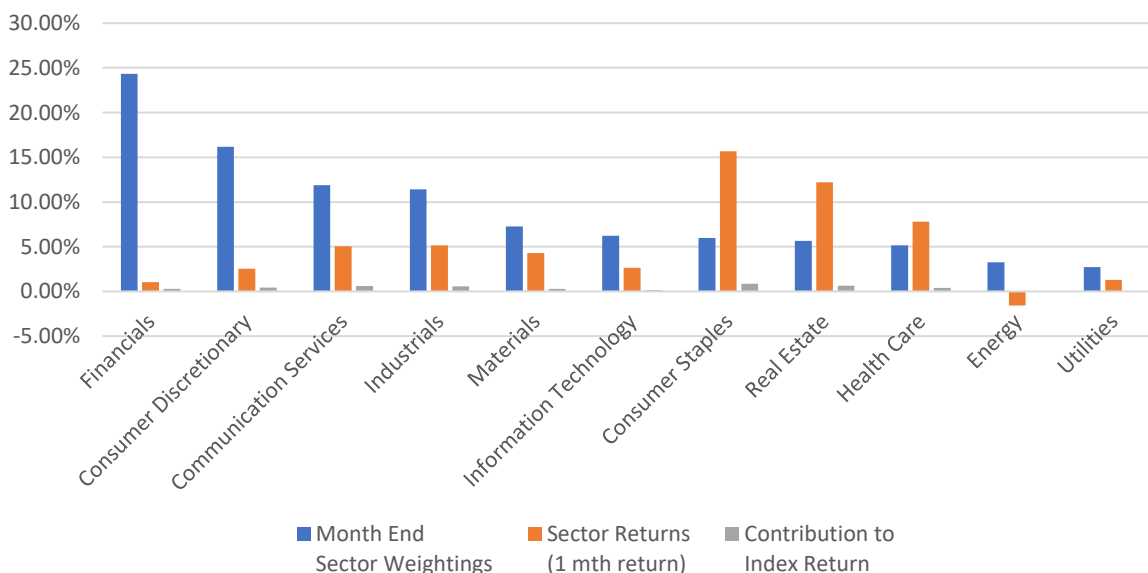
(Net Total Return) (as of Mar 29, 2019)

	Currency	1 month	3 months	YTD	1 Year	5 Years	10 Years	Since S&P China 500 index base date (16 Jun 2006)	Since S&P China 500 ETF inception (26 July 2016)
SPC 500 ETF (ISIN:LU1440654330)	USD	3.85%	22.78%	22.78%	-6.61%	N/A	N/A	N/A	32.73%
S&P China 500 Index	USD	4.06%	23.64%	23.64%	-6.22%	71.88%	134.31%	307.51%	34.81%
CSI 300	USD	4.94%	31.14%	31.14%	-5.49%	83.74%	85.45%	321.75%	22.62%
FTSE A50	USD	4.00%	28.65%	28.65%	-0.95%	109.06%	95.57%	296.49%	43.55%
HSCEI	HKD	0.11%	12.40%	12.40%	-1.60%	34.66%	93.41%	N/A	35.23%
MSCI China	USD	2.44%	17.69%	17.69%	-6.23%	56.90%	156.90%	233.02%	48.44%

Source: Bloomberg

Index Mover and Sector Returns of S&P China 500 Index

S&P China 500: Index Mover and Sector Returns



Source: Bloomberg

	<i>Month End Sector Weightings</i>	<i>Sector Returns (1 mth return)</i>	<i>Contribution to Index Return</i>
Financials	24.32%	1.05%	0.27%
Consumer Discretionary	16.17%	2.55%	0.43%
Communication Services	11.89%	5.03%	0.60%
Industrials	11.41%	5.17%	0.58%
Materials	7.26%	4.31%	0.30%
Information Technology	6.21%	2.65%	0.16%
Consumer Staples	5.99%	15.67%	0.85%
Real Estate	5.64%	12.20%	0.64%
Health Care	5.15%	7.81%	0.39%
Energy	3.25%	-1.59%	-0.05%
Utilities	2.71%	1.28%	0.04%

Source: Bloomberg

Exchanges of Listing of S&P China 500 Index



Source: Bloomberg

	<i>Month End Countries Weightings</i>	<i>Market Returns (1 month return)</i>	<i>Contribution to Index Return</i>
China	51.57%	5.75%	2.90%
Hong Kong	35.48%	2.62%	0.95%
USA	12.87%	2.50%	0.34%
Singapore	0.08%	4.64%	0.00%

Source: Bloomberg

Weighting of "New Economy" Sectors

(as of Mar 29, 2019)

"New Economy" Sectors	Information Technology	Consumer Discretionary	Consumer Staples	Health Care	Communication Services	Total:
S&P China 500	6.21%	16.17%	5.99%	5.15%	11.89%	45.41%
CSI300	7.84%	9.37%	9.76%	6.81%	1.33%	35.11%
FTSE A50	2.32%	8.09%	14.53%	2.45%	0.95%	28.35%
HSCEI	0.00%	3.34%	0.93%	2.03%	22.15%	28.46%
HSI	0.00%	4.64%	2.48%	1.22%	15.69%	24.03%

* "New Economy" sectors in China referred to Information Technology, Consumer Discretionary, Consumer Staples, Health Care and Telecommunications.

Top 10 Holdings of S&P China 500 Index

(as of Mar 29, 2019)

<i>Ticker</i>	<i>Name</i>	<i>Weightings</i>
700 HK Equity	Tencent Holdings Ltd	8.08%
BABA UN Equity	Alibaba Group Holding Ltd	7.53%
601318 CG Equity	Ping An Insurance Group Co of China Ltd	3.60%
939 HK Equity	China Construction Bank Corp	2.95%
600036 CG Equity	China Merchants Bank Co Ltd	2.52%
1398 HK Equity	ICBC	1.82%
2318 HK Equity	Ping An Insurance Group Co of China Ltd	1.80%
941 HK Equity	China Mobile Ltd	1.79%
600519 CG Equity	Kweichow Moutai Co Ltd	1.63%
BIDU UW Equity	Baidu Inc	1.45%

Source: Bloomberg

Weightings of "BAT"

(as of Mar 29, 2019)

"BAT"	Baidu Inc	Alibaba Group Holding Ltd	Tencent Holdings Ltd	Total:
S&P China 500	1.45%	7.53%	8.08%	17.06%
CSI300	-	-	-	-
FTSE	-	-	-	-
HSCEI	-	-	10.15%	10.15%
HSI	-	-	9.97%	9.97%

* "BAT" refers to Baidu Inc.; Alibaba Group Holding Ltd.; Tencent Holdings Ltd.

S&P China 500 Index – the “Total China” Barometer

Broader market coverage:

- Covers the 500 largest and most liquid Chinese companies regardless of their listing venue
- Includes the entire universe of Chinese companies (A, B, H, Red Chip, P Chip and Chinese securities listed in the U.S. or any other overseas exchange.)

Diversified sector exposure:

- Much less concentration in Financials (24.32%) comparing to FTSE A50 (54.38%), CSI300 (35.02%), HSCEI (50.12%) and MSCI China (22.00%) as of March 29, 2019.
- More weights are distributed to new economy sectors, such as Consumer Discretionary (16.17%) and Communication Services (11.89%) comparing to CSI300 (9.37% and 1.33%, respectively) as of March 29, 2019.

Balanced RMB/USD currency exposure:

- Approximately 51.50% exposure in RMB (A-shares), and remaining mostly in USD or USD-pegged HKD which provides natural hedge against each other.

Better risk-adjusted return:

- Based on back-testing results¹, the SPC500 showed solid return and relatively low volatility vs other major China indices.

(Source: S&P Dow Jones Indices. Calculation starts from 31-Dec-08 to 29-March-19)

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The S&P China 500 was launched on August 28, 2015. All information for an index prior to its launch date is back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect on the launch date. Complete index methodology details are available at www.spdji.com. It is not possible to invest directly in an index.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency on their products. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live; index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indicatives introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the

methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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