


Harness the Power of Cross-border Investment with Indexes

Alex Yang
AVP, Product Development



A joint venture of

HKEX
香港交易所

 上海證券交易所
SHANGHAI STOCK EXCHANGE

 深圳證券交易所
SHENZHEN
STOCK EXCHANGE

17 November 2017

Training Class Regulations

- ✓ Read and follow the “Regulations for Training Class Participants”
- ✓ Register/sign-in and sign-out
- ✓ Attend the entire course
- ✓ Turn off your mobile phone, tablet, computer and/or other electronic communication devices throughout the training
- ✓ Keep the training venue clean and tidy
- ✗ Audio/video recording
- ✗ Walk in/out during the training
- ✗ Take break longer than scheduled or absent from the training for more than 30 minutes
- ✗ Action or behaviour disturbs the class and other participants
- ✗ Not engaged during the training

Please be reminded that the CPT/CPD/OPT credits will be given to participants according to their attendance.

NO CPT/CPD/OPT will be given if the participants are late for or absent from the training for more than the specified time as stated in the “Regulations for Training Class Participants”.

About CESC



33.3%



33.3%



33.3%



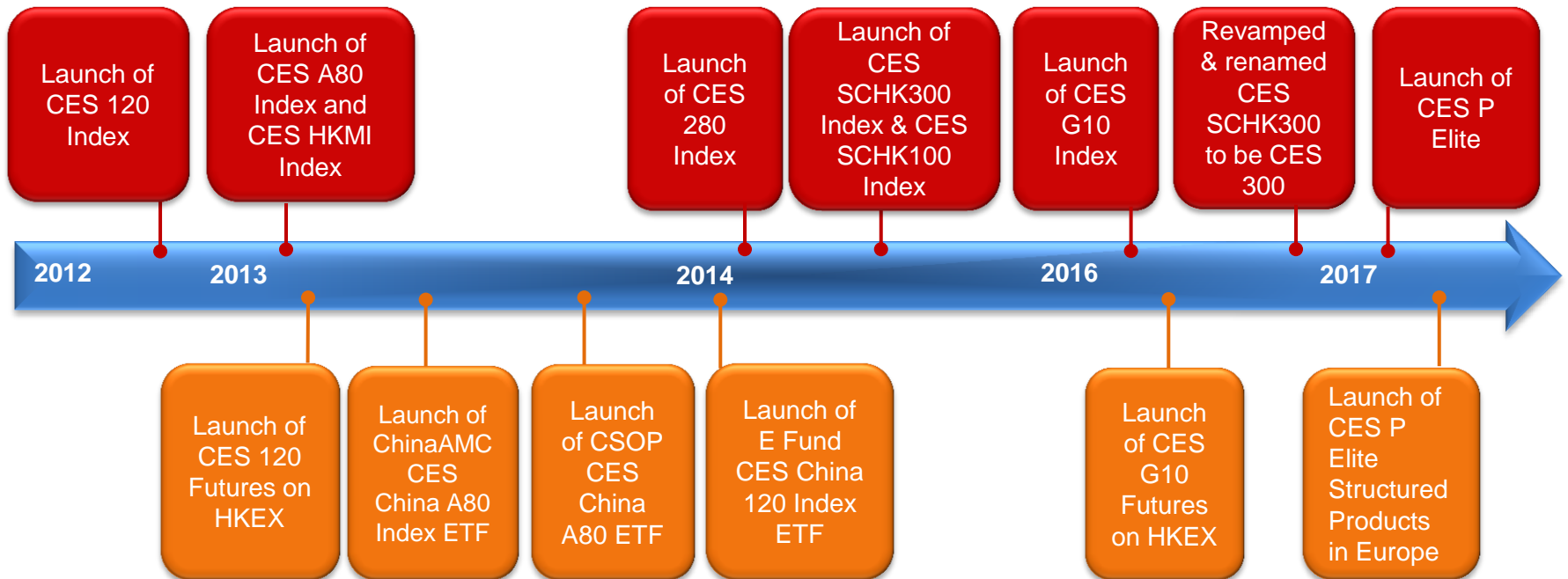
Vision

- CESC is a ground-breaking joint venture of HKEX, SSE and SZSE.
- Established in Hong Kong in 2012, CESC aims to contribute to the internationalization of China's capital markets, the establishment of a complete and healthy ecosystem of financial products and services for China and the global markets, and greater connection of the three exchanges with global investment community.

Strategies

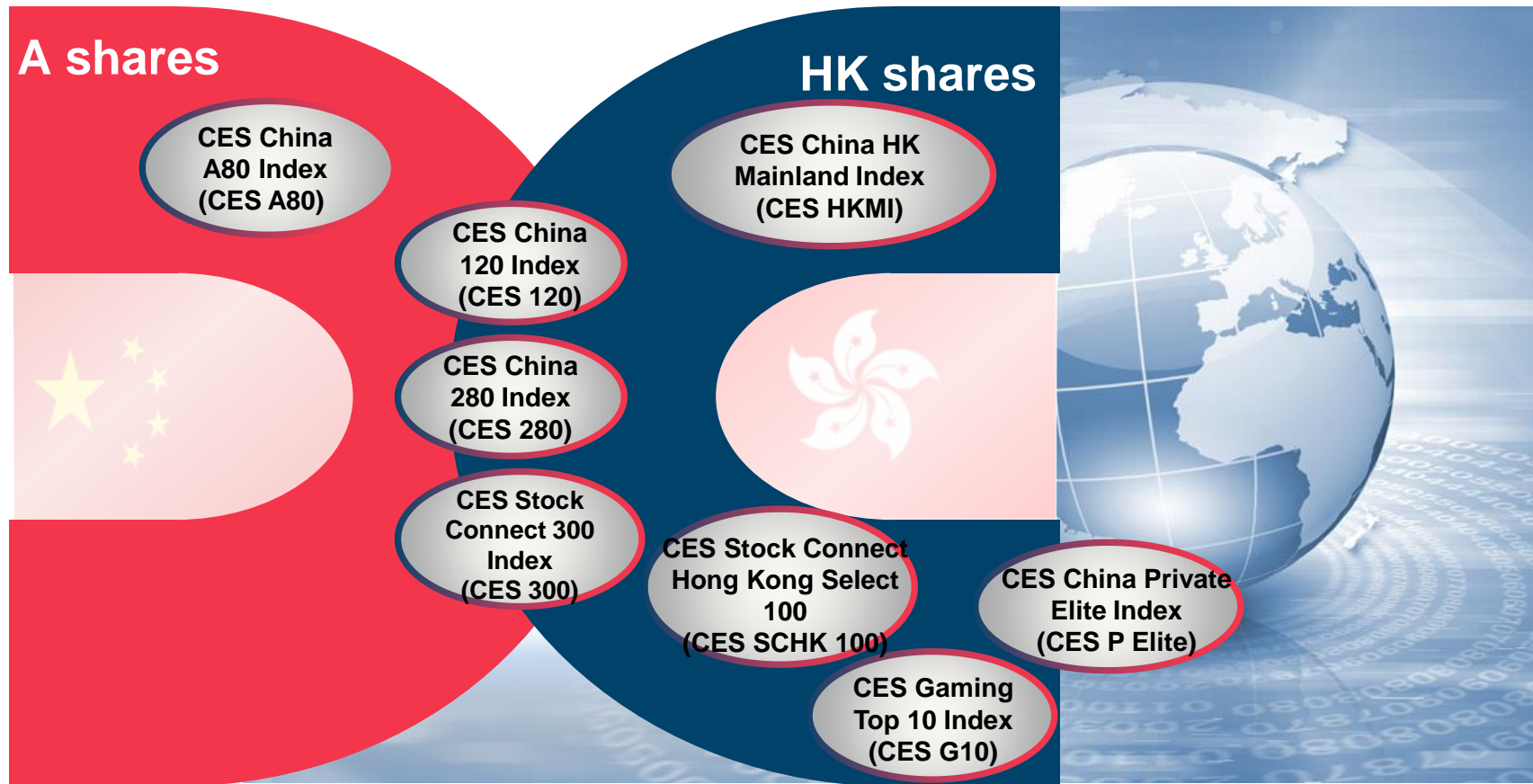
- To contribute to the development of China's capital markets and the internationalization of the three exchanges;
- To develop cross-border indices based on products traded on the three exchanges, industry classifications for listed companies, information standards and related products;
- To facilitate the launch of new products for investors, such as index-linked derivatives, and connect the rest of the world to the financial markets in Hong Kong and Mainland China.

About CESC



CES Indices

CROSS BORDER INDICES

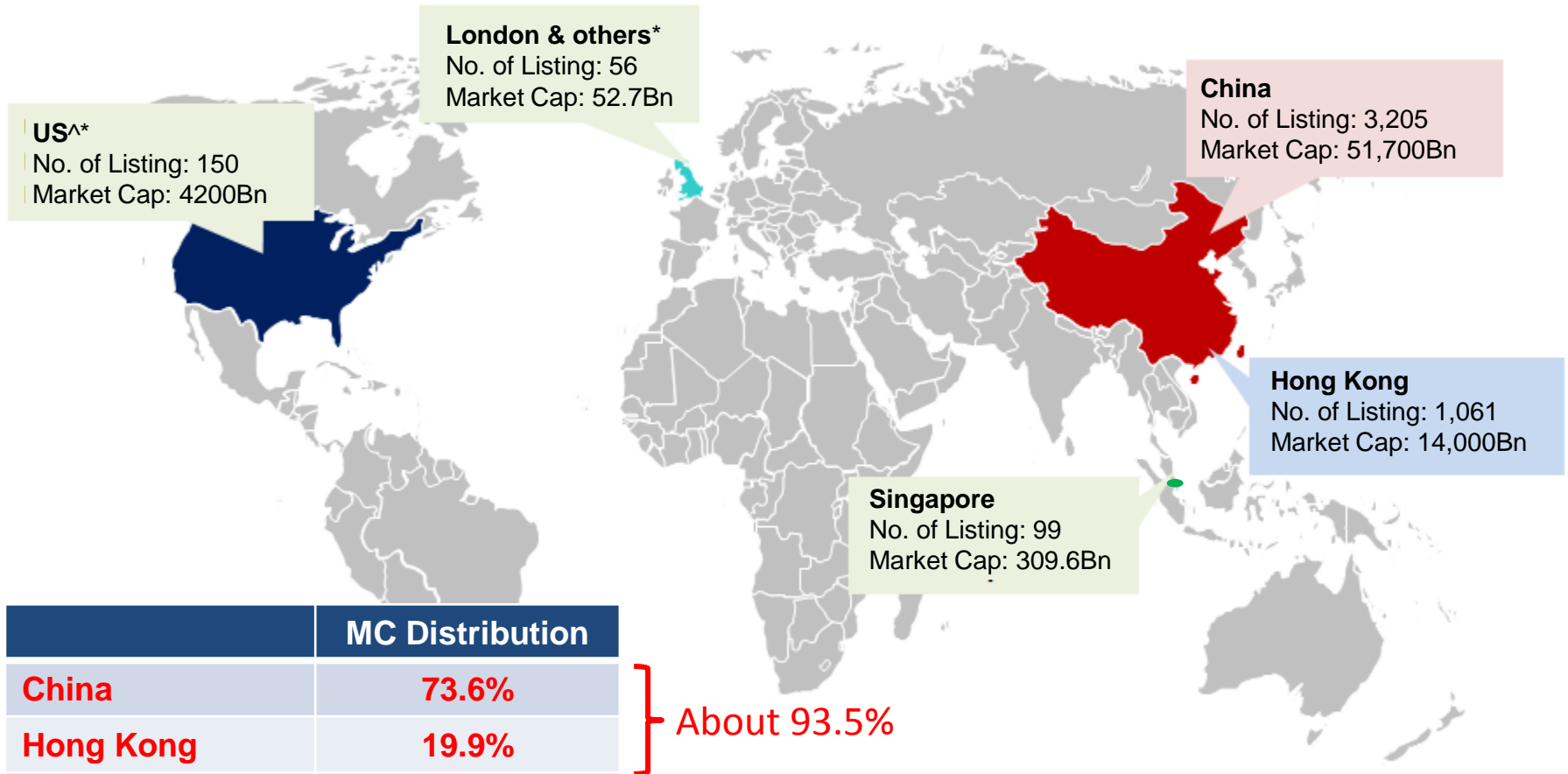


Agenda

- 1 A Complete China Story Through Cross-border Investment
- 2 New Trends & Opportunities in Cross-border Investment 1: Stock Connect
- 3 CES 120 Index
- 4 New Trends & Opportunities in Cross-border Investment 2: Overseas Listed POEs
- 5 CES China Private Elite Index

Chinese Companies Are Listed Globally

(RMB)



	MC Distribution
China	73.6%
Hong Kong	19.9%
US	6.0%
SG	0.4%
London & Others	0.1%

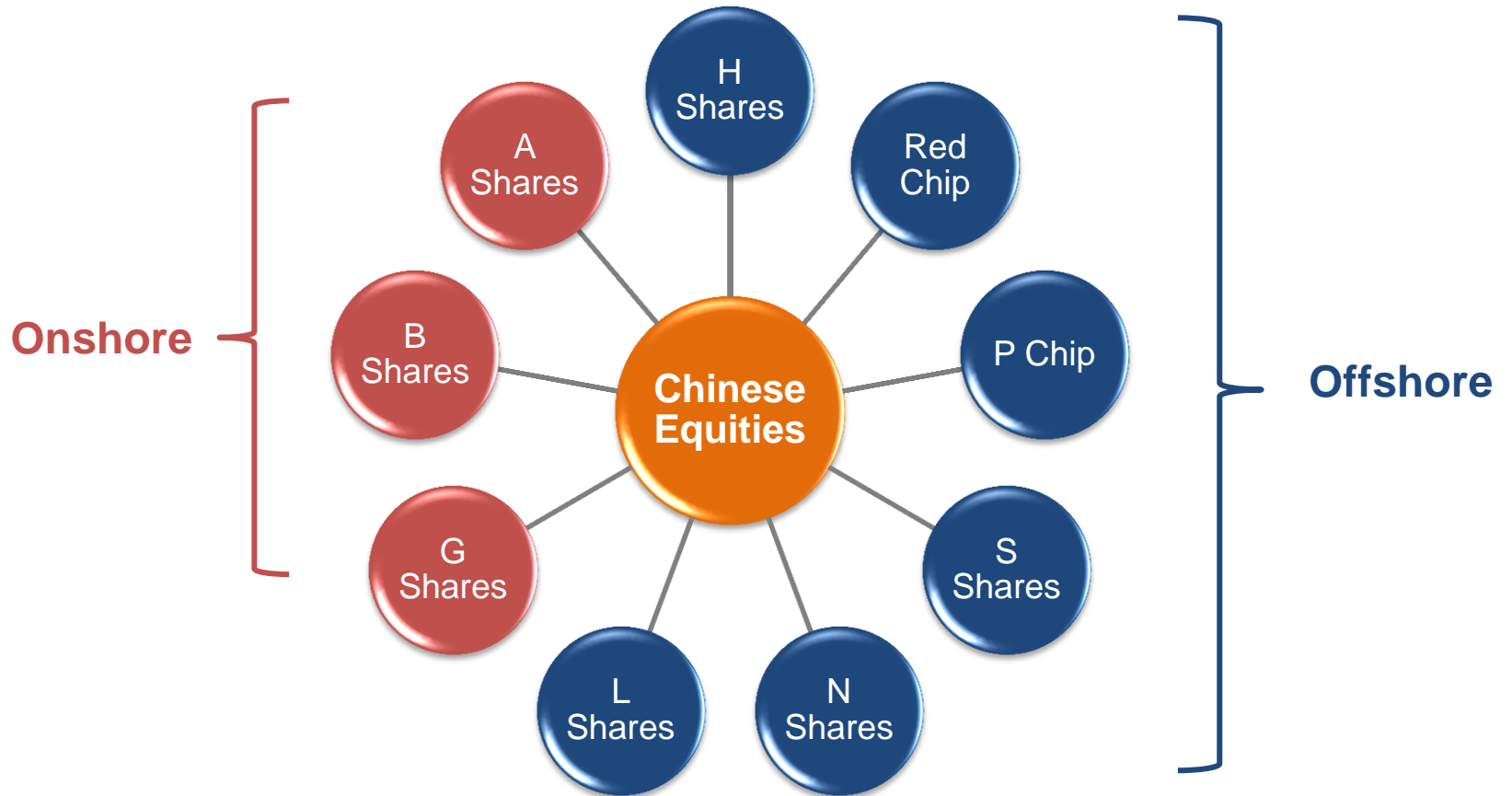
} About 93.5%

[^]Excludes ADR

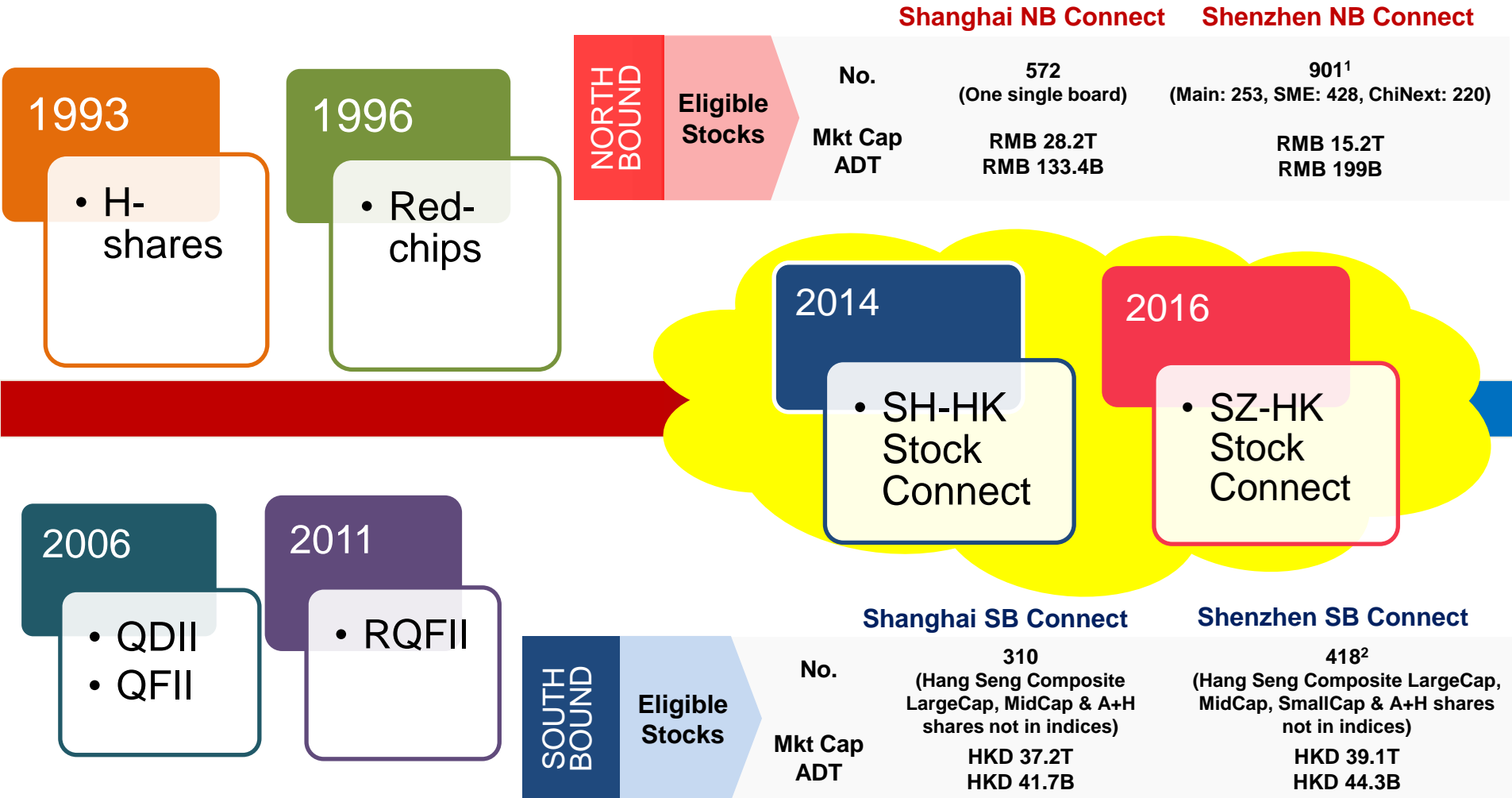
*Excludes Dual-listing companies

Sources: Wind & CSIC, as of 30 Apr 2017

Chinese Equities Have Multiple Share Classes



Hong Kong's Role in Cross Border Investment

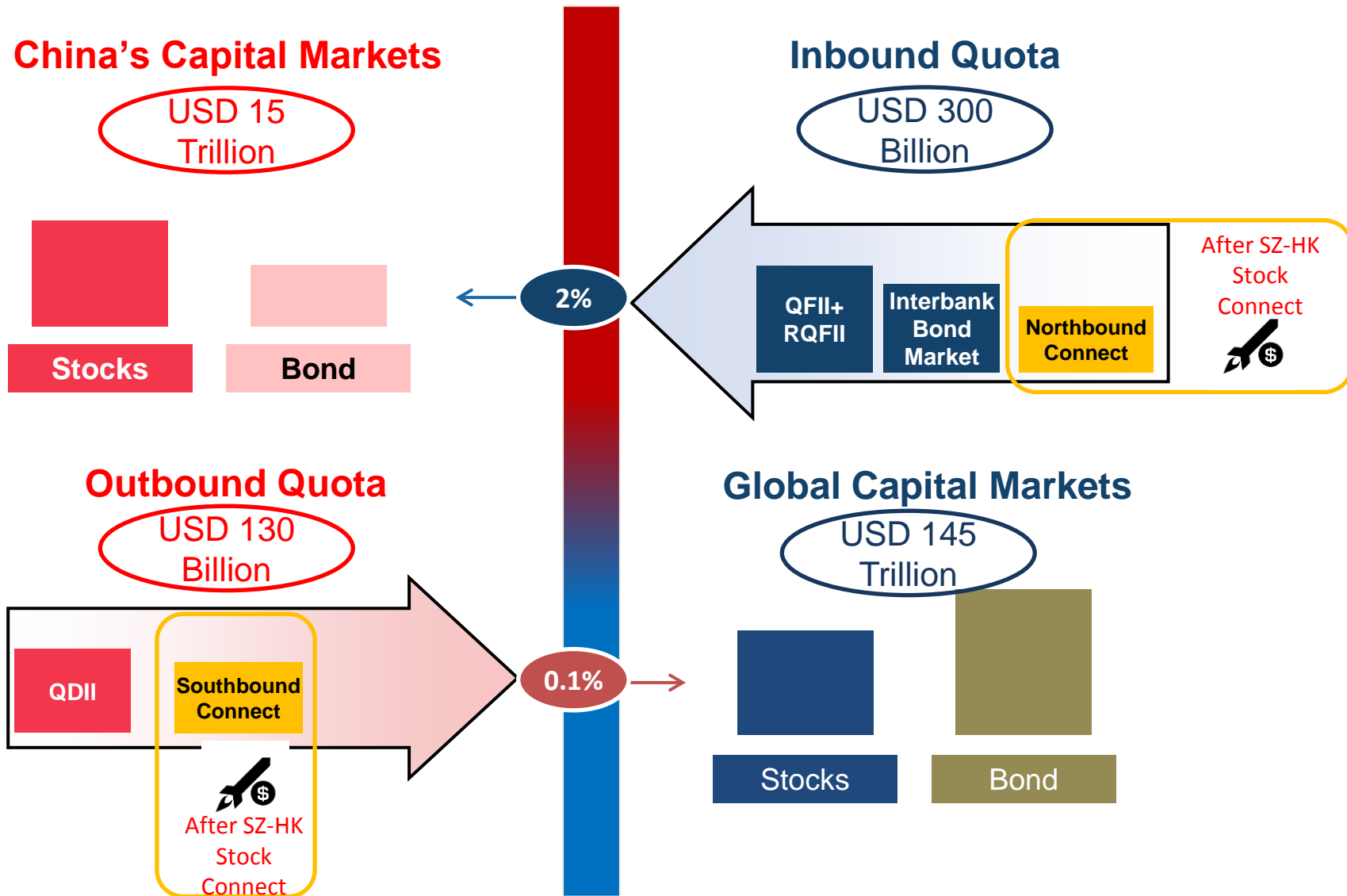


- SZ Northbound: Constituents of SZSE Component & SZSE Small/Mid Cap Innovation indexes with market capitalization of at least RMB 6 bn, and SZSE-SEHK A+H shares (except shares under "risk alert" or delisting arrangement)
- SZ Southbound: Constituents of Hang Seng Large & MidCap indexes, constituents of Hang Seng SmallCap index with market capitalization of at least HKD 5 bn, and SSE-SEHK and SZSE-SEHK A+H shares
- Sources: HKEX, SZSE, SSE, as of 30 Apr 2017

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Cross Border Asset Allocation



Different Sector Distributions

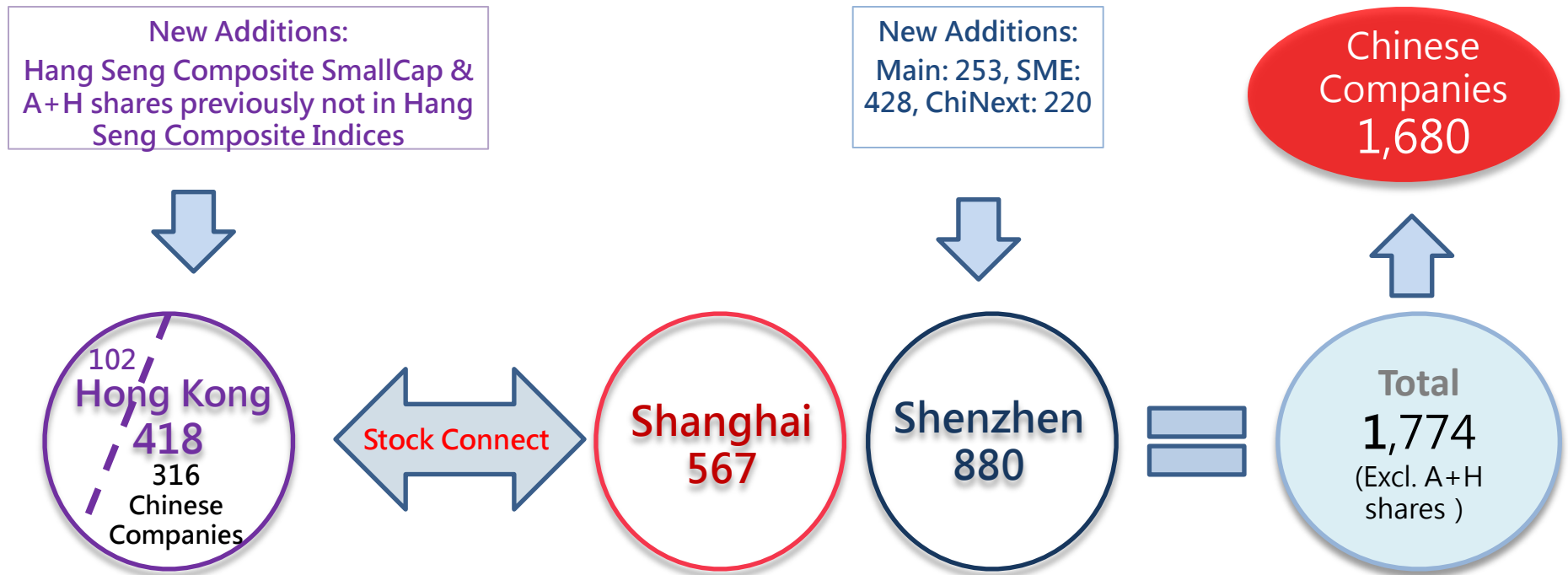
Different Opportunities

- **Telecom Services - Mainly Red Chips listed on HKEX**
Examples: China Mobile (941), China Telecom (728), China Unicom (762)
- **Industrials - Mainly A-shares listed in SHSE and SZSE**
Examples: Shanghai Int'l Port Group (600018), China State Construction (601668), Daqin Railway(601006)
- **Financials - Mainly financial companies unique to HKEX**
Examples : HKEX (388), AIA Group Ltd.(1299)

Sector (%)	Stock Connect Southbound	Stock Connect Northbound (Shanghai + Shenzhen)	Differential
Industrials	9.59%	16.62%	-7.02%
Utilities	4.20%	4.01%	0.20%
Consumer Staple	2.16%	4.01%	-1.84%
Consumer Discretionary	6.68%	11.20%	-4.53%
Telecom Services	6.20%	0.47%	5.73%
Healthcare	1.80%	5.44%	-3.64%
Materials	2.37%	8.44%	-6.07%
Real Estate	9.59%	4.42%	5.17%
Financials	40.11%	27.83%	12.28%
IT	8.24%	10.49%	-2.25%

Eligible stocks in Stock Connect Southbound and Northbound Universes have different sector distributions.

Stock Connect Universe Tells a Complete China Story



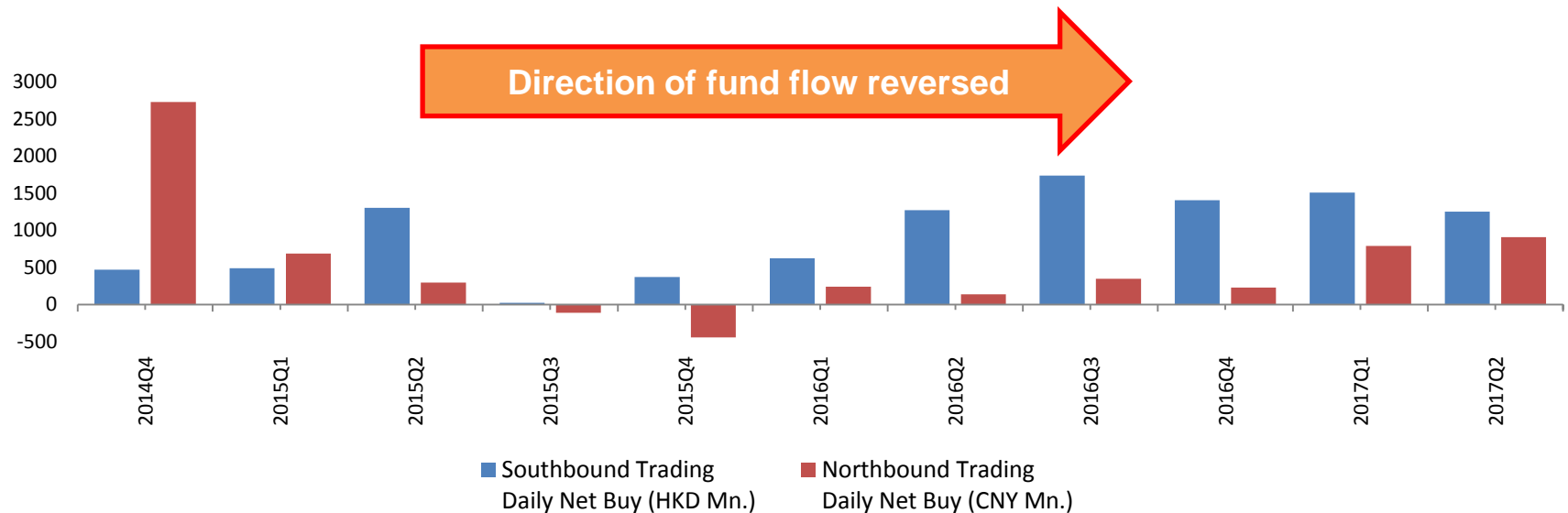
Aggregate Quota	Abolished	Abolished	N/A
Daily Quota	RMB 10.5B x 2	13B	13B

**Chinese companies dominate the Stock Connect eligible list.
Abolition of aggregate quota eases capital flow across the border.**

Stock Connect: Cross-border Investment

Shenzhen-Hong Kong link unleash greater potential for cross-border investment

- Aggregate quota abolished
- Daily quota doubled
- Fund flow from mainland continues to increase



Daily Net Buy Value	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Southbound (HKD Mn.)	468	487	1,302	21	370	622	1,272	1,736	1,406	1,507	1,251
Northbound (CNY Mn.)	2,728	687	295	(110)	(445)	240	138	348	229	790	907

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A Cross Border Benchmark Index – CES 120

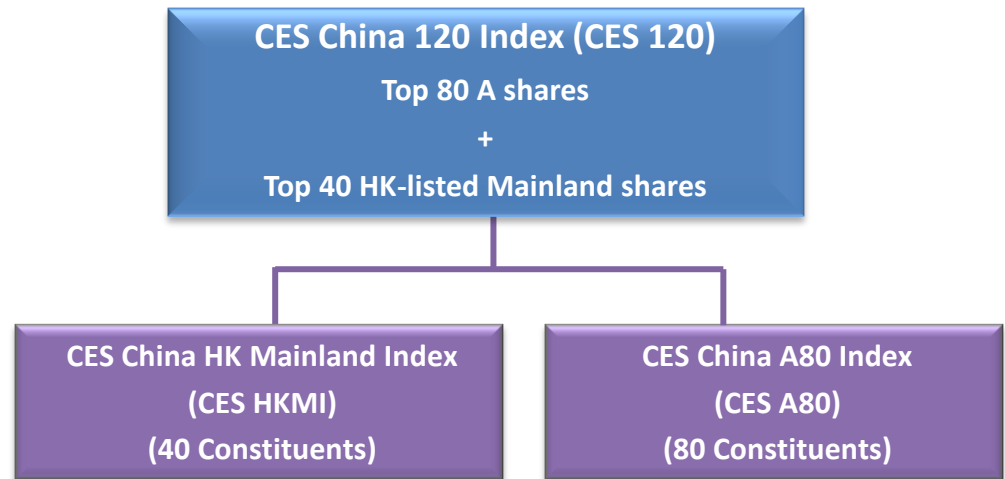
Introduction

- Features 80 most liquid and largest stocks on Shanghai and Shenzhen Stock Exchanges and 40 most liquid and largest Mainland companies listed on HKEX
- The only cross-border index that has futures listed

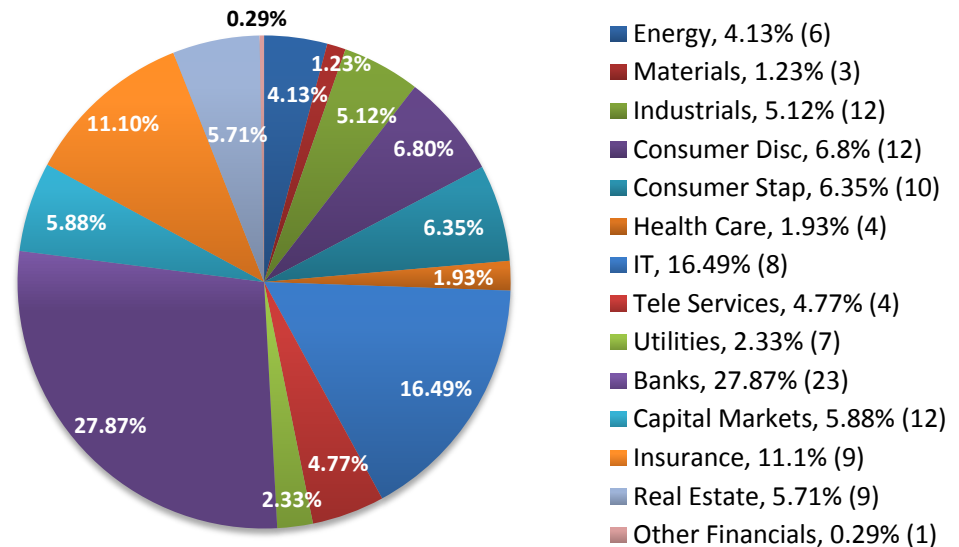
Sector

- Leaders from the top 10 sectors in Mainland China and Hong Kong
- In line with mainland investors' preference for Chinese equities listed offshore
- Helping international investors to capture the A-share exposure

Large Cap Index



Sector Distribution



A Cross Border Benchmark Index – CES 120

Share Class

- Complete representation of the Chinese economy: A shares and Hong Kong equities, SOE and POE
- Hong Kong segment covers all types of Chinese equities listed in Hong Kong: H-share, red-chip and P-chip

Share Class Distribution

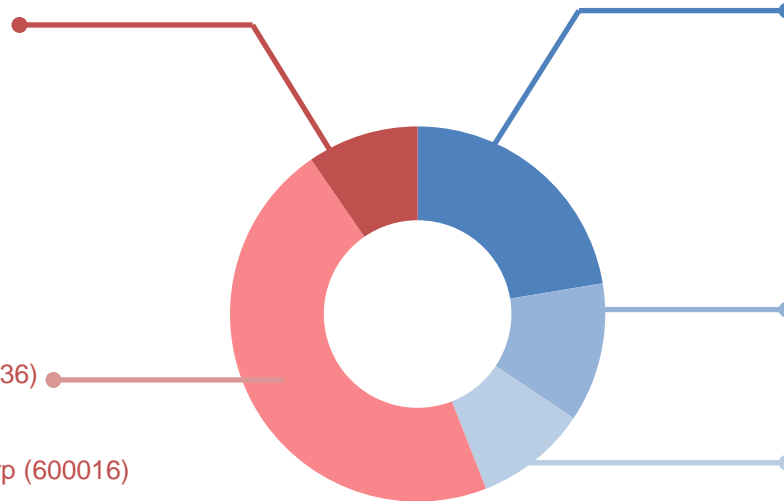
A Share: 53%

SZ A Share : 12.35%

Midea Group (000333)
Gree Electric (000651)
China Vanke (000002)
Hikvision (002415)
Wuliangye (000858)

SH A Share : 40.65%

Ping An (601318)
China Merchants Bank (600036)
Kweichow Moutai (600519)
Industrial Bank (601166)
China Minsheng Banking Corp (600016)



HK Equities: 47%

H Share : 20.74%

CCB (939)
ICBC (1398)
Bank of China (3988)
Cn Ping An (2318)
China Life Ins (2628)

Red Chip : 7.94%

China Mobile (941)
CNOOC (883)
China Overseas (688)
China Unicom (762)
China Res Land (1109)

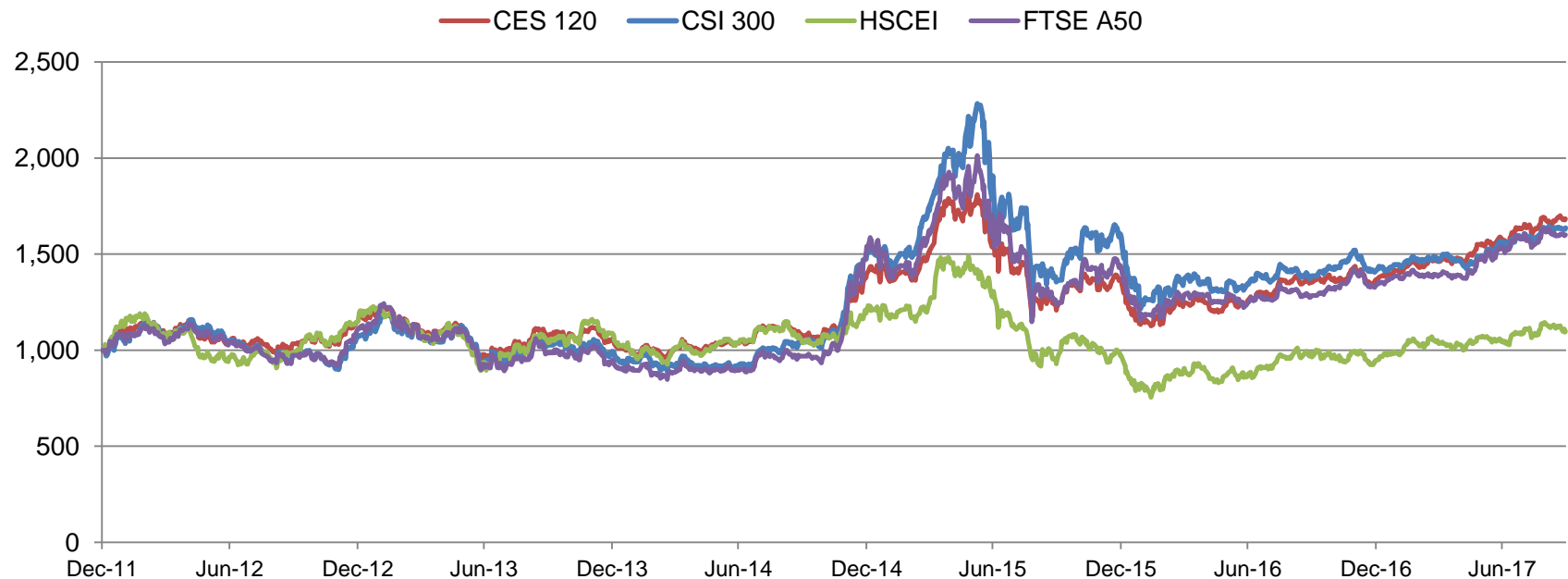
P Chip : 18.33%

Tencent (700)
Country Garden (2007)
Geely (175)
China Evergrande Group (3333)
AAC Technologies (2018)

A Cross Border Benchmark Index – CES 120

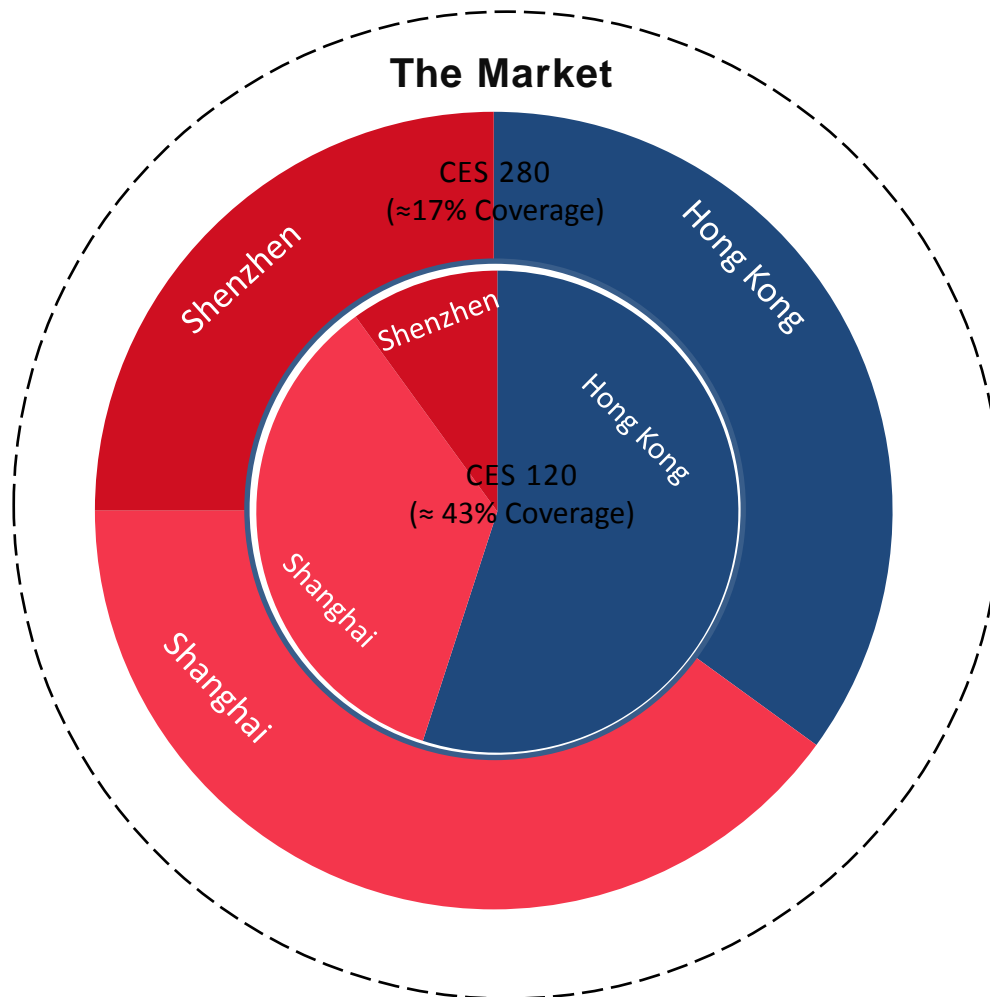
Performance

- Gained 23.4% as of end of September, and 51.2% since Stock Connect in 2014



		CES 120	CSI 300	HSCEI	FTSE A50
Return	YTD	23.4%	15.9%	16.1%	20.0%
	1 Y	24.5%	17.9%	13.9%	24.6%
	3 Y	57.3%	56.5%	5.8%	65.3%
	5 Y	62.9%	67.3%	11.0%	64.4%
Annualized Volatility		9.8%	9.4%	14.3%	10.4%

Completing the China Growth Story



**A Shares & Chinese Equities
Listed in HK***



CES 120

≈ 43% Market Value Coverage
≈ 15% Market Turnover Coverage



CES 280

≈ 17% Market Value Coverage
≈ 16% Market Turnover Coverage



**CES 120 + CES 280
(≈60% Market Coverage)
offer investors different
segment exposure**

*As of 31 Mar 2016, more than 95 per cent of market capitalisation of Mainland equities was listed in the Mainland China and Hong Kong markets (excluding ADRs and dual-listed companies).

Sources: HKEX, SSE, SZSE, Wind, CSI, as of 30 Sep 2017

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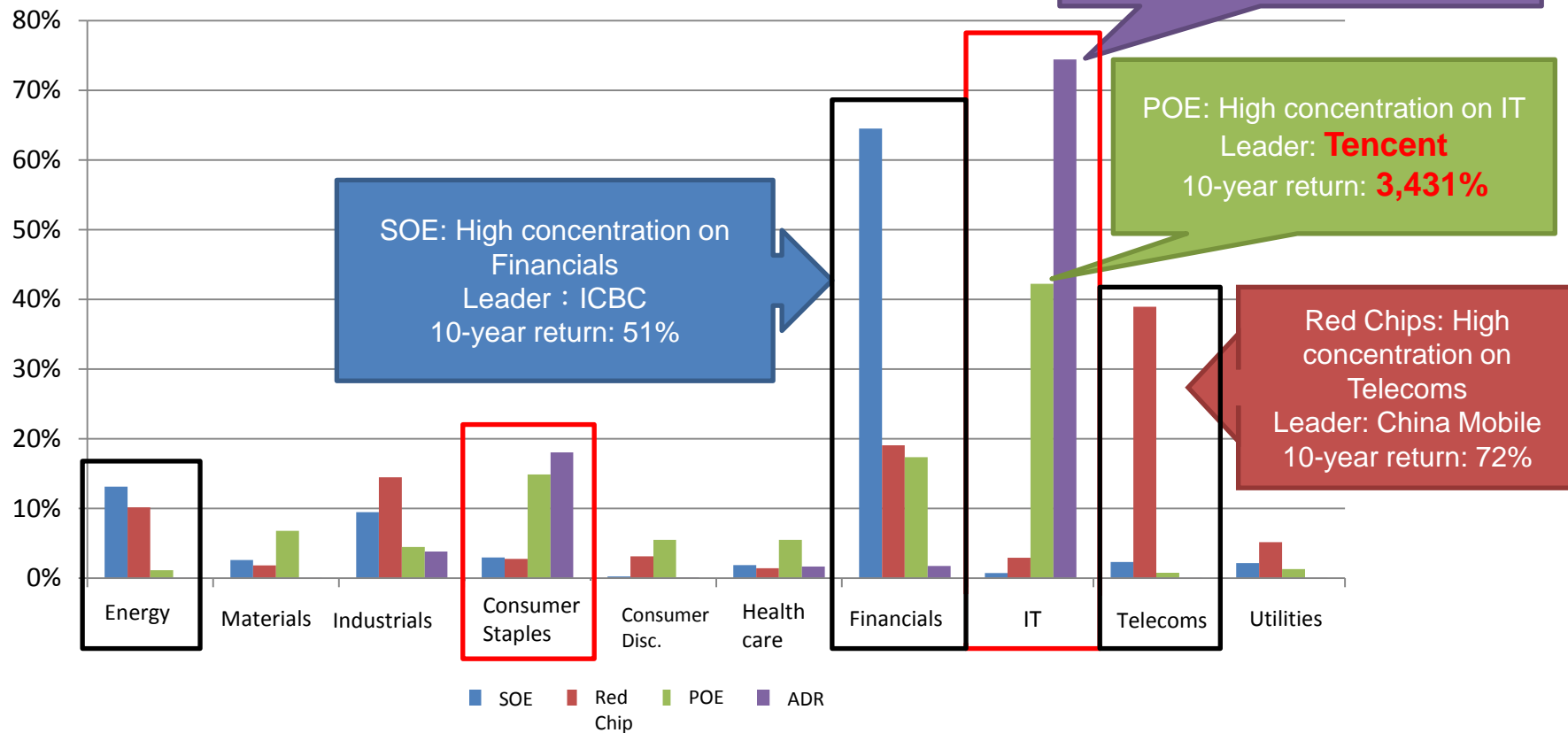
POEs: Market-driven

Privately Owned Enterprises (POEs) are more market-driven and aligned with shareholder interests

Privately Owned Enterprise	State Owned Enterprise
<ul style="list-style-type: none">□ More market-driven and aligned with shareholder interests□ More flexible business model to adapt to market change□ Encourage innovation and concentrate on growth sectors	<p style="text-align: center; font-size: 2em; font-weight: bold;">VS</p> <ul style="list-style-type: none">□ Primary goal is to support the country's economic and social targets and may take on projects where profits are not key considerations.□ Management consists of government officials who may make decisions based on considerations other than profits

Concentration on High-growth Sectors

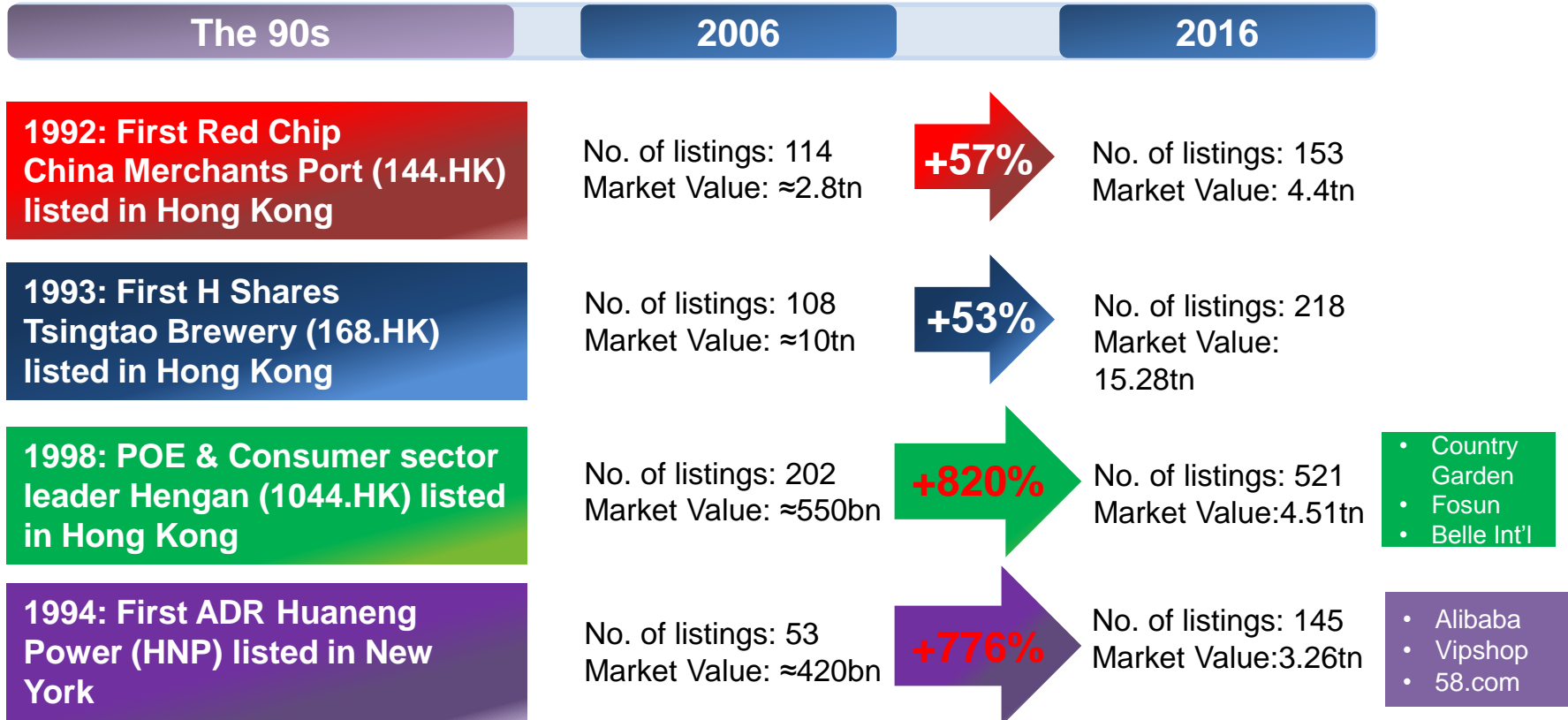
Sector Distributions for Different Share Classes (by Market Cap)



[^]Exclude ADRs that are also listed in Hong Kong
Source: Wind, as of 31 Dec 2016

One of the Fastest Growing Segments in Chinese Economy

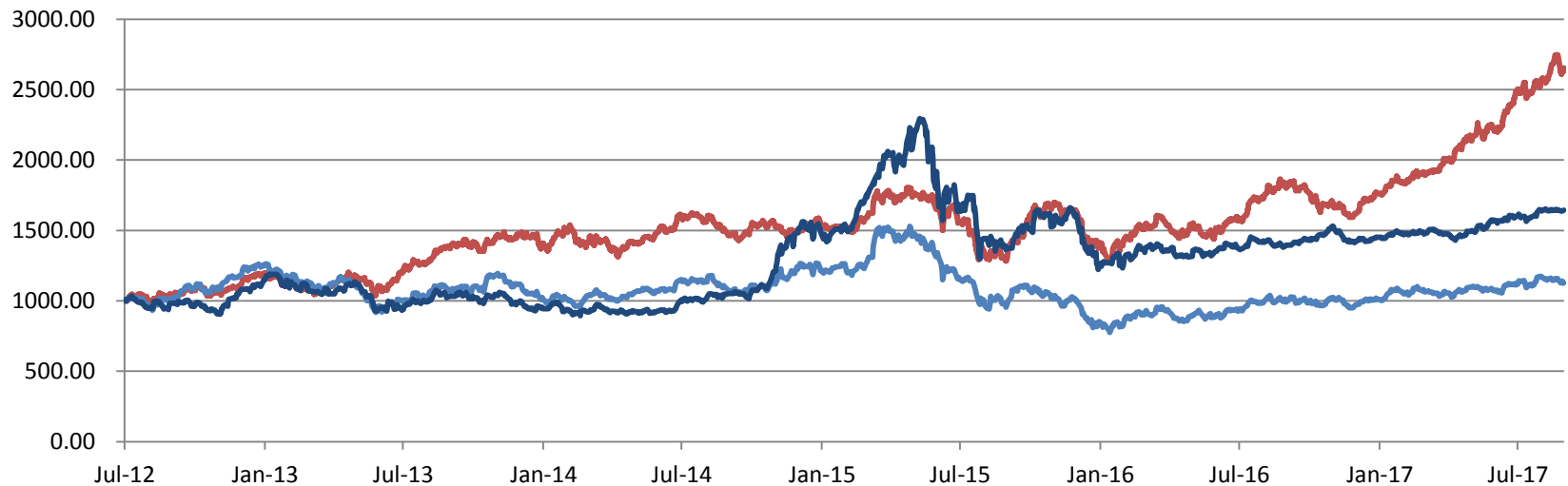
Evolutions of Chinese Companies Listed in Offshore Markets



Only covers stocks listed on main board; Currency: RMB
 ^Exclude ADRs that are also listed in Hong Kong
 Source: Wind, as of 31 Dec 2016

Strong Historical Return

- POEs overall performed better than SOEs and A shares
- 5-year return 153.6% - Strong long-term growth potential

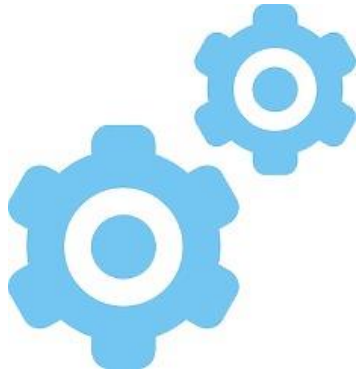


Market		POE	SOE	A Shares
Index		CES P Elite	HSCEI	CSI 300
Return	YTD	63.9%	16.1%	15.9%
	1 Y	47.3%	13.9%	17.9%
	3 Y	81.1%	5.8%	56.5%
	5 Y	153.6%	11.0%	67.3%
Annualized Volatility		14.9%	14.3%	9.4%

Trends to Look at for POEs

10% - Projected growth of China's private-sector in 2017*

Mixed-ownership Reform



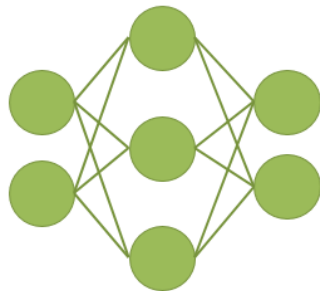
Private Public Partnership



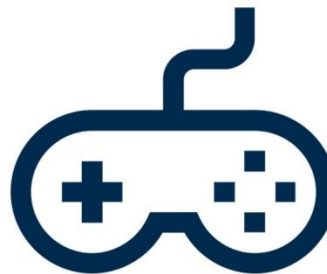
Artificial Intelligence



Deep Learning



Esports



Mobile Payment



*Source: Zhu Haibin, China Chief Economist, JP Morgan, 10 Apr. 2017

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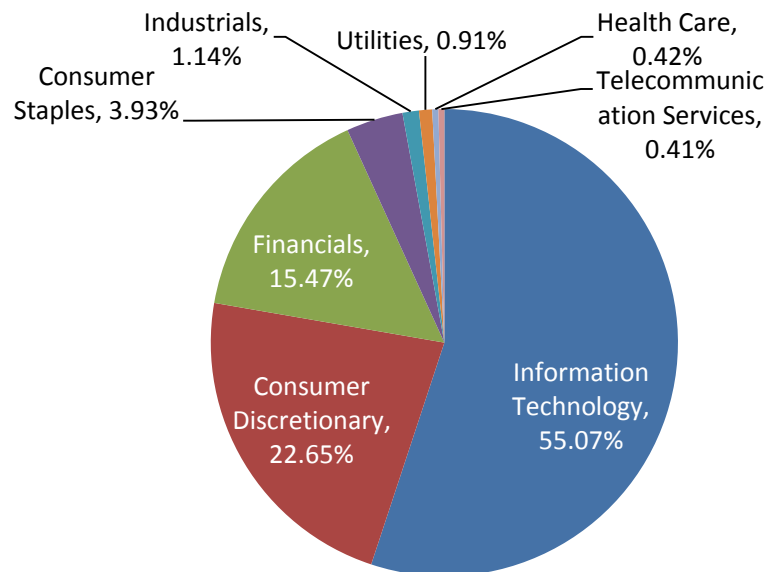
Barometer of Overseas P Chips - CES P Elite

Introduction

An index to capture the performance of the 30 largest China's private-owned enterprises with primary listing on HKEX, NYSE, NASDAQ and NYSE MKT

Sector

- Covers fast growing industries, reflecting the growth potential of China economy
- Benefits from structural change of Chinese economy and shift to a consumption, knowledge and technology-driven model



Performance of Top 3 Sectors

Sector	1 Y	3 Y	5 Y
IT	66.94%	131.08%	502.97%
Consumer Disc	44.37%	76.24%	289.08%
Financials	66.36%	85.83%	126.53%

Source: CESC, as of 31 Jul 2017

Barometer of Overseas P Chips - CES P Elite

Investment Themes

- Covers some of the most watched themes in Chinese economy

e-Commerce

- Alibaba
- VIPSHOP
- JD.com



Smart Living

- 58.com
- CTRIP

Mobile & IT

- Tencent
- Baidu
- NetEase



P CHIP



Healthcare

- Fosun
Pharmaceutical

Consumption Upgrade

- AAC Technologies
- Anta Sports



Green Economy

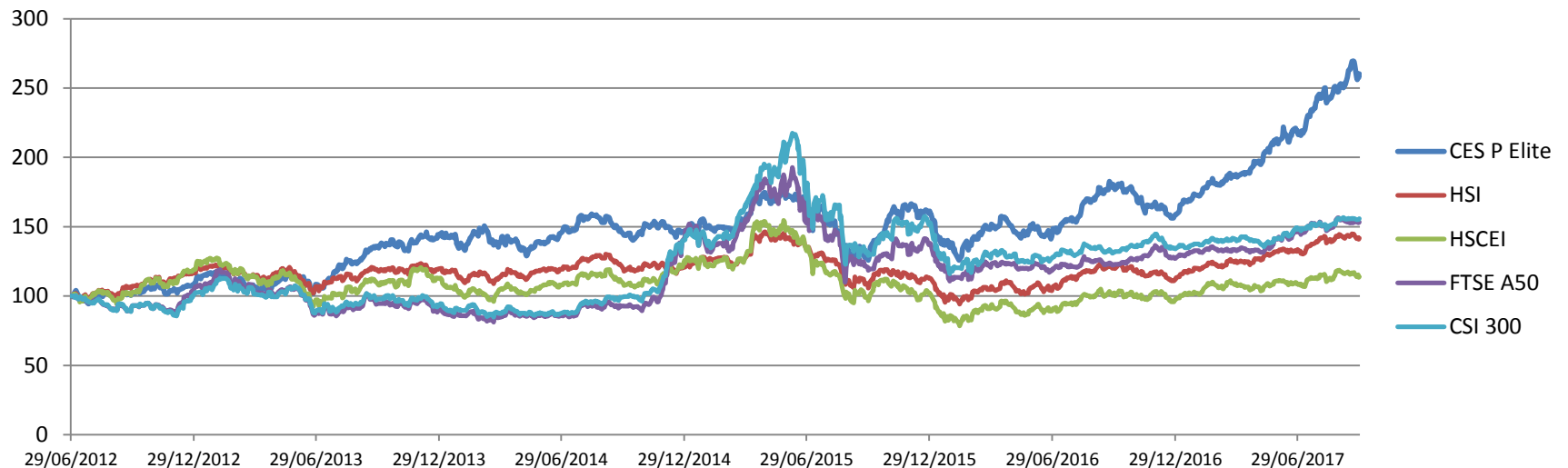
- BYD
- China Gas

Source: CESC, as of 31 Jul 2017

Barometer of Overseas P chips - CES P Elite

Performance

- 5-year annualized return is 20.5%, higher than key indices in mainland and Hong Kong
- Relatively low correlation with Hong Kong equities (≈ 0.7) and A-shares (≈ 0.4) - Help to diversify risk and improve potential return



	Return				Annualized Volatility
	YTD	1 Y	3 Y	5 Y	
CES P Elite	63.94%	47.33%	81.08%	153.57%	14.9%
Hang Seng Index	25.24%	18.27%	20.15%	32.22%	11.4%
Hang Seng China Enterprise Index	16.13%	13.86%	5.82%	10.97%	14.3%
FTSE A50	19.98%	24.63%	65.28%	64.43%	10.4%
CSI 300	15.90%	17.93%	56.53%	67.31%	9.4%

Appendix - CESC Indices

Index Name	Description	Market Coverage
CES China 120 Index (CES 120)	The CES 120, which is comprised of the largest 80 A-shares on the SSE and SZSE as well as the 40 largest Mainland stocks in Hong Kong, reflects the overall performance of the largest Mainland companies listed in Shanghai, Shenzhen and Hong Kong.	Cross markets
CES China A80 Index (CES A80)	The CES A80 represents the A-share portion of the CES120. It is comprised of the largest 80 A-shares on SSE and SZSE.	A-shares only
CES China HK Mainland Index (CES HKMI)	The CES HKMI represents the Hong Kong-listed Mainland enterprises in the CES 120. It is comprised of the 40 largest Mainland stocks traded at HKEX.	HK market only
CES China 280 Index (CES 280)	The CES 280 is comprised of the next 200 largest A-share companies and 80 Hong Kong-listed Mainland enterprises after the constituents of the CES 120. It reflects the overall performance of large and mid-cap Mainland enterprises in the Shanghai, Shenzhen and Hong Kong markets.	A-shares only
CES Stock Connect 300 Index (CES 300)	The CES 300 consists of the top 100 stocks by market capitalisation in each of the two Shanghai-Hong Kong connect markets, plus the top 100 stocks by market cap in the Shenzhen market (after the launch of Shenzhen-Hong Kong Stock Connect, it will be changed to the largest 100 stocks in the Northbound trading of Shenzhen-Hong Kong Stock Connect).	Cross markets
CES Stock Connect Hong Kong Select 100 (CES SCHK 100)	The CES SCHK100 comprises the top 100 Hong Kong-listed stocks by market value eligible for Stock Connect, excluding the stocks in the A+H shares group.	HK market only
CES Gaming Top 10 Index (CES G10)	The CES G10 consists of up to 10 of the largest gaming stocks listed in Hong Kong. It serves as an objective benchmark reflecting the overall performance of the gaming industry.	HK market only
CES China Private Elite Index (CES P Elite)	The CES P Elite captures the performance of Mainland China's 30 largest China's private enterprises listed in Hong Kong or the US.	HK market & ADR market

Contact Us

For inquiries, please contact:

Alex Yang

Assistant Vice President – Product Development | Business Development

t: +852 2803 8289

e: alexscyang@cesc.com

Cherie Chan

Assistant Vice President – Marketing | Business Development

t: +852 2803 8239

e: cheriefchan@cesc.com

China Exchanges Services Company Limited*

Suites 906-908, 9/F, Two Exchange Square

8 Connaught Place, Central, Hong Kong

f: +852 2868 3770

w: www.cesc.com



**A joint venture company incorporated in Hong Kong among HKEX, SSE and SZSE*

Thank you!

中華證券交易服務有限公司 China Exchanges Services Company Limited

香港中環康樂廣場八號
交易廣場二期9樓906-908室

Suites 906-908, 9/F, Two Exchange Square,
8 Connaught Place, Central, Hong Kong

t +852 2803 8200
f +852 2868 3770

www.cesc.com

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- Download your CPT certificate in HKSI online portal and complete the course online evaluation