



中華證券交易服務有限公司
**CHINA EXCHANGES SERVICES
COMPANY LIMITED**

CES SCHK Moat Index Methodology

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Preface

The index is compiled by China Exchanges Services Company Ltd. (CESC) and jointly maintained by CESC and Shenzhen Securities Information Co., Ltd. (SSIC).

The CES SCHK Moat Index (CES SCHK Moat) is a price return index, aims to track the performance of HK high quality companies with economic moat (such as exclusive franchise, brand premium, network effect & cost advantage, that cannot be easily replicated by competitors), which creates value to shareholders.

Index Name	Launch Date	Constituents
CES SCHK Moat	28-12-2018 ¹	Selecting the 40 most liquid stocks with the largest EVA spread from HK high quality companies with economic moat.

¹ The CES SCHK Moat is calculated on real-time basis starting from 22 Aug 2023.

1. Index Name and Code

Index Name	Abbreviation	Index Currency	Index Code
CES SCHK Moat Index	CES SCHK Moat	HKD	CESMOT
CES SCHK Moat Total Return Index	CES SCHK Moat TR	HKD	MOTHKDG

2. Base Date and Base Value

The base date is December 30, 2011. The base value is 2000.

3. Index Eligibility

3.1 Index Universe

The index universe for CES SCHK Moat is composed as follows:

- Stocks listed on the Main Board of SEHK and eligible for Southbound Trading under Stock Connect.
- Listing history more than 3 months.
- Average stock price per share in the past 12 months above \$1.

3.2 Selection Criteria

The constituents are selected as follows:

- **Liquidity Screen:** Any stocks with average daily turnover (ADT) less than HK\$10M in the past 12 months will be excluded.
- **Moat Screen:** Exclude stocks that Return on Invested Capital (ROIC) below Weighted Average Cost of Capital (WACC) for 3 years or above out of past 5 years (i.e., Economic Value-Added spread equals negative).
- **Spread Screen:** Following the screens above, rank securities by “5-year middle average spread” (i.e., averaging the spread after excluding the

maximum and minimum spread within 5 years), and top 40 are selected as the constituents of Index.

4. Index Calculation

The indices are calculated according to the Paasche weighted method, real-time calculation is carried out daily according to the following formula:

real time index = last trading day closing index

$$\times \frac{\sum (\text{constituent's real time stock price} \times \text{No. of shares} \times \text{adjustment factor})}{\sum (\text{constituent's last trading day closing price} \times \text{No. of shares} \times \text{adjustment factor})}$$

For adjustment method of No. of shares, please refer to *Index Calculation and Maintenance Methodology*. For adjustment factor, please refer to “6. Adjustment for Constituents’ Weights”.

5. Periodic Review of Constituents

5.1 Periodic Review

The indices are reviewed annually. Periodic reviews are implemented on the next trading day after market closing of the second Friday in June each year. Announcements of periodic reviews are published two weeks before implementation. The number of new constituents in each periodic review shall not exceed 20% of the total number of index constituents.

After new constituents are determined, remaining stocks will be ranked by factor weight in descending order and 5% of the total number of index constituents will be selected as reserved stocks.

5.2 Ongoing Adjustment

If a constituent is subject to delisting or no longer eligible for Trading under Stock Connect, it will be removal from the index, and the top-ranking stock in the reserve

list shall be added into the index accordingly.

6. Adjustment for Constituents' Weights

The index is free float-adjusted market capitalization weighted.

In index calculation, the adjustment factor is designed to set the weight of individual constituent no more than 5% in each period review.

The adjustment factor is recalculated once a year and implemented in periodic reviews. The adjustment factor generally remains constant before next periodic review.

7. Amendments and Supplements to Index Methodology

In response to market development and clients' feedback, CESC and SSIC will amend or supplement the Index Methodology from time to time as appropriate. Proposed changes will be announced to the market prior to implementation.

8. Information Disclosure

To maintain the objectiveness, independence and authority of the index, CESC has adopted a stringent information disclosure policy to ensure transparency, openness and fairness.

- Any personnel of CESC and SSIC are forbidden to divulge any information to any third party, including private media interviews before such information is disclosed to the public.
- Media used for information disclosure includes but not limited to website of CESC and SSIC.

Contact Us

For further details, please contact:

Index Licensing Enquiries

China Exchanges Services Company Limited

50/F, One Exchange Square 8 Connaught Place, Central, Hong Kong

Tel: 852 2803 8200

Fax: 852 2868 3770

Email: cescinfo@cesc.com

Website: <https://www.cesc.com/>

Customer Service

Shenzhen Securities Information Co., Ltd.

Shenye Center, 5054 Shennan East Road, Shenzhen

Tel: 0086 755 8324 3719

Fax: 0086 755 8324 3723

Email: index.service@cninfo.com.cn

Website: <http://www.cnindex.com.cn/>